



ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2021





DISCOVERY LIMITED

Registration number 1999/007789/06

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DISCOVERY LIMITED COMPANY

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BASIS OF PREPARATION

The consolidated and separate Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), its interpretations adopted by the IASB, the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee, Financial pronouncements as issued by Financial Reporting Standards Council, the JSE Listings Requirements, JSE Debt Listings Requirements as well as the South African Companies Act. They have been prepared in accordance with the going concern principle using the historical cost basis except where otherwise stated in the accounting policies (refer Annexure A).

The Annual Financial Statements have been prepared under the supervision of Mr DM Viljoen CA(SA) the Group Chief Financial Officer. The Annual Financial Statements are reviewed by management, the Discovery Limited Audit Committee and Board and are audited by the external auditors of the Group.

Embedded value statement prepared by P Bolink (FASSA) and supervised by A Rayner (FASSA, FIA).

How we report to our stakeholders

Our **ANNUAL FINANCIAL RESULTS** Presentation provides an overview of Discovery's financial performance.



Our 2021 Annual Financial Results Presentation can be accessed at www.discovery.co.za/corporate/investor-relations

Our **INTEGRATED ANNUAL REPORT** – our primary report to our shareholders, providers of financial capital and other stakeholders – details our financial, economic and social performance (2023 Ambition and beyond).

Our **FULL ANNUAL FINANCIAL STATEMENTS** include the consolidated financial results of Discovery and its subsidiaries, the embedded value statement and five-year review.



Our 2021 Annual Financial Statements can be accessed at www.discovery.co.za/corporate/investor-relations

Our **SUSTAINABLE DEVELOPMENT REPORT**, along with our detailed website, provides information on how the Group delivered on its commitment to be a powerful force for social good for our clients, our business and broader society.

Our **GOVERNANCE REPORT** includes information on our governance philosophy, leadership and our compliance with King IV™



DIRECTORS' RESPONSIBILITY STATEMENT

for the year ended 30 June 2021

DIRECTORS' RESPONSIBILITY TO THE SHAREHOLDERS OF DISCOVERY LIMITED AND ITS SUBSIDIARIES (DISCOVERY OR THE GROUP)

The directors of Discovery are required by the Companies Act, Act 71 of 2008 (Companies Act), to maintain adequate accounting records and to prepare financial statements for each financial year which fairly present the state of affairs of Discovery at the end of the financial year, and of the results and cash flows for the period. In preparing the accompanying Annual Financial Statements, International Financial Reporting Standards have been used and reasonable estimates have been made. The Annual Financial Statements incorporate full and responsible disclosure, in line with Discovery's philosophy on corporate governance.

The directors have reviewed Discovery's budget and cash flow forecast for the year to 30 June 2022. On the basis of this review, and in light of the current financial position and available cash resources, the directors have no reason to believe that Discovery will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the Annual Financial Statements.

The directors are responsible for Discovery's systems of internal control, which include internal financial controls in the various subsidiaries that are designed to provide reasonable, but not absolute, assurance against material misstatement and loss. Discovery maintains internal financial controls to provide assurance regarding:

- Safeguarding of assets against unauthorised use or disposition, and
- The maintenance of proper accounting records, written or electronic and the reliability of financial information used within the business, or for the publication thereof, including submissions to the companies and Intellectual Property Commission (CIPC).

The controls contain self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified. Even an effective system of internal control, no matter how well designed, has inherent limitations, including the possibility of circumvention and the overriding of controls. An effective system of control therefore aims to provide reasonable assurance with respect to the reliability of financial information and, in particular, the presentation of Annual Financial Statements.

To the best of their knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the year under review.

Discovery's external auditors, PricewaterhouseCoopers Inc., have audited the Annual Financial Statements and their unqualified report appears on pages 13 to 18.

The Annual Financial Statements of Discovery for the year ended 30 June 2021, which appear on pages 26 to 196 as well as Annexure F have been approved by the Board of Directors on 1 September 2021 and are signed on its behalf by:

M Tucker
Chairperson

A Gore
Chief Executive Officer



CHIEF EXECUTIVE AND CHIEF FINANCIAL OFFICER INTERNAL FINANCIAL CONTROL RESPONSIBILITY STATEMENT

for the year ended 30 June 2021

After due, careful, and proper consideration, in accordance with the JSE Listings Requirements 3.84(k), the directors, whose names are stated below, hereby confirm that:

- a) the Annual Financial Statements set out on pages 26 to 195 fairly present, in all material respects, the financial position, financial performance and cashflows of the issuer in terms of IFRS;
- b) no facts have been omitted or untrue statements made that would make the Annual Financial Statements false or misleading;
- c) internal financial controls have been put in place to ensure that material information relating to the issuer and its consolidated subsidiaries have been provided to prepare the financial statements of the issuer effectively; and
- d) the internal financial controls are adequate and effective and can be relied upon in compiling the Annual Financial Statements, having fulfilled our role and function within the combined assurance model pursuant to principle 15 of the King Code.

Where we are not satisfied, we have disclosed to the Discovery Limited Audit Committee and the auditors the deficiencies in design and operational effectiveness of the internal financial controls and any fraud that involves directors, and have taken the necessary remedial action.

A Gore
Chief Executive Officer
1 September 2021

DM Viljoen
Chief Financial Officer
1 September 2021

CERTIFICATE BY THE COMPANY SECRETARY

for the year ended 30 June 2021

It is hereby certified in terms of section 88(2)(e) of the Companies Act, that Discovery Limited has for the year ended 30 June 2021 lodged with the Registrar of Companies all such returns as are required by a public company in terms of this Act and that all such returns are true, correct and up to date.

NN Mbongo
Company Secretary
1 September 2021



REPORT OF THE DISCOVERY LIMITED AUDIT COMMITTEE

for the year ended 30 June 2021

We, the Discovery Limited Audit Committee (DLAC), are pleased to present our report for the financial year ended 30 June 2021. This report provides details on how the DLAC satisfied its various statutory obligations and the significant matters considered during the period.

This report has been prepared based on the requirements of the Companies Act, Act 71 of 2008 (Companies Act), as amended, the King Code of Governance for South Africa (King IV), the JSE Listings Requirements, JSE Debt Listings Requirements and other applicable regulatory requirements.

TERMS OF REFERENCE, ROLES AND RESPONSIBILITIES

The DLAC is an independent statutory committee constituted under section 94 (7) of the Companies Act. A summary of the DLAC statutory and governance mandate is provided below. It recognises the important oversight role underpinned by the JSE's combined assurance model as well as, following the King IV principle of good governance. Duties are delegated to the DLAC through a formal Terms of Reference, which is reviewed annually and include the following:

Finance function	Financial statements/ Integrated report	Internal financial control/ Internal audit	External auditor and external audit
Consider the appropriateness and expertise of senior members of the finance team and the CFO.	Review all financial statements and reports and deal with any complaints regarding accounting practices. The review considers the integrity and fairness of the information and the review of significant estimates and judgements made by management in producing the financial information.	Responsible for appointment, remuneration, performance, and disciplinary action of the Chief Audit Executive (CAE).	Nominate an independent auditor for appointment by shareholders.
Undertake a formal assessment of the finance function.	Report from the DLAC on how it discharged its duties during the financial reporting period.	Approve the internal audit annual plan.	Determine terms of engagement and fees.
Review and approve of annual budgets and forecasts	Review the annual integrated report. The information produced in the annual integrated report must be fair, balanced, and consistent with other information produced, e.g., the financial statements.	Submit to the Board the assessment of Internal Control, Governance and Risk Management.	Approve the nature and extent of non-audit services.
Deal with any complaints on the internal financial control environment		Undertake a formal assessment of internal audit performance and deal appropriately with complaints about the internal audit.	Satisfy itself regarding the experience, capacity, and skill of the audit teams.
		Review and assessment of the combined audit assurance model for Discovery.	

Structure of the audit committees in Discovery Group

The scope of the DLAC extends to all activities of the Discovery Limited Group and its subsidiaries, both locally and internationally. The DLAC also acts as the statutory Audit Committee of Discovery Life Limited and Discovery Insure Limited.

The Discovery Group Europe Limited grouping, which includes Vitality Life and Vitality Health, the Discovery Bank Holdings Limited grouping, and the Vitality Group International Inc grouping each have their own individual audit committees.

There is regular liaison and communication between the Chairperson of the DLAC and the Chairpersons of the various main subsidiary audit committees on key matters that are relevant to the Group. The DLAC receives regular reports from the various group audit committees. In addition, the Chair of the DLAC has the opportunity to attend any of the subsidiary audit committee meetings as an invitee.



REPORT OF THE DISCOVERY LIMITED AUDIT COMMITTEE

continued

for the year ended 30 June 2021

COMPOSITION AND GOVERNANCE

The DLAC consists of a minimum of three independent non-executive directors of the Discovery Limited Board of Directors. During the financial year ended 30 June 2021, the committee held six meetings as per the standard meeting cycle described below, four meetings to deal with mandatory audit firm rotation (MAFR), two ad hoc meetings and an annual meeting with the Prudential Authority.

The DLAC has the appropriate balance, diversity of knowledge, financial skills, and experience to execute its duties effectively. The membership, qualifications, and attendance of the members of the DLAC for the year ended 30 June 2021 are as follows:

Committee member	Qualifications	Number of meetings eligible to attend	Number of meetings attended
D Macready (Chairperson)	BCom (Hons), CTA, CA (SA)	6	6
SE De Bruyn	LLB (Hons), MA	6	6
M Schreuder ¹	BCom (Hons), FIA, FASSA	2	2
SV Zilwa	BCompt (Hons), CTA, CA (SA)	6	5

¹ M Schreuder was appointed with effect from 19 February 2021.

In addition to their membership on the DLAC, the committee members also serve across all key board committees to ensure a collective and integrated oversight of key matters across the Discovery Group.

Committee member	Actuarial committee	Risk and compliance committee	Remuneration committee	Social and Ethics committee
D Macready	x	x		
SE De Bruyn			x (Chairperson)	
M Schreuder	x	x (Chairperson)		
SV Zilwa		x		x (Chairperson)

The Chairperson of Discovery's Board and other non-executive directors are entitled to attend any meetings on request. The Chief Executive Officer, Chief Financial Officer, Chairperson of the Actuarial Committee, and executive directors attend meetings or parts of meetings by invitation only. Other members of management are invited to attend meetings to provide the DLAC with greater insights into specific issues or areas of the Group. The Chairperson has regular contact with the management team to discuss relevant matters directly.

The DLAC Chairperson meets regularly with the Chief Financial Officer, the Heads of Actuarial, Risk and Compliance, and executive management where necessary.

The internal and external auditors have direct access to the Chairperson, including closed sessions without management during the year, on any matter that they regard as relevant to fulfilling the DLAC's responsibilities. In addition, the Chairperson meets with the internal audit and the external auditors before each meeting and at other times as necessary by either party before Committee meetings.



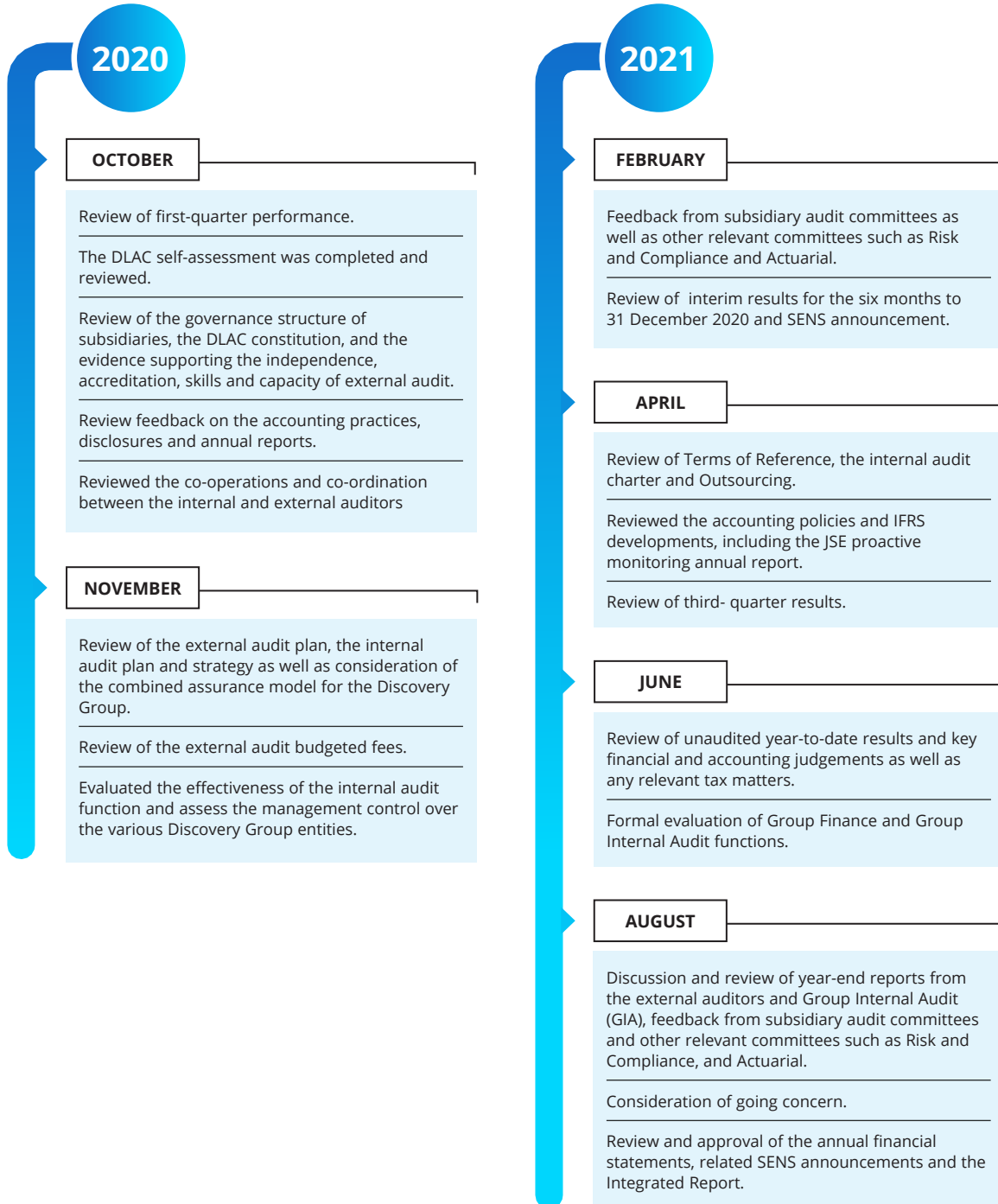
REPORT OF THE DISCOVERY LIMITED AUDIT COMMITTEE

continued

for the year ended 30 June 2021

MEETINGS CYCLE FOR THE YEAR

The regular cycle of DLAC meetings during the financial year are as follows:





REPORT OF THE DISCOVERY LIMITED AUDIT COMMITTEE

continued

for the year ended 30 June 2021

KEY FOCUS AREAS DURING THE FINANCIAL YEAR ENDED 30 JUNE 2021

Key audit matters

The DLAC annually assesses the key audit matters reported by the external auditors and considered the key judgements and estimates pertaining to the annual financial statements. Accordingly, these key audit matters were addressed as follows.

Key Audit Matter	How the DLAC addressed the matter
Impact of the COVID-19 pandemic	<p>The COVID-19 pandemic is unprecedented and has had a significant impact on the global economy and business across all industries. There is a significant degree of uncertainty about the further spread of the virus, the timing and the effectiveness of the vaccine rollout, and the further impact on the world economy. Accordingly, COVID-19 was a significant focus area of the DLAC during the financial year ended 30 June 2021, with a particular evaluation of:</p> <ul style="list-style-type: none"> ▪ The integrity of internal controls. ▪ The valuation of assets and liabilities arising from insurance contracts, including the setting up of COVID-19 reserves. ▪ Impairment of assets not measured at fair value
Valuation of assets and liabilities arising from insurance contracts	<p>The DLAC reviewed reports from the Group Chief Actuary and the external auditors on actuarial assumptions and basis changes. Evaluated the appropriateness of actuarial assumptions used in the setting of reserves, including negative rand reserves, taking into account recommendations made by the Actuarial Committee.</p> <p>This includes the supportability of the negative rand reserve (asset) in the Statement of financial position under various stress scenarios.</p>
The annual assessment for impairment of goodwill and intangible assets	<p>The DLAC reviewed the impairment assessments that were based on the latest business planning inputs. It considered the sensitivity of these estimates to various scenarios. The DLAC concluded that only the impairment of goodwill and intangible assets constituted significant estimates as disclosed in Note 4 Significant accounting estimates and judgement in applying accounting policies.</p>

Significant matters

Significant matters are those matters which, in the view of the DLAC, were considered significant or material in nature, requiring either the exercise of judgement or matters which were otherwise considered to be subjective from an accounting or auditing perspective. The following areas received a key focus from DLAC during the year:

The impact of the COVID-19 pandemic

The financial year under review was characterised by the COVID-19 pandemic, the year having commenced during the first wave of the pandemic and ending during the height of the third wave in South Africa. The impact of COVID-19 was experienced differently across the Discovery Group of entities. In response, the DLAC adopted a coordinated approach across the various audit, actuarial and risk committees and the various control functions and assurance providers. This included:

- continuously re-assessing the impact of the COVID-19 pandemic and the accounting, operational and assurance implications, including the impact on systems, control environments and key financial and reporting controls;
- re-assessing, together with the Group Actuarial committee, the applicability of the various scenarios, judgements and estimates used by management to assess COVID-19 claims and lapse provisioning and the impact on the valuation of assets and liabilities arising from insurance contracts.
- reviewing experience, results and financial impacts against forecast information and modelling extrapolations to assess the adequacy of COVID-19 provisions; and
- any impacts on solvency, liquidity, and reserving for Discovery Group.

The DLAC also reviewed and approved amendments to internal audit plans in response to COVID-19, which included an enhanced approach to combined assurance to strengthen risk and control oversight, particularly in any business processes that had changed.

To fulfil its mandate of financial reporting, the DLAC reviewed the various SENS trading updates issued during the financial year, including those issued in August 2021, to ensure transparent, fair, balanced, and understandable reporting, particularly on the COVID-19 claims provisioning and utilisation.



REPORT OF THE DISCOVERY LIMITED AUDIT COMMITTEE

continued

for the year ended 30 June 2021

Accelerated reinsurance premiums – VitalityHealth

VitalityHealth has traditionally used quota share reinsurance treaties to manage initial acquisition cost strain. As a result of COVID-19, VitalityHealth has seen a temporary delay in medical treatment, resulting in reduced claims ratios. VitalityHealth has used the opportunity to accelerate the repayment profile of certain existing reinsurance treaties, resulting in future savings to offset the catch up in claims.

The use of quota share other than for initial acquisition cost strain and the resultant change in reinsurance payment profile is a change from previous financial reporting periods. This acceleration had a material impact on the profit for the year ended 30 June 2021. In response, to ensure transparent, fair, balanced, and understandable reporting, the DLAC has considered enhanced presentation and disclosures in the Group Income Statement and Segmental information. Furthermore, Note 41 to the annual financial statements sets out a detailed explanation of this effect.

Progress of IFRS 17 Insurance Contracts

The DLAC continues to monitor the update on the progress of IFRS 17. Building on the previous IFRS 17 development work, during the year there has been particular focus to understand:

- the data flow and data system implications across the Group and implement IT solutions that will be deployed and utilised as part of Discovery's IFRS 17 solution.
- the key IFRS 17 accounting policy election, quantification and impacts as well as alternative approaches where appropriate.
- further refinement of the initial results and observations of IFRS 17 across the Discovery business lines.
- the process followed to ensure Discovery remains at the forefront of IFRS 17 technical developments and deliberations through active participation in a number of industry working groups.

The year has seen significant progress in the IFRS 17 project, with the short-term insurance business lines of Discovery Insure, VitalityHealth and Group Life progressing well. In addition, Discovery Life has completed initial individual life insurance results on a fully retrospective IFRS 17 basis, with work on refinement of the models and assumptions. Discovery Life is currently progressing in its work of the reinsurance contracts and the Discovery Invest portfolio. VitalityLife operations are leveraging of the work completed in an efficiency drive to also align the methodologies and models of IFRS 17 across the Discovery Group.

For the next financial year, the DLAC will focus on the formalisation of the policies in IFRS 17, the audit of IFRS 17 policies and methodologies and implementation of the parallel systems in preparation for 1 July 2022.

Other significant items also considered

- Evaluated management's assessment of impairment of specified assets under IAS 36 Impairment of Assets. During the year, particular focus was on AIA Vitality (Pty) Limited, an Australian venture with AIA. As a result of the recent losses, the business environment in Australia coming out of the COVID-19 pandemic and strategic direction, Discovery has evaluated the business which resulted in an impairment loss of its equity-accounted investment of R149 million. Note 11.2.1 in the financial statements discloses more information on the estimated and judgements in measuring this impairment.
- Reviewed the supportability of deferred tax assets raised on assessed losses.
- The dilution gain on the equity-accounted investments as a result of the CMT/ Truemotion merger.



REPORT OF THE DISCOVERY LIMITED AUDIT COMMITTEE

continued

for the year ended 30 June 2021

Financial statement and accounting practices

The DLAC has reviewed the accounting policies and the consolidated and separate financial statements of Discovery and is satisfied that they are appropriate and comply with International Financial Reporting Standards (IFRS). This includes consideration of all entities included in the consolidated Annual Financial Statements, to ensure that it has access to all financial information to the issuer to effectively prepare and report on the financial statements of Discovery. The DLAC confirmed the going concern basis for the preparation of the interim and Annual Financial Statements.

During the year, the DLAC reviewed the following financial reporting matters to ensure the integrity and fairness of financial information:

- The early adoption of amendments of IFRS on the new Interest Rate Benchmark Reforms (IBOR). The IBOR changes affected the UK Composite, which had some Libor denominated loans restructured to the new SONIA rate. Refer to Annexure A 'Basis of Preparation' for more information.
- Formalised the accounting policy of 'Normalised headline earnings', an alternative non-IFRS measure which Discovery presents alongside its IFRS. The accounting policy and disclosures conform to the guidelines issued in the draft JSE Practice note on alternative performance measures issue in May 2019. For the accounting policy, refer to Annexure A '27. Normalised headline earnings'.
- Clarification on the valuation and utilisation of discretionary margins within the Individual Life insurance business line. The clarification was necessitated in light of the COVID-19 operating environment. In particular, the order in which discretionary margins are utilised between non-economic and economic assumptions was clarified.
- The DLAC has considered the accounting treatments, significant unusual transactions, and accounting judgements. DLAC has evaluated management's judgements and reporting decisions in relation to the annual integrated report and ensured all material disclosures had been included. In addition, it has reviewed both financial and non-financial information, forward-looking statements, and sustainability information.

A DLAC process is established to receive and deal appropriately with any concerns and complaints relating to Discovery's accounting and reporting practices. The DLAC immediately deals with any issues raised. During the financial year, the DLAC specifically reviewed and thoroughly investigated an Investment research report issued in the market regarding the accounting practices, actuarial assumptions and potential IFRS 17 impact of Discovery Limited. The detailed investigation did not provide any further evidence or balanced reasoning to support the various assertions made.

As part of its annual work plan, the DLAC evaluates management's assessment of the findings in the most recent JSE's Pro-active monitoring report. Management performs a detailed assessment of the JSE findings against Discovery's Annual Financial Statements to identify any potential areas of non-compliance or future improvements or enhancement in Discovery's disclosures. For the financial year under review, Discovery's 30 June 2020 Annual Financial Statements and its interim results for the six months ended 31 December 2020 were selected by the JSE in its next cycle of pro-active monitoring. Discovery received two questions on its disclosures, which Discovery addressed and resolved with the JSE with no changes to its published financial information. The Annual Financial Statements for the year ended 30 June 2021 includes additional constructive disclosures as required by recent JSE COVID-19 publications.

EXTERNAL AUDIT

Audit accreditation and quality

In terms of the JSE Listings Requirements, and Debt Listings Requirements the evaluation of suitability and relevant accreditation requirements of the external audit partner is the responsibility of the DLAC, together with specific responsibility around audit quality. The following considerations were taken into account by the DLAC in the assessment in this regard for the financial year-ended 30 June 2021:

- Any reputational, legal, or impending issues which could impact the firm.
- Review of local and international firm audit quality control processes.
- The results of the last audit firm-wide and individual partner quality reviews by the regulatory body IRBA and the internal firm quality control reviews.
- Detail of partners and managers on the Discovery assignment, including relevant audit experience, succession, continuity, and rotation plans.

In terms of the conditions laid out in section 94(8) of the Companies Act and based on its assessment taking consideration of the criteria of King IV, the JSE and general guidance to Audit Committees, the DLAC is satisfied with the performance and quality of the external audit, the external auditors and lead partners for the year ended 30 June 2021.



REPORT OF THE DISCOVERY LIMITED AUDIT COMMITTEE

continued

for the year ended 30 June 2021

Auditor appointment, Mandatory audit firm rotation (MAFR), joint audit and transition plan

The DLAC executed its responsibilities as set out under paragraph 7.3(e) of the Debt Listings Requirements.

A key focus area for DLAC in the current financial year was considering a transition plan to implement MAFR and any applicable joint audit requirements given the required rotation of PwC from 1 July 2023 to ensure appropriate continuity in external audit throughout the Group.

The rule on MAFR as issued by the South African Independent Regulatory Board of Auditors (IRBA) requires that an audit firm not serve as the appointed auditor of a public interest entity for more than ten consecutive financial years. After that, the audit firm will only be eligible for reappointment as the auditor after the expiry of at least five financial years. The requirement is effective for financial years commencing on or after 1 April 2023. Accordingly, for Discovery, this requirement will apply effective 1 July 2023.

Given the anticipated introduction of joint auditor requirements and so as to minimise the impact of a change given on initial sign-off of IFRS 17 opening balances which will be required by joint auditors, the DLAC intends to allow for an early transition period before 1 July 2023 to stagger both the joint audit and MAFR appointments. DLAC has undertaken a process during the financial year to identify independent joint independent auditors for Discovery Limited from 1 July 2021 to provide this smooth consistent and strong platform for transition while PwC are still incumbent.

The DLAC, has nominated KPMG Inc (KPMG) for appointment as independent joint external auditors together with PricewaterhouseCoopers Inc. (PwC), effective 1 July 2021.

The DLAC then further considered the MAFR requirement, which mandates the rotation of PwC from 1 July 2023 and intends to nominate Deloitte & Touche to replace PwC from 1 July 2023 and be joint external auditors with KPMG from that date.

The DLAC has satisfied itself that the external auditors are independent of Discovery, and requisite assurance was sought and provided by the auditors that internal governance processes within each audit firm support and demonstrate its claim to independence. Furthermore, as set out above in 'Audit accreditation and quality' In terms of the conditions laid out in section 94(8) of the Companies Act and based on its assessment taking consideration of the criteria of King IV, the JSE and general guidance to Audit Committees, the DLAC is satisfied with the performance and quality of the proposed external auditors and lead partners for the year ended 30 June 2021.

The appointments are subject to the approvals of the South African Prudential Authority, which is currently in progress.

Fees for audit and non-audit services

Audit fees

The DLAC, following consultation with executive management, approved the engagement letter, terms, audit plan and budgeted audit fees for the year ending 30 June 2021.

Non-audit services

A formal policy exists in respect of the provision of non-audit services by the external auditors of Discovery and its subsidiaries, and a formal procedure governs the process whereby the auditors are appointed to provide any non-audit services, including a limitation on fees for non-audit services which shall not exceed 25% of the audit fees. Effective from 1 July 2021, the policy is amended to consider the 25% threshold to the relative share of each proposed joint auditor audit fee.

The Chairperson of the DLAC approves the nature and extent of any non-audit services that the external auditors provide in terms of the agreed pre-approval policy, and a schedule of approved non-audit services is reviewed annually by the DLAC.

In addition to Discovery's formal policies, the external auditors are required to comply with the requirements set out by their firm or network's internal policies, the respective regulators such as the IRBA or the United Kingdom Financial Reporting Council (FRC) and the respective laws of the local jurisdictions in which the various Discovery group of entities operate.



REPORT OF THE DISCOVERY LIMITED AUDIT COMMITTEE

continued

for the year ended 30 June 2021

INTERNAL AUDIT

Internal audit provides independent objective assurance that the governance processes, including professional ethics, the management of risk and systems of internal controls, are both adequate and effective. The Chief Audit Executive (CAE) has a functional reporting line to the DLAC Chairperson and an administrative reporting line to the Group Chief Financial Officer (CFO).

- In assessing the quality, performance and delivery of the internal audit plan, including the scope of the work performed, the level of resources and coverage of the audit plan, the DLAC took cognisance of the following.
- Reviewed and approved the internal audit charter and audit plan and evaluated the independence, effectiveness, and performance in line with its charter.
- Challenged the audit plan's focus, relevance, and risk-based emphasis in response to the extraordinary circumstances presented by the COVID-19 pandemic and the potential impact on the control environments.
- Considered reports on the Group's internal control systems, with a specific focus on the effectiveness of internal financial controls, including financial reporting controls.
- Reviewed significant issues raised by the internal audit processes and the adequacy of corrective action and accountability taken in response to such findings.
- Assessed the independence and effectiveness of the CAE, the internal audit function and the quality and extent of audit resources and found them to be satisfactory.

The external independent quality assessment of internal audit was conducted by SizweNtsalubaGobodo Grant Thornton ("SNG GT") from May to June 2021 and received a rating of "Generally Conforms" to the Institute of IIA Standards and Code of Ethics, as well as to each of the individual Standards. "Generally conforms" is the best possible rating that can be achieved.

Received the annual assessment provided by internal audit confirming the effectiveness of Discovery's governance, risk management and control processes.

Reviewed the external auditors' annual assessment of internal audit in terms of the requirements of ISA 610, which reaffirmed the extent of reliance that could be placed on the internal audit work.

FINANCIAL CONTROLS

The DLAC is responsible for assessing Discovery's system of internal financial and accounting controls. In this regard, the DLAC has, among other things, evaluated the adequacy and effectiveness of Discovery's system of internal controls and made appropriate recommendations to the Board. This has included a formal documented review by the internal audit function of the design, implementation, and effectiveness of Discovery's internal financial controls systems.

For the year ended 30 June 2021, the new JSE Equity Listings Requirement 3.84(k) is effective for Discovery Limited's Annual Financial Statements. The DLAC reviewed the combined assurance reassessment of the design, documentation, and testing coverage of financial controls inclusive of financial reporting controls as well as the executive attestation process to support the responsibility statement attested by the Chief Executive and Chief Financial Officer. The attestation set out on page 3 of the Annual Financial Statements.

Based on the results of these reviews, it is the view of the DLAC that Discovery's internal financial controls effectively produce accurate financial information and a fair presentation of the financial performance of Discovery in the Annual Financial Statements.



REPORT OF THE DISCOVERY LIMITED AUDIT COMMITTEE

continued

for the year ended 30 June 2021

OTHER MATTERS CONSIDERED BY THE DLAC

In further fulfilling its duties and discharging its obligations for the year ended 30 June 2021, the DLAC also considered:

Matter considered	Outcome
Assessment of the effectiveness of DLAC	During the year, an internally managed assessment of the effectiveness of the DLAC was satisfactorily completed.
Evaluation of the expertise and experience of the finance function and financial director	The DLAC reviewed and satisfied itself with the appropriateness of Discovery's finance function's expertise, resources, and experience, including the Chief Financial Officer, Mr DM Viljoen.
Independent quality assurance reviews on Discovery internal and external assurance providers	During the year, Discovery undertook independent quality assurance reviews on the various internal and external assurance providers, i.e., excluder first-line management. All reviews have not been finalised at the time of writing this report. Group Risk Management, Group Compliance, and the Actuarial Function have been completed, obtaining high assurance.
Combined assurance	The combined assurance model provides an integrated plan of the various activities and sources of assurance, including risk and compliance, external and internal audit, corporate finance functions and the Actuarial Committees. The DLAC has reviewed the combined assurance model, which has been implemented throughout the Group and has concluded that the model is both appropriate and effective in addressing the risks facing Discovery.
Whistleblowing	The DLAC receives and deals with any whistleblowing, whether from within or outside Discovery, relating to the accounting practices and internal audit of Discovery, the content or auditing of Discovery's financial statements, the internal financial controls of Discovery and related matters. No such whistleblowing was received during the financial year.
Ethics and compliance	The DLAC is responsible for reviewing any major breach of Discovery's code of conduct and ethics and relevant legal, regulatory, and other obligations reported to the DLAC by the Social and Ethics Committee. The DLAC is satisfied that there has been no material breach of these standards or material non-compliance with laws and regulations. The DLAC is satisfied that it has complied with all its legal, regulatory, and other obligations during the period under review.

KEY FOCUS AREAS FOR 2021/22

- A post-COVID-19 impact review to evaluate and assess the estimates made as at 30 June 2021;
- Review project progress for the implementation of IFRS 17, including implementation of policies, methodology and disclosures in preparation for the parallel run; and
- Review progress and implications of the Prudential Book transfer in Vitality Life UK.

CONCLUSION

Based on the information and explanations given by management and discussions with the independent external auditors regarding their audit results, the DLAC is satisfied that there was no material breakdown in the internal financial controls during the financial year under review.

The DLAC has reviewed the consolidated and separate financial statements of Discovery Limited for the year ended 30 June 2021 and, based on the information provided to the DLAC, considers that Discovery complies, in all material respects, with the requirements of the Companies Act and International Financial Reporting Standards (IFRS).

The DLAC has recommended the Annual Financial Statements to the Board for approval. The Board has subsequently approved the Annual Financial Statements, which will be open for discussion at the forthcoming Annual General Meeting.

D Macready

Chairman: Discovery Limited Audit Committee

1 September 2021



INDEPENDENT AUDITOR'S REPORT

for the year ended 30 June 2021

TO THE SHAREHOLDERS OF DISCOVERY LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Discovery Limited (the Company) and its subsidiaries (together the Group) as at 30 June 2021, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Discovery Limited's consolidated and separate financial statements set out on pages 26 to 195 comprise:

- the group and company statements of financial position as at 30 June 2021;
- the group and company income statements for the year then ended;
- the group and company statements of other comprehensive income for the year then ended;
- the group and company statements of changes in equity for the year then ended;
- the group and company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Certain required disclosures have been presented elsewhere in the document titled "Discovery Annual Financial Statements for the year ended 30 June 2021", rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

Our audit approach

Overview

	<p>Overall group materiality</p> <ul style="list-style-type: none"> ▪ The final Group overall materiality level amounted to R367.9 million. Overall materiality is calculated using a rule of thumb of 5% of a 3 year average of profit before tax (PBT).
	<p>Group audit scope</p> <ul style="list-style-type: none"> ▪ Our group scoping included full scope audits for twenty six components based on financial significance, audit risks and statutory audit requirements.
	<p>Key audit matters</p> <ul style="list-style-type: none"> ▪ Valuation of assets and liabilities arising from insurance contracts; and ▪ Annual impairment of Goodwill for the Discovery Bank CGU



INDEPENDENT AUDITOR'S REPORT *continued*

for the year ended 30 June 2021

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	R367.9 million
How we determined it	5% of adjusted consolidated profit before tax over a three-year period
Rationale for the materiality benchmark applied	<p>We chose consolidated profit before tax as the benchmark because, in our view, it is an appropriate measure of underlying performance and the benchmark against which the performance of the Group is most commonly measured by users.</p> <p>The consolidated profit before tax was adjusted for unusual items included within the transfer from assets/liabilities under insurance contracts financial statement line item. The following impacts have been excluded because they are considered unusual and not reflective of the normal operational performance of the Group:</p> <ul style="list-style-type: none"> ▪ future mortality, morbidity and economic effects of the Covid-19 pandemic; and ▪ economic assumption adjustments net of discretionary margins and interest rate derivative. <p>We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.</p>

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group has nine operating segments comprising forty two components (including unit trust funds) that operate across various countries but predominantly in South Africa, the United Kingdom and the United States of America. Full scope audits were performed for twenty six of the Group's components due to their financial significance, significance of audit risks within the components and their statutory audit requirements. For the remaining components, we performed high-level analytical reviews.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group engagement team, and component auditors from other PwC network firms and other firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



INDEPENDENT AUDITOR'S REPORT *continued*

for the year ended 30 June 2021

Consolidated Financial Statements

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of assets and liabilities arising from insurance contracts</p> <p><i>Refer to Section 13 of Annexure A – Accounting policies and Notes 2, 4.1, 5 and 18 to the financial statements</i></p> <p>The Group has recognised assets arising from insurance contracts to the value of R 51 billion, and liabilities arising from insurance contracts of R101 billion as at 30 June 2021.</p> <p>The actuarial value of assets and liabilities arising from insurance contracts is determined based on a prospective discounted cash flow valuation basis, calculated as the difference between the present value of future benefit payments plus expenses and the present value of future premiums.</p> <p>In valuing the assets and liabilities arising from insurance contracts, various assumptions are made, which include best estimate assumptions regarding the future expected claims experience, premium income, expenses and commission. Changes to these assumptions may result in a material change to the valuation. The most significant assumptions made in determining the value of the assets and liabilities arising from insurance contracts relate to:</p> <p><i>Impact of the Vitality programme on the valuation of assets and liabilities arising from insurance contracts:</i></p> <p>As for most life insurers, assumptions relating to mortality, morbidity and the level of lapses are significant in the determination of the value of policyholder liabilities and assets. The Group is unique due to its Vitality programme. In terms of this programme, policyholders are provided access to a number of services and benefits to encourage them to become healthier. Policyholders earn Vitality points which determine their Vitality status. The mortality, morbidity and lapse assumptions within the valuation of policyholder liabilities and assets in the Group are specifically impacted by the Discovery Vitality policyholder statuses.</p> <p>The Discovery Vitality policyholder statuses inform the policyholder behaviour experience expected in future and therefore these assumptions. The Vitality status distribution is updated every year based on the actual Vitality status of the policyholders.</p> <p><i>Use of discretionary margins with respect to profit recognition:</i></p> <p>The life insurance operations sell profitable insurance products. Applying the reserving basis using only compulsory margins as prescribed by regulations would result in an upfront profit being recognised at the inception of new business contracts. Profits recognised at initial recognition of the insurance contracts are, however, limited to the extent of actual acquisition costs incurred through the addition of discretionary margins. The discretionary margins are reset at every valuation date to reflect the underlying profitability of the portfolio and are released over the term of a policy in line with the risk borne. Changes to the discretionary margins have a direct impact on the profit recognition in a period and therefore need careful consideration to ensure compliance with the Section 13 of Annexure A – Accounting policies.</p> <p><i>Allowance for COVID-19 within the valuation basis:</i></p> <p>COVID-19 is expected to have an impact on future demographic and economic experience. Management has allowed for this in the best estimate assumptions of the assets and liabilities arising from insurance contracts. Given the lack of historical experience, these assumptions are highly subjective and judgement based.</p> <p>We considered the valuation of assets and liabilities arising from insurance contracts to be a matter of most significance to our audit as it involves complex and subjective judgement about future events, policyholder behaviour and economic conditions.</p>	<p>Using our actuarial specialist, we performed the following procedures with respect to these balances:</p> <ul style="list-style-type: none"> As per the ISA 315 requirements we have obtained an understanding of the Group's actuarial control environment and governance, including the functioning of the Actuarial Committee (and subsidiary Actuarial Committees). Inspecting the liability build-up control performed by management to explain the sources of profit and corroborating to relevant information. Challenging the appropriateness of all significant assumptions adopted by management, by comparing the assumptions to results of actuarial experience investigations conducted by management and benchmarking the assumptions to South African life insurance industry trends. We found management's <p><i>Impact of the Vitality programme on the valuation of assets and liabilities arising from insurance contracts:</i></p> <p>We assessed the assumptions used by the Group in the valuation of the insurance contract assets and liabilities in terms of the Financial Soundness Valuation (FSV) basis as described in the Standard of Actuarial Practice (SAP) 104 and the Group accounting policy as set out in Section 13 of Annexure A - Accounting policies. In particular, we tested:</p> <ul style="list-style-type: none"> The reasonability of the assumptions used by the Group in setting the Vitality status distribution and the progression between statuses by comparing these to historical experience; and The data inputs into the model by verifying that these are consistent with actual experience. <p>We found the assumptions to be comparable with the underlying evidence.</p> <p><i>Use of discretionary margins with respect to profit recognition:</i></p> <p>Our work included the following procedures:</p> <ul style="list-style-type: none"> Consideration whether all acquisition costs were captured in the determination of the discretionary margins at 30 June 2021 through comparison to the acquisition cost amounts in the income statement. Consideration of the calculation of the discretionary margin transfer against the methodology outlined by the accounting policy <p><i>Allowance for COVID-19 within the valuation basis:</i></p> <p>Our work included the following procedures:</p> <ul style="list-style-type: none"> Consideration of the process which management went through to determine the adjustment to the best estimate assumptions. Testing the magnitude of the impact on the insurance contract assets and liabilities due to the additional COVID 19 allowances within the model.



INDEPENDENT AUDITOR'S REPORT *continued*

for the year ended 30 June 2021

Key audit matter	How our audit addressed the key audit matter
<p>Annual impairment assessment of Goodwill for the Discovery Bank CGU</p> <p><i>Refer to Section 7 of Annexure A – Accounting policies and Notes 4.2 and 10 to the financial statements</i></p> <p>The Group tests each cash-generating unit (CGU) containing goodwill for impairment as per the International Accounting Standard - Impairment of assets (IAS 36) on an annual basis. The recoverable amount of each CGU is estimated based on value in use or fair value less costs to sell. Inherent in the determination of fair value less costs to sell is estimation uncertainty.</p> <p>As at 30 June 2021 the Group has recognised goodwill of R4.88 billion which arose from the following acquisitions:</p> <ul style="list-style-type: none"> ▪ The acquisitions of Vitality Health, Insure Your Health and KYS Paid Limited (Vitality Health CGU) and Vitality Life (Vitality Life CGU) as part of business combinations in the UK with a balance of R2.44 billion at year-end; and ▪ The acquisition of the DiscoveryCard business (Discovery Bank CGU) which resulted in the recognition of goodwill of R2.42 billion; and ▪ The acquisition of Liberty Health Administrators (LHA CGU) by Discovery Health in the current year resulted in a goodwill of R0.02 billion. <p>The goodwill assessment for the DiscoveryCard business goodwill was noted as a significant accounting estimate and is considered a Key Audit Matter as the methodology and assumptions applied in determining the recoverable amounts of this CGU required significant judgement. These methodologies and assumptions are set out below:</p> <p><i>Discovery Bank CGU</i></p> <p>In determining the recoverable amount of the Discovery Bank CGU (using fair value less costs to sell) management has applied assumptions and judgement relating to the assets that are attributed to the CGU, the forecasted cash flows, the discount rate applied in discounting the cash flows (specifically the risk-free rate and the beta factor that was applied), customer growth rates and the expensing of system build costs and intangible assets acquired in the business combination over the useful lives of 10 years.</p> <p>For the year ended 30 June 2021, management has engaged independent external valuation experts to benchmark the key assumptions and ratios within the South African market.</p> <p>We considered management's annual impairment assessment of goodwill to be a matter of most significance to our audit, as it is subject to estimation uncertainty and significant judgement by management with respect to the inputs into the calculation of the recoverable amount.</p> <p>The accounting estimate relating to the impairment calculation of Vitality Life CGU, Vitality Health CGU and LHA CGU were not considered Key Audit Matters.</p>	<p>In relation to the Discovery Bank CGU we obtained management's independent external valuation experts calculation of the recoverable amount of the CGU and performed the following procedures:</p> <ul style="list-style-type: none"> ▪ We assessed whether the methodology and source of information for the impairment calculation was consistent with IAS 36 requirements and consistent with that used in prior years. ▪ We obtained an understanding of the key and other assumptions used by management in the valuation models by inspecting the valuation calculation prepared by the management's valuation experts and impairment testing memorandum prepared by management. ▪ Using our valuation and economic expertise, we have assessed the valuation methodology and calculations used. This includes the discount rate (Risk free rate and beta factor) assumption used in the calculation. We have also assessed the customer numbers and spend assumptions that drive income and the reasonableness of expense and other cash flow assumptions used (including capital requirements and consideration of the credit loss ratios applied in the business valuation). ▪ We performed various sensitivity calculations to management's assumptions applied for the terminal growth rate, discount rate, estimated customer numbers and customer profits. ▪ We have agreed the actual results from the 30 June 2021 financial year to those assumptions included in the valuation model and performed a comparison to the 30 June 2020 assumptions to develop an independent expectation to calculate an independent valuation of the Discovery CGU. <p>We performed an independent valuation of the Discovery Bank CGU and noted that sufficient headroom is available when compared to the carrying value of the CGU, thus resulting in no impairment on the Discovery Bank CGU.</p>

Separate financial statements

We have determined that there are no key audit matters in respect of the separate financial statements.



INDEPENDENT AUDITOR'S REPORT *continued*

for the year ended 30 June 2021

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Discovery Annual Financial Statements for the year ended 30 June 2021", which includes the Directors' Report, the Report of the Audit Committee and the Certificate by the Company Secretary as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the document titled "Discovery Integrated Annual Report 2021", which is expected to be made available to us after that date. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern.



INDEPENDENT AUDITOR'S REPORT *continued*

for the year ended 30 June 2021

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Discovery Limited for 21 years.

PricewaterhouseCoopers Inc.

Director: Andrew Graham Taylor

Registered Auditor

Johannesburg

2 September 2021



DIRECTORS' REPORT

for the year ended 30 June 2021

The directors present their 22nd annual report, which forms part of the consolidated and separate annual financial statements of Discovery Limited for the year ended 30 June 2021.

NATURE OF BUSINESS

Discovery Limited (the Company) is listed on the JSE Limited and is an integrated financial services organisation specialising in health insurance, life assurance, wellness, investments and savings products, short-term insurance and banking products.

Discovery is a shared value insurance company whose purpose and ambition are achieved through a pioneering business model that incentivises people to be healthier, and enhances and protects their lives. Our shared value insurance model delivers better health and value for clients, superior actuarial dynamics for the insurer, and a healthier society.

Discovery continues to drive the execution of existing market-specific strategies through its composite model, with the following strategic vision established for each:

- South Africa: To be the perfect composite model, number 1 in every industry, and the Bank pivoting to growth as the composite-maker within SA
- United Kingdom: To have best in breed products across businesses and operating as a fully integrated composite business with a seamless One Vitality client journey and to have a successful entry into motor insurance
- Ping An Health Insurance: To be the leading health insurer in China with over 50 million clients
- Vitality Group: To be the world's largest and most sophisticated behavioural platform linked to financial services

COVID-19 has accelerated the blurring of lines between health, wellness, resilience and mortality through the underlying behavioural drivers of risk. As these have coalesced with the rising trends of technology adoption and socially driven purpose-led models, Discovery has been evolving its growth model to offer multi-dimensional growth prospects; these being (1) Organic growth, (2) Geographic growth of the Global Vitality businesses, (3) Structural growth through its platform and the institutions it serves and (4) Composite ecosystems.

Group Structure

The Company is directly and indirectly the holding company of subsidiaries and investments as set at the end of this report. In addition, Discovery consolidates unit trusts which are deemed to be under the Group's control in terms of IFRS 10 *Consolidated Financial Statements*. These are also set out at the end of the report.

YEAR UNDER REVIEW

Discovery's results for the full year ended 30 June 2021 (reporting year or year under review) were characterised by three key attributes:

- A multifaceted focus on the impact of and response to the COVID-19 pandemic, which has been profound and tragic over the period. In terms of the Group's financial results, the notable material impact has been the effect of elevated mortality in South Africa (SA) in Discovery Life.
- Notwithstanding the above, an excellent operational performance, with robust growth, retention and strong actuarial experience across the Group.
- A pivot to growth by capitalising on the applicability of its Vitality Shared-Value model to ensure growth in local and global markets, and excellent traction in Discovery's new and emerging businesses.

Discovery's results for the full year ended 30 June 2021 were robust, summarised by the following:

- Normalised profit from operations increased 7% for the year under review, notwithstanding the R2.4 billion COVID-19 impact for Discovery Life as compared with the R1.1 billion for the year ended 30 June 2020.
- New Business API (Annual Premium Income) increased by 11%, while retention levels across the group were excellent and better than expected.
- Performance was robust across all the Established businesses, outside of the COVID-19 driven elevated mortality in Discovery Life; Emerging businesses delivered particularly strong growth, with normalised profit from operations having increased 46% and spend on new initiatives reduced by 7% while delivering exceptional growth in new business, with new business API for new businesses increasing 156%.
- Normalised Headline Earnings decreased 9%, impacted by mark-to-market foreign currency losses arising from a recovery of the Rand during the reporting year compared to a gain in the previous financial year.
- Headline Earnings increased 910% as the stabilisation of long term interest rates in SA and the UK resulted in materially lower economic basis changes than the prior year.
- Earnings per share additionally benefited from a material unrealised gain of R537 million from the transaction in which Cambridge Mobile Telematics (CMT) acquired TrueMotion through an issuance of shares, as announced by CMT on 16 June 2021. See note 11 in the annual financial statements for more information.



DIRECTORS' REPORT *continued*

for the year ended 30 June 2021

COVID-19 impact on results

The financial year under review was framed by the COVID-19 pandemic, the year commencing during the first wave of the pandemic and ending during the height of the third wave in SA. The epidemic in SA has been significantly worse than anticipated at the end of June 2020. At that time, Discovery projected a severe second wave for SA, but the actual second wave experience was still somewhat worse than expected due to the emergence of the Beta variant. In addition, SA suffered a very significant third wave, driven by the Delta variant. By contrast, whilst the United Kingdom (UK) also experienced a severe second wave, it has largely avoided any negative mortality impact in its third wave due to its extraordinarily effective and early vaccine campaign. On a risk adjusted basis, we believe that the South African epidemic has turned out to be significantly more severe than the epidemic in the UK. In the UK, the extended lockdowns caused by the second and third wave of infections did however cause further delays to elective medical procedures.

Despite these complex and varied dynamics, the Group was remarkably resilient across all its businesses, with the notable material impact on operating profit being the effect of elevated mortality in SA experienced within Discovery Life.

Normalised profit from operations over prior year

The following table demonstrates the contribution of key businesses to the growth in normalised profit from operations of 7% compared to the prior year.

Business	Normalised profit from operations % change 12 months ended 30 June 2021 to 12 months ended 30 June 2020
Discovery Health	+7%
Discovery Life	-55%
Discovery Invest	+31%
Discovery Vitality	+514%
VitalityHealth	+15%*
VitalityLife	+337% (reversal of prior year loss)**
Profit from Established businesses	-1%
Discovery Insure	+2%
Vitality Group	+35%
Ping An Health	+126%
Total Emerging businesses	+46%
New initiatives (Excluding Bank)	Spend reduced by 7%
Discovery Bank	Spend reduced by 7%
Normalised Profit from operations	+7%

* For VitalityHealth, a key feature of the UK health market in the financial year has been the continued delay in claims catch-up relating to elective medical procedures with the second and third wave of COVID-19 infections. Vitality Health has modelled the expected catch-up in claims into future periods and is managing the underlying claims experience over time in the following two ways. Firstly, a £14 million unearned premium reserve (UPR) has been established at the end of the reporting year to cover delayed claims that are anticipated within the short-term contract boundaries. Most anticipated claims are however expected to transpire over a much longer period and mostly well beyond the short-term nature of the insurance contract boundaries; this presented the business with an opportunity to accelerate the repayment terms of its existing reinsurance programme in the reporting year, with a net in period cost of £39.7 million, which results in better matching the underlying claims experience expected from the catch-up in claims in future years. VitalityHealth's robust operating profit in the table above is after the effect of these factors. Refer to Note 41 in the Annual Financial Statements for more information.

** VitalityLife performed better than expected over the financial year both in terms of mortality and lapses and a relatively immaterial additional provision was deemed necessary to cover the potential effects of a possible 4th wave in the UK.



DIRECTORS' REPORT *continued*

for the year ended 30 June 2021

SHARE CAPITAL

Details of the authorised and issued share capital, together with details of shares issued during the year, appear in note 17 to the Annual Financial Statements.

DIVIDENDS

Dividends paid during the current and prior financial year

B preference shares

Payment date	Nature and financial period	Dividend declared per share
15 March 2021	Interim dividend Financial year 2021	354.52055 cents (283.61644 cents net of dividend withholding tax)
28 September 2020	Final dividend Financial year 2020	433.21918 cents (346.57534 cents net of dividend withholding tax)
16 March 2020	Interim dividend Financial year 2020	505.41097 cents (404.32878 cents net of dividend withholding tax)

Ordinary shares

Payment date	Nature and financial period	Dividend declared per share
Due to the uncertainty and potentially volatile economic environment caused by the COVID-19 pandemic, Discovery did not pay any ordinary dividends during the year ended 30 June 2021.		
23 March 2020	Interim dividend Financial year 2020	101 cents (80.8 cents net of dividend withholding tax)

Final dividends declaration in respect of the 2021 financial year

Details of the dividends appear in Note 42.

CAPITAL

Solvency and liquidity test

The directors have performed the requisite solvency and liquidity tests where required by the Companies Act, 71 of 2008, as amended.

Statutory capital requirements

With effect from 1 July 2018, the Insurance Act 18 of 2017 (Insurance Act), and the related Prudential Standards were implemented in South Africa. Discovery Life and Discovery Insure are regulated under the Insurance Act, while Vitality Health and VitalityLife are regulated under the European Solvency II regulatory regime, which was implemented from 1 January 2016. The values below are estimated based on information extracted from the audited financial statements.

	2021		2020	
	Statutory Capital Requirements	Cover	Statutory Capital Requirements	Cover
Discovery Life	R17 647 million	1.8 times	R14 835 million	1.8 times
Discovery Insure	R1 079 million	1.6 times	R885 million	1.8 times
Vitality Health	GBP 105.6 million (R2 084 million)	1.6 times	GBP 102.3 million (R2 194 million)	1.7 times
VitalityLife Limited	GBP 225.5 million (R4 451million)	2.4 times	GBP 228.3 million (R4 896 million)	2.0 times



DIRECTORS' REPORT *continued*

for the year ended 30 June 2021

A disciplined long-term capital plan remains a key focus as Discovery continues to follow a highly structured approach to navigating the impact of COVID-19 while ensuring that the Group remains resilient and able to continue to fund its growth initiatives. Each of the Group's businesses are strongly capitalised with capital metrics above set targets, and across the Group there is an excess of liquid assets above minimum regulatory capital requirements of R13.4 billion, held predominantly within the businesses, with excess liquidity held at the centre in SA of R2 billion. The Group's Financial Leverage Ratio stabilised at 25.7%1 and is comfortably within the internally set guidance level of 28% and expected to trend down over time.

Ping An Health Insurance (PAH)

During the period under review, the Group became aware that due to the combined effect of the future growth prospects of Ping An Health Insurance (PAH) and its expanding product mix, with the evolving prudential regulatory requirements in China, PAH requires additional capital of RMB2.6 billion (approximately R6 billion). Discovery's contribution, amounting to approximately R1.5 billion, will be required in the near future. Discovery is committed to its investment in PAH and its intention is to follow its rights in this regard, aligned with previous capital contributions it has made, and is evaluating the optimal funding mechanism in the context of COVID-19 aligned with the discipline of the capital plan. Discovery has previously responded to fund such growth opportunities through equity rather than debt, as was the case of the final buy-out of the FNB credit card book in 2018. The prospects for private healthcare and private health insurance in China provide an excellent long-term opportunity, supported by recent government policies emphasising the development of healthcare and private health insurance.

DIRECTORS AND PRESCRIBED OFFICERS

The following were directors and prescribed officers of the Company during the current and prior financial year unless otherwise indicated:

Executive directors	Non-executive directors
A Gore	HL Bosman
HD Kallner	R Farber
NS Koopowitz	HP Mayers (retired 26 November 2020)
Dr A Ntsaluba	Independent non-executive directors
A Pollard	ME Tucker (Chairperson)
B Swartzberg	Dr BA Brink
DM Viljoen	SE De Bruyn
	F Khanyile
	D Macready
	Dr TV Maphai
	M Schreuder (appointed 19 February 2021)
	SV Zilwa

Ms. M Hlahla has been appointed as an independent non-executive director with effect from 15 August 2021. Ms. M Hlahla will be a member of the audit committee as well as the social and ethics committee. Ms. Hlahla's appointment strengthens the independence and business skills on the board and the committees.

The notice for the forthcoming Annual General Meeting of shareholders will include those names of individuals that retire by rotation and are eligible and available for re-election.

The Companies Act and associated regulations introduced the concept of Prescribed Officers and related remuneration disclosure. The Remuneration Committee (RemCo) considers the Act, seeks legal opinion and assesses this definition every year against the roles and responsibilities of employees. Following restructuring of reporting lines and formalising geographical composite strategies and leadership structure composites in the prior year, RemCo resolved that Executive Directors of Discovery are Prescribed Officers of the Group.

Details of the directors' emoluments, participation in share incentive schemes and interests in the Company are reflected in Annexure B and in the Group's Remuneration report.



DIRECTORS' REPORT *continued*

for the year ended 30 June 2021

COMPANY SECRETARY

Ms NN Mbongo replaced Mr MJ Botha, following his formal retirement, as Company Secretary effective 1 December 2020.

Registered office	Postal address
1 Discovery Place	PO Box 786722
Sandton	Sandton
2196	2146

DIRECTORS' INTERESTS IN CONTRACTS

No material contracts involving directors' interests were entered into in the current year. The directors had no interest in any third party or company responsible for managing any of the business activities of Discovery.

BORROWING POWERS

The directors may exercise all the powers of the Company to borrow money. In terms of the Memorandum of Incorporation, the borrowing powers of the Company are unlimited. In terms of the Insurance Act, both Discovery Life and Discovery Insure may not encumber its assets or directly or indirectly borrow.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company entered into agreements to indemnify its directors to the extent permitted by law against all liabilities including legal costs incurred by the director in connection with or as a consequence of the director acting in any capacity, including as an authorised representative of a Group company.

During the financial year, the Company paid insurance premiums in respect of a Directors and Officers Liability insurance contract, which insures directors and officers of the Company against certain liabilities arising in the course of their duties to the Company or Group companies. Details of the nature of the liabilities covered and the amount of premium paid are not disclosed as such disclosure is prohibited under the terms of the contract.

EVENTS AFTER THE REPORTING DATE

There are no other significant events after the reporting date, being 30 June 2021, to the date of the approval of the Annual Financial Statements, namely, 1 September 2021.

AUDITORS

It will be proposed at the Annual General Meeting of shareholders, that PricewaterhouseCoopers Inc. continue in office in accordance with section 90(1) of the Companies Act and, in light of the future requirements by the Prudential Authority for the Company to appoint joint auditors and also in anticipation of mandatory audit firm rotation requirements of IRBA, both becoming applicable in 2023, that KPMG Inc will be appointed as joint auditors effective 1 July 2021 with PricewaterhouseCoopers Inc.



DIRECTORS' REPORT *continued*

for the year ended 30 June 2021

GROUP STRUCTURE

Discovery is directly and indirectly the holding company of:

Audited information	Percentage holding	Country
Discovery Central Services Proprietary Limited	100%	SA
Discovery Connect Distribution Services Proprietary Limited	100%	SA
Discovery Health Proprietary Limited which holds the interests in:	100%	SA
- Discovery Third Party Recovery Services Proprietary Limited	100%	SA
- Discovery HealthCare Services Proprietary Limited which holds the interests in:	100%	SA
Discovery Medical Suppliers Proprietary Limited	100%	SA
Grove Nursing Services Proprietary Limited	100%	SA
Southern RX Distributors Proprietary Limited	100%	SA
- Liberty Health Administrators Proprietary Limited	100%	SA
- Medical Services Organisation International Proprietary Limited which holds the interest in:	70%	SA
MSO Eswatini Swaziland	51%	Swaziland
- MSO International (Isle of Man) which holds the interest in:	70%	Isle of Man
Global Access Health Network SARL	80%	DRC
MSOI Health Risk Managers Limited	85%	Nigeria
Discovery Insure Limited which holds the interest in:	100%	SA
- Discovery Telematic Services Proprietary Limited	100%	SA
Discovery Investment Management Proprietary Limited (dormant)	100%	SA
Discovery Life Collective Investments Proprietary Limited	100%	SA
Discovery Maritius Asset Management	100%	Mauritius
Discovery International Collective Investments PLC	100%	Mauritius
Discovery Life Investment Services Proprietary Limited which holds the interest in:	100%	SA
- Discovery Life Nominees Proprietary Limited	100%	SA
Discovery Life Limited	100%	SA
Discovery Bank Holdings Limited which holds the interest in:	100%	SA
- Discovery Bank Limited	100%	SA
Discovery Vitality Proprietary Limited	100%	SA
Discovery Partner Markets Asia Private Limited which holds the interest in:	100%	Singapore
- Discovery Partner Markets Services Private Limited	100%	Singapore
Discovery Finance Company Europe Limited	100%	UK
Discovery Group Europe Limited which holds the interests in:	100%	UK
- Discovery Offshore Holdings No 2 Limited (dormant)	100%	UK
- Discovery Holdings Europe Limited which holds the interests in:	100%	UK
Better Health Insurance Advice	100%	UK
Vitality Corporate Services Limited which holds the interest in:	100%	UK
Vitality Healthy Workplace Limited	100%	UK
Vitality Life Limited which holds the interests in:	100%	UK
Vitality Health Insurance Limited which holds the interest in:	100%	UK
Vitality Health Limited	100%	UK
Vitality Invest Trustee Company Limited	100%	UK
Vitality Group International Inc., which holds the interests in:	100%	USA
- Discovery Vitality Australia Proprietary Limited	100%	Australia
- Vitality Management Company LLC	100%	USA
- The Vitality Group Inc*, which holds the interests in:	99.9%	USA
The Vitality Group LLC	100%	USA

Abbreviations: SA – South Africa, DRC – Democratic Republic of the Congo, UK – United Kingdom, USA – United States of America

* The balance of the interest is held by senior management of this subsidiary.



DIRECTORS' REPORT *continued*

for the year ended 30 June 2021

In addition to the above subsidiaries, Discovery consolidates unit trusts which are deemed to be under the Group's control in terms of IFRS 10 Consolidated Financial Statements. The consolidated unit trusts include:

Discovery Aggressive Dynamic Asset Optimiser Fund of Funds	Discovery Target Retirement 2025 Fund
Discovery Balanced Fund	Discovery Target Retirement 2030 Fund
Discovery Cautious Balanced Fund	Discovery Target Retirement 2035 Fund
Discovery Conservative Dynamic Asset Optimiser Fund of Funds	Discovery Target Retirement 2040 Fund
Discovery Diversified Income Fund	Discovery Target Retirement 2045 Fund
Discovery Equity Fund	Discovery Target Retirement 2050 Fund
Discovery Flexible Property Fund	Discovery Target Retirement 2055 Fund
Discovery Global Equity Feeder Fund	Discovery Target Retirement 2060 Fund
Discovery Global Real Estate Securities Feeder Fund	Discovery Global Multi Asset Fund (previously named
Discovery Global Value Equity Feeder Fund	Discovery Worldwide Best Ideas Fund)
Discovery Moderate Balanced Fund	Discovery Strategic Bond Fund
Discovery Moderate Dynamic Asset Optimiser Fund of Funds	Discovery Global Conservative Fund (Mauritius)
Discovery Money Market Fund	Discovery Global Moderate Fund (Mauritius)
Discovery Target Retirement 2015 Fund	Discovery Global Growth Portfolio Fund (Mauritius)
Discovery Target Retirement 2020 Fund	



GROUP STATEMENT OF FINANCIAL POSITION

at 30 June 2021

R million	Notes	Group 2021	Group 2020
Assets			
Goodwill	10	4 879	5 070
Intangible assets	7	6 371	6 381
Property and equipment	6	4 188	4 643
Assets arising from insurance contracts	5	50 483	48 042
Deferred acquisition costs	8	585	632
Assets arising from contracts with customers	9	1 248	954
Investment in equity-accounted investees	11	3 459	2 713
Deferred income tax asset	23	3 948	3 511
Financial assets			
- Loans and advances to customers at amortised cost	12	3 361	1 848
- Investments at amortised cost	12	5 604	2 523
- Investments at fair value through profit or loss	12	130 937	102 714
- Derivative financial instruments at fair value through profit or loss	13	249	1 370
Insurance receivables, contract receivables and other receivables	14	10 533	11 436
Current income tax asset		391	182
Reinsurance contracts	15	445	400
Cash and cash equivalents	16	20 013	17 909
TOTAL ASSETS		246 694	210 328
Equity			
Capital and reserves			
Ordinary share capital and share premium	17.1	10 151	10 148
Perpetual preference share capital	17.2	779	779
Other reserves		1 935	3 269
Retained earnings		33 550	30 353
		46 415	44 549
Non-controlling interest		4	4
TOTAL EQUITY		46 419	44 553
Liabilities			
Liabilities arising from insurance contracts	18	100 977	82 411
Liabilities arising from reinsurance contracts	19	12 525	12 465
Deferred income tax liability	23	8 814	8 514
Contract liabilities to customers	9	776	808
Financial liabilities			
- Borrowings at amortised cost	20	19 493	19 836
- Other payables at amortised cost	22	14 904	14 233
- Deposits from customers		8 985	2 427
- Investment contracts at fair value through profit or loss	21	32 291	23 012
- Derivative financial instruments at fair value through profit or loss	13	826	992
Employee benefits	24	315	284
Current income tax liability		369	793
TOTAL LIABILITIES		200 275	165 775
TOTAL EQUITY AND LIABILITIES		246 694	210 328



GROUP INCOME STATEMENT

for the year ended 30 June 2021

R million	Notes	Group June 2021	Group June 2020
Insurance premium revenue		55 935	49 775
Reinsurance premiums		(7 729)	(6 308)
Accelerated reinsurance premiums	41	(823)	-
Net insurance premium revenue	25	47 383	43 467
Fee income from administration businesses		11 700	11 337
Net banking fee and commission income		480	150
Banking fee and commission income		633	182
Banking fee and commission expense		(153)	(32)
Vitality income		3 340	3 875
Other income		1 372	1 100
Receipts arising from reinsurance contracts	19	500	-
Investment income using the effective interest rate method	26	280	379
Net bank interest and similar income		241	71
Bank interest and similar income using the effective interest rate		627	162
Bank interest and similar expense using the effective interest rate		(386)	(91)
Net fair value gains on financial assets at fair value through profit or loss	27	11 891	4 093
Net income		77 187	64 472
Net claims and policyholders' benefits	28	(28 178)	(23 246)
Claims and policyholders' benefits		(33 972)	(26 856)
Insurance claims recovered from reinsurers		5 794	3 610
Acquisition costs	29	(5 033)	(6 547)
Marketing and administration expenses	30	(22 679)	(22 118)
Amortisation of intangibles from business combinations		(66)	(76)
Expected credit losses		(271)	(181)
Recovery of expenses from reinsurers		2 773	2 876
Net transfer to/from assets and liabilities under insurance contracts		(14 795)	(13 497)
- change in assets arising from insurance contracts		545	2 038
- change in assets arising from reinsurance contracts		56	53
- change in liabilities arising from insurance contracts		(17 941)	(9 418)
- change in liabilities arising from reinsurance contracts		1 755	(462)
- economic assumption adjustments net of discretionary margins		790	(5 708)
Fair value adjustment to liabilities under investment contracts		(3 634)	(151)
Profit from operations		5 304	1 532
Finance costs	32	(1 648)	(1 568)
Foreign exchange (losses)/gains		(389)	578
Impairment of goodwill		-	(9)
Gain on dilution and disposal of equity-accounted investments		554	3
Impairment of equity-accounted investments		(149)	-
Share of net profits from equity-accounted investments		523	264
Profit before tax		4 195	800
Income tax expense	34	(975)	(624)
Profit for the year		3 220	176
Profit/(loss) attributable to:			
- ordinary shareholders		3 157	97
- preference shareholders		63	81
- non-controlling interest		*	(2)
		3 220	176
Earnings per share for profit attributable to ordinary shareholders of the company during the year (cents):	35		
- basic		480.7	14.8
- diluted		475.4	14.7



GROUP STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2021

R million	Group June 2021	Group June 2020
Profit for the year	3 220	176
Items that are or may be reclassified subsequently to profit or loss:		
Currency translation differences	(1 576)	2 800
Cash flow hedges	260	(430)
– unrealised losses	360	(762)
– tax on unrealised gains/losses	(25)	59
– (gains)/losses recycled to profit or loss	(90)	319
– tax on recycled gains/losses	15	(46)
Share of other comprehensive income from equity-accounted investments	(312)	293
– change in fair value of debt instruments at fair value through other comprehensive income	15	3
– currency translation differences	(327)	290
Other comprehensive (losses)/income for the year, net of tax	(1 628)	2 663
Total comprehensive income for the year	1 592	2 839
Attributable to:		
– ordinary shareholders	1 529	2 760
– preference shareholders	63	81
– non-controlling interest	*	(2)
Total comprehensive income for the year	1 592	2 839

* Amount is less than R500 000.



GROUP STATEMENT OF CASH FLOWS

for the year ended 30 June 2021

R million	Notes	Group June 2021	Group June 2020
Cash flow from operating activities		10 407	8 065
Cash generated by operations	36.1	26 457	19 000
Purchase of investments held to back policyholder liabilities		(54 661)	(37 316)
Proceeds from disposal of investments held to back policyholder liabilities		38 709	26 218
		10 505	7 902
Dividends received		303	342
Interest received		2 513	2 516
Interest paid		(1 197)	(1 406)
Taxation paid	36.2	(1 717)	(1 289)
Cash flow from investing activities		(6 740)	(3 030)
Purchase of financial assets		(32 569)	(26 497)
Proceeds from disposal of financial assets		27 828	25 532
Purchase of property and equipment		(277)	(290)
Proceeds from disposal of property and equipment		21	4
Purchase of software and other intangible assets		(1 587)	(1 726)
Acquisition of business net of cash		(25)	16
Additional investment in equity-accounted investments		(240)	(69)
Dividends from equity-accounted investments		109	-
Cash flow from financing activities		(590)	2 202
Purchase of treasury shares		-	(4)
Dividends paid to ordinary shareholders		-	(1 413)
Dividends paid to preference shareholders		(63)	(81)
Proceeds from borrowings	36.3	1 839	10 339
Repayment of borrowings	36.3	(2 366)	(6 639)
Net increase in cash and cash equivalents		3 077	7 237
Cash and cash equivalents at beginning of the year		17 909	9 403
Exchange (losses)/gains on cash and cash equivalents		(973)	1 269
Cash and cash equivalents at end of the year	16	20 013	17 909



GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2021

R million	Attributable to equity holders of the Company				Attributable to equity holders of the Company				Non-controlling interest	Total
	Share capital and share premium	Preference share capital	Share-based payment reserve	Investment reserve ¹	Foreign currency translation reserve	Hedging reserve	Retained earnings	Total		
Year ended 30 June 2020										
At beginning of the year	10 142	779	41	-	585	(174)	31 669	43 042	*	43 042
Total comprehensive income for the year	-	81	-	3	3 090	(430)	97	2 841	(2)	2 839
Profit for the year	-	81	-	-	-	-	97	178	(2)	176
Other comprehensive income	-	-	-	3	3 090	(430)	-	2 663	-	2 663
Transactions with owners	6	(81)	154	-	-	-	(1 413)	(1 334)	6	(1 328)
Delivery of treasury shares	10	-	(10)	-	-	-	-	-	-	-
Increase in treasury shares	(4)	-	-	-	-	-	-	(4)	-	(4)
Acquisition of subsidiaries with non-controlling interest	-	-	-	-	-	-	-	-	6	6
Employee share option schemes:										
- Value of employee services	-	-	164	-	-	-	-	164	-	164
Dividends paid to preference shareholders	-	(81)	-	-	-	-	-	(81)	-	(81)
Dividends paid to ordinary shareholders	-	-	-	-	-	-	(1 413)	(1 413)	-	(1 413)
At end of the year	10 148	779	195	3	3 675	(604)	30 353	44 549	4	44 553
Year ended 30 June 2021										
At beginning of the year	10 148	779	195	3	3 675	(604)	30 353	44 549	4	44 553
Total comprehensive income for the year	-	63	-	15	(1 903)	260	3 157	1 592	*	1 592
Profit for the year	-	63	-	-	-	-	3 157	3 220	*	3 220
Other comprehensive (loss)/income	-	-	-	15	(1 903)	260	-	(1 628)	-	(1 628)
Transactions with owners	3	(63)	294	-	-	-	40	274	-	274
Issue of shares	907	-	-	-	-	-	-	907	-	907
Delivery of treasury shares	3	-	(36)	-	-	-	40	7	-	7
Increase in treasury shares	(907)	-	-	-	-	-	-	(907)	-	(907)
Employee share option schemes:										
- Value of employee services	-	-	330	-	-	-	-	330	-	330
Dividends paid to preference shareholders	-	(63)	-	-	-	-	-	(63)	-	(63)
At end of the year	10 151	779	489	18	1 772	(344)	33 550	46 415	4	46 419

¹ This relates to fair value adjustments on those equity instruments designated at fair value through other comprehensive income and those debt instruments measured at fair value through other comprehensive income.

* Amount is less than R500 000.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2021

1. SEGMENT INFORMATION

Discovery's operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM have been identified as the Chief Executive Officers of Discovery's businesses, as identified in the segment information, who make strategic decisions regarding these businesses.

An operating segment is a component of an entity:

- (a) That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- (b) Whose operating results are regularly reviewed by the entity's CODM to make decisions about resources to be allocated to the segment and assess its performance; and
- (c) For which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues.

Discovery will report separately information about an operating segment that meets any of the following quantitative thresholds:

- (a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments;
- (b) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; and
- (c) Its assets are 10 per cent or more of the combined assets of all operating segments.

Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the segment would be useful to users of the financial statements.

Discovery may combine information about operating segments that do not meet the quantitative thresholds with information about other operating segments that do not meet the quantitative thresholds to produce a reportable segment only if the operating segments have similar economic characteristics.

The Group has identified its reportable segments based on a combination of products and services offered to customers and the location of the markets served.

The following summary describes the operations of each of the Group's reportable segments:

- (i) **Health South Africa:** administers and provides managed care services to medical schemes and renders administration services to other business segments within the Group.
- (ii) **Life South Africa:** offers a range of insurance and financial solutions to the Group's clients against the financial impact of lifestyle-changing events in South Africa.
- (iii) **Invest South Africa:** offers, through a range of investment fund choices, including Discovery managed unit trusts, a comprehensive and flexible range of investment choices. These products are sold through a number of investment wrappers including Discovery Life policies and are offered to individuals in South Africa.
- (iv) **Vitality South Africa:** offers health and lifestyle benefits with selected partners to the Group's clients.
- (v) **Insure South Africa:** offers a range of personal line insurance (motor, building, household content and portable possessions) to the Group's clients against the financial impact of loss or damage. The segment also includes Discovery's interest in Cambridge Mobile Telematics (CMT).
- (vi) **Bank South Africa:** offers retail banking solutions, including deposits and loans and advances, to clients in the South African market. The Bank is still in start-up phase. It also includes DiscoveryCard.
- (vii) **Health United Kingdom:** offers consumer-engaged private medical insurance products to employer groups and individuals in the United Kingdom. All contracts in this segment are short-term insurance contracts.
- (viii) **Life United Kingdom:** offers a risk-only life assurance product. All contracts in this segment are long-term assurance contracts offered to both employer groups and individuals in the United Kingdom.
- (ix) **All other segments:** includes those segments that do not meet the quantitative thresholds set out in IFRS 8 and cannot be aggregated with another reportable segment. It includes the following operating segments:
 - Insure South Africa commercial: provides commercial short-term risk insurance products to the South African market.
 - SA Distribution: provides sales and distribution services in respect of all SA products.
 - Vitality Group: provides a Vitality platform to international insurance businesses.
 - Other new business development costs: expenses incurred to investigate new products and markets.
 - UK, US, SA and Singapore head office costs, where not allocated to another segment.
 - Invest United Kingdom: offers a comprehensive range of investment products to individuals in the United Kingdom.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

1. SEGMENT INFORMATION *continued*

The Chief Executive Officers assess the performance of the reportable segments based on normalised profit/loss from operations. Items which are excluded from the normalised profit/loss from operations are separately disclosed in the segmental information to reconcile back to the segmental results.

The segment information is presented on the same basis as reported to the Chief Executive Officer. The segment total is then adjusted for accounting reclassifications and entries required to produce IFRS compliant results. These adjustments include the following:

- (i) The VitalityLife results are reclassified to account for the contractual arrangement in respect of the business written on the Prudential Assurance Company license, as an insurance contract which Discovery issues under IFRS 4 *Insurance Contracts*;
- (ii) Unit trusts which the Group controls in terms of IFRS 10 *Consolidated Financial Statements* are consolidated into Discovery's results for IFRS purposes. The IFRS reporting adjustments include the effects of consolidating the unit trusts into Discovery's results, effectively being the income and expenses relating to units held by third parties;
- (iii) The effects of eliminating intercompany transactions on consolidation and normalised operating profit adjustments; and
- (iv) The effects of reclassifying items to align to IFRS results.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

1. SEGMENT INFORMATION *continued*

R million	SA Health	SA Life	SA Invest	SA Insure ²	SA Vitality	SA Bank	UK Health	UK Life	All other segments	Segment total	IFRS reporting adjustments	IFRS total
30 June 2021												
Income statement												
Insurance premium revenue	294	13 711	14 824	4 091	-	-	11 075	6 466	6 351	56 812	(877)	55 935
Reinsurance premiums	1	(3 262)	-	(66)	-	-	(1 839)	(3 354)	(86)	(8 606)	877	(7 729)
Accelerated reinsurance premiums	-	-	-	-	-	-	(823)	-	-	(823)	-	(823)
Net insurance premium revenue	295	10 449	14 824	4 025	-	-	8 413	3 112	6 265	47 383	-	47 383
Fee income from administration businesses	7 540	-	2 401	16	-	2	28	-	1 724	11 711	(11)	11 700
Net banking fee and commission income	-	-	-	-	-	464	-	-	16	480	-	480
Banking fee and commission income ³	-	-	-	-	-	633	-	-	-	633	-	633
Banking fee and commission expense	-	-	-	-	-	(169)	-	-	16	(153)	-	(153)
Vitality income	-	-	-	-	2 295	21	240	230	554	3 340	-	3 340
Other income	968	3	-	-	-	312	60	-	10	1 353	19	1 372
Receipts arising from reinsurance contracts	-	500	-	-	-	-	-	-	-	500	-	500
Investment income earned on assets backing policyholder liabilities	-	10	-	111	-	-	-	9	9	139	(139)	-
Net bank interest and similar income	-	-	-	-	-	214	-	-	-	214	27	241
Bank interest and similar income using the effective interest rate	-	-	-	-	-	627	-	-	-	627	-	627
Bank interest and similar expense using the effective interest rate	-	-	-	-	-	(413)	-	-	-	(413)	27	(386)
Finance charge on negative reserve funding	-	-	-	-	-	-	-	769	-	769	(769)	-
Inter-segment funding ¹	-	(714)	714	-	-	-	-	-	-	-	-	-
Net fair value gains on financial assets at fair value through profit or loss	6	637	9 172	14	-	83	29	(792)	1 358	10 507	1 384	11 891
Net income	8 809	10 885	27 111	4 166	2 295	1 096	8 770	3 328	9 936	76 396	511	76 907
Net claims and policyholders' benefits	(129)	(8 113)	(12 252)	(2 270)	-	-	(3 894)	(837)	(683)	(28 178)	-	(28 178)
Claims and policyholders' benefits	(129)	(11 949)	(12 252)	(2 269)	-	-	(5 219)	(1 962)	(761)	(34 541)	569	(33 972)
Insurance claims recovered from reinsurers	-	3 836	-	(1)	-	-	1 325	1 125	78	6 363	(569)	5 794
Acquisition costs	(40)	(1 540)	(1 056)	(599)	(61)	-	(942)	(1 719)	174	(5 783)	750	(5 033)
Expected credit losses	-	-	-	-	-	(271)	-	-	-	(271)	-	(271)
Marketing and administration expenses												
- depreciation and amortisation	(118)	(7)	(11)	(70)	(13)	(246)	(447)	(57)	(669)	(1 638)	(210)	(1 848)
- derecognition of intangible assets and property and equipment	(26)	-	-	(6)	-	-	-	-	(18)	(50)	-	(50)
- impairment of intangible assets and property and equipment	(15)	-	-	-	(1)	-	(5)	-	(40)	(61)	-	(61)
- other expenses	(5 058)	(2 027)	(1 031)	(937)	(2 177)	(1 673)	(3 297)	(1 831)	(2 598)	(20 629)	(91)	(20 720)
Recovery of expenses from reinsurers	-	-	-	-	-	-	912	1 861	-	2 773	-	2 773
Net transfer to/from assets and liabilities under insurance contracts												
- change in assets arising from insurance contracts	-	3 433	-	-	-	-	-	(6 143)	76	(2 634)	3 179	545
- change in assets arising from reinsurance contracts	-	33	-	-	-	-	13	10	-	56	-	56
- change in liabilities arising from insurance contracts	-	(206)	(11 054)	(47)	-	-	(155)	(17)	(6 436)	(17 915)	(26)	(17 941)
- change in liabilities arising from reinsurance contracts	-	(1 115)	-	-	-	-	-	6 049	-	4 934	(3 179)	1 755
Fair value adjustment to liabilities under investment contracts	-	(2)	(623)	-	-	-	-	-	(255)	(880)	(2 754)	(3 634)
Share of net profits from equity-accounted investments	-	-	-	13	-	-	(2)	-	512	523	-	523
Impairment of equity-accounted investment	-	-	-	-	-	-	-	-	(149)	(149)	-	(149)
Normalised profit/(loss) from operations	3 423	1 341	1 084	250	43	(1 094)	953	644	(150)	6 494	(1 820)	4 674
Economic assumption adjustments net of discretionary margins and interest rate derivative	-	(411)	-	-	-	-	-	(108)	-	(519)	1 309	790
Economic assumption adjustments net of discretionary margins	-	(411)	-	-	-	-	-	1 201	-	790	-	790
Fair value losses on VitalityLife interest rate derivative	-	-	-	-	-	-	-	(1 309)	-	(1 309)	1 309	-
Investment income earned on shareholder investments and cash	39	14	40	-	39	-	-	10	823	965	(685)	280
Net fair value gains/(losses) on financial assets at fair value through profit or loss	-	138	(28)	-	-	-	-	139	(471)	(222)	222	-
Restructuring costs	-	-	-	-	-	-	-	(33)	-	(33)	33	-
Gain on dilution of equity-accounted investments	-	-	-	537	-	-	-	-	17	554	-	554
Expenses related to Prudential Book transfer	-	-	-	-	-	-	-	(187)	-	(187)	187	-
Transaction costs related to VitalityLife interest rate derivatives	-	-	-	-	-	-	-	(4)	-	(4)	4	-
Covid-19 vaccination programme	-	-	-	-	-	-	-	-	(42)	(42)	42	-
Amortisation of intangibles from business combinations	-	-	-	-	-	-	-	-	(66)	(66)	-	(66)
Market rentals related to Head Office building adjusted for finance costs and depreciation	-	-	-	-	-	-	-	-	(228)	(228)	228	-
Finance costs	(1)	(26)	-	-	-	-	(7)	(65)	(1 192)	(1 291)	(357)	(1 648)
Intercompany finance costs	(268)	-	-	-	-	-	(6)	(236)	(315)	(825)	825	-
Foreign exchange (losses)/gains	(6)	3	(25)	-	-	-	-	-	(361)	(389)	-	(389)
Profit before tax	3 187	1 059	1 071	787	82	(1 094)	940	160	(1 985)	4 207	(12)	4 915
Income tax expense	(894)	(364)	(331)	(207)	(24)	334	(149)	363	285	(987)	12	(975)
Profit for the year	2 293	695	740	580	58	(760)	791	523	(1 700)	3 220	-	3 220

¹ The inter-segment funding of R714 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.

² This segment relates to SA Insure – Personal lines.

³ The banking fee and commission consists of R305 million of revenue which passes over time, while the interchange revenue of R93.1 million is recognised at a point in time.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

1. SEGMENT INFORMATION *continued*

R million	SA Health	SA Life	SA Invest	SA Insure ²	SA Vitality	SA Bank	UK Health	UK Life	All other segments	Segment total	IFRS reporting adjustments	IFRS total
30 June 2020												
Income statement												
Insurance premium revenue	252	12 984	15 602	3 544	-	-	9 100	5 705	3 330	50 517	(742)	49 775
Reinsurance premiums	(1)	(2 564)	-	(66)	-	-	(1 589)	(2 789)	(41)	(7 050)	742	(6 308)
Net insurance premium revenue	251	10 420	15 602	3 478	-	-	7 511	2 916	3 289	43 467	-	43 467
Fee income from administration businesses	7 238	-	2 246	12	-	137	30	-	1 687	11 350	(13)	11 337
Net banking fee and commission income	-	-	-	-	-	150	-	-	-	150	-	150
Banking fee and commission income ³	-	-	-	-	-	182	-	-	-	182	-	182
Banking fee and commission expense	-	-	-	-	-	(32)	-	-	-	(32)	-	(32)
Vitality income	-	-	-	-	2 401	121	452	212	689	3 875	-	3 875
Other income	883	39	-	-	-	120	69	-	18	1 129	(29)	1 100
Investment income earned on assets backing policyholder liabilities	-	13	-	119	-	1	9	37	1	180	(180)	-
Net bank interest and similar income	-	-	-	-	-	63	-	-	-	63	8	71
Bank interest and similar income using the effective interest rate	-	-	-	-	-	162	-	-	-	162	-	162
Bank interest and similar expense using the effective interest rate	-	-	-	-	-	(99)	-	-	-	(99)	8	(91)
Finance charge on negative reserve funding	-	-	-	-	-	-	-	(838)	-	(838)	838	-
Inter-segment funding ¹	-	(762)	762	-	-	-	-	-	-	-	-	-
Net fair value (losses)/gains on financial assets at fair value through profit or loss	(20)	867	834	32	(2)	92	29	768	59	2 659	1 434	4 093
Net income	8 352	10 577	19 444	3 641	2 399	684	8 100	3 095	5 743	62 035	2 058	64 093
Net claims and policyholders' benefits	(100)	(6 079)	(10 542)	(1 915)	-	-	(3 623)	(798)	(189)	(23 246)	-	(23 246)
Claims and policyholders' benefits	(100)	(7 926)	(10 542)	(1 939)	-	-	(4 796)	(1 964)	(229)	(27 496)	640	(26 856)
Insurance claims recovered from reinsurers	-	1 847	-	24	-	-	1 173	1 166	40	4 250	(640)	3 610
Acquisition costs	(30)	(1 566)	(1 080)	(479)	(66)	-	(797)	(1 814)	123	(5 709)	(838)	(6 547)
Expected credit losses	-	-	-	-	-	(181)	-	-	-	(181)	-	(181)
Marketing and administration expenses	-	-	-	-	-	-	-	-	-	-	-	-
- depreciation and amortisation	(176)	(7)	(9)	(84)	(15)	(236)	(359)	(46)	(612)	(1 544)	(210)	(1 754)
- derecognition of intangible assets and property and equipment	(29)	-	-	(74)	(9)	-	-	-	(84)	(196)	-	(196)
- impairment of intangible assets	-	-	-	-	-	-	-	-	(63)	(63)	-	(63)
- other expenses	(4 844)	(1 976)	(984)	(824)	(2 302)	(1 438)	(3 297)	(2 063)	(2 625)	(20 353)	260	(20 093)
Recovery of expenses from reinsurers	-	-	-	-	-	-	826	2 050	-	2 876	-	2 876
Net transfer to/from assets and liabilities under insurance contracts	-	1 557	-	-	-	-	-	(2 788)	29	(1 202)	3 240	2 038
- change in assets arising from insurance contracts	-	27	-	7	-	-	8	11	-	53	-	53
- change in assets arising from reinsurance contracts	-	(238)	(5 809)	(39)	-	-	(28)	(18)	(3 110)	(9 242)	(176)	(9 418)
- change in liabilities arising from insurance contracts	-	678	-	-	-	-	-	2 099	-	2 777	(3 239)	(462)
- change in liabilities arising from reinsurance contracts	-	(2)	(190)	-	-	-	-	-	4	(188)	37	(151)
Fair value adjustment to liabilities under investment contracts	17	-	-	13	-	-	-	-	222	252	-	252
Share of net profits from equity-accounted investments	-	-	-	-	-	-	-	-	-	-	-	-
Normalised profit/(loss) from operations	3 190	2 971	830	246	7	(1 171)	830	(272)	(562)	6 069	1 132	7 201
Investment income earned on shareholder investments and cash	65	21	45	10	27	-	1	12	746	927	(548)	379
Economic assumption adjustments net of discretionary margins and interest rate derivative	-	(3 635)	-	-	-	-	-	(1 195)	-	(4 830)	(878)	(5 708)
Economic assumption adjustments net of discretionary margins	-	(3 635)	-	-	-	-	-	(2 073)	-	(5 708)	-	(5 708)
Fair value gains on VitalityLife interest rate derivative	-	-	-	-	-	-	-	878	-	878	(878)	-
Net fair value gains/(losses) on financial assets at fair value through profit or loss	-	128	4	-	-	-	-	(120)	263	275	(275)	-
Restructuring costs	-	-	-	-	-	-	-	(100)	-	(100)	100	-
Gain on dilution of equity-accounted investments	-	-	-	3	-	-	-	-	-	3	-	3
Impairment of goodwill	-	-	-	-	-	-	-	-	(9)	(9)	-	(9)
Initial expenses related to Prudential Book transfer	-	-	-	-	-	-	-	(71)	-	(71)	71	-
Transaction costs related to VitalityLife interest rate derivatives	-	-	-	-	-	-	-	(45)	-	(45)	45	-
Amortisation of intangibles from business combinations	-	-	-	-	-	-	-	-	(76)	(76)	-	(76)
Market rentals related to Head Office building adjusted for finance costs and depreciation	-	-	-	-	-	-	-	-	(259)	(259)	259	-
Finance costs	(11)	-	-	-	-	-	(7)	(257)	(1 389)	(1 939)	371	(1 568)
Intercompany finance costs	(275)	-	-	-	-	-	-	(236)	(209)	(720)	720	-
Foreign exchange gains	15	-	36	-	-	-	-	-	527	578	-	578
Profit before tax	2 984	(515)	915	259	34	(1 171)	824	(2 048)	(759)	523	277	800
Income tax expense	(826)	147	(256)	(64)	(10)	270	(129)	239	282	(347)	(277)	(624)
Profit for the year	2 158	(368)	659	195	24	(901)	695	(1 809)	(477)	176	-	176

¹ The inter-segment funding of R762 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.

² This segment relates to SA Insure - Personal lines.

³ The banking fee and commission consists of R88.6 million of revenue which passes over time, while the interchange revenue of R93.1 million is recognised at a point in time.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

2. MANAGEMENT OF INSURANCE RISK

Discovery's accounting policy to recognise and measure insurance contracts can be viewed in Annexure A, accounting policy 13.

Discovery issues both short-term and long-term contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. An insurance contract is a contract in which Discovery as issuer and/or insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. A significant insurance risk is the possibility of having to pay benefits, on the occurrence of an insured event, that are significantly more than the benefits payable if the insured event did not occur. There is uncertainty around the timing and/or the value of the resulting claim.

A large portfolio of independent but similar insurance contracts, allow for the use of probability theory to predict the number and value of claims over a defined period. Insurance risk, when considering a large portfolio of insurance contracts, is thus the probability that the actual number of claims over a defined period is different to those expected. This could in turn result in the value of insurance liabilities being over or underestimated.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome will be. Discovery reduces claims variability by underwriting policies and by using reinsurance to protect against single large claims or catastrophe reinsurance to mitigate concentration risks.

Discovery classifies its insurance contracts into five main categories, depending on the duration of the risk and the type of risk insured. These are:

Contracts which are long term in nature

- Individual life insurance: These contracts insure against a comprehensive spectrum of risks, including life cover, severe illness, disability and income continuation cover.
- Investment products with insurance risk: These contracts attract insurance risk arising from additional benefits offered which mostly insure against life risks.

Contracts which are short term in nature

- Health insurance: These contracts insure policyholders against healthcare-related claims.
- Short-term insurance: These monthly contracts insure policyholders against a comprehensive spectrum of short-term risks including, but not limited to, motor vehicle, household, business, property and liability cover.
- Group life insurance: These contracts insure against a comprehensive spectrum of protection benefits on a group basis. Life cover, severe illness, disability and income continuation benefits are offered.

Annexure F includes a detailed description of all products that Discovery offers and whether the contract transfers insurance risk, financial risk or both. The annexure also summarises the number of policies held and the annual premium income from these products.

Refer to note 1 Segmental information for premium revenue per segment.

Discovery manages its insurance risk in terms of its risk management framework and holds regulatory and economic capital for protection against adverse experience. The following summarises the insurance risk associated with the various contracts offered by Discovery, and how Discovery manages these risks.

Insurance risk	Description	How Discovery manages the risk
Risks significant to all insurance business lines		
Lapse and surrender risk	<p>Policyholders have the option to discontinue or reduce contributions at any time.</p> <p>Accordingly, there is a risk of financial loss due to the withdrawal rate, lapses or premium reductions (with associated reduced cover) being higher than expected. The risk is highest during the early duration of the policy since the acquisition costs and commission incurred at the inception of the policy would not yet have been recouped.</p>	<p>Lapse risk is managed as follows:</p> <p><i>Product design</i></p> <p>Products are designed to be sustainable in the long term. New product offerings are made available to existing policyholders as far as possible to prevent lapse and re-entry risk.</p> <p>Integration between different product offerings across Discovery enhances the value proposition of the overall package of products from Discovery.</p>



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2021

2. MANAGEMENT OF INSURANCE RISK *continued*

Insurance risk	Description	How Discovery manages the risk
<p>Lapse and surrender risk <i>continued</i></p>	<p><i>Contracts that are long term in nature</i></p> <p>For individual life insurance products there is a risk:</p> <ul style="list-style-type: none"> - of reduced profits arising from lower than expected withdrawals at later durations of certain policies in cases where the reserves have turned positive. This is since withdrawals on such policies allow the reserves to be released as profits in the absence of surrender values being offered; and - that withdrawals are selective from a claims experience point of view. For example, healthy lives may find it easier to obtain cover elsewhere compared to less healthy lives. <p>Future earnings on individual life plans are dependent on the number of policies remaining in future years and thus future earnings are dependent on the lapse rate. The future expected earnings vary by the premium funding method chosen by the policyholder. In general, the higher the increases, the higher the withdrawal risk to future earnings.</p> <p>For investment products with insurance risk, there is a risk:</p> <ul style="list-style-type: none"> - that the surrender value may exceed the policy value, net of expenses, at early durations; and - that withdrawals are higher than expected. Future earnings arising from Invest plans are dependent on the value of assets under management and thus future earnings are dependent on the withdrawal and surrender rate. <p><i>Contracts that are short term in nature</i></p> <p>For Discovery Insure there is a risk of reduced profits arising from higher than expected withdrawals at early durations of policies, resulting in acquisition costs not being recovered.</p>	<p>For example, Discovery provides unique rewards and benefits as well as integration to members which has proven to be a credible risk differentiator. Premium discounts or cover increases are available to policyholders who actively engage in a healthier lifestyle and utilise the Vitality benefits. Better terms are thus offered to healthy lives compared to less healthy lives.</p> <p>No surrender benefit is offered on risk benefits and thus the loss on withdrawal is reduced.</p> <p><i>Commission claw back</i></p> <p>Discovery predominantly distributes via independent brokers, intermediaries and tied agents.</p> <p>Commissions are clawed back from intermediaries where a policy lapses within a specified timeframe since inception. The amount of commission clawback depends on the duration of the policy in months and gradually reduces from 100% to 0% and is over a specified period depending on product sold.</p> <p><i>Experience monitoring</i></p> <p>Lapse experience is monitored on a monthly basis and data is analysed to establish possible trends for which management action can be taken.</p> <p>Where there is insufficient historic data to provide credible results, for example within VitalityLife Whole of Life, reliance is placed on reinsurers' advice, industry experience as well as experience from Discovery Life.</p> <p><i>Proactive conservation</i></p> <p>Targeted conservation campaigns are run proactively. For example, financial advisors are notified of clients that do not have certain features on their policies that are correlated with good persistency. Financial advisors are thus encouraged to add such features.</p>



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

2. MANAGEMENT OF INSURANCE RISK *continued*

Insurance risk	Description	How Discovery manages the risk
Modelling and data risk	<p>Actuarial liabilities are calculated using complex discounted cash flow models. There is a risk that the models do not accurately project the policy cash flows in the future.</p> <p>The models rely on data from the administration system and there is thus a further risk that the data does not accurately reflect the policies being valued.</p> <p>Contracts that are short term have simplified models reducing modelling risk.</p>	<p>The risk is controlled using specialist actuarial software that is widely used and accepted in the life insurance industry throughout the world. This is tailored for Discovery.</p> <p>The original actuarial models were tested and verified using an independent but identical parallel model. Any changes made are externally and independently reviewed. Parallel models are developed to test any modelling changes.</p> <p>The data for the model is extracted from modern administration systems and subjected to detailed checks together with high-level reasonability checks. Discovery does not have any legacy systems that could impact on the data quality. Data is checked at each valuation date.</p>
Capital adequacy requirements and protection against adverse experiences	<p>There is a risk that future premiums, investment returns and estimates used to calculate liabilities are insufficient to provide for variations in actual future experience. Insurance liabilities are calculated using best estimates plus the addition of various margins to avoid premature recognition of profits and to provide for a buffer against future adverse experience. In addition, Discovery maintains shareholder capital to meet substantial deviations in experience beyond those provided for in the liability calculations.</p>	<p>For discussion on how Discovery manages its capital adequacy requirements, refer to note 2.1.</p>
Liquidity risk	<p>Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with insurance liabilities due to insufficient cash being available to meet commitments as and when they become due. This is exacerbated by timing mismatches between assets and liabilities.</p>	<p>Discovery maintains sufficient liquid assets to meet short-term liabilities under base and stress assumptions. Sufficient liquid assets held to allow for the initial cash flow strain when writing new business.</p> <p><i>Contracts that are long-term in nature</i></p> <p>Currently, Discovery Life's and VitalityLife's expected outflows are mostly long-term and the main liquidity requirement is to fund acquisition expenses on new business and unexpected fluctuations in benefit payments. As discussed in note 3.4.3, Discovery invests primarily in liquid financial assets.</p> <p>For Discovery Life, large sums assured above a defined retention level are reinsured, providing stability in claims experienced and further reducing liquidity risk.</p>



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2021

2. MANAGEMENT OF INSURANCE RISK *continued*

Insurance risk	Description	How Discovery manages the risk
Liquidity risk <i>continued</i>		<p>VitalityLife also receives partial financing for new business strain from financing reinsurance treaties with reinsurers.</p> <p>There is a need to meet liquidity requirements arising from Invest's Guaranteed Plan book. Liquidity requirements are managed to ensure a liquidity buffer is maintained to meet potential outflows if exit rates are higher than expected. The liquidity risk on the existing portfolio is thus relatively small.</p> <p>For discussion on managing liquidity risk, refer to note 2.2.</p> <p><i>Contracts that are short-term in nature</i></p> <p>VitalityHealth mostly has expected outflows which are short-term in nature as the vast majority of claims are expected to be settled within 12 months of reporting. The existing book is mature and is cash generative which covers liquidity required for the cash flow strain of writing new business.</p> <p>Discovery Insure holds the majority of working and solvency capital in cash or near cash instruments to minimise liquidity risk. Large sums assured above a defined retention level are reinsured, providing stability in claims experience and further reducing the liquidity risk. Catastrophe reinsurance further reduces this risk.</p>
Concentration risk	<p><i>Claims experience risk</i></p> <p>There is a risk that a concentration of risk can lead to worse than expected experience. The concentration risk is the highest in group business, since assured lives live in the same geographical location and generally work in the same industry or at the same location.</p> <p><i>Withdrawal concentration risk</i></p> <p>There is a financial risk of the withdrawal of a block of policies written by a single independent intermediary.</p>	<p>Discovery has a well-diversified book of business by source of new business and spread across brokers and agents.</p> <p>Furthermore, this risk is mitigated through catastrophe reinsurance.</p> <p>For details of diversification refer to note 2.3.</p>
Operational and implementation risk	<p>Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. Discovery offers a wide product range, which grows over time due to further product enhancements and development.</p>	<p>In order to mitigate operational risk, Discovery maintains and follows a set of documented processes and procedures which are reviewed internally and externally to be in line with industry best practice. Testing protocols implemented prior to launching new systems/products or businesses. Embedded in Discovery's processes is the concept of segregation of duties which ensures that there are multiple checks on outputs by different areas within the business and protects against operational and implementation risk. Discovery does not have any legacy systems and processes to deal with, thereby reducing operational risk.</p>



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2021

2. MANAGEMENT OF INSURANCE RISK *continued*

Insurance risk	Description	How Discovery manages the risk
Policy wording/ legal risk	There is a risk that Discovery could be financially exposed to obligations that differ from expectations and are not adequately provided for. The risk could also arise from legal proceedings.	The risk is managed when new products are developed and all policy wording is reviewed by legal advisors and external advice is obtained where necessary to ensure that terms and conditions are clearly defined and unambiguous.
Regulatory risk	<p>Discovery operates in a highly regulated environment which is currently being scrutinised and questioned by both consumers and regulators. This has resulted in the constant review of the in-force regulations and the interpretation thereof.</p> <p>The regulatory risk can thus be defined as the potential detrimental impact unexpected changes in regulations, or the interpretation thereof, may have on Discovery.</p> <p>Although Discovery endeavours to design insurance and financial solutions which meet the requirements of the current regulations in force, the risk does exist that changes in the regulations or the interpretation of the regulations, over time may result in the current products not fully complying with the regulations in force in future.</p>	<p>This risk is managed through constantly seeking legal advice on new product developments. Further, all insurance products issued by Discovery have to be signed off, including sign-off from a market conduct perspective. Depending on the business line, these are signed off either by the Head of the Actuarial Function or an Actuarial Committee.</p> <p>Discovery is a member of industry-wide bodies that engage in discussions with policymakers and regulators.</p> <p>Discovery's compliance department enhances regulatory compliance through audits and by monitoring developments in the regulatory environment.</p>
Tax risk	Tax risk is the risk that the actual future tax liability is different to what is currently expected. This could be as a result of an incorrect interpretation or application of tax legislation or as a result of changes to tax legislation.	<p>External tax advice is obtained as required to ensure that products are structured in a tax efficient way.</p> <p><i>VitalityLife specific</i></p> <p>Tax relief on expenses does not apply to protection business sold from January 2013 onwards.</p>
Expense risk	Expense risk is the risk of actual expenses being higher than expected. Expenses could exceed expectations due to an increase in expense inflation or due to a reduction in the number of in-force policies. A reduction in the assets under management could be an expense risk due to the number of fixed costs.	Expenses are monitored on a monthly basis against budgeted expenses. Any deviation from the budget is investigated, reported and where necessary, remedial action is taken.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

2. MANAGEMENT OF INSURANCE RISK *continued*

Insurance risk	Description	How Discovery manages the risk
Reputational risk	Reputational risk is the risk of negative market reaction towards Discovery. Discovery may thus not be able to apply management policies to reduce risk.	Reputational risk is carefully controlled. Decisions to repudiate claims are reviewed by a review committee comprising of a senior underwriter and claims assessor, representatives of the legal department and the medical team, as well as a compliance officer.
	Discovery Life offers policies that integrate with the product offerings within the Discovery Group. The reputational risk to Discovery Life is thus extended to the reputational risk of the entire Discovery Group. Discovery Life management reviews all product offerings to minimise the reputational risk.	Marketing material and policy wording are reviewed and designed to be clear and unambiguous to avoid creating unreasonable policyholder expectations.
	Reputational risk may also arise on investment products with insurance risk, if these products experience worse investment returns than competitors. This may lead to lower future new business and higher surrenders.	All products are approved prior to launch, by either the Head of the Actuarial Function or Actuarial Committee, depending on the business line. Sign-off is also done prior to launch from a market conduct perspective.
	For VitalityHealth, reputational risk arises from exclusions of treatments which are provided by competitors.	For investment products with insurance risk, the risk on investment returns is mitigated through the use of reputable experienced fund managers and unique, innovative products covering specific risks.
Risks significant to long-term insurance		
Mismatching and market risk	<p>Mismatching is the risk that insurance-related cash outflows (e.g. benefit payments, administration expenses) do not match expected future cash inflows (predominately future premiums).</p> <p>Mismatching risk can also arise when movements in assets and liabilities are out of line given changes in market risk, i.e. equity price risk, interest rate risk or currency risk.</p> <p>The value of assets and liabilities arising from insurance contracts are subject to interest rate risk, thus a risk that a change in the discount rate could cause a change in the value of the assets and liabilities arising from insurance contracts.</p>	<p>For assets arising from contracts, Discovery covers the insurance related outflows by expected future cash inflows (predominately future premiums). This is supported by positive future net cash flows arising from insurance contracts.</p> <p>For liabilities arising from insurance contracts, the insurance related cash outflows are matched with a combination of a release of policyholder assets (net of retained fees), investment return on these assets and cash flows.</p> <p>For further discussion on how Discovery manages this risk, refer to note 2.4 more specifically:</p> <ul style="list-style-type: none"> - For mismatching risk, refer note 2.4.1 and 2.4.2; - For interest rate risk, refer note 2.4.3; and - For currency risk, refer note 2.4.4



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

2. MANAGEMENT OF INSURANCE RISK *continued*

Insurance risk	Description	How Discovery manages the risk
<p>Underwriting experience risk – Individual life plans and investment products with insurance risk</p>	<p>For individual life plans, there is a risk that actual mortality and morbidity experience is higher than expected. This could arise as a result of the number of claims or the value of claims being higher than expected. In addition, there is a risk that the emergence of a new disease or epidemic can increase the number of claims.</p> <p>On guaranteed annuities there is a risk that mortality experience is lower than expected and thus income payments continue for longer than expected. Discovery Life does not offer any deferred annuities where the annuity rate at a future point in time is guaranteed for new entrants.</p> <p>Investment products with insurance risk are not directly impacted by mortality and morbidity risks. The Annuity Integrator's Ill-health booster boosts retirement income on severe illness. The Annuity Integrator's Longevity booster boosts retirement income every 10 years. The Life Booster increases the investment fund value by between 5% and 15% on death, depending on Vitality status. The costs of the benefits were allowed for in the product design and pricing of the benefits.</p> <p>Selection risk is the risk that worse risks than expected are attracted and these risks are then charged inadequate premiums. Selection could also lead to higher than expected mortality and morbidity experience on individual life plans or lower mortality on guaranteed annuity policies.</p>	<p>The risks are managed through various mechanisms:</p> <p><i>Product design and pricing</i></p> <p>Products are carefully designed to minimise adverse selection. Rating factors are applied to standard premium rates to differentiate between different levels of risk. For example, premiums are differentiated by income, education level, smoker status, gender, medical history and age.</p> <ul style="list-style-type: none"> - From January 2013 onwards, no differentiation of premiums or benefits on the basis of gender is allowed in the UK. - Discovery Life has the unique ability to take additional rating factors into account for example the current medical scheme claims and lifestyle factors. <p>All new premium rates are reviewed and approved by either the Head of Actuarial Function or Actuarial Committee. Product integration between the different product offerings in Discovery helps to attract healthier lives than average in the market, leading to positive selection. The product integration incentivises engagement in the Vitality programme, which has a positive impact on risk experience.</p> <p>For certain of the product options offered under the individual life plans, Discovery has retained the option to review premium rates annually throughout the life of the contract because of uncertainties underlying the value of the benefits offered. Only premiums that can be predicted with confidence are guaranteed. Where guarantees are offered, Discovery guarantees that premiums can only be reviewed every 10 years and increased by a maximum of 25% over and above contractual premium increases. The guarantee provided to the policyholder will, however, be strengthened based on the policyholder's actual annual historic Vitality status.</p> <p>Discovery Life predominantly operates in the high end of the South African insurance market where the risk of HIV/AIDS is lower than for the South African market as a whole. The impact of HIV/AIDS is considered and allowed for during the product development and pricing.</p>



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2021

2. MANAGEMENT OF INSURANCE RISK *continued*

Insurance risk	Description	How Discovery manages the risk
<p>Underwriting experience risk – Individual life plans and investment products with insurance risk <i>continued</i></p>		<p><i>Underwriting</i></p> <p>Underwriting ensures that only insurable risks are accepted and that premiums reflect the unique circumstances of each risk.</p> <p>Financial underwriting is applied to ensure that the policyholder can justify the amount of cover applied for. Premium loadings and exclusions are applied where high risks are identified.</p> <p>For Integrated policies, Discovery Life can dynamically adjust certain premiums using the information from the health claims experience of a policyholder who is also a member of the Discovery Health Medical Scheme and Vitality. This provides Discovery Life with an advantageous position in the market.</p> <p>Monthly internal quality assurance audits are performed on underwriting to minimise the risk of incorrect underwriting decisions.</p> <p><i>Reinsurance</i></p> <p>Reinsurance protects against volatility in claims experience and against an accumulation of risk. Reinsurance is further utilised on a facultative basis if uncertainty exists over the terms that should be offered to a particular risk.</p> <p>In addition, reinsurers provide specialist advice when designing new products.</p> <p>Discovery Life utilises surplus and facultative reinsurance to reinsure amounts in excess of defined retention levels. Discovery Life is thus protected against large individual claims.</p> <p>In addition, catastrophe reinsurance reduces the risk of an accumulation of risk due to a single event. Both individual life and group business are covered by catastrophe reinsurance which covers man-made or natural catastrophe events.</p> <p>For VitalityLife, the life, serious illness, disability and income protection benefits are reinsured with a maximum retention of GBP 150 000. The unemployment benefit offered as part of the VitalityLife product is fully reinsured.</p> <p><i>Experience monitoring</i></p> <p>Experience investigations are conducted and corrective action is taken where adverse experience is noted. Experience monitoring is done on at least a quarterly basis, and in some business lines monthly.</p> <p>Where there is insufficient historic data to provide credible results, such as VitalityLife, reliance is placed on reinsurers' advice, industry experience as well as experience from Discovery Life.</p>



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

2. MANAGEMENT OF INSURANCE RISK *continued*

Insurance risk	Description	How Discovery manages the risk
Risks significant to short-term insurance		
Underwriting experience risk	<p>The risk is that claims experience turns out to be worse than anticipated in the pricing of the product and that claims reserves are insufficient to meet insurance liabilities as they fall due.</p> <p>The principal risk is that the frequency and/or severity of claims are greater than expected. Insurance events are, by their nature, random and the actual number and size of events during any one year may vary from those estimated and experienced in prior periods.</p> <p>Frequency of claims can vary depending on, for instance, the levels of engagement with the Vitality programme, and severity of claims can be influenced by new treatments or changes in medical inflation. In addition to renewal pricing changes, standard terms and conditions applicable to the company's products mitigate the risk of late reporting of claims.</p>	<p><i>Group Life</i></p> <p>Group Life business is reviewed on a contract by contract basis, with the review period never exceeding two years. AIDS risk is specifically allowed for in the pricing of individual groups.</p> <p>Group business is underwritten on an employer by employer basis and additional allowance is made for the impact of industry class, income and geographic location on expected claims experience. The free cover limit is the sum assured that will be given automatically to a specific life without further specific underwriting. The free cover limits are set separately for each scheme depending on the size and cover chosen by the specific scheme.</p> <p><i>VitalityHealth</i></p> <p>New business is written in accordance with approved pricing assumptions. Underwriting criteria is defined and aligned to the approved pricing assumptions.</p> <p>VitalityHealth's overall premium levels are determined by its pricing and lapse experience, as well as the level of new business written.</p> <p>VitalityHealth can manage the risk of new business policies through the ability to underwrite policies at inception or at the point of claim. Aside from large corporate clients, all other lives covered were underwritten through either full medical underwriting, continuation of previous exclusions (if the policy is moving from another UK health insurer), or moratorium conditions which limit claims for a specified period relating to previous conditions.</p> <p>VitalityHealth is able to manage the insurance risk in existing business premiums through the annual repricing of policies at renewal on a risk-related basis; this is a key differentiator as to why the UK market is less susceptible to volatility from insurance risk. Whilst policyholders can choose to cancel their contract mid-term between renewals, this is not often experienced in either the SME or corporate products. Individual contracts can and do cancel between renewals however retaining these policies is a key activity for the business. VitalityHealth is only obligated to continue to pay for any authorised treatment whilst premiums are being received from the policyholder.</p>



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2021

2. MANAGEMENT OF INSURANCE RISK *continued*

Insurance risk	Description	How Discovery manages the risk
Underwriting experience risk <i>continued</i>		<p data-bbox="959 499 1107 521"><i>Discovery Insure</i></p> <p data-bbox="959 539 1410 730">Discovery Insure aims to manage risk through diversifying the pool of insured risks by establishing a balanced portfolio of insurance risks over a wide geographical area. Short-term insurance risks are priced on an individual basis, therefore a minimal cross subsidy exists between risks.</p> <p data-bbox="959 750 1410 940">Premiums are calculated using statistical regression techniques. Insurance risk factors identified would typically include past insurance history, type and value of asset covered, measures taken to protect the asset, primary use of covered item and various other pertinent factors.</p> <p data-bbox="959 960 1410 1180">Discovery Insure's quotation and administration system calculates risk on an individual basis based on information captured by brokers and agents for each risk. Individual risks are accepted automatically up to cut-off limits which vary by risk type. Insurance conditions and exclusions are also automatically set at an individual risk level.</p> <p data-bbox="959 1200 1410 1364">Individual risks greater than the limit are automatically referred and underwritten by the underwriting department. No risks are accepted which exceed the upper limits of the reinsurance contracts without the necessary facultative cover being arranged.</p> <p data-bbox="959 1384 1410 1713">Discovery Insure uses telematics to manage risk. The telemetry received in respect of vehicles in which the devices are installed, highlights speeding, harsh breaking, harsh cornering and other risk related incidents. By informing the driver of how they are driving and in turn rewarding them for driving well, the risk of an accident is reduced. The 'deep install' device is also equipped with a stolen vehicle recovery transponder that increases the probability of recovering a vehicle should it be stolen.</p> <hr/> <p data-bbox="959 1731 1206 1753"><i>Reinsurance – VitalityHealth</i></p> <p data-bbox="959 1774 1410 1991">VitalityHealth currently utilises reinsurance to better match the high upfront costs of acquisition with the profit emergence across the lifetime of the policies written. VitalityHealth currently has quota share agreements in place with two reinsurers with an outstanding balance of GBP 156 million (R3 079 million) at year end (2020: GBP 175.8 million (R3 770 million)).</p>



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

2. MANAGEMENT OF INSURANCE RISK *continued*

Insurance risk	Description	How Discovery manages the risk
Underwriting experience risk <i>continued</i>		<p><i>Reinsurance – Discovery Insure</i></p> <p>Discovery Insure mitigates its insurance risk through its reinsurance programme which is structured to protect the company against material losses to either a single insured risk, or group of insured risks in the case of a catastrophe where there would tend to be a concentration of insured risks</p> <p>Furthermore, Discovery Insure reinsures a portion of the risk it underwrites to protect the profitability and the capital of the company. A variety of treaties are entered into in order to limit losses resulting from individual and collective insurance risks.</p> <p>Additional facultative reinsurance is purchased for certain individual risks that are in excess of the relevant treaty limits. Discovery Insure only enters into reinsurance arrangements with reinsurers that have adequate credit ratings.</p> <p><i>Experience monitoring</i></p> <p>Across both premiums and claims, recent actual experience is compared against financial forecasts, with any deviations investigated. The results provide a feedback loop into the overall pricing approach, enabling Discovery to react quickly to any changes in behaviour.</p>

2.1 Capital adequacy requirements and protection against adverse experience

Refer to the Directors' report for a breakdown of Statutory Capital Requirement cover ratios. Discovery manages its capital requirements in line with the statutory requirements of the relevant Prudential Authorities. During the period Discovery met the Statutory Capital Requirements.

2.1.1 Discovery Life

Discovery Life is required to demonstrate solvency to the Prudential Authority (PA) in South Africa in accordance with the Insurance Act 18 of 2017. Discovery Life thus needs to maintain sufficient shareholder assets (Own Funds), over and above the assets required to meet policyholder liabilities (best-estimate liabilities plus a prescribed risk margin), to support a multiple of the Solvency Capital Requirement (SCR). Discovery Life is required to undertake an internal assessment of its risks and capital needs, in addition to meeting the minimum capital requirements set by the PA. The SCR is calculated in accordance with the Prudential Standards as issued by the PA. The SCR calculation is intended to approximate a risk-based capital measure and covers the major areas of insurance risk. It explicitly covers the following key areas of risk to Discovery Life:

- Lapse and withdrawal risk
- Fluctuations in mortality and morbidity experience including catastrophe risk
- Interest rate risk
- Equity and property risk
- Expense risk
- Operational risk
- Spread and counterparty default risk
- Currency risk
- Concentration risk.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

2. MANAGEMENT OF INSURANCE RISK *continued*

2.1 Capital adequacy requirements and protection against adverse experience *continued*

2.1.1 Discovery Life *continued*

Discovery Life regularly reviews the capital position and also considers various new business scenarios. Typically, a five-year new business projection horizon is allowed for and the capital position is assessed at each valuation date during the projection to ensure an acceptable capital cover is maintained.

Discovery Life has calculated its solvency position in accordance with the Insurance Act and related Prudential Standards since 30 June 2013. A consistent level of solvency cover, comfortably in excess of the statutory minimum, was observed at all valuation dates.

2.1.2 VitalityLife

The Vitality Life business comprises business underwritten directly by VitalityLife (from 1 January 2016) and business underwritten on behalf of VitalityLife on Prudential Assurance Company's (PAC's) life insurance license (up to 31 December 2015).

Through a number of contractual and loan arrangements, Discovery retains 100% of the insurance risk associated with the VitalityLife policies underwritten on the PAC life insurance license. All policies are administered by VitalityLife, and they are managed as a single portfolio. The arrangement with the PAC is accounted for in substance under IFRS as an insurance contract that Discovery issues.

Accordingly, all information for VitalityLife, other than the segment information, is presented as a single portfolio, comprising both the business underwritten by VitalityLife and underwritten on behalf of VitalityLife on the PAC life insurance license.

The business that was underwritten on PAC life insurance license will, as per contractual agreement with PAC, still be valued under the Solvency I or old capital requirement rules described below until it is transferred to the VLL license. After this date, this business would need to be fully Solvency II compliant. The business is written on its own life insurance license within VitalityLife needs to be fully Solvency II compliant.

VitalityLife obtained its own life insurance license at the end of the calendar year 2015. This significant milestone, together with the implementation of Solvency II in the UK from 1 January 2016, required a change to the capital requirements of VitalityLife.

SOLVENCY I

The Financial Services Authority (FSA) was replaced by two distinct regulators in 2013 namely the Prudential Regulation Authority (PRA) and the Finance Conduct Authority (FCA). The PRA is a part of the Bank of England and responsible for the prudential regulation and supervision of insurers. It sets standards and supervises financial institutions. The FCA regulates the financial services industry in the UK. Their aim is to protect consumers, ensure the industry remains stable and promote healthy competition between financial services providers. The Prudential Sourcebook for Insurers (INSPRU) contains standards for capital management.

Capital requirements are calculated based on the concept of two pillars:

- Pillar 1, which covers public solvency information that appears within the regulatory returns on the basis of prescriptive rules. This includes the statutory valuation of liabilities together with a prescribed measure of additional capital, the Long-Term Insurance Capital Requirement (LTICR); and
- Pillar 2, the Individual Capital Assessment (ICA), which covers a confidential company-specific assessment of solvency. This assessment is done on a realistic basis with the aim to protect against risks up to the 99.5 percentile over a one-year period.

The LTICR is a minimum required margin for solvency on the statutory valuation basis and covers the following basic risks:

- Mortality risk;
- Expense risk;
- Market risk; and
- Health risk.

The amount of capital that ultimately needs to be held by a life insurance company in the UK is the larger of the Pillar1 and Pillar2 result. VitalityLife is required to provide capital to the Prudential Assurance Company (PAC) equal to one times the Pillar1 capital requirement. The cover requirements were observed at all valuation dates.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

2. MANAGEMENT OF INSURANCE RISK *continued*

2.1 Capital adequacy requirements and protection against adverse experience *continued*

2.1.2 VitalityLife *continued*

SOLVENCY II

Capital requirements under Solvency II are calculated using the regulations and guidance published by European Insurance and Occupational Pensions Authority (EIOPA) and enforced by the PRA in the UK. A Solvency II balance sheet is calculated which has several components:

- Best estimate liabilities (BEL): policyholder liabilities are calculated on a best estimate basis (excluding any margins) and discounted at the latest swap curve published by EIOPA;
- Solvency Capital Requirement (SCR): 1-in-200 year stresses are applied to the BEL to stress the key risks and are combined correlation matrices;
- Risk Margin (RM): 6% of the SCR run-off projected over time is discounted at the latest swap curve;
- Technical Provisions (TP): the sum of the BEL and the RM; and
- Own Funds: the net assets of the company needed to cover the SCR and other liquidity requirements; a negative TP can be included in the sum of Own Funds to cover the SCR.

A consistent level of solvency cover was observed at all valuation dates.

2.1.3 VitalityHealth

VitalityHealth maintains shareholder capital to meet substantial deviations in experience and to support business growth.

The objective of the VitalityHealth's capital management policy is to define the principles and guiding philosophy for capital management that ensures capital and solvency levels are managed effectively in line with the defined risk appetites. The policy and objectives are reviewed at least annually. Alongside ensuring the Company complies with capital requirements imposed by its regulator (the PRA), the guiding principles for the policy are to:

- Foster an environment of regulatory compliance within the Company's culture, strategy and decision making;
- Continually develop and enhance the Group's regulatory compliance capability;
- Actively communicate the effectiveness and benefits of compliance management to all stakeholders; and
- To provide reasonable and independent assurance to the Company's key management, board and regulator.

The Company is required to hold sufficient capital (measured in accordance with PRA valuation rules) to meet the PRA capital requirements. The capital requirements were met at all valuation dates.

With effect from 1 January 2016 the insurance regulatory regime Solvency II was implemented in the UK. Refer to earlier in the report for discussion on Solvency II. Under this solvency regime, firms have the opportunity to either follow the standard formula approach, or apply to the regulators to move away from this. VitalityHealth follows a standard formula, and as such has a Solvency Capital Requirement in line with that prescribed. Annually, the business publicly discloses a Solvency and Financial Condition Report (SFCR) alongside private disclosures to the regulators on its Own Risk and Solvency Assessment (ORSA). The standard formula approach is also annually reviewed to determine its appropriateness for the business and as at 30 June 2021 the standard formula review determined it was not an inappropriate assessment of the risks present in VitalityHealth.

The actual and projected capital position of the Company is monitored on a regular basis through a number of forums and governance committees including the Board of Directors as well as through VitalityHealth's ORSA. In the event that sufficient capital is not projected to be available, actions would be taken to obtain additional capital or to reduce the amount of risk accepted and therefore reduce the capital requirement through, for example, reinsurance or investment strategy.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

2. MANAGEMENT OF INSURANCE RISK *continued*

2.1 Capital adequacy requirements and protection against adverse experience *continued*

2.1.4 Discovery Insure

Similar to Discovery Life, Discovery Insure is required to demonstrate solvency to the Prudential Authority (PA) in accordance with the Insurance Act 18 of 2017. Discovery Insure thus needs to maintain sufficient shareholder assets (Own Funds), over and above the assets required to meet policyholder liabilities (best-estimate liabilities plus a prescribed risk margin), to support a multiple of the Solvency Capital Requirement (SCR). In addition, Discovery Insure is required to undertake an internal assessment of its risks and capital needs, in addition to meeting the minimum capital requirements set by the PA. The SCR is calculated in accordance with the Prudential Standards as issued by the PA. The SCR calculation is intended to approximate a risk-based capital measure and covers the major areas of short-term insurance risk. It explicitly covers the following key areas of risk to Discovery Insure:

- Catastrophe risk
- Premium and reserve risk
- Lapse risk
- Interest rate risk
- Equity and property risk
- Expense risk
- Operational risk
- Spread and counterparty default risk
- Currency risk
- Concentration risk.

The internal assessment of risks and capital needs usually considers, amongst others, the following risks:

- Lapse risk not captured in the SCR
- New business volume risk
- Expense risk over and above ALAE risk

Discovery Insure regularly reviews the capital position and considers various new business scenarios. Typically, a five-year new business projection horizon is allowed for and the capital position is assessed at each financial year during the projection to ensure an acceptable capital cover is maintained. The solvency cover was observed at all valuation dates.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

2. MANAGEMENT OF INSURANCE RISK *continued*

2.2 Liquidity risk

2.2.1 Contracts that are long-term in nature

DISCOVERY LIFE AND DISCOVERY INVEST

For Discovery Life and Discovery Invest, the discounted expected embedded value cash flows arising from in-force contracts after policyholder liabilities have been met, net of tax, as at 30 June were as follows:

Gross of reinsurance

R million	Total	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2021						
Discovery Life	23 560	(1 174)	6 721	6 584	6 784	4 645
Discovery Invest	8 337	688	2 318	2 673	2 218	440
2020						
Discovery Life	20 695	(532)	5 572	6 093	5 623	3 939
Discovery Invest	6 518	612	1 718	2 112	1 723	353

Net of reinsurance

R million	Total	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2021						
Discovery Life	19 441	(721)	4 895	5 079	5 920	4 268
2020						
Discovery Life	17 217	(525)	4 235	5 053	4 858	3 596

The cash flows in the tables above differ from those disclosed on notes 2.4.1 and 2.4.2 since the cash flows in the tables above are based on best estimate free cash flows after meeting policyholder liabilities, are discounted at the risk discount rate and are capped at 40 years as per the Discovery Life and Discovery Invest embedded value methodology. Cash flows arising from investment management contracts are also included. No allowance has been made for new business and related expenses.

VITALITYLIFE, INCLUDING VITALITYINVEST

VitalityLife maintains sufficient liquid assets to meet short-term liabilities and to allow for the initial cash flow strain when writing new business. Currently, VitalityLife's expected liabilities are mostly long-term and the main liquidity requirement is to fund acquisition expenses on new business. The liquidity risk on the existing portfolio is thus relatively small.

2.2.2 Contracts that are short-term in nature

VITALITYHEALTH

VitalityHealth maintains sufficient liquid assets to meet short-term liabilities and to allow for the initial cash flow strain when writing new business. Currently, VitalityHealth's expected liabilities are mostly short-term and the main liquidity requirement is to fund acquisition expenses on new business, with the existing book mature enough to generate sufficient liquidity to cover this cash flow strain.

DISCOVERY INSURE

Discovery Insure holds the majority of working and solvency capital in cash or near cash instruments to minimise liquidity risk. Large sums assured above a defined retention level are reinsured, providing stability in claims experience and further reducing the liquidity risk. Catastrophe reinsurance further reduces this risk.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

2. MANAGEMENT OF INSURANCE RISK *continued*

2.3 Concentration risk

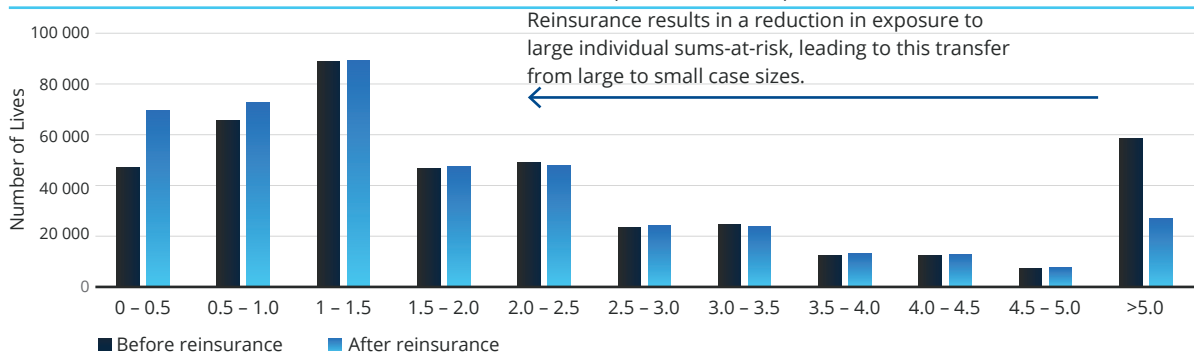
2.3.1 Claims experience risk

DISCOVERY LIFE

Discovery Life maintains a well-diversified portfolio of policies. Reinsurance is further used to protect against the concentration of risk. Catastrophe reinsurance protects against the accumulation of claims from a single event, for example an airplane crash. The catastrophe reinsurance for Discovery Life covers single event disasters for up to R870 million where the net of reinsurance impact is greater than R44 million. For its biggest four group schemes, a further layer of catastrophe reinsurance cover of R3 400 million in excess of R914 million is in place.

Reinsurance removes the exposure to large individual claims. The following graph demonstrates that the distribution of policies by sum assured is shifted towards lower sum assured due to the reinsurance cover. The profile is largely the same as the prior period, although a shift towards higher sums assured due to annual benefit increases and inflationary impacts on new business was observed as expected.

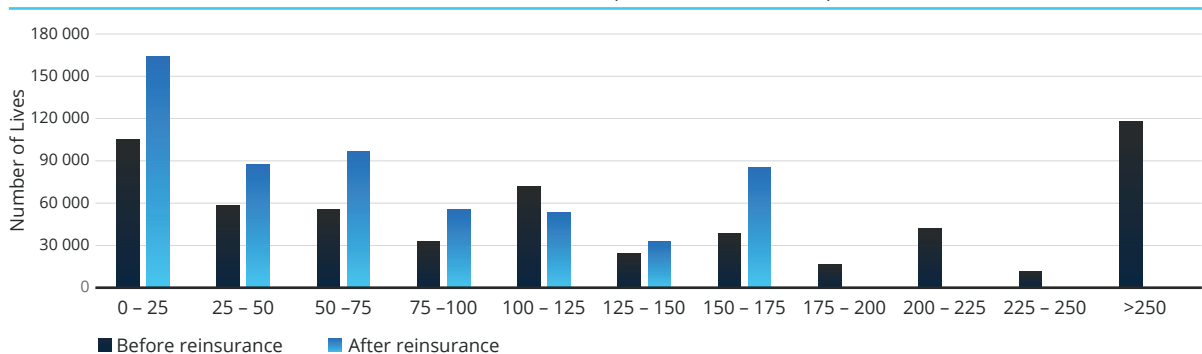
Distribution of Sums Retained: before and after reinsurance (Sum retained – Rm)



VITALITYLIFE

VitalityLife maintains a well-diversified portfolio of policies. Reinsurance removes the exposure to large individual claims. The following graph demonstrates that the distribution of policies by sum assured is shifted towards lower sum assured due to the reinsurance cover. The profile is largely the same as the prior period, although a shift towards higher sums assured due to annual benefit increases and inflationary impacts on new business was observed as expected.

Distribution of Sums Retained: before and after reinsurance (Sum retained – GBP'000)





NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

2. MANAGEMENT OF INSURANCE RISK *continued*

2.3 Concentration risk *continued*

2.3.1 Claims experience risk *continued*

VITALITYHEALTH

VitalityHealth has the risk of single large medical expense claims arising abroad, or multiple small travel claims due to a single event which could cause losses. In order to manage these risks VitalityHealth holds a reinsurance policy specifically on travel benefits which can help to cover the concentration risks from these events. The threshold for a potential claim on the reinsurance for either of these reasons is GBP 250 000.

DISCOVERY INSURE

There is a risk that a concentration of risk can lead to a worse than expected claims experience. In order to manage this concentration of insurance risk, Discovery has entered into a catastrophe excess of loss reinsurance treaty that would limit the loss of the company to pre-determined levels following the occurrence of a localised catastrophe in this area.

Discovery Insure is exposed to a concentration of insurance risk in the Gauteng province in South Africa where 45.6% (2020: 47.1%) of the total sum insured is domiciled.

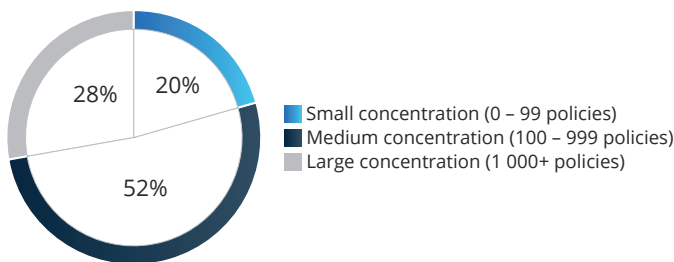
2.3.2 Withdrawal concentration risk

DISCOVERY LIFE AND VITALITYLIFE

There is a financial risk of the withdrawal of a block of policies written by a single independent intermediary. In order to manage these risks, Discovery diversifies its book of business by source of new business and spread across its brokers and agents.

	Brokers and agents		Maximum exposure to single intermediary % of total premium income	
	2021	2020	2021	2020
Long term insurance				
- Discovery Life	7 245	7 683	1.4%	2.1%
- VitalityLife	29 510	28 580	2.9%	3.1%

API concentration by intermediary - Discovery Life





NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

2. MANAGEMENT OF INSURANCE RISK *continued*

2.4 Mismatching and market risk

2.4.1 Assets arising from insurance contracts

Assets under insurance contracts in the Statement of financial position include assets for Discovery Life, VitalityLife and VitalityInvest. Reconciliation of the assets under insurance contracts disclosed in the cash flows below to the Statement of financial position (refer to note 5):

R million	2021	2020
Assets arising from insurance contracts relating to:		
– Discovery Life	35 014	31 992
– VitalityLife	15 371	16 023
– VitalityInvest	98	27
	50 483	48 042

Cash flows are calculated in accordance with the accounting policies. Contractual premium and benefit increases are recognised in the cash flow projections.

The expected discounted future cash flows utilised in the calculation of assets arising from insurance contracts are disclosed in the table below. Discounting is performed using:

- the prevailing risk-free SA gilt yield curve for Discovery Life; and
- a modified passive rate for VitalityLife whereby the one-year average of the risk-free gilt yield is used. The assumption is only changed if the one-year average changes by more than a predetermined range around the set passive rate.

R million	Total	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2021						
Discovery Life	35 014	589	10 102	9 319	8 926	6 078
VitalityLife	15 371	3 652	10 131	6 745	5 457	(10 614)
2020						
Discovery Life	31 992	1 314	9 225	8 576	7 738	5 139
VitalityLife	16 023	4 346	12 120	7 880	5 755	(14 078)



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

2. MANAGEMENT OF INSURANCE RISK *continued*

2.4 Mismatching risk *continued*

2.4.2 Liabilities arising from insurance contracts *continued*

Refer to page 63 for a breakdown of the assets backing these liabilities. A reconciliation of the liabilities arising from insurance contracts disclosed in the cash flows below to the Statement of financial position (refer to note 18):

R million	2021	2020
Long-term insurance contract liabilities with fixed and guaranteed terms	21 764	19 998
Negative insurance liability included in unit-linked insurance contracts	(5 117)	(4 894)
Discovery Invest value of liabilities arising from insurance contracts	16 647	15 104

The expected discounted future cash flows in the calculation of liabilities arising from insurance contracts are disclosed in the table below, allowing for compulsory and discretionary margins. Discounting is performed using the prevailing risk free SA gilt yield curve.

R million	Total	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2021						
Discovery Invest						
Long-term insurance contract liabilities with fixed and guarantee terms	(21 764)	(4 657)	(16 040)	(444)	(381)	(242)
Negative insurance liability included in unit-linked insurance contracts	5 117	170	1 380	1 860	1 742	(35)
2020						
Discovery Invest						
Long-term insurance contract liabilities with fixed and guarantee terms	(19 998)	(4 420)	(15 032)	(262)	(166)	(118)
Negative insurance liability included in unit-linked insurance contracts	4 894	262	1 242	1 709	1 595	86



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

2. MANAGEMENT OF INSURANCE RISK *continued*

2.4 Mismatching risk *continued*

2.4.3 Market risk – Interest rate risk

DISCOVERY LIFE

For Discovery Life, increased nominal or real interest rates would result in an adverse impact on the present value of future profits. Cash flows on a material segment of the book is linked to inflation. While this retains cash flows in real terms, this segment is exposed to real interest rate movements. The balance of the book is exposed to changes in the nominal rates.

VITALITYLIFE

As a long-term insurance provider in the United Kingdom (UK), VitalityLife has significant exposure to long-term interest rate risk, given the impact on reserves of lower investment rate assumptions related to fixed future premium receipts to meet policy obligations. Accordingly, lower long-term interest rates and yield assumptions may negatively impact on the valuation of future policy obligations and result in a valuation loss.

Interest rates in the UK have displayed significant volatility and have generally been on a downward trend in recent years. In the financial year under review, VitalityLife implemented an interest rate risk mitigation strategy to protect itself against further declines in interest rates by entering into derivative contracts. This strategy ensures that the VitalityLife business operates well within its pre-determined risk appetite.

The derivative instruments comprise of:

- Interest rate swap, with a nominal value of GBP 323.5 million (R6 385 million). This interest rate swap derivative swaps exposure to variable interest rates in return for a fixed interest rate referenced to the 25-year UK SONIA swap rate. The fixed interest rate is 0.6815%. The interest rate swap derivative is in place for an extended period of time; and
- Swaption, with a nominal value of GBP 380.0 million (R7 500 million) that was acquired in the prior year for GBP 12.3 million (R264 million) and expires May 2023. The swaption gives Discovery the participation in the benefit should interest rates rise above 1.1541%.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

2. MANAGEMENT OF INSURANCE RISK *continued*

2.4 Mismatching risk *continued*

2.4.3 Market risk – Interest rate risk *continued*

VITALITYLIFE *continued*

Due to the nature of the underlying exposures, the hedge accounting requirements of IFRS were not met. Therefore, these derivative instruments were classified at fair value with changes recognised in profit or loss throughout the term which may result in volatility in the reported IFRS earnings of VitalityLife. As at 30 June, the following mark-to-market positions were recorded:

		GBP/Rand million			
Line item in financial statements		June 2021		June 2020	
		GBP	R	GBP	R
Statement of Financial Position					
Interest rate swap valuation	(Financial liabilities)/Financial assets: Derivative – financial instruments at fair value through profit or loss	(11.8)	(233)	44.3	950
Swaption valuation	Financial assets: Derivative – financial instruments at fair value through profit or loss	6.8	135	0.1	2
Income Statement					
Fair value remeasurement	Net fair value (losses)/gains on financial assets at fair value through profit or loss	(56.4)	(1 170)	(38.4)	(758)
Transaction costs	Marketing and administration expenses	(0.2)	(4)	(2.3)	(45)

DISCOVERY LIFE AND DISCOVERY INVEST

The outstanding claims and incurred but not reported claims are mostly short-term in nature and have consequently been matched with cash. Reserves backing Income Continuation Benefits in payment are backed by a combination of cash, money market, gilts and negative rand reserves of appropriate duration.

The risk arising from the Global Linkage Benefit is fully reinsured and Discovery does not face any net direct market risk.

For Discovery Invest, guaranteed return plan liabilities are backed by a combination of negative rand reserves and bonds of appropriate duration. As maturity approaches, cash flows from negative reserves are invested in bonds and therefore a reinvestment risk exists. Furthermore, investment policy fee income is dependent on the underlying value of policyholders' investments, which may be interest rate sensitive.

2.4.4 Market Risk – Currency risk

All of VitalityLife's insurance benefits and premiums are Sterling denominated as all business is sold in the UK market. A significant part of operational expenses are Rand denominated as systems and administration are based in South Africa. This creates a potential mismatching risk.

The Dollar Life Plan, offered by Discovery Life provides a sum insured in US Dollars. Premiums are paid in Rands but linked to the Rand/Dollar exchange rate. Certain versions of the Dollar Life Plan provide guarantees on the Rand/Dollar exchange rate for a specified period, thereby exposing Discovery Life to currency risk.

Other insurance business lines do not have significant currency risk.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

2. MANAGEMENT OF INSURANCE RISK *continued*

2.5 Sensitivity analysis

The financial impact of the key risks that Discovery is exposed to can be demonstrated by considering the sensitivity of the financial results to a hypothetical change in the underlying assumptions or prevailing market conditions.

Although the sensitivities demonstrate the impact of a change in assumption, the results generally cannot be extrapolated to demonstrate the impact on future earnings and earnings forecasts.

For each sensitivity illustrated, all other assumptions have been left unchanged. No allowance has been made for any management action, for example premium increases, to react to the worse-than-expected experience.

The ranges of sensitivity were chosen for illustration purposes and do not represent the extremes of possible experience. The sensitivities shown under insurance risks consider a change in the long-term assumption used in the projection model. The following sensitivities are provided under insurance risk:

- **Lapses:** The lapse, surrender and withdrawal rates are increased or decreased across all policies and investment plans;
- **Long-term investment return and inflation:** A parallel shift is assumed in the yield curve. The investment return, inflation, renewal expense inflation and inflation-linked premium increases are adjusted consistently;
- **Renewal expenses:** Renewal expense per policy is increased or decreased across all policies and investment plans; and
- **Mortality and morbidity:** The mortality rate, disability rate and severe illness rates are increased and decreased across all policies and investment plans.

2.5.1 Discovery Life

	Gross exposure		Net of reinsurance	
	Assets under insurance contracts R million	Change from base assumption %	Assets under insurance contracts R million	Change from base assumption %
Base: June 2021 assumptions	35 014		31 685	
Lapses +10% (e.g. from x% to 1.1x%)	31 065	(11.3)	27 875	(12.0)
Lapses -10% (e.g. from x% to 0.9x%)	39 746	13.5	36 272	14.5
Investment return and inflation -1% (e.g. from 5% to 4%)	35 989	2.8	32 583	2.8
Investment return and inflation +1% (e.g. from 5% to 6%)	34 032	(2.8)	30 769	(2.9)
Expense assumption +10%	34 498	(1.5)	31 166	(1.6)
Expense assumption -10%	35 529	1.5	32 203	1.6
Mortality and morbidity +10%	28 154	(19.6)	26 345	(16.9)
Mortality and morbidity -10%	41 939	19.8	37 092	17.1
Real curve -1% and inflation +1%	37 548	7.2	33 966	7.2
Real curve +1% and inflation -1%	32 962	(5.9)	29 848	(5.8)
Base: June 2020 assumptions	31 992		28 819	
Lapses +10% (e.g. from x% to 1.1x%)	28 583	(10.7)	25 572	(11.3)
Lapses -10% (e.g. from x% to 0.9x%)	36 092	12.8	32 744	13.6
Investment return and inflation -1% (e.g. from 5% to 4%)	33 050	3.3	29 801	3.4
Investment return and inflation +1% (e.g. from 5% to 6%)	30 857	(3.5)	27 762	(3.7)
Expense assumption +10%	31 505	(1.5)	28 332	(1.7)
Expense assumption -10%	32 479	1.5	29 306	1.7
Mortality and morbidity +10%	25 932	(18.9)	24 124	(16.3)
Mortality and morbidity -10%	38 244	19.5	33 712	17.0
Real curve -1% and inflation +1%	33 816	5.7	30 399	5.5
Real curve +1% and inflation -1%	30 360	(5.1)	27 407	(4.9)

Liabilities arising from insurance contracts consist of outstanding reported claims, IBNR claims and long-term liabilities relating to fixed and guaranteed contracts and unit-linked contracts. For outstanding reported claims and IBNR claims any deviation from the best estimate liabilities would have a direct impact on profit.

The above sensitivities reflect the impact on profit or loss if there are no discretionary margins.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

2. MANAGEMENT OF INSURANCE RISK *continued*

2.5 Sensitivity analysis *continued*

2.5.1 Discovery Life *continued*

For long-term insurance liabilities relating to fixed and guaranteed contracts and unit-linked contracts (refer to reconciliation on note 2.4.2), the sensitivities are detailed in the table below:

	Liabilities under insurance contracts R million	Change from base assumption %
Base: June 2021 assumptions	16 647	
Lapses +10% (e.g. from x% to 1.1x%)	16 692	0.3
Lapses -10% (e.g. from x% to 0.9x%)	16 664	0.1
Investment return and inflation -1% (e.g. from 5% to 4%)	17 302	3.9
Investment return and inflation +1% (e.g. from 5% to 6%)	16 024	(3.7)
Expense assumption +10%	16 769	0.7
Expense assumption -10%	16 521	(0.8)
Mortality and morbidity +10%	16 660	0.1
Mortality and morbidity -10%	16 629	(0.1)
Real curve -1% and inflation +1%	16 820	(1.0)
Real curve +1% and inflation -1%	16 499	(0.9)
Base: June 2020 assumptions		
Lapses +10% (e.g. from x% to 1.1x%)	15 104	
Lapses -10% (e.g. from x% to 0.9x%)	15 225	0.8
Investment return and inflation -1% (e.g. from 5% to 4%)	15 028	(0.5)
Investment return and inflation +1% (e.g. from 5% to 6%)	15 680	3.8
Expense assumption +10%	14 554	(3.6)
Expense assumption -10%	15 199	0.6
Mortality and morbidity +10%	15 008	(0.6)
Mortality and morbidity -10%	15 133	0.2
Real curve -1% and inflation +1%	15 073	(0.2)
Real curve +1% and inflation -1%	15 000	(0.7)
	15 230	0.8

2.5.2 VitalityLife – assets arising from insurance contracts

	Gross exposure		Net of Reinsurance	
	Assets arising from insurance contracts R million	Change from base assumption %	Assets arising from insurance contracts R million	Change from base assumption %
Base: June 2021 assumptions	15 371		8 557	
Lapses +10% (e.g. from x% to 1.1x%)	14 890	(3.1)	8 141	(4.9)
Lapses -10% (e.g. from x% to 0.9x%)	15 884	3.3	9 008	5.3
Investment return and inflation -1% (e.g. from 5% to 4%)	12 171	(20.8)	5 408	(36.8)
Investment return and inflation +1% (e.g. from 5% to 6%)	16 578	7.9	9 772	14.2
Expense assumption +10%	15 124	(1.6)	8 309	(2.9)
Expense assumption -10%	15 619	1.6	8 805	2.9
Mortality and morbidity +10%	13 080	(14.9)	7 517	(12.2)
Mortality and morbidity -10%	17 685	15.1	9 573	11.9
Real curve -1% and inflation +1%	16 449	7.0	9 664	12.9
Real curve +1% and inflation -1%	13 446	(12.5)	6 696	(21.7)
Base: June 2020 assumptions				
Lapses +10% (e.g. from x% to 1.1x%)	16 023		8 153	
Lapses -10% (e.g. from x% to 0.9x%)	15 667	(2.2)	7 992	(2.0)
Investment return and inflation -1% (e.g. from 5% to 4%)	16 380	2.2	8 321	2.1
Investment return and inflation +1% (e.g. from 5% to 6%)	13 440	(16.1)	5 284	(35.2)
Expense assumption +10%	17 587	9.8	9 987	22.5
Expense assumption -10%	15 767	(1.6)	7 897	(3.1)
Mortality and morbidity +10%	16 279	1.6	8 409	3.1
Mortality and morbidity -10%	13 939	(13.0)	7 277	(10.7)
Real curve -1% and inflation +1%	18 115	13.1	8 987	10.2
Real curve +1% and inflation -1%	17 487	9.1	9 959	22.2
	13 344	(16.7)	5 088	(37.6)

The above sensitivities reflect the impact on profit or loss if there are no discretionary margins.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

2. MANAGEMENT OF INSURANCE RISK *continued*

2.5 Sensitivity analysis *continued*

2.5.3 VitalityHealth – IBNR Reserves

VitalityHealth's reserves are set based on the results of a frequency and severity model which looks at the expected cost of each claim which is authorised for treatment. Historical costs per type of claim and the expected shape of emergence of each claims costs are compared to the amounts already paid to help determine the appropriate reserve for the business. Within the monthly reserving process, adjustments to the model results are made where evidence arises that there are changes in development patterns.

The Reserving Committee considers both the model results and other business indicators when setting the actual reserves and it is attended by colleagues from across the relevant business areas including operational, clinical and risk specialists.

The IBNR is GBP 35.2 million (R695 million) at 30 June 2021 (2020: GBP 28.1 million (R603 million)), which approximates 1.5 months' worth of claims – which is the expected delay in claims reporting discussed above. Claims provisions at 30 June 2021 includes a supplier settlement and disputed claims provision reflecting the probability weighted settlement of supplier invoices and claims in dispute. The total of such provisions is GBP 2.5 million (R27 million) (2020: GBP 3 million (R54 million)).

VitalityHealth's IBNR reserves are sensitive to changes in the business's invoice processing speeds – which has seen significantly improved stability over the most recent two years. Currently the IBNR is set using the average expected cost of each claim (in the prior period the IBNR was set as an 80th percentile reserve in recognition of the volatility in the reserving environment). A 50th and 95th percentile reserve would result in the following:

Million	2021 Rands	2020 Rands	2021 GBP	2020 GBP
Base case	730.0	603	35.2	28.1
Lower bound	717.6	493	34.6	23.0
Upper bound	871.0	658	42.0	29.3

2.5.4 INSURE – IBNR Reserves

Insure's IBNR reserves are set based on the Bornhuetter-Ferguson model – a reserving model widely used in the short-term insurance industry. As with other traditional chain ladder models, the model assumes stability in the reporting and settlement delays and an expected loss ratio to arrive at a view of ultimate claims. In contrast, the outstanding claims reserve (OCR) is set predominantly by claims assessors.

The claims reserve for the personal lines business – made up of both the IBNR and OCR reserves – is R332 million at 30 June 2021 (2020: R295 million). Sensitivity tests were performed with the results on the outlined below (in the prior period the IBNR reserve was set at the 71st percentile level). Given the OCR is not probabilistic in nature, the sensitivity tests are performed purely on the IBNR reserve.

R million	2021	2020
Base case	331.8	295.0
50th percentile	322.1	261.0
95th percentile	348.0	355.0



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

Discovery's activities expose it to a variety of financial risks. Financial risks include market risk, credit risk and liquidity risk.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and investment return. Market risk that could impact on future cash flows and hence the value of a financial instrument arises from:

- *Equity price risk*: The impact of changes in equity prices and dividend income.
- *Interest rate risk*: The impact of changes in market interest rates.
- *Currency risk*: The impact of changes in foreign exchange rates.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Liquidity risk is the risk that Discovery will encounter difficulty in meeting obligations associated with financial liabilities due to insufficient cash or another financial asset being available to meet commitments as and when they become due.

Financial risks are managed by Discovery as follows:

- Discovery has appointed reputable external asset managers to manage its investments.
- The Actuarial Committee reviews the overall matching of shareholder and policyholder assets to their respective liabilities.
- The Capital, Currency, and Investment Committee (CCIC) is a sub-committee of the Group Executive Committee and meets quarterly to focus on shareholder assets and the performance of asset managers responsible for managing these assets. The CCIC also sets exposure limits for exposures to individual counterparties.
- Discovery periodically engages external consultants to review past investment decisions.
- The Investment Committee is a sub-committee of the CCIC and meets monthly to make operational decisions regarding Discovery's liquidity and foreign currency exposure.

CHANGE IN UNIT OF ACCOUNT

Discovery has not significantly changed the processes used to manage its financial risks from previous periods. During the current financial period Discovery has simplified the financial risk analysis by revising the unit of account or level at which the financial risk has been analysed. Historically Discovery has performed the analysis at a very granular level using the look-through principle to investments in mutual funds. The updated disclosure provides information that is reliable and more relevant to users of the financial statements and the comparative numbers have been restated accordingly.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

Discovery's approach in monitoring credit risk

Discovery's credit risk rating systems and processes differentiate and quantify credit risk across counterparties and asset classes. Discovery uses different credit rating approaches to monitor credit risk dependent on the financial assets. For financial assets with externally rated ratings, e.g. Moody's, the external rating is always used. For non-Moody's rated instruments, the following approaches will apply:

RATING SCALES FOR FUNDS

A credit rating, being a ranking of creditworthiness, is allocated to the obligor. Where external ratings are unavailable, internal rating assessments are conducted through analysis of the latest financial and other relevant information, in a consistent and systematic manner. Where external ratings are available, the standard rating classifications used by the external rating agencies have been applied. The internal rating scale is based on internal definitions and influenced by definitions published by the external ratings agency, Moody's. Where applicable, internal ratings are mapped to equivalent external Moody's rating scales.

The Group's Internal Rating Scale categories are defined below:

Grading and Group internal rating	Moody's Investors Service equivalent of internal rating
Investment grade	
Grades Aaa, Aa1, Aa2, Aa3	Aaa, Aa1, Aa2, Aa3
Grades A1, A2, A3	A1, A2, A3
Grades Baa, Baa1, Baa2, Baa3	Baa, Baa1, Baa2, Baa3
Sub-investment grade	
Grades Ba, Ba1, Ba2, Ba3, B, B1, B2, B3	Ba, Ba1, Ba2, Ba3, B B1, B2, B3
Grades Caa, Caa1, Caa2, Caa3, Ca, Ca1, Ca2, Ca3	Caa, Caa1, Caa2, Caa3 Ca, Ca1, Ca2, Ca3
Default	
Grades C	C

Moody's Investor Services define their respective ratings as follows:

Investment grade	Aaa	Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk
	Aa	Obligations rated Aa are judged to be of the highest quality, subject to the lowest level of credit risk
	A	Obligations rated A are judged to be upper-medium grade and are subject to low credit risk
	Baa	Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics
Sub-investment grade	Ba	Obligations rated Ba are judged to be speculative and are subject to substantial credit risk
	B	Obligations rated B are considered speculative and are subject to high credit risk
	Caa	Obligations rated Caa are judged to be speculative of poor standing and are subject to very high credit risk
	Ca	Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest
Default	C	Obligations rated C are the lowest rated and are typically in default, with little prospect for recovery of principal or interest

A numerical modifier may be added to each generic rating classification. Each modifier indicates the following:

- the modifier 1 indicates that the obligation ranks in the higher end of its generic rating category.
- the modifier 2 indicates a mid-range ranking; and
- the modifier 3 indicates a ranking in the lower end of that generic rating category.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

Discovery's approach in monitoring credit risk *continued*

POOLED FUNDS

The Group invests in funds through which it is also exposed to credit risk of the underlying assets in which the funds are invested. The Group's exposure to risk is classified at fund level and not at the underlying asset level. Although funds are not rated, fund managers are required to invest in credit assets within the defined parameters stipulated in the fund's mandate. These rules limit the extent to which fund managers can invest in unlisted and/or unrated credit assets and generally restrict funds to the acquisition of local currency investment grade assets.

DISCOVERY BANK

Loans and advances to customers are categorised with Discovery Bank's own internally developed credit models. The Discovery Bank model uses a 10-point Discovery Risk Grade classification, with each point being in two decrements to further distinguish risk. The following table summarises how Discovery Bank classifies its loans:

Discovery Risk Category	Discovery Risk Grades	Risk of default assessment
Exceptional low risk	DRG1 – DRG2	Less than 0.4%
Low risk	DRG3 – DRG5	Less than 1.5%
Medium risk	DRG5 – DRG8	Less than 6%
High risk	DRG8 – DRG9	Less than 24%
Very high risk	DRG 10	More than 24%

Categorisation of business in the analysis of financial risk

To assist in the analysis of the financial risks that Discovery and its policyholders are exposed to, the Statement of financial position has been divided into five categories, based on the nature of the products provided by Discovery and the nature of the financial assets held to back the policyholder liabilities. Annexure F lists the contracts that Discovery offers and the category they are included in for financial risk disclosure.

- **Unit-linked investment contracts:** this category relates to contracts issued by Discovery where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. Discovery holds the assets on which the unit prices are based and as a result there is no mismatch. The market risk (including equity price, interest rate and currency risk) as well as the credit risk for these contracts is therefore borne by the policyholder and not the Discovery shareholders.
- **Unit-linked insurance contracts:** this category relates to insurance contracts issued by Discovery which have a component that is linked to the units of an underlying portfolio. For this component, Discovery holds the assets on which the unit prices are based. However, the gross unit liabilities are reduced by the present value of future charges less the present value of future expenses and risk claims. Under IFRS, the unit-linked component is not accounted for separately from the host insurance contract. These contracts expose both Discovery shareholders and policyholders to financial risks.
- **Insurance contracts:** this category relates to insurance contracts issued by Discovery which Discovery funds with a portfolio of matching assets, exposing the Discovery shareholders to financial risk. The financial assets in this category include those financial assets held within specific portfolios matched to specific liabilities, for example claims reserves and claims incurred but not reported (IBNR).
- **Shareholder financial assets and liabilities:** this category includes the financial assets and financial liabilities that expose the Discovery shareholders to financial risks, including financial assets and cash backing insurance reserves and statutory capital. This category includes those financial assets that are not held in specific portfolios matched to insurance related liabilities.
- **Shareholder non-financial assets and liabilities:** No financial risk disclosures are required for these items.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

Categorisation of financial assets *continued*

The financial assets in each of these categories are sub-categorised into a second tier of classification, namely:

- Equity portfolios
- Debt portfolios
- Money market portfolios
- Multi-asset portfolios

In applying the definitions below, reliance is placed on the classifications by asset managers.

Equity portfolios

The following have been defined as equity portfolios:

- Portfolios that invest a minimum of circa 75% of the market value of the portfolio in equities and generally seek maximum capital appreciation as their primary goal. These portfolios invest in selected shares across the range of large, mid, and smaller cap shares. While the managers of these portfolios may subscribe to different investment styles or approaches, their intent is to produce a risk/return profile that is comparable with the risk/return profile of the overall equities market. The portfolios in this category offer medium to long-term capital growth as their primary investment objective.
- Investments or portfolios of equity linked notes.

Debt (interest-bearing) portfolios

Interest-bearing portfolios are portfolios that invest exclusively in bond, money market investments and other interest earning securities. These portfolios may not include equity securities, real estate securities or cumulative preference shares.

In addition to the above the inflation-linked bonds have been defined as Debt portfolios. Inflation-linked bonds are essentially loans where the principal and interest payments are contractually linked to an inflation measure.

Money Market portfolios

Money market portfolios are portfolios that seek to maximise interest income, preserve the portfolio's capital, and provide immediate liquidity. This is achieved by investing in money market instruments with a maturity of less than thirteen months while the average duration of the underlying assets may not exceed 90 days and a weighted average legal maturity of 120 days. The portfolios are typically characterised as short-term, highly liquid vehicles.

Multi-asset portfolios

Multi-asset portfolios are portfolios that invest in a wide spread of investments in the equity, bond, money, and property markets to maximise total returns, comprising capital and income growth over the long term. These portfolios do not fall within the thresholds that have been determined for the Equity portfolios or the Debt portfolios.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

Categorisation of financial assets *continued*

The following tables reconcile the Group Statement of financial position to the classes of risks and the categories listed on the previous pages.

Group R million	Total	Unit-linked investment contracts	Unit-linked insurance contracts	Insurance contracts	Shareholder	
					Financial assets and liabilities	Other assets and liabilities
Assets arising from insurance contracts	50 483	-	-	50 483	-	-
Loans and advances to customers at amortised cost:	3 361	-	-	-	3 361	-
Investments at amortised cost:						
Unlisted:						
- Debt	4 109	-	-	-	4 109	-
- Fixed deposits	1 495	-	-	-	1 495	-
Financial instruments mandatorily at fair value through profit or loss:						
Listed:						
- Equity portfolios	40 508	13 010	27 114	236	148	-
- Debt portfolios	36 452	5 620	10 655	18 674	1 503	-
- Money market portfolios	10 892	1 004	1 894	1 102	6 892	-
- Multi-asset portfolios	33 205	10 954	22 083	114	54	-
Unlisted:						
- Equity portfolios	2 854	52	2 759	-	43	-
- Debt portfolios	33	2	-	-	31	-
- Money market portfolios	6 361	977	1 911	3 255	218	-
- Multi-asset portfolios	632	-	632	-	-	-
Derivative financial instruments at fair value:						
- used as cash flow hedges	28	-	-	-	28	-
- not designated as hedging instruments	221	3	4	-	214	-
Receivables:						
- Insurance receivables	6 158	-	-	-	6 158	-
- Contract receivables	1 217	-	-	-	1 217	-
- Other receivables	3 158	288	559	40	1 302	969
Reinsurance contracts	445	-	-	445	-	-
Cash and cash equivalents	20 013	952	3 111	8	15 942	-
Other non-financial assets	25 069	-	992	-	-	24 077
Total assets	246 694	32 862	71 714	74 357	42 715	25 046
Liabilities arising from insurance contracts	100 977	-	64 446	36 531	-	-
Liabilities arising from reinsurance contracts	12 525	-	-	12 525	-	-
Deposits from customers	8 985	-	-	-	8 985	-
Borrowings at amortised cost	19 493	-	-	-	19 493	-
Other payables at amortised cost	14 904	568	1 154	404	12 426	352
Investment contracts at fair value through profit or loss	32 291	32 291	-	-	-	-
Derivative financial instruments at fair value:						
- used as cash flow hedges	461	-	-	-	461	-
- not designated as hedging instruments	365	3	5	-	357	-
Other non-financial liabilities	10 274	-	-	-	-	10 274
Total liabilities	200 275	32 862	65 605	49 460	41 722	10 626



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

Group R million	Total	Unit-linked investment contracts	Unit-linked insurance contracts	Insurance contracts	Shareholder	
					Financial assets and liabilities	Other assets and liabilities
30 June 2020						
Assets arising from insurance contracts	48 042	-	-	48 042	-	-
Loans and advances to customers at amortised cost	1 848	-	-	-	1 848	-
Investments at amortised cost:						
Unlisted:						
- Debt	439	-	-	-	439	-
- Fixed deposits	2 084	-	-	-	2 084	-
Financial instruments mandatorily at fair value through profit or loss:						
Listed:						
- Equity portfolios	31 073	8 633	22 019	189	232	-
- Debt portfolios	30 575	4 144	7 864	16 793	1 774	-
- Money market portfolios	6 532	391	979	213	4 949	-
- Multi-asset portfolios	25 525	8 036	17 273	103	113	-
Unlisted:						
- Equity portfolios	1 675	36	1 608	-	31	-
- Debt portfolios	5	1	-	3	1	-
- Money market portfolios	7 068	1 088	2 476	2 949	555	-
- Multi-asset portfolios	261	-	261	-	-	-
Derivative financial instruments at fair value:						
- used as cash flow hedges	14	-	-	-	14	-
- not designated as hedging instruments	1 356	-	-	-	1 356	-
Receivables:						
- Insurance receivables	6 179	-	-	-	6 179	-
- Contract receivables	1 413	-	-	-	1 413	-
- Other receivables at amortised cost	3 844	420	806	15	1 522	1 081
Reinsurance contracts	400	-	-	400	-	-
Cash and cash equivalents	17 909	483	2 014	5	15 407	-
Other non-financial assets	24 086	-	854	-	-	23 232
Total assets	210 328	23 232	56 154	68 712	37 917	24 313
Liabilities arising from insurance contracts	82 411	-	49 783	32 628	-	-
Liabilities arising from reinsurance contracts	12 465	-	-	12 465	-	-
Deposits from customers	2 427	-	-	-	2 427	-
Borrowings at amortised cost	19 836	-	-	-	19 836	-
Other payables at amortised cost	14 233	219	621	315	12 778	300
Investment contracts at fair value through profit or loss	23 012	23 012	-	-	-	-
Derivative financial instruments at fair value:						
- used as cash flow hedges	854	-	-	-	854	-
- not designated as hedging instruments	138	1	2	-	135	-
Other non-financial liabilities	10 399	-	-	-	-	10 399
Total liabilities	165 775	23 232	50 406	45 408	36 030	10 699



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

The financial risks associated with each category are discussed below.

3.1 Unit-linked investment contracts

Unit-linked investment contracts relate to contracts where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract.

R million	Investments held at risk of policyholders	
	Group 2021	Group 2020
30 June 2021		
Financial instruments mandatorily at fair value through profit or loss:		
Listed:		
- Equity portfolios	13 010	8 633
- Debt portfolios	5 620	4 144
- Money market portfolios	1 004	391
- Multi-asset portfolios	10 954	8 036
Unlisted:		
- Equity portfolios	52	36
- Debt portfolios	2	1
- Money market portfolios	977	1 088
Derivative financial instruments at fair value:		
- not designated as hedging instruments	3	-
Receivables:		
- Other receivables at amortised cost	288	420
Cash and cash equivalents	952	483
Total assets	32 862	23 232
Other payables at amortised cost	568	219
Investment contracts at fair value through profit or loss	32 291	23 012
Derivative financial instruments at fair value:		
- not designated as hedging instruments	3	1
Total liabilities	32 862	23 232

3.1.1 Market risk

EQUITY AND INTEREST RATE RISK

Discovery's primary exposure to market risk from these contracts is the volatility in asset management fees earned by Discovery, due to the impact of interest rate, equity price and currency movements on the fair value of the assets held in the linked funds, on which the investment management fees are based. A decrease of 10% in the value of the assets would reduce the asset management fees by R55 million per annum (2020: R45 million).

In respect of IFRS-defined investment management contracts there may be an associated asset for the costs of obtaining contracts. There is a risk that in the event of adverse market movements, future expected management fees may reduce and consequently this asset may not be realised and therefore necessitate impairment. There were no impairments necessary in the current or previous financial year.

CURRENCY RISK

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the UK pound. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. The currency risk is borne by the policyholder.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.1 Unit-linked investment contracts *continued*

3.1.2 Credit risk

Credit risk is borne by the policyholder. For the majority of the unit-linked investments, Discovery has invested in mutual funds in order to provide for obligations under unit-linked investment contract liabilities. Each mutual fund has its own legal constitution and operates within a mandate that is delegated to the appointed fund manager. Credit risks assumed within the assets held are controlled by various protection mechanisms within the mandate and in law. Each fund's trustees or board appoints administrators who are responsible to ensure that the fund's mandate and any internal and legislated control procedures are adhered to. In the event of breach, they are obligated to bring it immediately to the attention of the fund's trustees or board and management of the administrators for remedial action.

In the case where unit-linked investment contracts are linked to structured products, Discovery's policy dictates that these obligations are matched exactly. At inception of these contracts, assets which have proceeds that exactly match the pay-out under the policy, with the exception of credit risk, are purchased. Credit risk on these products is therefore also borne by the policyholder.

3.1.3 Liquidity risk

Certain contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. This surrender value is equal to or less than the carrying amount of the contract liabilities. If all the contracts with this option were surrendered at the financial year-end, a loss of R658 million (2020: R533 million) would have been recorded in profit or loss. This loss would result from an impairment to the asset raised for costs of obtaining contracts, but the impact is reduced by the surrender penalties receivable. A maturity analysis based on the earliest contractual repayment date would present 100% (2020: 100%) of the policyholder liabilities due within one year. The assets held to match these policyholder liabilities are realisable in the short-term.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.2 Unit-linked insurance contracts

A unit-linked insurance contract is an IFRS-defined insurance contract with a component that is linked to the units of an underlying portfolio.

R million	Investments held at risk of policyholders	
	Group 2021	Group 2020
30 June 2021		
Financial instruments mandatorily at fair value through profit or loss:		
Listed:		
- Equity portfolios	27 114	22 019
- Debt portfolios	10 655	7 864
- Money market portfolios	1 894	979
- Multi-asset portfolios	22 083	17 273
Unlisted:		
- Equity portfolios	2 759	1 608
- Money market portfolios	1 911	2 476
- Multi-asset portfolios	632	261
Derivative financial instruments at fair value:		
- not designated as hedging instruments	4	-
Receivables:		
- Other receivables at amortised cost	559	806
Cash and cash equivalents	3 111	2 014
Other assets	992	854
Total assets	71 714	56 154
Liabilities arising from insurance contracts	64 446	49 783
Other payables at amortised cost	1 154	621
Derivative financial instruments at fair value:		
- not designated as hedging instruments	5	2
Total liabilities	65 605	50 406

The assets are greater than the liabilities as a result of the Negative insurance liability of R5 117 million (2020: R4 894 million) included in unit-linked insurance contracts (refer to note 18) and the deferred tax asset of R992 million (2020: R854 million) in relation to the Individual Policyholder Fund.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.2 Unit-linked insurance contracts *continued*

3.2.1 Market risk

Discovery's primary exposure to market risk from these contracts is the volatility in asset management fees due to the impact of interest rate, equity price and currency movements on the fair value of the assets held in the linked funds, on which the investment management fees are based. A decrease of 10% in the value of the assets would reduce the asset management fees by R134 million per annum (2020: R111 million).

3.2.2 Credit risk

The credit risk for the unit-linked insurance contracts is similar to the credit risk for the unit-linked investment contracts. Refer to section 3.1.2 on the detail for the exposure to the credit risk.

3.2.3 Liquidity risk

All contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. This surrender value is equal to or less than the carrying amount of the contract liabilities. If all the contracts with this option were surrendered at the financial year-end, a loss of R5 491 million (2020: R5 175 million) would have been recorded in profit or loss. This loss results from the impairment of assets arising from insurance contracts relating to these contracts, but the impact is reduced by the surrender penalties receivable.

The assets held to match these policyholder liabilities are highly liquid and are realisable in the short term. A maturity analysis based on the earliest contractual repayment date is as follows:

Group R million	Total	< 1 Year	1 - 2 Years	3 - 5 Years
30 June 2021				
Unit-linked insurance contracts	69 549	68 947	122	480
30 June 2020				
Unit-linked insurance contracts	54 646	54 433	23	190



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.3 Insurance contracts

For insurance contracts, Discovery funds the insurance liabilities with a portfolio of matching assets.

R million	Group 2021	Group 2020
30 June 2021		
Assets arising from insurance contracts	50 483	48 042
Financial instruments mandatorily at fair value through profit or loss:		
Listed:		
- Equity portfolios	236	189
- Debt portfolios	18 674	16 793
- Money market portfolios	1 102	213
- Multi-asset portfolios	114	103
Unlisted:		
- Debt portfolios	-	3
- Money market portfolios	3 255	2 949
Receivables:		
- Other receivables at amortised cost	40	15
Reinsurance contracts	445	400
Cash and cash equivalents	8	5
Total assets	74 357	68 712
Liabilities arising from insurance contracts	36 531	32 628
Liabilities arising from reinsurance contracts	12 525	12 465
Other payables at amortised cost	404	315
Total liabilities	49 460	45 408

3.3.1 Market risk

When calculating the liabilities arising from insurance contracts, an increase/decrease in the investments would result in an increase/decrease in the liability but it may not be an equal Rand value movement, resulting in the difference being accrued to the shareholders. Discovery aims to closely match liabilities with appropriate assets and maintains sufficient assets to protect against residual mismatches between assets and liabilities at a 99.5% confidence interval over a one-year time horizon.

3.3.2 Credit risk

Discovery is exposed to credit risk through financial investments comprising money market portfolios and debt portfolios entered into to match policyholders' insurance contract liabilities. Discovery is exposed to the issuer's credit standing on these instruments which is monitored by the CCIC by setting a minimum credit rating. Discovery has appointed reputable asset managers to manage these instruments.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.3 Insurance contracts *continued*

3.3.2 Credit risk *continued*

Group R million	Total	Aaa	Aa1 Aa2 Aa3	A1 A2 A3	Ba1 Ba2 Ba3	Baa1 Baa2 Baa3	Govt ¹	Pooled funds
30 June 2021								
Financial instruments mandatorily at fair value through profit or loss:								
Listed:								
- Debt portfolios	18 674	64	51	5	167	-	18 383	4
- Money market portfolios	1 102	3	229	-	158	-	457	255
Unlisted:								
- Money market portfolios	3 255	-	850	1 841	564	-	-	-
Reinsurance contracts	445	48	216	159	22	-	-	-
Cash and cash equivalents	8	6	2	-	-	-	-	-
	23 484	121	1 348	2 005	911	-	18 840	259

30 June 2020

Financial instruments mandatorily at fair value through profit or loss:

Listed:

- Debt portfolios	16 793	951	223	6	-	-	15 596	17
- Money market portfolios	213	-	17	-	-	-	-	196

Unlisted:

- Debt portfolios	3	3	-	-	-	-	-	-
- Money market portfolios	2 949	1 807	659	481	-	-	-	2
Reinsurance contracts	400	-	81	305	-	14	-	-
Cash and cash equivalents	5	4	1	-	-	-	-	-

	20 363	2 765	981	792	-	14	15 596	215
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¹ These instruments are held in the South African government.

3.3.3 Liquidity risk

The liquidity risk for assets and liabilities arising from insurance contracts are discussed in insurance risks in Note 2 *Management of Insurance Risk*. The financial investments held at fair value through profit or loss are realisable in the short term.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities

The shareholders are exposed to financial risk through the following financial assets and liabilities:

R million	Investments held at risk of shareholders	
	Group 2021	Group 2020
30 June 2021		
Loans and advances to customers at amortised cost	3 361	1 848
Investments at amortised cost:		
Unlisted:		
- Debt	4 109	439
- Fixed deposits	1 495	2 084
Financial instruments mandatorily at fair value through profit or loss:		
Listed:		
- Equity portfolios	148	232
- Debt portfolios	1 503	1 774
- Money market portfolios	6 892	4 949
- Multi-asset portfolios	54	113
Unlisted:		
- Equity portfolios	43	31
- Debt portfolios	31	1
- Money market portfolios	218	555
Derivative financial instruments at fair value:		
- used as cash flow hedges	28	14
- not designated as hedging instruments	214	1 356
Receivables:		
- Insurance receivables	6 158	6 179
- Contract receivables	1 217	1 413
- Other receivables at amortised cost	1 302	1 522
Cash and cash equivalents	15 942	15 407
Total assets	42 715	37 917
Deposits from customers	8 985	2 427
Borrowings at amortised cost	19 493	19 836
Other payables at amortised cost	12 426	12 778
Derivative financial instruments at fair value:		
- used as cash flow hedges	461	854
- not designated as hedging instruments	357	135
Total liabilities	41 722	36 030



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

3.4.1 Market risk

EQUITY PRICE RISK

INVESTMENTS

Discovery is exposed to equity price risk through its equity investments held that have been classified as investments at fair value through profit or loss (FVTPL), on the Statement of financial position. To manage its equity risk arising from investments in Equity portfolios of R191 million (2020: R263 million), the Group diversifies its portfolio and uses experienced asset managers.

For shareholder investments, a reasonable increase of 10% in the equity markets would result in a profit of R62 million before tax (2020: R9 million). A reasonable decrease of in the equity markets would result in a loss of R62 million before tax (2020: R9 million). This impact would be recognised in profit or loss and equity. The sensitivity assumes that the equity markets had increased/decreased by 10% with all other variables held constant.

HEDGE DERIVATIVE INSTRUMENTS

Discovery is also exposed to equity price risk through its cash-settled share incentive schemes, namely the Phantom share scheme and the Acquisition share scheme, the details of which are described in note 31. This liability has been included in Other payables at amortised cost in the Statement of financial position. To manage this risk, Discovery has purchased a combination of total return equity swaps (TRS) and call options from Ba1 (2020: Ba2 – Baa3) South African banks to hedge a portion of its exposure to changes in the Discovery share price.

Hedge ineffectiveness for TRS and call options can arise from:

- differences between the strike price/initial price per the derivative contract and the Discovery spot price on hedge designation date.
- difference due to the fixed funding element inherent in TRS which does not exist in the hedged item being the share based payment liability raised in terms of IFRS 2 *Share-based payment*.
- differences between the dividend yield for the call options and the option contracts; and
- day one profit or loss on the derivative contract.

The Group sets the hedging ratio by matching the notional amount of the designated hedged items to the notional amount of the corresponding TRS or call options used as the hedging instruments, after applying expected forfeiture rates to each vesting. The hedge ratio is 1:1. The hedge accounting relationship is reviewed on a monthly basis and the hedging instruments and hedged items are de-designated, if necessary, based on the effectiveness test results and changes in the hedged exposure. The Group hedges the hedged item in its entirety against equity price risk as opposed to just a component of this risk.

Under the Group's policy, the critical terms of the hedging instrument, such as the settlement dates, maturity dates and notional amounts are matched with the equity price risk of the hedged item.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

3.4.1 Market risk *continued*

I. PHANTOM SHARE SCHEME (INCLUDING CERTAIN OTHER DEVELOPMENT SEGMENT SCHEMES)

As at 30 June 2021, 100% (2020: 100%) of this exposure is hedged. The hedges were designed to be highly effective, where the critical terms of the hedge or return swaps substantially match that of the phantom share scheme on a per instrument basis. Combinations of total return equity swaps and call options were designated on a unit for unit basis to substantially match the terms of the phantom share and call option units.

When these hedges are entered into, they are designated as the hedge of a highly probable forecast transaction and accounted for as a cash flow hedge.

The cash-settled call options held by the Group at 30 June were:

Maturity date	Strike price	Number of call options
2021		
Year end June 2022	114.96 – 141.65	272 942
Year end June 2023	141.65	170 827
2020		
Year end June 2021	110.40 – 141.65	754 076
Year end June 2022	110.40 – 141.65	272 942
Year end June 2023	141.65	170 827

The notional value of the outstanding cash-settled call options held by the Group at 30 June 2021 was R60 million (2020: R161 million).

The fair value of the call options is repriced at each reporting date and calculated on a Black-Scholes model using the same assumptions as tabled in note 31.

The total return equity swaps held by the Group at 30 June were:

Maturity date	Reference price	Number of total return equity swaps
2021		
Year end June 2022	114.96 – 173.59	1 655 491
Year end June 2023	141.65 – 173.59	1 085 365
Year end June 2024	147.04 – 173.59	499 954
2020		
Year end June 2021	114.96 – 173.59	2 058 914
Year end June 2022	114.96 – 173.59	1 655 491
Year end June 2023	141.65 – 173.59	1 085 365
Year end June 2024	147.04 – 173.59	499 954

The notional value of the outstanding total TRS held by the Group at 30 June 2021 was R499 million (2020: R791 million). The fair value of the TRS is calculated by discounting the future cash flows of the instruments.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

II. ACQUISITION SHARE SCHEME

As at 30 June 2021, 100% (2020: 98%) of this exposure is hedged. The hedges were designed to be highly effective, where the terms of the hedge or total return equity swaps substantially match that of the acquisition share scheme on a per instrument basis.

When these hedges are entered into, they are designated as the hedge of a highly probable forecast transaction and accounted for as a cash flow hedge.

The total return equity swaps held by the Group at 30 June were:

Maturity date	Reference price	Number of total return swaps
2021		
Year end June 2022	129.00 – 150.38	704 682
Year end June 2023	147.50 – 150.38	681 833
Year end June 2024	105.51 – 150.38	659 583
Year end June 2025	105.51 – 125.44	194 373
Year end June 2026	125.44	88 519
2020		
Year end June 2022	118.31 – 150.38	618 591
Year end June 2023	129.00 – 150.51	698 716
Year end June 2024	147.50 – 150.51	579 914
Year end June 2025	150.38 – 150.51	119 956
Year end June 2026	150.51	97 818

The notional value of the outstanding total return equity swaps held by the Group at 30 June 2021 was R292 million (2020: R324 million). The fair value of the total return equity swaps is calculated by discounting the future cash flows of the instruments.

At 30 June 2021, the fair value of the derivative instruments purchased to hedge the Phantom and Acquisition share schemes, is R106 million (2020: R324 million) (refer to note 13). To reduce the credit risk exposure from the hedge derivative instruments purchased, Discovery has entered into collateral agreements with the relevant financial institutions to post cash collateral periodically, equal to the fair value of the derivatives.

A total of R154 million (2020: R407 million) cash collateral is being held by counterparty banks (refer to note 14) at 30 June 2021. The posting of the collateral does not result in legal settlement of the outstanding derivative balance. The collateral will only be used to settle the derivative upon default or bankruptcy of either party. The offsetting requirements of IAS 32 are therefore not met.

Discovery recognises the effective portion of fair value changes of derivatives that are designated and qualify as cash flow hedges and prove to be highly effective in relation to the hedged risk, in the cash flow hedging reserve in the Statement of other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. A gain of R8 million (2020: R13 million loss) was recognised in profit or loss during the current year as a result of ineffectiveness. This amount has been included under 'Net fair value gains on financial assets at fair value through profit or loss', in the Income statement (refer to note 27).

The movement in the hedging reserve relating to the Phantom and Acquisition share schemes, is summarised in the table below:

R million	Group 2021	Group 2020
Balance at beginning of the year	87	-
Unrealised losses accumulated in equity	(171)	409
Tax on unrealised losses	26	(59)
Recycled to profit or loss during the current year ¹	82	(309)
Tax on recycled gains	(15)	46
Balance at end of the year	9	87

¹ Presented in 'Marketing and administration expenses' and 'Acquisition costs'.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

R million	Group 2021	Group 2020
Recycled to profit or loss within one year	4	12
Recycled to profit or loss within two to five years	5	75
Balance at end of the year	9	87

INTEREST RATE RISK

Sensitivity to changes in interest rates is relevant to financial assets and financial liabilities bearing floating interest rates due to the risk that future cash flows will fluctuate. However, sensitivity will also be relevant to fixed-rated financial assets and financial liabilities that are re-measured to fair value. The table below details the specific interest rate risk that the Group is exposed to:

Group R million	Carrying amount	Fixed	Floating	Non-interest bearing
30 June 2021				
Loans and advances to customers at amortised cost	3 361	-	3 361	-
Investments at amortised cost:				
Unlisted:				
- Debt	4 109	4 109	-	-
- Fixed deposits	1 495	1 221	274	-
Financial instruments mandatorily at fair value through profit or loss:				
Listed:				
- Debt portfolios	1 503	1 006	489	8
- Money market portfolios	6 892	2 953	3 872	67
- Multi-asset portfolios	54	-	-	54
Unlisted:				
- Debt portfolios	31	1	30	-
- Money market portfolios	218	25	193	-
Derivative financial instruments at fair value:				
- used as cash flow hedges	28	5	-	23
- not designated as hedging instruments	214	-	155	59
Receivables				
- Insurance receivables	6 158	-	-	6 158
- Contract receivables	1 217	-	42	1 175
- Other receivables at amortised cost	1 302	28	457	817
Cash and cash equivalents	15 942	894	14 641	407
Total financial assets	42 524	10 242	23 514	8 768
Deposits from customers	8 985	3 763	5 222	-
Borrowings at amortised cost	19 493	10 034	9 459	-
Other payables at amortised cost	12 426	6 608	2	5 816
Derivative financial instruments at fair value:				
- used as cash flow hedges	461	332	-	129
- not designated as hedging instruments	357	-	235	122
Total financial liabilities	41 722	20 737	14 918	6 067



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

Group R million	Carrying amount	Fixed	Floating	Non-interest bearing
30 June 2020				
Loans and advances to customers at amortised cost	1 848	-	1 848	-
Investments at amortised cost:				
Unlisted:				
- Debt	439	439	-	-
- Fixed deposits	2 084	246	1 838	-
Financial instruments mandatorily at fair value through profit or loss:				
Listed:				
- Debt portfolios	1 774	1 257	517	-
- Money market portfolios	4 949	2 278	2 671	-
- Multi-asset portfolios	113	-	-	113
Unlisted:				
- Debt portfolios	1	-	1	-
- Money market portfolios	555	25	530	-
Derivative financial instruments at fair value:				
- used as cash flow hedges	14	14	-	-
- not designated as hedging instruments	1 356	-	1 093	263
Receivables				
- Insurance receivables	6 179	23	-	6 156
- Contract receivables	1 413	-	39	1 374
- Other receivables at amortised cost	1 522	29	620	873
Cash and cash equivalents	15 407	1 308	13 924	175
Total financial assets	37 654	5 619	23 081	8 954
Deposits from customers	2 427	599	-	1 828
Borrowings at amortised cost	19 836	10 172	9 664	-
Other payables at amortised cost	12 778	158	7 405	5 215
Derivative financial instruments at fair value:				
- used as cash flow hedges	854	854	-	-
- not designated as hedging instruments	135	41	5	89
Total financial liabilities	36 030	11 824	17 074	7 132



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

INVESTMENTS

For shareholder investments, a 1% increase in the local interest rate would result in an increase of R9 million of investment income from these investments (2020: R7 million). A 1% decrease in the local interest rate would result in a decrease of R9 million of investment income from these investments (2020: R5 million). The sensitivity assumes that the interest rate had increased/decreased by 1% with all other variables held constant.

BORROWINGS AT AMORTISED COST AND RELATED HEDGES

Discovery is exposed to interest rate risk through long-term borrowings held with various financial institutions. Refer to note 20 Borrowings at amortised costs for a breakdown of the borrowings, including details of fixed rate and floating rate facilities.

Group R million	Ref	2021		2020	
		Carrying value	Facility value	Carrying value	Facility value
Interest rate risk from borrowings from banks					
Fixed interest rate loan facilities		5 773	5 850	5 792	5 796
Floating interest rate facilities with floating-to-fixed interest rate swap	i	5 034	5 000	4 536	4 500
Floating interest rate facilities		659	500	1 630	1 500
Foreign floating interest rate facilities		3 764	4 224	3 498	4 460
Total bank borrowings (refer to note 20)		15 230	15 574	15 456	16 256

- i. During prior years and in the current financial year, Discovery entered into long-term borrowing facilities at floating interest rates, which expose Discovery to cash flow interest rate risk. This risk has been managed by using floating-to-fixed interest rate swaps. These interest rate swaps have the economic effect of converting the borrowings from floating to fixed rates. Interest is payable quarterly in arrears, with capital repayable on maturity. The hedge ratio is 1:1.

The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities, and notional amount. As all critical terms matched during the year, there is an economic relationship.

Under the Group's policy, the critical terms of the hedging instrument, such as the settlement dates, maturity dates and notional amount, are matched with the interest rate risk of the hedged item.

Hedge ineffectiveness for interest rate swaps can arise from:

- day one fair value of the swap,
- events leading to mismatch in terms; and
- the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan.

The fair value movement of the notional cash flow interest rate hedge accumulated in equity is as follows:

Group R million	2021	2020
Balance at beginning of the year	516	173
Unrealised (gains)/losses accumulated in equity	(189)	353
Tax on unrealised losses	-	-
Recycled to profit or loss during the current year ¹	8	(10)
Tax on recycled gains	-	-
Balance at end of the year	335	516
The cash flow hedge will be recycled to profit or loss as follows:		
Recycled to profit or loss within one year	-	-
Recycled to profit or loss within two to five years	232	377
Recycled to profit or loss within six to ten years	103	139
	335	516

¹ Disclosed as finance costs in profit or loss.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

The interest rate swaps held by the Group at 30 June were:

Group R million	2021		2020	
	Nominal value	Fair value liability	Nominal value	Fair value liability
Maturity date:				
21 November 2022	500	(25)	500	(47)
21 November 2024	800	(74)	800	(110)
21 August 2026	700	(80)	700	(107)
02 March 2023	1 000	(55)	1 000	(99)
21 August 2023	500	5	-	-
21 August 2026	300	(22)	300	(32)
21 November 2024	1 200	(76)	1 200	(121)
	5 000	(327)	4 500	(516)

Group R million	2021 Carrying value	2020 Carrying value
Term deposits from customers – fixed rate	3 763	599
Term deposits from customers – variable rates	3 798	1 513
On demand deposits from customers – variable rate	615	315
Wholesale NCD's (Negotiable Certificate of Deposit) – variable rate	809	-
Total customer deposits Discovery Bank	8 985	2 427

NON-HEDGE DERIVATIVE FINANCIAL INSTRUMENTS

I. INTEREST RATE SWAP

VitalityLife has significant exposure to long-term interest rate risk, given the impact on reserves of lower investment rate assumptions related to fixed future premium receipts to meet policy obligations. Accordingly, lower long-term interest rates and yield assumptions may negatively impact on the valuation of future policy obligations and result in a valuation loss. Refer to note 2.4.3 for details of the interest rate mitigation strategy implemented.

In addition to the above, VitalityLife has an exposure to the 'FTSE Actuaries UK Conventional Gilts over 15 Year Index ("the index") as a result of products underwritten by the Prudential Assurance Company on behalf of VitalityLife. In order to economically hedge the Vitality UK group's exposure to the index, Discovery Holdings Europe Limited (DHEL) has been party to a number of over-the-counter total return interest rate swap derivatives during the financial year. These derivatives provide DHEL with the capital depreciation/appreciation and coupon payments on a basket of Gilts designed to closely match that of the index in return for a payment of fixed interest to the counterparty.

As at 30 June 2021 DHEL is party to two (2020: one) open derivative contracts. The fixed interest payable is 0.18% (2020: 0.99%) on a notional derivative value of GBP 311.8 million (2020: GBP 279.8 million). At 30 June 2021 the fair value of the derivative was an asset of GBP 1.0 million (R20 million) (2020: GBP 6.5 million (R139 million)).

Although these instruments reduce the exposure to the volatility of the index, they do not qualify for hedge accounting. Accordingly, these derivatives have been classified as financial assets or liabilities carried at fair value through profit or loss. Fair value adjustments of GBP 38.1 million (net loss) (R792 million) have been recognised in 'Net fair value gains on financial assets at fair value through profit or loss' (2020: GBP 38.9 million (net gains) (R768 million)). The current open derivative contracts expire on 14 July 2021.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

II. DERIVATIVE INSTRUMENTS USED BY DISCOVERY'S ASSET MANAGERS

Discovery's asset managers use derivative instruments as mandated to limit or reduce risk. The majority of derivatives are exchange traded (SAFEX or Yield-X). Exchange traded derivatives are settled daily by reducing exposures (and hence credit risk) to zero at the end of each day. Discovery also has interest rate swap agreements and the value of exposure towards these parties was calculated by taking into consideration the ISDA agreements in place which allow for netting off between positive and negative exposures.

The table below details the Group's total derivative exposure:

Group R million	Notional amount	Fair value asset	Fair value liability
June 2021			
Interest rate contracts:			
- floating for fixed swaps	56	-	(3)
	56	-	(3)
June 2020			
Interest rate contracts:			
- floating for fixed swaps	70	-	5
	70	-	5



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

CURRENCY RISK

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the UK pound. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. The following table segregates the currency exposure by major currency:

Group R million	Total	Rand	GBP in UK subsidiary	GBP other	USD in US subsidiary	USD other	Other currencies
30 June 2021							
Loans and advances to customers at amortised cost	3 361	3 361	-	-	-	-	-
Investments at amortised cost:							
Unlisted:							
- Debt	4 109	4 109	-	-	-	-	-
- Fixed deposits	1 495	1 291	204	-	-	-	-
Financial instruments mandatorily at fair value through profit or loss:							
Listed:							
- Equity portfolios	148	48	16	-	-	70	14
- Debt portfolios	1 503	497	988	-	-	10	8
- Money market portfolios	6 892	2 817	4 075	-	-	-	-
- Multi-asset portfolios	54	13	2	-	-	39	-
Unlisted:							
- Equity portfolios	43	20	-	-	-	23	-
- Debt portfolios	31	31	-	-	-	-	-
- Money market portfolios	218	218	-	-	-	-	-
Derivative financial instruments at fair value:							
- used as cash flow hedges	28	28	-	-	-	-	-
- not designated as hedging instruments	214	59	155	-	-	-	-
Receivables							
- Insurance receivables	6 158	2 374	3 736	-	-	48	-
- Contract receivables	1 217	771	-	-	214	11	221
- Other financial receivables at amortised cost	1 302	962	122	163	17	34	4
Cash and cash equivalents	15 942	4 812	9 508	119	443	1 001	59
Total financial assets	42 715	21 411	18 806	282	674	1 236	306
Deposits from customers	8 985	8 985	-	-	-	-	-
Borrowings at amortised cost	19 493	15 368	4 066	-	59	-	-
Other financial payables at amortised cost	12 426	3 234	8 945	-	202	9	36
Derivative financial instruments at fair value:							
- used as cash flow hedges	461	461	-	-	-	-	-
- not designated as hedging instrument	357	125	232	-	-	-	-
Total financial liabilities	41 722	28 173	13 243	-	261	9	36



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

Group R million	Total	Rand	GBP in UK subsidiary	GBP other	USD in US subsidiary	USD other	Other currencies
30 June 2020							
Loans and advances to customers at amortised cost	1 848	1 848	-	-	-	-	-
Investments at amortised cost:							
Unlisted:							
- Debt	439	439	-	-	-	-	-
- Fixed deposits	2 084	1 864	220	-	-	-	-
Financial instruments mandatorily at fair value through profit or loss:							
Listed:							
- Equity portfolios	232	51	3	-	-	175	3
- Debt portfolios	1 774	598	1 176	-	-	-	-
- Money market portfolios	4 949	1 354	3 595	-	-	-	-
- Multi-asset portfolios	113	26	-	-	-	76	11
Unlisted:							
- Equity portfolios	31	20	-	-	-	11	-
- Debt portfolios	1	1	-	-	-	-	-
- Money market portfolios	555	554	-	1	-	-	-
Derivative financial instruments at fair value:							
- used as cash flow hedges	14	14	-	-	-	-	-
- not designated as hedging instruments	1 356	252	1 092	-	-	12	-
Receivables							
- Insurance receivables	6 179	1 810	4 333	-	-	36	-
- Contract receivables	1 413	758	-	-	456	1	198
- Other receivables at amortised cost	1 522	1 377	140	-	1	-	4
Cash and cash equivalents	15 407	4 941	9 426	193	455	339	53
Total financial assets	37 917	15 907	19 985	194	912	650	269
Deposits from customers	2 427	2 427	-	-	-	-	-
Borrowings at amortised cost	19 836	15 920	3 905	-	11	-	-
Other payables at amortised cost	12 778	2 578	9 835	6	253	68	38
Derivative financial instruments at fair value:							
- used as cash flow hedges							
- not designated as hedging instruments	854	854	-	-	-	-	-
Other payables at amortised cost	135	135	-	-	-	-	-
Total financial liabilities	36 030	21 914	13 740	6	264	68	38

Financial assets and financial liabilities in respect of the Group's US and UK subsidiaries are accounted for in their functional currency. Foreign currency movements will be recognised in the foreign currency translation reserve.

The exchange rates at year-end are detailed in the table below (quoted as Rand per foreign currency):

	USD	GBP
30 June 2021	14.28	19.74
30 June 2020	17.41	21.44



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

Sensitivity analysis

The Group determined that a 10% change is a reasonable expected strengthening/(weakening) of the US dollar and the UK Pound against all other currencies. The impact on profit or loss and equity at 30 June is shown below. For the purpose of the analysis, the foreign exchange impact of intergroup balances which eliminate on consolidation has been excluded. The effect of translation differences which are recognised separately in other comprehensive income has also been excluded. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases

R million	Profit or loss		Equity	
	Strengthening	Weakening	Strengthening	Weakening
30 June 2021				
USD	590	(590)	590	(590)
GBP	38	(38)	38	(38)
30 June 2020				
USD	33	(33)	33	(33)
GBP	10	(10)	10	(10)

INVESTMENTS

Discovery has offshore assets in its investment portfolios. These offshore investments are made for the purpose of seeking international diversification. There is a risk to future earnings that the value of these assets reduces due to a strengthening in the Rand. Performance of foreign currency assets is benchmarked against the MSCI World Index, an international index that represents large and mid-capitalisation companies across 23 developed market countries. Refer to www.msci.com for further detail.

CURRENCY DERIVATIVE CONTRACTS

To manage its foreign exchange risk arising from future commercial transactions, Discovery enters into various currency derivative contracts. Discovery entered into these contracts with third party banks which have short term rated risk of P-2 and P-1, as rated by Moody's. The fair value of these contracts have been included in financial assets and liabilities. (Refer to note 13).

Discovery entered into these contracts as an economic hedge against foreign currency risk for expenses to be paid in the future. These transactions are not designated as hedges and as a result gains and losses are recognised in profit or loss. The amount recognised in profit or loss for the current year was a loss of R298 million (2020: R284 million gain), with a corresponding derivative asset and liability of R58 million and R100 million respectively, (2020: Derivative asset R263 million and derivative liability R6 million). The notional value of these contracts are GBP 119.3 million, USD 39.4 million and EUR 7.9 million (2020: GBP 118.65 million, USD 39.4 million and EUR 7.9 million).

Currency risk for foreign exchange contracts (FEC's) are determined with reference to the designated pricing (settlement) currency of each respective contract. The pricing currency is usually the functional currency of the entity taking out the contract. For the purposes of currency risk, Discovery discloses FEC contracts using the pricing currency.

BORROWINGS

Discovery has long-term borrowings in the UK, which exposes the Group to currency risks. These risks are managed by aligning the currency exposure to the underlying operational assets for which these borrowings have been raised. The currency risk is mitigated as the cash flows emerging from the underlying assets are in the same currency (GBP) as the interest and capital payments.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

3.4.2 Credit risk

Key areas where Discovery is exposed to credit risk are:

- **Financial investments comprising money market and debt instruments entered into to invest surplus shareholder funds:** Discovery is exposed to the issuer's credit standing on these instruments which is monitored by the CCIC by setting a minimum credit rating and maximum exposures per issuer. Discovery has appointed reputable asset managers to manage these instruments. Information regarding the aggregated credit risk exposure for debt and money market instruments categorised by credit ratings is provided below.
- **Cash and cash equivalents:** This risk is managed by monitoring exposure to external financial institutions against approved limits per institution. Credit ratings are provided below.
- **Certain accounts within the Statement of financial position category of 'Insurance receivables, contract receivables and other non-financial receivables'.**
- **Reinsurance assets comprising receivables raised for expected recoveries on projected claims (Discovery's liability as primary insurer is not discharged) and amounts due from reinsurers in respect of claims already paid:** This risk is limited as risk premiums are paid monthly to reinsurers and claims can be offset against risk premiums. Further, it is expected that there will be little build-up of actuarial liability on the reinsurers' side. The risk thus mainly arises following a period of higher than expected claims. Credit ratings of reinsurers are considered in reinsurance placement decisions. Credit exposure to reinsurers is also limited through the use of several reinsurers. Reinsurance is placed with reputable international companies directly or through their national offices. The reinsurance companies used by Discovery are rated A or higher by A.M. Best, a rating agency with an exclusive insurance industry focus. Refer to www.ambest.com for further detail.
- **Loans and advances to customers at amortised cost,** which arises from credit extended to Discovery Bank customers.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

The following table details the aggregated credit risk exposure that the Group is exposed to, categorised by the rating scale noted in section 3 'Discovery's approach in monitoring credit risk'.

Group R million	Total	Aaa	Aa1 Aa2 Aa3	A1 A2 A3	Baa1 Baa2 Baa3	Ba1 Ba2 Ba3	Govt ¹	Inter- nally rated	Pooled funds
30 June 2021									
Loans and advances to customers at amortised cost	3 361	-	-	-	-	-	-	3 361	-
Investments at amortised cost:									
Unlisted:									
- Debt	4 109	-	-	-	-	-	4 109	-	-
- Fixed deposits	1 495	-	-	203	1 292	-	-	-	-
Financial instruments mandatorily at fair value through profit or loss:									
Listed:									
- Debt portfolios	1 503	39	152	283	687	272	37	-	33
- Money market portfolios	6 892	1 044	1 070	163	2 928	126	4	-	1 557
Unlisted:									
- Debt portfolios	31	-	-	-	-	31	-	-	-
- Money market portfolios	218	-	14	21	3	180	-	-	-
Derivative financial instruments at fair value:									
- used as cash flow hedges	28	-	-	-	23	5	-	-	-
- not designated as hedging instruments	214	-	-	155	37	22	-	-	-
Cash and cash equivalents	15 942	14	8 954	2 082	1 237	2 286	1 369	-	-
	33 793	1 097	10 190	2 907	6 207	2 922	5 519	3 361	1 590

Group R million	Total	Aaa	Aa1 Aa2 Aa3	A1 A2 A3	Baa1 Baa2 Baa3	Ba1 Ba2 Ba3	Govt ¹	Inter- nally rated	Pooled funds
30 June 2020									
Loans and advances to customers at amortised cost	1 848	-	-	-	-	-	-	1 848	-
Investments at amortised cost:									
Unlisted:									
- Debt	439	-	-	-	-	-	439	-	-
- Fixed deposits	2 084	-	220	-	1 618	246	-	-	-
Financial instruments mandatorily at fair value through profit or loss:									
Listed:									
- Debt portfolios	1 774	167	427	383	700	-	53	-	44
- Money market portfolios	4 949	-	2 344	14	1 757	36	4	-	794
Unlisted:									
- Debt portfolios	1	-	-	1	-	-	-	-	-
- Money market portfolios	555	1	533	-	-	21	-	-	-
Derivative financial instruments at fair value:									
- used as cash flow hedges	14	1	2	3	7	1	-	-	-
- not designated as hedging instruments	1 356	-	1,00	1 156	187	12	-	-	-
Cash and cash equivalents	15 407	657	10 986	459	301	2 223	781	-	-
	28 427	826	14 513	2 016	4 570	2 539	1 277	1 848	838

¹ These instruments are held in the South African government.

Financial instruments included in cash and cash equivalents, fixed deposits and treasury bills have high credit quality based on the rating of counterparties and/or have relatively short-term maturities. Impairment based on the expected credit loss approach was assessed and considered immaterial. There are no amounts within these balances which are credit impaired or where there has been a significant increase in credit risk since initial recognition.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

CREDIT RISK RELATING TO RECEIVABLES

The table below summarises Discovery's shareholder insurance receivables, contract receivables and other receivables, at 30 June. This table only relates to shareholder's credit exposure and will therefore not agree to note 14.

R million	Group 2021	Group 2020
Receivables arising from insurance and reinsurance contracts:		
- Premium debtors	668	692
- Less provision for impairment of premium debtors	(63)	(93)
- Reinsurance debtors	5 553	5 580
Contract receivables:		
- Closed scheme debtors	104	103
- Discovery Health Medical Scheme	662	650
- Other contract receivables	480	709
- Less allowance for expected credit losses	(29)	(49)
Other loans and receivables:		
- Agents and brokers	412	491
- BEE partners' rights-issue funding	1	19
- Cash-in-transit debtors	32	5
- Consolidated unit trust debtors	1	1
- FNB-DiscoveryCard receivable	-	52
- Loans to BEE initiatives	220	214
- Security deposit on derivatives	289	407
- Vitality partner debtors	112	116
- Other financial receivables	696	653
- Less allowance for expected credit losses	(461)	(436)
	8 677	9 114

¹ Refer to note 3.7 for an explanation of the nature of the security deposit (cash collateral).

Credit risk relating to receivables is managed as follows:

- Premium debtors are not rated by Discovery as exposure to any single customer is insignificant. The premium debtors comprise amounts receivable from individuals and corporates. In addition, Discovery suspends benefits when contributions are not received. Premium debtors that are past due are handled by a specialist area in business. Where amounts remain uncollected for more than six months, the debtors are then handed to specialist debt collection agencies.
- VitalityHealth makes use of financial reinsurance as a financing tool for new business acquisition costs. The receipt from the reinsurer is recognised in profit or loss upfront in the year received. GBP 156 million (R3 079 million) (2020: GBP 175.8 million (R3 770 million)) is outstanding in respect of cashless reinsurance treaties. The credit ratings of these reinsurers are Aa3.

Refer to note 3.4.2 for detail regarding the management of risk in respect of reinsurance receivables raised for expected recoveries on projected claims and amounts due from reinsurers in respect of claims already paid. Discovery's liability as primary insurer is not discharged.

- The Discovery Health Medical Scheme (DHMS) has been rated AAA(za) by Global Credit Ratings. The closed schemes have not been rated. Payments by DHMS and the other closed schemes are managed by Discovery and are paid by the seventh of the following month.
- Agents and brokers are subject to a comprehensive relationship management programme including credit assessment. Agents and brokers are not rated by Discovery as exposure to any single intermediary is insignificant. The widespread nature of the individual amounts combined with this close management relationship reduces credit risk. Most commission claw backs are offset against future payments and hence the risk of outstanding commission clawbacks is reduced.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

Discovery ages and pursues unpaid accounts on a monthly basis. The ageing of the components of receivables at 30 June was:

Group R million	Gross 2021	Impairment 2021	Gross 2020	Impairment 2020
Not past due (current)	7 901	(69)	8 196	(132)
30 days	201	(22)	254	(33)
60 days	170	(16)	137	(20)
90 days	149	(94)	133	(17)
120 days	169	(13)	149	(35)
150 days	42	(8)	96	(9)
>150 days	598	(331)	727	(332)
	9 230	(553)	9 692	(578)

Discovery establishes an allowance for expected credit losses that represents its estimate of expected losses in respect of receivables that are financial assets. The allowance comprises of a specific loss component that relates to individually significant exposures, and a collective loss component, established for groups of similar assets. The loss allowance is determined based on historical data of payment statistics for similar financial assets, and where available without undue cost or effort, incorporates forward-looking information.

For an analysis of the movement in the allowance for expected credit losses as well as provision for impairment of premium debtors during the year, refer to note 12 Financial assets and note 14 Insurance receivables, contract receivables and other financial receivables.

3.4.3 Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities (refer to note 20). Such forecasting takes into consideration the Group's debt financing plans, covenant compliance and, if applicable, external regulatory or legal requirements – such as capital requirements.

Cash held by the operating entities is managed by Group treasury. Group treasury invests it in interest-bearing accounts, time deposits and money market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. For information on the liquidity risk management of contracts with insurance risk, refer to note 2.2 Liquidity risk.

Discovery Bank manages its liquidity risk by comparing the credit utilisation and expected future utilisation of committed facilities on its loans and advances against the deposits it holds. Discovery Bank performs normal stresses as well as additional stresses to ensure that it can meet its obligations continuously. The stresses during the financial period included stresses as a result of COVID-19 impacts.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

3.4.3 Liquidity risk *continued*

The table below analyses the Group's financial assets and liabilities and net-settled interest rate swap derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts are the undiscounted contractual payments and will therefore not agree to the Statement of financial position.

Group R million	Total	<1 year	1 – 2 year	3 – 5 years	6 – 10 years	> 10 years
30 June 2021						
Loans and advances to customers at amortised cost	3 361	2 017	1 344	-	-	-
Investments at amortised cost	5 604	5 604	-	-	-	-
Investments at fair value through profit or loss	8 889	7 279	656	279	375	300
Derivative financial instruments at fair value	242	86	148	8	-	-
Receivables	8 677	5 166	92	186	2 982	251
Cash and cash equivalents	15 942	15 942	-	-	-	-
Total financial assets	42 715	36 094	2 240	473	3 357	551
Deposits from customers	8 985	4 232	4 449	304	-	-
Borrowings net of interest rate swap						
- Borrowings	21 537	2 732	5 577	10 145	2 729	354
- Interest rate swap	639	193	171	260	15	-
Other payables at amortised cost	12 426	4 773	7 188	124	-	341
Derivative financial instruments at fair value	818	176	134	182	326	-
Total financial liabilities	44 405	12 106	17 519	11 015	3 070	695
Group R million	Total	<1 year	1 – 2 year	3 – 5 years	6 – 10 years	> 10 years
30 June 2020						
Loans and advances to customers at amortised cost	1 848	1 109	739	-	-	-
Investments at amortised cost	2 523	2 098	425	-	-	-
Investments at fair value through profit or loss	7 655	5 394	789	440	486	546
Derivative financial instruments at fair value	1 370	399	18	-	953	-
Receivables	9 114	4 923	239	153	3 684	115
Cash and cash equivalents	15 407	15 407	-	-	-	-
Total financial assets	37 917	29 330	2 210	593	5 123	661
Deposits from customers	2 427	2 146	281	-	-	-
Borrowings net of interest rate swap						
- Borrowings	26 093	2 018	3 322	14 355	4 562	1 836
- Interest rate swap	717	168	167	332	50	-
Other payables at amortised cost	12 778	5 656	123	801	20	6 178
Derivative financial instruments at fair value	989	266	148	436	139	-
Total financial liabilities	43 004	10 254	4 041	15 924	4 771	8 014



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.5 Capital management

The Group's capital is defined as capital and reserves attributable to as presented on the consolidated statement of financial position. The Group's objectives when managing capital are:

- To comply with the statutory capital requirements required by the regulators of the insurance markets where the Group operates; refer to Capital section of the directors' report for the statutory capital requirements
- To maintain a capital buffer in excess of the statutory capital requirements in order to reduce the risk of breaching the statutory requirement in the event of deviations from the main assumptions affecting the Group's insurance businesses.
- To ensure that sufficient capital is available to fund the Group's working capital and strategic capital requirements.
- To achieve an optimal and efficient capital funding profile; and
- To consider capital management needs both in the short term and over a five-year planning horizon.

Discovery has a Finance and Capital Committee that ensures alignment in strategic financial management between the centre and subsidiaries within South Africa, UK and US. The committee is the governance body for all capital allocation activities across the Group.

A range of capital raising options are available to manage the capital structure of the Group, which includes the issue of new shares, debt, reinsurance arrangements and other hybrid instruments.

FINANCIAL LEVERAGE RATIO

As part of the capital management process, the Group monitors its capital structure utilising the Financial Leverage Ratio (FLR). This ratio is calculated as total debt¹ divided by total debt plus total equity. The Group's strategy is to maintain a prudent FLR of 28% per the Group Risk Appetite statement. However, the 28% is merely a risk appetite indicator, and not a hard line to indicate any form of a breach in terms of regulatory or covenant restrictions. The table below summarises the FLR as at 30 June.

R million	Group 2021	Group 2020
- Borrowings at amortised cost (refer to note 20) ¹	15 230	14 956
- Guaranteed deposit facilities	800	-
Total debt and guarantees¹	16 030	14 956
Total equity	46 419	44 553
Financial Leverage Ratio (%)	25.7%	25.1%

1. Excluding all IFRS 16 lease liabilities of R4 263 million (2020: R4 380 million). It further excluded non-guaranteed deposit facilities of R500 million in the prior year.

The FLR at 30 June 2021 is in line with Discovery's risk appetite.

Minimum capital requirements

For Group subsidiaries that operate in the insurance and financial services sectors, the regulator specifies the minimum amount and type of capital that must be held by each of the subsidiaries in addition to their insurance liabilities. The minimum required capital must be maintained at all times throughout the period.

With effect from 1 July 2018, the Insurance Act 18 of 2017 and the related Prudential Standards were implemented in South Africa. Discovery Life and Discovery Insure are regulated under the Insurance Act, while VitalityHealth and VitalityLife are regulated under the European Solvency II regulatory regime, which was implemented from 1 January 2016.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.5 Capital management *continued*

DEBT COVENANTS

The following are the key debt covenant ratios and their proximity to breaching the covenant triggers:

Debt covenant and explanation	Minimum requirement	2021	2020
Group Debt to EBITDA Ratio:	Less than 2.5 times	2.31	1.96
<ul style="list-style-type: none"> - Group debt is contractually defined and means the aggregate consolidated financial indebtedness of the Group and excludes items such as the 1 Discovery Place ('1 DP') lease and includes guarantees issued to third parties. - EBITDA is contractually defined and specifically includes items such as dividends from associates, rental paid on 1DP and excludes such items deemed extraordinary, such as economic assumption adjustments, and specified FinRe arrangements. 			
Group financial indebtedness to embedded value	Less than 30% of Group Embedded value	22.6%	22.5%
<ul style="list-style-type: none"> - Group financial indebtedness is as per Group Debt in the calculation. 			
Discovery Life Statutory Capital Requirement (SCR) Cover	SCR cover must be more than 1.1	1.83 times	1.82 times
Group embedded value	Greater than R30billion	ZAR 74 713 million	ZAR 70 834 million
New business embedded value must not be negative	Positive value of new business for 3 consecutive 6-month periods	June 2021: R946 million Dec 2020: R945 million June 2020: R726 million	June 2020: R726 million Dec 2019: R1 196 million June 2019: R1 322 million



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.6 Fair value estimation

The Group's financial instruments measured at fair value have been disclosed using a fair value hierarchy. The hierarchy has three levels that reflect the significance of the inputs used in measuring fair value.

Level 1: includes financial instruments that are measured using unadjusted, quoted prices in an active market for identical financial instruments. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2: includes financial instruments that are valued using techniques based significantly on observable market data. Instruments in this category are valued using:

- Quoted prices for similar instruments or identical instruments in markets which are not considered to be active; or
- Valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

Level 3: includes financial instruments that are valued using valuation techniques that incorporate information other than observable market data and where at least one input (which could have a significant effect on instruments' valuation) cannot be based on observable market data.

Group R million	Level 1	Level 2	Level 3	Total
30 June 2021				
Financial assets				
Financial instruments mandatorily at fair value through profit or loss:				
- Equity portfolios	40 530	2 832	-	43 362
- Debt portfolios	34 845	1 640	-	36 485
- Money market portfolios	6 451	10 802	-	17 253
- Multi-asset portfolios	33 837	-	-	33 837
Derivative financial instruments at fair value:				
- used as cash flow hedges	-	28	-	28
- not designated as hedging instruments	-	221	-	221
Total financial assets	115 663	15 523	-	131 186
Financial liabilities - not designated as hedging instruments				
Investment contracts at fair value through profit or loss	-	32 291	-	32 291
Derivative financial instruments at fair value:				
- used as cash flow hedges	-	461	-	461
- not designated as hedging instruments	-	365	-	365
Total financial liabilities	-	33 117	-	33 117



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.6 Fair value estimation *continued*

Group R million	Level 1	Level 2	Level 3	Total
30 June 2020				
Financial assets				
Financial instruments mandatorily at fair value through profit or loss:				
- Equity portfolios	31 185	1 563	-	32 748
- Debt portfolios	28 724	1 856	-	30 580
- Money market portfolios	3 835	9 765	-	13 600
- Multi-asset portfolios	25 786	-	-	25 786
Derivative financial instruments at fair value:				
- used as cash flow hedges	-	14	-	14
- not designated as hedging instruments	-	1 356	-	1 356
Total financial assets	89 530	14 554	-	104 084
Financial liabilities				
Investment contracts at fair value through profit or loss				
Derivative financial instruments at fair value:				
- used as cash flow hedges	-	854	-	854
- not designated as hedging instruments	-	138	-	138
Total financial liabilities	-	24 004	-	24 004

There were no transfers between level 1 and 2 during the current financial year.

Specific valuation techniques used to value financial instruments in level 2

If a quoted market price is not available on a recognised stock exchange or from a broker for non-exchange traded financial instruments, the fair value of the instrument is estimated by the asset managers, using valuation techniques including the use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.6 Fair value estimation *continued*

Valuation techniques used in determining the fair value of assets and liabilities

Instruments	Valuation technique	Main inputs and assumptions
Within equity portfolios, Equity-linked notes	The calculation of the daily value of the equity linked investments is made by the provider of the note. Discovery has procedures in place to ensure that these prices are correct. Aside from the daily reasonableness checks versus similar funds and movement since the prior day's price, the fund values are calculated with reference to a specific formula or index, disclosed to the policyholders, which is recalculated by Discovery in order to check if the price provided by the provider is correct.	For level 2 fair value hierarchy items: <ul style="list-style-type: none"> - discount rate - spot prices of the underlying
Multi-assets	The fair values of third-party financial liabilities arising on the consolidation of mutual funds are determined using the quoted put (exit) price provided by the fund manager and discounted for the applicable notice period. The fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.	For level 2 fair value hierarchy items: <ul style="list-style-type: none"> - discount rate
Investment contracts at fair value through profit or loss	Unit-linked policies: assets which are linked to the investment contract liabilities are owned by the Group. The investment contract obliges the Group to use these assets to settle these liabilities. Therefore, the fair value of investment contract liabilities is determined with reference to the fair value of the underlying assets (i.e., amount payable on surrender of the policies). Annuity certain: discounted cash flow models are used to determine the fair value of the stream of future payments.	For level 2 fair value hierarchy items: <ul style="list-style-type: none"> - discount rate - spot price of underlying
Derivatives	Standard derivative contracts are valued using market accepted models and quoted parameter inputs. More complex derivative contracts are modelled using more sophisticated modelling techniques applicable to the instrument. Techniques include: <ul style="list-style-type: none"> - Discounted cash flow model - Black-Scholes model - Combination technique models 	For level 2 fair value hierarchy items: <ul style="list-style-type: none"> - discount rate - spot prices of the underlying - correlation factors - volatilities - earnings yield - valuation multiples.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2021

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.7 Offsetting financial assets and financial liabilities

Financial assets

The following financial assets are subject to offsetting:

Group R million	Gross financial assets	Gross offsetting financial liabilities	Net amount presented
30 June 2021			
Cash and cash equivalents	20 187	(174)	20 013
30 June 2020			
Cash and cash equivalents	21 099	(3 190)	17 909

Offsetting of cash and cash equivalents takes place as a result of sweeping arrangements that Discovery has in force with various financial institutions. No other amounts presented on the financial statements are subject to netting arrangements.

Cash collateral

To reduce the credit risk exposure from the hedge derivative instruments purchased (refer to note 3.4.1), Discovery has entered into collateral agreements with the relevant financial institutions to post cash collateral periodically, equal to the fair value of the derivatives. A total of R289 million (2020: R407 million) cash collateral was being held by the various financial institutions and R2 million (2020: R1 150 million) was held by Discovery at 30 June 2021.

The posting of the collateral does not result in legal settlement of the outstanding derivative balance. The collateral will only be used to settle the derivative upon default or bankruptcy of either party. The offsetting requirements of IAS 32 *Financial Instruments: Presentation* are therefore not met.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In preparing the annual financial statements, estimates, assumptions and judgements are made that could materially affect the reported amounts of assets and liabilities within the next financial year. Accounting estimates and judgements are regularly reviewed and are based on historical experience, current best estimates and expectations of future outcomes as well as anticipated changes in the environment. The following represents the most material key management assumptions applied by management in preparing these annual financial statements.

4.1 Policyholder liabilities assumptions and estimates, including assets arising from insurance contracts

Discovery Life and VitalityLife

Discovery values its insurance policies issued by Discovery Life and VitalityLife using various methodologies and assumptions. Accounting policy 13.1 sets out the methodology used in its valuation of the policyholder liabilities, including the use of available discretionary margins in accounting policy 13.1.1.

The assumptions used are best estimate assumptions, with the addition of explicit compulsory margins required by:

- SAP 104 of the Actuarial Society of South Africa for Discovery Life; and
- INSPRU of the Prudential Regulatory Authority (PRA), SAP 104 and Benchmarking information in the UK

Per the accounting policy, the best estimate assumptions and margins are reset at every valuation date to reflect the underlying profitability of the portfolio. The most recent valuation date is 30 June 2021.

MORTALITY AND MORBIDITY

Assumptions of future mortality and morbidity experience are derived from reinsurers and industry data and compared to actual past experience. Where appropriate, the assumptions are adjusted to reflect actual past experience or for expected changes in future experience.

The assumptions are modified for each policy based on actual data from underwriting performed on the policy and compared against standard industry tables for reasonability. The key mortality and morbidity assumptions are reviewed and benchmarked against the industry by independent actuarial consultants to ensure that the assumptions are reasonable upon implementing significant new products for Discovery Life. An adjustment to the standard mortality and morbidity assumptions is made to reflect the expected impact of engagement in the Vitality programme. It has been observed that higher rates of engagement result in lower lapses.

An allowance is made for the impact of AIDS on South African mortality rates. For individual life South African business, a fixed loading is applied to the expected best estimate mortality rates to allow for the expected effect of AIDS. The loading varies based on socio-economic class. Discovery Life further operates in the high end of the market, where the AIDS risk is lower the full market. The additional loading for AIDS is set in consultation with external independent actuaries and reinsurers.

For Group Life policies, a loading is applied at the underwriting stage to allow for the expected effect of AIDS. The loading varies based on the industry and geographic area and composition of the group and is derived from advice received from the reinsurers. The loading then forms the AIDS assumption for Group policies.

The sensitivity of the policyholder liabilities due to changes in mortality and morbidity assumptions are set out in note 2.5.1 for Discovery Life and note 2.5.2 for VitalityLife.

SURRENDER AND LAPSE RATES

Lapse rates are based on actual past experience where available. The lapse analysis is done by considering the in-force duration of policies. For durations longer than actual data, lapse rates are set based on expectations of future experience based on internal and external expert advice. The lapse experience investigation covers at least the last two years of lapse experience to identify trends.

Lapse assumptions are varied between different types of policies where the lapse experience is expected to differ significantly. Allowance is made for the estimated impact of the economic environment. For Discovery Life, an adjustment is made to the lapse assumptions to reflect the expected impact of engagement in the Vitality programme because it has been observed that higher rates of engagement result in lower lapses.

For Discovery Life, the surrender rates are also based on actual past experience where available.

The sensitivity of the policyholder liabilities due to changes in lapse rate assumptions are set out in note 2.5.1 for Discovery Life and note 2.5.2 for VitalityLife.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES *continued*

4.1 Policyholder liabilities assumptions and estimates, including assets arising from insurance contracts *continued*

ECONOMIC ASSUMPTIONS/INVESTMENT RETURNS

DISCOVERY LIFE

The discount rate for Discovery Life and Invest is based on the risk-free rates at 30 June 2021. The real rate assumption is based on the average of the real rate curves for the preceding twelve months. This real rate assumption will remain unchanged over time unless the equivalent single rate, derived based on the weighted duration of the cash flows, moves by more than 25 basis points since the preceding valuation. The inflation assumption is set as the differential between the assumed nominal and real interest rates.

The real rate assumption was set equal to an assumed single rate. A change has been made to the Discovery Life and Invest economic basis to align the nominal interest rate assumptions with the shape of the risk-free yield curve. Consistent with this, the real yield assumption was set relative to the observed real yield curve, adjusted to remove volatility due to the nature of the index-linked government bond market.

For comparison purposes, it is noted that the single risk-free rate at 30 June 2021 would have decreased to 11.1% (2020: 12.5%). The implied single real interest rate has also increased to 4.6% in June 2021 (2020: 4.2%).

Other investment returns and economic assumptions are set relative to this yield curve. The assumptions for Discovery Life are as follows:

Cash:	Risk-free – 1.5%
Fixed interest:	Risk-free
Equity:	Risk-free + 3.5%
Property:	Risk-free +1%

The sensitivity of the policyholder liabilities due to changes in real curve assumptions are set out in note 2.5.1.

VITALITYLIFE

The nominal investment return is set as the active market rate on UK long-term swap rates plus a fixed adjustment (based on long-term averages) for liquidity premium, the gilt/swap spread and cash flow weighting. The best estimate inflation assumption is set in line with long-term UK inflation expectations and observed real yields consistent with the term of the liabilities. The risk-free rate at 30 June 2021 was set at 0.64% (2020: 0.89%).

The investment fees and tax rates are taken into account in setting the economic assumptions.

The sensitivity of the policyholder liabilities due to changes in real curve assumptions are set out in note 2.5.2.

EXPENSE ASSUMPTIONS

Renewal expense assumptions are based on the results of the latest expense and budget information. Expenses are considered non-recurring when they relate to the start-up of a new business area or when they are material and are specific to an event that is not expected to occur in the future.

The allocation of expenses between initial and renewal is based on the latest expense analysis, where expenses are directly allocated based on the function performed. Where an expense could relate to both initial and renewal functions, the expenses are allocated proportionately based on estimates of the functions performed.

Per Discovery's policy, expenses are projected to increase in line with consumer price inflation.

Non-recurring expenses are excluded from the expense analysis used to derive the assumption.

The sensitivity of the policyholder liabilities due to changes in expense assumptions are set out in note 2.5.1 for Discovery Life and note 2.5.2 for VitalityLife.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES *continued*

4.1 Policyholder liabilities assumptions and estimates, including assets arising from insurance contracts *continued*

POLICY ALTERATIONS AND AUTOMATIC PREMIUM INCREASES

In calculating policyholder liabilities, no allowance is made for policy alterations over time, in line with actuarial guidance.

Automatic premium increases could include both contractual and voluntary increases. No allowance is made for voluntary premium increases when calculating liabilities under insurance contracts.

Contractual premium increases are defined as increases that the policyholder cannot cancel without altering the terms of the benefits provided under the policy. Contractual increases are included in the calculation of policyholder liabilities.

COVID-19 PROVISIONS FOR DISCOVERY LIFE AND VITALITYLIFE

The COVID-19 provision reflects management's best estimate of the impact as at 30 June 2021. Discovery modelled the COVID reserves based on an SEIR (multi-state) model to project future infections. The SEIR model considers different states of infection, namely Susceptible, Exposed, Infectious and Removed. Epidemiologists typically use the SEIR model to model the progression of an infectious disease over time. The modelling of transition rates from one state to another is calibrated to align with experience from published information on COVID-19 infection rates, hospitalisation rates, and mortality rates.

The model parameters for new infections are determined from the emergence of infections implied by the historical observed COVID-19 related deaths. In modelling new infections, a 15% - 25% reinfection rate on previously infected persons is also assumed. The dynamics of new infections are driven by assumed virus reproduction factors (R factors), which summarise information about the infectiousness of the prevailing variant.

New deaths are then calculated from the modelled infections by applying the infection fatality rates from Imperial College London researchers on Wuhan data (Verity et al.). The estimate for excess mortality was based on an assessment of various internal and external COVID-19 projection models and calibrated based on the risk profile of the Discovery in-force portfolio. The richness of the Discovery data universe allows for more accurate identification of COVID-19 related deaths, and observed deaths were used except for the Group Life business, where excess mortality was used to inform the scenarios.

An additional assumption in modelling the COVID-19 scenarios is the percentage of fully vaccinated policyholders that will mitigate the projected infections and resulting deaths. The vaccine is assumed to be more than 85% effective in preventing deaths or to lower the infection fatality rate, dependent on the vaccine used as well as the COVID-19 variant.

At the end of the previous period, at 30 June 2020, Discovery set up total COVID-19 reserves of R2.7 billion based on the modelling done to mitigate any effects of the pandemic during this year under review. While many of the expected impacts of the pandemic fell within expectation, the effects of the Beta and Delta variants were significantly greater than expected.

The impact of the Delta variant played out differently in Discovery's core markets, resulting in the following provision for the period ended 30 June 2021:

- In South Africa (SA), the third wave mortality rates have been substantially worse than expected. As a result, Discovery Life and Group Life have provisions of R2 393 million and R 300 million respectively to allow for the third wave mortality claims run-off beyond the reporting period and the expected increase in claims and lapses arising from an anticipated fourth wave.
- In the United Kingdom (UK), while the Delta variant had a significant effect on infection rates, mortality rates were low, resulting in VitalityLife providing for R 107 million to allow for an expected increase in future claims and lapses as a result of the COVID-19 pandemic.

This estimation reflected management's best estimate of the impact as at 30 June 2021.

The estimate includes an allowance for a third wave and fourth wave over the next financial year, as well as COVID-19 vaccinations in the population over the period.

The expected increase in lapses over the short term was set at 30 June 2021 in light of the worsening economic factors and experience in the book over previous stress periods.

Sensitivities from the base estimate have been tested against internal targets for capital adequacy and liquidity. This considered varying levels of the vaccine rollout, the emergence of new vaccine-resistant variants or a material increase in case fatality rates. Discovery's sensitivities affirmed the the Group remains well capitalised.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES *continued*

4.1 Policyholder liabilities assumptions and estimates, including assets arising from insurance contracts *continued*

R million	June 2021
At beginning of the period	2 729
Movements:	
Unwinding, utilisation and release of provisions	(1 886)
Provisions made during the period, including in respect of new business	2 176
Other	(220)
At end of the period	2 800

CHANGES IN ASSUMPTIONS

Expected profits regarding future options on products are not recognised, but expected losses in respect of such options are allowed for, in line with actuarial guidance.

Modelling and assumptions changes were made to the valuation at 30 June 2021 to ensure that assumptions are in line with the best estimate of future experience. For Discovery Life, the total effect of these changes on the Assets arising from insurance contracts was a decrease in the assets on the Financial Soundness Valuation basis of R2 537 million (2020: R5 761 million decrease). For VitalityLife, the total effect of these changes was an increase in the assets of R832 million (2020: R2 489 million decrease).

In addition to this, for Discovery Life, discretionary margins were reset to reflect the underlying profitability of the overall portfolio. The reset of margins increased the assets on the Financial Soundness Valuation basis by R105 million (2020: R1 367 million increase). Refer to note 5 for an analysis of these changes.

TAXATION

Future tax is allowed according to the current tax legislation and current tax rates. It is assumed that future tax on statutory profits will be payable at the prevailing company tax rate of 28% (2020: 28%) in South Africa. The prevailing tax rate in the UK is 19% (2020: 19%). The UK has enacted an increase in the tax rate to 25% effective from 1 April 2023.

Tax amendments for Life Insurance companies introduced a Risk Policy Fund for all new risk business written after 1 July 2016. In terms of this legislation, Discovery Life elected to move existing risk business to this Fund. As a result of these changes, the assessed loss in the Individual Policyholder Fund is expected to stop increasing and be utilised over time. Therefore, in terms of IAS 12 *Income Taxes*, a value of R991 million (2020: R854 million), which was previously implicit in the valuation of insurance contract liabilities, was recognised explicitly as a deferred tax asset. The value is net of deferred capital gains tax liabilities.

To calculate this value, Discovery Life performed a probability-weighted cash flow forecast of the annual cash flows expected to arise from the utilisation of the assessed loss. The primary factors that management has considered when arriving at the probability are the expected market growth and withdrawal rate of the Linked Asset and Guaranteed Endowment book. For Linked Assets, given the uncertainty inherent in market growth assumptions and the fact that discounting of cash flows is not permitted by IAS 12, future market growth was assumed to be 0% to calculate the deferred tax asset. The expected income on the debt portfolio held to match policyholder liabilities has been fully allowed for at current rates. For both the Linked and debt portfolio, cash flows arising from the tax asset were further reduced to account for the uncertainty of future lapse rates and product mix as well as the broader economic and legislative environment.

REINSURANCE

All prospective liabilities are valued gross of reinsurance and then adjusted for the expected effect of reinsurance. For outstanding reported claims and IBNR, a specific allowance is made for reinsurance recoveries.

The Global Linkage Benefit is fully reinsured. The cost of the future reinsurance is dependent on the cost at which the reinsurer can buy assets to match the liability under this benefit. Assumptions are made around the cost at which the reinsurer can purchase these benefits based on the current and historical costs of these assets.

FINANCIAL SOUNDNESS VALUATION

The sensitivity of the policyholder liabilities on the Financial Soundness Valuation basis is set out in note 2.5.1. The sensitivity of the policyholder liabilities on the INSPRU basis is set out in note 2.5.2.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES *continued*

4.2 Annual assessment of goodwill impairment

Refer to note 10 Goodwill for a breakdown of business acquisitions resulting in goodwill.

Under IFRS, Discovery annually assesses goodwill allocated to the respective businesses as set out in note 10.

In the prior period, the assessment of goodwill allocated to VitalityHealth and VitalityLife was also included as a significant accounting estimate in applying accounting policies. Based on the work performed during the prior financial period and the financial year ended 30 June 2021, management considered that there is a very low risk of material adjustment to the carrying amount of assets and liabilities within the next financial year. Accordingly, no further information is included within this note, as this no longer meets the requirement of significant estimation uncertainty under IAS 1 *Presentation of Financial Statements*.

Discovery Bank

The Discovery Bank CGU comprise the various assets that collectively produce independent cash flows for Discovery Bank. Discovery Bank's income streams comprise interest earned on loans to customers, interest on excess cash invested, fees (e.g., banking fees, interchange fees and transaction fees) from banking. For the financial years ended 30 June 2021 and 30 June 2020, the recoverable amount of the Discovery Bank cash-generating unit (CGU) was determined based on fair value less costs to sell. Inherent in the determination of fair value less costs to sell is estimation uncertainty. The fair value measurement of the recoverable amount is categorized as level 3 of the fair value hierarchy as unobservable inputs have been used in the calculation of the fair value less costs to sell using the income approach.

In determining the assets to attribute to the Discovery Bank CGU, Discovery considered the assets required to perform banking operations, including the banking license costs, the internally developed software in use, and the goodwill associated with the DiscoveryCard business acquisition and related assets and liabilities. Therefore, the valuation also supports the recoverability of goodwill, intangible assets and deferred tax.

Management has reviewed its business forecast, which comprises:

- A detailed 10-year business plan. The 10-year plan considers regulatory capital requirements, macro-economic forecasts and customer behaviour assumptions when forecasting a statement of financial position, income statement and resultant equity cash flows to/from shareholders. The 10-year period used to assess impairment is longer than the standard 5-year forecast model generally applied in Discovery's impairment testing. The business is still in the start-up phase, resulting in a 5-year forecast not adequately reflecting the business plan. Management can project beyond the 5-years due to the insights from the DiscoveryCard business it acquired.
- The terminal value was calculated using an extended cash flow forecasting method until the growth in earnings has stabilised in year 20 and a final value considering perpetual terminal growth. This terminal value was discounted to year 10.
- As a reasonability check, Discovery Bank translates the value of the business at year 10 into a Price-Earnings (PE) multiple, which it benchmarks against Discovery's PE ratio and other emerging banks within the South African environment. The ratio was determined to be within range.
- In the near term, expected credit losses and customer spending patterns were stressed for the impact of COVID-19.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES *continued*

4.2 Annual assessment of goodwill impairment *continued*

The key assumptions used by Discovery in the estimation are as follows:

- Conservative customer growth, targeting an achievable level of customers in year 10. After that, the customer base is treated as stable. From the point of stability in year 20, the projected growth in profits is estimated at a conservative 5.0% (2020: 6%) considering long-term inflation and long-term nominal GDP estimations.
- System-build costs and intangible assets acquired in the business combination have been amortised over 10 years (2020: 10 years). Useful lives range between 10 and 11 years (2020: 10 years).
- The discount rate applied to the cashflows comprised as follows:

	Group 2021	Group 2020
Risk-free rate based on 10-year SA bond curve	8.90%	9.39%
Beta factor: The beta factor is a weighted average of large SA banks and Discovery	1.09	0.89
Discount rate applied	16.38%	16.74%

For the year ended 30 June 2021, management has engaged independent external valuation experts to benchmark the key assumptions and ratios within the South African market. As a result, the assumptions were determined to be within acceptable ranges.

Management has further performed stress tests by increasing the discount rate to 17.38% while simultaneously decreasing the terminal growth rate to 4.5%. Again, no impairment was triggered with these stressed scenarios.

Based on management's assessment, Discovery did not identify impairments.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2021

5. ASSETS ARISING FROM INSURANCE CONTRACTS

R million	Group 2021	Group 2020
Long-term insurance contracts – gross	50 483	48 042
Less: ceded to reinsurers (refer to note 19)	(10 143)	(11 043)
Long-term insurance contracts – net	40 340	36 999
Current	2 754	3 652
Non-current	37 586	33 347
	40 340	36 999
Movement in assets arising from insurance contracts		
Balance at beginning of the year	36 999	39 408
Movement for the year:		
Expected movement in policyholder liabilities	(2 102)	(2 625)
Unwinding of discount rate	2 711	2 170
New business written	3 607	3 834
Experience variances	1 433	(660)
Economic	115	(129)
Operational	1 318	(531)
Modelling and method changes	(346)	(111)
Changes in assumptions	(1 359)	(7 950)
Economic	789	(5 478)
Operational	(2 148)	(2 472)
Changes in margins ¹	105	1 367
Translation differences	(708)	1 566
Balance at end of the year	40 340	36 999

¹ In line with accounting policy 13.1.1, the best estimate assumptions and margins are reset at every valuation date to reflect the underlying profitability of the overall portfolio. Assumptions and margins are not set on new business in isolation but on a portfolio level.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

6. PROPERTY AND EQUIPMENT

Group R million	Land and buildings	Furniture, fittings and equipment	Computer equipment and operating systems	Leasehold improve- ments	Motor Vehicles	Telematics devices	Total
Year ended 30 June 2021							
Opening carrying amount	3 437	70	298	740	21	77	4 643
Translation differences	(46)	(2)	(7)	(9)	-	-	(64)
Additions	8	2	231	21	7	63	332
Disposals							
- Cost	(26)	-	(37)	-	-	(4)	(67)
- Accumulated depreciation	-	-	20	-	-	3	23
Derecognition							
- Cost	9	(117)	(262)	(1)	(1)	(34)	(406)
- Accumulated depreciation	(9)	115	259	-	1	28	394
Impairment							
- Cost	(6)	-	(3)	(133)	-	-	(142)
- Accumulated depreciation	1	-	1	123	-	-	125
Depreciation charge	(297)	(23)	(176)	(103)	(10)	(41)	(650)
Closing carrying amount	3 071	45	324	638	18	92	4 188
At 30 June 2021							
Cost	4 011	173	942	1 015	82	273	6 496
Accumulated depreciation	(940)	(128)	(618)	(377)	(64)	(181)	(2 308)
Carrying amount	3 071	45	324	638	18	92	4 188
Year ended 30 June 2020							
Opening carrying amount	3 580	82	285	796	17	90	4 850
Translation differences	66	4	14	13	-	-	97
Additions	93	23	155	33	13	48	365
Disposals							
- Cost	-	-	(1)	-	-	(3)	(4)
- Accumulated depreciation	-	-	1	-	-	2	3
Derecognition							
- Cost	-	(10)	(13)	-	-	(33)	(56)
- Accumulated depreciation	-	3	10	-	-	18	31
Depreciation charge	(302)	(32)	(153)	(102)	(9)	(45)	(643)
Closing carrying amount	3 437	70	298	740	21	77	4 643
At 30 June 2020							
Cost	4 081	301	1 061	1 145	74	246	6 908
Accumulated depreciation	(644)	(231)	(763)	(405)	(53)	(169)	(2 265)
Carrying amount	3 437	70	298	740	21	77	4 643

Derecognition

In Discovery Insure, when policies relating to motor vehicle insurance lapse, the telematics devices installed in those vehicles are not always recovered. The value of these unrecovered units are derecognised.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

6. PROPERTY AND EQUIPMENT *continued*

LEASED ASSETS

The table above includes the following assets which are leased under a finance lease:

R million	Group 2021	Group 2020
Land and buildings	2 891	3 232
Computer equipment and operating systems	70	100
Leasehold improvements	112	133
Motor vehicles	-	1
Total	3 073	3 466

7. INTANGIBLE ASSETS

Group R million	Software development	Business acquisitions: Identifiable Intangibles	Banking license	Total
Year ended 30 June 2021				
Opening carrying amount	5 825	527	29	6 381
Translation differences	(218)	(30)	-	(248)
Additions	1 587	-	-	1 587
Amortisation charge	(1 200)	(66)	-	(1 266)
Impairment				
- Cost	(56)	-	-	(56)
- Accumulated amortisation	12	-	-	12
Derecognition				
- Cost	(1 267)	-	-	(1 267)
- Accumulated amortisation	1 228	-	-	1 228
Closing carrying amount	5 911	431	29	6 371
Year ended 30 June 2021				
Cost	9 496	1 850	29	11 375
Accumulated amortisation	(3 585)	(1 419)	-	(5 004)
Carrying amount	5 911	431	29	6 371

Business acquisitions

Intangibles identified in the acquisition of business combinations are amortised over their remaining useful lives and only tested for impairment if an indication of impairment arises. There was no indication of impairment for the current reporting period.

Included in the value of business acquisitions are:

- Customer contracts represented by value-in-force business acquired in the Standard Life Healthcare and PrimeMed business combinations. The carrying amount as at 30 June 2021 is R316 million (2020: R396 million). The Primemed customer contract has been fully amortised at 30 June 2021; and
- Client relationships and Core Deposit Funding Benefit acquired in the DiscoveryCard business combination. The carrying amounts as at 30 June 2021 are R100 million and R15 million respectively (2020: R113 million and R17 million).

Banking license

- During the 2018 financial year, Discovery incurred costs of R29 million in respect of the application for a banking license. Discovery has capitalised these costs in terms of IAS 38 *Intangible Assets*. This asset has an indefinite useful life.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2021

7. INTANGIBLE ASSETS *continued*

Group R million	Software development	Business acquisitions: Identifiable intangibles	Banking license	Total
Year ended 30 June 2020				
Opening carrying amount	5 034	534	29	5 597
Translation differences	296	69	-	365
Additions	1 840	-	-	1 840
Amortisation charge	(1 111)	(76)	-	(1 187)
Impairment				
- Cost	(107)	-	-	(107)
- Accumulated amortisation	44	-	-	44
Derecognition				
- Cost	(235)	-	-	(235)
- Accumulated amortisation	64	-	-	64
Closing carrying amount	5 825	527	29	6 381
At 30 June 2020				
Cost	9 116	1 780	29	10 925
Accumulated amortisation	(3 291)	(1 253)	-	(4 544)
Carrying amount	5 825	527	29	6 381



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

8. DEFERRED ACQUISITION COSTS

R million	Group 2021	Group 2020
Balance at beginning of the year	632	536
Translation differences	(46)	93
Additions	1 667	1 439
Deferred acquisition costs amortised	(1 668)	(1 436)
Balance at end of the year	585	632

9. ASSETS ARISING FROM CONTRACTS WITH CUSTOMERS AND CONTRACT LIABILITIES

Where either party to a contract has performed, Discovery presents either a contract asset or contract liability, depending on the relationship between Discovery's performance and the customer's payment. Unconditional rights to consideration is presented separately as a receivable.

Group R million	Assets arising from contracts with customer ¹	Costs of obtaining contracts ¹	Contract liabilities	Contract receivables ²
Year ended 30 June 2021				
Balance at beginning of the year	108	846	(808)	1 413
Accrued income recognised during the year	112	-	-	-
Payments received	(35)	-	-	(11 287)
Costs of obtaining new contracts	-	488	-	-
Amortised during the year	-	(243)	-	-
Contract liabilities recognised in the current year	-	-	(413)	-
Revenue recognised in the year	-	-	391	11 182
Provision of impairment of contract receivables	-	-	-	11
Foreign exchange revaluations	-	(2)	-	(21)
Translation differences	(23)	(3)	54	(81)
Balance at end of the year	162	1 086	(776)	1 217
Year ended 30 June 2020				
Balance at beginning of the year	8	744	(433)	1 369
Accrued income recognised during the year	91	-	-	-
Payments received	(1)	-	-	(11 098)
Costs of obtaining new contracts	-	309	-	-
Amortised during the year	-	(210)	-	-
Contract liabilities recognised in the current year	-	-	(669)	-
Revenue recognised in the year	-	-	367	11 064
Provision of impairment of contract receivables	-	-	-	(49)
Foreign exchange revaluations	-	-	-	30
Revenue recognised for changes related to prior year	-	-	(12)	-
Translation differences	10	3	(61)	97
Balance at end of the year	108	846	(808)	1 413

¹ Presented as assets arising from contracts with customers.

² Presented as part of insurance receivables, contract receivables and other receivables.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

9. ASSETS ARISING FROM CONTRACTS WITH CUSTOMERS AND CONTRACT LIABILITIES *continued*

The contract liability primarily relates to the advance consideration received from customers for the initial advisor fees, for which revenue will be recognised over the expected terms of the arrangement. It further includes the Discovery Miles liability on the Vitality Programme.

The transaction price is allocated to remaining performance obligations, which represents the fixed revenue in future for stand ready services, to provide Intellectual Property services for VitalityOne System.

Group R million	Contract amount for future service	Contract amount for future service			
		< 1 year	2 – 3 years	4 – 5 years	> 5 years
Year ended 30 June 2021					
Provision of stand ready Intellectual Property services	2 374	368	786	681	539
Total	2 374	368	786	681	539

Group R million	Contract amount for future service	Contract amount for future service			
		< 1 year	2 – 3 years	4 – 5 years	> 5 years
Year ended 30 June 2020					
Provision of stand ready Intellectual Property services	146	25	44	38	39
Total	146	25	44	38	39

Where performance obligations are discharged within 12 months or where contracts are cancellable giving 12 months or less notice, without the payment of a significant penalty, a practical expedient has been applied. Discovery has excluded these contracts from the disclosures above. Contracts that include variable considerations have also not been included in the table above.

10. GOODWILL

Goodwill is not amortised, but is tested on an annual basis for impairment. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

The table below sets out the goodwill allocated to the respective cash generating units (CGU's) which are expected to benefit from the synergies of the business combination. Impairment of goodwill is assessed at this CGU level.

Reconciliation of goodwill	Value in functional currency on date of acquisition	R million	
		2021	2020
Goodwill			
- Vitality Health ^{1, 2, 5, 6}	GBP 100.3 million	1 980	2 151
- VitalityLife ^{1, 5, 7}	GBP 23.4 million	462	502
- Discovery Bank ³	ZAR 2 417 million	2 417	2 417
- Liberty Health Administrators ⁴	ZAR 20 million	20	-
Total		4 879	5 070

1 GBP 96.7 million and GBP 23.4 million of the goodwill was allocated to VitalityHealth and VitalityLife respectively as at 31 July 2010. The goodwill arose from the acquisition of Standard Life Healthcare and related capital restructure of the Prudential joint venture.

2 GBP 2.5 million goodwill from the acquisition of Insure Your Health (25 March 2013) and GBP 1.1 million of goodwill from the acquisition of KYS Paid Limited (30 April 2014) were allocated to the VitalityHealth CGU.

3 R2 417 million goodwill from the acquisition of the DiscoveryCard business on 1 March 2019 was allocated to the Discovery Bank CGU. See note 4.2 for information on the impairment of goodwill of Discovery Bank.

4 In October 2020, Discovery acquired Liberty Health Administrators, a wholly owned subsidiary, which performs medical aid administration for specified medical aids.

5 As part of the annual assessment of impairment, Discovery has done significant stresses on the goodwill of VitalityHealth and VitalityLife. The value-in-use considers the 'value of in-force' business as well as new business. The value-in-use is calculated as the present value of the best-estimate pre-tax cash flows of the CGU for the in-force policies at the valuation date and 10 years of new business. The outcome of the calculation indicated that there is significant headroom, with little risk for impairment.

6 Net exchange rate differences of R171 million (2020: R347 million) were recognised in the current financial year.

7 Net exchange rate differences of R40 million (2020: R81 million) were recognised in the current financial year.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

11. EQUITY-ACCOUNTED INVESTEEES

R million	Group 2021	Group 2020
Carrying value of material interest in associates and joint ventures - Ping An Health	2 198	1 815
Carrying value of material interest in associated and joint ventures - CMT	1 127	695
Carrying value of individually immaterial interest in associates	134	178
Carrying value of individually immaterial interest in joint ventures	-	25
Investment in equity-accounted investees	3 459	2 713

11.1 Material interests in associates and joint ventures

The table below provides summarised financial information for the Group's material joint ventures and associates. The information disclosed reflects the amounts presented in the financial statements of the relevant associates and joint ventures and not Discovery's share of those amounts.

Ping An Health Insurance Company of China, Limited (Ping An Health or PAH)

Ping An Health offers policyholders in China cover for a range of private healthcare-related claims. PAH is a strategic partnership for the group, providing access to new clients and markets in China.

Cambridge Mobile Telematics Inc. (CMT)

A United States of America based leading telematics technology provider. This partnership provides the group with expertise in the telematics environment that Discovery Insure harnesses to manage its insurance risk.

Ownership structure Nature Place of business	Ping An Health		CMT	
	Equity-accounted associate Insurance China		Equity-accounted associate Telematics technology USA	
R million	2021	2020	2021	2020
% of ownership interest at end of year	24.99%	24.99%	8.96%	11.25%
Summarised statement of comprehensive income				
Revenue	25 484	18 023	1 537	1 498
Net profit/(loss)	1 884	1 141	80	(573)
Other comprehensive (loss)/income	(8)	74	-	-
Total comprehensive income	1 876	1 215	80	(573)
Summarised statement of financial position				
Current assets	16 482	17 515	3 292	6 056
Non-current assets	21 584	17 953	9 824	179
Current liabilities	(5 400)	(6 711)	(538)	(471)
Non-current liabilities	(24 941)	(22 664)	(308)	(15)
Net assets	7 725	6 093	12 270	5 749
Reconciliation to carrying amounts:				
Opening net assets	6 093	3 964	5 749	4 559
Profit/(loss) for the year	1 884	1 141	80	(573)
Other comprehensive (loss)/income	(8)	74	-	-
Increase in share capital and share premium	425	-	7 352	760
Foreign exchange (losses)/gains	(669)	914	(911)	1 003
Closing net assets	7 725	6 093	12 270	5 749
Group's share of net assets	1 931	1 523	1 099	647
Goodwill	267	292	28	48
Carrying value at 30 June	2 198	1 815	1 127	695



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

11. EQUITY-ACCOUNTED INVESTEEES *continued*

11.1 Material interests in associates and joint ventures *continued*

DILUTION GAIN FROM CAMBRIDGE MOBILE TELEMATICS TRANSACTION

Cambridge Mobile Telematics (CMT), an associate investment of Discovery and strategic partner to Discovery Insure since 2014, finalised the acquisition of Truemotion Inc. on 16 June 2021 for USD 650 million (R10 billion). The transaction subsequently received the required approval from the U.S. regulators. Upon the completion of the transaction, Discovery's effective shareholding in CMT reduced from 9.58% to 7.89% on a fully diluted basis. Discovery's profit from the transaction was USD 38.7 million (R537 million). The profit has been included in the 'Gain on dilution and disposal of equity-accounted investments' in the Group Income statement.

Discovery Insure's director representation and strategic partnership with CMT remains in place following the transaction.

11.2 Individually immaterial associates and joint ventures

11.2.1 Individually material transactions

IMPAIRMENT OF INVESTMENT IN AIA VITALITY (PTY) LTD

Discovery Vitality Australia (Pty) Limited (DVA), a wholly-owned subsidiary of Vitality Group International Inc. (VGI), has an associate investment in AIA Vitality (Pty) Limited (AIAV). The value of AIAV is directly influenced by AIA Health Australia (Pty) Limited (AIAH), an Australian health insurance joint venture between GMHBA Limited and VGI and AIA Australia via its indirect interest through AIAV. An impairment assessment was conducted as per the Discovery impairment policy and impairment indicators were identified.

During the current financial year the Group conducted an impairment assessment of the investment in AIAV. Objective evidence of impairment of AIAV as a result of internal and external indicators has been identified. The impairment indicators had an impact on the estimated future cash flows from the net investment that can be reliable, estimated and an impairment loss of AUD 12.5 million (ZAR149 million) was recognised in profit and loss.

In order to determine the recoverable amount, the fair value less cost to sell comprise of the present value of the future expected cash flows to be derived from the investment in the associate based on a 9-year forecast of cashflows. Nine years is based on the expectation of the health insurance to stabilise. The following variables were used in the assessment:

- Average growth rate of 20% based on the expected growth rate in the health insurance industry.
- Discount rate of 41.11 % based on the Capital Asset Pricing Model (CAPM) approach using Discovery's beta coefficient. This has also been calibrated to approximate a WACC approach based on Discovery's capital structure.
- Terminal value growth rate of 3%

The key assumptions were stressed and factored decreases in future policy sales into account, varying levels of terminal values, higher claims scenarios and adjusted discount rates.

Based on management's valuation, the value-in-use was lower than the carrying amount.

11.2.2 Summary of financial information

The table below provides summarised information of the aggregate carrying amounts and aggregate amounts of the Group's share of total income:

Group R million	Associates		Joint ventures	
	2021	2020	2021	2020
Aggregate carrying amount	134	178	(1)	25
Aggregate amount of the group's share of profit (loss)	40	(61)	1	16
Impairment of equity-accounted investments	(149)	-	-	-



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

12. FINANCIAL ASSETS

The Group's investment in financial assets are summarised by measurement category in the table below:

R million	Group 2021	Group 2020 Restated
Financial assets at fair value through profit or loss – mandatorily:	130 937	102 714
– Equity portfolios	43 362	32 748
– Debt portfolios	36 485	30 580
– Money market portfolios	17 253	13 600
– Multi-asset portfolios	33 837	25 786
Financial assets at amortised cost:	8 965	4 371
Investments at amortised cost ¹	5 604	2 523
– South African Treasury Bills	4 109	439
– Deposits	1 495	2 084
Loans and advances to customers at amortised cost	3 361	1 848
Total investments	139 902	107 085
Listed	121 057	93 705
Unlisted	18 845	13 380
	139 902	107 085
Shareholder investments:	17 854	12 026
– Investments at amortised cost	8 965	4 371
– Investments at fair value through profit and loss - mandatorily	8 889	7 655
Policyholder investments:	122 048	95 059
– Investments at fair value through profit and loss - mandatorily	122 048	95 059
Total investments	139 902	107 085

¹ The fair value of instruments at amortised cost approximates the carrying amount due to the relatively short term nature of the instrument.

Also see Note 3. During the current financial period Discovery has simplified the financial risk analysis by revising the unit of account or level at which the financial risk has been analysed. The updated disclosure provides information that is reliable and more relevant to users of the financial statements and the comparative numbers have been restated accordingly to align to the information presented in Note 3.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

12. FINANCIAL ASSETS *continued*

12.1 Loans and advances to customers

Group R million	2021	2020
Loans and advances (gross) – unsecured	3 795	2 014
Accrued interest	31	16
Total Gross advances	3 826	2 030
Less: IFRS9 Expected credit losses (ECL)	(465)	(182)
Total net loans and advances	3 361	1 848

12.1.1 Loans and advances per credit risk rating

Group R million	DRG 1 – 4	DRG 5 – 7	DRG 8 – 10	Not rated	Total
As at 30 June 2021					
Stage 1	1 633	1 197	302	83	3 215
Stage 2: SICR ¹	1	6	259	4	270
Stage 2: Arrears	10	21	35	5	71
Stage 3	22	52	147	18	239
Total gross advances	1 666	1 276	743	110	3 795
As at 30 June 2020					
Stage 1	998	547	–	48	1 593
Stage 2: SICR ¹	*	*	303	1	304
Stage 2: Arrears	9	20	51	6	86
Stage 3	3	6	16	6	31
Total gross advances	1 010	573	370	61	2 014

* Amount is less than R500 000.

¹ Significant increase in credit risk.

The analysis above excludes accrued interest.

Discovery risk grade (DRG), is an internal client rate allocated on the basis of their risk profile. An adjusted DRG is allocated for the purposes of calculating the expected credit losses.

Loans and advances classified as 'not rated' pertain to loans and advances migrated from DiscoveryCard which has not been through Discovery Bank credit assessment, and have not been assigned a DRG. To determine the ECL on these customers, information from the DiscoveryCard back book is used.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

12. FINANCIAL ASSETS *continued*

12.1.2 Reconciliation of the expected credit loss (ECL)

As at 30 June 2021

Group R million	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL, but no missed payments)	Stage 2 (Lifetime ECL, and missed payments)	Stage 3 (Lifetime ECL, and credit impaired, default)	Total
30 June 2021					
Balance at beginning of the year	81	52	26	23	182
Total changes in ECL due to changes in balances of advances	101	23	23	11	158
New loans originated and acquired ¹	64	25	24	4	117
Repayments and other movements ²	41	-	-	8	49
Changes in ECL due to derecognition other than write-off	(4)	(2)	(1)	(1)	(8)
	182	75	49	34	340
Transfers between stages³					
Transfer (to)/from stage 1	14	(25)	2	59	50
Transfer (to)/from stage 2: SICR	-	-	(1)	46	45
Transfer (to)/from stage 2: Arrears	(4)	-	-	69	65
Transfer (to)/from stage 3	-	(9)	(26)	-	(35)
Balance at end of the year	192	41	24	208	465
30 June 2020					
Balance at beginning of the year	*	*	*	*	*
Total changes in ECL due to changes in balances of advances	84	38	20	3	145
New loans originated and acquired ¹	45	38	21	4	108
Repayments and other movements ²	39	*	(1)	*	38
Changes in ECL due to derecognition other than write-off	*	*	*	(1)	(1)
	84	38	20	3	145
Transfers between stages³					
Transfer (to)/from stage 1	-	16	7	15	38
Transfer (to)/from stage 2: SICR	(2)	-	1	2	1
Transfer (to)/from stage 2: Arrears	*	(2)	-	3	1
Transfer (to)/from stage 3	(1)	*	(2)	-	(3)
Balance at end of the year	81	52	26	23	182

* Amount is less than R500 000.

1 During the financial year ended 30 June 2021, new loans included platinum Visa bins migrating customers from the FNB platform to Discovery Bank platform. Gross Loans and advances as a result of migration amounted to R1.5 billion with a related ECL of R114 million (2020: customers migrating from FNB platform to the Discovery Bank amounted to R836 million with a related ECL of R77 million).

2 During the year ending 30 June 2021, management has adjusted for the effects of COVID-19 in considering forward looking macroeconomic factors. The adjustment specifically associated with the factors had an increase in ECL of R 24.1million (2020: R31 million).

3 Discovery's policy is to transfer accounts between stages based on the ECL stage at the end of the reporting period. Therefore, exposures can be transferred directly from stage 3 to stage 1 as the curing requirements would have been satisfied during the reporting period. The expected credit loss recognised on new exposures originated during the reporting period, which are not included in opening balances, are recognised in new loans originated and acquired based on the exposures ECL stage as at the end of the month the account comes on book. Any change in status will be reflected in the transfers between stages as described above.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

13. DERIVATIVE FINANCIAL INSTRUMENTS

R million	Group 2021 Assets	Group 2021 Liabilities	Group 2020 Assets	Group 2020 Liabilities
Derivatives used as cash flow hedges:				
Equity price risk derivatives	23	(129)	14	(338)
Interest rate swaps	5	(332)	-	(516)
Derivatives not designated as hedging instruments:				
Interest rate swaps	27	(243)	1 091	(8)
Swaptions	135	-	2	-
Equity price risk derivatives	1	(22)	-	(41)
Expected credit loss derivatives	-	-	-	(83)
Currency derivative contracts	58	(100)	263	(6)
	249	(826)	1 370	(992)
Current	93	(176)	259	(854)
Non-current	156	(650)	1 111	(138)
	249	(826)	1 370	(992)

Total return swaps and call options are entered into to hedge exposure to equity price risk related to share schemes. This includes a day one profit or loss balance of R115 million (2020: R102 million).

The effects of the derivatives used in cash flow hedges on the Group's financial position and performance are as follows:

Year ended 30 June 2021

Group R million	Notional amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the Statement of financial position where the hedging instrument is presented	Changes in fair value of hedging instrument used for calculating hedge ineffective- ness	Ineffective- ness recognised in profit or loss	Line item in which hedge ineffectiveness is presented in profit or loss
		Assets	Liabilities				
Equity price risk	851	23	(129)		(171)	(8)	
Total return swaps	791	18	(129)	Financial Asset- Derivative/ Financial Liability- Derivative	(174)	(11)	Net fair value gains on financial assets at fair value through profit or loss
Call options	60	5	-	Financial Asset- Derivative	3	3	Net fair value gains on financial assets at fair value through profit or loss
Interest rate risk	5 000	5	(332)		(189)	-	
Interest rate swaps	5 000	5	(332)	Financial Asset- Derivative/ Financial Liability- Derivative	(189)	-	Net fair value gains on financial assets at fair value through profit or loss

Refer to note 3.4.1 for a detailed description of the derivative financial instruments listed above.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2021

13. DERIVATIVE FINANCIAL INSTRUMENTS *continued*

Group R million	Changes in the value of the hedging instrument recognised in other comprehen- sive income	Amount reclassified from the cash flow hedge reserve to profit or loss	Line item in which the recycled amount is presented in profit or loss	Carrying amount of the hedged item		Changes in fair value of hedged item used for calculating hedge ineffective- ness	Cash flow hedge reserve
				Assets	Liabilities		
Equity price risk¹	171	(82)		-	(364)	230	(10)
Total return swaps	174	(90)	Cash flow hedges-gains recycled to profit or loss	-	(360)	233	(8)
Call options	(3)	8	Cash flow hedges-gains recycled to profit or loss	-	(4)	(3)	(2)
Interest rate risk²	189	(8)		-	(5 034)	(202)	(335)
Interest rate swaps	189	(8)	Cash flow hedges-gains recycled to profit or loss	-	(5 034)	(202)	(335)

1 The equity price risk derivatives have been recycled to the 'Cash flow hedges – gains recycled to profit or loss' line item in the SOCI.

2 The interest rate risk derivatives have been recycled to the 'Cash flow hedges – gains recycled to profit or loss' line item in the SOCI.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2021

13. DERIVATIVE FINANCIAL INSTRUMENTS *continued*

Year ended 30 June 2020

Group R million	Notional amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the Statement of financial position where the hedging instrument is presented	Changes in fair value of hedging instrument used for calculating hedge ineffectiveness	Ineffective- ness recognised in profit or loss	Line item in which hedge ineffectiveness is presented in profit or loss
		Assets	Liabilities				
Equity price risk	1 145	14	(338)		402	13	
Total return swaps	984	-	(338)	Financial Liability – Derivative	341	12	Net fair value gains on financial assets at fair value through profit or loss
Call options	161	14	-	Financial Asset – Derivative	61	1	Net fair value gains on financial assets at fair value through profit or loss
Interest rate risk	4 500	-	(516)		372	-	
Interest rate swaps	4 500	-	(516)	Financial Liability – Derivative	372	-	Net fair value gains on financial assets at fair value through profit or loss

Refer to note 3.4.1 for a detailed description of the derivative financial instruments listed above.

Group R million	Changes in the value of the hedging instrument recognised in other comprehensive income	Amount reclassified from the cash flow hedge reserve to profit or loss	Line item in which the recycled amount is presented in profit or loss	Carrying amount of the hedged item		Changes in fair value of hedged item used for calculating hedge ineffectiveness	Cash flow hedge reserve
				Assets	Liabilities		
Equity price risk¹	(409)	309		-	(389)	27	(87)
Total return swaps	(348)	249	Cash flow hedges – gains recycled to profit or loss	-	(381)	68	(81)
Call options	(61)	60	Cash flow hedges – gains recycled to profit or loss	-	(8)	(41)	(6)
Interest rate risk²	(353)	10		-	(4 536)	366	(516)
Interest rate swaps	(353)	10	Cash flow hedges – gains recycled to profit or loss	-	(4 536)	366	(516)

¹ The equity price risk derivatives have been recycled to the cash flow hedges – gains recycled to profit or loss line items in the SOCI.

² The interest rate risk derivatives have been recycled to the cash flow hedges – gains recycled to profit or loss line item in the SOCI.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2021

14. INSURANCE RECEIVABLES, CONTRACT RECEIVABLES AND OTHER RECEIVABLES

R million		Group 2021	Group 2020
Receivables arising from insurance and reinsurance contracts:		6 158	6 179
- Premium debtors		668	692
- Less provision for impairment of premium debtors	14.1	(63)	(93)
- Reinsurance debtors ²		5 553	5 580
Contract receivables		1 217	1 413
- Closed scheme debtors		104	103
- Discovery Health Medical Scheme		662	650
- Other contract receivables		480	709
- Less allowance for expected credit losses	14.2	(29)	(49)
Other non-financial receivables ¹		969	1 081
- Prepayments		851	898
- Value-added tax asset		53	104
- Other debtors		65	79
Other financial receivables:		2 189	2 763
- Agents and brokers		412	491
- BEE partners' rights-issue funding		1	19
- Cash-in-transit debtors		220	96
- Consolidated unit trust debtors		587	1 169
- FNB – DiscoveryCard receivable		-	52
- Loans to BEE initiatives		220	213
- Security deposit on derivatives		289	407
- Vitality partner debtors		112	116
- Other debtors		809	636
- Less allowance for expected credit losses	14.2	(461)	(436)
Total insurance receivables, contract receivables and other receivables		10 533	11 436
Current		7 110	7 140
Non-current		3 423	4 296
		10 533	11 436

¹ These non-financial assets have been excluded from the risk disclosures presented in note 3.

² The movement for the period includes the acceleration of the reinsurance repayment. Refer note 41.

The carrying values approximate the fair value due to the short term nature of these receivables, or for longer term receivables, they are interest bearing at market rates and fully secured.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2021

14. INSURANCE RECEIVABLES, CONTRACT RECEIVABLES AND OTHER RECEIVABLES *continued*

14.1 Provision for impairment of premium debtors

Group R million	<30 days	30 – 60 days	60 – 120 days	more than 120 days	Total
Year ended 30 June 2021					
Balance at beginning of the year	46	33	7	7	93
Increase in provision	–	–	11	8	19
Amount utilised during the period	(20)	(17)	(6)	(6)	(49)
Translation difference	*	*	*	*	*
Balance at end of the year	26	16	12	9	63
Year ended 30 June 2020					
Balance at beginning of the year	44	25	9	5	83
Increase in provision	11	25	7	5	48
Amount utilised during the period	(9)	(18)	(9)	(4)	(40)
Translation difference	*	1	*	1	2
Balance at end of the year	46	33	7	7	93

* Amount is less than R500 000.

14.2 Reconciliation of expected credit losses (ECL)

Group R million	General model			Simplified model		Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL/credit impaired)	Not Credit impaired	90 days past due/ credit impaired	
Year ended 30 June 2021						
Balance at beginning of the year	48	8	249	123	57	485
Increase in provision	3	–	22	8	201	234
Amount utilised during the period	(40)	–	(41)	(33)	(101)	(215)
Translation difference	*	*	*	*	(14)	(14)
Balance at end of the year	11	8	230	98	143	490
Year ended 30 June 2020						
Balance at beginning of the year	44	3	192	80	26	345
Increase in provision	6	5	57	51	92	211
Amount utilised during the period	(9)	–	–	(8)	(61)	(78)
Translation difference	7	–	–	–	–	7
Balance at end of the year	48	8	249	123	57	485

15. REINSURANCE CONTRACTS

R million	Group 2021	Group 2020
Reinsurers' share of insurance contract liabilities	445	400
Current	445	400

Amounts due from reinsurers in respect of claims paid and reported by the Group on the contracts that are reinsured are included in Insurance receivables, contract receivables and other receivables (refer to note 14).



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

16. CASH AND CASH EQUIVALENTS

R million	Group 2021	Group 2020
Cash at bank and in hand	17 984	16 990
Short-term deposits	2 029	919
	20 013	17 909

The fair value of cash and cash equivalents approximates the carrying amount due to the relatively short term nature of the instrument.

17. SHARE CAPITAL AND SHARE PREMIUM

17.1 Ordinary share capital and share premium

Group R million	Issued		Treasury shares			Total outstanding
	Share capital	Share premium	Discovery Health	BEE share trust	LTIP	
At 1 July 2019	1	10 214	(14)	(59)	-	10 142
Share movements:						
- treasury shares delivered	-	-	-	10	-	10
- treasury share purchases	-	-	-	(4)	-	(4)
At 30 June 2020	1	10 214	(14)	(53)	-	10 148
Share movements:						
- share issue	-	907	-	-	-	907
- treasury shares delivered	-	-	-	3	-	3
- treasury share purchases	-	-	-	-	(907)	(907)
At 30 June 2021	1	11 121	(14)	(50)	(907)	10 151

Number of shares	Company	Treasury shares			Total outstanding
		Discovery Health	BEE share trust	LTIP	
At 1 July 2019	658 290 736	(680 268)	(1 007 490)	-	656 602 978
Share movements:					
- treasury shares delivered	-	-	81 030	-	81 030
- treasury shares purchased	-	-	(40 000)	-	(40 000)
At 30 June 2020	658 290 736	(680 268)	(966 460)	-	41 030
Share movements:					
- share issue	7 477 865	-	-	-	7 477 865
- treasury shares delivered	-	-	160 499	-	160 499
- treasury shares purchased	-	-	-	(7 477 865)	(7 477 865)
At 30 June 2021	665 768 601	(680 268)	(805 961)	(7 477 865)	656 804 507

The total authorised number of ordinary shares is 1 billion (2020: 1 billion), with a par value of 0.1 cent per share.

Share issue in 2021 financial reporting period

Discovery issued 7 477 865 shares for cash consideration of R906 915 467. This was a specific issuance, to the Discovery Long-Term Incentive Plan Trust.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

17. SHARE CAPITAL AND SHARE PREMIUM *continued*

17.2 Preference share capital

R million	Group 2021	Group 2020
Authorised		
40 000 000 A no par value preference shares	-	-
20 000 000 B preference shares of R100 each	2 000	2 000
20 000 000 C no par value preference shares	-	-
	2 000	2 000
Issued		
8 000 000 B preference shares of R100 each	800	800
Share issue costs	(21)	(21)
At 30 June	779	779

The B preference shares are non-compulsory, non-cumulative, non-participating, non-convertible, voluntarily redeemable (at option of Discovery) preference shares and were issued at a coupon rate of 85% of prime rate. With the introduction of dividend withholding tax on 1 April 2012, the coupon rate on the preference shares was increased to 100% of the prime rate.

18. LIABILITIES ARISING FROM INSURANCE CONTRACTS

R million	Group 2021	Group 2020
Gross		
- claims reported and loss adjustment expenses	11 234	9 290
- claims incurred but not reported	2 074	1 754
- IFA liability	82	69
- unearned premiums	1 091	1 548
- additional unexpired risk reserve ²	300	-
- unit-linked insurance contracts	64 432	49 752
- with fixed and guaranteed terms	21 764	19 998
Total liabilities arising from insurance contracts, gross	100 977	82 411
Recoverable from reinsurers		
- claims incurred but not reported	(439)	(394)
- unearned premiums	(6)	(6)
Total reinsurers' share of liabilities arising from insurance contracts (refer to note 15)	(445)	(400)
Net		
- claims reported and loss adjustment expenses	11 234	9 290
- claims incurred but not reported	1 635	1 360
- IFA liability	82	69
- unearned premiums	1 085	1 542
- additional unexpired risk reserve	300	-
- unit-linked insurance contracts	64 432	49 752
- with fixed and guaranteed terms	21 764	19 998
Total liabilities arising from insurance contracts, net	100 532	82 011
Current ¹	83 914	66 677
Non-current	16 618	15 334
	100 532	82 011

¹ Includes R69 549 million (2020: R54 646 million) which is repayable to policyholders on demand. For contractual maturity refer to note 3.2.3.

Included in the change in liabilities arising from insurance contracts on the Statement of comprehensive income is R120 million (2020: R115 million) of benefit expenses which is a reconciling item due to the cash flow impact of these benefit expenses in this note.

² It is expected that the claims and cost of managing the Group Life portfolio during the remaining contractual period for the policies will exceed the premiums during the same period, as at 30 June 2021. Accordingly, an additional unexpired risk reserve (AURR) liability was recognised for the Group Life portfolio in accordance with the liability adequacy test as set out in accounting policy 13.3.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

18. LIABILITIES ARISING FROM INSURANCE CONTRACTS *continued*

Movements in the liabilities are as follows:

Group R million	2021			2020		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Claims reported and loss adjustment expenses and IBNR						
Notified claims	9 290	-	9 290	8 428	*	8 428
Incurred but not reported	1 754	(394)	1 360	1 382	(312)	1 070
Balance at beginning of the year	11 044	(394)	650	9 810	(312)	9 450
Cash paid for claims settled in the year	(11 636)	29	(11 607)	(11 441)	23	(11 418)
Increase/(decrease) in liabilities:						
- arising from current year claims	14 994	(171)	14 823	13 121	(137)	12 984
- arising from prior year claims	(908)	79	(829)	(742)	65	(677)
Translation differences	(186)	18	(168)	296	(33)	263
Balance at end of the year	13 308	(439)	12 869	11 044	(394)	10 650
Notified claims	11 234	-	11 234	9 290	-	9 290
Incurred but not reported	2 074	(439)	1 635	1 754	(394)	1 360
Balance at end of the year	13 308	(439)	12 869	11 044	(394)	10 650
IFA liability						
Balance at beginning of the year	69	-	69	60	-	60
Increase in the year	28	-	28	20	-	20
Cash paid	(15)	-	(15)	(11)	-	(11)
Balance at end of the year	82	-	82	69	-	69
Provisions for unearned premiums						
Balance at beginning of the year	1 548	(6)	1 542	544	(2)	542
Increase in the year	1 496	(6)	1 490	1 942	(6)	1 936
Release in the year	(1 857)	6	(1 851)	(1 098)	2	(1 096)
Translation differences	(96)	-	(96)	160	-	160
Balance at end of the year	1 091	(6)	1 085	1 548	(6)	1 542
Additional unexpired risk reserve						
Balance at beginning of the year	-	-	-	-	-	-
Increase in the year	300	-	300	-	-	-
Translation differences	-	-	-	-	-	-
Balance at end of the year	300	-	300	-	-	-

* Amount is less than R500 000.

R million	Group 2021	Group 2020
Unit-linked insurance contracts		
Balance at beginning of the year	49 752	45 411
Premiums received	16 198	12 542
Fair value adjustment	8 338	57
Withdrawals	(7 747)	(7 008)
Fees	(1 234)	(1 143)
Movement in negative insurance liability	(223)	(522)
Translation differences	(652)	415
Balance at end of the year	64 432	49 752
Balance is made up as follows:		
Unit-linked liabilities	69 549	54 646
Negative insurance liability	(5 117)	(4 894)
	64 432	49 752
With fixed and guaranteed terms		
Balance at beginning of the year	19 998	14 697
Expected movement in policyholder liabilities	(4 201)	(2 716)
Unwinding of discount rate	888	835
New business written	4 396	6 352
Experience variances	683	830
Balance at end of the year	21 764	19 998



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

19. LIABILITIES ARISING FROM REINSURANCE CONTRACTS

R million	Group 2021	Group 2020
Financial reinsurance	2 382	1 422
Reinsurance recoveries relating to assets arising from insurance contracts (refer to note 5)	10 143	11 043
	12 525	12 465
Balance at beginning of the year	12 465	10 835
Increase in liability	664	462
- gross increase in liability	(266)	598
- receipt arising from reinsurance contracts ¹	2 926	2 588
- reinsurance premiums paid	(1 996)	(2 724)
Translation differences	(604)	1 168
Balance at end of the year	12 525	12 465
Current	919	1 278
Non-current	11 606	11 187
	12 525	12 465

¹ During the current financial period, Discovery Life Limited entered into a financial reinsurance treaty, with risk transfer, resulting in a cash inflow of R500 million. This treaty reinsures approximately 2.0% of the assets arising from insurance contracts at 30 June 2021. In the Group Income statement the inflow has been disclosed as a receipt from reinsurance contracts. An equal and opposite adjustment was made to the insurance reserves, resulting in an equal and opposite adjustment in the 'net transfer to/from assets and liabilities under insurance contracts', and therefore an impact of Rnil on profit or loss for the period.

The liabilities arising from reinsurance contracts releases with the associated underlying insurance contracts.

20. BORROWINGS AT AMORTISED COST

R million	Ref	Group 2021	Group 2020
Borrowings from banks	(i)	15 230	15 456
Lease liabilities	(ii)	4 263	4 380
Balance at end of the year		19 493	19 836
Current		2 065	1 345
Non-current		17 428	18 491
Balance at end of the year		19 493	19 836

For variable rate loans, the carrying amount approximates the fair value because the variable rate is set on market related terms. For fixed rate loans, the fair value is R3 817 million relative to the carrying value of R3 862 million.

(i) Borrowings from banks

Movement analysis of borrowings

R million	Group 2021	Group 2020
Balance at beginning of the year	15 456	11 034
Loans raised	1 839	10 339
Loans repaid	(1 753)	(6 389)
Settlement of derivative capitalised to loan by counterparty	-	(6)
Interest accrued	971	1 033
Interest paid	(941)	(957)
Raising fees capitalised	(39)	(29)
Translation differences	(303)	431
Balance at end of the year	15 230	15 456



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

20. BORROWINGS AT AMORTISED COST *continued*

(i) Borrowings from banks *continued*

SA borrowing facilities

DISCOVERY LIMITED

Facility amount R million	Variable rate	Interest per annum	Capital repayment and maturity date	Carrying value R million	
				June 2021	June 2020
Listed DMTN ^{4,6}					
500	3-month Jibar + 161bps	9.71% ^{1,3}	At maturity – 21 November 2022	503	503
500	3-month Jibar + 205bps	6.30% ^{1,3}	At maturity – 21 August 2023	503	–
200	–	10.46% ²	At maturity – 21 November 2024	202	202
800	3-month Jibar + 191bps	10.31% ^{1,3}	At maturity – 21 November 2024	804	805
1 200	3-month Jibar + 191bps	9.21% ^{1,3}	At maturity – 21 November 2024	1 220	1 225
700	3-month Jibar + 180bps	10.29% ^{1,3}	At maturity – 21 August 2026	703	704
300	3-month Jibar + 180bps	9.40% ^{1,3}	At maturity – 21 August 2026	302	303
Unlisted DMTN ^{4,5}					
1 100	–	8.92% ³	At maturity – 10 March 2023	1 103	1 101
2 500	–	9.62% ³	At maturity – 22 February 2025	2 519	2 516
Other					
1 000	3-month Jibar + 245bps	10.28% ^{1,3}	At maturity – 02 March 2023	999	997
500	3-month Jibar + 86bps	5.85% ⁶	At maturity – 30 June 2022	659	630
9 300				9 517	8 986

¹ The interest rate has been fixed through interest rate swaps.

² Interest is payable semi-annually in arrears.

³ Interest payable quarterly in arrears.

⁴ DMTN refers to the R10 billion Discovery Domestic Medium Term Note (DMTN) program registered in 2017.

⁵ During the financial year ended 30 June 2020, Discovery Limited refinanced R3.6 billion bank syndicated loans through the issue of unlisted DMTN notes. The notes, although underwritten by a bank until maturity, are structured to enable short-term issuances into the commercial paper market on an ongoing basis.

⁶ The prevailing interest rate at 30 June 2021.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2021

20. BORROWINGS AT AMORTISED COST *continued*

(i) **Borrowings from banks** *continued*

SA borrowing facilities

DISCOVERY CENTRAL SERVICES

Facility amount R million	Interest rate per annum	Capital repayment and maturity date	Carrying value R million	
			June 2021	June 2020
1 400	10.60% ¹	At maturity – 20 December 2023	1 423	1 430
650	11.56% ²	Instalments – 29 October 2027	526	542
2 050			1 949	1 972

¹ Interest payable quarterly in arrears.

² Instalments of interest and capital is monthly.

DISCOVERY BANK

Facility amount R million	Interest rate per annum	Capital repayment and maturity date	Carrying value R million	
			June 2021	June 2020
500	Jibar + 125 bps ¹	At maturity – 19 July 2021 ²	-	500
500	Jibar + 135bps ¹	At maturity – 19 July 2021 ²	-	500
			-	1 000

¹ Interest payable quarterly in arrears.

² These loan facilities had a maturity date of 19 July 2021 with the ability to early settle without any penalties being incurred. The loans were settled early on 15 February 2021.

UK borrowings

Facility amount GBP million	Variable rate	Interest rate per annum	Capital repayment and maturity date	Carrying value GBP (Rand) million	
				June 2021	June 2020
80	3-month Libor + 265bps ¹	2.73%	Instalments – 31 July 2023	GBP 73 (R1 435)	GBP 80 (R1 719)
34	3-month Libor + 100bps ¹	1.08%	At maturity – 18 April 2022	GBP 26 (R512)	GBP 28 (R602)
100	3-month Libor + 229bps ¹	2.38%	At maturity – 31 July 2023	GBP 89 (R1 817)	GBP 55 (R1 177)
214				GBP 188 (R3 764)	GBP 163 (R3 498)

¹ Interest payable quarterly in arrears.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

20. BORROWINGS AT AMORTISED COST *continued*

(ii) Leases

R million	Group 2021	Group 2020
Balance at beginning of the year	4 380	4 396
New leases entered into	57	44
Interest payable	436	441
Repayments	(613)	(576)
Modifications	46	-
Translation difference	(43)	75
Balance at end of the year	4 263	4 380

Total payments for leases for the year is R815 million (2020: R826 million).

During the 2018 financial year Discovery took occupation of a new head office building under a finance lease. A lease liability and related asset (refer to note 6) of R3 155 million was raised. At year end, R3 388 million (2020: R3 370 million) remained outstanding. Finance charges of R366 million (2020: R362 million) have been recognised in profit or loss and repayments of R348 million (2020: R313 million) have been made.

21. INVESTMENT CONTRACTS AT FAIR VALUE THROUGH PROFIT OR LOSS

R million	Group 2021	Group 2020
The movements during the year were as follows:		
Balance at beginning of the year	23 012	20 674
Deposits received	12 527	8 085
Account balances paid on withdrawal and other terminations in the year	(6 882)	(5 898)
Fair value adjustment	3 634	151
Balance at end of the year	32 291	23 012
Current ¹	32 291	23 012

¹ There is no maturity profile for these liabilities as this will depend on policyholder behaviour. Contractually, policyholders may disinvest on demand.

The benefits offered under the Group's unit-linked investment contracts are based on the return of selected equities, debt securities and money market securities. The Group communicates the actual performance of these contracts to its contract holders.

Investment contracts at fair value through profit or loss are exactly matched with related assets and managed collectively as a pool. Discovery's credit risk is not reflected in the measurement of the assets or consequently the liability, which is measured with reference to the underlying assets. Own credit risk has been assessed and determined to be immaterial.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

22. OTHER PAYABLES AT AMORTISED COST

R million	Group 2021	Group 2020
Commissions payable	213	300
Consolidated unit trust payables	659	432
Digicore payable	9	9
Due to reinsurers	448	667
Expired hedge payables	21	29
Intermediary payables	99	90
Payables and accrued liabilities	3 146	2 399
Payroll creditors	929	845
Policyholder unallocated funds	961	564
Security deposits on derivatives	2	1 150
Unsettled trades	376	148
VitalityLife working capital funding ¹	6 809	6 627
Other financial payables	880	673
Other non-financial payables ²	352	300
- Value-added tax liability	193	155
- Premiums and fees received in advance	159	145
Balance at end of the year	14 904	14 233
Current	7 238	5 956
Non-current	7 666	8 277
	14 904	14 233

¹ Includes the 'deposit back' of GBP 315 million (R6 210 million) (2020 GBP 288 million (R6 176 million)) related to the level premium reinsurance treaty in respect of business written on Prudential Assurance Company's (Prudential's) life license, payable to the reinsurer.

² Value-added tax liabilities and premiums received in advance are non-financial liabilities and have been excluded from the risk disclosures presented in note 3.

23. DEFERRED INCOME TAX

R million	Group 2021	Group 2020
Deferred tax asset – non-current	3 948	3 511
Deferred tax liability – non-current	(8 814)	(8 514)
Total	(4 866)	(5 003)



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

23. DEFERRED INCOME TAX *continued*

Deferred taxation comprises:

Group R million	Charge for the year			Charge for the year		Balance at end of the year
	Balance at beginning of the year	Recognised in Profit or loss	Recognised in OCI	Recognised in business combinations	Translation differences	
Year ended 30 June 2021						
Assessed loss in Company Policyholder's Fund	203	(18)	-	-	-	185
Assessed loss in Individual Policyholder's Fund	854	280	-	-	-	1 134
Assessed loss in subsidiaries	2 373	242	-	6	(182)	2 439
Financial instruments and share based payments	96	91	(16)	-	(2)	169
Deferred acquisition costs	(166)	(60)	-	-	(1)	(227)
Contract liability	18	64	-	-	(12)	70
Difference between wear and tear and depreciation and leases	(171)	(112)	-	-	7	(276)
Intangible asset recognised on acquisition of business	(74)	12	-	-	5	(57)
Prepayments	(40)	26	-	-	-	(14)
Provisions	225	119	-	-	(4)	340
Difference between accounting and tax balances arising from insurance contracts	(8 681)	(248)	-	-	-	(8 929)
Other	360	(97)	-	-	37	300
	(5 003)	299	(16)	6	(152)	(4 866)

Group R million	Charge for the year			Charge for the year		Balance at end of the year
	Balance at beginning of the year	Recognised in Profit or loss	Recognised in OCI	Recognised in business combinations	Translation differences	
Year ended 30 June 2020						
Assessed loss in Company Policyholder's Fund	226	(23)	-	-	-	203
Assessed loss in Individual Policyholder's Fund	728	126	-	-	-	854
Assessed loss in subsidiaries	1 313	394	-	-	78	1 785
Unrealised gains/ (losses) on financial instruments	(50)	28	14	1	-	(7)
Cash flow hedge	(13)	52	13	-	-	52
Deferred acquisition costs	(167)	(5)	-	-	6	(166)
Contract liability	24	(13)	-	-	7	18
Difference between accounting and tax balances arising from insurance contracts	(8 854)	173	-	-	-	(8 681)
Difference between wear and tear and depreciation	(1 150)	(108)	-	-	(1)	(1 259)
Leases – asset and liability	1 014	72	-	-	2	1 088
Intangibles recognised on acquisition of businesses	(72)	10	-	-	(12)	(74)
Prepayments	(41)	1	-	-	-	(40)
Provisions	161	64	-	-	-	225
Share-based payments	93	(43)	-	-	1	51
Unutilised special transfer balances	477	111	-	-	-	588
Other	(14)	283	-	-	91	360
	(6 325)	1 122	27	1	172	(5 003)



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

23. DEFERRED INCOME TAX *continued*

Assessed losses

Discovery did not recognise deferred tax assets in respect of the following assessed losses:

R million	Group 2021	Group 2020
Better Health Insurance Advice Ltd	33	-
Discovery Central Services (Pty) Ltd	2 854	1 356
Discovery Connect Distribution Services (Pty) Ltd	-	524
Discovery Group Europe Ltd	46	50
Discovery Life – Individual Policyholders' Fund	7 992	9 994
Discovery Partner Markets Service PTE Ltd	46	51
Discovery Vitality Australia (Pty) Ltd	28	126
Grove Nursing Services (Pty) Ltd	39	36
Southern Rx (Pty) Ltd	93	80
Vitality Healty Workplace Ltd	16	-
	11 147	12 217

A deferred tax asset has been recognised on assessed losses in the Discovery Life Individual Policyholder Fund. Refer to note 4.1.

Deferred tax assets have been raised in respect of tax losses in Discovery Life Investment Services, Discovery Vitality, Vitality Health, Discovery Connect Distribution Services and Discovery Insure. The Group recognises deferred tax assets on carried forward losses to the extent there are sufficient estimated future taxable profits and/or taxable temporary differences against which the tax losses can be utilised.

24. EMPLOYEE BENEFITS

R million	Group 2021	Group 2020
Leave pay		
Balance at beginning of the year	284	260
Additional provisions raised	312	331
Used during the year	(253)	(283)
Paid to terminated employees	(27)	(24)
Translation differences	(1)	-
Balance at end of the year	315	284
Current	262	229
Non-current	53	55
	315	284



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2021

25. NET INSURANCE PREMIUM REVENUE

R million	Group 2021	Group 2020
Health	8 599	7 688
Recurring premiums	11 262	9 278
Reinsurance premiums	(1 840)	(1 590)
Accelerated reinsurance premiums ¹	(823)	-
Individual life and invest	32 364	30 176
Recurring premiums	28 023	23 883
Single premiums	10 016	10 777
Reinsurance premiums	(5 675)	(4 484)
Group life	2 062	1 945
Recurring premiums	2 249	2 131
Reinsurance premiums	(187)	(186)
Short-term insurance	4 358	3 658
Recurring premiums	4 385	3 706
Reinsurance premiums	(27)	(48)
	47 383	43 467
Insurance premium revenue	55 935	49 775
Outward reinsurance premiums	(7 729)	(6 308)
Accelerated reinsurance premiums	(823)	-
	47 383	43 467

¹ Refer to note 41 Accelerated reinsurance premiums.

26. INVESTMENT INCOME

R million	Group 2021	Group 2020
At amortised cost interest income using the effective interest rate method	17	36
Cash and cash equivalents interest income using the effective interest rate method	263	343
	280	379
Attributable to:		
- shareholders	141	207
- policyholders	139	172
	280	379



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2021

27. NET FAIR VALUE GAINS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

R million	Group 2021	Group 2020
Investment income	2 535	2 496
- Interest	2 233	2 155
- Dividends	302	341
Net realised (losses)/gains	(216)	426
Net fair value gains/(losses)	8 336	(215)
Hedge ineffectiveness	8	(13)
Mutual fund distributions	1 228	1 399
	11 891	4 093

28. NET CLAIMS AND POLICYHOLDERS' BENEFITS

R million	Group 2021	Group 2020
Health insurance claims	3 991	3 700
Gross claims	5 315	4 875
Less: Reinsurance recoveries	(1 324)	(1 175)
Individual life insurance claims	6 380	3 984
Death	5 076	2 139
Disability	3 801	2 704
Payback benefits	1 588	1 343
Less: Reinsurance recoveries	(4 085)	(2 202)
Group life insurance claims	2 569	1 566
Death	1 606	819
Disability	1 262	911
Payback benefits	8	8
Less: Reinsurance recoveries	(307)	(172)
Individual investment benefits	12 913	10 721
Surrenders	12 232	10 106
Guaranteed payments	56	57
Annuity payments	625	558
Short-term insurance claims	2 325	3 275
Gross claims	2 403	3 336
Less: Reinsurance recoveries	(78)	(61)
	28 178	23 246
Claims and policyholders' benefits	33 972	26 856
Insurance claims recovered from reinsurers	(5 794)	(3 610)
Net claims and policyholders' benefits	28 178	23 246

29. ACQUISITION COSTS

R million	Group 2021	Group 2020
Commission and other costs of obtaining contracts	5 032	6 550
Movement in deferred acquisition costs (refer to note 8)	1	(3)
	5 033	6 547



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2021

30. MARKETING AND ADMINISTRATION EXPENSES

R million	Group 2021	Group 2020
Auditors remuneration		
Audit fees	90	69
Fees for other services	2	14
Prior year	-	1
	92	84
Lease charges		
Short-term leases	59	74
Low value item leases	143	176
	202	250
Staff costs including executive directors¹		
Salaries, wages and allowances	7 516	7 061
Medical aid fund contributions	451	421
Defined contribution provident fund contributions	366	336
Social security levies	263	263
Share-based payment expenses		
- equity-settled	330	164
- cash-settled	195	54
- (gain)/loss on cash flow hedge	(6)	360
Staff training	36	51
Recruitment fees	29	36
Temporary staff	382	216
Provision for leave pay	59	48
Other	114	247
	9 735	9 257
Other operating costs		
Amortisation of software (note 7) ²	1 200	1 111
Building related and office costs	508	524
Depreciation of property and equipment (note 6)	650	643
Loss on derecognition of property and equipment and intangible assets	51	196
Gains on disposal of property and equipment	(3)	(3)
Impairment of property and equipment and intangible assets	61	63
Allowance for expected credit losses on receivables	(11)	90
Insurance	44	37
IT systems and consumables	2 123	1 971
Marketing and distribution costs	1 344	1 254
Non-executive directors fees	30	27
Professional fees	774	707
Vitality benefit expenses	3 259	3 964
Other operating expenses	2 620	1 943
	12 650	12 527
Total marketing and administration expenses	22 679	22 118

¹ Executive directors' and prescribed officers' remuneration is included in employee costs. Refer to Directorate for detailed disclosure.

² The transactions relating to business combinations are not included in marketing and administration expenses as it is disclosed separately in the income statement.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

31. SHARE-BASED PAYMENTS AND LONG TERM INCENTIVES

Incentive schemes

Discovery operates various share-based payment and long term incentive arrangements. The details of these arrangements are described below:

1. BEE STAFF SHARE TRUST

In 2005, 5 290 000 shares in Discovery Limited's shares were issued to the BEE staff share trust for current and future employees. These shares had all been allocated during prior years. Additional shares have been purchased accumulatively in prior years, for future allocation to employees. The trusts consist of two components; the allocation scheme and the option scheme as described below.

ALLOCATION SCHEME

Shares have been allocated to senior black employees based on level of seniority and length of past service. The shares vest to employees two, three, four and five years after allocation at a rate of 25% per annum. On each vesting date, the trustees shall distribute to the employees the allocated shares to which the employee may be entitled.

OPTION SCHEME

Options granted to black employees may be exercised two, three, four and five years after the option is granted at a rate of 25% per annum. Any options not exercised by the end of the fifth year from the grant date shall lapse. On exercise of the option, the employee pays cash to the trust for the full purchase price of the option.

2. DISCOVERY'S PHANTOM SCHEME

Participants earn a cash bonus based on allocation of bonus scheme units which in turn are linked to the performance of the Discovery Limited share price. The bonus is earned if the participant is employed on each vesting date. For units issued in September, the vesting of the units is two, three, four and five years after allocation of the bonus units. The bonus may not be carried forward.

The 2013 – 2018 allocations were pre-determined combinations of units that replicate the economics of a Discovery Limited share and units that replicate the economics of a call option over a Discovery Limited share.

3. DISCOVERY'S LONG-TERM INCENTIVE PLAN (EQUITY SETTLED)

The Discovery Long-term incentive plan (LTIP) was introduced in the financial year ended 30 June 2020 and replaced the cash-settled Discovery Phantom scheme (see point 2 above) with an equity-settled LTIP.

Participants will receive Discovery Limited shares subject to performance criteria and if the participant is employed on each vesting date. The performance conditions are aligned to the organic growth methodology of the Group and will vest from between the 3rd and 5th anniversary of these awards.

4. ACQUISITION SCHEMES

There are various schemes offered to franchise directors, agents and employees where participants are allocated share units which replicate the economics of a Discovery Limited share. The share units are settled as a cash bonus on vesting. The bonus is earned if the participant is employed on the vesting date. The vesting periods on the schemes vary from two to five years. The bonus may not be carried forward.

5. THE VITALITY GROUP PHANTOM STOCK PLAN

Participants earn a cash bonus based on allocation of bonus scheme units which in turn are linked to the performance of Vitality Group Inc. share price. The bonus is earned if the participant is employed on each vesting date. The units typically vest equally over a four-year period but three year vesting grants are offered as well.

6. DISCOVERY BANK SCHEME

Participants will receive Discovery Limited shares subject to the 'Value Created', which references the growth in the value of Discovery Bank business after capital invested and interest. These awards vests from between the 3rd and 7th anniversary of the market launch date of Discovery Bank, and each vesting is settled in three equal instalments over three years, if the participant is employed on each vesting date.

Other long term incentive schemes

The following schemes are long term staff incentives where the value is determined with reference to something other than the Discovery Limited share price. These schemes are accounted for in terms of IAS 19: *Employee benefits*.

7. THE VITALITYHEALTH AND VITALITYLIFE PHANTOM SHARE SCHEME

Participants earn a cash bonus based on allocation of bonus scheme units which in turn are linked to the performance of VitalityLife and VitalityHealth, and more specifically the Value of In Force (ViF) of VitalityLife and the Embedded Value (EV) of VitalityHealth. The bonus is earned if the participant is employed on each vesting date. For units issued, the vesting of the units is two, three and four years after allocation of the bonus units. The bonus may not be carried forward.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

31. SHARE-BASED PAYMENTS AND LONG TERM INCENTIVES *continued*

8. THE VITALITYHEALTH AND VITALITYLIFE SCHEME

Shares in Discovery Holdings Europe Limited were issued to participants. The participants had the option to sell the shares at any point in time until 12 March 2019 at which time their holding company, Discovery Group Europe Limited, had an obligation to purchase the shares from them.

9. OTHER DEVELOPMENT SEGMENT SCHEMES

Various other long term incentive schemes exist in the Discovery Group in the development segments. These schemes are individually and in aggregate immaterial and as a result no further information is disclosed.

The share/option schemes mentioned in bullet 1 and 3 have been classified as equity-settled schemes and therefore a share-based payment reserve has been recognised. The schemes mentioned in bullets 2, 3 and 5 have been classified as cash-settled schemes and a liability is raised in terms of IFRS 2. The other long term incentive schemes, have been accounted for in terms of IAS 19.

The following is a summary of the terms and conditions of the units granted:

Date granted	Share/ Option price	Final vesting date	Shares under option at beginning of year	Share/ Options granted during year	Share/ Options vested during year	Share/ Options cancelled or adjusted during year	Shares under option at end of year
1. BEE staff share trust							
01/07/2015 – 30/06/2016	R0.00	30/09/2021	10 847	–	(10 432)	–	415
01/07/2015 – 30/06/2016	R122.41	01/03/2021	11 029	–	(11 029)	–	–
01/07/2015 – 30/06/2016	R121.5	30/03/2021	24 692	–	(24 692)	–	–
01/07/2016 – 30/06/2017	R0.00	02/05/2022	65 281	–	(32 844)	(1 086)	31 351
01/07/2016 – 30/06/2017	R113	30/11/2021	2 124	–	(1 062)	–	1 062
01/07/2016 – 30/06/2017	R122.5	30/11/2021	101 447	–	(26 883)	(2 008)	72 556
01/07/2017 – 30/06/2018	R0.00	22/05/2023	63 208	–	(24 711)	(6 085)	32 412
01/07/2018 – 30/06/2019	R0.00	30/04/2024	30 126	–	(9 179)	(3 427)	17 520
01/07/2019 – 30/06/2020	R0.00	30/09/2025	56 892	–	(25 789)	42 992	74 095
01/07/2020 – 30/06/2021	R0.00	30/04/2026	–	29 935	–	–	29 935
2. The Discovery Limited phantom scheme							
01/07/2015 – 30/06/2016	R0.00	30/04/2021	217 666	–	(169 065)	(48 601)	–
01/07/2015 – 30/06/2016	R122.50 – R134.94	30/04/2021	430 450	–	(424 285)	(6 165)	–
01/07/2016 – 30/06/2017	R0.00	30/04/2022	1 030 681	–	(410 662)	(121 475)	498 544
01/07/2016 – 30/06/2017	R110.40 – R115.23	30/04/2022	206 087	–	(97 439)	(14 863)	93 785
01/07/2017 – 30/06/2018	R0.00	31/03/2023	1 688 873	–	(400 559)	(187 341)	1 100 973
01/07/2017 – 30/06/2018	R84.76 – R141.65	31/03/2023	531 754	–	(176 051)	(15 904)	339 799
01/07/2018 – 30/06/2019	R0.00	31/03/2024	1 912 887	–	(370 542)	(173 139)	1 369 206
3. Discovery LTIP (equity settled)							
01/07/2019 – 30/06/2020	R0.00	30/09/2024	3 580 672	–	–	(123 652)	3 457 020
01/07/2020 – 30/06/2021	R0.00	30/09/2025	–	3 953 634	–	(82 989)	3 870 645
4. Acquisition schemes							
01/07/2014 – 30/06/2015	R0.00	30/06/2019	1 841	–	–	(1 841)	–
01/07/2015 – 30/06/2016	R0.00	30/06/2020	4 141	–	–	(4 141)	–
01/07/2015 – 30/06/2016	R0.00	30/06/2021	38 059	60 172	(31 589)	(66 642)	–
01/07/2016 – 30/06/2017	R0.00	30/06/2022	91 284	2 678	(43 299)	(15 875)	34 788
01/07/2017 – 30/06/2018	R0.00	30/06/2023	565 591	1 832	(464 818)	(37 650)	64 955
01/07/2018 – 30/06/2019	R0.00	30/06/2024	648 950	1 484	(32 636)	(41 215)	576 583
01/07/2019 – 30/06/2020	R0.00	30/06/2025	766 481	9 440	(8 360)	(25 018)	742 543
01/07/2020 – 30/06/2021	R0.00	30/06/2026	–	830 418	–	(7 391)	803 027
5. The Vitality Group phantom stock plan							
01/10/2016	USD 0.00	01/10/2021	538 596	–	(519 896)	(18 700)	–



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

31. SHARE-BASED PAYMENTS AND LONG TERM INCENTIVES *continued*

The Black-Scholes model was used to calculate the fair value of the following options based on the assumptions in the below table:

	Spot price	Risk free interest rate	Exercise price	Option term	Volatility	Dividend yield
BEE staff share trust						
Issued in prior years	R113 – R127.14	7.35% – 7.71%	R113 – R122.50	up to 0.25 years	26.89% – 27.37%	1.31% – 1.70%
Phantom scheme						
01/07/2016 – 30/06/2017	R126.27	3.67%	R114.96	up to 0.25 years	30.76%	0%
01/07/2017 – 30/06/2018	R126.27	3.67% – 4.28%	R141.65	up to 1.25 years	38.19%	0% – 2.16%

The VitalityHealth and VitalityLife phantom share scheme is cash settled and thus repriced at each reporting date. The value of the shares and options allocated are dependent on the performance of VitalityLife and VitalityHealth, more specifically the ViF of VitalityLife and the EV of VitalityHealth. The valuation of the Discovery Holdings Europe Limited equity share scheme options, is calculated on the same basis.

The Discovery Limited phantom scheme, and Acquisition schemes are equity-settled and are thus repriced at each reporting date.

As noted in Note 3.4.1, Discovery is exposed to equity price risk through its cash-settled share incentive schemes, namely the Phantom share scheme and the Acquisition share scheme, the details of which have been described above. To manage this risk, Discovery has purchased a combination of total return swaps and call options from Ba1 (2020: Ba2 -Ba a3) rated South African banks to hedge a portion of its exposure to changes in the Discovery share price.

Please refer to note 13 for more detail on the derivatives.

The Discovery LTIP is equity-settled, and accordingly Discovery determines the grant date fair value at the date of allocating the grant to the employee. The grant date fair value is then recognised over the vesting period. The significant assumptions in determining the grant date fair value were as follows:

	Spot price	Risk free interest rate	Volatility ¹	Vesting period	Dividend yield
Discovery LTIP					
01/07/2019 - 30/06/2020	R 113,81	6.68% - 7.01%	R30,89%	3 - 5 years	2.21% - 2.52%
01/07/2020 - 30/06/2021	R125.52 - R153.54	3.9% - 5.02%	37.02% - 42.21%	3 - 5 years	2.26% - 2.57%

¹ The expected volatility is based on both the historical average share price and implied volatility derived from traded options over the groups ordinary shares of maturity similar to those of the employee share options.

32. FINANCE COSTS

R million	Group 2021	Group 2020
Interest expense on:		
- Borrowings measured at amortised cost using the effective interest method	973	1 033
- Release from other comprehensive income	(8)	10
- Lease liabilities (IFRS 16)	436	441
- Interest on other payables using the effective interest method	247	34
	1 648	1 568

33. NET FOREIGN EXCHANGE GAINS/(LOSSES)

R million	Group 2021	Group 2020
Net foreign exchange (losses)/gains	(389)	578

The net foreign exchange gains and losses arised primarily from foreign denominated loans, some which are internal.

The total amount of foreign exchange gains or losses recognised in profit or loss is R396 million (2020: R734million) presented with various lines associated with the underlying transaction.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

34. TAXATION

R million	Group 2021	Group 2020
Charge for the year:		
Current taxation	1 274	1 746
Normal taxation		
– current year charge	1 236	1 723
Capital gains taxation	38	23
Deferred taxation	(299)	(1 122)
Total income tax expense recognised in profit or loss	975	624
	%	%
<i>Taxation rate reconciliation</i>		
Effective taxation rate	23.2	78.0
Subsidiary losses not provided for	(6.6)	(95.5)
Prior year (under)/over provision	(1.9)	(0.3)
Deferred tax asset raised on prior year losses/ unrecognised prior period losses utilised in current period	1.1	27.6
Alignment to 'new IFRS tax-adjusted basis'	-	(0.1)
Tax on Individual Policyholder Fund	0.7	3.3
Tax on Company Policyholder Fund	1.4	0.8
Capital gains tax	(1.5)	0.8
Capital profits and dividend income	6.2	14.4
Non-deductible expenditure: Capital in nature	(2.7)	(7.5)
Non-deductible expenditure: Other individually immaterial	(1.1)	(0.2)
Non-taxable income: Other individually immaterial	0.7	0.2
Non-taxable	6.9	-
Tax rate change	0.9	1.4
Tax rate differences	0.7	4.6
Tax on eliminated intergroup transactions	-	0.5
Standard rate of taxation	28.0	28.0

For South African entities that are in a tax paying position, tax has been provided at 28% (2020: 28%). Discovery uses the South African tax rate in respect of its tax rate reconciliation as Discovery Limited (holding company listed on the JSE) is domiciled in South Africa and the most significant operations are in South Africa. There has been a proposal by South Africa's National Treasury that the corporate tax rate should reduce to 27% for tax years commencing after 1 April 2022. Discovery does not yet deem this rate to be substantively enacted.

Taxation in respect of the South African life insurance operations is determined in accordance with the rates and basis applicable to section 29A of the Income Tax Act at the reporting date.

35. EARNINGS PER SHARE

	Group 2021	Group 2020
Basic earnings per share		
Earnings per share is based on net profit after tax attributable to ordinary shareholders and the weighted number of ordinary shares in issue.		
Net profit attributable to ordinary shareholders (R million)	3 157	97
Weighted number of ordinary shares in issue (000's)	656 710	656 648
Basic earnings per share (cents)	480.7	14.8
Diluted earnings per share		
Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.		
Weighted average ordinary shares in issue (000's) adjusted for:	656 710	656 648
– Weighted average ordinary shares in the staff share trusts (000's)	141	181
– Weighted average ordinary shares related to long term share incentive scheme (000's)	7 222	4 414
	664 073	661 242
Diluted earnings per share (cents)	475.4	14.7



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

35. EARNINGS PER SHARE *continued*

	Group 2021	Group 2020
Headline earnings		
Headline earnings per share is based on the net profit after tax attributable to ordinary shareholders adjusted for items of a capital nature and the weighted average number of ordinary shares in issue.		
Headline earnings reconciliation (R million)	3 157	97
Net profit attributable to ordinary shareholders		
Adjusted for:		
- gain on dilution and disposal of equity-accounted investments	(554)	(3)
- tax on gain on dilution and disposal of equity-accounted investments	140	-
- impairment of equity accounted investments	149	-
- impairment of goodwill	-	9
- (gain)/loss on disposal of property and equipment	(3)	(3)
- tax on gain/loss on disposal of property and equipment	1	1
- impairment of intangible assets and property and equipment	61	63
- tax on impairment of intangible assets	(5)	(19)
- derecognition of intangible assets and property and equipment	50	196
- tax on derecognition of intangible assets and property and equipment	(10)	(47)
- Discovery Limited's share of headline earnings adjustments made by equity-accounted investees:		
derecognition of intangible assets and property and equipment	-	2
Headline earnings	2 986	296
Headline earnings per share (cents):		
- basic	454.7	45.0
- diluted	449.7	44.7
Refer to accounting policy 27 in Annexure A on the calculation of normalised headline earnings.		
Headline earnings	2 986	296
- amortisation of intangibles from business combinations	66	76
- deferred tax on amortisation of intangibles from business combinations	(13)	(16)
- deferred tax assets raised on assessed losses	(152)	(275)
- unrealised (gains)/losses on foreign exchange contracts not designated as a hedge	304	(263)
- tax on unrealised on foreign exchange contracts not designated as a hedge	(85)	74
- initial expenses related to Prudential Book transfer	-	71
- tax on expenses related to Prudential Book transfer	-	(14)
- changes in economic assumptions in excess of available discretionary margin	(790)	5 708
- tax on charges in economic assumptions in excess of available discretionary margin	112	(1 413)
- fair value changes on VitalityLife interest rate derivatives	1 170	(758)
- tax on fair value changes on VitalityLife interest rate derivatives	(222)	144
- restructuring costs	33	100
- tax on restructuring costs	(6)	(20)
- transaction costs related to VitalityLife interest rate derivatives	4	45
- tax on transaction costs related to VitalityLife interest rate derivatives	(1)	(8)
Normalised headline earnings	3 406	3 747
Normalised headline earnings per share (cents):		
- basic	518.7	570.7
- diluted	512.9	566.7



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2021

36. CASH FLOW INFORMATION

36.1 Cash generated by operations

R million	Group 2021	Group 2020
Cash generated by operations		
Profit before taxation	4 195	800
Adjusted for:		
Investment income	(4 043)	(4 274)
Realised loss/(gain) on financial assets	216	(426)
Finance costs	1 648	1 568
Premiums, claims and investment charges for liabilities under investment contracts	5 645	2 187
Non-cash items:		
Allowance for expected credit losses	(11)	136
Amortisation of intangibles from business combinations	66	76
Amortisation of software	1 200	1 111
Assets arising from contracts with customers	131	119
Contract liabilities movement	22	314
Deferred acquisition costs	1	(3)
Derecognition and impairment of property and equipment	29	234
Derecognition and impairment of intangible assets	83	25
Depreciation	650	643
Fair value adjustment to liabilities under investment contracts	3 634	151
(Gain)/loss from derivatives	(136)	531
Gain on dilution and disposal of equity-accounted investments	(554)	(3)
Hedge ineffectiveness	8	13
Impairment of equity-accounted investment	149	-
Impairment of goodwill	-	9
Gain on disposal of property and equipment	(3)	(3)
Provision for employee benefits	59	48
Share-based payment expenses - cash settled	330	54
Share-based payment expenses - equity settled	195	164
Share of profits from equity-accounted investments	(523)	(264)
Transfer to assets under insurance contracts	(545)	(2 038)
Transfer to assets under reinsurance contracts	(56)	(53)
Transfer to liabilities under insurance contracts	17 941	9 418
Transfer to liabilities under reinsurance contracts	(1 755)	462
Economic assumption differences net of discretionary margins	(790)	5 708
Translation differences	395	(460)
Unearned premiums	(360)	844
Unrealised gains on investments at fair value through profit or loss	(8 336)	215
Working capital changes:		
Deposits from customers	6 558	2 427
Loans and advances to customers	(1 513)	(1 836)
Loans and receivables including insurance receivables	(205)	(2 121)
Trade and other payables	2 132	3 244
Total	26 457	19 000



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

36. CASH FLOW INFORMATION *continued*

36.2 Taxation paid

R million	Group 2021	Group 2020
Balance at beginning of the year	(611)	(140)
Taxation charged for the year in the income statement	(975)	(624)
Adjustment for movement in deferred taxation	(299)	(1 122)
Taxation charged for the year in other comprehensive income	-	32
Reallocation to separately disclosable items	195	-
Translation differences	(5)	(46)
Balance at end of the year	(22)	611
Total	(1 717)	(1 289)

36.3 Movement in borrowings

R million	Group 2021	Group 2020
Balance at beginning of the year excluding bank overdraft	19 836	14 682
Leased assets acquired and IFRS 16 transition	56	792
Increase in borrowings	1 839	10 339
Raising fees capitalised	(39)	(29)
Interest accrued on borrowings	1 407	1 474
Interest paid on borrowings	(941)	(1 289)
Repayment of borrowings	(2 366)	(6 639)
Modification to lease assets	46	-
Translation differences	(345)	506
Balance at end of the year excluding overdrafts with banks	19 493	19 836

37. COMMITMENTS

Capital commitments

R million	Group 2021	Group 2020
Capital expenditure approved but not contracted for at the reporting date is as follows:		
Intangible assets	140	189
Development costs for Discovery Bank	325	388
	464	577

Also refer to Capital discussion in Directors' report.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

38. DIVIDENDS PER SHARE

38.1 Dividends per ordinary share

Due to the uncertain and potentially volatile environment caused by the COVID-19 pandemic, Discovery did not pay out any ordinary dividends for the year ended 30 June 2020.

The dividends paid in 2020 totalled R1 413 million and comprised a final dividend of 114 cents per share paid on 7 October 2019 and an interim dividend of 101 cents per share paid on 23 March 2020.

38.2 Dividends per preference share

The dividends paid in 2021 totalled R63 million and comprised a final dividend of 433.21918 (346.57534 net of withholding tax) cents per share paid on 28 September 2020 and an interim dividend of 354.52055 (283.61644 net of withholding tax) cents per share paid on 15 March 2021.

The dividends paid in 2020 totalled R81 million and comprised a final dividend of 508.28767 (406.63014 net of withholding tax) cents per share paid on 23 September 2019 and an interim dividend of 505.41097 (404.32878 net of withholding tax) cents per share paid on 16 March 2020.

39. CONTINGENCIES

The Group is exposed to no material contingencies at 30 June 2021.

40. RELATED PARTIES

40.1 List of related parties as defined

Subsidiaries

Details of subsidiaries directly and indirectly owned by Discovery Limited are contained in Company note 2. Also refer to Directors' report 'Nature of Business'.

Associates and Joint Ventures

Details of Discovery's material associates and joint ventures are contained in note 11.

Corporate investors

Rand Merchant Investment Holdings Limited has a 25.04% shareholding in Discovery Limited.

Key management personnel

Key management personnel have been defined as directors of Discovery Limited, Discovery Health Proprietary Limited and Discovery Life Limited, as these businesses constitute the majority of the Discovery Group.

A list of the directors and prescribed officers of Discovery Limited can be found in the Directors' report.

To the extent specific transactions have occurred between Discovery and key management personnel, including close family members of key management, (as defined in IAS 24) the details are included in the aggregate disclosure contained below under key management and where significant, full details of all relationships and terms of the transactions are provided.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

40. RELATED PARTIES *continued*

40.2 Transactions with related parties

Cambridge Mobile Telematics Inc. (CMT)

Discovery Insure paid fees on a monthly basis to CMT for the collation and interpretation of data and the translating of driving behaviour into scorable events. Fees paid for the year totalled R11 million (2020: R11 million).

Key management personnel of Discovery Limited, families of key management (as defined in IAS 24) and entities significantly influenced or controlled by key management

INSURANCE CONTRACTS

R'000	Aggregated insured cover		Premiums received		Claims paid	
	2021	2020	2021	2020	2021	2020
Life insurance	1 016 334	1 070 749	6 347	6 543	-	-
Short-term insurance	630 404	444 908	2 723	2 154	1 622	424
Short-term health insurance	-	-	79	53	27	4

INVESTMENT CONTRACTS

R'000	Investment values		Premiums received		Withdrawal benefits		Investment returns	
	2021	2020	2021	2020	2021	2020	2021	2020
Investment contracts	116 523	62 735	56 328	6 634	19 216	8 322	6 522	3 391

VITALITY LOYALTY PROGRAMME

R'000	Premiums received		Amounts paid	
	2021	2020	2021	2020
Vitality benefits	79	78	571	1 397

During the current financial year, the DiscoveryCard benefits were migrated to Discovery Vitality. There are, there fore, no transaction for 2021.

DISCOVERYBANK

R'000	Loans		Savings		Fees	
	2021	2020	2021	2020	2021	2020
DiscoveryBank	1 345	969	32 141	10 688	244	358

During the current financial year DiscoveryCard migrated to DiscoveryBank.

Key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management accrued 149 388 Discovery miles as part of the DiscoveryCard loyalty programme for the year ended 30 June 2021 (2020: 80 056).

Aggregate shareholdings of key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management, in Discovery Limited as at 30 June 2021 was 78 620 184 ordinary shares (2020: 87 263 243 ordinary shares).

During the current financial year the following transaction occurred between Discovery and key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management:

- sponsorship and enterprise development grants to the value of R1.9 million (2020: R1.7 million) were made to organisations where members of key management personnel have significant influence.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

40. RELATED PARTIES *continued*

40.3 Major customers and other Discovery entities not part of Discovery Group

Discovery Health Medical Scheme (DHMS)

Discovery Health administers DHMS and provides managed care services for which it charges an administration fee and a managed healthcare fee respectively. These fees are determined on an annual basis and approved by the trustees of DHMS. The fees totaled R6 403 million (2020: R6 190 million). Discovery offers the members of DHMS access to the Vitality programme. Discovery Health also provides wellness services to DHMS. The fees received for these services totaled R12 million (2020: R38 million).

Discovery Third Party Recovery Services (DTPRS) paid DHMS R10 million (2020: R16 million) to purchase all the risks and rewards of ownership to the claims due from the Road Accident Fund up to 15 January 2021 (2020: 9 September 2019). DTPRS also provides a service to DHMS to recover all claims that are due from the Compensation for Occupational Injuries and Diseases. DTPRS received R22 million (2020: R15 million) for this service. DTPRS owes DHMS R3 million (2020: R3 million) at year-end.

Discovery Vitality receives monthly contributions from DHMS members that have activated the Vitality Wellness programme through various product integrations. The membership fees totaled R1 660 million for the year ended 30 June 2021 (2020: R1 687 million).

DHMS owes the Discovery Group R650 million (2020: R646 million) at year-end.

Discovery Central Services receives monthly rent from DHMS for office space at 1 Discovery Place which totalled R7 million for the year ended 31 June 2021, (2020: R 6 million).

Closed schemes

Discovery Health administers the following restricted membership medical schemes:

- Anglo Medical Scheme
- Anglovaal Group Medical Scheme
- Bankmed Medical Scheme
- BMW Employees Medical Aid Society
- Engen Medical Benefit Fund
- Glencore Medical Scheme
- LA Health Medical Scheme
- Lonmin Medical Scheme
- Malcor Medical Scheme
- Naspers Medical fund
- Netcare Medical Scheme
- Quantum Medical Aid Society (Amalgamation with DHMS 1 August 2021)
- Remedi Medical Scheme
- Retail Medical Scheme
- SAB Medical Aid Scheme
- TFG Medical Scheme
- Tsogo Sun Group Medical Scheme
- UKZN Medical Scheme

Discovery Health charges these schemes administration fees which are determined on an annual basis and approved by the trustees of the respective closed schemes. The fees totaled R1 174 million (2020: R1 141 million).

DTPRS paid Bankmed R3 million (2020: R1 million) to purchase all the risks and rewards of ownership for the claims due from the Road Accident Fund up to 20 October 2020 (2020: 31 July 2018). DTPRS also provides a service to Bankmed to recover all claims that are due from the Compensation for Occupational Injuries and Diseases. DTPRS received R0.4 million (2020: R1 million) for this service.

Discovery Vitality receives monthly contributions from the closed scheme members that have activated the Vitality Wellness programme through various product integrations. The membership fees totaled R91 million (2020: R99 million).

Amounts due to the Discovery Group at year-end totalled R104 million (2020: R104 million).

Discovery Franchises

Discovery has established a network of 29 franchises in order to establish a national footprint for its products. Discovery has paid R251 million (2020: R239 million) in fees to the franchises.

The franchises participate in the Acquisition Scheme (refer to note 31 for further details). During the year, R17 million (2020: R4 million) was accrued for in terms of this scheme.

The Discovery Foundation

The Discovery Foundation, which is an independent shareholder of Discovery, has become self-sustaining from the dividends received on its shareholding in Discovery Limited and no further contributions or fees were received during the prior and current year.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

40. RELATED PARTIES *continued*

40.3 Major customers & other Discovery entities not part of Discovery Group *continued*

The Discovery Fund

A fund for sustainable non-governmental healthcare projects, especially in primary healthcare. These projects complement the delivery of primary and preventative care in the public sector and help to relieve the burden on state facilities.

The Discovery Fund received contributions from Discovery of R23 million during the year (2020: R23 million). Discovery also paid a management fee of R4 million (2020: R2 million).

Discovery Retirement Funds

In February 2020 the Discovery Limited Board appointed the Discovery Retirement Funds comprising funds underwritten by Discovery Life and registered as the Discovery Life Pension Umbrella Fund and the Discovery Life Provident Umbrella Fund, as retirement fund provider to the Discovery Staff.

At 30 June 2021 the Discovery Staff Pension Fund and Discovery Staff Provident Fund, the two standalone Funds previously providing retirement benefits to Discovery Staff, were in the process of moving their member's assets across to the Discovery Retirement Funds, subject to the regulated Section 14 transfer process. The assets of the Discovery Staff Pension Fund amounting to R1 787 million were transferred across to the Discovery Retirement Funds in June 2021. The movement of the assets of the Discovery Staff Provident Fund amounting to R1 550 million is pending S14 approval by the FSCA.

Contributions to the Discovery Retirement Funds by Discovery Staff during the year amounted to R497 million (2020: Rnil). The Discovery Retirement Funds have R2 288 million invested in unit linked insurance policies with Discovery Life (2020: Rnil) on behalf of Discovery Staff. R1 969 million (2020: Rnil) of the insurance policies are in turn linked to unit trusts managed by Discovery Life Collective Investments.

Contributions to the Discovery Staff Pension Fund and Discovery Staff Provident Fund by Discovery Staff stopped during the current financial year (2020: R461 million).

The Board of the Discovery Staff Pension Fund and Discovery Staff Provident Fund have resolved to close the Funds after the transfer is completed and there are no assets remaining in either of the Funds.



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

41. ACCELERATED REINSURANCE PREMIUMS – VITALITYHEALTH

VitalityHealth uses quota share reinsurance treaties as one of the mechanisms to manage initial acquisition cost strain and underwriting experience risk. During the current financial year, repayments on these existing reinsurance contracts were accelerated, reducing net premiums received for the year under review and consequently reducing repayment obligations in future years. The strategic rationale for this is set out below.

The COVID-19 pandemic resulted in a temporary reduction in claims ratios for VitalityHealth for the year ended 30 June 2021 compared to pre-pandemic levels, as various medical treatments could not be accessed or were delayed by policyholders. It is anticipated that these delayed treatments will result in claims ratios being substantially higher than pre-pandemic levels during the next two financial years. This is expected as a result of a catch up of delayed treatments, combined with increased severity of conditions due to those delays. The ongoing impact of VitalityHealth returning value to customers during the pandemic, including restricting premium increases upon renewal, will further impact the claims ratios.

VitalityHealth has recognised reserves as permitted by IFRS. However, VitalityHealth as a short-term insurer, is constrained in its ability to set aside reserves for those claims that are expected to arise in future renewal periods beyond the contract boundary.

To protect itself against the expected increased claims ratio over the next two financial years, VitalityHealth has modified certain of its existing quota share reinsurance treaties to adjust the repayment profile. The modification resulted in VitalityHealth making additional repayments of GBP 39.7 million (R823 million) in the current financial year, with GBP 19.8 million of reduced repayments in the financial year ending 30 June 2022 and 2023 respectively. The net impact in profit or loss over the three-year period to 30 June 2023, is nil.

The additional repayments in the current financial year have been recognised as additional reinsurance premiums. The impact of accelerated reinsurance payments can be summarised as follows:

R million	VitalityHealth June 2021	VitalityHealth June 2020
Insurance premium revenue	11 705	9 100
Reinsurance premium	(1 839)	(1 589)
Accelerated reinsurance repayments	(823)	-
Net insurance premium revenue	8 413	7 511
Claims and policyholders' benefits	(5 219)	(4 796)
Insurance claims recovered from reinsurers	1 325	1 173
Net claims and policyholders' benefits	(3 894)	(3 623)
Net underwriting results	4 518	3 888
Change in liabilities arising from insurance contracts	(155)	(28)
Ratios		
Gross claims ratio – claims and policyholders' benefits adjusted for change in liabilities arising from insurance contracts as a percentage of insurance premium revenue	45,73%	53,01%
Claims ratio – net claims and policyholders' benefits adjusted for change in liabilities arising from insurance contracts as a percentage of net insurance premium revenue	44,45%	48,61%
Claims ratio – net claims and policyholders' benefits adjusted for change in liabilities arising from insurance contracts as a percentage of net insurance premium revenue	40,49%	-



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

42. EVENTS AFTER REPORTING DATE

B preference share cash dividend declaration

On 26 August 2021, the directors declared a final gross cash dividend of 347.12329 cents (277.69863 cents net of dividend withholding tax) per B preference share for the period 1 January 2021 to 30 June 2021, payable from the income reserves of the Company. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

The issued preference share capital at the declaration date is 8 million B preference shares.

The salient dates for the dividend will be as follows

Last day of trade to receive a dividend	Monday, 20 September 2021
Shares commence trading "ex" dividend	Tuesday, 21 September 2021
Record date	Thursday, 23 September 2021
Payment date	Monday, 27 September 2021

B Preference share certificates may not be dematerialised or rematerialised between Tuesday, 21 September 2021 and Thursday, 23 September 2021, both days inclusive.

Ordinary share cash dividend declaration:

Due to uncertain and potentially volatile economic environment caused by the COVID-19 pandemic, Discovery will not be recommending the payment of ordinary dividends. The reintroduction of dividends will be considered when appropriate.



DISCOVERY

COMPANY ANNUAL
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FOR THE YEAR ENDED 30 JUNE

2021





COMPANY STATEMENT OF FINANCIAL POSITION

at 30 June 2021

R million	Notes	Company 2021	Company 2020
Assets			
Deferred income tax asset	13	113	-
Investments in subsidiaries	2	27 458	25 658
Investment in associate and joint venture	3	1 097	991
Financial assets			
- Loans to subsidiaries	5	8 758	7 856
- Loans to BEE partners	6	149	116
- Other receivables	7	112	358
- Derivatives at fair value through profit or loss	4	27	242
Cash and cash equivalents	20.5	93	188
Total assets		37 807	35 409
Equity			
Capital and reserves			
Ordinary share capital and share premium	8.1	10 281	10 331
Preference share capital	8.2	779	779
Other reserves		510	4
Retained earnings		7 926	5 085
Total equity		19 496	16 199
Liabilities			
Deferred income tax	13	-	1
Financial liabilities			
- Borrowings at amortised cost	9	8 858	8 356
- Financial guarantee contracts	21	27	52
- Trade and other payables	11	8 147	9 088
- Loans from subsidiaries	12	853	1 102
- Derivatives at fair value through profit or loss	10	426	522
Current income tax liabilities		*	89
Total liabilities		18 311	19 210
Total liabilities and equity		37 807	35 409

* Amount is less than R500 000.

The order in which individual line items are presented in the Statement of financial position has been amended to better reflect their respective liquidity, as far as possible, from least liquid to the most liquid items. No values were reclassified or restated between line items.



COMPANY INCOME STATEMENT

for the year ended 30 June 2021

R million	Notes	Company 2021	Company 2020
Investment income	14	3 845	1 625
Other income	15	61	35
Net fair value (losses)/gains on financial instruments at fair value through profit or loss	16	(307)	263
Marketing and administration expenses	17	(14)	(14)
Movement in allowance for expected credit losses	18	18	9
Profit from operations		3 603	1 918
Finance costs		(867)	(832)
Foreign exchange (losses)/gains		(169)	370
Profit before tax		2 567	1 456
Taxation	19	112	(184)
Profit for the year		2 679	1 272
Attributable to:			
- ordinary shareholders		2 616	1 191
- preference shareholders		63	81
		2 679	1 272

COMPANY STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2021

R million	Company 2021	Company 2020
Profit for the year	2 679	1 272
Items that are or may be reclassified subsequently to profit or loss:		
Cash flow hedges	182	(350)
- unrealised gains/(losses)	189	(360)
- (gains)/losses reclassified to profit or loss	(7)	10
Other comprehensive income for the year, net of tax	182	(350)
Total comprehensive income for the year	2 861	922
Attributable to:		
- ordinary shareholders	2 798	841
- preference shareholders	63	81
	2 861	922



COMPANY STATEMENT OF CASH FLOWS

for the year ended 30 June 2021

R million	Notes	Company 2021	Company 2020
Cash flow from operating activities		1 029	3 882
Cash (utilised in)/generated by operations	20.1	(1 420)	3 408
Dividends received		3 271	1 155
Interest received		96	113
Interest paid		(829)	(744)
Taxation paid	20.2	(89)	(50)
Cash flow from investing activities		(1 569)	(3 780)
Increase investment in subsidiary	20.3	(884)	(2 753)
Increase investment in associate		(106)	-
Increase in loans granted to subsidiaries	5	(2 274)	(2 302)
Proceeds from settlement of subsidiary loans	5	1 695	1 275
Cash flow from financing activities		445	2
Proceeds on treasury shares		10	-
Proceeds from long-term borrowings	20.4	498	5 104
Repayment of long-term borrowings	20.4	-	(3 606)
Dividends paid to ordinary shareholders		-	(1 415)
Dividends paid to preference shareholders		(63)	(81)
Net (decrease)/increase in cash and cash equivalents		(95)	104
Cash and cash equivalents at beginning of the year		188	84
Cash and cash equivalents at end of the year	20.5	93	188



COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2021

Company R million	Share capital and share premium	Preference share capital	Hedging reserve	Share- based payment reserve	Retained earnings	Total
Year ended 30 June 2020						
At beginning of the year	10 331	779	(166)	358	5 309	16 611
Total comprehensive income for the year	-	81	(350)	-	1 191	922
Profit for the year	-	81	-	-	1 191	1 272
Other comprehensive income	-	-	(350)	-	-	(350)
Transactions with owners	-	(81)	-	162	(1 415)	(1 334)
Increase in treasury shares	-	-	-	162	-	162
Dividends paid to ordinary shareholders	-	-	-	-	(1 415)	(1 415)
Dividends paid to preference shareholders	-	(81)	-	-	-	(81)
Balance at 30 June 2020	10 331	779	(516)	520	5 085	16 199
Year ended 30 June 2021						
At beginning of the year	10 331	779	(516)	520	5 085	16 199
Total comprehensive income for the year	-	63	182	-	2 616	2 861
Profit for the year	-	63	-	-	2 616	2 679
Other comprehensive income	-	-	182	-	-	182
Transactions with owners	(50)	(63)	-	324	225	436
Issue of shares	907	-	-	-	-	907
Increase in treasury shares	(957)	-	-	(5)	67	(895)
Gain on common control transaction	-	-	-	-	158	158
Employee share option schemes:						
- Value of employee services	-	-	-	329	-	329
Dividends paid to preference shareholders	-	(63)	-	-	-	(63)
Balance at 30 June 2021	10 281	779	(334)	844	7 926	19 496



NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2021

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these separate financial statements are consistent with those set out in Annexure A. In addition to those policies, the following policies apply specifically to these separate financial statements.

1. Investment in subsidiaries, associates and joint ventures

Investments in subsidiaries, are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Costs also includes directly attributable cost of the investment.

Discovery assesses at each reporting date whether there is objective evidence that the investment in subsidiaries, associate or a joint venture is impaired. If such evidence of impairment exists, Discovery calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value.

1.1 Common control transactions

Common control transactions is a business combination in which all the combining entities or businesses are ultimately controlled by the same party (or parties) before and after the combination. This includes businesses which are associates and joint ventures. Discovery Limited applies book value accounting to account for common control transactions. Discovery Limited will dispose of its investment at the carrying amount. Any difference between the consideration received and the carrying amount of the investment disposed of is recognised as an equity transaction with shareholders in equity. No gain or loss is recognised in profit or loss on disposal.

2. Financial guarantee contracts

The Company accounts for financial guarantee contracts (FGCs) in accordance with IFRS 9 *Financial Instruments* (IFRS 9). The Company issues FGCs to assist in securing funding for its subsidiaries.

FGCs are contracts which require the Company as the issuer of the contract, to make specified payments to reimburse the holder for a loss that the holder incurs because the specified debtor fails to make payment when it is due under the original or modified terms of the debt instrument.

The Company measures the FGC:

- Initially at fair value; and
- Subsequently at the higher of:
 - The amount of expected credit losses determined under IFRS 9 (calculation 1); and
 - The amount initially recognised less, when appropriate, the cumulative amount of income recognised under the principles of IFRS 15 *Revenue from Contracts with Customers* (calculation 2).

2.1 Initial recognition

In the instances where the Company issues FGCs for the debt of a related entity in the Discovery Group, the Company determines the fair value. These FGCs are seen as transactions in a capacity as shareholder and are treated as capital contributions.

In some instances, the other Discovery Group entity can also pay a premium to the issuer of the FGCs. The Company then determines if the price represents the fair value, or whether there is still an additional benefit of the FGC that the Company should recognise.

In the instance where the Company does not receive all the premiums upfront, it recognises the FGC using a net approach. The net approach requires that the Company presents the financial guarantee as its fair value less all future premiums.



NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

2. Financial guarantee contracts *continued*

2.2 Subsequent measurement

The Company recognises financial guarantee fee income as follows:

- Amortises the fair value recognised on initial recognition over the period that the FGC is outstanding, being generally the period of the underlying debt;
- Recognises any premiums received for issuing the FGC also as financial guarantee fee income; and
- Where the Company has applied the net approach, the Company adjusts for the premiums subsequently received to ensure it takes into account all premiums in using calculation 2.

The Company calculates the lifetime expected credit losses for purposes of calculation 1.

Where the outcome is such that calculation 1 is more than calculation 2, differences are recognised and presented as part of expected credit losses.

Where the outcome is such that calculation 2 is more than calculation 1, no adjustments are required. Any previously recognised expected credit losses can be reversed, but limited to the total value previously recognised.

2.3 Derecognition

The Company derecognises FGCs when the FGC is extinguished, expires or the underlying debt is extinguished.

At the date of derecognition:

- Where the FGC is extinguished in exchange for a new FGC to the same holder and in respect of the same guaranteed entity, the FGC derecognised is seen as compensation for the new FGC; or
- In all other instances, the FGC is derecognised with an associated gain or loss in profit or loss.

3. Share based payments

Also refer to Accounting Policies 17 'Employee benefits' set out in Annexure A and Group note 31 'Share-based payments and long-term incentives'.

Two of the schemes that Discovery operates, namely the BEE staff share trust and Discovery long-term incentive plan (equity settled), are both equity-settled share based payment arrangements in accordance with the requirements of IFRS 2 Share-based Payment. In these schemes, Discovery Limited grants the awards to the employees within the Discovery Group of entities. Discovery classifies the share-based payment transaction according to whether the entity has the obligation to settle. As it is Discovery Limited's shares being awarded to employees, Discovery classifies the transaction as equity-settled.

Under IFRS, Discovery does not consider any repayment or recharge arrangements in determining the classification of these group share based payment. Any recharge payments Discovery receives from its subsidiaries is treated as a return on capital from the subsidiary. Any excess of recharge above the carrying amount of investment in subsidiary is recognised immediately as dividend income.

Discovery manages two share trusts. Discovery treats the share trusts set up to facilitate the share-based payment arrangements as an agent, i.e., an extension of Discovery. In other words, shares held by the trust is treated as treasury shares of Discovery Limited.

- BEE Staff Share Trust: Shares and option to acquire shares have been allocated to senior black employees based on level of seniority and length of past service. The trust will hold shares until the date of vesting of the shares to the employee or exercise date of the option.
- Discovery LTIP Trust: Participants will receive Discovery Limited shares subject to performance criteria and if the participant is employed on each vesting date. The trust will hold shares until the date of vesting of the shares to the employee.



NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

1. MANAGEMENT OF FINANCIAL RISK

The Company's activities expose it to a variety of financial risks. Financial risks include market risk, credit risk and liquidity risk. Refer to Group Note 3 "Management of financial risk" for a detailed explanation of financial risks and how they are managed.

1.1 Interest rate risk

Sensitivity to changes in interest rates is relevant to financial assets or liabilities bearing floating interest rates due to the risk that future cash flows fluctuate. However, sensitivity will also be relevant to fixed-rated financial assets and financial liabilities that are re-measured to fair value.

The table below details the specific interest rate risk that the Company is exposed to:

Company R million	Carrying amount	Fixed	Floating	Non-interest bearing
At 30 June 2021				
Derivative financial instruments at fair value:				
- Not designated as hedging instruments	22	-	-	22
- Used as cash flow hedges ¹	5	5	-	-
Loan to subsidiaries	8 758	2 001	6 428	329
Loans to BEE partners	149	-	149	-
Other receivables	112	-	-	112
Cash and cash equivalents	93	7	86	-
Total financial assets	9 139	2 013	6 663	463
Borrowings at amortised cost	8 858	3 824	5 034	-
Derivative financial instruments at fair value:				
- Not designated as hedging instruments	94	-	-	94
- Used as cash flow hedges	332	332	-	-
Financial guarantee contracts	27	-	-	27
Trade and other payables	8 147	-	-	8 147
Loans from subsidiaries	853	-	723	130
Total financial liabilities	18 311	4 156	5 757	8 398
At 30 June 2020				
Derivative financial instruments at fair value:				
- Not designated as hedging instruments	242	-	-	242
Loan to subsidiaries	7 856	1 807	3 367	2 682
Loans to BEE partners	116	-	116	-
Other receivables	358	-	-	358
Cash and cash equivalents	188	52	136	-
Total financial assets	8 760	1 859	3 619	3 282
Borrowings at amortised cost	8 356	3 819	4 537	-
Derivative financial instruments at fair value:				
- Not designated as hedging instruments	6	-	-	6
- Used as cash flow hedges ¹	516	516	-	-
Financial guarantee contracts	52	-	-	52
Trade and other payables	9 088	-	-	9 088
Loans from subsidiaries	1 102	-	682	420
Total financial liabilities	19 120	4 335	5 219	9 566

A change of 1% in the interest rate would result in an increase/decrease of R19 million (2020: R34 million) in interest income and R58 million (2020: R49 million) in finance costs. The sensitivity is based on the assumption that the interest rate has increased/decreased by 1% with all other variables held constant.

¹ For further information on the use of interest rate swaps to manage the interest rate risk of Discovery Limited, refer to the following notes in the Group financials, which equally apply to Discovery Limited:

- Note 3.4 Shareholder financial assets and liabilities, "Borrowings at amortised cost and related hedges", page 77-78.



NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

1. MANAGEMENT OF FINANCIAL RISK *continued*

1.2 Currency risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the UK pound. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

The following table segregates the currency exposure by major currency:

Company R million	Total	Rand	GBP	USD
At 30 June 2021				
Derivative financial instruments at fair value:				
- Not designated as hedging instruments	22	22	-	-
- Used as cash flow hedges	5	5	-	-
Loans to subsidiaries	8 758	7 020	1 738	-
Loans to BEE partners	149	149	-	-
Other receivables	112	66	46	-
Cash and cash equivalents	93	22	52	19
Total financial assets	9 139	7 284	1 836	19
Borrowings at amortised cost	8 858	8 858	-	-
Derivative financial instruments at fair value:				
- Not designated as hedging instruments	94	94	-	-
- Used as cash flow hedges	332	332	-	-
Financial guarantee contracts	27	19	8	-
Other payables	8 147	8 147	-	-
Loans from subsidiaries	853	853	-	-
Total financial liabilities	18 311	18 303	8	-
At 30 June 2020				
Derivative financial instruments at fair value:				
- Not designated as hedging instruments	242	242	-	-
Loans to subsidiaries	7 856	5 544	2 312	-
Loans to BEE partners	116	116	-	-
Other receivables	358	110	248	-
Cash and cash equivalents	188	140	48	-
Total financial assets	8 760	6 152	2 608	-
Borrowings at amortised cost	8 356	8 356	-	-
Derivative financial instruments at fair value:				
- Not designated as hedging instruments	6	6	-	-
- Used as cash flow hedges	516	516	-	-
Financial guarantee contracts	52	47	5	-
Other payables	9 088	9 088	-	-
Loans from subsidiaries	1 102	1 102	-	-
Trade and other payables	19 120	19 115	5	-

A 10% increase on respective decrease in the respective foreign exchange rates of GBP: ZAR would result in additional gains of R196 million, or in the case of decrease, a loss of R196 million, recognised in profit or loss.

1.3 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Key areas where the Company is exposed to credit risk are:

- *Financial assets comprising money market and debt instruments* – The Company is exposed to the issuer's credit standing on these instruments which is monitored by the CCIC by setting a minimum credit rating. The aggregate credit risk exposure for financial assets categorised by credit ratings is provided on the next page.
- *Cash and cash equivalents* – This risk is managed by monitoring exposure to external financial institutions against limits set by the CCIC.



NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

1. MANAGEMENT OF FINANCIAL RISK *continued*

1.3 Credit risk *continued*

Credit exposure for debt instruments, money market instruments and cash and cash equivalents

The following table provides information regarding the credit risk exposure categorised by Moody's credit ratings. These are credit ratings for assets in stage 1 (refer to note 18) in the Company financial statements:

Company R million	Total	Aaa	Aa1-3	A1-3	Baa1-3	Ba1-3	Govt ¹	Internally rated/ assessed
At 30 June 2021								
Derivative financial instruments at fair value:								
- Not designated as hedging instruments	22	-	-	-	-	22	-	-
- Used as cash flow hedges	5	-	-	-	-	5	-	-
Loans to subsidiaries	8 758	-	-	-	-	-	-	8 758
Loans to BEE partners	149	-	-	-	-	-	-	149
Other receivables	110	-	-	-	-	-	-	110
Cash and cash equivalents	93	3	6	1	-	83	-	-
	9 137	3	6	1	-	110	-	9 017
At 30 June 2020								
Derivative financial instruments at fair value:								
- Not designated as hedging instruments	242	-	-	65	177	-	-	-
Loans to subsidiaries	7 856	-	-	-	-	-	-	7 856
Loans to BEE partners	116	-	-	-	-	-	-	116
Other receivables	248	-	-	-	-	-	-	248
Cash and cash equivalents	188	78	50	-	59	-	1	-
	8 650	78	50	65	236	-	1	8 220

¹ These instruments are held in the South African government.

Long-term credit ratings were used in the above credit risk analysis.

Discovery Limited has issued financial guarantees as security of loans incurred by subsidiaries in the group. The maximum credit risk that Discovery Limited is exposed to on these contracts is the carrying amount, which amounted to R6 522 million (2020: R5 979 million).

Loans to subsidiaries do not have external credit ratings. Credit ratings are internally assigned to subsidiaries relative to the Discovery Group ratings. Loans to BEE partners are not assigned formal credit ratings externally or internally. These loans are structured considering creditworthiness of the individual partners, and the purpose of the BEE relationship. These loans are managed and monitored on an individual basis, and ECL is accordingly recognised on an individual basis using management's best estimate.

1.4 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities due to insufficient cash available to meet commitments as and when due.

Cash flow forecasting is performed by the Company and liquidity requirements are monitored to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Company's debt financing plans and covenant compliance.

Cash held by the Company is managed by Group Treasury. Treasury invests it in interest-bearing accounts, term deposits and money market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide headroom as determined by the above-mentioned forecasts. At the reporting date, the Company had money market funds and cash and cash equivalents of R93 million (2020: R188 million).



NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

1. MANAGEMENT OF FINANCIAL RISK *continued*

1.4 Liquidity risk *continued*

The table below analyses Discovery Limited's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. These amounts do not agree to the Statement of financial position as these are the undiscounted contractual payments.

Company R million	Total	<1 year	1 – 2 years	3 – 5 years	6 – 10 years
At 30 June 2021					
Borrowings	10 842	643	3 186	5 995	1 018
Derivative financial instruments:					
– used as cash flow hedges	635	193	171	260	11
– not designated as hedging instruments	94	94	-	-	-
Trade and other payables	8 147	8 147	-	-	-
Loans from subsidiaries:					
– interest free loans	130	-	-	130	-
– interest-bearing loans	766	766	-	-	-
	20 614	9 843	3 357	6 385	1 029
Financial guarantees	6 522	6 522	-	-	-
	27 136	16 365	3 357	6 385	1 029
At 30 June 2020					
Borrowings	11 060	635	1 137	8 208	1 080
Derivative financial instruments:					
– used as cash flow hedges	719	169	167	333	50
– not designated as hedging instruments	6	6	-	-	-
Trade and other payables	9 088	9 088	-	-	-
Loans from subsidiaries:					
– interest free loans	420	-	-	420	-
– interest-bearing loans	624	-	-	624	-
	21 915	9 896	1 304	9 585	1 130
Financial guarantee contracts	5 979	5 979	-	-	-
	27 894	15 875	1 304	9 585	1 130

1.5 Fair value estimation

Discovery Limited's financial instruments measured at fair value have been disclosed using a fair value hierarchy. The hierarchy has three levels that reflect the significance of the inputs used in measuring fair value. These are as follows:

Level 1: includes financial instruments that are measured using unadjusted, quoted prices in an active market for identical financial instruments. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide information on an ongoing basis. Quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2: includes financial instruments that are valued using techniques based significantly on observable market data. Instruments in this category are valued using:

- Quoted prices for similar instruments or identical instruments in markets which are not considered to be active; or
- Valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

Level 3: includes financial instruments that are valued using valuation techniques that incorporate information other than observable market data and where at least one input (which could have a significant effect on instrument's valuation) cannot be based on observable market data.



NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

1. MANAGEMENT OF FINANCIAL RISK *continued*

1.5 Fair value estimation *continued*

Company R million	Total	Level 1	Level 2	Level 3
At 30 June 2021				
Derivative financial instruments at fair value:				
- Not designated as hedging instruments	22	-	22	-
- Used as cash flow hedges	5	-	5	-
Total financial assets	27	-	27	-
Derivative financial instruments at fair value:				
- Not designated as hedging instruments	94	-	94	-
- Used as cash flow hedges	332	-	332	-
Total financial liabilities	426	-	426	-
At 30 June 2020				
Derivative financial instruments at fair value:				
- Not designated as hedging instruments	242	-	242	-
Total financial assets	242	-	242	-
Derivative financial instruments at fair value:				
- Not designated as hedging instruments	6	-	6	-
- Used as cash flow hedges	516	-	516	-
Total financial liabilities	522	-	522	-

2. INVESTMENTS IN SUBSIDIARIES

	Issued ordinary capital R million		Effective percentage holding %		Investment in subsidiaries ⁴ R million	
	2021	2020	2021	2020	2021	2020
Vitality Group International Inc ¹	3 319	2 621	100	100	1 434	815
Discovery Connect	555	555	100	100	554	555
Discovery Central Services	*	*	100	100	42	33
Discovery Finance Co Europe Limited ²	393	393	100	100	394	394
Discovery Group Europe Limited ²	13 802	13 340	100	100	13 790	13 332
Discovery Health	271	271	100	100	243	527
Discovery Insure	2 402	2 402	100	100	1 463	1 515
Discovery Life	1 416	1 416	100	100	1 510	1 722
Discovery Life Collective Investments	15	15	100	100	15	15
Discovery Life Investment Services	3	3	100	100	3	3
Discovery Mauritius Asset Management	1	-	100	-	1	-
Discovery International Collective Investments Plc	*	-	100	-	*	-
Discovery Pref Holdings Company Ltd ⁵	*	*	100	100	-	*
Discovery Vitality	*	*	100	100	-	11
Discovery Vitality International Asia ³	211	211	100	100	113	113
Discovery Bank Holdings Company	7 689	6 495	100	100	7 896	6 623
Balance at the end of the year					27 458	25 658

* Amount is less than R500 000.

¹ Incorporated in the United States of America.

² Incorporated in England and Wales.

³ Incorporated in Singapore.

⁴ Investments in subsidiaries include cost less impairments plus the value of share options issued to subsidiary staff.

⁵ Deregistered November 2020.

Refer to Company note 20.3 for a detailed movement analysis.



NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

3. INVESTMENT IN ASSOCIATES

R million	% ownership interest		Company 2021	Company 2020
	2021	2020		
Investment at cost:				
- Ping An Health Insurance Company in China, Limited	25%	25%	1 097	991
- AIA Vitality (Hong Kong) Limited ¹	0%	44%	-	*
			1 097	991

* Amount is R103.

¹ At 31 December 2020, Discovery Limited transferred the investment to Vitality Group International, a wholly owned subsidiary, for shares in Vitality Group International.

Refer to Group note 11 for disclosure of the investment in associate and joint ventures.

4. DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS

R million	Company 2021	Company 2020
Interest rate swap- used as cash flow hedge	5	-
Derivatives not designated as hedging instrument	22	242
Total	27	242
Current	22	242
Non-current	5	-
Total	27	242

Refer to the Group note 3.4.1 for a detailed description of the derivative financial instruments listed above.

5. LOANS TO SUBSIDIARIES¹

R million	Company 2021	Company 2020
Balance at beginning of the year	7 856	6 135
Additional loan granted	2 274	2 302
Repayment of loans	(1 695)	(1 275)
Interest receivable	475	352
Movement in allowance for expected credit losses	-	34
Exchange differences	(152)	308
Balance at end of the year	8 758	7 856
Discovery Group Europe Ltd	2 200	2 312
Discovery Health (Pty) Ltd	3 120	2 862
Discovery Central Services (Pty) Ltd	3 109	2 263
Discovery Life Investment Services (Pty) Ltd	329	419
Balance at end of the year	8 758	7 856
Current	3 109	3 317
Non-current	5 649	4 539
	8 758	7 856

¹ All loans to subsidiaries are measured at amortised cost, which approximates to fair value, as the loans bear interest at market related terms.



NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

5. LOANS TO SUBSIDIARIES *continued*

GBP denominated

Discovery Limited has granted GBP denominated loans to subsidiaries, the terms are as follows:

Subsidiary the loan was granted to	Loan Value GBP million	Variable rate	Capital repayment and maturity date	Carrying value GBP/ Rand million			
				June 2021		June 2020	
				Rand	GBP	Rand	GBP
DGEL	11.9	3-month Libor + 400bps	At maturity – 31 July 2025	301	15.3	315	14.7
DGEL	24.7	3-month Libor + 600bps	At maturity – 1 April 2027	485	24.6	527	24.7
DGEL	6.0	3-month Libor + 600bps	At maturity – 1 November 2027	118	6.0	128	6.0
DGEL	10.5	3-month Libor + 600bps	At maturity – 1 June 2028	207	10.50	224	10.5
DGEL	9.0	3-month Libor + 600bps	At maturity – 21 August 2028	177	9.0	192	9.0
DGEL	6.5	3-month Libor + 600bps	At maturity – 24 November 2028	128	6.5	139	6.5
DGEL	2.8	Bank of England base rate + 615bps	At maturity – 1 March 2029	55	2.8	60	2.8
DGEL	7.1	Bank of England base rate + 615bps	At maturity – 1 June 2029	140	7.1	152	7.1
DGEL	6.5	Bank of England base rate + 615bps	At maturity – 31 July 2029	128	6.5	139	6.5
				1 739	88.3	1 876	87.80

DGEL – Discovery Group Europe Limited

ZAR denominated

Discovery Limited has granted ZAR denominated loans to subsidiaries, the terms are as follows:

Subsidiary the loan was granted to	Loan value Rand million	Variable rate	Capital repayment and maturity date	Carrying value Rand million	
				June 2021	June 2020
Discovery Group Europe Limited	268	3-month Libor + 200bps	At maturity – 11 November 2022	461	436
Discovery Health ¹	727	3-month Libor + 400bps	At maturity – 30 June 2026	1 119	2 862
Discovery Health ¹	1 283	3-month Libor + 400bps	At maturity – 31 July 2027	2 001	–
Discovery Central Services	2 932	South African prime lending rate	–	3 109	2 263
Discovery Life Investment Services ²	330	3-month Libor + 400bps	At maturity – 31 July 2027	329	419
				7 019	5 980

¹ Interest payable quarterly in arrears, with the option available for Discovery Health to capitalise the interest to the value of the loan.

² The loan is an interest-free subordinated loan.

For the loans to Discovery Group Europe Limited, interest of R130 million was earned in respect of these loans in the current financial year (2020: R143 million) and R152 million foreign exchange gains was recognised in profit and loss (2020: R307 million gain).



NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

6. LOANS TO BEE PARTNERS¹

R million	Company 2021	Company 2020
Balance at the beginning of the year	116	73
Interest receivable	4	3
Additional loan granted	48	40
Repayment of loans	(19)	-
Balance at the end of the year	149	116
Current	149	116
Non-current	-	-
Balance at the end of the year	149	116

¹ All loans to BEE partners are measured at amortised cost, which approximates to fair value.

Financial assistance was provided to Discovery's BEE Partners in April 2015 to assist them in following their rights in terms of the Discovery Limited's rights issue. Interest accrues at a rate of prime less 0.5% and is repayable on 31 March 2021. However, the outstanding balance is repayable immediately if they are no longer a BEE partner. Discovery further increased bridge loans by R48 million (2020: R40 million) at an interest rate of prime less 2%. There is no fixed term to this loan.

7. OTHER RECEIVABLES

R million	Company 2021	Company 2020
Value-added tax	-	*
Intercompany receivables	110	248
Prepayments	2	110
Balance at the end of the year	112	358
Intercompany receivables include:		
- Discovery Holdings Europe Ltd	7	235
- Discovery Finance Co Europe Ltd	39	13
- Discovery Insure Ltd	64	-
Balance at the end of the year	110	248

* Amount is less than R500 000.

8. SHARE CAPITAL AND SHARE PREMIUM

8.1 Ordinary share capital and share premium

	Number of shares	Share capital R million	Share premium R million	Total R million
Issued				
At 1 July 2019	658 290 736	1	10 330	10 331
At 30 June 2020	658 290 736	1	10 330	10 331
Share movements:				
- shares issued	7 477 865	-	907	907
- treasury shares purchased	(8 283 826)	*	(957)	(957)
At 30 June 2021	659 096 697	1	10 280	10 281

* Amount is less than R500 000.

The total authorised number of ordinary shares is 1 billion (2019: 1 billion), with a par value of 0.1 cent per share.



NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

8. SHARE CAPITAL AND SHARE PREMIUM *continued*

8.2 Preference share capital

R million	Company 2021	Company 2020
Authorised		
40 000 000 A no par value preference shares	-	-
20 000 000 B preference shares of R100 each	2 000	2 000
20 000 000 C no par value preference shares	-	-
	2 000	2 000
Issued		
8 000 000 B preference shares of R100 each	800	800
Share issue costs	(21)	(21)
At 30 June 2021	779	779

The preference shares are non-compulsory, non-cumulative, non-participating, non-convertible, voluntarily redeemable (at option of Discovery Limited) preference shares and were issued at a coupon rate of 85% of prime rate. With the introduction of dividend withholding tax on 1 April 2012, the coupon rate on the preference shares was increased to 100% of the prime rate.

9. BORROWINGS AT AMORTISED COST

R million	Company 2021	Company 2020
Borrowings from banks ¹	8 858	8 356
Current	54	53
Non-current	8 804	8 303
Balance at the end of the year	8 858	8 356

¹ Collateral in the form of financial guarantees by Discovery Health and Discovery Vitality has been given to secure these borrowings.

The borrowings were acquired for general corporate purposes in order to fund the various growth initiatives within the Group.

Credit rating

Following the downgrade of the South African Government's issuer rating to Ba2 from Ba1 on 20 November 2020, Moody's Investors Service ("Moody's") downgraded Discovery Limited's Global scale long term issuer rating to Ba3 from Ba2 on 25 November 2020. Similar to the country's outlook, the credit outlook assigned by Moody's remains negative. The national scale long term issuer rating of Discovery was reaffirmed at A1.za



NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

9. BORROWINGS AT AMORTISED COST *continued*

Facility amount R million	Variable rate	Interest per annum	Capital repayment and maturity date	Carrying value R million	
				June 2021	June 2020
Listed DMTN ^{4,6}					
500	3-month Jibar + 161bps	9.71% ^{1,3}	At maturity – 21 November 2022	503	503
500	3-month Jibar + 205bps	6.30% ^{1,3}	At maturity – 21 August 2023	503	–
200	–	10.46% ²	At maturity – 21 November 2024	202	202
800	3-month Jibar + 191bps	10.31% ^{1,3}	At maturity – 21 November 2024	804	805
1 200	3-month Jibar + 191bps	9.21% ^{1,3}	At maturity – 21 November 2024	1 220	1 225
700	3-month Jibar + 180bps	10.29% ^{1,3}	At maturity – 21 August 2026	703	704
300	3-month Jibar + 180bps	9.40% ^{1,3}	At maturity – 21 August 2026	302	303
Unlisted DMTN ^{4,5}					
1 100	–	8.92% ³	At maturity – 10 March 2023	1 103	1 101
2 500	–	9.62% ³	At maturity – 22 February 2025	2 519	2 516
Other					
1 000	3-month Jibar + 245bps	10.28% ^{1,3}	At maturity – 02 March 2023	999	997
8 800				8 858	8 356

¹ The interest rate has been fixed through interest rate swaps.

² Interest is payable semi-annually in arrears.

³ Interest payable quarterly in arrears.

⁴ DMTN refers to the R10 billion Discovery Domestic Medium Term Note (DMTN) program registered in 2017.

⁵ During the financial year ended 30 June 2020, Discovery Limited refinanced R3.6 billion bank syndicated loans through the issue of unlisted DMTN notes. The notes, although underwritten by a bank until maturity, are structured to enable short-term issuances into the commercial paper market on an ongoing basis.

The borrowings are unsecured senior debt and are not callable or convertible. Interest is payable quarterly in arrears other footnote 2 in the table above. Refer to company note 20.4 for movement analysis and Group Note 20.

10. DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS

R million	Company 2021	Company 2020
Interest rate swap – used as cash flow hedges ¹	332	516
Derivatives not designated as hedging instruments	94	6
Balance at the end of the year	426	522
Current	94	6
Non-current	332	516
Balance at the end of the year	426	522

¹ For further information, refer to Group Note 13, which sets out information on the 'Interest Rate Swaps' which equally apply to the Company.



NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

11. TRADE AND OTHER PAYABLES

R million		Company 2021	Company 2020
Accrued expenditure		10	6
Dividends due to shareholders		9	10
Intercompany payables		8 128	9 072
		8 147	9 088
Intercompany payables include:			
- Discovery Health (Pty) Ltd	i	3 078	3 973
- Discovery Connect Distribution Services (Pty) Ltd		-	*
- Discovery Life Limited	ii	4 839	5 099
- Discovery Vitality (Pty) Ltd	iii	211	-
		8 128	9 072

* Amount is less than R500 000.

- i. Discovery Limited receives funds from Discovery Health (Pty) Ltd through a loan account, based on operational requirements. The loan is interest free and is settled as and when sufficient cash becomes available.
- ii. Discovery Limited received funds from Discovery Life Limited in 2020 to assist with operational requirements. The loan is interest-free and is settled as and when sufficient cash becomes available.
- iii. Discovery Limited received funds from Discovery Vitality (Pty) Ltd in 2021 to assist with operational requirements. The loan is interest-free and is settled as and when sufficient cash becomes available.

The amortised cost of the trade and other payables approximate the fair value due to the short-term nature of these payables.

12. LOANS FROM SUBSIDIARIES

R million		Company 2021	Company 2020
Discovery Life Limited	i	853	1 102
		853	1 102

- i. Discovery Limited issued 5-year term Investment Notes totalling R500 million to Discovery Life on 30 June 2017. Investment Notes bear interest at variable 3-month JIBAR, currently 5.85% per annum (2020: 8.44%) and is repayable in arrears together with capital on 30 June 2022. Discovery Life further granted Discovery Limited an interest-free loan of R500 million in 2019, which matures on 20 June 2024. The amortised cost of these instruments approximates the fair value. R290 million was repaid during the financial year.

13. DEFERRED INCOME TAX (LIABILITY)/ASSET

R million		Company 2021	Company 2020
Deferred tax asset – non-current		113	-
Deferred tax liability – non-current		-	(1)
Total		113	(1)
Movement summary:			
Balance at beginning of the year		(1)	23
Income statement charge		112	(24)
Increase in treasury shares		2	-
Balance at end of the year		113	(1)
Deferred taxation comprises:			
Assessed losses		114	*
Unrealised gains on financial instruments		(1)	(1)
		113	(1)

* Amount is less than R500 000.



NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

14. INVESTMENT INCOME¹

R million	Company 2021	Company 2020
At amortised cost interest income, using the effective interest rate	574	470
Dividends received from subsidiaries and equity-accounted investments	3 271	1 155
	3 845	1 625
Dividends received from subsidiaries and equity-accounted investments:		
– Discovery Health (Pty) Ltd	3 000	1 148
– Discovery Vitality (Pty) Ltd	21	–
– Discovery Partner Markets Services (Pte) Ltd	16	7
– AIA Vitality (Hong Kong) Limited	34	–
– Discovery Life Collective Investments (Pty) Ltd	200	–
	3 271	1 155

¹ Investment income for Discovery Limited is seen as Revenue.

15. OTHER INCOME

R million		Company 2021	Company 2020
Guarantee fees	i	54	22
Amortisation of financial guarantee contract	ii	7	13
		61	35

- i. Discovery Limited issued guarantees in respect of Discovery Finance Company Europe obligations. A guarantee fee is charged by Discovery Limited to Discovery Finance Company Europe.
- ii. Amortisation of initial financial guarantee contracts over the term of the loan. Refer to Company note 21 for a list of all the guarantees that Discovery Limited has issued.

16. NET FAIR VALUE GAINS/(LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

R million	Company 2021	Company 2020
Realised loss on non-hedge derivatives	(2)	(3)
Fair value (losses)/gains on non-hedge derivatives	(305)	266
	(307)	263

17. MARKETING AND ADMINISTRATION EXPENSES

R million	Company 2021	Company 2020
Marketing and administration expenses comprises:		
– Audit fees	7	3
– Professional fees	4	8
– Other	3	3
	14	14



NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

18. MOVEMENT IN ALLOWANCE FOR EXPECTED CREDIT LOSSES¹

R million	Company 2021	Company 2020
Loans to subsidiaries:		
- Discovery Health (Pty) Ltd	-	(10)
- Discovery Life Investment Services (Pty) Ltd	-	1
- Discovery Pref Holding Company (RF) Limited	-	*
- Discovery Group Europe Limited	-	(24)
- Discovery Connect Distribution Services (Pty) Ltd	-	(1)
- Discovery Holdings Europe Limited	-	*
- Discovery Finance Company Europe Limited	-	*
Financial guarantee contracts:		
- Discovery Central Services Pty Ltd	(25)	25
- Discovery Finance Company Europe Limited	7	-
Decrease in allowance for expected credit losses	(18)	(9)

* Amount is less than R500 000.

¹ In determining the expected credit loss, Discovery assigned risk ratings to subsidiaries relative to Discovery Limited where a Moody's rating was not available. All these loans are high quality.

	12 month credit losses	Lifetime credit losses	Total
30 June 2021			
Balance at beginning of the year	34	-	34
Increase in allowance	(18)	-	(18)
Balance at end of the year	16	-	16
30 June 2020			
Balance at beginning of the year	43	-	43
Increase in allowance	(9)	-	(9)
Balance at end of the year	34	-	34

19. TAXATION

R million	Company 2021	Company 2020
Charge for the year:		
Current taxation	-	(160)
Normal taxation		
- current year charge	-	(160)
Deferred taxation	112	(24)
- current year charge	112	(24)
Total income tax expense recognised in profit or loss	112	(184)

	%	%
Taxation rate reconciliation		
Effective taxation rate	4.4	(12.6)
Capital profits and dividend income	(35.7)	(22.2)
Exempt income	(0.1)	-
Disallowed expenditure: Capital in nature	3.1	6.7
Taxable Income: International tax adjustments	0.3	0.1
Standard rate of taxation	(28.0)	(28)

* Amount is less than R500 000.

Tax has been provided at 28% (2020: 28%). The Company uses the South African tax rate in respect of its tax rate reconciliation as Discovery Limited (holding company listed on the JSE) is domiciled in South African and the most significant operations are in South Africa. There has been a proposal by South Africa's National Treasury that the corporate tax rate should reduce to 27% for tax years commencing after 1 April 2022. Discovery does not yet deem this rate to be substantively enacted.



NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

20. CASH FLOW INFORMATION

20.1 Cash generated by operation

R million	Company 2021	Company 2020
Profit before taxation	2 567	1 456
Adjusted for:		
Interest received	(574)	(470)
Dividends received	(3 271)	(1 155)
Realised gains on derivatives not designated as hedging instruments	*	-
Finance costs	867	832
Non-cash items:		
Movement in expected credit losses	(18)	(9)
Fee income from financial guarantee contracts	(7)	(13)
Fair value (gains)/losses on derivatives not designated as hedging instruments	307	(263)
Unrealised foreign exchange (gains)/losses	169	(370)
Working capital changes:		
Loans and receivables	197	(298)
Trade and other payables and loans from subsidiaries	(1 657)	3 698
	(1 420)	3 408

* Amount is less than R500 000.

20.2 Taxation paid

R million	Company 2021	Company 2020
Balance at beginning of the year	(89)	21
Current taxation charged for the year in the income statement	-	(160)
Balance at end of the year	*	89
	(89)	(50)

* Amount is less than R500 000.

20.3 Increase in investment in subsidiary

R million	Company 2021	Company 2020
Balance at beginning of the year	25 658	22 739
Value of share options issued to subsidiary staff	330	162
Financial guarantee contracts raised	1	9
Financial guarantee contracts derecognised	-	(5)
Non-cash restructure of investment in subsidiary	427	-
Common control transaction (asset for share)	158	-
Balance at end of the year	(27 458)	(25 658)
Increase in investment in subsidiary	(884)	(2 753)

20.4 Long-term borrowings

R million	Company 2021	Company 2020
Balance at beginning of the year	8 356	6 841
Interest accrued	640	708
Interest paid	(636)	(691)
Settlement of derivative capitalised to loan by counterparty	-	(6)
Increase in borrowings	500	5 120
Raising fees capitalised	(2)	(16)
Repayment of borrowings	-	(3 600)
Balance at end of the year	8 858	8 356



NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2021

20.5 Cash and cash equivalents

R million	Company 2021	Company 2020
Cash at bank and in hand	78	57
Short-term deposits	15	131
	93	188

21. FINANCIAL GUARANTEE CONTRACTS

R million	Company 2021	Company 2020	
Discovery Limited has provided guarantees for the following subsidiaries:			
Discovery Finance Co Europe Limited	i	3	1
Discovery Central Services	ii	18	47
Discovery Holdings Europe Limited	iii	5	4
Discovery Bank	iv	1	*
Balance at the end of the year	27	52	

* Amount is less than R500 000.

- i Discovery Limited has issued a guarantee for 2 facilities in respect of the obligations of Discovery Finance Company Europe Limited in the amount of GBP 80 million and GBP 28 million. As at 30 June 2021, Discovery Finance Company Europe Limited owed GBP 98.7 million (2020: GBP 108.2 million) in respect of these borrowing facilities.
- ii During 2018, Discovery Central Services entered into borrowing facilities for an amount of R650 million to fund the systems build of Discovery Bank. The full amount has been drawn down and the balance outstanding at 30 June 2021 is R526 million (2020: R596 million). In 2019, Discovery Central Services entered into a 5 year borrowing facility for an amount of R1.4 billion. These funds were acquired for general corporate purposes and the full facility was used. Discovery Health, Discovery Vitality and Discovery Limited have provided guarantees in respect of these facilities.
- iii During 2020, Discovery Holdings Europe Limited entered into borrowing facilities for an amount of GBP 55 million, which was increased to GBP 100 million in 2021 to fund its operations. This facility has been guaranteed by Discovery Limited.
- iv Discovery Limited issued a guarantee for a facility in respect of the obligations of Discovery Bank in the amount of R800 million.

22. EVENTS AFTER REPORTING DATE

Refer to Group note 42 for a list of the events after reporting date.



DISCOVERY
ANNEXURES





ANNEXURE A – GROUP ACCOUNTING POLICIES

for the year ended 30 June 2021

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented. Other interpretations, amendments and annual improvements effective for the first time in the current year have been considered and have no impact on the current reporting period.

1. Basis of presentation

The consolidated and separate Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), its interpretations adopted by the IASB, the South African Institute of Chartered Accountants (SAICA), Financial Reporting Guides as issued by the Accounting Practices Committee, the JSE Listings Requirements, JSE Debt Listings Requirement as well as the South African Companies Act. They have been prepared in accordance with the going concern principle using the historical cost basis except where otherwise stated in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Discovery's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are outlined in Group note 4 to the Annual Financial Statements.

All monetary information and figures presented in these financial statements are stated in millions of Rand (R million), unless otherwise indicated.

New standards and amendments which became effective during the financial year

INTEREST RATE BENCHMARK REFORMS

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group has exposures to IBORs on its financial instruments which has been or will be replaced or reformed as part of these market-wide initiatives, such as Libor and Jibar. There is uncertainty over the timing and the methods of transition in some jurisdictions that the Group operates in, such as South Africa. The United Kingdom has seen a change from the GBP Libor to the Reformed Sterling Overnight Index Average (SONIA).

The International Accounting Standards Board (IASB) has undertaken a two-phase project to consider potential reliefs from the effect of IBOR reforms. The project was concluded, and the amendments and relief are mandatorily effective from 1 July 2021 for the Discovery. However, Discovery has elected to early adopt the amendments to cater for changes in specified UK transactions which has already changed the contractual rate.

- For change in contractual cash flows (i.e., GBP Libor to SONIA), the reliefs have the effect that the changes are necessary as a direct consequence of IBOR reform and are economically equivalent will not result in an immediate gain or loss in the income statement.
- The hedge accounting reliefs will allow most hedge relationships that are directly affected by IBOR reform to continue, with additional consideration for ineffectiveness.

The Group anticipates that IBOR reform will impact some of its Jibar risk management and hedge accounting relationships in the longer term. The South African Reserve Bank is still in the early stages of the replacement project. The Group does not have Libor hedge accounting relationships.



ANNEXURE A – GROUP ACCOUNTING POLICIES *continued*

1. Basis of presentation *continued*

New standards and amendments to published standards not yet effective

- Discovery has not early adopted any accounting standards, amendments or annual improvements issued but not yet effective.
- The accounting standards, amendments and annual improvements described below are those that are expected to have an impact on Discovery's results and/or disclosures. Accounting standards, amendments and annual improvements not mentioned below are not expected to have a significant impact on recognised amounts.

Title and Effective date	Scope	Potential impact
<p>IFRS 17 <i>Insurance Contracts</i></p> <p>Effective date: 1 July 2023</p>	<p>IFRS 17 was issued in May 2017, with amendments issued in June 2020.</p> <p>General model</p> <p>INITIAL RECOGNITION</p> <p>Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at:</p> <ul style="list-style-type: none"> the total of the fulfilment cash flows, comprising: <ul style="list-style-type: none"> the estimated future cash flows; an adjustment to reflect the time value of money; and an explicit risk adjustment for non- financial risk; and the contractual service margin (CSM). 	<p>Discovery has implemented an IFRS 17 transition programme under the sponsorship of the Chief Financial Officer. Discovery has allocated sufficient resources over the project life to ensure successful implementation.</p> <p>The CFO heads up the Steering Committee who comprises of the respective Insurance business CFOs, Chief Actuaries, Internal Audit and IT specialist. The Steering Committee is supported by a Technical Advisory Group comprising of IFRS Specialists, Actuaries, Financial Managers, Tax and external auditors.</p>
<p>IFRS 17 <i>Insurance Contracts</i></p> <p>Effective date: 1 July 2023</p>	<p>SUBSEQUENTLY</p> <p>Subsequent to initial recognition, the liability of a group of insurance contracts comprises the liability of remaining coverage (fulfilment cash flows and CSM) as well as the liability for incurred claims (claims and expenses already incurred but not yet paid).</p> <ul style="list-style-type: none"> The fulfilment cash flows are remeasured at each reporting period to reflect current estimates. Changes in fulfilment cash flows are treated in a number of ways: <ul style="list-style-type: none"> Change in time value of money (i.e. yields) and financial risk (e.g. inflation indices) are reflected in profit or loss, or other comprehensive income or both dependent on accounting policy elections; Changes in past and current services are recognized in profit or loss; and Changes related to future services are recognized in the CSM to the extent there is CSM. Any excess is recognized in profit or loss immediately. The CSM (representing unearned profit) is recognised as the entity provides services over the coverage period. <p>PRESENTATION</p> <ul style="list-style-type: none"> Insurance revenue, derived from change in liability for remaining coverage; Investment components are excluded from insurance revenue and insurance services expenses; Insurance finance income and expenses is presented separately from insurance revenue; and Entities can choose to disaggregate the presentation of insurance finance income or expenses between profit or loss and other comprehensive income (OCI). 	<p>During 2018 to 2020 Discovery completed the initial impact assessments, including several pilot projects on selected products aimed at assessing the financial impacts of the standard. Significant progress has been made on the development of accounting and actuarial policies and methodologies.</p> <p>The most significant impact will be within the long-term insurance businesses of Discovery Life and VitalityLife, including their respective investment businesses.</p> <p>It is expected that that the impact will be minimal within the short-term insurance businesses, which are expected to apply the PAA. These businesses include Discovery Insure, Group Life and Vitality Health.</p> <p>The following tentative observations are made in the IFRS 17 project:</p> <ul style="list-style-type: none"> Discovery is considering the accounting policy election of IFRS 17 to present 'insurance finance income and expenses' in other comprehensive income with a subsequent release to profit or loss; Discovery believes it has sufficient robust data to enable it to apply IFRS 17 with full retrospective statement; and Discovery believes that many of its accounting policies today (e.g. discounting at a current rate, build-up of compulsory and discretionary margins as well as its best estimates of income and costs) places it in a strong position to transition smoothly to IFRS 17.



ANNEXURE A – GROUP ACCOUNTING POLICIES *continued*

1. Basis of presentation *continued*

Title and Effective date	Scope	Potential impact
	<p>Simplified model Aside from this general model, the standard provides, as a simplification, the premium allocation approach (PAA). This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less.</p> <p>Variable fee approach For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.</p>	<p>The focus within the next period is the formalization and sign-off of policies and methodologies internally by all committees and external auditors. Discovery aims to implement the CSM engine and models into production to produce required disclosures.</p>

2. Consolidation

The consolidated financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries, joint ventures and associates.

2.1 Business combinations

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a business is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, Discovery recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, being the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired, is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

2.2 Consolidation of entities in which the Group holds less than 50%

Discovery analysed its relationships with the Discovery Unit Trusts and has determined that it has significant power to direct the relevant activities of the funds, has sufficient exposure to the variable returns of the funds and the ability to use its power over the investee to affect its returns. This analysis concluded that Discovery has control of the Discovery Unit Trusts even if the economic interest is less than 50% and is therefore required to consolidate these funds.

Discovery controls these unit trusts as it has right to the variable returns in the form of fund management fees that it receives from its involvement with the funds. Furthermore, Discovery exercises control over these unit trust through the setting of the mandates as well as the appointment of the independent trustees. Discovery can, within the regulatory framework, also amend the mandates and change the independent trustee.

Of the 27 (2020: 27) Discovery Unit Trusts consolidated at 30 June 2021 Discovery holds less than a 50% economic interest in 1 (2020: 3) of these funds. Refer to page 25 for a list of consolidated unit trusts.



ANNEXURE A – GROUP ACCOUNTING POLICIES *continued*

2. Consolidation *continued*

2.3 Subsidiaries

Subsidiaries are all entities (including structured entities) over which Discovery has control. Discovery controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to Discovery. Consolidation is discontinued from the date on which control ceases.

Intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated. Unrealised gains or losses are also eliminated. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by Discovery. Intra-group foreign exchange gains or losses arising on intra-group balances do not eliminate.

2.4 Associates and joint arrangements

ASSOCIATES AND JOINT VENTURE

Associates are entities over which Discovery has the ability to exercise significant influence but not control over the financial and operational policies. Significant influence is determined based primarily on percentage voting rights, generally between 20% and 50%, together with other factors such as board participation and participation in the policy-making process. In certain instances, Discovery holds less than 20% equity interests, but holds rights that still give it significant influence. These are equity accounted.

A joint venture is a joint arrangement whereby the parties have joint control of an arrangement and have rights to the net assets of the arrangement.

Discovery recognises its interest in an associate or a joint venture as an investment and accounts for that investment using the equity method. Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost. The carrying amount is adjusted to recognise Discovery's share of the post-acquisition profit or loss of the investee and is recognised in profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in Discovery's proportionate interest in the investee arising from changes in the investee's other comprehensive income. Such changes include those arising from foreign exchange translation differences. Discovery's share of those changes is recognised in other comprehensive income. Discovery will discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture.

Discovery discontinues equity accounting when the carrying amount of the investment in an associate or a joint venture reaches zero, unless it has incurred obligations, guaranteed obligations or made payments on behalf of the associate or the joint venture. Discovery resumes equity accounting only after its share of the profits equals the share of losses not recognised. Discovery increases the carrying amount of investments with its share of the associate's or joint venture's income when equity accounting is resumed.

Discovery's investment in an associate or a joint venture includes goodwill identified on acquisition. Discovery assesses at each reporting date whether there is objective evidence that an associate or a joint venture is impaired. If such evidence of impairment exists, Discovery calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value.

Unrealised gains or losses on transactions between Discovery and its associates or joint ventures are eliminated to the extent of the Group's interest in these entities unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group. The carrying amount of equity-accounted investments are tested for impairment (see accounting policy 9.3 for the policy on impairment).

A decrease in interest while an investment continues to be classified as an associate can also result from a dilution. The gain or loss on the dilution of in an equity-accounted investee is calculated as the difference between:

- the entity's ownership interest in the new assets received by the investee for the subscription of the new shares (e.g. the cash paid by the other party); and
- the reduction in ownership interest in the previous carrying amount.

JOINT OPERATIONS

A joint operation is a joint arrangement whereby the parties have joint control of an arrangement and rights to the assets and obligations for the liabilities relating to the arrangement.

Discovery recognises its share of those assets, liabilities, revenues and expenses that the operators incur jointly.



ANNEXURE A – GROUP ACCOUNTING POLICIES *continued*

3. Foreign currency translation

3.1 Functional and presentation currency

Items included in the financial statements of each of Discovery's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Rand, which is the functional and presentation currency of Discovery Limited.

3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from:

- The settlement of trading transactions is included in the results of operating activities in profit or loss;
- The settlement of financing transactions and from the translation at year-end exchange rates of assets and liabilities denominated in foreign currencies are recognised in profit or loss as foreign exchange gains and losses; and
- Qualifying cash flow hedges are deferred in the statement of other comprehensive income and are recycled to profit or loss in the periods in which the hedged item affects profit or loss.

3.3 Group companies

The results and financial position of all Discovery entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each Statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each Income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at rates at the date of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity, namely the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognised in the foreign currency translation reserve in the Statement of other comprehensive income. When a foreign operation is partially disposed of or sold, such exchange differences are recognised in profit or loss as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

4. Property and equipment

Property and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Discovery and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Property and equipment are depreciated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Owner occupied property	40 years
Leasehold improvements	Shorter of estimated life or period of lease
Leased asset	3 – 15 years
Computer equipment	3 – 7 years
Furniture, fittings and building fit out	5 – 15 years
Motor vehicles	4 years
Telematics devices	2 – 5 years

The assets' residual values and useful lives are reviewed at each reporting period and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to dispose and value-in-use.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount. These are recorded in profit or loss.



ANNEXURE A – GROUP ACCOUNTING POLICIES *continued*

5. Intangible assets

5.1 Computer software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable software products controlled by Discovery are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product, include the software development employee costs and an appropriate portion of directly attributable overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs are recognised as assets from the point where the recognition criteria above are satisfied, and are amortised once the asset is ready for use, over their useful lives (between three and ten years). The amortisation is reflected under marketing and administration expenses in profit or loss.

Computer software development costs recognised as assets are amortised over their useful lives.

Software	3 – 7 years
Core Systems	11 years (2020: 10 years)

5.2 Other intangible assets

Discovery does not recognise costs incurred to internally developed trademarks, patents and similar rights and assets, including franchises and management contracts. These costs are recognised in profit or loss in the period in which they are incurred.

Purchased intangible assets which represent rights to receive future profits are capitalised at their fair values, represented by the estimated net present value of future cash flows relating to existing business, or at a value as determined by an independent valuer. These intangible assets are amortised into profit or loss as profits are expected to emerge and only tested for impairment if an indication of impairment arises.

Intangible assets acquired as part of business combinations were capitalised at their fair value, represented by the estimated net present value of future cash flows relating to existing business, or at a value as determined by an independent valuer. These intangible assets are amortised over their useful lives and only tested for impairment if an indication of impairment arises.

6. Deferred acquisition costs

The direct costs of acquiring new business, which are expected to be recovered out of future revenue margins, are deferred over the period in which the related performance obligations are satisfied and recognised as an asset in the Statement of financial position. The accounting policies relating specifically to deferred acquisition costs for insurance are detailed in accounting policies 13.

7. Goodwill

Goodwill arises on the acquisition of businesses and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the cash generating unit (CGU) containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.



ANNEXURE A – GROUP ACCOUNTING POLICIES *continued*

8. Impairment of non-financial assets

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that goodwill may be impaired.

Other assets, including equity accounted investments, intangible assets and costs of obtaining contracts, other than those relating to insurance contracts (see accounting policy 13), are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Such indicators include continued losses, changes in technology, market, economic, legal and operating environments.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is measured using the higher of the fair value less costs to sell and the value-in-use. Value-in-use is the present value of projected cash flows covering the remaining useful life of the asset. An impairment loss is recognised in profit or loss immediately.

Other assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

9. Financial instruments

Discovery initially recognises financial instruments when it becomes party to the contract.

Financial instruments are measured at initial recognition at fair value net of directly attributable transaction costs, unless the financial instrument is classified as fair value through profit or loss. For instruments classified at fair value through profit or loss attributable transaction costs are immediately expensed.

9.1 Financial assets

9.1.1 RECOGNITION, CLASSIFICATION, MEASUREMENT AND DERECOGNITION

At initial recognition, the Group considers the appropriate classification as at Amortised cost (AC); Fair value through profit or loss (FVTPL) or Fair value through other comprehensive income (FVOCI) for debt instruments. Discovery considers:

- Whether the contractual cash flows of the financial asset are solely payments of principal and interest (SPPI). Such contractual cash flows are consistent with a basic lending arrangement, and compensates Discovery for the elements of time value of money, credit risk and other basic lending risks and a profit margin. Examples of such instruments include Treasury Bills, Government Bonds, cash and fixed term deposits. It excludes instruments such as equity-linked financial assets or puttable investments in unit trusts; and
- The business model for holding the financial assets.

Based on the criteria above, Discovery will classify a debt instrument as at:

- Amortised cost, if the financial asset meets the SPPI criterion and is held for the purpose to collect the contractual cash flows. Examples of this include loans and advances to customers (e.g. credit card advances) and fixed term deposits;
- Fair value with changes in other comprehensive income (debt instruments), if the financial asset meets the SPPI criterion and is held both to collect contractual cash flows and by selling the financial assets. Discovery currently does not hold financial assets in this category. However, specified associates do have certain of their debt instruments in the category.
- Fair value through profit or loss, for all other financial assets that do not meet the criteria above (mandatorily). In addition, Discovery can designate financial assets into this category if this will reduce measurement inconsistencies (i.e. 'accounting mismatch') (designated). Discovery's business includes, amongst others, providing unit-linked insurance, unit-linked investment and non-linked insurance products to customers. Financial assets and liabilities in these portfolios are managed to achieve the objectives of the portfolio and to ensure that liabilities are appropriately matched with assets. In considering whether the objective of a portfolio is to collect contractual cash flows or to trade in financial instruments, Discovery considers the purpose for which instruments are held, the methods of risk management in a portfolio, the manner of performance reporting on a portfolio and the basis for determining compensation to managers for asset performance. For those financial assets backing insurance contracts, Discovery measures these financial assets at fair value through profit or loss. Unit-linked investment contracts are also mandatorily classified at fair value through profit or loss.

For equity instruments Discovery is permitted to make the irrevocable election to present changes in fair value in other comprehensive income, however cumulative gains or losses recognised cannot be reclassified to profit or loss on disposal. This election is available on an instrument-by-instrument basis. This election has only been made in the accounting records of specified associates. All other equity instruments are measured at FVTPL.



ANNEXURE A – GROUP ACCOUNTING POLICIES *continued*

9. Financial instruments *continued*

9.1 Financial assets *continued*

9.1.1 RECOGNITION, CLASSIFICATION, MEASUREMENT AND DERECOGNITION *continued*

	Subsequent measurement
Amortised cost (AC)	These instruments are measured at amortised cost using the effective interest method. Movements in the balance of the instrument relate to expected credit losses, interest income and foreign exchange gains and losses which are recognised on profit or loss.
Fair value through profit or loss (FVTPL)	These instruments are measured at fair value with gains and losses recognised in other comprehensive income and are never reclassified to profit or loss. Dividends are recognised in profit or loss.
Fair value through other comprehensive income (FVOCI) – equity	These instruments are measured at fair value with gains and losses recognised in other comprehensive income. Dividends are recognised in profit or loss.
Fair value through other comprehensive income (FVOCI) – debt	These instruments are measured at fair value with changes in fair value recognised in other comprehensive income. Discovery recognises interest using effective interest method, movements in the balance related to expected credit losses, interest income and foreign exchange gains and losses which in profit or loss. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

There are no financial assets that have been designated at fair value through profit or loss.

The business model for managing a group of financial instruments is expected to remain stable, in rare instances where the business model changes there can be a reclassification of the business model. Any reclassifications are applied prospectively from the first day of the first reporting period after the change in business model, with no restatement of any previously recognised gains, losses or interest. Discovery has not had any changes in business models in the current reporting period and consequently there have been no reclassifications.

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and Discovery has also transferred substantially all risks and rewards of ownership.

9.1.2 EXPECTED CREDIT LOSSES

Expected credit losses are recognised on the following items:

- Debt instrument at amortised cost, which includes treasury bills, banking loans and advances and fixed deposits. This also includes loan commitment for undrawn credit facilities;
- Lease receivables;
- Financial guarantee contracts;
- Other receivables which are financial assets at amortised cost; and
- Contract receivables and contracts assets with non-insurance customers and cash and cash equivalents.

Discovery has a multitude of different debtors and loans included in other receivables which are financial assets, which do not represent a homogeneous group of assets. The approach to determining credit losses varies according to the asset type, past bad debt experience and the potential to incorporate forward looking information. In certain instances, financial assets have been grouped based on shared characteristics (i.e. debt payment pattern similarities, financial instruments with collateral, debtor type), and expected credit losses determined on a collective basis.

The general expected credit loss approach requires that Discovery assess the credit risk of the instrument and determine whether there has been a significant increase in credit risk since initial recognition.

- Where there has not been a significant increase in credit risk since initial recognition expected credit losses are measured as the 12-month expected credit losses.
- Where there has been a significant increase in credit risk, expected credit losses are recognised as the life-time credit losses.



ANNEXURE A – GROUP ACCOUNTING POLICIES *continued*

9. Financial instruments *continued*

9.1 Financial assets *continued*

9.1.2 EXPECTED CREDIT LOSSES *continued*

Discovery measures expected credit losses on:

- financial assets that are not credit-impaired at the reporting date as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that Discovery expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to Discovery if the commitment is drawn down and the cash flows that Discovery expects to receive (adjusted using a credit conversion factor).

Discovery does not recognise expected credit losses on Treasury Bills issued by the South African Reserve Bank as well as cash and cash equivalents receivable on demand due to the assessment that it is immaterial

SIGNIFICANT INCREASE IN CREDIT RISK

At each reporting date, Discovery assesses whether the credit risk on a financial asset has increased significantly since initial recognition. When making the assessment, an entity shall use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses.

Qualitative	Quantitative
<ul style="list-style-type: none"> ▪ when contractual payments are more than 30 days past due the presumption is applied in conjunction with Discovery Risk Grade (DRG). ▪ the eligibility rules used in the credit under-writing and account management strategies are considered as triggers of significant increase in credit risk, since they provide a view in terms of how the client performs on their other credit facilities outside Discovery Bank. The rules comprise of a list of statuses at the bureau such as: judgements; adverse; deceased; and debt counselling statuses. ▪ performing (up-to-date and current) accounts that have shown deterioration with respect to Discovery Bank risk grades will also be regarded as a significant increase in credit risk. 	Currently the Discovery Bank is not considering the quantitative triggers of significant increase in credit risk due to lack of origination data on the back book (ie DiscoveryCard joint venture data). As the book in Discovery Bank matures it will be in a position to perform the assessment.

CREDIT IMPAIRED AND DEFAULT

Discovery considers a financial instrument to be credit-impaired where current circumstances and economic conditions indicate that the expected future cash flows from a financial instrument may not be recoverable. These circumstances include but are not limited to evidence of financial or operational challenges for the debtor and missed contractual payments.

Default is defined on a facility level and considers both quantitative and qualitative factors as provided in the Basel capital framework. The qualitative criterion requires banks to identify credit deterioration before the exposure becomes delinquent “unlikeliness to pay” events, while the quantitative criterion requires banks to look at the material delinquency status.

The following factors are what constitutes default from a qualitative and quantitative perspective, and it is in line with the South African Reserve Bank definition.

Qualitative	Quantitative
<ul style="list-style-type: none"> ▪ The borrower is placed in debt counselling/debt review; ▪ The borrower is deceased; ▪ The facility has undergone a distressed restructure/special arrangement; ▪ The facility has been transferred to charge off/legal status; or ▪ The client is under debt review; ▪ The client is insolvent; or ▪ The facility is written off 	A material amount on the facility is 90 days or more in arrears, whereby material is set to avoid technical defaults.



ANNEXURE A – GROUP ACCOUNTING POLICIES *continued*

9. Financial instruments *continued*

9.1 Financial assets *continued*

9.1.2 EXPECTED CREDIT LOSSES *continued*

WRITE-OFF

Discovery Bank will reduce the gross carrying amount of a financial asset when it has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. Currently the write-off point is based on time in default and is set as 12 months in default. To ensure the appropriateness of the write-off point, the proposed write-off point will be assessed on an annual basis and both time in default and recency of repayments will be considered.

Where Discovery has no reasonable expectation of recovery of a debt the amount is written off, this is considered to occur when all avenues of legal recourse to recover the debt have been unsuccessful.

9.2 Financial liabilities

At initial recognition, the Group considers the appropriate classification as at Amortised costs (AC) or Fair value through profit or loss (FVTPL).

Financial liabilities are measured at FVTPL if:

- is it is held for trading; or
- if the financial liabilities are part of a group of financial assets and financial liabilities which are managed and performance evaluated on a fair value basis. These include financial liabilities held within the portfolios of unit-linked insurance, unit-linked investments.

All other financial liabilities in Discovery, which is in scope of IFRS 9, is measured at amortised cost.

Qualitative	Subsequent measurement
Amortised cost (AC)	These instruments are measured at amortised cost using the effective interest method. Interest income and foreign exchange gains and losses are recognised on profit or loss.
Fair value through profit or loss (FVTPL)	These instruments are measured at fair value with gains and losses and any interest recognised in profit or loss.

Discovery has investment contracts which have financial risk, and are consequently recognised and measured in terms of IFRS 9 rather than IFRS 4 *Insurance Contracts*. These contracts are classified at fair value through profit or loss. The policies are linked to the return on underlying financial assets and are directly matched. The movement on Discovery's own credit risk is considered immaterial. The remaining financial liabilities are carried at amortised cost.

Financial liabilities are derecognised when the obligation is extinguished.

9.3 Offset

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of Discovery or the counterparty.

9.4 Modifications

Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability at fair value, including calculating a new effective interest rate, with the difference in the respective carrying amounts being recognised in other gains and losses on financial instruments within non-interest revenue. The date of recognition of a new asset is consequently considered to be the date of initial recognition for impairment calculation purposes.

If the terms are not substantially different for financial assets or financial liabilities, the group recalculates the new gross carrying amount by discounting the modified cash flows of the financial asset or financial liability using the original effective interest rate. The difference between the new gross carrying amount and the original gross carrying amount is recognised as a modification gain or loss within credit impairments (for distressed financial asset modifications) or in other gains and losses on financial instruments within non-interest revenue (for all other modifications).

In assessing whether a financial asset was substantially modified, Discovery performs a qualitative assessment to determine if the terms were substantially modified. In assessing whether a financial liability has been substantially modified, Discovery performs both a qualitative and quantitative (10% threshold) assessment to determine if the terms were substantially modified.



ANNEXURE A – GROUP ACCOUNTING POLICIES *continued*

10. Derivative financial instruments

Derivative financial instruments are classified as held for trading unless they are designated as effective hedging instruments.

Discovery initially recognises derivative financial instruments in the Statement of financial position at fair value on the date which a derivative contract is entered into (the best evidence of fair value on day one is the transaction price) and subsequently re-measures these instruments to fair value. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Fair values are obtained from quoted prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Discovery is permitted to designate certain derivatives as either:

- Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges); or
- Hedges of highly probable forecast transactions (cash flow hedges).

Discovery documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. Discovery also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are expected to be and have been highly effective in offsetting changes in fair values or cash flows of hedged items. Discovery continues to apply hedge accounting, as permitted in IFRS, consistent with IAS 39 *Financial Instruments: Recognition and Measurement*.

10.1 Cash flow hedge

Discovery recognises the effective portion of fair value changes of derivatives that are designated as cash flow hedges in the cash flow hedging reserve in the Statement of other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within net fair value gains on financial assets at fair value through profit or loss in the income statement.

Amounts accumulated in the Statement of other comprehensive income are recycled to profit or loss in the period in which the hedged item will affect profit or loss. Where the forecast transaction or a foreign currency firm commitment results in the recognition of a non-financial asset or liability, the gains and losses previously deferred are transferred from the Statement of other comprehensive income and included in the initial measurement of the cost of the non-financial asset or liability. Where the forecast transaction subsequently results in the recognition of a financial asset or liability, gains or losses deferred in equity are transferred from the statement of other comprehensive income when the financial asset or liability is sold or impaired.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss.

10.2 Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of all such derivative instruments are recognised immediately in profit or loss, within net fair value gains on financial assets at fair value through profit or loss in the income statement.

10.3 Hedging reserve

The hedging reserve includes the cash flow hedge reserve. The cash flow hedge reserve is used to recognise the effective portion of gains or losses on derivatives that are designated and qualify as cash flow hedges. Amounts are subsequently recycled to profit or loss as follows:

- For the effective portion recycled for hedges relating to share-based payments, as part of marketing and administration expenses (staff costs); and
- For the effective portion recycled for hedges relation to interest rate risk, as part of finance costs.



ANNEXURE A – GROUP ACCOUNTING POLICIES *continued*

11. Cash and cash equivalents

Cash and cash equivalents comprise:

- Cash in hand;
- Deposits held at call and short notice; and
- Balances with banks.

Cash and cash equivalents only include items held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. Cash and cash equivalents have a maturity of less than three months from the date of acquisition. Cash and cash equivalents are carried at amortised cost (or in specified instances at fair value through profit or loss) which due to their short-term nature approximates fair value.

Due to Discovery's sweeping arrangements in force with various financial institutions, positive and negative cash balances are presented on a net basis for the purpose of presenting cash and cash equivalents in the statement of cash flows.

12. Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets to the holder. Incremental costs directly related to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Where any Group company purchases Discovery Limited equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to Discovery Limited equity holders. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to Discovery Limited equity holders, net of any directly attributable incremental transaction costs and the related income tax effects.

13. Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. Discovery defines significant insurance risk as the possibility of having to pay benefits, on the occurrence of an insured event, that are significantly more than the benefits payable if the insured event did not occur.

Discovery developed its accounting policies for insurance contracts before the adoption of IFRS 4. As provided for in IFRS 4, Discovery continues to apply these same accounting policies for the recognition and measurement of obligations arising from insurance contracts that it issues and reinsurance contracts that it holds.

13.1 Recognition and measurement

Insurance contracts are classified into four main categories, depending on the duration of the risk and the type of risk insured.

13.1.1 INDIVIDUAL LIFE INSURANCE

These contracts insure against a comprehensive spectrum of risks, including life, disability, severe illness and income continuation cover. These contracts are long-term in nature.

VALUATION OF POLICYHOLDER LIABILITIES

For the published accounts, the actuarial value of policyholder liabilities is determined based on a prospective discounted cash flow valuation basis calculated as the difference between the present value of future benefit payments plus expenses and the present value of future premiums. Best estimate assumptions regarding the future expected claims experience, premium income, expenses and commission are used. Where the same policy includes both insurance and investment components and where the policy is classified as an insurance policy, the liability for the insurance benefits and investment benefits are separately calculated. These components of the liability are not unbundled for reporting purposes. (Refer to accounting policy 14 for the recognition and measurement of investment benefit liabilities).

Where the value of policyholder liabilities is negative in aggregate, this is shown as assets arising from insurance contracts.

Applying the valuation basis using the best estimate assumptions described above, would result in a gain at initial recognition. Compulsory and discretionary margins are therefore added to the best estimate assumption to avoid the premature recognition of future profits. At initial recognition, profits are recognised to the extent of the actual acquisition costs incurred but considering the premium loadings available on the total portfolio to recoup acquisition costs.



ANNEXURE A – GROUP ACCOUNTING POLICIES *continued*

13. Insurance contracts *continued*

13.1 Recognition and measurement *continued*

13.1.1 INDIVIDUAL LIFE INSURANCE *continued*

Discretionary and compulsory margins are therefore added to the best estimate assumptions within the following framework.

- All margins are at least equal to the compulsory margins prescribed by regulations;
- For the discount rate and lapse rate margins, the direction of the margins may vary based on policy type and duration to ensure that the margin is in the conservative direction, overall;
- Given the level of uncertainty in the best estimate assumptions for lapse, mortality and morbidity, margins are added to protect against future possible adverse experience;
- Additional margins are added to allow for the release of profit over the term of the policy;
- Margins are released over the term of a policy in line with the risk borne;
- The best estimate assumptions and margins are reset at every valuation date to reflect the underlying profitability of the portfolio. Changes to assumptions, models and benefits are therefore offset at the portfolio level through an increase in discretionary margin (or release if sufficient discretionary margin exists). The impact of experience variances (with the exception of lapse and mortality experience) on the end-of-period prospective liability recognised in respect of in-force policies is offset at the portfolio level against an increase in discretionary margin (or release if sufficient discretionary margin exists). The impact of experience variances on the in-period cash flows is accounted for in profit or loss for the period and not offset through changes in discretionary margins;
- Discovery has established a procedure to utilise the available discretionary margin in a specified order. First, Discovery will utilise available discretionary margins to absorb all experience items on in-force policies. This is after in period experience variances which are recognised immediately in profit or loss as noted in policy above. Secondly, Discovery utilises available discretionary margins to offset non-economic assumption variances, model, and benefit changes. Lastly, the discretionary margins are utilised to offset the last economic assumption changes. In subsequent periods;
- Where there are insufficient discretionary margins to offset losses arising from negative changes in non-economic assumptions, models and benefit and or negative changes in economic assumptions, those losses in excess of the discretionary margin are recognised immediately in profit or loss; and
- In subsequent periods, positive changes in economic assumptions and positive variance in non-economic assumptions, models and benefits are first recognised separately in profit or loss to extent that it reverses related losses previously recognised in profit or loss. This is in the reversed sequence in which the negative variances were utilised against discretionary margin and any excess previously recognised in profit or loss.

Contractual premium and benefit increases are included in the valuation of the policyholder liability. It is further assumed that no voluntary benefits are taken up where a future take-up of these benefits would reduce the liability. This is in line with South African actuarial guidance which requires that expected profits in respect of future options that may be taken up by policyholders should not be recognised in the policyholder liability.

The actuarial liabilities are calculated gross of reinsurance. The expected impact of reinsurance is valued separately.

The valuation basis meets the requirement of the liability adequacy test as required by IFRS 4 for individual life insurance and no additional tests are performed.

The liability estimates are reviewed at every reporting period and any changes in estimates to the liability are reflected in profit or loss as they occur.

PREMIUM REVENUE

For individual life insurance contracts, premiums are recognised as revenue when due. Premiums are shown net of premium discounts received, premiums provided for as bad debts and before the deduction of commission. Premiums exclude taxes and levies.

INSURANCE BENEFITS AND CLAIMS

Insurance benefits and claims relating to individual life insurance contracts are recognised in profit or loss based on the estimated liability for benefits owed to the contract holder. Death, disability and severe illness and surrender claims are accounted for when notified. These claims include claims reported but not yet validated. The estimate is determined taking into account the likelihood of the claim being valid and the expected severity of the claim given that the claim is valid. The proportion to be included is estimated separately for each benefit type. An estimate of the expected claim amount is charged to profit or loss and included in liabilities under insurance contracts. Maturity and income disability are recorded as incurred. Liabilities are held to reflect incurred but not yet reported (IBNR) claims. The IBNR liabilities are modified to reflect actual current operating conditions. The liabilities are calculated gross of reinsurance. An asset is then raised to allow for the expected recoveries from reinsurers.



ANNEXURE A – GROUP ACCOUNTING POLICIES *continued*

13. Insurance contracts *continued*

13.1 Recognition and measurement *continued*

13.1.1 INDIVIDUAL LIFE INSURANCE *continued*

ACQUISITION COSTS

Acquisition costs for these contracts represent commission and other costs that relate to the securing of new contracts and the renewing of existing contracts. The valuation basis for valuing insurance contracts makes implicit allowance for the deferral of acquisition costs and hence no explicit deferred acquisition cost asset is recognised in the Statement of financial position. These are expensed in profit or loss.

13.1.2 GROUP LIFE INSURANCE

These contracts insure against a comprehensive spectrum of protection benefits on a group basis. Life cover, severe illness, disability and income continuation benefits are offered. These contracts are short-term in nature.

PREMIUM REVENUE

For group life insurance contracts, premiums are recognised as revenue when due. Premiums are shown net of premiums provided for as bad debts, before the deduction of commission and exclude taxes and levies.

INSURANCE BENEFITS AND CLAIMS

Insurance benefits and claims relating to group life insurance contracts are recognised in profit or loss based on the estimated liability for benefits owed to the contract holder. Death, disability and severe illness and surrender claims are accounted for when notified. These claims include claims reported but not yet validated. The estimate is determined taking into account the likelihood of the claim being valid and the expected severity of the claim given that the claim is valid. The proportion to be included is estimated separately for each benefit type. An estimate of the expected claim amount is charged to profit or loss and included in liabilities under insurance contracts. Maturity and income disability are recorded as incurred. Liabilities are held to reflect IBNR claims. The IBNR is modified to reflect actual current operating conditions. The liabilities are calculated gross of reinsurance. An asset is then raised to allow for the expected recoveries from reinsurers.

ACQUISITION COSTS

Acquisition costs for group life insurance contracts comprise all direct costs arising from the sale of insurance contracts. Commissions are expensed as incurred.

13.1.3 HEALTH INSURANCE

These contracts insure policyholders against healthcare-related claims.

PREMIUM REVENUE

Health insurance premiums received in respect of annual contracts are recognised proportionally over the period of the coverage. The portion of the premium received on in-force contracts that relates to unexpired risks at the reporting period is reported as unearned premiums within liabilities arising from insurance contracts. The unearned premium income is amortised on a straight-line basis.

INSURANCE BENEFITS AND CLAIMS

Benefits payable under health insurance contracts are accounted for as incurred. Liabilities are held to reflect IBNR claims. The IBNR calculation is performed using the chain ladder approach. This allows for the historic patterns of claims payment in determining the likely future emergence of claims. The IBNR is further modified to reflect current operational conditions or known events. The liabilities are calculated gross of reinsurance. An asset is then raised to allow for the expected recovery from reinsurers.

DEFERRED ACQUISITION COSTS

The direct costs (commissions) of acquiring short-term health insurance business which are incurred during the year, but which are expected to be recoverable out of future revenue margins, are deferred and disclosed as an asset in the Statement of financial position (gross of tax). The costs are deferred over the period of the contract and amortised on a straight-line basis in line with unearned premiums.

FINANCIAL REINSURANCE

Where a financial reinsurance contract is taken out to protect against lapses, all acquisition costs related to the policy are effectively deferred over the period of the reinsurance contract.

13.1.4 SHORT-TERM INSURANCE

These monthly contracts insure policyholders against a comprehensive spectrum of short-term risks including, but not limited to, motor vehicle and household cover.



ANNEXURE A – GROUP ACCOUNTING POLICIES *continued*

13. Insurance contracts *continued*

13.1 Recognition and measurement *continued*

13.1.4 SHORT-TERM INSURANCE *continued*

PREMIUM REVENUE

Short-term insurance premiums received in respect of monthly contracts are recognised as revenue when due. Premiums are shown before the deduction of commission, less the fuel cash back rewards described below, and exclude value-added tax.

UNEARNED PREMIUM PROVISION

An unearned premium provision is created at the commencement of each insurance contract and is released as the risk covered by the contract expires. The Unearned Premium Provision, represents a proportion of premiums underwritten in the current year, which relate to risks which have not expired by the end of the financial year. This is calculated on a time-proportionate basis for even risks. Therefore, the unearned premium is released over the period of insurance using a method which approximates the time period of the risk covered. The unearned premium provision is calculated on a gross basis.

REINSURANCE COMMISSION INCOME

Reinsurance commission income is recognised in profit or loss over the period of the related direct insurance business assumed.

INSURANCE BENEFITS AND CLAIMS

Claims are accounted for as incurred and consist of claims paid, movement in the provision for outstanding claims and related claims handling expenses.

The provision for outstanding claims is based on estimates of the cost of settling all claims incurred but unpaid at the reporting date, whether reported or not. Related anticipated reinsurance recoveries are disclosed separately as assets in the Statement of financial position and are included in recoveries from reinsurers in profit or loss.

SALVAGE AND SUBROGATION RECOVERIES

Certain short-term insurance contracts allow Discovery to sell property acquired as a result of a claim (salvage). Discovery may also have the legal right to pursue third parties for payment of some or all of the costs (subrogation).

The estimated salvage and subrogation reimbursements are treated as a reduction in the measurement of claims liability.

ACQUISITION COSTS

Acquisition costs for these contracts comprise all direct costs arising from the sale of insurance contracts and are recognised in profit or loss for monthly policies and deferred in acquisition costs for future periods, over the term of the contract.

INSURE FUNDER ACCOUNT (IFA)

This relates to a benefit on a short-term insurance product. A fuel cash back can be used to either reduce the premium that the policyholder is required to pay for the month in question or can be doubled and paid into an IFA.

Where the policyholder has used the fuel cash back to reduce the monthly premium, the reduction has been shown in insurance premium revenue in profit or loss as incurred.

If the policyholder has elected to double the fuel cash back and paid it into an IFA, an IFA liability is raised. The IFA liability is calculated using a discounted cash flow approach and is disclosed in liabilities arising from insurance contracts in the Statement of financial position and the movement is disclosed in the transfer to liabilities under insurance contracts.

When the member uses funds in the IFA to pay for his excess or other costs, the excess is paid by Discovery and an expense is included in claims in the income statement.

Where the member withdraws the funds after three years, the member is paid out in cash and an expense is disclosed against insurance premium revenue in the income statement.

13.2 Embedded derivatives arising from insurance contracts

A unit-linked insurance contract is an insurance contract with an embedded derivative linking payments on the contract to units of an investment fund purchased with the consideration received from the contract holders. This embedded derivative meets the definition of an insurance contract and is therefore not accounted for separately from the host insurance contract. The liability for such contracts is adjusted for all changes in the fair value of the underlying assets.



ANNEXURE A – GROUP ACCOUNTING POLICIES *continued*

13. Insurance contracts *continued*

13.2 Embedded derivatives arising from insurance contracts *continued*

Discovery does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or amount based on a fixed amount and an interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host insurance contract and meet the definition of a derivative. Embedded derivatives that are separated from the host contract are fair valued through profit or loss.

13.3 Liability adequacy test

At the reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to profit or loss initially by writing off deferred acquisition costs and by subsequently establishing a provision for losses arising from the liability adequacy test.

13.4 Reinsurance contracts

Contracts entered into by Discovery with reinsurers under which Discovery is compensated for insured events on one or more contracts that meet the classification requirements for insurance contracts are classified as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial assets.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

The amounts Discovery is required to pay under its reinsurance contracts held are recognised as reinsurance liabilities (liabilities arising from reinsurance contracts).

Outward reinsurance premiums are recognised as an expense and are accounted for when due under the reinsurance contract. The amounts due to Discovery under its reinsurance contracts are recognised as reinsurance assets (classified within insurance receivables). Discovery assesses its reinsurance assets for impairment on an annual basis.

In certain cases there is a net gain or loss at inception of a reinsurance contract:

- Where these amounts relate directly to a reimbursement of expenses the gain is disclosed as a recovery of expenses from reinsurers; or
- Other gains or losses are amortised over the life of the reinsurance contract on a consistent basis as the profit is expected to emerge on the underlying policies but considering the contractual terms and intent of the specific reinsurance contract.

In certain cases there is a net gain or loss upon early termination of a reinsurance contract. Where these amounts result directly from the termination, they are recognised as at the termination date and disclosed as recapture of reinsurance in profit or loss.

13.5 Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. Amounts due are measured consistently and where applicable, provisions for impairments are recognised.

14. Investment contracts

Investment contracts are those contracts that transfer financial risk without significant insurance risk. Financial risk refers to the risk of a possible future change in the value of an asset or financial instrument due to a change in interest rate, commodity price, index of prices, foreign exchange rate or other measurable variables.

Discovery issues investment contracts without fixed benefits (e.g. unit-linked and structured products) and investment contracts with fixed and guaranteed benefits (e.g. term certain annuity).

Valuation of policyholder liabilities

Investment contracts without fixed benefits are financial liabilities whose fair value is dependent on the fair value of the underlying financial assets and derivatives (unit-linked) which are classified at fair value through profit or loss. Discovery designates these investment contracts to be measured at fair value through profit or loss because it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. See accounting policy 7 for the financial assets backing these liabilities.



ANNEXURE A – GROUP ACCOUNTING POLICIES *continued*

14. Investment contracts *continued*

Valuation of policyholder liabilities *continued*

Discovery's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. The fair value of a unit-linked financial liability is determined using the current unit price that reflects the fair values of the financial assets contained within Discovery's unithised investment funds linked to the financial liability. The fair value of the financial liabilities is obtained by multiplying the number of units attributed to each policyholder at the reporting date by the unit price for the same date.

For investment contracts with fixed and guaranteed terms, valuation techniques are used to establish the fair value at inception and at each reporting date. Valuation techniques include discounted cash flow analysis using current market rates of interest and reference to other instruments that are substantially the same.

Premium revenue

All premiums received under investment contracts are recorded as deposits to investment contract liabilities and claims incurred on investment contracts are recorded as deductions from investment contract liabilities.

Fees on investment contracts

Service fee income on investment management contracts is recognised over time as and when the related performance obligation is satisfied. Refer accounting policy note 20. Fees on investment contracts are included in fee income from administrative business.

A deferred revenue liability (DRL) is recognised as a contract liability to contracts with customers in respect of upfront fees for financial advice, investment management and other services which are directly attributable to a contract that are charged for securing the investment management service contract. The DRL is then released to revenue when the performance obligations are satisfied, which corresponds to the underlying expected profit signature of the contract.

Regular fees are charged to the customer monthly either directly or by making a deduction from invested funds.

Costs of obtaining contracts

Deferred acquisition costs on investment contracts represent the contractual customer relationship and the right to receive future investment management fees. Incremental costs directly attributable to securing rights to receive policy fees for services sold with investment contracts, are recognised as an asset where they can be identified separately and measured reliably and it is probable that they will be recovered. An incremental cost is one that would not have been incurred if the Group had not secured the investment contract.

The asset represents the Group's contractual right to benefit from providing asset management services and is amortised over the expected life of the contract as the entity recognises the related revenue.

15. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs against the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment and amortised over the period of the facility to which it relates.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in profit or loss as finance costs using the effective interest method.

16. Deferred income tax

Discovery calculates deferred income tax on all temporary differences using the Statement of financial position approach. Deferred tax liabilities or assets are calculated by applying corporate tax rates that have been substantively enacted to the temporary differences between the tax values of assets and liabilities and their carrying amount, where such temporary differences are expected to result in taxable or deductible amounts in determining taxable income for future periods when the carrying amount of the assets or liabilities are recovered or settled.

Discovery recognises deferred tax assets if the directors of Discovery consider it probable that future taxable income will be available against which the tax losses can be utilised.



ANNEXURE A – GROUP ACCOUNTING POLICIES *continued*

16. Deferred income tax *continued*

Temporary differences arise primarily from the difference between accounting and tax balances arising from insurance contracts, depreciation of property and equipment, effect of accounting for leases, revaluation of certain financial assets and liabilities, provisions for leave pay, provisions for share-based payments and tax losses carried forward. For leases, Discovery assesses the lease asset and lease liability together as a single transaction and assesses the temporary difference on a net basis.

Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income.

Deferred tax related to cash flow hedges, which are charged or credited directly to the statement of other comprehensive income, is also credited or charged directly to the statement of other comprehensive income and is subsequently recognised in profit or loss when the gain or loss is realised.

Deferred income tax assets and liabilities are offset when:

- There is a legally enforceable right to offset current tax assets against current tax liabilities; and
- When the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

If offsetting does not apply, Discovery separately discloses the deferred tax asset and deferred tax liability.

17. Employee benefits

17.1 Post-employment benefits

Discovery operates defined contribution schemes, the assets of which are held in separate private trustee-administered funds. Discovery pays contributions to these funds on a mandatory basis. These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Discovery employees. Qualified actuaries perform annual valuations. Discovery has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

17.2 Share-based compensation

Discovery operates equity-settled and cash-settled share-based compensation plans.

EQUITY-SETTLED SHARE-BASED COMPENSATION PLANS

Discovery expenses the fair value of the employee services received in exchange for the grant of the options, over the vesting period of the awards, as employee costs, with a corresponding credit to a share-based payment reserve in the Statement of changes in equity. The total value of the services received is calculated with reference to the fair value of the options on grant date.

The fair values of the options are determined excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each reporting date, Discovery revises its estimate of the number of options expected to vest. Any changes to the estimated number of options are recognised in profit or loss immediately.

CASH-SETTLED SHARE-BASED COMPENSATION PLANS

Discovery recognises employee services received in exchange for cash-settled share-based payments at the fair value of the liability incurred and expenses these services over the vesting period of the benefits, as employee costs.

The liability is re-measured at each reporting period to its fair value, with all changes recognised immediately in profit or loss.

17.3 Leave pay

Discovery accrues in full the employees' rights to annual leave entitlement in respect of past service. This is expensed over the period the services are rendered.

17.4 Profit share and bonus plan

Discovery operates several other profit sharing and bonus compensation arrangements and recognises these when a constructive obligation has been created by past practice. These are calculated with reference to predetermined formulae. The Group has other deferred compensation schemes in place where employees are incentivised based on a variable other than the share price of Discovery Limited, such as embedded value, value of in-force and earnings multiples. Discovery recognises a liability and the related expense is included in employee costs in profit or loss.



ANNEXURE A – GROUP ACCOUNTING POLICIES *continued*

18. Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less from the reporting date. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

19. Contingent liabilities

Discovery discloses a contingent liability when:

- It has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- It has a present obligation that arises from past events but not recognised because:
 - It is not probable that an outflow of resources will be required to settle an obligation; or
 - The amount of the obligation cannot be measured with sufficient reliability.

20. Revenue recognition

The Group's primary source of revenue arises on the sale of insurance contracts which are accounted for under IFRS 4 *Insurance Contracts* and are excluded from the scope of IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 is applicable to the Group's revenue from administration business, Vitality income and banking fee and commission income.

IFRS 15 requires that once contracts have been identified, the entity identifies the performance obligations in the contract. This is determined on the basis of whether the customer can benefit from the promised good or service individually or together with other readily available resources and whether the performance obligation is distinct in the context of the contract. For the Group, most contracts contained a single performance obligation.

The timing of revenue recognition is dependent on whether the entity transfers control over the good or service over time or at a point in time. In determining the appropriate timing for revenue recognition, the Group considers whether the customer benefits as the entity performs. For most revenue types, Group entities provide stand ready services to customers, where customers benefit as the entities services are consumed. In limited instances where revenue is not recognised over time it is recognised at a point in time when control transfers. For revenue recognised over time the stand ready service is recognised straight line over the term of the contract.

In determining the amount of revenue to recognise, the Group considers any uncertainty created through variable consideration contained in the contract, and constrains the recognition of revenue in order to recognise revenue only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty is resolved. The Group also considers the impact of the timing of receiving payments for revenue transactions and determines whether a significant financing component should be taken into account in the measurement of the transaction price. As the Group's contracts routinely include single performance obligations, there is limited complexity in allocating transaction prices to performance obligations.

Payment terms vary across the different revenue types earned by the Group.

Where contracts with customers involve a third party, the Group considers whether it is acting as the principal or the agent in the delivery of the promised goods or services to the customer. This assessment is based on whether the Group controls the goods or services before it is transferred to the customer.

For certain contracts with customers, Discovery receives income in advance of discharging the related performance obligation. In these instances, the amount is recognised as a contract liability incurred in the acquisition or fulfilment of a contract. Discovery considers whether there are costs incurred for the acquisition or fulfilment of a contract. These costs are recognised as an asset and amortised over the expected period over which performance obligations under the contract are satisfied. Contract costs incurred that are considered to be of a general and administrative nature, that are not explicitly recovered from the customer, are expensed as incurred.

Where the transaction price included in a contract is payable less than 12 months from the date of satisfying the related performance obligation the practical expedient is applied in that a significant financing component is not recognised. Similarly, where costs of obtaining a contract would be amortised over 1 year or less, the costs are not recognised as a separate asset.



ANNEXURE A – GROUP ACCOUNTING POLICIES *continued*

20. Revenue recognition *continued*

	Fee income from administration business	Vitality Income	Banking fee and commission income
Nature of performance obligations	Fee income is recognised on health administration and managed care services rendered. Fee income is also generated on asset administration and fees earned on use of intellectual property. In the respective business these are considered revenue and are seen as single performance obligations in the respective legal entities. These are separated by underlying reported entity in the segmental report shown in note 1.	Vitality income includes the fee income that members of corporations pay to access the Vitality benefit, as well as various activation fees for activating additional benefits. The performance obligation relates to access to the Vitality rewards programme and partner benefits provided to members.	Banking fee and commission income includes banking service fees for banking services. The performance obligation relates to the access to banking and banking services rendered. Commission income relates to the interchange fees which Discovery Bank earns on transactions using debit or credit cards. The performance obligation relates to settlement of transactions via the card network.
When does control pass – Point in time (PIT) vs over time	Performance obligation to provide administration services are considered stand ready services, the customer obtains control over the service as the entity makes its services available on an “as and when” basis. As a result, revenue is recognised over time, as the respective entity makes the services available, based on the passage of time.	Performance obligations to provide access to benefits are considered stand ready services as the customers obtains benefits over the duration of the contract and when required by the customers. As a result revenue is recognised over time based on the passage of time.	The performance obligation associated with the banking fee and commission income passes over time because the client obtains substantially all of the remaining benefits from the service over the period of the month for which the banking fee was charged.
When are amounts payable	Amounts are billed on health administration and managed care business at the end of the respective month with amounts paid within 30 days. For fees on asset administration business, amounts are disinvested for the units held at the end of the related month. Certain fees for example advisor fees are received upfront but are deferred as a contract liability over the expected term of the entity’s performance.	Amounts are billed either monthly, payable within 30 days, or billed on activation of the benefit, payable immediately.	Banking fees are charged monthly and payment is immediate. Interchange income is charged at a point of payment and settled daily in batch format.



ANNEXURE A – GROUP ACCOUNTING POLICIES *continued*

20. Revenue recognition *continued*

	Fee income from administration business	Vitality Income	Banking fee and commission income
Variable consideration and estimates	<p>There is no potential for amounts of revenue to vary relating to discounts or rebates on the health administration business.</p> <p>For the asset administration business, fees are determined with reference to assets under management at a point in time. There are no benchmark performance based fees. The nature of the integrated products that Discovery sells related to the invest business allows for fee discounts and rebates to be determined based on client behaviour.</p> <p>Revenue is estimated and recognised in line with the constraint on variable consideration, only to the extent that it is highly probable that there will not be a significant reversal of revenue already recognised once the uncertainty is resolved.</p> <p>The fee discounts and rebates are determined according to a fixed methodology incorporating policyholder specific information including Vitality status. Discovery has experience in estimating these amounts, which are based on a limited number of outcomes. There is no financing component.</p>	<p>There are no adjustments to the transaction price as a result of any variable consideration. There is no significant financing component.</p>	<p>There are no adjustments to the transaction price as a result of any variable consideration. There is no significant financing component.</p>
Costs to capitalise	<p>Where costs are incurred directly to secure a new health administration customer, and the contract is expected to exceed 12 months, the costs are capitalised and amortised over the expected term of the contract. Costs are routinely incurred on the asset administration business related to commission and other incremental costs of entering into the contract. These are capitalised and recognised over the expected duration of the customer relationship. These assets are tested for impairment to the extent that the carrying amount of the asset exceeds the expected remaining net cash inflows from the customer contract.</p>	<p>In respect of the Apple watch benefit, Discovery incurs costs upfront to purchase the device and provide it to the customer. These costs are deferred and recognised over the two year term of the benefit.</p>	<p>None.</p>

Insurance premium revenue

Insurance premium revenue includes individual life insurance premiums, group life insurance premiums, health insurance premiums and short-term insurance premiums. These are accounted for as described in accounting policy 13.



ANNEXURE A – GROUP ACCOUNTING POLICIES *continued*

21. Other non-revenue income

21.1 Investment income

Investment income comprises dividends and interest received from assets held at amortised cost and cash and cash equivalents.

Discovery recognises dividends when Discovery's right-to-receive payment is established. This is on the "last day to trade" for listed shares and on the "date of declaration" for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares.

Interest is accounted for on an accrual basis using the effective interest method.

21.2 Net fair value gains on financial assets at fair value through profit or loss

Net fair value gains on financial assets at fair value through profit or loss include gains arising from interest, dividends and net realised and unrealised gains on financial assets held at fair value through profit or loss.

22. Leases

IDENTIFICATION OF A LEASE

At inception of a contract, Discovery assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, Discovery uses the definition of a lease in IFRS 16.

Contracts where the service provider has a substantive right to substitute the asset for an alternative asset during the lease term is not regarded as a lease, but instead a service contract. Accordingly, these contracts are not accounted for in accordance with IFRS 16. For Discovery, such contracts include items such as vending machines.

22.1 As a lessee

At commencement or on modification of a contract that contains a lease component, Discovery allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property Discovery has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Discovery recognises a right-of-use asset and a lease liability at the lease commencement date. Discovery presents right-of-use assets in 'Property and equipment' and lease liabilities in 'Borrowings at amortised cost' in the Statement of financial position.

Discovery leases the following assets with a range of lease terms:

- | | |
|-----------------------------------------------|--------------|
| - Large offices | 5 – 15 years |
| - Small offices/Franchise offices (SA only) | 1 – 3 years |
| - Computer equipment (e.g. servers) (SA only) | 3 – 4 years |
| - Motor vehicles (UK only) | 3 years |

MEASUREMENT

LEASE LIABILITY

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. Generally, Discovery uses its incremental borrowing rate as the discount rate.

Discovery determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased. The incremental borrowing rates were calculated for each legal entity within Discovery that entered into lease arrangements. The incremental borrowing rate considers a base interest rate reflective of the jurisdiction in which the legal entity operates (South Africa, United Kingdom and United States of America), the term of the lease arrangement and the nature of the assets.



ANNEXURE A – GROUP ACCOUNTING POLICIES *continued*

22. Leases *continued*

22.1 As a lessee *continued*

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that Discovery is reasonably certain to exercise, lease payments in an optional renewal period if Discovery is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless Discovery is reasonably certain not to terminate early.

Extension or termination options are included in a number of the building leases across Discovery. These terms are used to maximise operational flexibility in terms of managing contracts. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are considered in the lease term when there is reasonable certainty that those options will be exercised.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in Discovery's estimate of the amount expected to be payable under a residual value guarantee, if Discovery changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

RIGHT-OF-USE ASSET

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, less any lease incentives received. Discovery receives incentives such as reimbursements for installations or rent-free periods.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to Discovery by the end of the lease term or the cost of the right-of-use asset reflects that Discovery will exercise a purchase option.

In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

SHORT-TERM LEASES AND LOW VALUE ITEMS

Discovery has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. Discovery recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Leases of low value assets relate to those categories of assets which at inception of the lease typically have a value, if bought new, of no more than approximately R70 000. For Discovery, these categories include computer equipment such as desktops, laptops, monitors and related IT peripherals.

Short-term leases are those leases with a lease term of less than 12 months.



ANNEXURE A – GROUP ACCOUNTING POLICIES *continued*

22. Leases *continued*

22.2 As a lessor

At inception or on modification of a contract that contains a lease component, Discovery allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

CLASSIFICATION

To classify the lease, Discovery makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

As part of this assessment, Discovery considers indicators such as whether the lease is for the major part of the economic life of the asset, the specialised nature of the asset and the present value of lease payments.

Discovery leases out portions of its leased property in the form of subleases. Discovery has classified these leases as operating leases.

MEASUREMENT

As Discovery is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying leased asset.

If an arrangement contains lease and non-lease components, Discovery applies IFRS 15 Revenue from Contracts with Customers to allocate the consideration in the contract.

Discovery recognises lease payments received under operating leases as income on a straightline basis over the lease term as part of 'other income'.

23. Marketing and administration expenses

Marketing and administration expenses include marketing and development expenditure, all other non-acquisition related expenditure and benefits paid under the Vitality programme. These costs are expensed in profit or loss as incurred.

24. Finance costs

Finance costs (net of investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets) directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other finance costs are recognised as an expense in profit or loss on an accrual basis using the effective interest method.

In addition, finance costs include any recycled gains or losses from other comprehensive income arising from cash flow hedges of interest rates, amortisation of financing related fees such as loan commitment fees and letter of credit fees as well as modification gains and losses on borrowings.

25. Direct and indirect taxes

Direct taxes include South African and foreign jurisdiction corporate tax payable and are disclosed as taxation in profit or loss.

Indirect taxes include various other taxes paid to central and local governments, including value-added tax and skills development levies. Indirect taxes are included as part of marketing and administration expenses in profit or loss.

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed. It is calculated using taxation rates that have been enacted or substantively enacted by the reporting date, in each particular jurisdiction within which the Discovery entities operate.

Taxation in respect of the South African life insurance operations is determined in accordance with the rates and basis applicable to section 29A of the Income Tax Act at the reporting date.

26. Dividend distribution

Dividend distribution to Discovery Limited's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved.



ANNEXURE A – GROUP ACCOUNTING POLICIES *continued*

27. Normalised headline earnings

Discovery assesses its performance using Normalised Headline Earnings, an alternative non-IFRS profit measure, alongside its IFRS profit. Management considers that Normalised Headline Earnings Per Share (NHEPS) is an appropriate alternative performance measure to enhance the comparability and understanding of the financial performance of Discovery.

Non-IFRS measures are not uniformly defined or used by all entities and may not be comparable with similarly labelled measures and disclosures provided by other entities. Discovery has set out its policy to calculate NHEPS below.

Discovery calculates headline earnings in accordance with the latest SAICA Circular 'Headline Earnings'. NHEPS is calculated by starting with headline earnings and adjusted to exclude material items that are not considered to be part of Discovery's normal operations as follows:

- Once-off transactions, for example, debt restructuring costs resulting from the DiscoveryCard business transaction, restructuring costs and transaction costs related to interest rate derivatives.
- Unusual items - Discovery considers items to be unusual when they have limited predictive value and it is reasonable that items of similar nature would not necessarily arise for several future annual reporting periods. These adjustments include those gains or losses associated with changes in economic assumptions recognised in profit or loss, net of any gains or losses on derivatives to offset such changes in economic assumptions. Adjustments are shown net of tax; or
- Income or expenses not considered to be part of Discovery's normal operations, for example, amortisation of intangibles from business combinations, fair value (gains)/losses certain foreign exchange contracts not designated as hedges and specified foreign exchange gains or losses.

Management is responsible for the calculation of NHEPS and determining the inclusions and exclusions in accordance with the policy. The Discovery Limited Audit Committee (DLAC) reviews the normalised headline earnings for transparency and consistency.

During the financial period, Discovery has made the following adjustments in the determination of NHEPS:

Adjustment	Explanation
Changes in economic assumptions in excess of available discretionary margin (in future, this will also include the reversals of economic assumptions recognised in profit or loss)	<p>Economic assumptions include changes associated with interest rates as well as currency exchange rates. The adjustment reflects changes in economic assumptions for the time value of money and forex rates and the effect on insurance contracts resulting from changes in the long-term interest rates as well as forex rates.</p> <p>Under IFRS, where there are insufficient discretionary margins to offset losses arising from negative changes in economic assumptions, those losses in excess of the discretionary margin are recognised immediately in profit or loss. In subsequent periods, positive changes in economic assumptions are first recognised separately in profit or loss to the extent that it reverses related losses previously recognised in profit or loss before it increases discretionary margins.</p> <p>The effect of these economic assumptions is unusual and provides little predictive value for future periods. This is because the value is dependent on available discretionary margins at a given point in time and the long-term interest rates which could vary period to period – thereby introducing volatility and inability to be predictive on results during future periods. These adjustments are therefore excluded in assessing the normal business operations of Discovery.</p>
Intrinsic fair value changes on VitalityLife derivatives	<p>VitalityLife has entered into interest rate derivative instruments to offset the impact of changes in economic assumptions on insurance contracts.</p> <p>The adjustment reflects the intrinsic value of fair value gains or losses on these derivative instruments. The intrinsic value of fair value gains or losses on these derivative instruments are excluded from NHEPS to be consistent with the treatment of the changes in economic assumptions recognised in profit or loss.</p>
Translation losses/(gains) on long-term intercompany loans that eliminate on consolidation	<p>The adjustment reflects those foreign exchange (gains) or losses associated with the translation of foreign denominated long-term intercompany loans. Long-term loans include those loans with final settlement terms beyond 12 months after the reporting date. Discovery considers these loans to form part of its interest in the entity.</p> <p>The translation of a foreign denominated loan into the functional currency of the respective entity results in foreign exchange gains or losses. These foreign exchange gains or losses can result in volatility in profit or loss, which fluctuates over the period during which the long-term loans remain outstanding. This volatility is therefore excluded in assessing the normal business operations of Discovery, as these foreign exchange gains or losses are seen to form part of the interest in the entity.</p>



ANNEXURE A – GROUP ACCOUNTING POLICIES *continued*

27. Normalised headline earnings *continued*

Adjustment	Explanation
Fair value (gains)/losses on foreign exchange contracts not designated as a hedge	<p>The adjustment reflects fair value gains or losses on foreign exchange contracts entered in anticipation of the Prudential Book Transfer. These derivative instruments are not designated as a hedge and as a result, the fair value adjustments are recognised in profit or loss.</p> <p>The fair value adjustments of these derivative instruments can result in volatility in profit or loss and is therefore excluded in assessing the normal business operations of Discovery as it relates specifically to a future once-off transaction.</p>
Amortisation of intangibles from business combinations	<p>The adjustment reflects the amortisation of intangible assets which arose from the purchase of various subsidiaries within Discovery and recognised in accordance with IFRS 3 Business Combinations.</p> <p>Intangible assets recognised from business combinations provide little predictive value of the earnings from the business, as these assets will not be reacquired, renewed, or replaced once depleted. Discovery also infrequently acquires businesses. The amortisation of these assets is therefore excluded in assessing the normal business operations of Discovery.</p>
Deferred tax assets raised on assessed losses	<p>The adjustment reflects the initial recognition of deferred tax assets in respect of assessed losses in prior financial periods, after evaluating that there is future taxable income that will arise in the respective business.</p> <p>The initial recognition of this deferred tax asset results in a once-off income recognised in profit or loss. It provides no predictive value in assessing the normal business operations of Discovery.</p>
Initial expenses related to the Prudential Book Transfer	<p>The adjustment reflects professional fees and legal fees of the book transfer incurred in anticipation of the Prudential Book Transfer.</p> <p>As these expenses relate to a future once-off transaction it provides no predictive value in assessing the normal business operations of Discovery and has therefore been excluded from earnings.</p>
Restructuring Costs	<p>The adjustment reflects restructuring costs which are once-off costs incurred to restructure specified business areas.</p> <p>These transaction costs are infrequent and therefore excluded in assessing the normal business operations of Discovery.</p>
Transaction costs related to interest rate derivatives	<p>Transaction costs paid to acquire specified derivative instruments for VitalityLife are excluded from NHEPS.</p> <p>These transaction costs are infrequent and therefore excluded in assessing the normal business operations of Discovery.</p>



ANNEXURE B – DIRECTORATE

REMUNERATION AND FEES

Payment to directors for the year ended 30 June 2021 for services rendered are set out in the table below. It should be noted that these payments reflect cash payments made to directors during the financial year and therefore all variable pay components are reflective of performance measurements relating to previous periods. The variable pay components relating to the current year under review are physically paid in the following financial year and are analysed in detail in the Group's annual remuneration report and are more reflective of the performance of the period under review.

Payments to directors for the year ended 30 June 2021 for services rendered are as follows:

R'000	Services as directors ¹	Basic salary ¹	Performance bonus	Phantom scheme payments	Provident fund contributions	Other benefits ^{2,7}	Total
Executive							
A Gore	-	7 052	7 112	1 547	1 094	365	17 170
HD Kallner	-	5 273	9 539	4 871	272	164	20 119
NS Koopowitz ³	-	18 340	9 917	5 726	49	528	34 560
Dr A Ntsaluba	-	4 425	4 371	987	343	274	10 400
A Pollard ⁴	-	6 524	4 373	3 119	221	303	14 540
B Swartzberg	-	4 993	4 649	2 808	534	182	13 166
DM Viljoen	-	4 581	4 843	3 033	722	82	13 261
Sub-total	-	51 188	44 804	22 091	3 235	1 898	123 216
Non-executive							
ME Tucker ⁵	5 975	-	-	-	-	-	5 975
HL Bosman ⁶	1 822	-	-	-	-	-	1 822
Dr BA Brink	1 416	-	-	-	-	-	1 416
SE De Bruyn	1 364	-	-	-	-	-	1 364
R Farber ⁷	2 281	-	-	-	-	3 295	5 576
FN Khanyile ⁸	1 104	-	-	-	-	-	1 104
D Macready	1 663	-	-	-	-	-	1 663
DR TV Maphai	1 728	-	-	-	-	-	1 728
H Mayers	315	-	-	-	-	-	315
M Schreuder	679	-	-	-	-	-	679
SV Zilwa ⁹	1 832	-	-	-	-	-	1 832
Sub-total	20 179	-	-	-	-	3 295	23 474
Total	20 179	51 188	44 804	22 091	3 235	5 193	146 690
Less: paid by subsidiaries	(20 179)	(51 188)	(44 804)	(22 091)	(3 235)	(5 193)	(146 690)
Paid by holding company	-	-	-	-	-	-	-

¹ Responding to the challenges of COVID-19 and in response to the call by the President of South Africa, all South African executive directors, and certain non-executive directors and foreign-based executive directors, committed one third of their gross salaries and Board fees for three months to add to Discovery's contributions towards the Solidarity Fund and other COVID-19-related causes. Executive directors committed R0.9 million in the current year (2020: Executive directors forfeited R1.7 million and non-executive directors forfeited R1.4 million).

² "Other benefits" comprise medical aid contributions, travel and other allowances.

³ Salary and incentive are paid in GBP.

⁴ Salary and incentive are paid in USD.

⁵ Director's fees for services rendered are paid in GBP.

⁶ Director's fees for services rendered by HL Bosman were paid to Rand Merchant Insurance Holdings Limited.

⁷ Director's fees for services and fees for other consulting services rendered by R Farber were paid in AUD. Director's fees for consulting services are included as part of other benefits.

⁸ Director's fees for services rendered by F Khanyile were paid to WDB Investment Holdings Proprietary Limited.

⁹ Black non-executive directors participated in the Discovery Limited BEE transaction. SV Zilwa has a loan outstanding to the Company of R1 million as at 30 June 2021.



ANNEXURE B – DIRECTORATE *continued*

REMUNERATION AND FEES *continued*

Payment to directors for the year ended 30 June 2020 for services rendered are set out in the table below. It should be noted that these payments reflect cash payments made to directors during the financial year and therefore all variable pay components are reflective of performance measurements relating to previous periods. The variable pay components relating to the current year under review are physically paid in the following financial year and are analysed in detail in the Group's annual remuneration report and are more reflective of the performance of the period under review.

Payments to directors for the year ended 30 June 2020 for services rendered are as follows:

R'000	Services as directors ⁹	Basic salary ⁹	Performance bonus	Phantom scheme payments	Provident fund contributions	Other benefits ^{1,7}	Total
Executive							
A Gore	-	6 767	4 375	3 636	1 088	413	16 279
HD Kallner	-	5 105	7 258	11 036	271	168	23 838
NS Koopowitz ^{2,10}	-	19 858	18 798	44 887	214	541	84 298
HP Mayers ^{3,10}	-	11 644	7 598	50 258	1 160	1 205	71 865
Dr A Ntsaluba	-	4 281	3 417	2 400	342	273	10 713
A Pollard ⁴	-	7 857	4 323	5 191	197	298	17 866
B Swartzberg	-	4 902	3 682	3 166	470	173	12 393
DM Viljoen	-	4 419	3 350	2 331	722	89	10 911
Sub-total	-	64 833	52 801	122 905	4 464	3 160	248 163
Non-executive							
ME Tucker ⁵	5 448	-	-	-	-	-	5 448
HL Bosman ⁶	1 524	-	-	-	-	-	1 524
Dr BA Brink	944	-	-	-	-	-	944
SE De Bruyn	1 364	-	-	-	-	-	1 364
R Farber ⁷	2 445	-	-	-	-	3 764	6 209
FN Khanyile ⁸	769	-	-	-	-	-	769
D Macready	693	-	-	-	-	-	693
DR TV Maphai*	1 263	-	-	-	-	-	1 263
HP Mayers	420	-	-	-	-	-	420
AL Owen ⁵	2 224	-	-	-	-	185	2 409
SV Zilwa*	1 832	-	-	-	-	-	1 832
Sub-total	18 926	-	-	-	-	3 949	22 875
Total	18 926	64 833	52 801	122 905	4 464	7 109	271 038
Less: paid by subsidiaries	(18 926)	(64 833)	(52 801)	(122 905)	(4 464)	(7 109)	(271 038)
Paid by holding company	-	-	-	-	-	-	-

1 "Other benefits" comprise medical aid contributions, travel and other allowances.

2 Salary and incentive are paid in GBP.

3 Remuneration consists of GBP and Rands components.

4 Salary and incentive are paid in USD.

5 Director's fees for services rendered are paid in GBP.

6 Director's fees for services rendered by HL Bosman are paid to Rand Merchant Investment Holdings Limited.

7 Director's fees for services and fees for other consulting services rendered by R Farber were paid in AUD. Director's fees for consulting services are included as part of other benefits.

8 Director's fees for services rendered by F Khanyile are paid to WDB Investment Holdings Proprietary Limited.

9 In response to the Presidents call, all executive and certain non-executive directors heeded by forfeiting an effective one-month's salaries/fees to enable the Company to donate further towards the Solidarity Fund and similar charities. Executive directors forfeited R1.7m and non-executive directors forfeited R1.4m. Executive directors forfeited a further R0.9m in FY21.

10 The phantom scheme payment amounts for NS Koopowitz and HP Mayers include the once-off vesting of special phantom share allocations linked to the final buy-out in 2014 of Vitality UK and therefore represents a multi-year scheme with single maturity. These special phantom allocations were designed to align with the VitalityHealth and VitalityLife minority interest share participation in which other UK senior management obtained a physical minority share interests and where participants had the option to sell such shares to Discovery Group Europe Limited after maturity. NS Koopowitz and HP Mayers were not participants in the physical share scheme but were awarded phantom shares that replicated the scheme and also forfeited the normal 2014 long term incentive plan awards. The once-off and final amounts paid under this phantom scheme amounted to £1,453,400 each (R28.7 million).

* Black non-executive directors participated in the Discovery Limited BEE transaction and have R18.6m loans outstanding to the Company.



ANNEXURE B – DIRECTORATE *continued*

DIRECTORS' PARTICIPATION IN LONG-TERM INCENTIVE SCHEMES

Discovery's directors and prescribed officers participate in the various long-term incentive schemes offered by the Group and their participation is disclosed below. Refer to Group note 31 for a detailed description of the various schemes offered.

Discovery Limited phantom share scheme

Directors and prescribed officers participation as at 30 June 2021:

Directors and prescribed officers	Outstanding shares	Date granted	Strike price R	Final vesting date	Value at 30 June 2021 R
A Gore	8 106	30/09/2016	-	30/09/2021	1 023 545
	27 894	30/09/2017	-	30/09/2022	3 522 175
	36 021	30/09/2018	-	30/09/2023	4 548 372
HD Kallner	18 980	30/09/2016	-	30/09/2021	2 396 541
	18 708	30/09/2017	-	30/09/2022	2 362 259
	146 628	01/04/2018	-	31/03/2023	18 514 654
	24 159	30/09/2018	-	30/09/2023	3 050 557
A Ntsaluba	9 557	30/09/2016	-	30/09/2021	1 206 794
	19 733	30/09/2017	141.65	30/09/2022	-
	9 866	30/09/2017	-	30/09/2022	1 245 780
	21 234	30/09/2018	-	30/09/2023	2 681 217
A Pollard	1 897	30/09/2016	-	30/09/2021	239 503
	3 794	30/09/2016	114.96	30/09/2021	42 907
	3 796	30/09/2017	-	30/09/2022	479 258
	7 591	30/09/2017	141.65	30/09/2022	-
	4 920	30/09/2018	-	30/09/2023	621 248
B Swartzberg	10 873	30/09/2016	-	30/09/2021	1 372 965
	3 929	30/09/2017	-	30/09/2022	496 115
	7 858	30/09/2017	141.65	30/09/2022	-
	8 456	30/09/2018	-	30/09/2023	1 067 739
DM Viljoen	18 946	01/05/2017	-	30/04/2022	2 392 343
	11 225	30/09/2017	-	30/09/2022	1 417 381
	22 450	30/09/2017	141.65	30/09/2022	-
	22 791	30/09/2018	-	30/09/2023	2 877 820



ANNEXURE B – DIRECTORATE *continued*

DIRECTORS' PARTICIPATION IN LONG-TERM INCENTIVE SCHEMES *continued*

Discovery Limited long-term incentive plan

Directors and prescribed officers participation as at 30 June 2021:

Directors and prescribed officers	Outstanding shares	Date granted	Strike price R	Final vesting date	Value at 30 June 2021 R
A Gore	76 399	30/09/2019	–	30/09/2024	9 646 902
	30 434	30/09/2020	–	30/09/2023	3 842 901
	69 707	30/09/2020	–	30/09/2025	8 801 903
HD Kallner	51 240	30/09/2019	–	30/09/2024	6 470 075
	98 985	30/09/2020	–	30/09/2023	12 498 836
	46 752	30/09/2020	–	30/09/2025	5 903 375
A Ntsaluba	45 253	30/09/2019	–	30/09/2024	5 714 096
	17 846	30/09/2020	–	30/09/2023	2 253 414
	41 289	30/09/2020	–	30/09/2025	5 213 562
A Pollard	14 662	30/09/2019	–	30/09/2024	1 851 371
	3 145	30/09/2020	–	30/09/2023	397 119
	22 362	30/09/2020	–	30/09/2025	2 823 650
B Swartzberg	15 372	30/09/2019	–	30/09/2024	1 941 022
	11 501	30/09/2020	–	30/09/2023	1 452 231
	23 376	30/09/2020	–	30/09/2025	2 951 688
DM Viljoen	48 340	30/09/2019	–	30/09/2024	6 103 892
	24 797	30/09/2020	–	30/09/2023	3 131 117
	44 105	30/09/2020	–	30/09/2025	5 569 138

The Vitality Group Cash-settled plan

Directors and prescribed officers

Directors and prescribed officers	Outstanding units	Date granted	Exercise price US\$	Final vesting date	Value at 30 June 2021 US\$
A Pollard	122 805	30/09/2017	–	30/09/2022	165 458
	109 395	30/09/2018	–	30/09/2023	147 390
	278 536	30/09/2019	–	30/09/2024	325 887
	153 330	30/09/2020	–	30/09/2025	179 396
B Swartzberg	127 122	30/09/2017	–	30/09/2022	171 274
	187 991	30/09/2018	–	30/09/2023	253 284
	287 542	30/09/2019	–	30/09/2024	336 424
	160 279	30/09/2020	–	30/09/2025	187 526

The VitalityHealth and VitalityLife phantom share schemes

Directors and prescribed officers participation as at 30 June 2021:

Directors and prescribed officers	Outstanding shares	Date granted	Exercise price GBP	Final vesting date	Value at 30 June 2021 GBP
NS Koopowitz	4 875	06/11/2017	–	2021	152 490
	9 360	05/11/2018	–	2022	285 293
	13 007	01/03/2020	–	2023	379 544



ANNEXURE B – DIRECTORATE *continued*

DIRECTORS' PARTICIPATION IN LONG-TERM INCENTIVE SCHEMES *continued*

Directors' interests in shares

According to the Register of Directors' Interests, maintained by Discovery in accordance with the provisions of section 30(4)(d) of the Companies Act, directors and prescribed officers of Discovery have disclosed the following interest in the ordinary shares of the Company at 30 June 2021:

Directors and prescribed officers	Direct beneficial	Indirect beneficial	Total 2021	Direct beneficial	Indirect beneficial	Total 2020
A Gore	-	49 396 559 ¹	49 396 559	-	50 496 775	50 496 775
H Bosman	-	77 027	77 027	-	77 027	77 027
SE de Bruyn	1 800	-	1 800	1 800	-	1 800
R Farber	55 076	-	55 076	55 076	-	55 076
HD Kallner	100 398	-	100 398	100 398	-	100 398
F Khanyile	1 300	-	1 300	800	-	800
NS Koopowitz	-	962 004	962 004	-	962 004	962 004
Dr TV Maphai	1 919	196 505	198 424	1 919	407 395	409 314
HP Mayers ²	-	-	-	36 948	7 699 716	7 736 664
A Ntsaluba	90 164	-	90 164	90 164	-	90 164
A Pollard	1 193 099	-	1 193 099	1 193 099	-	1 193 099
B Swartzberg	3 202 227	22 635 115 ³	25 837 342	3 384 227	22 733 115	26 117 342
DM Viljoen	10 000	-	10 000	10 000	-	10 000
SV Zilwa	-	6 680	6 680	-	12 780	12 780
	4 655 983	73 273 890	77 929 873	4 874 431	82 388 812	87 263 243

¹ Includes 42 400 000 (2020: 42 400 000) ordinary shares which are subject to security.

² On 26 November 2020, when Mr HP Mayers retired. His direct beneficial holding was 36 948 shares and his indirect beneficial holding was 4 699 716 shares in Discovery Limited, which were subject to security. (2020: 7 699 716)

³ Includes 10 200 000 (2020: 10 200 000) ordinary shares which are subject to security.

There has been no change in the directors' interests in Discovery Limited's shares between 30 June 2021 and the date of publication of this annual report.



ANNEXURE C – ANALYSIS OF SHAREHOLDERS

at 30 June 2021

ORDINARY SHAREHOLDERS

	Number of shareholders	% of total shareholders	Number of shares	% of issued capital
Shareholder spread				
1 – 1 000 shares	26 060	83.67	4 977 909	0.75
1 001 – 10 000 shares	4 042	12.98	11 433 580	1.72
10 001 – 100 000 shares	762	2.45	23 743 280	3.56
100 001 – 1 000 000 shares	202	0.65	63 087 052	9.48
1 000 001 shares and over	79	0.25	562 526 780	84.49
	31 145	100	665 768 601	100
Public/non-public shareholders				
Non-public shareholders (more than 5%)	25	0.08	319 105 911	47.93
– Directors of the Company, including their associates	14	0.04	77 929 873	11.71
– Employee share trusts	2	0.01	8 284 690	1.24
– Own holdings	1	0.00	680 268	0.1
– Key management personnel and trustees of pension funds	6	0.02	690 746	0.1
– Strategic holdings (more than 10%)	2	0.01	231 520 334	34.78
Public shareholders	31 120	99.92	346 662 690	52.07
	31 145	100	665 768 601	100

	Number of shares	%
Beneficial shareholders' holding of 5% or more		
Rand Merchant Investment Holdings Limited	164 810 590	24.75
Government Employees Pension Fund	66 709 744	10.02
Baillie Gifford & Co	42 123 782	6.33
Comgest SA	33 355 006	5.01

B PREFERENCE SHAREHOLDERS

	Number of shareholders	% of total shareholders	Number of shares	% of issued capital
Shareholder spread				
1 – 1 000 shares	1 833	69.01	341 241	4.27
1 001 – 10 000 shares	709	26.70	2 145 905	26.82
10 001 – 100 000 shares	97	3.65	2 626 634	32.83
100 001 – 1 000 000 shares	17	0.64	2 886 220	36.08
	2 656	100	8 000 000	100
Public/non-public shareholders				
Non-public shareholders (more than 5%)	2	0.08	2 052 968	25.66
– Strategic holdings (more than 5%)	2	0.08	2 052 968	25.66
Public shareholders	2 654	99.92	5 947 032	74.34
	2 656	100	8 000 000	100

	Number of shares	%
Beneficial shareholders' holding of 5% or more		
Outsurance Insurance Company Ltd	500 000	6.25



ANNEXURE D – EMBEDDED VALUE REPORT ON THE REVIEW OF THE EMBEDDED VALUE STATEMENT OF DISCOVERY LIMITED AND ITS SUBSIDIARIES TO THE DIRECTORS OF DISCOVERY LIMITED

INTRODUCTION

We have reviewed the Embedded Value Statement of Discovery Limited (the “Company”) and its subsidiaries (together the “Group”) for the year ended 30 June 2021, as set out on pages 198 to 209 of the Discovery Annual Financial Statements for the year ended 30 June 2021 (the “Report”). The Report is prepared for the purpose of determining the value and performance of the Group. The directors of Discovery Limited are responsible for the preparation and presentation of the Report in accordance with the embedded value basis set out in the Basis of Preparation section of the Report and for determining that the basis of preparation is acceptable in the circumstances. Our responsibility is to express a conclusion on this Report based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.” A review of financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the Report is not prepared, in all material respects, in accordance with the basis set out in the Basis of Preparation section of the Report.

BASIS OF ACCOUNTING AND RESTRICTION ON USE

Without modifying our conclusion, we draw attention to the Basis of Preparation section of the Report, which describes the basis of accounting. The Report is prepared for the purpose of determining the value and performance of the Group. As a result, the Report may not be suitable for another purpose. Our report is intended solely for the directors of Discovery Limited and should not be used by any other parties. We agree to the publication of our report in the Discovery Annual Financial Statements for the year ended 30 June 2021 provided it is clearly understood by the recipients of the Discovery Annual Financial Statements for the year ended 30 June 2021 that they enjoy such receipt for information only and that we accept no duty of care to them in respect of our report.

PricewaterhouseCoopers Inc.
Director: Andrew Graham Taylor
Registered Auditor
Johannesburg
2 September 2021



ANNEXURE D – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2021

The embedded value of Discovery consists of the following components:

- the adjusted net worth attributed to the business at the valuation date;
- plus: the present value of expected future shareholder cash flows from the in-force covered business;
- less: the cost of required capital.

The present value of future shareholder cash flows from the in-force covered business is calculated as the value of projected future after-tax shareholder cash flows of the business in-force at the valuation date, discounted at the risk discount rate.

The required capital are the assets attributed to the covered business above the amount required to back covered business liabilities, whose distribution to shareholders is restricted as they are allocated to cover regulatory and internal capital requirements.

The value of new business is the present value, at the point of sale, of the projected future after-tax shareholder cash flows of the new business written by Discovery, discounted at the risk discount rate, less an allowance for the reserving strain, initial expenses and cost of required capital. The value of new business is calculated using the current reporting date assumptions.

The embedded value includes the insurance and administration profits of the covered business in the Discovery Limited Group. Covered business includes business written in South Africa through Discovery Life ("Life"), Discovery Invest ("Invest"), Discovery Health ("Health") and Discovery Vitality ("Vitality"), and in the United Kingdom through VitalityLife and VitalityHealth. For Vitality Group, Ping An Health, AIA Health, Discovery Insure, Discovery Bank, VitalityInvest and Umbrella Funds, no published value has been placed on the current in-force business as the businesses have not yet reached suitable scale with predictable experience.

In August 2011, Discovery raised R800 million through the issue of non-cumulative, non-participating, non-convertible preference shares. For embedded value purposes this capital, net of share issue expenses, has been excluded from the adjusted net worth.

The 30 June 2021 embedded value results and disclosures were subjected to an external review.



ANNEXURE D – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2021

TABLE 1: GROUP EMBEDDED VALUE

R million	30 June 2021	30 June 2020	% change
Shareholders' funds	46 419	44 553	4
Adjustment to shareholders' funds from published basis ¹	(34 184)	(32 080)	
Adjusted net worth ²	12 235	12 473	
Value of in-force covered business before cost of required capital	67 175	64 305	
Cost of required capital	(4 765)	(5 944)	
Discovery Limited embedded value	74 645	70 834	5
Number of shares (millions)	656.8	656.6	
Embedded value per share	R113.65	R107.88	5
Diluted number of shares (millions)	665.1	657.6	
Diluted embedded value per share ³	R112.23	R107.71	4

¹ A breakdown of the adjustment to shareholders' funds is shown in the table below. Note that where relevant, adjustments have been converted using the closing exchange rate of R19.74/GBP (June 2020: R21.44/GBP).

R million	30 June 2021	30 June 2020
Life net assets under insurance contracts	(20 675)	(18 564)
Vitality Life Limited and Discovery funded VitalityLife business on the Prudential licence net assets under insurance contracts	(7 703)	(6 320)
VitalityHealth financial reinsurance asset	(2 353)	(3 078)
VitalityHealth and Vitality Health Insurance Limited deferred acquisition costs (net of deferred tax)	(407)	(467)
VitalityLife receivable relating to the Unemployment Cover benefit (net of deferred tax)	(12)	(21)
Goodwill relating to the acquisition of Standard Life Healthcare and the Prudential joint venture	(2 442)	(2 653)
Intangible assets (net of deferred tax) in covered businesses	(830)	(945)
Net preference share capital	(779)	(779)
Reversal of 1 Discovery Place IAS 17 financial lease accounting	975	747
Equity settled share based payment provision adjustment	42	-
	(34 184)	(32 080)

The 'equity settled share based payment provision adjustment' reflects the difference between the provision in the IFRS equity and the mark-to-market value of the equity settled share based payments.

² The following table sets out the capital position of the covered businesses with the required capital on a consistent basis to that used in the embedded value:



ANNEXURE D – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2021

R million	30 June 2021	30 June 2020
Shareholders' funds	46 419	44 553
Adjustment to shareholders' funds	(34 184)	(32 080)
Adjusted net worth	12 235	12 473
Excess of available capital over adjusted net worth	30 718	23 231
Available capital	42 953	35 704
Required capital	32 699	29 932
Excess available capital	10 254	5 772

The excess of available capital over adjusted net worth reflects the difference between the adjusted net worth and the available capital. This includes:

The net preference share capital of R779 million which is included as available capital.

The difference between Vitality Life Limited's Solvency II Pillar 1 Own Funds and its adjusted net worth and adds back the negative reserves eliminated on the Discovery funded VitalityLife business on the Prudential licence.

The difference between Life's Pillar 1 Own Funds and its adjusted net worth.

The following table sets out the required capital for each of the covered businesses:

R million	30 June 2021	30 June 2020
Health and Vitality	973	935
Life and Invest	22 059	18 544
VitalityHealth	2 847	2 963
VitalityLife	6 820	7 490
Total Required Capital	32 699	29 932

For Health and Vitality, the required capital was set equal to two times the monthly renewal expense and Vitality benefit cost.

For Life and Invest, the required capital was set equal to 1.25 times the SAM Pillar 1 Solvency Capital Requirement.

For VitalityHealth, the required capital amount was set equal to 1.35 times the Solvency II Pillar 1 Solvency Capital Requirement.

For the VitalityLife business on the Prudential licence, the required capital was set equal to the UK Solvency I long-term insurance capital requirement as per the agreement with Prudential up to the Part VII transfer, thereafter it is set equal to 1.5 times the Solvency II Pillar 1 Solvency Capital Requirement. For the business sold on the Vitality Life Limited licence, the required capital was set equal to 1.4 times the Solvency II Pillar 1 Solvency Capital Requirement up to the Part VII transfer and 1.5 times thereafter.

- ³ The diluted embedded value per share adjusts for treasury shares held in the Discovery BEE Share Trust and as part of Discovery's Long-term Incentive Plan where the impact is dilutive.



ANNEXURE D – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2021

TABLE 2: VALUE OF IN-FORCE COVERED BUSINESS

R million	Value before cost of required capital	Cost of required capital	Value after cost of required capital
at 30 June 2021			
Health and Vitality	22 503	(422)	22 081
Life and Invest ¹	27 777	(1 183)	26 594
VitalityHealth ²	8 230	(462)	7 768
VitalityLife ²	8 665	(2 698)	5 967
Total	67 175	(4 765)	62 410
at 30 June 2020			
Health and Vitality	22 321	(419)	21 902
Life and Invest ¹	23 752	(1 244)	22 508
VitalityHealth ²	10 077	(495)	9 582
VitalityLife ²	8 155	(3 786)	4 369
Total	64 305	(5 944)	58 361

¹ Included in the Life and Invest value of in-force covered business is R1 675 million (June 2020: R1 440 million) in respect of investment management services provided on off balance sheet investment business. The net assets of the investment service provider are included in the adjusted net worth.

² The value of in-force has been converted using the closing exchange rate of R19.74/GBP (June 2020: R21.44/GBP).

TABLE 3: GROUP EMBEDDED VALUE EARNINGS

R million	30 June 2021	30 June 2020
Embedded value at end of period	74 645	70 834
Less: embedded value at beginning of period	(70 834)	(71 217)
Increase in embedded value	3 811	(383)
Net change in capital ¹	(914)	-
Dividends paid	63	1 494
Transfer to hedging reserve	(260)	430
Employee share option schemes	(330)	(164)
Increase in treasury shares	907	4
Acquisition of subsidiaries with non-controlling interest	-	(6)
IFRS transitional arrangements ²	-	41
Embedded value earnings	3 277	1 416
Annualised return on opening embedded value	4.6%	2.0%

¹ The net change in capital reflects share issues (net of costs) and an increase (decrease) in treasury shares in the period.

² The IFRS transitional arrangements reflects the retrospective adjustments arising from the adoption of IFRS 9 and IFRS 15 to the opening balances at 1 July 2018.



ANNEXURE D – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2021

TABLE 4: COMPONENTS OF GROUP EMBEDDED VALUE EARNINGS

R million	Net worth	Cost of required capital	Value of in-force covered business	Year ended	Year ended
				30 June 2021	30 June 2020
				Embedded value	Embedded value
Total profit from new business (at point of sale)	(4 540)	(262)	6 693	1 891	1 922
Profit from existing business					
Expected return	4 958	107	1 356	6 421	6 388
Change in methodology and assumptions ¹	1 006	1 176	(7 738)	(5 556)	(8 759)
Experience variances	1 081	(143)	3 979	4 917	133
Impairment, amortisation and fair value adjustment ²	(14)	-	-	(14)	(16)
Increase in goodwill and intangibles	(336)	-	-	(336)	(313)
Other initiative costs ^{3,5}	(324)	-	36	(288)	(781)
Non-recurring expenses	(85)	-	-	(85)	(181)
Acquisition costs ⁴	(41)	-	1	(40)	(12)
Finance costs ^{5,6}	(2 104)	-	-	(2 104)	(1 946)
Foreign exchange rate movements ⁶	(1 160)	301	(1 457)	(2 316)	3 922
Other ⁷	(8)	-	-	(8)	19
Return on shareholders' funds ^{5,8}	795	-	-	795	1 040
Embedded value earnings	(772)	1 179	2 870	3 277	1 416

¹ The changes in methodology and assumptions will vary over time to reflect adjustments to the model and assumptions as a result of changes to the operating and economic environment. The current period's changes are described in detail in Table 6 below (for previous periods refer to previous embedded value statements).

² This item reflects the amortisation of the intangible assets reflecting the banking costs, the PrimeMed acquisition and capital expenditure in VitalityInvest and Discovery Group Europe Limited.

³ This item includes the profits of non-covered businesses (including Discovery Insure, Vitality Group and Ping An Health) and costs of start-up businesses (including Discovery Bank, VitalityInvest, a commercial offering in Discovery Insure, and an Umbrella Fund offering in Invest). Head office costs which relate to non-covered business are also included in this item.

⁴ Acquisition costs relate to commission paid on the Life and Invest business and expenses incurred in writing Health and Vitality business that has been written over the period but will only be activated and on risk after the valuation date. These policies are not included in the embedded value or the value of new business and therefore the costs are not deducted from the value of new business.

⁵ Finance costs are aligned to the segmental earnings view of finance costs, before IFRS reporting adjustments. From 30 June 2021, the segmental view of finance costs is shown gross of finance costs relating to intercompany loans between entities within the Group (R824 million for the twelve months to 30 June 2021 and R720 million for the twelve months ended 30 June 2020). Similar offsetting adjustments, which had previously been included as investment return components in other initiative costs and return on shareholders' funds, have been reallocated and are now entirely included in the return on shareholders' funds. The prior period comparatives have been restated to reflect this reallocation.

⁶ From 30 June 2021, foreign exchange gains / (losses) emerging through the income statement have been reallocated out of finance costs and into foreign exchange rate movements. The prior period comparatives have been restated to reflect this reallocation.

⁷ This item includes, among other items, the tax benefits or losses that will emerge as the VitalityHealth DAC and intangible software assets amortise or increase.

⁸ The return on shareholders' funds is shown net of tax and management charges.



ANNEXURE D – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2021

TABLE 5: EXPERIENCE VARIANCES

R million	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		Total
	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	
Renewal expenses	229	-	(10)	2	(4)	-	17	-	234
Lapses and surrenders ¹	23	130	(29)	1 029	-	160	(100)	491	1 704
Mortality and morbidity ²	-	-	(681)	87	938	-	108	-	452
Policy alterations ¹	-	9	(438)	420	-	-	21	10	22
Premium and fee income ¹	66	-	(47)	(71)	89	-	5	18	60
Economic ³	33	579	69	870	-	-	-	-	1 551
Commission	-	-	-	-	21	-	-	-	21
Tax ⁴	75	-	339	(352)	65	-	(8)	-	119
Reinsurance	-	-	-	-	(4)	-	(102)	(67)	(173)
Maintain modelling term ⁵	-	362	-	188	-	79	-	-	629
Vitality benefits	(8)	-	-	-	-	-	41	-	33
Other ⁶	2	-	(136)	100	152	-	355	(208)	265
Total	420	1 080	(933)	2 273	1 257	239	337	244	4 917

¹ For Life and Invest, the combined lapse and surrender experience, policy alterations experience and premium and fee income experience is relative to assumptions which include an allowance for a Short term stress set at 30 June 2020 in response to deteriorating experience from COVID-19 related impacts. For VitalityLife, the lapse and surrender experience is relative to assumptions which include the allowance for a short term stress for lapses introduced at 30 June 2020.

² The mortality and morbidity experience for Life and Invest reflects claims in excess of the COVID-19 claims provision set at 30 June 2020. The mortality and morbidity experience for VitalityHealth relates to experience emerging after the inclusion of a short-term premium deferral provision for treatments delayed due to ongoing national lockdowns from the pandemic.

³ For Health and Vitality, the economic experience variance relates to the impact on administration and managed care fees of in-period inflation being higher than that assumed. The experience for Life and Invest arises largely due to higher than expected linked asset growth for the period under review.

⁴ The tax variance for Life and Invest arises due to the timing difference between the expected tax payments and actual payments.

⁵ For Health and Vitality, Life and Invest and VitalityHealth, the projection term is rebased at each Year-end. Therefore, an experience variance arises because the total term of the in-force covered business is effectively increased by twelve months.

⁶ The key Other experience relates to cash flow timing variances in Life and Invest, profits and losses from companies within the VitalityHealth and VitalityLife segments which are not part of covered business, and movements in the value of the swaption in VitalityLife.



ANNEXURE D – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2021

TABLE 6: METHODOLOGY AND ASSUMPTION CHANGES

R million	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		Total
	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	
Modelling changes ¹	-	44	(38)	207	-	(64)	2	138	289
Expenses	-	(597)	(34)	(273)	-	-	36	100	(768)
Lapses ²	-	-	(6)	(4)	-	-	(622)	(1 811)	(2 443)
Mortality and morbidity ³	-	-	-	(1 439)	-	(604)	(151)	2 171	(23)
Benefit changes	-	16	-	-	-	-	-	-	16
Tax ⁴	-	-	-	-	-	(469)	-	(235)	(704)
Economic assumptions ⁵	-	(2 004)	(21)	395	-	(240)	(269)	487	(1 652)
Premium and fee income	-	(45)	-	(131)	-	-	-	-	(176)
Reinsurance and financing ⁶	-	-	2 107	(2 125)	-	(25)	-	41	(2)
Other	-	-	2	(95)	-	-	-	-	(93)
Total	-	(2 586)	2 010	(3 465)	-	(1 402)	(1 004)	891	(5 556)

¹ For Life and Invest, a correction was made to the calculation of the overall tax adjustment to the value of in-force. In addition, the Group Life business's expense allocation was revised and the projection term was extended from ten to twenty years. For VitalityHealth, the modelling changes relate to a correction to the premium recorded against certain lapsed policies. For VitalityLife, the modelling changes include a reduction of the premium increases on index-linked policies as per product specifications under current low inflation rates and several other minor refinements to the calculation of the value of in-force and cost of capital.

² For VitalityLife, the lapse assumption change relates to a reduction in the lapse rates for the whole of life business.

³ For Life and Invest, the mortality and morbidity assumption change relates to the COVID-19 provision raised in respect of an expected third and fourth wave in South Africa. For VitalityLife, the change relates to a review of the mortality basis for the whole of life business. For VitalityHealth, the change relates to a short-term stressed provision established for COVID-19 related impacts.

⁴ For VitalityHealth and VitalityLife, the tax assumption change relates to an increase in the UK corporation tax rate from 19% to 25% from April 2023.

⁵ For Life and Invest and Health and Vitality, the economic assumptions item relates to the impact of updating the assumptions relative to the Johannesburg Stock Exchange ("JSE") nominal and real yield risk-free curves at 30 June 2021. For Life and Invest this also includes the impact of updating exchange rate assumptions. For VitalityLife the item includes the impact of updating the assumptions relative to the Solvency II yield curves and the IFRS interest rates, offset by the net change in the interest rate hedge.

⁶ For Life and Invest, the reinsurance and financing item primarily relates to the impact of financing arrangements.



ANNEXURE D – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2021

TABLE 7: EMBEDDED VALUE OF NEW BUSINESS

R million	30 June 2021	30 June 2020	% Change
Health and Vitality			
Present value of future profits from new business (at point of sale)	789	910	
Cost of required capital	(24)	(27)	
Present value of future profits from new business (at point of sale) after cost of required capital	765	883	(13)
New business annualised premium income ¹	3 704	3 972	(7)
Life and Invest			
Present value of future profits from new business (at point of sale) ²	825	668	
Cost of required capital	(82)	(82)	
Present value of future profits from new business (at point of sale) after cost of required capital	743	586	27
New business annualised premium income ³	2 947	2 886	2
Annualised profit margin ⁴	3.0%	2.5%	
Annualised profit margin excluding Invest business	5.7%	5.8%	
VitalityHealth⁵			
Present value of future profits from new business (at point of sale)	143	262	
Cost of required capital	(61)	(56)	
Present value of future profits from new business (at point of sale) after cost of required capital	82	206	(60)
New business annualised premium income ⁶	1 263	1 308	(3)
Annualised profit margin ⁴	0.9%	2.5%	
VitalityLife⁷			
Present value of future profits from new business (at point of sale)	396	353	
Cost of required capital	(95)	(106)	
Present value of future profits from new business (at point of sale) after cost of required capital	301	247	22
New business annualised premium income	871	956	(9)
Annualised profit margin ⁴	4.1%	3.2%	

1 Health new business annualised premium income is the gross contribution to the medical schemes. The new business annualised premium income shown above excludes premiums in respect of members who join an existing employer where the member has no choice of medical scheme, as well as premiums in respect of new business written during the period but only activated after 30 June 2021.

The total Health and Vitality new business annualised premium income written over the period was R6 103 million (June 2020: R6 236 million).

2 Included in the Life and Invest embedded value of new business is R53 million (June 2020: R29 million) in respect of investment management services provided on off balance sheet investment business.

Risk business written prior to the valuation date allows certain Invest business to be written at financially advantageous terms, the impact of which has been recognised in the value of new business.

3 Life new business is defined as Life policies to which Life became contractually bound during the reporting period, including policies whose first premium is due after the valuation date. Invest new business is defined as business where at least one premium has been received and which has not been refunded after receipt. Invest new business also includes Discovery Retirement Optimiser policies to which Life and Invest became contractually bound during the reporting period, including policies whose first premium is due after the valuation date.

The new business annualised premium income of R2 947 million (June 2020: R2 886 million) (single premium APE: R1 490 million (June 2020: R1 453 million)) shown above excludes automatic premium increases and servicing increases in respect of existing business. The total new business annualised premium income written over the period, including automatic premium increases of R1 414 million (June 2020: R1 496 million) and servicing increases of R640 million (June 2020: R576 million), was R5 001 million (June 2020: R4 958 million) (single premium APE: R1 569 million (June 2020: R1 507 million)). Single premium business is included at 10% of the value of the single premium.

Policy alterations and internal replacement policies, including Discovery Retirement Optimisers added to existing Life Plans, are shown in Table 5 as experience variances and not included as new business. Term extensions on existing contracts are not included as new business.

4 The annualised profit margin is the value of new business expressed as a percentage of the present value of future premiums.

5 The VitalityHealth value of new business is calculated as the value at point of sale of the new business written premium in-force at the valuation date multiplied by the Margin multiplied by the Annuity Factor less the new business cash flows from point of sale to the valuation date. The assumptions for the Margin and Annuity Factor are shown in Table 8.

6 VitalityHealth new business is defined as individuals and employer groups which inceptioned during the reporting period. The new business annualised premium income shown above has been adjusted to exclude premiums in respect of members who join an existing employer group after the first month, as well as premiums in respect of new business written during the period but only activated after 30 June 2021.

7 VitalityLife new business is defined as policies to which VitalityLife became contractually bound during the reporting period, including policies whose first premium is due after the valuation date.



ANNEXURE D – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2021

BASIS OF PREPARATION

TABLE 8: EMBEDDED VALUE ECONOMIC ASSUMPTIONS

	30 June 2021	30 June 2020
Beta coefficient	0.75	0.75
Equity risk premium (%)	3.5	3.5
Risk discount rate (%)		
– Health and Vitality ¹	13.125	14.125
– Life and Invest ¹	13.625	15.125
– VitalityHealth	3.46	2.89
– VitalityLife	3.263	3.065
Rand / GBP exchange rate		
Closing	19.74	21.44
Average	20.74	19.75
Margin over Expense inflation to derive Medical inflation (%)		
South Africa	3.00	3.00
Expense inflation (%) ²		
South Africa		
– Health and Vitality	6.14	7.39
– Life and Invest	6.23	8.33
United Kingdom	2.50	2.50
Pre-tax investment return (%)		
South Africa		
– Cash ¹	9.50	11.00
– Life and Invest bonds ³	11.00	12.50
– Health and Vitality bonds ³	10.50	11.50
– Equity ¹	14.50	16.00
United Kingdom		
– VitalityHealth risk-free rate	0.84	0.27
– VitalityLife risk-free rate	0.64	0.44
– VitalityLife IFRS interest rate	1.80	1.35
– VitalityLife investment return	1.44	2.59
Corporation tax rate (%)		
South Africa	28	28
United Kingdom – Long-term	25	19
VitalityHealth Assumptions		
– Margin (net of tax and cost of capital) (%)	12.0	13.7
– Annuity Factor	6.18	6.37
Projection term		
– Health and Vitality	20 years	20 years
– Discovery Life – VIF	40 years	40 years
– Group Life	20 years	10 years
– VitalityLife	No cap	No cap
– VitalityHealth ⁴	20 years	20 years

¹ Derived as a margin over (or below for cash) the respective pre-tax investment return for bonds.

² The inflation assumption is derived as the difference between the nominal and real yield curve at each duration. As an indication, the cash flow weighted average inflation is shown in the table. For the United Kingdom, the expense inflation assumption is aligned with the Bank of England inflation target.

³ As indications, the cash flow weighted averages derived from the relevant yield curve(s) are shown.

⁴ The VitalityHealth projection term of 20 years is used in the derivation of the Annuity Factor.



ANNEXURE D – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2021

The Discovery Limited embedded value is calculated based on a risk discount rate using the CAPM approach with specific reference to the Discovery beta coefficient. The assumed beta is fixed at 0.75. This has been set such that the risk discount rate proxies the result of a Weighted Average Cost of Capital approach with reference to the capital structure of the Group and the observed beta calculated using daily returns over a long time period. The observed beta is calculated with reference to the ALSI. The assumed beta will only change if the capital structure of the Group and / or the observed beta calculated using daily returns over a long time period suggest the beta assumption should depart significantly from the assumption at the financial Year-end. As beta values reflect the historic performance of share prices relative to the market they may not allow fully for non-market related and non-financial risk. Investors may want to form their own view on an appropriate allowance for these risks which have not been modelled explicitly.

Life and Invest mortality, morbidity and lapse and surrender assumptions were derived from internal experience, where available, augmented by reinsurance and industry information.

The Health and Vitality lapse assumptions were derived from the results of recent experience investigations.

The VitalityHealth assumptions were derived from internal experience.

VitalityLife assumptions were derived from internal experience, where available, augmented by reinsurance, industry and Discovery Limited group information.

Renewal expense assumptions were based on the results of the latest expense and budget information.

The initial expenses included in the calculation of the embedded value of new business are the actual costs incurred excluding expenses of an exceptional or non-recurring nature.

From 30 June 2020, the yield curves underlying the embedded value calculations were changed from the Prudential Authority yield curves to the JSE yield curves. The South African investment return assumptions for Life, Invest, Health and Vitality were based on the publically available JSE risk-free nominal yield curve. The real yield assumption was set based on the publically available JSE risk-free real yield curve, adjusted to remove volatility due to the nature of the index-linked government bond market. Other economic assumptions were set relative to these two yield curves.

The current and projected tax position of the policyholder funds within the Life company has been taken into account in determining the net investment return assumption.

The risk-free rate assumption for VitalityHealth and VitalityLife was based on the single interest rate derived from the Prudential Regulatory Authority yield curve. The inflation rate is consistent with the Bank of England inflation target.

From 30 June 2018, VitalityHealth calculate the value of in-force at the valuation date as the in-force written premium multiplied by the Margin multiplied by the Annuity Factor, as set out in the table above. The Annuity Factor assumption is derived from assumed future lapse rates and premium increases. The Margin assumption reflects profit margins after tax and Cost of Capital. The assumptions underlying the Annuity Factor and Margin are set taking into account the current experience in the business at different durations.

The cost of required capital is calculated using the difference between the risk discount rate and the net of tax asset return on tangible assets. The Vitality Life Limited and the VitalityLife business on the Prudential licence required capital amount is assumed to earn the investment return assumption, which is set based on the return on a portfolio of government and corporate bonds assumed to back the required capital. The Life and Invest cost of required capital is calculated assuming shareholder cash flow is limited to the cash flow available after having met both the required capital amount and an internally defined liquidity target capital requirement of tangible assets.

The embedded value has been calculated in accordance with the Actuarial Society of South Africa's Advisory Practice Note ("APN") 107: Embedded Value Reporting, except the recommended disclosure of Free Surplus and Required Capital has been adjusted to take into account the nature of the capital requirements in the covered businesses, as can be seen in Table 1 note 2.



ANNEXURE D – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2021

SENSITIVITY TO THE EMBEDDED VALUE ASSUMPTIONS

The risk discount rate uses the CAPM approach with specific reference to the Discovery beta coefficient. As beta values reflect the historic performance of share prices relative to the market they may not allow fully for non-market related and non-financial risk. Investors may want to form their own view on an appropriate allowance for these risks which have not been modelled explicitly. The sensitivity of the embedded value and the embedded value of new business at 30 June 2021 to changes in the risk discount rate is included in the tables below.

For each sensitivity illustrated below, all other assumptions have been left unchanged. No allowance has been made for management action such as risk premium increases where future experience is worse than the base assumptions.

TABLE 9: EMBEDDED VALUE SENSITIVITY

R million	Health and Vitality		
	Adjusted net worth ²	Value of in-force	Cost of required capital
Base	12 235	22 503	(422)
Impact of:			
Risk discount rate +1%	12 235	21 254	(458)
Risk discount rate – 1%	12 235	23 884	(382)
Lapses – 10%	11 962	23 236	(443)
Interest rates – 1% ¹	10 969	22 431	(406)
Equity and property market value – 10%	12 197	22 503	(422)
Equity and property return +1%	12 235	22 503	(422)
Renewal expenses – 10%	12 302	24 722	(390)
Mortality and morbidity – 5%	12 446	22 503	(422)
Projection term +1 year	12 235	22 768	(426)

¹ All economic assumptions were reduced by 1%.

² The sensitivity impact on the VitalityLife net of tax change in negative reserves is included in the adjusted net worth column.

The following table shows the effect of using different assumptions on the embedded value of new business.

TABLE 10: VALUE OF NEW BUSINESS SENSITIVITY

R million	Health and Vitality	
	Value of new business	Cost of required capital
Base	789	(24)
Impact of:		
Risk discount rate +1%	723	(26)
Risk discount rate – 1%	861	(22)
Lapses – 10%	839	(26)
Interest rates – 1% ¹	796	(23)
Equity and property return +1%	789	(24)
Renewal expense – 10%	908	(22)
Mortality and morbidity – 5%	789	(24)
Projection term +1 year	803	(24)
Acquisition costs – 10%	817	(24)

¹ All economic assumptions were reduced by 1%.



Life and Invest		VitalityHealth		VitalityLife		Embedded value	% change
Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	Value of in-force	Cost of required capital		
27 777	(1 183)	8 230	(462)	8 665	(2 698)	74 645	
25 145	(1 258)	7 789	(438)	8 323	(3 489)	69 103	(7)
30 885	(1 094)	8 717	(488)	9 049	(1 608)	81 198	9
30 289	(1 241)	9 338	(520)	9 413	(3 003)	79 031	6
28 003	(1 168)	8 641	(488)	6 774	(2 658)	72 098	(3)
27 236	(1 201)	8 230	(462)	8 665	(2 698)	74 048	(1)
28 155	(1 186)	8 230	(462)	8 665	(2 698)	75 020	1
28 346	(1 156)	8 868	(462)	8 825	(2 663)	78 392	5
29 741	(1 062)	9 584	(462)	8 943	(2 682)	78 589	5
27 864	(1 187)	8 290	(465)	8 665	(2 698)	75 046	1

Life and Invest		VitalityHealth		VitalityLife		Value of new business	% change
Value of new business	Cost of required capital	Value of new business	Cost of required capital	Value of new business	Cost of required capital		
825	(82)	143	(61)	396	(95)	1 891	
620	(88)	67	(57)	311	(101)	1 449	(23)
1 064	(76)	227	(65)	492	(80)	2 401	27
1 035	(86)	252	(67)	545	(122)	2 370	25
838	(81)	217	(65)	156	(88)	1 750	(7)
856	(83)	143	(61)	396	(95)	1 921	2
874	(81)	220	(61)	427	(93)	2 172	15
924	(74)	307	(61)	431	(90)	2 202	16
831	(83)	152	(61)	396	(95)	1 919	1
954	(82)	181	(61)	519	(95)	2 209	17



ANNEXURE E – FIVE-YEAR REVIEW

for the year ended 30 June 2021

	Group 2017	Group 2018	Group 2019	Group 2020	Group 2021	Compound growth %
Income statement extracts (R million)						
Profit from operations	6 245	8 260	7 536	1 532	5 304	(4)
Headline earnings	4 404	5 803	5 147	296	2 986	(9)
Abnormal expenses/(income)	252	(402)	(112)	3 451	420	-
Normalised headline earnings	4 656	5 401	5 035	3 747	3 406	(8)
Diluted normalised headline earnings per share (cents)	721.5	836.9	771.6	566.7	512.9	(8)
Statement of financial position extracts (R million)						
Total assets	130 923	157 982	180 233	210 328	246 694	17
Shareholders' funds	32 290	37 594	43 083	44 549	46 415	9
Embedded value						
Embedded value (R million)	57 294	65 624	71 217	70 834	74 645	7
Diluted embedded value per share (R)	88.67	101.56	108.30	107.71	112.23	6
Key ratios						
Return on average equity (%)	14	16	16	0.4	7.1	-
Return on average assets (%)	4	4	4	0.1	1.4	-
Exchange rates						
Rand/US\$						
- Closing	13.12	13.81	14.15	17.41	14.28	-
- Average	13.61	12.86	14.17	15.70	15.42	-
Rand/GBP						
- Closing	17.03	18.16	17.98	21.44	19.74	-
- Average	17.29	17.33	18.32	19.75	20.74	-
Share statistics						
Number of ordinary shares in issue						
- Weighted average (000's)	644 651	645 014	652 295	656 648	656 710	-
- Diluted weighted average (000's)	645 236	645 408	652 568	661 242	664 073	-
- End of period (000's)	646 845	646 845	658 291	658 291	665 769	-
Price/diluted headline earnings (times)	17.7	17.6	19.3	18.3	24.7	-
Share price (cents per share):						
- High	13 748	19 000	17 830	15 163	15 738	-
- Low	10 910	12 719	13 287	5 815	10 047	-
- Closing	12 792	14 750	14 911	10 455	12 667	-
Market capitalisation (R million)	82 744	95 410	98 158	68 824	84 333	-



ANNEXURE F – PRODUCT DESCRIPTIONS

Discovery enters into contracts that carry insurance risk or financial risk or both. For further information on the products and business lines, refer to the "Additional analysis information" on the Discovery investor relationship website.

DISCOVERY LIFE

Discovery Life offers policyholders a range of insurance and financial solutions. The Discovery Life products reflect Discovery's underlying philosophy to make members healthier and to enhance and protect their lives.

Discovery Life offers some unique benefits that integrate with the benefits offered by Discovery Health, Discovery Vitality, DiscoveryCard, Discovery Bank, Discovery Insure and Discovery Invest.

Discovery Life Plan

The Discovery Life Plan provides protection against a comprehensive spectrum of risks. Discovery Life offers a Classic Life Plan with broad and comprehensive protection for the policyholder and his or her immediate family and an Essential Life Plan which offers cost effective protection for the principal policyholder and his or her spouse.

The Discovery Life Plan covers:

- Life Cover Benefits;
- Disability Benefits;
- Severe Illness Benefits; and
- Income Continuation Benefits.

The Life Fund forms the base amount of cover insured under the Life Plan (the basic sum assured amount). The Life Fund can be linked to a benefit escalation rate, for example inflation, and will then automatically increase at each policy anniversary.

The key risk benefits are defined as a percentage of the Life Fund. The Life Fund is reduced by the amount of benefits paid from the Life Fund. The Life Fund can be protected against claims by means of the Minimum Protected Fund. Multiple claims are allowed against the Life Fund from the same benefit.

There are a number of risk benefits that are defined in monetary terms or in the form of indemnity benefits, rather than being expressed as a percentage of the Life Fund. These benefits include:

- Income Continuation Benefit;
- Global Education Benefit; and
- Global Health Protector.

The Life Plan has unique features allowing policyholders to add benefits for other family members. The Global Education Protector, Global Health Protector, Childbirth Benefit, Child Severe Illness Benefit, Parent Severe Illness Benefit and Family Trauma Benefit allow protection for the whole immediate family.

By actively maintaining and improving their health, Discovery Life policyholders, through the Integrator Benefit, could receive premium discounts and refunds of premiums and/or increases in cover.

The Life Plan provides whole of life cover. Premium guarantees are offered and quantified on most benefits. For example, the premiums for Life Cover are guaranteed not to increase by more than 25% for any 10-year period over and above contractual premium increases. This percentage can be further reduced through engagement in the Vitality programme.

Premiums are payable monthly. There are various funding methods that allow policyholders a choice of premium funding patterns. A combination of level premium funding patterns and annually increasing premium patterns are offered. The higher the compulsory future premium increase, the lower the starting premium.

The Dollar Life Plan, offers the ability to specify the sum insured in US Dollars and pay premiums in Rands, but linked to the Rand/Dollar exchange rate. The Business Life Plan is tailored to the needs of business owners.

The Smart Life Plan enhances Discovery Life's offering to a younger clientele, providing benefits which are tailored to appeal to individuals aged between 18 and 29.



ANNEXURE F – PRODUCT DESCRIPTIONS *continued*

Health Plan Protector (discontinued)

The Health Plan Protector funds contributions to the Discovery Health Medical Scheme in the event of death, disability or severe illness. It further rewards members for positive health management through the PayBack benefit, Health Fund and Health Dividends. The Health Plan Protector can be added to the Life Plan or can be bought on a stand-alone basis. The Health Plan Protector provides cover up to age 65, however premiums are not guaranteed.

Medical Premium Waiver

The Medical Premium Waiver funds contributions to a client's Health Plan in the event of death, disability or severe illness and can be bought on a stand-alone basis. Medical Premium Waiver provides cover up to age 65, however premiums are not guaranteed.

DiscoveryCard Protector (discontinued)

The DiscoveryCard Protector covers the outstanding balance on the Discovery Bank credit card/previous DiscoveryCard (first issued before the launch of Discovery Bank) in the event of death, disability or severe illness. It further provides a monthly benefit for a defined period equal to the average Discovery Bank credit card/previous DiscoveryCard spend in the six-month period prior to the life changing event.

Global Education Protector

The Global Education Protector funds education costs for children in the event of death, disability or severe illness of the insured life. Cover is provided to the earlier of the insured life reaching age 65 or the child reaching age 24. This benefit can be purchased on a standalone basis.

Supplementary Illness Benefit

The Supplementary Illness Benefit (previously Supplementary Gap Cover) benefit offers lump sum cover for defined severe illnesses, funding for genomic sequencing of certain cancers, a home support benefit as well as a health premium waiver given a defined life changing event.

Supplementary Cancer Protector

The Supplementary Cancer Protector benefit will pay defined monthly amounts which can be used to meet costs that arise when a family is affected by cancer.

Funeral Cover

The Funeral Cover benefit will pay out a defined lump sum in the event of death which can be used to cover the costs of a funeral. This lump sum is doubled in the event of accidental death. An education benefit is automatically included at a defined amount which aims to fund the education costs for children upon death of the principal member or spouse. Optional memorial and grocery benefits may be added to the policy.

Estate Preserver

The Estate Preserver benefit provides indemnification against certain expenses involved in winding up an estate. These include executor fees, testamentary trust fees and property conveyancing fees. The product also provides immediate liquidity benefit. Clients select an Asset Cap, which defines the level of risk cover provided by both the indemnity and non-indemnity benefits. Premiums and benefits are fully reviewable.

DISCOVERY EMPLOYEE BENEFITS

Discovery Employee Benefits offers employers retirement funds and group risk solutions for their employees.

Group Life

Discovery Employee Benefits offers a comprehensive spectrum of protection benefits on a group basis. Life Cover, Severe Illness, Disability and Income Continuation Benefits are offered. The policies offered under Group Life can be cancelled or the premiums adjusted at the end of the contract term (usually one year). These benefits are written on the Discovery Life licence.

Umbrella Fund

Discovery Umbrella Fund, launched in May 2018, offers employer groups a unique platform for the investment of retirement assets for their employees. Pension and provident funds are offered as well as in-fund preservation for members leaving the fund. Policies are annual and all fees are reviewable annually.



ANNEXURE F – PRODUCT DESCRIPTIONS *continued*

The Fund offers a wide range of investment options to members on internal and external asset portfolios that are offered by Discovery Invest; all funds offered are Regulation 28 compliant. Discovery Umbrella offers unique benefits in the form of investment boosts and fee discounts for low-income members.

Discovery Invest

Discovery Invest offers investors access to a comprehensive and flexible range of investment solutions which can be tailored to the needs of each investor.

A range of investment wrappers are provided to ensure flexibility and to optimise the investments according to the investment objectives and time horizon of the investor. A wrapper is the legal structure that allows policyholders to make underlying investments with different tax and other legal implications.

The following wrappers are available:

- **Endowment:** A medium-term, local or offshore, investment vehicle that provides tax efficiencies for an investor with a five to ten-year time horizon.
- **Flexible investment:** A flexible investment vehicle that allows tailor made investment solutions whilst providing immediate access to funds.
- **Retirement plan:** A long-term investment vehicle providing a tax efficient structure for saving towards retirement.
- **Preserver plans:** An investment vehicle that helps to ensure retirement benefits continue to grow on a tax efficient basis once a policyholder has left the retirement plan of an employer.
- **Retirement income plan:** Fixed and linked annuities are provided giving flexibility to meet retirement needs.

A comprehensive range of investment fund choices are provided including unique Discovery Invest funds. The funds include:

- **Discovery Invest funds:** Includes a comprehensive range of Discovery Invest's single- and multi-manager funds across a range of asset classes.
- **Dynamically protected funds:** Unique Discovery Invest funds that are designed to protect investors against the major risks associated with investment choice, for example, underperformance by fund, asset class and geographic region.
- **Special purpose funds:** These funds are designed to provide solutions to investors looking to save for specific goals, such as retirement. These funds provide alternative and innovative management expertise.
- **External funds:** Discovery Invest provides a broad range of externally managed funds.

Invest offers various benefits which reduces the cost of investment and enhances benefits available under the Invest plans.

- **Investment Integrator:** Uses inter alia the health improvements from Vitality and tax efficiencies created to offer a cost effective endowment and increase the value of the investment. A fee reduction of up to 100% can be achieved on both administration and asset management fees. This benefit is no longer available to new business.
- **Annuity Integrator:** By releasing the value of a policyholder's life cover at retirement, the Annuity Integrator creates enhanced benefits for Discovery Retirement Income Plan investors. The benefits include increased retirement income, protection against longevity, protection against ill-health and protection against poor performance of underlying assets.
- **Guaranteed return plans:** Guaranteed return plans include the following:
 - The Guaranteed Growth Plan is a single premium endowment that provides a guaranteed return at the end of five years.
 - The Guaranteed Income Plan provides a guaranteed return at the end of five years on the chosen percentage of the lump sum contribution. The remainder of the lump sum will provide a monthly or annual income.
- **Upfront Investment Integrator:** Provides an upfront boost to the member's investment value of the lump sum Endowment plan.
- **Life Booster:** Provides a boost to the investment fund value on death of between 5% and 15% depending on the member's Vitality status.
- **Retirement Income Investment Integrator:** Boosts annual annuity payments received by up to 50% depending on the member's Vitality status and chosen annual annuity income.
- **Retirement Upfront Investment Integrator:** Provides an upfront boost to the member's investment value of the lump sum Retirement and Preserver plans.
- **Classic Benefits:** Consists of a range of benefits which enhance and protect the member's investment fund offered on the lump sum Retirement plans, Preserver plans and lump sum Flexible Investment plans.
- **Administration Fee Integrator:** A fee discount of up to 100% can be achieved on the administration fee of the Investment plan, where the discount is based on Vitality status and invested term.
- **Flexible Pan Retirement Integrator:** Provides a boost to the Retirement Upfront Investment Integrator of up to 50% of asset management fees paid in the Flexible Investment Plan.



ANNEXURE F – PRODUCT DESCRIPTIONS *continued*

- **Discovery Retirement Optimiser:** Offers funding for retirement and offers unique benefits that, together with a Discovery Life Plan, boosts retirement funding. Policyholders have a choice of linked investment portfolios or a portfolio that offers a guaranteed return in real terms. Funds offering a guaranteed return have been closed to new business.
- **Currency Enhancer:** Offers the opportunity to effectively invest at an exchange rate which is better than the prevailing exchange rate on the Global Endowment.

VITALITYLIFE

VitalityLife Plan

The VitalityLife Plan is a lifestyle protection plan which allows customers to select from a menu of benefits which includes:

- Life cover.
- Serious illness cover.
- Capital disability cover.
- Income protection insurance.
- Family income cover.
- Education cover.
- Waiver of premium on death, serious illness and/or incapacity.
- Additional optional serious illness cover for children.
- Lifestyle care cover.
- Protected Life and Serious Illness cover.
- Dementia and Frail Care cover.

The VitalityLife Plan has at its basis a Plan Account. The Plan Account defines the amount paid out under any benefit that is attached to it (the sum assured). The benefits that are attached to the Plan Account are expressed as a percentage of the Plan Account's value.

The Plan Account can be structured to provide cover that is level, increasing or decreasing.

The VitalityLife Plan can be written on a single or joint life basis and cover may be stand-alone or limited to the Plan Account whereby claims would accelerate payment of the Plan Account. Premiums are payable monthly in advance and can be guaranteed or reviewable. Premiums can either be level, increase at a fixed rate or increase at a rate related to the Retail Price Index in the UK. The Plan does not offer any surrender value. The VitalityLife Plan provides extensive severity-based cover for serious illness.

Essentials Plan

The Essentials Plan is a lower cost version of the VitalityLife Plan and provides roughly the same type of benefits and has the same structure.

Guaranteed 50 Plus Plan (run off existing book)

The Guaranteed 50 Plus Plan will pay out a fixed cash lump sum in the event of death, provided that the policy has been held for at least one year. It also provides guaranteed acceptance for people aged between 50 and 75, living in the UK.

Relevant Life Plan

The Relevant Life Plan is a Life cover only plan with substantial tax benefits for employers wanting to provide life cover for their employees. The structure is the same as for life cover on the above mentioned plans and includes the option to take different Vitality wellness program benefits.

Business Protection Plan

The Business Protection Plan provides insurance protection for businesses via key person cover, shareholder/partnership cover and/or loan protection.

Mortgage Plus Plan

The Mortgage Plus Plan provides insurance protection for individuals and families against death, disability and serious illness when taking out a mortgage on their home.

Vitality Optimiser

The Vitality Optimiser offers an upfront premium discount that varies in size depending on the policy term. Depending on engagement in the Vitality wellness programme, the premium discount can be increased, maintained or will be eroded over time.



ANNEXURE F – PRODUCT DESCRIPTIONS *continued*

Whole of Life Optimiser

The Whole of Life Premium Optimiser and Interest Rate Optimiser follows a similar structure to the Vitality Optimiser policy, offering an upfront premium discount and premium changes at each anniversary. Unlike Vitality Optimiser, where premiums change depending on Vitality Status, the annual premium changes are either fixed or depend on long-term interest rates.

Wellness Optimiser

Wellness Optimiser offers customers an upfront discount, similar to Vitality Optimiser. The future premiums will change annually depending on the policyholder's Wellness Status, and Vitality Status, which will be determined by the results of the on-going biennial health checks.

VITALITYHEALTH

VitalityHealth offers three main product types:

Individual product

This is offered to the retail market either direct or via a broker. The product features include:

- **Private Medical Insurance:** Cover is offered for a range of private healthcare-related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions;
- **Renewal pricing:** Prices offered at renewal depend on claims and Vitality status; and
- **Vitality rewards:** A full Vitality package is offered, including gym offering and activity and status-based healthcare-related rewards.

SME product

This is an age-rated product offered to small groups (typically 2-100 employees) either direct or via a broker. The product features include:

- **Private Medical Insurance:** Cover is offered for a range of private healthcare-related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions;
- **Cashback for employers:** A cashback is provided to employers after renewal depending on the levels of engagement achieved by their employees in the previous year; and
- **Vitality rewards for employees:** A full Vitality package is offered, including gym offering and activity and status-based healthcare-related rewards.

Corporate Product

This is an experience-rated product offered by brokers and employee benefit consultants. The product features include:

- **Private Medical Insurance:** Cover is offered for a range of private healthcare-related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions. Administration of healthcare trusts providing medical benefits to employees of large corporates is also available; and
- **Vitality rewards for employees:** A base level Vitality package is offered to all members, including gym offering and healthcare-benefits. Employers can choose to add activity – and status-dependent rewards. A 'stand-alone' Vitality programme is also available to large corporates where medical benefits are not provided.

DISCOVERY INSURE

Discovery Insure underwrites both personal and more recently commercial lines business, specific products are as follows:

Motor

Provides cover for loss, damage and liabilities arising from the use or ownership of motor vehicles. The cover includes comprehensive, third party, fire, theft and third-party liability cover, and warranty cover for vehicles (buy-up benefit).

Property

Provides cover for loss or damage from specified events – such as fire, storm, theft etc. – to movable and immovable property belonging to the insured.

Liability

Provides cover for risks relating to the insured incurring personal liability to specified third parties which are not specifically covered under another insurance contract.



ANNEXURE F – PRODUCT DESCRIPTIONS *continued*

Health Gap Cover

Provides cover shortfalls on specialist accounts for hospital admissions, shortfalls for specific treatment before and after hospital admissions, as well as additional funds for cancer treatment. Note that this product is sold as part of personal lines insurance only.

PrimaryCare

The PrimaryCare benefit is a healthcare product that is sold to employer groups. The product provides indemnity cover for low-income employees for primary healthcare including GP visits, dental benefits, and optical benefits. The PrimaryCare product is administered by Discovery Health, but is written on the Discovery Insure licence. Policies are annually reviewable.

VITALITYINVEST

VitalityInvest plans are structured between two main product types:

VitalityInvest Retirement Plan

The Retirement Plan is a defined contribution personal pension plan (also known as a 'money purchase' personal pension plan) that allows an investment towards retirement in a tax-efficient way. The invested pension pot can then be used to provide an income during retirement, or with one or more cash lump sums.

The plan will be invested in a unit-linked life insurance policy (the 'policy') issued to the pension scheme trustee for the investor's benefit. All payments made to the plan will be invested in the policy and the value of the policy will be linked to the value of underlying funds. A range of different investment funds can be linked to the policy, covering a range of different investment assets, geographical regions and investment strategies. The investor will not be the legal or beneficial owner of these investment funds but rather the pension scheme trustee will be on behalf of the investor.

Depending on the version of the product chosen, the plan also provides the opportunity to qualify for boosts on the value of the plan and to receive discounts on the charges that apply. These features are:

For all plans

- **Healthy Living Discount:** The Healthy Living Discount is a reduction in the product charge based on the Vitality status and the proportion of the plan invested in eligible funds.

For versions of the plan with Boosters

- **Investment Booster:** This applies if the value of the policy is linked to eligible funds for a continuous period of at least five years. At the end of each five year period, the value of the policy that has remained linked to eligible funds will be boosted.
- **Retirement Booster:** This applies if all or part of the pension pot is designated for flexi-access drawdown. A boost will be provided to the value of the plan each year based on the amount of income taken, the Vitality status and the proportion of the plan linked to eligible funds.

VitalityInvest ISA and Junior ISA

The ISA and Junior ISA are stocks and shares ISAs ('Individual Savings Accounts'), which are accounts that can be used to invest in a tax efficient way. These plans invest in a unit-linked life insurance policy issued by VitalityInvest to the Investor's benefit, or for Junior ISAs for the child's benefit. All payments made to the plan will be invested in the policy and the value of the policy will be linked to the value of funds chosen.

Depending on the version of the product chosen, the plan also provides the opportunity to qualify for boosts on the value of the plan and to receive discounts on the charges that apply. These features are:

For all plans

- **Healthy Living Discount:** The Healthy Living Discount is a reduction in the product charge based on the Vitality status and the proportion of the plan invested in eligible funds.

For versions of the plan with Boosters

- **Investment Booster:** This applies if the value of the policy is linked to eligible funds for a continuous period of at least five years. At the end of each five year period, the value of the policy that has remained linked to eligible funds will be boosted.



GLOSSARY OF TERMS

Abbreviation	Meaning
CAE	Chief Audit Executive
CCIC	Capital, Currency and Investment Committee (CCIC)
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash generating unit
CIPC	Companies and Intellectual Property Commission
Companies Act	South African Companies Act, 71 of 2008
CRO	Chief Risk Officer
Discovery	Discovery Limited Group
DRG	Discovery Risk Grades
ECL	Expected credit losses
FinRe	Financial Reinsurance - with risk transfer
FRC	United Kingdom Financial Reporting Council
HAF	Head of Actuarial Function
IFA	Insurance Fund Account
IFRS	International Financial Reporting Standards
IRBA	South African Independent Regulatory Board of Auditors
JSE	Johannesburg Stock Exchange
MAFR	Mandatory audit firm rotation
Morbidity	Morbidity claims are claims which arise as a result of an impairment of life due to an illness or disability event insured by the policyholder
Mortality	Mortality claims are claims which arise from the death of an insured life
NCD	Negotiable certificates of deposits
OCR	Outstanding Claims Reserve
PAH	Ping An Health Insurance Company of China Ltd
SAICA	South African Institute of Chartered Accountants

