



CREATING SHARED VALUE

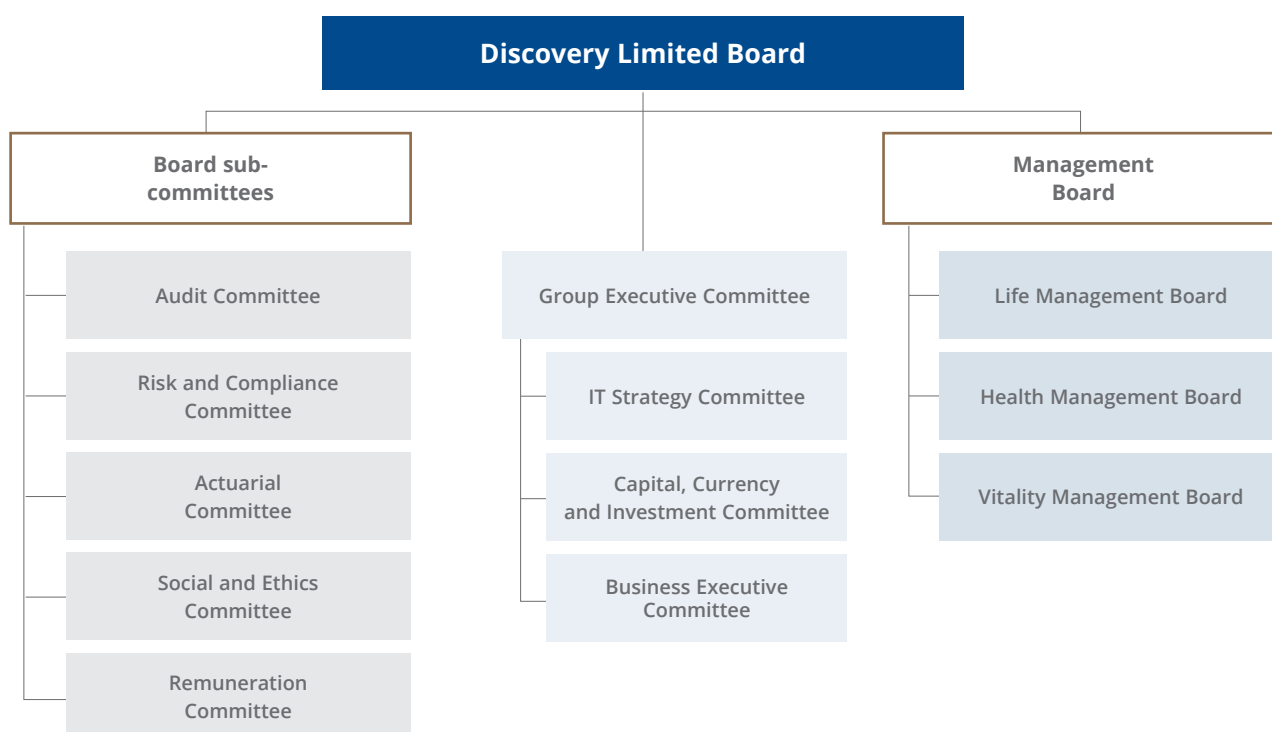
CORPORATE GOVERNANCE
AND KING III REPORT 2016

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE IN DISCOVERY

The Discovery Limited Board of Directors supported by board committees, is ultimately responsible and accountable for the governance of the Group and overseeing all business operations and strategic initiatives, including the risk management and compliance of the Group. All committees that support the Board have specific responsibilities and written terms which are reviewed annually. The Chairs of each Committee report to the Board at every meeting.

Overview of the Discovery Limited Corporate Governance Structure



The Discovery Limited Board and activities during the year

The core purpose of Discovery is to make people healthier and to enhance and protect their lives. Discovery has a unique entrepreneurial spirit with a strong emphasis on innovation. The Discovery Board has the responsibility to preserve these special attributes, while at the same time ensuring that the principles of sound and uncompromising good governance are observed.

The Board of Directors, as the ultimate governing authority, is committed to maintaining a corporate culture and environment based on fairness, accountability, transparency and responsibility, through the mindful application of the Companies Act 71 of 2008, the Johannesburg Securities Exchange (JSE) Listings requirements and the King Report on Governance (King III).

Discovery's Directors have an individual and collective fiduciary duty to act in the interest of the business. The Board strives to act not only in the best interest of the business but also in the best interest of all stakeholders. Discovery's key stakeholders include shareholders, clients, partners, employees, regulators and the communities in which we operate.

The Board formally meets six times a year to discuss and review a schedule of matters. At the meetings Directors discuss the development and implementation of the long and short-term strategies of the Group and engage with executive management on the implementation of the Group strategy.

Board Charter: A Board Charter detailing the roles and responsibilities of the Board has been adopted and a comprehensive review of the Charter was undertaken in the past year. The Charter provides Directors with the right of access to independent professional advice at Discovery's expense to assist them in the performance of their duties.

Appointment and rotation of Directors: The Board has an ad-hoc sub-committee for the search and vetting of potential directors. Potential members of the Audit Committee are identified by the Board and recommended to the shareholders at the annual general meeting. Non-Executive Directors are appointed for three years and re-appointment is not automatic. As per the Board Charter, one third of the Non-Executive Directors rotate annually by retirement. Executive Directors have contracts that may be terminated with one month's to three months' notice.

Induction and continuous development: On appointment, all Directors attend a formal and comprehensive induction programme. Continuous director development programmes incorporating financial, actuarial, economic and industry-related matters, are held regularly to refresh the Directors's skills and knowledge. During the year the Board participated in workshops providing insight on legislative developments and their implications on the Group's operations.

Division of power: The Board has a clear division of responsibilities between itself and the executive management. At the time of publishing this report, the Discovery Board consisted of 11 Non-Executive Directors (eight are independent) and nine Executive Directors.

Evaluation: The Chairperson engaged with individual Directors on a one-to-one basis throughout the year under review to discuss matters relevant to their directorship. The outcome of the evaluations were progressive and appropriate. Recommendations have been considered and are being followed through for implementation.

Assessment of independent Directors: In assessing the independence of Non-Executive Directors, the Board takes into account the personal shareholding of the individual, the Director's own or their family's involvement in Discovery's business and any other businesses of the Director that may result in conflict of interest.

Board performance assessment: A collective board-effectiveness evaluation is conducted annually. This year an external assessment was done and the Board was found to be effective. The Chairperson meets with individual Directors on a one-to-one basis throughout the year to discuss matters relevant to their directorship. Overall, it was found that the Board has the wide array of skills and experience required to oversee the Group as a whole.

Chairperson and Group Chief Executive

The Chairperson is an independent Non-Executive Director and responsible for leading the Board. The Chairperson has served on the Discovery Board for 13 years. In 2015 the independence of the Chairperson was considered and he was found to be independent.

The Group Chief Executive is responsible for providing ethical leadership and ensuring the operations are aligned with the strategy. The roles of the Chairperson and Group CE are independent and separate. The division of responsibilities ensures balance and that no individual has unrestricted decision-making authority. Both parties operate in terms of distinct mandates issued and approved by the Board.

The Board evaluates the performance and independence of the Chairperson annually. The results of the assessment found that he fulfilled his duties and responsibilities independently and to the satisfaction of the Board in the best interest of the company and its stakeholders. Succession plans, which are reviewed and updated annually, are in place for the Group CE, as well as the senior executives within the Group.

Assessment of the Chairperson and CE: The Board evaluates the performance and independence of both the Chairman and the CE annually by means of a questionnaire. The results of the assessment found that both individuals fulfilled their duties and responsibilities independently and to the satisfaction of the Board and in the best interest of the company and stakeholders.

Succession plan for senior executives: Succession plans, which are reviewed and updated annually, are in place for the senior executives within the Group. Potential candidates are continuously groomed and mentored to ensure they acquire the necessary skills to fulfil the role.

Supporting committees and their responsibilities

The Board is ultimately responsible and accountable for the governance, performance and strategy of the Group. The Board is supported by mandated and established board committees which perform specific responsibilities on behalf of the Board and play a pivotal role in ethical leadership of the Group.

Each committee operates under written terms of reference which are reviewed annually. The Chairs of each committee develop and implement their respective committee agendas and report to the Board at the following Board meeting.

Audit Committee

The Audit Committee is tasked with assisting the Board in ensuring the financial reporting throughout the Group is accurate and reliable, including:

- To oversee the appointment, performance assessment, remuneration, disciplinary action against or dismissal of the Chief Audit Executive
- To review and approve the Internal Audit Charter, to monitor the performance of the Group Internal Audit Function, and to approve the annual internal audit plan
- To review any significant matters raised by the internal and external auditors
- To examine and review draft interim and annual financial results, announcements and any financial information to be made public and recommend this to the Board for approval
- To review the basis on which the Group has been determined to be a going concern
- To review the effectiveness and appropriateness of the Group's system of internal financial controls
- To oversee the appointment of external auditors and recommend, with Board approval, the appointment of the external auditors for the Annual General Meeting.

The scope of the Audit Committee covers all activities of subsidiaries, joint ventures, partnerships and other business ventures within the Discovery Group, both locally and internationally where the Discovery Group has management control. The Committee has the discretion to rely on the work undertaken by any existing governance structure within the international operations where such separate governance structures are in place to fulfil the governance responsibilities.

The Committee consists of four highly-skilled and experienced independent Non-Executive Directors who are elected at the Annual General Meeting on recommendation of the Board. The committee meets at least six (6) times a year. The Chairperson of the Board, head of finance, senior management and the internal and external audit representatives, attend the meetings.

Risk and Compliance Committee

The Risk and Compliance Committee ensures the overall systems of risk and compliance management, and internal control systems are adequate and effective, including:

- To oversee the appointment, performance assessment, remuneration, disciplinary action against or dismissal of the Chief Risk Officer and the Chief Compliance Officer
- To ensure that independent, effective and sufficiently resourced Risk Management and Group Compliance Functions are established and that these functions operate effectively as part of the second line of defence
- To review and assess the adequacy and effectiveness of the risk and compliance management systems across the Group
- To review and recommend the approval of the risk management, compliance and governance policies across the Group
- To review the effectiveness and appropriateness of the anti-fraud programmes within the Group
- To review the effectiveness and appropriateness of the IT Governance and Control Frameworks
- To review and approve the business continuity and disaster recovery programmes in place.

The scope of the Risk and Compliance Committee covers all activities of subsidiaries, joint ventures, partnerships and other business ventures within the Discovery Group, both locally and internationally where the Discovery Group has management control. The Committee has the discretion to rely on the work undertaken by any existing governance structure within the international operations where such separate governance structures are in place to fulfil the governance and oversight responsibilities.

The Committee consists of six highly-skilled and experienced independent Non-Executive Directors and eight members of the executive management, who meet six (6) times a year. The Chairperson of the Board, Chairperson of the Actuarial Committee, executive management team and Internal Audit Function, as well as the external auditors, are attendees of the meeting.

Actuarial Committee

The Actuarial Committee is responsible for providing assurance to the Board regarding the accuracy of the calculations and the appropriateness of the assumptions underlying the liabilities and the capital of the Group, including:

- To ensure that all relevant actuarial risks within Discovery are identified and analysed
- To consider the financial soundness valuation results of Discovery, including overall methodology and assumptions used to value the assets and liabilities of the Group
- To consider the embedded value results of Discovery, including the overall methodology and assumptions used in the embedded value calculation
- To review the external disclosure of the embedded value results of Discovery
- To consider the capital position of Discovery
- To review all reinsurance arrangements.

VitalityHealth and VitalityLife in the UK and Discovery Insure have separate actuarial committees that are responsible for actuarial matters relevant to their business.

Social and Ethics Committee

The Social and Ethics Committee actively assists the Board in monitoring social and economic development, ethics and transformation within the Group, including:

- To monitor the Group's standing in terms of the ten principles set out in the United Nations Global Compact Principles and the Organisation for Economic Co-operation and Development (OECD) recommendations regarding corruption and relevant legislative requirements
- To review and approve for recommendation to the Board the company's stakeholder policy
- To review and approve a framework for stakeholder engagement and the stakeholder engagement policy
- To monitor the company's activities in respect of stakeholder relationships, including the company's advertising, public relations and compliance with consumer protection laws
- To monitor the company's performance in relation to good corporate citizenship as well as the environment, health and public safety
- To review and approve the Enterprise Development Policy, the Employment Equity Plan, the Preferential Procurement Policy, the CSI strategy and projects proposed by management
- To review and approve, for recommendation to the Board, the sustainable development strategy and key sustainability indicators
- To consider and review the Ethics framework, the Code of Conduct and any complaints received by the Group
- To make recommendations to the Board regarding any potential conflicts of interest of a material nature.

The Committee is constituted by Executive Directors and the Chairperson is an Independent Non-Executive Director. Two additional independent Non-Executive Directors were appointed as members of the committee during the year.

External Remuneration Committee

The Remuneration Committee guides the Board on the Group's remuneration strategies, principles and employment policies, including:

- To assist the Board in its responsibility for setting and administering remuneration policies in Discovery's long-term interest
- To ensure that Discovery's employees are remunerated fairly and equitably taking into account Discovery's performance and external market trend
- To make recommendations to the Board on the remuneration structures of Non-Executive Directors
- To ensure that the remuneration of Executive Directors is sufficient to attract, retain and motivate them
- To approve a policy relating to bonus and share incentive schemes.

The Remuneration Committee consists of three independent Non-Executive Directors.

Management Boards

The Management Boards was established to assist the Discovery Board by overseeing the strategic outlook and objectives of the businesses, considering business developments and proposals, as well as risks, product and actuarial issues. It also reviews the results and performance of the business and ensures that objectives are aligned to the overall Group ambition and strategic outlook, and that any material issues are escalated to the Board for consideration.

Group Executive Committee

The Group Executive Committee is mandated and responsible for implementing the strategies approved by the Discovery Board, and for managing the affairs of the Group.

The Group Executive Committee is chaired by the Chief Executive and meets weekly. All the business units within the Group, including the offshore operations, have established executive committees that meet regularly. Feedback on the activities of each business unit is given at the weekly meetings of the Group Executive Committee.

Trading in Discovery shares

Policies and procedures have been implemented to manage and control the trading of shares and conflict of interest. Directors are required to disclose if they have a direct or indirect interest in any matter to be considered by the Board. Should a Director have an interest in a particular matter, the Director is recused and may not partake in the discussion. In addition disclosure is recorded in the minutes of the Board meeting.

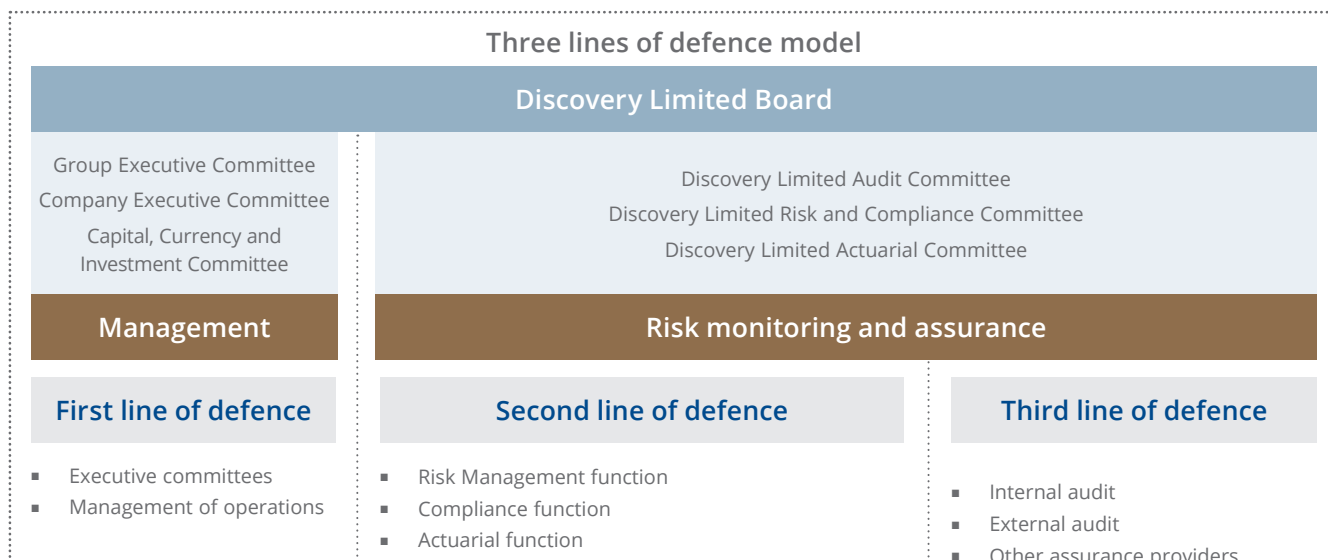
Price sensitive information is managed with the utmost caution. Policies have been implemented prohibiting the trading of securities during price sensitive and closed periods. Directors and employees are informed of closed and price sensitive periods by the Group Financial Director or the Company Secretary.

King III and Discovery

During the year under review, Discovery complied with the mandatory principles of governance as contained in the JSE Listings Requirements as well as with the principles of King III. In assessing adherence to the King III principles, a Compliance programme is in place whereby the level of compliance across the Group is monitored at regular intervals. The details below illustrate how we have applied the principles of King III. Where a principle has not been applied, this has been highlighted and explained. For the King III register, please refer to page 15 of this document.

Control functions

To further strengthen the Board's governance, Discovery has adopted a three lines of defence governance model. The risk and compliance management functions aim to ensure the effectiveness of the enterprise risk management program and to provide the Board and its sub-committees oversight of the effective implementation thereof, whilst the Internal and External Audit functions provide independent assurance on the strength of the Internal Control Environment within Discovery.



Business unit management

This consists of the day-to-day management and operation of the business. The business delivers on the strategy and optimises business performance within an agreed governance and risk framework.

Risk Management, Compliance and Actuarial Control functions

The Risk and Compliance Management functions ensure that risk and compliance management systems within Discovery are operating effectively. The Actuarial Control function supplements these functions for the Discovery Group and its regulated entities.

Risk Management function

The Group's Risk Management function is an independent function from Operational Management and is responsible for designing and ensuring the operational effectiveness of the risk management system for all risk types. The function coordinates and challenges information on risk management and ensures the establishment of appropriate risk reporting procedures and feedback to the Board.

Compliance function

The Compliance function ensures that Discovery is able to meet its legal and regulatory obligations, and promotes a corporate culture of compliance and integrity. The Compliance function has the authority to obtain access to any records required to carry out its responsibilities.

Actuarial function

For the life insurance entities in the Group, the Actuarial function informs the Board and the Actuarial Committee of the reliability and adequacy of the calculation of technical provisions, capital requirements, premiums, pricing activities and compliance with related statutory and regulatory requirements. The head of the Actuarial function is a regulated role (the Statutory Actuary in South Africa) that expresses an opinion on these calculations and ensures the establishment of appropriate reporting procedures and feedback to the Board.

For the non-life insurance entities in the Group, the head of the Actuarial function is not a regulated role. However, the Actuarial function still oversees the reliability and adequacy of the calculation of technical provisions, capital requirements, premium, pricing activities and compliance with related statutory and regulatory requirements.

Assurance

This consists of Discovery's independent assurance functions, such as internal and external audit. They provide an independent and balanced view of the effectiveness of the first and second-line functions. The effectiveness of the risk management system is audited annually. The findings from these assessments are reported to the various governance bodies within the organisation.

The UK business has its own Compliance, Risk Management, Actuarial, and internal audit functions that are overseen by the Group.

Enterprise Risk Management

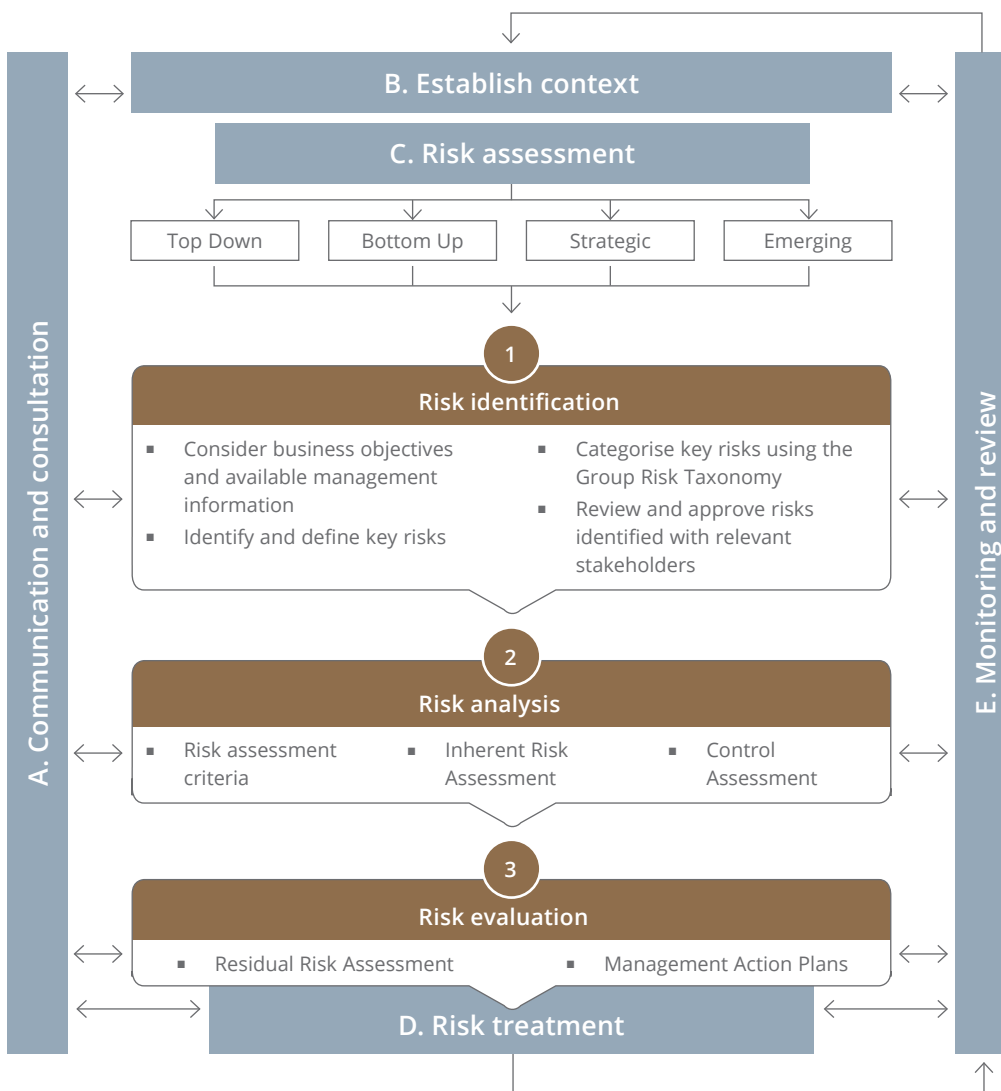
Enterprise Risk Management Programme

Discovery defines risk as the possibility of an event materialising which could impact the achievement of its objectives. Enterprise Risk Management (ERM) provides a framework for managing these risks, which typically involves:

- Identifying particular events or circumstances relevant to Discovery's objectives (risks and opportunities),
- Measuring them in terms of impact and likelihood,
- Monitoring the risks against the limits set and capital available,
- Managing risks by developing risk mitigation strategies and action plans where necessary, and
- Providing the Board and senior management with oversight of the risks faced by the business through a regular reporting process.

Our Enterprise Risk Management Process

The key risk management processes (based on ISO31000) which Discovery follows are as follows:



In line with Solvency Assessment and Management (SAM) and Solvency II requirements and emerging best practice, Discovery has put in place a process to perform an Own Risk Solvency Assessment (ORSA). The ORSA aims to link the enterprise risk management processes, that are designed to identify, assess, monitor, manage and report on the risks that Discovery faces or may face, to the capital resources and funding resources necessary to ensure that the overall solvency and funding needs are met at all times. The ORSA aims to enhance awareness of the inter-relationships between the risks to which Discovery is exposed, or may face in the long term, as well as the internal capital needs that follow from this risk exposure.

Our policies and frameworks

To support effective communication and implementation of the Enterprise Risk Management Policy, Discovery has developed a comprehensive set of risk policies and frameworks to ensure that adequate processes and procedures are in place to manage risk. These policies and frameworks are aligned with the regulatory requirements that have been proposed under the Solvency Assessment and Management (SAM) framework, are reviewed and approved by the Board annually and undergo an annual confirmation of compliance by the relevant policy owner.

Our risk appetite and strategy

The following overarching principles capture Discovery's risk appetite and risk strategy:

We seek to:

- Invest in entities and partnerships that progress our core purpose while increasing shareholder economic value, strengthening Discovery's product offering and diversifying operations across a range of financial and related industries,
- Maintain a financially sound position by ensuring that Discovery is well capitalised and will continue to meet its capital requirements (both internal and regulatory) and obligations to policyholders and clients,
- Maintain an appropriate liquidity position (including ensuring adequate cash flow generation) to support the growth of existing businesses, undertake new corporate initiatives and consistently deliver on its stated dividend policy, and
- Apply prudent principles when managing the capital funding structure, which includes managing the balance between debt and equity funding.

We avoid instances where Discovery is exposed to volatile or extreme potential outcomes which could threaten the viability of the business.

We accept risks that:

- Provide an adequate balance between risk and reward, in line with Discovery's commitment to achieve its return on capital target, and
- Discovery has the required expertise and skills to manage.

The role of the Risk Management Function

The Group Risk Management Function is an independent function responsible for designing and ensuring the operational effectiveness of the risk management system. This team consists of skilled resources including actuaries, accountants, project risk specialists, IT specialists, finance specialists and risk management analysts. This team coordinates and challenges risk information and establishes appropriate risk reporting procedures.

The Group Risk Management team:

- Assists the Board, the various Board committees and senior management in carrying out their respective responsibilities by co-coordinating risk management activities,
- Facilitates the risk identification process. This is performed through evaluating the internal and external risk environment on an ongoing basis to identify current and emerging risks as early as possible. This may include evaluating risks from different perspectives, such as by territory or by line of business,
- Assists the business in managing identified risks effectively. This includes assessing the capacity to absorb risk with regards to the nature, probability, duration, correlation, and potential severity of risks,
- Performs independent risk reviews to enable the provision of risk assurance to the Board,
- Regularly reports to senior management, key persons in control functions and the Board on the risk profile. This includes details of the risk exposures faced, risk incidents that have occurred and related mitigating actions required,
- Recommends the risk appetite and allocation of capital to the Board for approval. This includes the cascading of risk limits to an appropriate level of detail, and monitoring the actual risk exposure against the Board approved appetite,
- Maintains an aggregated view of the risk profile and associated capital requirements,
- Conducts a review of and reports on the ORSA process on an annual basis which includes oversight of the integration between risk and capital management across Discovery,
- Conducts regular stress testing and scenario analyses, including that of extreme events with low probability but high potential impact,
- Conducts regular assessments of the risk management system and ensure that all necessary improvements are implemented, and
- Documents and reports material changes affecting the risk management system to the Board to ensure that the framework is maintained and improved.

Key focus areas during the year

Topic	Our achievements to date	Further work we will do this year
Solvency Assessment and Management (SAM) and Solvency II readiness	<p>We anticipate that SAM will come into effect in South Africa in early 2017, while Solvency II became effective in Europe on 1 January 2016.</p> <p>During the past year, most of the key processes became embedded in business operations. These included:</p> <ul style="list-style-type: none"> Parallel runs of the SAM position and completion of the second mock Own Risk and Solvency Assessment (ORSA) reports for Discovery Life, Discovery Insure and Discovery Limited, which were submitted to the Financial Services Board Submission of the first official quarterly Solvency II returns to the Prudential Regulatory Authority in the UK for VitalityHealth, VitalityLife Limited and Discovery Group Europe Limited Preparation of a mock ORSA report for VitalityHealth, which was submitted to the Prudential Regulatory Authority and a dry-run ORSA report for VitalityLife An annual review of all Board-approved risk policies, frameworks and risk appetite statements across Discovery entities and confirmation of compliance with these policies. 	<p>The requirements of both SAM and Solvency II will be further integrated into our operations. We await the final legislative requirements on SAM and will adapt our current processes as required.</p> <p>The process of analysing and understanding the need for any required change to the operating model and capital structure of the Group in response to the SAM and Solvency II requirements will continue.</p>
Enhancing the combined assurance model	<p>During the year, the Group Risk Management (GRM) function was tasked with coordinating combined assurance on behalf of the Board. Progress was made in creating a best practice framework and establishing the key governance committee to drive combined assurance activities across the Group. The integrated assurance plan for the 2016/17 year is being developed, which will result in a revised methodology and application of combined assurance.</p>	<p>We will continue to enhance our approach to combined assurance to maximise the value derived from the risk management, compliance, internal and external audit activities and to ensure that there are no gaps in providing assurance to our stakeholders.</p> <p>Analysis of the King IV recommendations and what these mean for our ERM framework and methodology will be completed.</p>
Enhancing risk management capacity	<p>Risk management capacity in the Group risk management team was further strengthened during the year through filling key vacancies and the acquisition of skills identified during a gap analysis. Significant progress was made with the appointment of first-line risk officers within the remaining businesses across the Group.</p>	
Enhancing the Group capital measurement and management process		<p>The capital management process will be further enhanced, including an evaluation of the structures used to review and approve the allocation of capital and to measure return.</p> <p>A robust capital management framework will be implemented to drive capital efficiency and its effective use, combined with enhanced analytic tools.</p>
Value-added risk services	<p>The number of independent risk reviews and ad hoc management requests completed increased during the year, allowing an increased level of consulting services to business and further enhancements to the risk and control environment through value-adding recommendations.</p>	
Implementation of a risk management software solution		<p>A risk management software system will be implemented to enable enhanced risk intelligence and streamlined processes.</p>

The key risks that impact achievement of our strategy

Discovery is a multi-national organisation that faces a myriad of risks. The material issues that impact Discovery and our stakeholders are determined in line with the business strategy and strategic objectives, opportunities, the risks faced by the various subsidiaries, the communities we impact and the trends in our environment. The table below outlines the key risks Discovery faces and the related mitigation strategies. These issues are discussed in the Group's Integrated Annual Report and Sustainable Development Report.

Risk themes	Specific risks	Mitigating actions
Regulatory risk due to the high volume and velocity of regulatory change, and increasing regulatory complexity	<p>The regulatory environment, both in South Africa and internationally, continues to experience significant change. Discovery, like other financial institutions, is subject to many of these new and amended regulations which present an inherent risk to the Group. The most tangible short term risks include:</p> <ul style="list-style-type: none"> ▪ Proposed amendments to the Income Tax Act for South African life insurers which, if implemented, may significantly advance expected future tax payments presenting cash flow risk ▪ The Retail Distribution Review, which could result in changes to the distribution model with a resultant impact on new business for some of Discovery's South African businesses ▪ The Protection of Personal Information Act, Treating Customers Fairly requirements and amendments to the Financial Intelligence Centre Act which present implementation risk. 	<p>The compliance function provides oversight of and guidance on all proposed regulatory developments to ensure that responses to these changes are enacted throughout the organisation and undertakes active stakeholder management with regulators.</p> <p>Discovery engages both directly and through its representation on industry and professional bodies with regulators and law makers.</p>
Availability of adequate funding to pursue strategic goals	<p>Achievement of Discovery's strategic objectives and growth initiatives requires significant funding resources, in terms of both development and solvency capital. There is a risk that Discovery is unable to source sufficient capital, both from internal resources and external suppliers of capital.</p>	<p>Capital requirements are modelled and monitored regularly throughout the year and discussed at various forums, including the Board, on a regular basis. Access to a range of capital solutions, including retained earnings, debt and financial reinsurance, ensure that Discovery can pursue its growth agenda with adequate funding resources.</p>
Ability to grow and deliver against ambitious business plans for new and existing key strategic initiatives	<p>Discovery has ambitious plans to grow its businesses across multiple fronts. There is a risk that these business plans will not be achieved; either due to poorly constructed strategies, products and services, or due to insufficient management bandwidth and implementation capabilities.</p>	<p>Governance structures across the Group oversee the development of strategies and implementation of key initiatives and manage the Group's dynamic pace of growth and innovation.</p> <p>Industry trends and big data analytics enables Discovery to keep ahead of market changes and respond in a proactive manner.</p> <p>A structured project management programme ensures that delivery against business plans is well executed.</p>
Insurance risk, i.e. lapse, mortality, morbidity, interest rates, etc.	<p>Given its multiple licensed insurance entities, Discovery is exposed to material insurance risk, both in the life and non-life sectors in the UK and South African markets. These include the risk of claims experience exceeding expectations, lapse risk and reinvestment risk, particularly for the UK level premium risk business.</p>	<p>These risks are managed by:</p> <ul style="list-style-type: none"> ▪ Ensuring the underwriting risk policies for each of the licensed insurance entities are robust and embedded in the business ▪ Ensuring that adequate reinsurance arrangements are in place ▪ Using skilled actuarial resources to understand the risks associated with the insurance businesses and implementing mitigating actions ▪ Ensuring each insurance business attains sufficient scale to effectively diversify the insurance risks underwritten ▪ Conducting regular experience analyses, and ▪ Developing products that contain risk mitigating features for the insurer.

Risk themes	Specific risks	Mitigating actions
<p>Information systems performance and data security</p>	<p>Discovery's businesses are supported by the extensive use of technology, including complex data analytics. Discovery, therefore, faces risks associated with:</p> <ul style="list-style-type: none"> ▪ The stability and continuity of critical systems which may negatively impact client experience and business performance ▪ The integrity of data which, if not maintained correctly, could lead to inappropriate decisions and losses due to incorrect claims, payments and collections ▪ The accumulation of "technical debt" resulting from the need to keep up with technology and the pace of innovation at Discovery, and ▪ The protection of data which may increase the business' exposure to cyber-attacks, and internal and external theft or misuse. 	<p>Specific mitigation actions include:</p> <ul style="list-style-type: none"> ▪ Business continuity and systems performance management processes ▪ "Cyber cover" insurance and specific detection and monitoring tools to identify data and access breaches ▪ Projects to manage technical debt and replace legacy technology together with oversight by management and Board committees ▪ Various quality assurance processes are in place to monitor integrity of data ▪ Data breaches are monitored and reported on through the Compliance functions across the Group.
<p>Customer retention and new business growth in a volatile economic environment</p>	<p>Discovery operates in a highly competitive environment and is considered a market leader in a number of areas. Discovery is therefore exposed to risks associated with:</p> <ul style="list-style-type: none"> ▪ Loss of market share to new entrants and targeted competition from existing players ▪ Business volumes being impacted by changes in the economic environment and ▪ The ability of existing customers to maintain their premium payments in the light of a challenging economic environment. 	<p>Discovery's strategy to retain and grow its customer base includes providing the best-in-class insurance products and services. Vitality provides clients with additional value through health and lifestyle benefits and product integration, which contribute to lower lapse rates. Through innovation and designing products and services which improve customer experience, Discovery is able to retain and grow its customer base.</p>
<p>Cross-company integration risk (specifically Vitality) and the shared value business model</p>	<p>Discovery's Shared-Value Insurance model and the integrated nature of the Discovery businesses relies upon the impact of behavioural change producing savings which can be shared with policyholders and members. To a large extent, this is distilled into a Vitality status and the alignment of Vitality status with healthy lifestyles and behaviours is fundamental to the business model. There is a risk that the achievement of a particular Vitality status is not aligned with the underlying behaviours required to produce the savings assumed in the various products' benefit designs, resulting in a financial cost.</p>	<p>To mitigate this risk, regular monitoring of experience is conducted and adjustment of the Vitality operating model and status achievement criteria will ensure that wellness behaviours and health outcomes are aligned with status criteria and the value of integrated benefits.</p>

Our compliance programme

Discovery considers compliance with applicable laws, industry regulations, codes and its own ethical standards and internal policies as an integral part of doing business. The Board is committed to developing and maintaining a strong compliance management capability and culture which contribute to the growth within the Group and which provide appropriate protection to its policyholders, members and stakeholders.

This is achieved by:

- Fostering an environment where regulatory compliance is embedded in the Group's culture, business planning, decision making, and day-to-day business activities
- Actively communicating the effectiveness and business benefits of compliance management to all stakeholders
- Considering the impact of the regulatory requirements in all strategic and operational business decisions, as well as the processes and control environments within the Group
- Continually developing and enhancing the Group's compliance management capability in a manner that yields business benefit
- Being able to provide reasonable and independent assurance to the Group's senior management and Board.

The role of Group compliance

The Group compliance function is an independent function, operating as part of the second line of defence, established to support the Board, executives, management and employees to embed compliance into the culture, business principles, operational and management processes of the Group, as well as in any agreements with clients, service providers and other third parties. The function is responsible for designing an effective

compliance management and control system and for monitoring and reporting on the operational effectiveness of the system.

Discovery has invested in skilled and experienced compliance resources to:

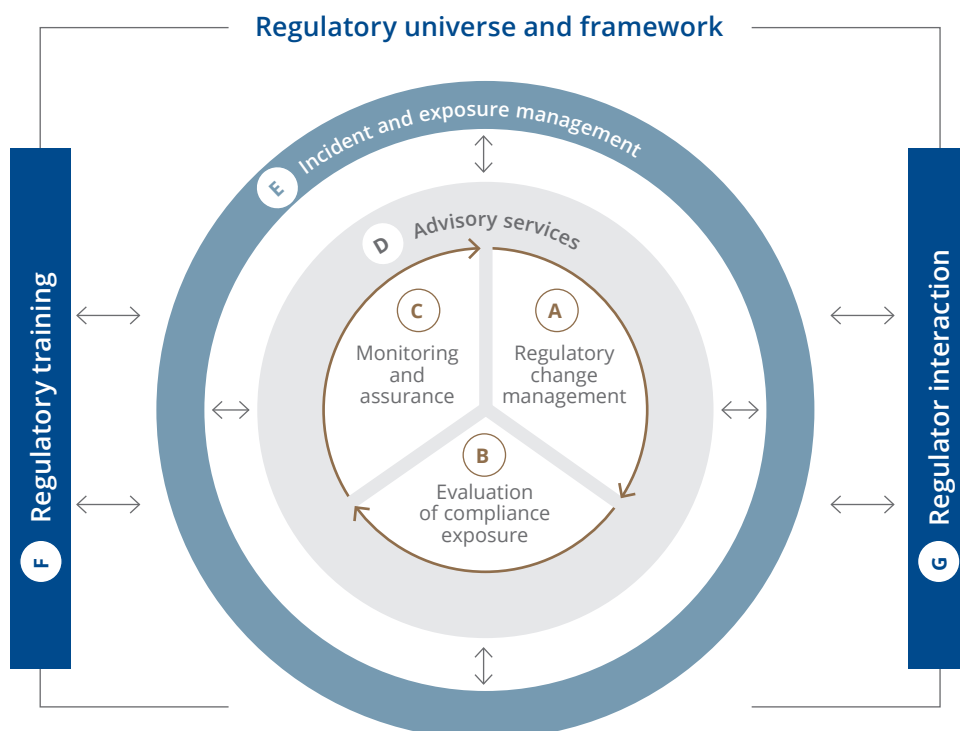
- Maintain the regulatory universe of all legislative, regulatory, industry and best practice requirements and standards impacting the operations within the Group
- Support management with the implementation of the regulatory frameworks impacting the activities and operations in the Group
- Develop a risk-based compliance plan to monitor and assess the effectiveness of the controls implemented to manage and mitigate the compliance exposures and regulatory risks to the business.

How do we approach the management of compliance?

Given our broad geographic footprint and the requirement to adhere to various local and international laws, rules, codes and standards, compliance is built into our corporate governance structures and frameworks.

The South African business operations are supported by experienced compliance officers within a centralised compliance team, while our international business areas are supported by dedicated compliance teams in their respective jurisdictions. The work of these teams is closely aligned to the standards and guidelines within the Group compliance function in South Africa.

The Group compliance function is also responsible for the implementation and monitoring of an Anti-Money Laundering Control Framework within the Group.



The process defined below is a high-level overview of the compliance processes in place across the Group:

a) Regulatory change management

Our regulatory change management activities are aimed at:

- Identification of legislative, regulatory and supervisory developments that impact the Group
- Analysing these changes
- Assisting and advising management with implementing appropriate controls to address the requirements.

b) Evaluation of compliance exposures

We have implemented a risk-based evaluation process across the Group to assess the level of compliance exposure and to assist the Group risk management function with the evaluation of the regulatory risk within the Group.

c) Monitoring and assurance

We develop an annual risk-based monitoring plan for the independent assessment of the appropriateness and efficiency of the control framework by ensuring compliance to regulatory requirements, and the evaluation of progress made with the implementation of corrective actions agreed with the business.

d) Advisory services

Our experienced compliance officers provide general guidance and support to the business and management to assist with the effective implementation of the control framework and regulatory requirements, as well as to assist and support the Group with all campaigns, external communication, marketing material and general client communication.

e) Incident and exposure management

We assist the Group with the identification of regulatory incidents and exposures, advising them on the appropriateness of corrective actions and monitoring progress with the implementation thereof.

f) Regulatory training

We maintain a comprehensive regulatory training programme for all employees to ensure awareness of the regulatory requirements impacting their day-to day responsibilities.

g) Regulator interaction

Discovery is subject to external regulation and supervision by various supervisory authorities in each of the jurisdictions in which we operate. We maintain open and active dialogue with all our regulators and supervisors to respond proactively and pragmatically to emerging issues and questions. Where applicable, we participate in industry committees and discussion groups to maintain and enhance the regulatory environment in which the Group operates.

Our focus during the past year

Focus areas	Our achievements to date
<p>Solvency assessment and management and Solvency II</p> <p>We have been focusing on the implementation of the Pillar II requirements, as set out in the Draft Insurance Laws Amendment Bill. Work around the Capital Requirements in Pillar I of the FSB programme is ongoing and we are actively participating in industry and regulatory initiatives in this regard.</p> <p>The implementation of the Solvency II requirements in the UK is also on track and we continue our participation with programmes and information requests from UK regulators.</p>	<p>During the financial year the Regulator changed the implementation of the SAM framework in South Africa to 1 January 2017. We have made substantial progress towards implementation of this framework in Discovery.</p> <p>The Solvency II programme in our UK business was effective from 1 January 2016 and is now fully operational.</p>
<p>Implementation of the Twin Peaks Regulatory Framework</p> <p>We are cooperating with industry bodies and are committed to implement an appropriate regulatory framework in Discovery to address the requirements emerging from the Financial Sector Regulation and Insurance Bills.</p>	<p>The regulatory process around the Financial Sector Regulations and the Insurance Bills is still ongoing, and we have completed a detailed analysis of the impact of these Bills on Discovery.</p> <p>We are also cooperating closely with industry bodies and the Regulator during this process</p>
<p>Implementation of the Retail Distribution Review (RDR) Framework</p> <p>We expect that the proposals, once published, could have an impact on how we remunerate our intermediaries.</p>	<p>The Financial Services Board (FSB), in December 2015, published further information around the RDR Framework and the three phases of implementation.</p> <p>We are actively involved in initiatives with the Regulator to finalise the phase I proposals, which is expected early in 2017.</p> <p>We have conducted a detailed analysis of the impact the proposals would have on Discovery and have identified the areas where changes would be required.</p>
<p>Continued strengthening of our information security controls and controls to protect our clients' information</p> <p>We have completed a number of projects during the year which focus on formalising and strengthening our information security framework.</p>	<p>We have made substantial progress with our Information Security Programme in the Group and will continue to work on this in the coming year.</p> <p>We are also monitoring the developments around the appointment of the Information Commissioners and development of the Regulations in terms of the Protection of Personal Information (POPI) closely.</p>
<p>Retirement reform</p> <p>We continue to monitor developments around retirement reform and the amendments on the tax payable on retirement funds to ensure we provide the best possible solution to our clients.</p>	<p>We continue to monitor developments closely.</p>

Our focus for 2017

We expect the following regulatory developments to have a material impact on the business objectives and strategy of Discovery during the upcoming year:

- **Information security and data privacy**

South African and international developments around information security and data privacy remain a key focus to the business with the finalisation of the EU Data Privacy Directive as well as developments around the Protection of Personal Information Act (POPI) in South Africa.

We remain focused on completing a number of projects that will address key data privacy objectives within the Group over the next 12 months.

We have also started working on the impact that the EU Data Privacy Directive will have on our international business ventures, particularly our business in the UK. This is in anticipation of the directive becoming effective in 2018.

Work is ongoing to align our data management strategy across the Group to international data privacy requirements and standards.

- **Increasing transparency and engagement in general insurance**

The Financial Conduct Authority proposed amended rules around client disclosures at renewal of policies.

We are actively involved in industry initiatives and forums dealing with these proposals and will be monitoring developments and the impact on our business in the upcoming year.

- **Treating Customers Fairly (TCF)**

Work is ongoing to embed the TCF principles in the South African business and to develop the infrastructure to effectively report on our progress and identify possible TCF concerns within the business environment.

- **Anti-money laundering (AML) developments**

We expect the amendments to the AML regulatory environment in South Africa to come into effect within the next year. This is likely to have a material impact on the South African operations.

We have conducted a detailed impact assessment and have initiated a project across all South African businesses to implement the appropriate frameworks and controls to comply with the new requirements.

- **Financial Sector Regulations and Insurance Bills**

We continue to monitor the developments around the Financial Sector Regulations and the Insurance Bills and is actively participating in industry and regulatory initiatives around this process. Both of these Bills are expected to become effective during the first half of 2017.

We have also conducted a detailed analysis of the potential impact of these Bills on Discovery and will be focusing on the implementation of these requirements over the next financial year.

- **Corporate governance developments**

The King IV Code on Corporate Governance is expected later this year and Discovery remains fully committed to the implementation of a world-class corporate governance framework.

We have established a number of projects aimed to review and consider the implications of the new King Code and to implement appropriate controls and process to address the new requirements.

- **Retail distribution review (RDR)**

The RDR framework is expected to be implemented in three phases over the next two to three years. During this time, we will remain actively involved in industry initiatives around the implementation of the RDR proposals.

We have conducted a detailed analysis of the phase I proposals, which is expected to be implemented in the next year, and are monitoring the progress on the development of these proposals.

In the coming year, we will complete further analysis on the phase II and III proposals and will continue our co-operation with the regulator in this regard.

- **National Health Insurance (NHI)**

Discovery Health is supportive of this initiative, and we are continuing with our engagement on the development of this in South Africa.

- **Amendments to the long-term insurance taxation framework**

We have analysed the impact on Discovery Life and are actively participating in various industry forums in this regards.

Discovery is engaging with both National Treasury, the South African Revenue Services and the Financial Services Board and discussions around the finalisation of these amendments are ongoing.

Summary of compliance to the King III principles for 2016

King III principles	Rating	Comments 2016
1 Ethical leadership and corporate citizenship	Fully	
1.1 The Board must provide effective leadership based on an ethical foundation	Fully	The Discovery Board is responsible for the performance and strategic direction of the Group and encapsulates its core values into all Discovery's operations. The Board governs the organisation on a strong ethical foundation and ensures responsible actions in all aspects of the business. Discovery's business is conducted in a fair and sustainable manner such that the needs of all stakeholders are considered. We regard our business as sustainable mainly due to the balance in terms of our long-term, medium-term and short-term focus and conduct our affairs in such a manner that the environment or communities that we operate in are not exploited.
1.2 The Board must ensure the company is and is seen to be a responsible corporate citizen	Fully	Discovery, through the guidance of the Social and Ethics Committee, always ensures that the impact of the Group's operations on society and the environment are conducted in a responsible manner embracing the needs of all stakeholders, while still being compliant with all the applicable legislation. Discovery's core values ensures that it always strives to enhance and invest in the wellbeing of the economy, society and environment.
1.3 The Board must ensure the company's ethics are managed effectively	Fully	The Social and Ethics Committee, as a sub-committee of the Board of Discovery, assists the Board in discharging its responsibilities in meeting the requirements of transformation, ethics and sustainable development within Discovery. An internal ethics framework was established within the Discovery Group. A dedicated Ethics Office manages ethics in the organisation and the Ethics Office Charter has been reviewed, approved and signed off by the Discovery Board.
2 Boards and directors	Fully	
2.1 The Board must act as the focal point for and custodian of corporate governance	Fully	The Discovery Board meets six times a year and its roles and responsibilities are set out in the Board Charter, which is reviewed and updated annually. The Board serves as the custodian of good governance and always ensures that its endeavors are directed at achieving sustainable value for the Group in a transparent and responsible manner.
2.2 The Board must appreciate that strategy, risk, performance and sustainability are inseparable	Fully	The Board has an annual strategic session where each business CEO presents its strategy, objectives, plans and challenges for the upcoming year. These are evaluated and considered to ensure that the strategy of the Group will still result in sustainable outcomes but also at the same time ensuring that risk to the Group is managed appropriately. The implementation of all approved initiatives is monitored through feedback, and reports are provided by the CEOs at subsequent Board meetings.
2.3 The Board must provide effective leadership based on an ethical foundation	Fully	Refer to principle 1.1
2.4 The Board must ensure the company is and is seen to be a responsible corporate citizen	Fully	Refer to principle 1.2
2.5 The Board must ensure the company's ethics are managed effectively	Fully	Refer to principle 1.3
2.6 The Board must ensure the company has an effective and independent Audit Committee	Fully	Refer to principle 3.1
2.7 The Board must be responsible for the governance of risk	Fully	Refer to principle 4.1

Summary of compliance to the King III principles for 2016 continued

King III principles	Rating	Comments 2016
2 Boards and directors continued		
2.8 The Board must be responsible for information technology (IT) governance	Fully	Refer to principle 5.1
2.9 The Board must ensure the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	Fully	Refer to principle 6.1
2.10 The Board must ensure that there is an effective risk-based internal audit	Fully	Refer to principle 7.1
2.11 The Board must appreciate that stakeholders' perceptions affect the company's reputation	Fully	Refer to principle 8.1
2.12 The Board must ensure the integrity of the company's integrated report	Fully	Refer to principle 9.1
2.13 The Board must report on the effectiveness of the company's system of internal control	Fully	Refer to principle 7.3
2.14 The Board and Directors must act in the best interests of the company	Fully	<p>The Board continuously strives to act in the best interests of the Group. The Directors ensure that the long-term sustainability, ethical foundation and environmental impact of Discovery is taken into consideration in all Board activities and decisions. The Board Charter specifies the process to be followed by Directors wishing to seek external guidance or advice regarding their fiduciary duties and responsibilities.</p> <p>Discovery, as a listed company, also has a policy governing the trading in Discovery shares by Directors and enforces closed periods prohibiting trading in shares by Directors, Senior Executives and employees during the period of finalisation of our interim results and year-end results.</p>
2.15 The Board must consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Act	Fully	The Board delegated the responsibility of the Company's capital position and the monitoring of the solvency and liquidity to the Actuarial Committee. Processes are also in place for the Risk and Compliance Committee to consider and assess the liquidity of the Group before approval of any distributions. Furthermore, the Board of Directors closely monitors the cash projections within the Group.
2.16 The Board must elect a Chairperson of the Board who is an independent Non-Executive Director. The CEO of the company must not fulfil the role of Chairperson of the Board	Fully	<p>The Chairperson of the Board has been an independent Non-Executive Director of Discovery for 13 years. The Board, on an annual basis, considers the Chairperson's independence and role and based on the criteria applied they are satisfied that he meets the independence requirements.</p> <p>Furthermore, clear division of responsibilities between the roles of the Chairperson and that of the Chief Executive Officer exists. This ensures a balance of power within the Group and ensures that no individual has unrestricted decision-making powers or authority.</p>
2.17 The Board must appoint the Chief Executive Officer and establish a framework for the delegation of authority	Fully	The Board has appointed a Group CEO and approved a framework for the delegation of authority to sub-committees and certain operational structures within the Group. This framework is reviewed and updated annually. Succession plans, are in place for the Chairperson, CEO and Senior Executives within the Group and reviewed annually whereby the Board is required to provide input on all senior management appointments.

Summary of compliance to the King III principles for 2016 continued

King III principles	Rating	Comments 2016
2		Boards and directors continued
2.18 The Board must comprise a balance of power, with a majority of Non-Executive Directors. The majority of Non-Executive Directors must be independent	Fully	The Board comprises of 19 Directors of which 10 are Non-Executive Directors and of them seven are independent. Taking into account the skills, experience and knowledge of the existing members the Board is satisfied that this is an appropriate size and composition for Discovery. Non-Executive Directors are appointed for three years and re-appointment is subject to Board review with one third of the Non-Executive Directors rotating annually by way of retirement. Executive Directors have contracts that may be terminated by giving one to three months of notice. Provision has been made in the Memorandum of Incorporation for the removal of Directors without shareholder approval.
2.19 Directors must be appointed through a formal process	Fully	The Board has an ad hoc sub-committee for the search and vetting of potential Directors. The Board retains responsibility for the appointment of new Directors and does so to ensure that the mix of skills, experience and technical expertise of the Directors remain appropriate.
2.20 The induction of and ongoing training and development of Directors must be conducted through formal processes	Fully	<p>Inductions and orientation programmes are in place for new Directors, including an explanation of their fiduciary duties and responsibilities. They also visit the different parts of the business for discussions with management on industry-specific issues.</p> <p>Furthermore, the Board, on an ongoing basis, considers their training needs and appropriate training is arranged based on these requirements. Continuous educational programmes incorporating financial, actuarial, economic and industry-related matters are available to all Directors. During the past year, training initiatives included various legislative developments with specific focus on Director's responsibilities in terms of their fit and proper status and the proposed King IV requirements. A separate day has been set aside for the Board once a year for on all legislative developments.</p>
2.21 The Board must be assisted by a competent, suitably qualified and experienced Company Secretary	Fully	Discovery has a suitably qualified and experienced Company Secretary who is responsible to support and guide the Board of Directors on relevant matters and facilitate the training needs of Directors. The Directors have unlimited access to the advice and services of the Company Secretary who ensures that all members adhere to the administrative protocols of the Board and sub- committee proceedings. The Board is satisfied that the Company Secretary is qualified to fulfill his duties and responsibilities to the Group.
2.22 The evaluation of the Board, its committees and the individual Directors must be performed every year	Fully	<p>A collective board-effectiveness evaluation is conducted annually.</p> <p>During the year under review, an effective assessment of the Board was performed and it was found that the Board has a wide array of skills and experience required for the oversight of the Group as a whole. The Chairperson also meets with individual Directors on a one-on-one basis throughout the year to discuss matters relevant to their directorship.</p>

Summary of compliance to the King III principles for 2016 continued

King III principles	Rating	Comments 2016
2 Boards and directors continued		
2.23 The Board must delegate certain functions to well-structured committees but without abdicating its own responsibilities	Fully	<p>The Board of Directors has an Audit Committee, Social and Ethics Committee, Remuneration Committee, Actuarial Committee, Risk and Compliance Committee and a Group Executive Committee to assist in fulfilling its obligations. Each of these committees operate under a formal Terms of Reference, that is reviewed and approved annually and the performance of each committee is also assessed annually by the Board.</p> <p>The Audit Committee consists of four Non-Executive Directors and the External Auditors are permanent invitees. The Committee is chaired by an Independent Non-Executive Director. The effectiveness of the Committee is monitored by the Board on an ongoing basis. Also refer to Principle 3.</p> <p>The Actuarial Committee consists mainly of Executive Directors and non-Board members who provide industry expertise, as well as an independent and unbiased perspective on actuarial matters impacting Discovery. The committee is chaired by a non-Board member recognised in industry as a technical leader in his field.</p> <p>The Social and Ethics Committee is mainly constituted by Executive Directors and the Chairperson is a Non-Executive Independent Director.</p> <p>Taking into account the objectives of this committee, the Board is of the view that the skills, experience and knowledge of the current committee members is most appropriate in overseeing the committee's activities.</p> <p>Operational Boards have recently been established for Life/Invest, Health and Vitality. These Operational Boards were established to provide more detailed and adequate discussions around operational matters.</p>
2.24 A governance framework must be agreed between the Group and its subsidiary boards	Fully	A governance structure and delegation of authority framework is in place for the Group and is reviewed annually.
2.25 Companies must remunerate Directors and Executives fairly and responsibly	Fully	Discovery has an approved remuneration policy which sets out the remuneration philosophy for both staff and Directors and that is annually reviewed by the Remuneration Committee and recommended for approval at the Annual General Meeting. Remuneration is performance based and includes a number of short-term and long-term incentive options incorporating an element of the Group's performance. The remuneration policy is published in the integrated report.
2.26 Companies must disclose the remuneration of each individual Director and prescribed officer		The remuneration of the Directors and prescribed officers is disclosed in the Remuneration Report.
2.27 Shareholders must approve the company's remuneration policy	Fully	The remuneration policy, as approved by the Remuneration Committee is presented to the Board annually for approval.
3 Audit committees	Fully	
3.1 The Board must ensure the company has an effective and independent Audit Committee	Fully	The Audit Committee comprises of four independent Non-Executive Directors who meet at least six times each year. The effectiveness of the Committee is monitored by the Board on an ongoing basis. During the year the Board undertook an evaluation which included the effectiveness of the committee and the result was positive.
3.2 Audit Committee members must be suitably skilled and experienced independent Non-Executive Directors	Fully	The Audit Committee consists of four highly skilled and experienced independent Non-Executive Directors with extensive actuarial, insurance, economics and accounting skills. The Board of Directors is satisfied that the skill and experience of the Audit Committee members are appropriate to effectively fulfil the duties and responsibilities of the committee. Furthermore, Committee members have access to consult with independent consultants and specialists subject to Board approval.

Summary of compliance to the King III principles for 2016 continued

King III principles	Rating	Comments 2016
3 Audit committees continued		
3.3 The Audit Committee must be chaired by an independent Non-Executive Director	Fully	The Chairperson of the Audit Committee is an independent Non-Executive Director and is always present at the Annual General Meeting. The Agenda for each Risk and Compliance Committee is set in conjunction with the Chairperson and Company Secretary.
3.4 The Audit Committee must oversee integrated reporting	Fully	The Audit Committee reviews and approves relevant aspects of the integrated report prior to the approval from the Board of Directors and the publication of the report.
3.5 The Audit Committee must ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities	Fully	Discovery has adopted a Combined Assurance Framework that was reviewed and approved. This Framework is embedded in the compliance, risk management and internal audit activities.
3.6 The Audit Committee must satisfy itself of the expertise, resources and experience of the company's finance function	Fully	The Audit Committee annually reviews the performance and effectiveness of the finance function as part of their responsibilities. Based on their review the members of the committee are satisfied that the finance function is effective and appropriately resourced with skilled and experienced resources.
3.7 The Audit Committee must be responsible for the overseeing of internal audit	Fully	The Audit Committee reviews the functions, performance and independence of the Group internal audit on an annual basis. The Committee also reviews and approves the Internal Audit Charter on an annual basis.
3.8 The Audit Committee must be an integral component of the risk management process	Fully	Discovery established a combined Audit Committee to ensure that appropriate consideration is given to risk management processes as well as the financial, fraud and IT-related risk within the organisation. The Chairperson of the Committee ensures that appropriate time, focus and attention is set aside to consider and review risk-related matters and reports.
3.9 The Audit Committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process	Fully	The Audit Committee considers the appointment of the external auditors and approves the external audit terms of engagement on an annual basis. The committee also monitors all non-audit services rendered by the external auditors on an ongoing basis. Furthermore, the Committee acts as the main contact between the external auditors and the Board and reviews the quality and effectiveness of the external audit process.
3.10 The Audit Committee must report to the Board and shareholders on how it has discharged its duties	Fully	The Chairperson of the Committee, at each Board meeting, provides feedback to the Board on the activities of the committee. A report from the Chairperson of the Risk and Compliance Committee is presented at the Annual General Meeting and is included in the integrated report.
4 The governance of risk	Fully	
4.1 The Board must be responsible for the governance of risk	Fully	The Board of Directors is ultimately responsible for the governance of risk within the Group. The Risk and Compliance Committee oversees the risk activities and review of the operational effectiveness of the risk management system within Discovery, with assistance from the Actuarial Committee. The Risk and Compliance Committee, on an annual basis, reviews and approves the various risk management related policies and frameworks which are then subject to Board approval. Formal feedback is also received from the Group Risk Management and Group Compliance functions at every Committee meeting.

Summary of compliance to the King III principles for 2016 continued

King III principles	Rating	Comments 2016
4 The governance of risk continued		
4.2 The Board must determine the levels of risk tolerance	Fully	<p>Discovery has implemented a robust Risk Appetite Framework which forms part of the overall Enterprise Risk Management (ERM) Framework. This Framework provides the boundaries for decision making, by ensuring that the risk decisions made throughout the business are aligned with the Business Strategy, Risk Strategy and Stakeholder Expectations.</p> <p>The Framework considers all risks across the Group in an integrated manner and comprises both quantitative and qualitative elements.</p> <p>The Board is responsible for approving the level of risk tolerance on an annual basis or following any material changes in risk appetite or business strategy.</p>
4.3 The Risk and Compliance Committee or Audit Committee must assist the Board in carrying out its risk responsibilities	Fully	<p>The Risk and Compliance Committee and the Actuarial Committee oversees the risk activities and review of the operational effectiveness of the risk management system within the Group. The work of these Committees, in so far as their risk responsibilities is concerned, is monitored by the Board on an ongoing basis.</p> <p>The Risk and Compliance Committee membership is aligned to requirements applicable to a combined Committee and Executive Management has a standing invitation to attend the Risk and Compliance Committee and actively participates in the discussions around risk matters.</p>
4.4 The Board must delegate to management the responsibility to design, implement and monitor the risk management plan	Fully	<p>Discovery has a Chief Risk Officer (CRO), reporting directly to the Group CEO, who is responsible to assist the Board of Directors and Senior Management in executing their accountability towards responsible management of risk across the Group. The CRO attends the Group Executive Committee and has unrestricted access to Executive Committees of the various businesses, the Board and any sub-committee of the Board.</p> <p>An appropriate system is in place for the identification, assessment, monitoring and reporting of risks within the Group.</p>
4.5 The Board must ensure risk assessments are performed on a continual basis	Fully	<p>The Risk Management Framework provides for continual risk assessment and monitoring by first line management functions and for all risk exposures as well as new and emerging risks to be formally assessed by the second line Group Risk Management function on a six to eight week cycle. Risk and Control Assessments are performed on a rolling three-year basis and Operational Readiness Assessments are conducted on key changes and new developments. Formal reports detailing risk exposures, assessments and risk incidents are presented at every Risk and Compliance Committee meeting. The Group Exco receives and considers a report each week on any material risk incidents that have occurred.</p> <p>A formal risk assessment is conducted with the Board at least annually. Additional risk assessments are performed if there is a material change in strategic direction of the Group, which would also incorporate the implications for capital needs if relevant.</p>
4.6 The Board must ensure frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks	Fully	<p>Discovery has a Risk Management Function at Group level, responsible for the implementation of a uniform risk management framework and process across the Group, for the identification of emerging and unpredictable risks, assisting management with the assessment of their risks and validation of all risk assessments performed as well as providing independent reporting to the Risk and Compliance Committee on the most recent views of risks facing the Group.</p>

Summary of compliance to the King III principles for 2016 continued

King III principles	Rating	Comments 2016
4 The governance of risk continued		
4.7 The Board must ensure management considers and implements appropriate risk responses	Fully	<p>Risk registers are maintained that defines the key risks faced by each of the entities within the Group and their residual risk ratings, with further detail of rating rationale, key issues and remedial actions for all high- and medium-high residual risk exposures. Details of all risks that have moved into, out of, or within the high- and medium-high ratings are also provided.</p> <p>This process provides an opportunity for management to improve on the current business processes, which in turn improves the Group's performance.</p>
4.8 The Board must ensure continual risk monitoring by management	Fully	<p>The Risk Management Framework provides for continual risk assessment and monitoring by first line management functions and for all risk exposures as well as new and emerging risks to be formally assessed by the second line Group Risk Management function on a six to eight week cycle. Risk and Control Assessments are performed and Operational Readiness Assessments are conducted on key changes and new developments. Formal reports detailing risk exposures, assessments and risk incidents are presented at every Risk and Compliance Committee meeting. The Group Exco receives and considers a report each week on any material risk incidents that have occurred.</p> <p>Additional risk assessments are performed if there is a material change in strategic direction of the Group which would also incorporate the implications for capital needs if relevant.</p>
4.9 The Board must receive assurance regarding the effectiveness of the risk management process	Fully	The Risk and Compliance Committee conducts an annual assessment of the effectiveness of the Risk Management Function and reports the findings to the Board.
4.10 The Board must ensure there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders	Fully	The latest integrated report includes risk disclosures to stakeholders.
5 The governance of information technology	Fully	
5.1 The Board must be responsible for Information Technology Governance	Fully	<p>The Board is responsible for ensuring that the Group implement appropriate system security, data integrity and business continuity processes.</p> <p>This responsibility has been delegated to the Risk and Compliance Committee, and the Group Chief Information Officer (CIO) provides feedback to the Board of all IT and IT related matters.</p>
5.2 IT must be aligned with the performance and sustainability objectives of the company	Fully	Processes and controls are in place as part of the overall IT governance structures and forums to ensure that the system infrastructure is aligned to the strategic objectives of each individual business and that sufficient consideration is given to opportunities where the performance of the systems infrastructure can be improved.
5.3 The Board must delegate to management the responsibility for the delegation of an IT governance framework	Fully	Discovery has appointed Senior Executives specifically responsible for IT and IT governance in the Group. The Group has also adopted an IT governance framework detailing the structure, processes, mechanisms and delegation of authority to different forums to ensure that IT and IT related matters are appropriately managed and aligned to Group strategy.

Summary of compliance to the King III principles for 2016 continued

King III principles	Rating	Comments 2016
5 The governance of information technology continued		
5.4 The Board must monitor and evaluate significant IT investments and expenditure	Fully	<p>The IT Governance Framework adopted by the Group includes processes and controls around the management of IT expenditure and investments. Return on investments is closely monitored and the Group CIO provides feedback on all IT-related matters to the Board.</p> <p>The External Auditors also provide assurance on the general IT controls to the Risk and Compliance Committee.</p>
5.5 IT must form an integral part of the company's risk management	Fully	The ERM framework implemented within the Group include the assessment and reporting of IT-related risks and the assessment of controls to ensure compliance to IT laws and IT-related rules forms part of the Compliance framework implemented within the Group. Furthermore, Discovery has implemented a detailed disaster recovery plan, which is updated regularly and tested at least annually.
5.6 The Board must ensure that information assets are managed effectively	Fully	Discovery has implemented an Information Security Programme as part of the Group Compliance Function. The main focus of the programme is to advise, support and monitor business operations with the implementation of appropriate policies, processes and controls to ensure that the Group's Information Assets are appropriately protected and managed.
5.7 A Risk and Compliance Committee and Audit Committee must assist the Board in carrying out its IT responsibilities	Fully	The Risk and Compliance Committee is responsible to ensure that all IT-related risks is adequately addressed in the Risk Management reports, that no IT related issues may have a material impact on the financial results of the Group and that the External Auditors conduct an external review of the effectiveness of the General Controls Environment as part of the normal audit.
6 Compliance with laws, rules, codes and standards	Fully	
6.1 The Board must ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	Fully	<p>Discovery established a Group Compliance Function on Group Level. This function is responsible to assist the Board of Directors as well as the Executive and Senior Management Teams with the implementation of appropriate frameworks and processes to ensure that each business complies with all relevant and applicable legislation. It also supports the business with the implementation of new and changed regulatory requirements.</p> <p>The Risk and Compliance Committee is responsible to assist the Board in overseeing compliance-related matters and regular reports are presented to the Committee.</p>
6.2 The Board and each individual Director must have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business	Fully	The Board and each Director has a working understanding of the effect of the applicable laws, rules, standards and codes via the Company Secretary who arranges training and induction for Directors. This training and induction incorporates changes to legislation, codes, etc. A separate training day has also been set aside each year on board level for these purposes.
6.3 Compliance risk must form an integral part of the company's risk management process	Fully	The Group Compliance Function works closely with the Group Risk Management Team to ensure that the impact of regulatory exposures within Discovery are appropriately reported within the Risk Management Framework.

Summary of compliance to the King III principles for 2016 continued

King III principles	Rating	Comments 2016
6 Compliance with laws, rules, codes and standards continued	Fully	
6.4 The Board must delegate the implementation of an effective compliance framework and processes to Management	Fully	<p>Discovery has a Chief Compliance Officer (CCO), who is responsible to assist the Board of Directors and Senior Management in executing their accountability towards responsible management of regulatory requirements within the Group. The CCO has unrestricted access to Executive Committees, the Chairman of the Board and any sub-committee of the Board.</p> <p>A Compliance Framework has been approved by the Risk and Compliance Committee detailing the approach to ensure that adherence to laws, rules, codes and standards is appropriately assessed, that controls are managed appropriately and that the performance of controls is evaluated independently. Regular reports are presented to the Risk and Compliance Committee.</p> <p>During the year under review, an independent evaluation was performed on the Group Compliance Function and no material findings were reported.</p>
7 Internal audit	Fully	
7.1 The Board must ensure there is an effective risk-based internal audit	Fully	<p>Discovery has an Internal Audit Function on Group level which operates within the ambit of a clearly defined charter. The charter is reviewed and approved on an annual basis by the Audit Committee.</p> <p>Group Internal Audit (GIA) prepares a risk-based audit plan in consultation with management and other assurance providers on an annual basis.</p> <p>The annual audit plan takes into account risks identified by Group Risk Management and Group Compliance. Governance-related issues such as ethics, fraud management, quality control, risk management and compliance are covered either by means of specific focused audits (as per audit plan) or indirectly as part of audits performed.</p> <p>GIA provides an annual assessment of the system of internal control and risk management as recommended by the code.</p> <p>Analysis and evaluation of business processes and associated controls are covered as part of a three-year, risk-based rolling audit plan.</p> <p>Regarding adherence to the IIA Standards and code of ethics, GIA has to confirm annually to the Audit Committee that the function does adhere to the IIA. Regarding the concept of objectivity, GIA employees will not be involved in any day-to-day operations; assume responsibility for the implementation of any internal control systems; initiate or approve accounting transactions external to the GIA unit; or direct the activities of any employee other than GIA employees.</p>
7.2 Internal audit must follow a risk-based approach to its plan	Fully	The Group's internal audit plans are risk based. When deciding on the internal audit plan and strategy, the risk as reflected on the business risk registers, including the strategic risks, is taken into consideration.
7.3 Internal audit must provide a written assessment of the effectiveness of the company's system of internal controls and risk management	Fully	Group Internal Audit, on an annual basis, reviews the system of internal controls and provides an opinion to the Audit Committee in terms of the effectiveness thereof. Group Internal Audit also conducts annual assessments of the effectiveness of the Group Risk Function and the Group Compliance Functions and provides an opinion on this to the Audit Committee.
7.4 The Audit Committee must be responsible for overseeing internal audit	Fully	The Internal Audit Executive reports functionally to the Chairperson of the Audit Committee and the committee is responsible for the annual evaluation of the performance of the function, for the approval of the internal audit plan and to ensure that appropriate independent quality reviews are conducted on the Group Internal Audit Function.
7.5 Internal audit must be strategically positioned to achieve its objectives	Fully	Group Internal Audit has unrestricted access to the Chairperson of the Audit Committee and the Board, as well as the Group CEO.

Summary of compliance to the King III principles for 2016 continued

King III principles	Rating	Comments 2016
8 Governing stakeholder relationships	Fully	
8.1 The Board must appreciate that stakeholders' perceptions affect a company's reputation	Fully	The Social and Ethics Committee ensures that transparent communication is in place to stakeholders on issues that impact them, as well as the sustainability of Discovery. The Group's reputation, brand and relationship with its stakeholders are standing agenda items at the Social and Ethics Committee meetings.
8.2 The Board must delegate to management to proactively deal with stakeholder relationships	Fully	The Social and Ethics Committee has been mandated to monitor and oversee the Group's relationship with its stakeholders on an annual basis. The Committee has a Stakeholder Relations Policy and Framework which is reviewed on a regular basis.
8.3 The Board must strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company	Fully	Refer to the Stakeholder Report where details are provided of the Group's approach to various stakeholders.
8.4 Companies must ensure the equitable treatment of shareholders	Fully	The Board of Directors ensures that all shareholders receive equitable treatment and the relationship between the Group and its shareholders is monitored closely.
8.4.1 There must be equitable treatment of all shareholders	Fully	
8.4.2 The Board must ensure that minority shareholders are protected	Fully	
8.5 Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence	Fully	Discovery has a Communication Policy and a stakeholder communication standard which are reviewed by the Social and Ethics Committee annually. This ensures that all external communication of the Group is handled and approved by a dedicated team. All stakeholder communication and press releases are also included within this framework and dedicated professionals are appointed to coordinate these activities.
8.6 The Board must ensure disputes are resolved as effectively, efficiently and expeditiously as possible	Fully	Client complaints are reported on by each business area and to the Risk and Compliance Committee. There are escalation processes in place in each business area to review business decisions in respect of complaints.

Summary of compliance to the King III principles for 2016 continued

King III principles	Rating	Comments 2016
9 Integrated reporting and disclosure	Fully	
9.1 The Board must ensure the integrity of the company's integrated report	Fully	<p>Discovery's integrated reporting is prepared using the International Integrated Reporting Framework. Our Integrated Annual Report seeks to provide stakeholders with a concise and material analysis of Discovery's strategy, performance and prospects in the context of our ability to create value over time. The assessment also considers aspects such as brand, goodwill, the quality of the Board and management, strategy and sustainability aspects.</p> <p>The Risk and Compliance Committee Charter states that the Committee is responsible for reviewing the financial statements with management and the external auditors and to consider whether they are complete, consistent with information known to them as well as whether they reflect appropriate accounting principles. The Risk and Compliance Committee also reviews other sections of the Integrated Annual Report before its release and considers the accuracy and completeness of the information taking into account information available to them.</p> <p>The Social and Ethics Committee is responsible for reviewing and approving the Sustainable Development Report which has been incorporated in the Group's Integrated Annual Report.</p> <p>The external auditors provide the Board with an opinion on the consolidated and separate financial statements as well as on the embedded value of the Discovery Group.</p>
9.2 Sustainability reporting and disclosure must be integrated with the company's financial reporting	Fully	Refer to the 2016 Integrated Annual Report.
9.3 Sustainability reporting and disclosure must be independently assured	Fully	<p>The Sustainability Report included in the Integrated Report is reviewed by the Risk and Compliance Committee and the Social and Ethics Committee who then recommends it to the Board for approval. Discovery has engaged with its external auditors to conduct an independent review of the completeness and accuracy of the information contained in the report. For the full report, please refer to our 2016 Integrated Annual Report.</p>