DISCOVERY

CLIMATE CHANGE REPORTING AGAINST THE RECOMMENDATIONS OF THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURE (TCFD)

30 June 2021

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THIS ICON REFERS TO ADDITIONAL INFORMATION AVAILABLE ON WWW.DISCOVERY.CO.ZA

THIS ICON REFERS TO MORE DETAILED DISCLOSURE IN OUR SUSTAINABILITY REPORT, AVAILABLE ON WWW.DISCOVERY.CO.ZA

FOR INFORMATION ABOUT THE GROUP'S STRATEGY, PERFORMANCE AND PROSPECTS, REFER TO OUR INTEGRATED ANNUAL REPORT.

01 INTRODUCTION

Andrew Rayner

A MESSAGE FROM OUR GROUP CHIEF RISK OFFICER

As a global financial services organisation, Discovery recognises that its ability to do business is fundamentally linked to the sustainable wellbeing of the communities in which we operate. Our core purpose of making people healthier and enhancing and protecting their lives is aligned to the goal of maintaining an environment that enables and sustains good health.

We support the goals of the Paris Agreement to limit global warming to well below 2°C and to pursue efforts to limit warming to 1.5°C. Accordingly, we are committed to aligning our actions with best practice and advocating for a low-carbon future through engagements at a sector and industry level.

We commenced reporting against the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in 2020, which was included in the Discovery Supplementary ESG Information Booklet. Given progress against our detailed TCFD reporting plan, we have this year released our disclosures in this separate report.

FOR OUR PHASED TCFD REPORTING PLAN, SEE PAGE 9.

The Group has undertaken a detailed analysis to understand the risks and opportunities of climate change. This work has informed the implementation of strategic responses where necessary, and the building of internal and client capabilities and responses to support the transition of the key economies in which we participate to a low carbon future to reduce global warming by 2050. Interested stakeholders will therefore find enhanced disclosures on our risks and opportunities related to climate change in this report.

In our United Kingdom (UK) operation we have created the role of Chief Sustainability Officer and appointed Mr Deepak Jobanputra in this role. We believe this is a significant appointment that will benefit both the UK business and the wider Group in advancing our climate change and wider sustainability strategies.

Also, we have published the Discovery Climate Change Strategy. This includes firm emission reductions targets and outlines the opportunities we are pursuing in leveraging our Shared-value Insurance model to develop climate-friendly products and services that aim to motivate behaviour change among our policyholders.

DISCOVERY CLIMATE CHANGE STRATEGY.

We are constantly working to improve our climate change reporting and welcome stakeholder feedback on our TCFD Report, which can be emailed to askthecfo@discovery.co.za

Andrew Rayner
Group Chief Risk Officer

INTRODUCTION CONTINUED

Deepak Jobanputra

A MESSAGE FROM OUR VITALITY UK CHIEF SUSTAINABILITY OFFICER

Vitality in the UK recognises the importance and urgency for climate change and wider sustainability issues to be a core theme of its business strategy as part of the Discovery Group.

Vitality UK leads its business strategy with our core purpose to make people healthier and to enhance and protect their lives. This is delivered through our unique Shared-valued Insurance model – and manifests in positive behaviour change, creating value with no trade-offs. The shared value so created is shared with members and leads to positive societal impact.

We have started to lead with a number of initiatives across the UK business that work towards a more climate friendly environment and support our ambitions of carbon neutrality and net zero. This extends beyond the expected areas of cleaner energy and a reduction in consumption, encompassing a deliberate focus on our values and culture to win hearts and minds across the business. We are actively embracing emerging guidance and regulation that will support best practice across the market to help build a better world and support the TCFD framework.

We recognise that this is a journey and have started to identify opportunities to drive change in collaboration with all our stakeholders across the value chain.

We believe that we have a great opportunity to motivate positive climate and wider societal change through our behavioural change model to contribute to the ambitions laid out by the UK government and other key stakeholders such as the United Nations (UN). I see this as a great opportunity for us to protect the legacy of a secure society for future generations.

Deepak Jobanputra
Chief Sustainability Officer, Vitality UK

02 CONTEXT

Climate change is one of the key risks facing business and society, with sustained temperature increases leading to a growing number of extreme weather events as well as other impacts. Indeed, the latest report from the UN's Intergovernmental Panel on Climate Change (IPCC) makes it clear that humans are indisputably warming the planet, and that this warming is already affecting weather and climate extremes in every region across the globe.

For insurers, climate change risks can manifest in many ways – for example, through worsening health impacts, particularly for the elderly and those with pre-existing health conditions; failure of healthcare infrastructure; increased attritional and catastrophe claims; elevated mortality and morbidity experience; impaired asset valuations; and rapid changes in market preferences, energy policies and financial sector regulations.

In 2015, nearly 200 countries signed the Paris Agreement, a legally binding treaty on climate change. The treaty aims to keep the increase in global average temperature to below 2°C and pursue efforts to limit this to 1.5°C. This requires global emissions to reduce to net zero by mid-century – an undertaking that demands collaboration from all sectors of society.

An increasing number of countries are committing to net-zero emissions, but a large gap remains between current targets and the reductions needed to meet the goals of the Paris Agreement. In addition, there is growing pressure from society, regulators and investors for companies to align their business models to a net-zero future, and to integrate climate change into their post-pandemic recovery planning. This provides an opportunity to address health- and climate-related challenges, given their inter-dependencies. The World Health Organization estimates that nearly a quarter of the global health burden can be prevented by reducing environmental and social risk factors. Creating healthy environments for populations is thus one of the most effective ways to reduce long-term health impacts from, and to increase resilience to, climate change.

South Africa's parliament formally ratified and thus consented to the Paris Agreement on climate change in November 2016. The country has set an ambitious target as part of its first Nationally Determined Contribution (NDC) – 42% below business-as-usual carbon output by 2025. The potential impact on our business, strategic and financial planning is influenced by the government's response, which is achieved through issuing regulatory requirements that set out how different industries must comply. This implies that the scenario being considered for current purposes is the long-term goal to keep the increase in global average temperature below 2°C.

The UK is also a signatory to the Paris Agreement and a party to the United Nations Framework Convention on Climate Change. The UK passed its first Climate Change Act in 2008, committing the UK to an 80% reduction of greenhouse gas emissions by 2050, compared to 1990 levels. In 2019, this was updated and increased the UK's commitment to a 100% reduction in emissions by 2050. In December 2020, the UK communicated its NDC under the Paris Agreement, as a single, economy-wide emissions reduction target, with a range of institutional structures employed to enable economy-wide emissions mitigation, along with numerous policies and measures to underpin delivery.

National interventions to meet these goals differ greatly, given South Africa's dependence on the fossil fuel industry to supply power, shifts in the regulatory environment with a change in administration in the United States, and the UK's regulatory environment. These factors necessitate ongoing development to refine scenarios over time to more accurately assess the impact to Discovery.

In general, insurance companies need to consider both sides of the balance sheet in managing climate-related risks, with numerous risks facing assets (for example, investment portfolios impacted by the transition to net-zero emissions across economies) and liabilities (with factors like higher claims due to extreme weather events and the long-term impacts on mortality). This applies equally to Discovery, and while we believe our approach to investing our assets reduces our exposure to asset risk relative to other insurance companies, we continue to assess climate-related risks and opportunities across all product lines, services and operations.

FOR DETAIL ON THESE RISKS AND OPPORTUNITIES, SEE STRATEGY STARTING ON PAGE 15.

03 OUR POSITION ON CLIMATE CHANGE

Through our Shared-value Insurance model, Discovery plays a significant role in influencing clients' health and financial behaviour and sharing the value of this behaviour change with our clients and society. This market-leading ability is a key lever in our commitment to drive climate change solutions by leveraging the success of the Shared-value Insurance model. Development is progressing on products and services that we can scale in the market to reduce greenhouse gas emissions and support climate change adaptation. Since its genesis, Discovery has seen the power of aligning its interests to those of its clients and society; applying our business model to contribute to action on climate change is a logical extension of shared-value thinking.

The Discovery Group's Climate Change Strategy specifies clear targets for reducing carbon dioxide emissions, as well as plans to integrate climate-related issues into our overall business strategy. This includes guidance on innovation and product development, risk assessments, investment policies, procurement processes, and facilities and operational processes. The Climate Change Strategy is underpinned by clear governance structures and includes Executive and Board oversight to ensure the Group delivers on its goals related to climate change.

Given the evolving landscape, Discovery has adopted an iterative approach to planning and refining our commitments over time. We will continue aligning with best practice and advocating for a low-carbon future through engagements at a sector and industry level. For example, we are signatories and adherents to the UN Principles for Responsible Investment (PRI), and we recently signed our support for the 2021 Global Investor Statement to Governments on the Climate Crisis. As detailed in this report, we aim to pioneer products and services that leverage the success of incentivising healthy behaviours through our Shared-value Insurance model.

Discovery's commitment to supporting a low-carbon economy is through a fair, responsible and just transition that will improve the resilience of the economies in which we operate, society and the financial system in line with the Paris Agreement target on climate change. As our home market is South Africa, this takes into account the many challenges in the real economy across emerging markets and sectors. We support the approach of our asset managers in engaging with investees about their transition plans and would similarly seek to apply this approach with our existing or potential business partners.

Discovery is also a signatory to the Alliance for Climate Action South Africa, which promotes engagement between organisations to implement initiatives that lead towards zero carbon emissions by 2050. It includes developing an internal net-zero plan and using our influence to champion an economy-wide transition to zero carbon emissions in partnership with national government, among other activities.

In South Africa, Discovery has nominated Ninety One to manage the majority of our assets under management. Ninety One has signed the Statement of Investor Commitment to Support a Just Transition on Climate Change. This outlines the complexities of a just transition for investors and other stakeholders and highlights the need for strategic engagement within investment institutions and in collaborations where investors play important roles. It commits investors to engaging on the topic in the spirit of open inquiry and innovation, with the goal of developing widely shared best practices that link climate-related investment, decent jobs, thriving communities and sustainable development.

In the UK, Vitality ensures that environmental, social and governance (ESG) principles are a key part of our investment partners' philosophy. We make sure that good governance principles align with long-term and sustainable value objectives. Vitality UK, as part of the Discovery group, and our investment partners (Vanguard, SEI Investments and Ninety One) are signatories of the PRI. Ninety One and Vanguard are also signatories of the Net Zero Asset Managers Initiative, while Ninety One and SEI Investments are signatories of Climate Action 100+, showing the collective commitment of our partners to mitigate climate risk.

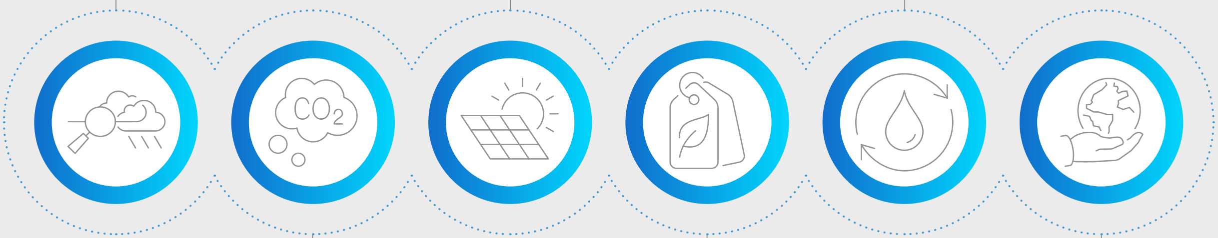
04 OUR STRATEGIC RESPONSE TO CLIMATE CHANGE

Discovery's Climate Change Strategy outlines the following objectives:

01 Assess and acknowledge potential climate-related risks and opportunities and formulate appropriate strategies.

02 Disclose and report on climate-related risks, strategies, targets, and progress, aligned to the recommendations of the TCFD.

03 Integrate climate change issues into Group policies and practices, including investments, procurement, and partnerships.



04 Set science-based targets aligned with global best practice for direct and indirect greenhouse gas (GHG) emissions.

05 Innovate to develop climate-friendly products and services that positively influence society.

06 Drive climate action and advocacy through industry and policy engagement.

These objectives are aligned to Discovery's nine values and are governed by the following principles:

- Science-led and aligned with global initiatives that incorporate best practice.
- Linked to our core purpose and integrated into the Group strategy informed by a clear business case.
- Focused on Discovery's areas of greatest impact to manage its sphere of influence.
- Committed to collaborating and contributing meaningfully on relevant public policy issues to promote a just transition.
- Underpinned by effective governance, empowered people and a commitment to transparency and accountability.

OUR STRATEGIC RESPONSE TO CLIMATE CHANGE CONTINUED

Discovery's response to climate change is captured in two overarching goals, which will be achieved through three strategic pillars, each with specific commitments.

SHORT TO MEDIUM TERM
CARBON NEUTRAL OPERATIONS BY 2025

Achieve carbon neutrality in our SA, UK, and US operations by 2025 (Scope 1 and 2 emissions)

LONG TERM
ACHIEVE NET ZERO BY 2050 OR EARLIER

Publish our plan by 2025 to achieve net-zero greenhouse gas emissions by 2050 or earlier

Collaborate with strategic partners to enable a low-carbon future

01 ALIGN across practices and properties

Reduce Group greenhouse gas emissions to align with global climate ambitions

Reduce emissions across our South African, United Kingdom and United States-based operations, with the following aims:

- Achieve carbon neutrality across our operations by 2025 (Scope 1 and 2 emissions).
- By 2023, fully assess Scope 3 emissions across our activities in support of the planning being done around a net-zero goal.

02 AMPLIFY through portfolio and partnerships

Integrate climate-related considerations into investment, procurement and partnership decisions and policies

Align business decisions and policies with a net-zero future, including risk management, investments and interactions with partners and other stakeholders, with the following aims:

- Incorporate climate-related criteria into procurement and partnership due diligence.
- Enforce our responsible investment policy and require asset managers to be active owners through proxy voting and engagement.

03 IMPACT through incentives and innovation

Develop and scale products and services that reduce greenhouse gas emissions and support adaptation

Extend the Shared-value model into climate-related behaviour change, with the following aims:

- Launch climate-related product offerings in South Africa and the United Kingdom by 2023.
- Reduce average CO_2e emissions across our client base with a baseline and potential target to be defined by 2022.

This strategy and its activities are aligned to the Group's broader approach to environmental, social and governance (ESG) issues. Our climate change goals will be assessed, reported on and updated as necessary, aligned to the latest science-based recommendations for business and industry transformation. The mechanisms for achieving these goals are detailed in our Climate Change Strategy.

WWW.DISCOVERY.CO.ZA/ASSETS/DISCOVERYCOZA/CORPORATE/CORPORATESUSTAINABILITY/DOWNLOADS/DISCOVERY-GROUP-CLIMATE-CHANGE-STRATEGY-2021.PDF

05 RECOMMENDATIONS OF THE TCFD

Discovery recognises and supports the recommendations of the Financial Stability Board's TCFD. First published in 2017, these voluntary recommendations are widely adoptable and applicable to organisations across sectors and jurisdictions. They are designed to solicit decision-useful, forward-looking information that is clear, comparable and consistent.

TCFD provides a framework for public companies and other organisations to disclose climate-related risks and opportunities more effectively, within the existing reporting processes. It is structured around four thematic areas:

- Governance
- Risk management
- Strategy
- Metrics and targets

Over the past 24 months, the number of organisations expressing support for the TCFD has grown by more than 85%, reaching over 1 500 organisations globally. Investor demand for companies to report information in line with the TCFD recommendations has also grown dramatically. In addition, many large asset managers and owners are requesting and encouraging investee companies to report against the TCFD recommendations, as well as reflect these in their investment practices and policies. Also, regulators, governmental entities, central banks and supervisors globally are increasingly supporting the TCFD, often embedding the recommendations in policy and guidance and moving toward mandating TCFD disclosures through incorporation into legislation and regulation.

The latest TCFD status report published in October 2020 describes the progress of companies in implementing the TCFD recommendations. Disclosure of the potential financial impact of climate change on their businesses and strategies remains low. One specific example is the percentage of companies disclosing the resilience of their strategies across different climate-related scenarios, which was significantly lower than that of any other recommended disclosure. The Task Force does recognise the challenges associated with financial impact and resilience disclosures but continues to encourage quicker progress on full alignment to the recommendations.

While Discovery is in the early stages of TCFD reporting, we are committed to continually improving and evolving disclosure against this important framework. Specifically, we continue to advance our internal reporting and risk processes to overcome the myriad of challenges, including the availability of information and best practice methodology to inform detailed and useful scenario analysis, as well as the disclosure thereof. We also continue to monitor developments in climate-related science, the modelling thereof and subsequent reporting. We are also keeping abreast of regional and global initiatives that are increasing global understanding of the science and possible impacts of climate change.

This will support improved disclosures against the TCFD requirements as well as ensure climate change risk is adequately tracked and managed across direct and indirect impacts within our well-established and mature Enterprise Risk Management (ERM) framework.

FOR DETAIL ON OUR PROGRESS IN MODELLING IMPACTS, SEE SCENARIO ANALYSIS ON PAGE 20.

RECOMMENDATIONS OF THE TCFD CONTINUED

Our phased approach to advancing TCFD reporting

PHASE 1 FOUNDATION

- Board oversight
- Management's role
- Risk identification and assessment processes
- Risk management processes
- Integration into overall risk management

PHASE 2 ENHANCEMENTS AND ADDITIONS

- How Board considers climate-related issues in reviewing capex, acquisitions and divestiture
- Material climate-related issues by sector and geography
- How these issues have affected business and strategy
- Key metrics used to measure and manage climate-related issues over the past three years
- Scope 1 and 2 GHG emissions over the past three years
- Climate-related targets related to GHG emissions, timeframes and base year
- KPI's used to assess progress against climate-related targets

PHASE 3 ENHANCEMENTS AND ADDITIONS OF STRATEGY RESILIENCE

- How Board considers climate-related issues when reviewing and guiding strategy
- Consideration of existing and emerging regulatory requirements related to climate change
- Timeframe (short, medium and long-term)
- How material climate-related issues have affected financial planning
- How climate-related scenarios inform strategy/financial planning
- Resilience of strategy to climate-related issues, including an indication of range
- Climate-related scenarios and associated time horizon(s) used
- Sensitivity to carbon pricing, if applicable
- How climate-related performance metrics are incorporated in remuneration policies
- Methodologies used to calculate or estimate climate-related metrics
- Scope 3 GHG emissions over the past three years
- Identification of climate-related targets as absolute or intensity-based
- Methodologies used to calculate or estimate climate-related targets

Source: TCFD Illustrative implementation plan based on expert users' ratings, September 2020

Legend: Implementation plan

- Disclosed
- Not started
- In progress

GOVERNANCE

RISK MANAGEMENT

STRATEGY

METRICS AND TARGETS

In Phase 1, we established a foundation for climate-related financial disclosure against the TCFD recommendations by addressing key requirements in the Governance and Risk management pillars. We are now focusing on enhancements and additions to disclosure elements in **Phase 2**. These focus predominantly on strategy, metric and target disclosures, which are considered especially useful by interested stakeholders.

When we have advanced sufficiently on aligning disclosures with the TCFD recommendations and the use of climate-related scenario analysis, we anticipate we will be in a position to disclose the resilience of our strategy under different climate-related scenarios under **Phase 3**. As new data are produced and the science and research evolve, we will integrate this information into our strategy and align our reporting.

06 GOVERNANCE

Discovery's Climate Change Strategy pillars are underpinned by the following Governance commitments:

- Assign responsibilities at Board and Executive level for delivering on our Climate Change Strategy
- Assess, manage, and publicly disclose climate-related risks and opportunities across the Group
- Review our capabilities, organisational structure and remuneration to deliver on our climate ambitions and goals.

The governance of climate-related matters has been integrated into our established and wide-ranging governance structures. For Discovery, governance is embedded as a critical component of value creation, promoting strategic decision-making that balances short-, medium- and long-term outcomes to reconcile the interests of the Group, stakeholders and society. Given its importance and the requisite level of expertise and urgency, Discovery has added a specific governance forum (the Group Climate and Environment Steering Committee) that focusses purely on our response to climate change.

Group governance structure for our climate change response

BOARD
Oversight of the climate strategy drivers

SOCIAL AND ETHICS COMMITTEE	RISK AND COMPLIANCE COMMITTEE	AUDIT COMMITTEE
Analyse the climate context and challenges, ensuring alignment of the Company's strategy with best practices Monitor, report and analyse energy and climate-related indicators and requirements	Identify and monitor the main risks and opportunities for the Company Monitor and provide recommendations on mitigation plans to manage the identified risks	Risk disclosure in mainstream financial reporting

GROUP EXECUTIVE COMMITTEE
Approve, develop and implement the climate strategy objectives

GROUP CLIMATE AND ENVIRONMENT STEERING COMMITTEE
Support senior management in climate strategy development and implementation

FOR DETAILS ON DISCOVERY'S GOVERNANCE STRUCTURES, SEE OUR GOVERNANCE REPORT.

GOVERNANCE CONTINUED

The governance structure supports effective monitoring and communication of climate-related matters from day-to-day operations within each business through to the Discovery Board of Directors.

Oversight of climate change-related strategy, developments and risks is held at Board level, and is specifically championed by the Group Chief Executive. The Board reviews and approves policies that are relevant to our management of energy, waste, water and climate change (environmental) issues. The Board also provides oversight for the development and roll out of climate-related products and services, and investments.

The Social and Ethics Committee of the Board reviews performance against climate-related strategies, such as energy and water consumption, waste generation, and environmental and climate change programmes, on a regular basis. The Chairperson of the Social and Ethics Committee reports to the Board on a quarterly basis.

The Risk and Compliance Committee of the Board provides oversight of the management of climate-related risks and opportunities, as well as related disclosures. The Risk and Compliance Committee is supported by the Group Chief Risk Officer who is responsible for ensuring that:

- Risk management policies and frameworks adequately allow for climate-related risks and opportunities
- Climate-related risks and opportunities are identified, monitored and managed in line with these policies and frameworks, at a business and Group level
- An assessment of the potential financial impact of climate risks on each of our operating entities and the effect of potential mitigation strategies is incorporated into the Own Risk and Solvency Assessment (ORSA) report, a document which is reviewed and approved annually by the Board and submitted to the Prudential Authority in South Africa
- Exposure to climate-related risks and opportunities are adequately included in internal, regulatory and public reporting.

The Audit Committee reviews and approves public disclosures included in external reporting such as the Integrated Annual Report.

The Group Executive Committee is responsible for formulating and implementing climate change strategies, policies and risk management plans. This includes integrating issues of climate change into the business model and strategic priorities, and driving the delivery of the stated operational, strategic and innovation goals. Updates on these issues are provided to the Social and Ethics Committee on a quarterly basis and to the Group Board as necessary.

A Climate and Environment Steering Committee with representatives from several different business functions is convened at Group level to manage and drive climate-related transformation. It includes the Chief Risk Officers of the South African and UK businesses, the Chief Sustainability Officer of Vitality UK, the Group Head of Compliance and Head of Investor Relations, and other representatives responsible for implementing the recommendations of the TCFD and for driving climate-related transformation. The Group Chief Risk Officer is the executive sponsor of this Steering Committee, which reports to the Group Executive Committee as necessary.

In addition, there are teams and processes in place to monitor and comply with the evolving climate-related regulatory and legislative landscape. This extends to supervisory requirements in Discovery's South African, UK and United States markets, as well as legal developments that may affect partners. Where necessary, subject matter experts are consulted to provide support on key issues. Any potential impacts on the Group's business activities will be reported periodically to the Board of Directors.

In our UK business, our climate-related initiatives are supported and coordinated by the Sustainability Committee overseen by the Chief Sustainability Officer, who reports directly to the Vitality UK Group CEO.

Ultimately reporting to the Discovery Group structure for our climate change response (as depicted above), responsibilities are assigned at Vitality UK Board and Executive level to assess, manage, and disclose climate-related risks and opportunities. Vitality UK has created a new governance committee, the Sustainability Committee, that oversees the climate and sustainability related strategy, risks and opportunities, reporting to the UK Group Executive Committee. The Sustainability Committee has representatives from several different business functions at UK Group level to manage and drive climate-related transformation, including the Vitality UK Chief Risk Officer and Chief Financial Officer. Reporting from these committees is provided to the Risk Committee and to the Vitality UK Board.

Climate change governance is guided by the regulator, the Prudential Regulation Authority, through their Supervisory Statement (SS3/19).

07 RISK MANAGEMENT

Enterprise risk management

Discovery has a well-established and mature Enterprise Risk Management (ERM) framework in place that details the appropriate principles and processes to manage risk within our business. ESG risks are included in our universe of risks, ensuring these are always considered within the risk management process. Climate change is incorporated as part of these risks into the existing ERM framework and risk register. Despite the complexity of the long-term nature of assessing climate change risk, it is managed through our established risk management approach.

IR FOR DETAIL ON OUR RISK MANAGEMENT FRAMEWORK, SEE OUR INTEGRATED ANNUAL REPORT.

We have amended some aspects of existing policies and frameworks, and undertaken specific processes to ensure greater incorporation of climate change risk, including:

ADDITIONS TO INVESTMENT-RELATED POLICIES TO INCORPORATE PRINCIPLES FOR RESPONSIBLE INVESTING

This includes finalising our Responsible Investment Policy and amending other investment-related policies to include ESG criteria (including climate change).

ADDING BROAD RISK APPETITE CRITERIA

These criteria are being refined, and we are investigating appropriate Key Risk Indicators and controls to monitor and manage climate change risk factors across the different business entities and their specific risk exposures.

DEVELOPING A COMPREHENSIVE CLIMATE RISK AND ASSESSMENT FRAMEWORK TO IMPROVE TRACKING AND MANAGING DIRECT AND INDIRECT IMPACTS

As part of operationalising our Climate Change Strategy, we are undertaking a process to assess and report on our broader value chain impacts, including our investments, suppliers and franchises. This will support an expanded Scope 3 assessment to align to the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard.

As risk management is a dynamic process, we will continue refining climate change risk and management approaches within the ERM framework.

ENTERPRISE RISK MANAGEMENT CONTINUED

Risk management process

Discovery used the relevant subcategories for transition and physical risks as part of the recommended TCFD risks and opportunities as a base to identify our current and future exposures, against short-, medium- and long-term horizons. The assessments were conducted across the whole Group.

Some identified risks are considered to be transversal, which impact two or more business entities (which need to be addressed through a Group-wide strategic directive such as the Climate Change Strategy) and others that impact business entities specifically (such as the impact of physical risks on each of the insurance entities).

The impact across multiple risk categories across short-, medium- and long-term horizons was assessed through engagement with business. Our rating methodology, where the impact and likelihood are considered, was used to rate and prioritise these. Where possible, the risks were assessed quantitatively using internal data and modelling; for example, stress and scenario testing was conducted for the insurance entities to understand the impact of increased extreme weather events. Other areas also have metrics that can be used to rate the extent of the exposure, such as technology and energy source risks. However, most of the risks were considered qualitatively and an appropriate risk rating was assigned based on market research and a determination of best practice.

AN EXAMPLE OF ASSIGNING RISK RATINGS – POLICY RISK AND LEGAL RISK

In South Africa, the financial sector regulators have not yet published formal regulatory requirements, but we anticipate that the measures in force in the UK and European Union will be followed. Also, legal risk is not particularly prevalent in the industry in South Africa, given limited exposure compared to our peers who have internal asset management companies or subsidiaries as part of their group.

Risk continues to be assessed, in line with best practice and as our understanding of the risk develops. One key area of development is stress and scenario testing, and aligning these to the IPCC Representative Concentration Pathways (RCP).

Our risk assessment process also helps to identify areas of opportunity. For example, climate risk assessments and Discovery's culture of constant innovation is driving the development of our green Vitality proposition.

Actions and **controls** to monitor and manage risks and opportunities have been identified in line with our risk appetite. These actions are implemented and managed at business and Group level.

Monitoring risks and **opportunities** involves tracking progress in implementing risk treatment actions and developments in internal and external business environments.

Our risks and **opportunities** are reviewed and reported on an ongoing basis to the appropriate governance forums. Business risk profiles are reported to each business executive committee and the Group Risk and Compliance Committee, which meets at least six times a year. In addition, business risks and scenario results are included in our ORSA reports that are provided to the Board and the applicable Regulators.

IR FOR DETAIL ON OUR RISK MANAGEMENT FRAMEWORK, SEE OUR INTEGRATED ANNUAL REPORT.

The results of the risk assessment (referred to above) have indicated climate change risk is **currently within appetite** given the current controls and management actions identified in the process. Examples of these actions include improving public disclosures, bolstering the procurement process (as well as any other third-party engagement and outsourcing procedures), implementing our Climate Change Strategy, as well as the traditional insurance measures of repricing, reserving and transferring risk using reinsurance.

The risk will continue to be reassessed as the understanding of climate change matures across the industry, and as the Group invests resources and implements initiatives in this area. Accordingly, our assessment of climate change risk may shift over time and as our understanding of the subject improves.

RISK MANAGEMENT CONTINUED

Climate change initiatives

Risk management is an ongoing process. Our frameworks and policies are reviewed periodically, and our risk and opportunity profiles are reviewed and updated regularly. These reviews ensure we consider factors relevant to the unique and evolving challenges of climate-related matters.

We participate in climate-related developments and engagements through representation on a number of climate change industry forums, including the Institute of Risk Management South Africa, the Actuarial Society of South Africa and the National Business Initiative.

We participated in a working group assembled by National Treasury in South Africa in developing their report on "Financing a sustainable economy". The report sets out the research and resultant recommendations of a process to establish minimum practice and standards with regard to climate change and emerging environmental and social risks.

Discovery's Group Compliance Regulatory Change Officer, Tash Balipursad, was appointed as vice chair of the South African Insurance Association (SAIA) Climate Change Forum. SAIA has participated in the technical working group addressing TCFD recommendations in a National Treasury Technical Paper, among other industry led initiatives.

Discovery has also signed up to the Partnership for Carbon Accounting Financials and will be evaluating our balance sheet on an asset class basis to understand our climate resilience to various climate risk scenarios.

In the UK we participate in the Risk Coalition, an industry group that has set up a Risk Officer Sustainability Forum. The forum offers an opportunity to debate and develop best practice across the industry on climate related and sustainability developments.

Regulatory landscape

We continually monitor and consider existing and emerging regulatory requirements related to climate change in the key countries in which we operate.

As a signatory to the Paris Agreement, South Africa is required to define its emissions reduction obligations, implement policies and/or laws to bring its emissions in line with global targets and report regularly on the status of its emissions and goals. South Africa's evolving climate change related regulatory environment is informed by government's strategies and plans, regulatory frameworks, laws and policies.

In the UK, the target related to the legally binding Climate Change Act was amended in June 2019, committing the UK to a legally binding target of net-zero emissions by 2050, set on a whole-economy basis and further updated in April 2021 to reduce emissions by 78% by 2035 compared to 1990 levels.

The UK is hosting the 26th UN Climate Change Conference of the Parties (COP26), which has the potential to act as a driver of accelerated policy change in the UK this year. The Group's UK business will monitor these developments closely.

Following his inauguration, US President Biden signed the country back into the Paris Agreement, and has also announced a new NDC target to achieve a 50-52% reduction from 2005 levels in economy-wide net GHG emissions in 2030. This forms part of the President's goal of reaching net zero emissions economy-wide by no later than 2050. Any potential impacts on our US business will be monitored on an ongoing basis.

Discovery is committed to meeting the relevant requirements in all areas in which we operate. We monitor and remain up-to-date with relevant local regulatory developments and global practices. This ensures that we remain compliant in a dynamic regulatory environment, but also that we work in concert with local and global efforts in responding to climate-related risks and opportunities by adapting our strategies, business models and financial planning.

08 STRATEGY

The TCFD Strategy recommendation calls on companies to “disclose the actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning where such information is material.” It further recommends that companies “describe the resilience of the organisation’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.”

This TCFD recommendation is one of the more challenging to implement due to:

- Concerns about disclosing forward-looking scenario analysis involving confidential information
- Challenges in characterising strategy resilience
- Difficulties quantifying risks and opportunities, and the related financial implications
- Gaps in availability of business-relevant data and tools to support scenario analysis
- The difficulty of developing relevant scenarios that are decision-useful in a business context

Efforts to date to assess the impact of climate change indicate that the risk is within appetite. However, the extent of climate change impacts on Discovery’s business models and financial performance is still subject to uncertainty, as are the timeframes for these impacts.

Nonetheless, as Discovery continues with its phased approach to implementing the TCFD recommendations, we will refine our models to identify and manage risks and opportunities inherent in the physical and transition impacts of climate change.

Our Group-wide efforts include:

- Our stated commitment to applying the TCFD recommendations
- Developing and communicating our Climate Change Strategy, which will drive:
  - Setting science-based targets aligned to the recommendations of the TCFD
  - Integration of climate change issues into the Group governance arrangements, policies and practices
  - Investments practices that consider ESG
- Undertaking a supplier mapping exercise and policy review to maximise ESG considerations in our procurement process
- Partnerships with third parties to support the development of our climate change strategy and response
- Product and services development – which is underway on a green Vitality proposition (see page 23).

STRATEGY CONTINUED

SHORT TERM MEDIUM TERM LONG TERM

Risks

We identified that both climate-related physical and transitional risks impact the short-, medium- and long-term horizons for various parts of our business. The materiality of these impacts is considered in the Group strategy, which considers climate-related opportunities across our various sectors, products and geographies.

TRANSITIONAL RISKS

Include current and emerging regulations that attempt to constrain actions that contribute to adverse effects of climate change or promote adaptation and mitigation to climate change, market, reputational and technology risks

PHYSICAL RISKS

Acute and chronic physical climate change effects that include extreme weather events, high rainfall and flooding, high temperatures, drought, and sea level rise

These risks and opportunities are distinguished between the short term (less than one year), medium term (one – five years), and long term (beyond five years). While all risks could have some level of impact over the whole period, transitional risks are generally expected to materialise sooner compared to the more extreme physical risks. However, as mentioned, Discovery's operating model reduces our exposure to asset risk relative to other insurance companies. Consequently, transitional risks are not expected to impact the Group as much as other more traditional insurance groups that have an internal asset management function and/or subsidiary, and significant discretionary investments in equities. Work is ongoing to fully understand the Group's exposure and disclosures will be enhanced in future.

The potential risks, impact and actions by Discovery are considered alongside.

TRANSITIONAL RISKS

Policy Risks

Discovery is subject to multiple regulatory regimes due to our global expansion. The maturity of climate-related regulatory regimes differs across the jurisdictions in which we operate.

While climate-related policies and regulatory frameworks in South Africa are either evolving or in development, the magnitude of regulatory/policy risks remains uncertain. However, we anticipate that changes in emission reporting obligations, carbon pricing, and the imminent financial sector regulatory frameworks setting out disclosure obligations, among others, will inform transition outcomes.

South Africa's Carbon Tax Act 15 of 2019 is being implemented in phases and levied at a rate per ton of carbon dioxide equivalent of GHG emissions per taxpayer. As Discovery is not a carbon intensive company, the cost of and changes to carbon pricing is not a material risk. However, pricing and taxes are transition drivers within the policy and regulatory risk space, and we continue to consider carbon tax in risk management accordingly. Also, Discovery has zero appetite for non-compliance; meeting regulatory requirements ensures that we avoid potential impacts such as legal recourse, regulatory sanctions, financial loss and reputational harm.

Other jurisdictions where Discovery has a presence, including the UK, have already started to entrench their climate policies, goals and mandatory disclosure frameworks.

The UK has progressed substantially in terms of its climate-related laws and regulatory initiatives. This includes the pressure being applied on its financial sector by the Bank of England's Governor to accelerate its climate change and sustainability related disclosures, risk management and reporting. The UK's Prudential Regulatory Authority is expecting firms to engage with the TCFD framework and disclose accordingly. Also, the Department for Business, Energy & Industrial Strategy (BEIS) commenced consultations on climate-related financial disclosures, on its path to become the first G20 country to make TCFD recommendations mandatory by 2022 and support the transition to net zero. The BEIS states that when TCFD reporting becomes mandatory, "investors will be better equipped to incorporate these risks into their investment and business decisions, and this also provides greater information to other stakeholders for relevant decisions".

The US climate change regulatory environment has changed following the election of President Biden in November 2020. The previous commitment by the US to reduce its carbon emissions has since been restored, with the US signing back into the Paris Agreement.

STRATEGY/RISKS CONTINUED

SHORT TERM MEDIUM TERM LONG TERM

TRANSITIONAL RISKS CONTINUED

Market Risks

Although the majority of Discovery's investment assets are managed by our asset manager partners, as asset owners we take our responsibilities seriously. We are a signatory to the PRI and incorporate ESG factors into the selection, appointment and monitoring of our asset managers.

FOR DETAILS ON OUR INVESTMENT APPROACH, SEE RESPONSIBLE INVESTMENT IN OUR SUSTAINABILITY REPORT.

Discovery's exposure to carbon intensive assets is relatively limited. Outside of our unit-linked assets backing policyholder liabilities (which are managed by external asset managers), our assets backing guaranteed policyholder liabilities and shareholder funds are almost entirely invested in government and corporate bonds and deposits. The exposure for Discovery Bank is also limited, given that there are no investments in other entities. There are however interbank deposits placed with other banks in lieu of liquidity management requirements, as is the norm.

We aim to improve disclosures in future, supported by the detailed assessments we are undertaking to mature our Scope 3 emission assessments and reporting. Based on our current view, a forced sell-off is not expected to pose a high risk and there is minimal exposure to potential stranded assets.

A longer-term risk exists for the potential knock-on impact of repricing due to increased claims for physical risks. This could drive insurance premium pricing to become unaffordable and, coupled with higher living costs, could drive policyholders to consider non-traditional forms of insurance cover. We are investigating the extent to which the risk of disruption in demand for our products and services arises due to innovation by other players. We are also mitigating this risk through our own product development initiatives.

SEE OPPORTUNITIES ON PAGE 21 FOR DETAIL ON PRODUCT DEVELOPMENT.

Supply-side considerations also exist, where the downstream impact of climate change should be considered before engaging and contracting with third parties. Discovery is currently assessing this, and action will be taken in line with the implementation of our Climate Change Strategy.

Note that Discovery Bank is not a commercial bank, and does not finance infrastructure or other projects, nor participate in commercial lending activities.

Legal Risks

Climate related litigation worldwide is increasing, with the majority of cases being brought by citizens, corporations and NGOs against governments and major carbon emitting organisations. We expect this trend to continue and for this risk to manifest in the medium to long term. In many cases litigation is used to create social awareness and influence legislative change. This could result in reputational damage from negative media and considerable legal costs. Discovery is mitigating this risk through its robust governance, due diligence and disclosure framework that takes these potential risk exposures into account.

Technology Risks

As with the rest of the financial services industry, Discovery uses technology assets that consume energy, including laptops, equipment, data centres and server rooms. Technology is constantly evolving and improving, and to some extent becoming more energy efficient. The contribution of our technology assets to Discovery's total carbon emissions is currently being monitored and disclosed. The relocation of our head office in South Africa to a 6 Star Green Rating building has reduced our total emissions, and we anticipate that continued emissions reductions will need to be monitored and balanced with the associated cost implications of further upgrades to achieve efficiencies in our technology assets.

Note that around 77% of South Africa's primary energy needs are provided by coal, which poses a significant challenge to us given our reliance on national grid power. Also, costs remain elevated in adopting renewable energy sources. Although Discovery and the broader financial services industry are not as exposed to this risk as high-energy consumption industries like mining and manufacturing, we remain committed as a business and a nation to transition to renewable energy sources.

Scope 1 and 2 emissions are relatively low for Vitality in the UK and the majority of the energy sources have been switched to renewable sources. We continue to seek opportunities for further efficiencies as new innovations arise and review energy consumption due to the use of technology as part of the identification and review of Scope 3 emissions.

SEE OPPORTUNITIES ON PAGE 21 FOR DETAIL ON RESOURCE EFFICIENCIES.

Other risks

Reputational risk is considered a second order risk to those considered above and is being mitigated in line with the risks already highlighted.

STRATEGY/RISKS CONTINUED

PHYSICAL RISKS

Globally, there has been increasing occurrences of climate related physical risk event impacts. This risk considers global trends in impacts like the damage wrought by Hurricane Harvey in the US in 2017, the California wildfires in 2018 and 2019, the Australian bushfires in 2020, flooding in Japan, the United States and Europe in 2021, and longer impacts like the sixth year of drought in Central America's Dry Corridor.

Inherent exposures

The impact of these risks depends on the sector, product and geographical location. The main exposures for the Group are:

DISCOVERY INSURE (SOUTH AFRICA) – general insurance

Our main exposure is currently to the personal lines business (with a higher proportion of motor versus property exposure), given that Discovery's commercial offering (Discovery Business Insure) is comparatively smaller, but growing. Currently, exposure to claims for fires at large business operations is limited.

A large portion of our clients are based in Gauteng, with the main exposure being potential increases in flooding and hailstorms.

The remaining portion of our clients are mainly based in the Western Cape and in Kwa-Zulu Natal, where there is increased exposure to rising sea levels. The Western Cape is also at risk of increased droughts that could escalate the risk of fires.

DISCOVERY LIFE (SOUTH AFRICA) – main exposure in Gauteng

As the country's economic hub, Gauteng has a higher concentration of manufacturing and industry that contributes to higher carbon emissions. The concomitant risk of air pollution impacting health is thus considered a physical risk. Further research will be done to understand the other implications that climate change has on mortality and morbidity rates.

VITALITY IN THE UK – very limited direct exposure

While flooding has occurred in the UK from time to time, the UK businesses do not provide cover for insured losses arising from floods. Extreme weather events have also not had any material impact on our operations, with our work-from-home strategy tested robustly during the pandemic.

DISCOVERY HEALTH (SOUTH AFRICA) – no claims exposure

Discovery Health operates as the administrator for Discovery Health Medical Scheme (DHMS) and does not have exposure from a claims perspective. However, research will be undertaken to assess impact on the medical scheme environment.

OTHER BUSINESSES WITHIN THE GROUP (INCLUDING DISCOVERY BANK AND VITALITY GROUP) – limited exposure

Exposures continue to be monitored and will be disclosed in future as necessary.

FOR DETAIL ON EMERGING RISKS AND RESEARCH AS THEY RELATE TO HEALTH, SEE EMERGING RISKS AND RESEARCH IN THE SUSTAINABILITY REPORT.

STRATEGY/RISKS CONTINUED

SHORT TERM MEDIUM TERM LONG TERM

PHYSICAL RISKS CONTINUED

The risks resulting from these exposures are discussed in further detail below.

Acute Risks

This risk relates to more event-driven risks where there are increased events such as extreme hailstorms, heavier rainfall and floods, as well as droughts. These events could impact general insurers within the Group, specifically Discovery Insure, through increased motor and property claims. These extreme weather events could also increase accidental deaths and injuries for our life insurance companies.

Discovery is well placed to help customers prepare for these events by sending early warning indicators for expected weather events, so that clients can avoid them if possible.

Chronic Risks

This risk relates to gradual worsening in the variability of weather patterns. The impact for the general insurance companies within the Group is similar to those for acute risks. The Life and Health businesses (in South Africa and globally) could also be impacted by physical risks resulting from the potential impact of air quality (pollution) and rising temperature on mortality and morbidity rates. These could include an increase in health-related issues like cancer, heart disease, stroke, and vector-borne diseases such as malaria and related epidemics and pandemics. These risks would be offset to the extent that the population becomes immune to a condition – for example, populations living in a malaria area usually have a higher tolerance when contracting the disease.

If temperatures rise dramatically (especially in South Africa), this may result in the population spending more time indoors and reducing physical activity. While this has potential health implications, the Vitality Shared-value Insurance model is expected to be able to adapt to cater for this if necessary. The model's adaptability was recently demonstrated throughout the different levels of lockdown due to COVID-19, where working out at home (indoors and outdoors) has become the norm.

Initial stress and scenario testing and claims experience indicate that the current and projected short-term exposure is limited. As detailed, we continue refining stress and scenario testing to better model the impact of potential increases in claims for the insurance entities within the Group.

General insurers

While Discovery Insure has high volumes of personal lines business with a higher potential for impact, we have not experienced an escalation in weather-related claims to date. However, we continue to track experience monitoring metrics, which can also be applied as a mitigation tool if this trend changes.

Discovery Insure's claims exposure is limited in the commercial insurance context. This considers that Discovery Business Insurance in South Africa is currently focused on small- and medium-sized enterprises. However, growth in the scale of this business and larger exposures will be monitored as part of existing risk management processes.

Life Insurers

For our life insurance entities, we are working to quantify future exposures resulting from increasing physical risks. We are also investigating research opportunities to support our understanding and increase disclosures over time.

FOR DETAIL ON OUR PROGRESS IN MODELLING IMPACTS, SEE SCENARIO ANALYSIS ON PAGE 20.

Traditional mitigation measures

Traditionally, the mitigation measures put in place to manage these risks forms part of the underwriting and (re)pricing, reinsurance and reserving, and capital processes for the insurance businesses. The terms over which these mitigation strategies are applied depends on the nature of the product and the risk appetite. For example, it is easier to reprice short-term insurance products rather than long-term insurance products. The potential result of extensive repricing to mitigate the impact of increased systemic risks is insurance becoming unaffordable and placing the traditional model of insurance at risk, as discussed earlier in the section on market risk.

While physical risks are generally longer term in nature, particularly the chronic component and its impact on claims experience, we continue to monitor these risks to ensure that mitigation actions are appropriate.

Other risk considerations

Both acute and chronic risks could potentially result in second order impacts. For example, increases in extreme weather events could degrade infrastructure over time, resulting in deterioration in the quality of roads, and loss in power and water supply. Another impact emanates from urbanisation as more people move into cities, placing further strain on the infrastructure and also resulting in increasing numbers of claims for vehicle accidents, power surge damage and lack of access to healthcare due to issues with basic infrastructure (which is already currently constrained in South Africa).

Physical risks could also have operational implications, including disruptions to Discovery's daily business operations and interruptions for suppliers following extreme weather events. The mitigation actions fall under the usual business continuity plans, which are tested regularly and form part of outsourcing agreements in the procurement process. COVID-19 has also tested the robustness of business interruption for Discovery and the broader industry. However, in an extreme manifestation of a physical risk, there is an increased risk that supply chain disruptions would be outside Discovery's control; for example, in securing adequate access to medication supplies and treatment, and sourcing vehicle parts and repair services.

In the Opportunities chapter on page 21, we discuss areas where our businesses are identifying and innovating to mitigate this class of risk. It is also evident that COVID-19 has resulted in extensive collaboration between the public and private sectors globally to develop a vaccine and address the impact of the pandemic; this demonstrates that collective action is possible when risks materialise that have global impact, such as pandemics.

STRATEGY CONTINUED

Scenario analysis

The ultimate purpose of scenario analysis is to understand how a company might perform under different hypothetical future climate states – thus positioning itself to make better strategic decisions and improve its strategic resilience. Climate-related scenarios allow an organisation to build an understanding of how the physical and transition risks of climate change, as well as related opportunities, might plausibly develop in different ways and how the business might be impacted over time.

Discovery is working to quantify the impact of climate change risk on its various entities via climate change scenarios. This is a complex exercise given the uncertainty and long tail nature of the physical risks linked to climate change. As such, the current scenarios are a mix of qualitative and quantitative information, with the latter being more challenging.

We consider a number of scenarios as part of our ORSA process. At present, these scenarios have not been linked to the IPCC defined RCP and, as a starting point, have been estimated crudely. These include:

TRANSITIONAL RISK SCENARIOS

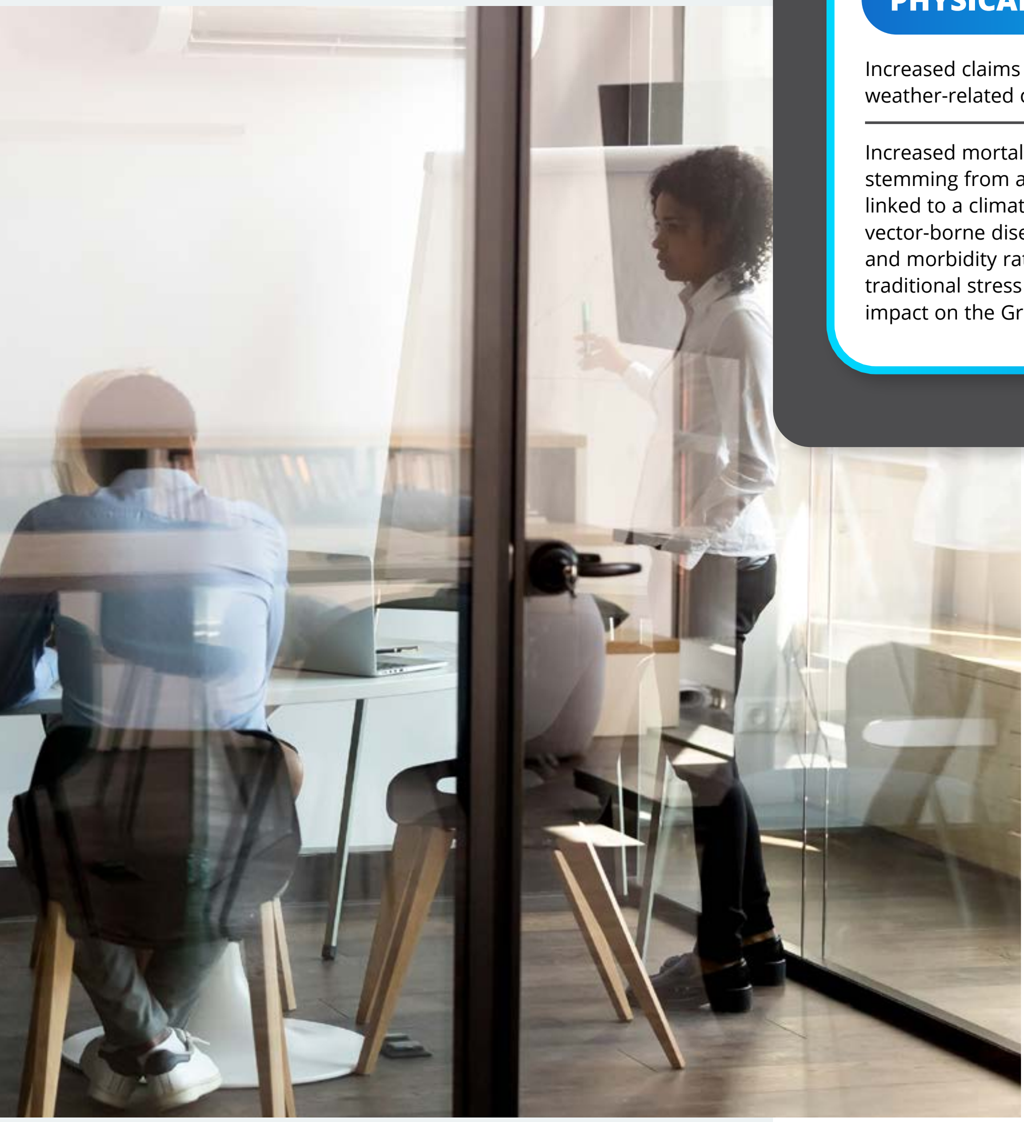
A forced sell-off of carbon intensive assets in Discovery Invest, using the scenario published by the Prudential Regulatory Authority in the UK as a base and tailoring it as best as possible to the business.

A reputational risk event resulting in mass lapses and loss of new business, that could potentially stem from poor governance or lack of strategic direction linked to climate change.

PHYSICAL RISK SCENARIOS

Increased claims for Discovery Insure, using multiples of our weather-related claims to understand the sensitivities.

Increased mortality and morbidity rates for Discovery Life, stemming from a pandemic where the root cause could be linked to a climate change related event that results in a severe vector-borne disease or other highly contagious virus. Mortality and morbidity rates are also considered as part of the more traditional stress testing, increasing these rates to assess the impact on the Group.



The UK businesses are also carrying out scenario testing, using more qualitative scenarios that consider the impact that climate change has on increased loss ratios, mortality and morbidity, as well as the impact that this has on transition risk.

The results do not indicate that the physical risks could cause material damage to the Group at present. However, these scenarios will continue to be refined over time to reflect our evolving understanding and as market best practice develops. Discovery is also investigating other disclosure metrics being used by other global insurers, such as Climate Value at Risk.

We continue to engage with reinsurers and industry bodies to keep up-to-date with the latest developments to help inform our planning and scenario models in this space.

Opportunities

Efforts to mitigate and adapt to climate change also produce opportunities, which vary depending on the region, market and industry in our areas of operation. Discovery continues to leverage our data and intellectual property in developing innovations that deliver on our purpose – to make people healthier and enhance and protect their lives.

The potential areas for opportunity to Discovery as a result of climate-related risks are discussed below.

Resource and energy source efficiencies

Discovery's Climate Change Strategy sets out our commitment to decrease carbon emissions throughout our operations. Discovery aims to mitigate its absolute Scope 1 and 2 emissions across the Group by 2025 and to gain a comprehensive understanding of its Scope 3 emissions as part of setting its longer-term net-zero goal.

The initiatives and opportunities discussed below will support our reduction targets to 2025. Thereafter, our goal to achieve net zero by 2050 or earlier will guide our approach to innovation and reduction measures.

Resource and energy source efficiency initiatives include:

Our head office in Sandton is a **6 GREEN STAR RATED BUILDING**, which houses **TWO-THIRDS OF OUR TOTAL GLOBAL WORKFORCE** of over **12 650 EMPLOYEES**

A photovoltaic plant will be installed on the roof of 1 Discovery Place, providing a

1–3%

reduction in purchased electricity

Further projects are **UNDERWAY TO REDUCE EMISSIONS**, including:

Replacing older infrastructure with **NEWER GENERATION TECHNOLOGY** where possible (such as LED replacements and upgrading heating, ventilation and air conditioning systems)

Improving **DATA CENTRE EFFICIENCIES**

ISO 50001 Energy management systems certification to **DRIVE ENERGY EFFICIENCY IMPROVEMENTS** by **HARNESSING DATA** to inform energy use and consumption initiatives

Other green initiatives include **GREY** and **RAINWATER HARVESTING**, and we provide **COMPREHENSIVE RECYCLING STATIONS** at our head office and Sable Park (Cape Town) campuses, and our offices in the UK

AWARENESS RAISING INITIATIVES among Discovery employees form part of our annual programme of environmental activities including **EARTH HOUR** and **WATER WEEK COMMUNICATIONS AND ACTIVITIES**

In the UK, we have developed a plan to **ENGAGE ITS MORE THAN 2 000 EMPLOYEES** in an **IMMERSIVE EDUCATION** and **AWARENESS PROGRAMME** covering climate change and wider sustainability topics. Employee volunteers will be selected as 'Champions' across the business to continue to promote **CLIMATE-RELATED AND SUSTAINABILITY BEHAVIOUR CHANGE**

Furthermore, Discovery is investigating the generation of renewable energy to replace our reliance on the national grid as an electricity source, which comprises the majority of our carbon footprint. We are investigating adding photovoltaic panels at the headquarters in Sandton and entering into a wheeling power agreement with an Independent Power Producer (IPP). The Discovery Group Facilities team is in the process of reviewing the feasibility and costs of these and other options.

STRATEGY/OPPORTUNITIES CONTINUED

In the UK, specific initiatives include:

Completing building surveys in Stockport, London and Croydon to **IDENTIFY OPPORTUNITIES TO REDUCE CARBON EMISSIONS** through energy efficient technologies and operational procedures

Our Stockport office property's **GAS WAS CONVERTED TO CARBON OFFSET GAS** in March 2021, and **ELECTRICITY WILL BE CONVERTED TO 100% RENEWABLE ENERGY SOURCES** by the end of 2021

The London and Croydon properties' electricity is **100% RENEWABLE ENERGY SOURCES**

Bournemouth already consumes **100% RENEWABLE ENERGY SOURCES**, and **GAS CONVERSION TO CARBON OFFSETS** was completed on 1 March 2021

In the US, specific initiatives include:

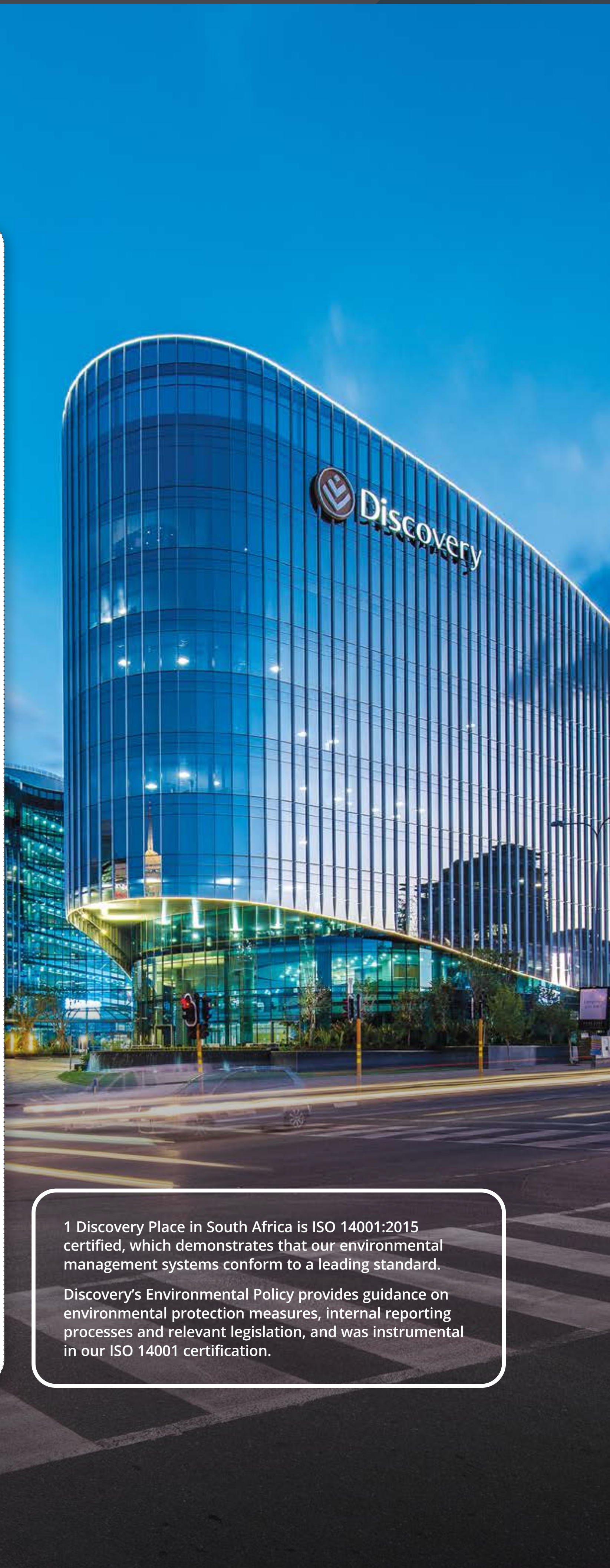
Office practices are geared towards **ENVIRONMENTALLY FRIENDLY CHOICES**

A process has been initiated to investigate the **CLIMATE INITIATIVES OF THIRD PARTIES**

Ongoing work and focus on **CLIMATE CHANGE, ALIGNED TO THE GROUP POLICY**

Discovery will make every effort to reduce emissions in our operations through opportunities identified internally and in collaboration with our stakeholders. This includes driving behavioural change by reducing employee and business travel following the success of the work-from-home initiatives resulting from COVID-19 lockdowns.

For carbon emissions that cannot be eliminated through viable initiatives, we are considering purchasing carbon credits or Tradeable Renewable Energy Certificates that have been strictly vetted to ensure they stand as effective and sustainable offsets.

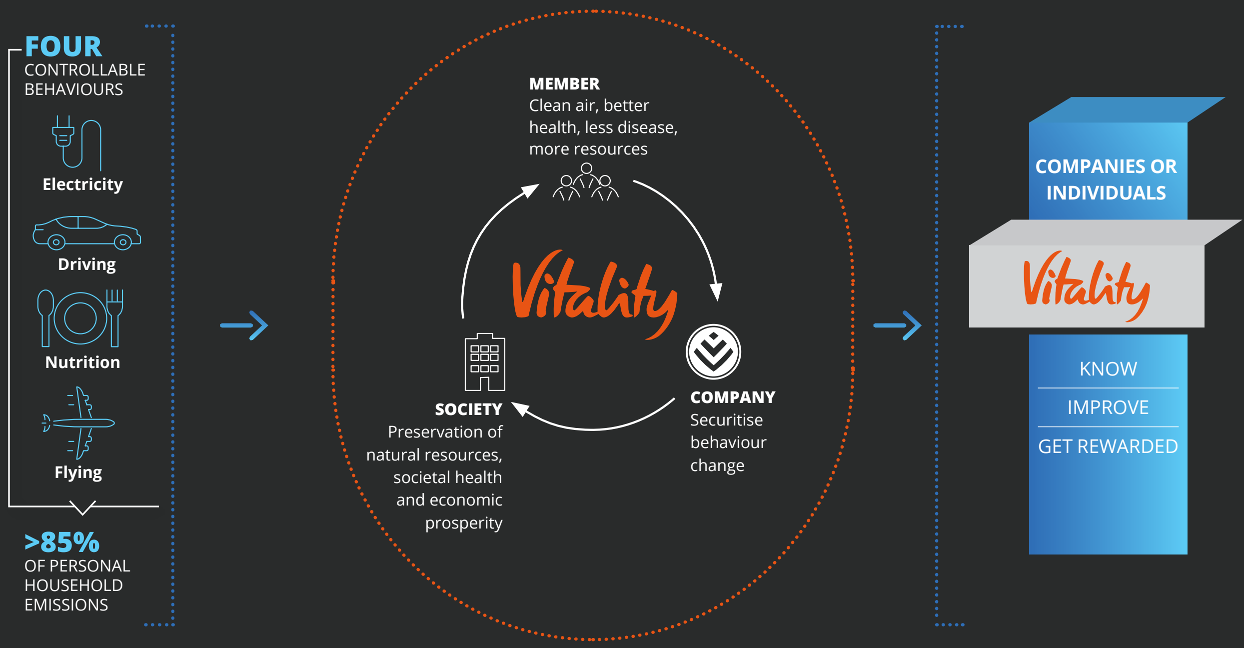


1 Discovery Place in South Africa is ISO 14001:2015 certified, which demonstrates that our environmental management systems conform to a leading standard.

Discovery's Environmental Policy provides guidance on environmental protection measures, internal reporting processes and relevant legislation, and was instrumental in our ISO 14001 certification.

STRATEGY/OPPORTUNITIES CONTINUED

SHARED-VALUE MODEL CONCEPTUALLY APPLICABLE FOR GREEN BEHAVIOUR CHANGE



Products, Services and Markets

Customers are becoming increasingly aware of environmental issues and the ecological cost of goods and services, leading to increased demand for more "environmentally friendly" products and services. Discovery understands that our greatest impact lies in positively influencing the 40 million plus lives we touch across the globe, and we are uniquely positioned to drive appropriate and environmentally conscious behaviours from clients with future product offerings and partnerships. Extending the Vitality Shared-value Insurance model into the area of behaviour change for positive climate change behaviours is therefore a powerful aspect of our potential influence and contribution.

Product development is underway in South Africa and the UK on a green Vitality proposition, with a goal to launch by 2023. It will include a carbon footprint calculator and programme of incentives and rewards for changing lifestyles to more climate friendly behaviours. A number of interventions will be introduced to incentivise low-carbon behaviours, helping to drive a scaled reduction in carbon emissions across Discovery's client base. The solution will therefore extend Discovery's Shared-value Insurance model into the area of climate change to continue to deliver on our value of being a force for good.

Discovery estimates it could amplify its direct operational emissions savings by many multiples by driving large-scale reduction of CO_2e emissions through its client base. Discovery is in the process of investigating the potential implications and opportunities of this offering.

Other products and initiatives include:

Through VitalityDrive, Discovery Insure incentivises **GOOD DRIVING BEHAVIOURS** like not speeding and avoiding harsh breaking, which **RESULTS IN LOWER CARBON EMISSIONS**.

Together with Dialdirect and the City of Johannesburg, Discovery Insure has **LAUNCHED THE POTHOLE PATROL INITIATIVE** to identify and prioritise potholes to be repaired. This helps increase road safety and efficiency.

Discovery Invest launched the **DISCOVERY GLOBAL MEGATRENDS FUND** during the year that provides access for our clients to **INVEST IN GLOBAL MEGATRENDS**, including **TECHNOLOGICAL ADVANCEMENT, ENVIRONMENTAL SUSTAINABILITY, THE FUTURE OF HEALTHCARE AND THE NEW-AGE CONSUMER**. The underlying funds are managed by Goldman Sachs, who apply ESG principles to fund management.

In the UK, Vitality is also extending its behavioural change programme to include **INCENTIVES TO MOTIVATE 'GREENER'** and **MORE SUSTAINABLE BEHAVIOURS**, to deliver shared value through enhanced environmental and social outcomes for members and wider society:

Launched in June 2021, VitalityCar already incentivises **CAR-FREE DAYS** and **BETTER DRIVING BEHAVIOUR LEADING TO LOWER POLLUTION**

Through VitalityInvest, members have **ACCESS TO A RANGE OF ESG FUNDS.**

09 METRICS AND TARGETS

Climate-related commitments

Discovery is committed to reducing our environmental impact and continually improving our environmental performance as an integral part of business strategy. We recognise that environmental risks and opportunities have an impact on the key strategic competencies that create and deliver value across our business model.

SHORT- TO MEDIUM-TERM GOAL

CARBON NEUTRAL OPERATIONS BY 2025

Achieve carbon neutrality in our SA, UK and US operations by 2025 (measured against Scope 1 and 2 emissions).

Also by 2025, publish our plan to achieve net-zero greenhouse gas emissions by 2050 or earlier.

Discovery aims to fully assess the implications of adopting science-based targets across its activities in support of publishing its plan to achieve net-zero. This assessment will inform our net-zero pathway.

LONG-TERM GOAL

ACHIEVE NET ZERO BY 2050 OR EARLIER

Extend beyond Scope 1 and 2, and beyond CO_2e, to include all greenhouse gases emitted across the organisation.

Discovery has made significant investments into lower-carbon operations. Specific commitments supporting our emissions targets include:

The Group aims to have all South African-based buildings Green building accredited by 2025

10% REDUCTION TARGET
for emissions reductions – driven predominantly through energy management interventions and commencing from the 2021 financial year

MAINTAINING ISO 14001:2015 CERTIFICATION
for 1 Discovery Place – indicating a leading environmental management systems standard

UNDERTAKING ISO 50001 CERTIFICATION

EXPLORING WHEELING AGREEMENTS
to replace coal-based power supply via the national grid

REDUCING WASTE
going to landfill to zero by 2023

IN THE UK, CONVERT PROPERTIES TO CARBON OFFSET
gas and electricity converted to 100% renewable by 2022.

METRICS AND TARGETS CONTINUED

Carbon neutral by 2025

Discovery's goals for reducing impact are based on a review of our operations and audits of our baseline energy consumption and greenhouse gas emissions, with 2019 as the baseline. As detailed, we aim to mitigate absolute Scope 1 and 2 emissions across the Group by 2025 and gain a comprehensive understanding of Scope 3 emissions as part of informing our longer-term net-zero goal.

Discovery's verified carbon emissions for the financial year ending 30 June 2021 totalled 37 380 (location-based) tonnes of CO_2e (2020: 54 676 (location-based) tonnes of CO_2e). The greatest opportunities for reductions are in Scope 2 and Scope 3 emissions categories.

As part of its carbon neutral goal, the Group is targeting a 10% reduction in electricity usage against the 2019 baseline, based on short-, medium- and long-term projects identified during energy audits. These include:

Eight projects in the next year with proposed savings of

2 704 363 kWh

(reduction of 2 817 tonnes of CO_2e emissions)

Two projects over the next two to three years with proposed savings of

102 304 kWh

(reduction of 106 tonnes of CO_2e emissions)

Two projects in the next three years and beyond with proposed savings of

727 769 kWh

(reduction of 757 tonnes of CO_2e emissions)

Projects include adjusting settings to optimise energy efficiency in cooling and heating, an LED lighting retrofit, baseload reduction, and the replacement of heating, ventilation and air conditioning systems, among others.

These interventions will bring the Group to a point where efficiencies are optimised and any further adjustments will only bring marginal benefit. As a result, efficiency gains will be more difficult from 2030 onwards. As detailed, Discovery is investigating the generation of renewable energy to replace the electricity source that comprises the majority of the South African group's carbon footprint – electricity from the national grid, which relies predominantly on coal.

While not explicitly forming part of the carbon neutral goal, the investigation of Scope 3 emissions forms part of the larger initiative to assess our overall emissions. Specific initiatives include:

Reducing waste to landfill

Currently 72% of the company's waste is recycled, with interventions being investigated to recycle the 23% waste to landfill to meet our goal of zero landfill waste by 2023. While small from an emissions impact point of view, reducing landfill waste to zero has other co-benefits. In this regard, audits have commenced with a waste management partner to analyse all waste going to landfill per site across South Africa. Results are being analysed and suitable interventions explored.

In consultation with our waste management partners, we are improving recycling at source by introducing standalone recycling stations at desks and in pause areas. These stations will assist in separating waste earlier in the process, making it easier for the waste management team to sort the waste into correct categories and avoid cross contamination of waste types. (If waste is deemed contaminated, it cannot be recycled and is thus sent to landfill.)

Reducing travel, especially air travel

As our business becomes increasingly global, we recognise the importance of reducing the impact of air travel on our carbon footprint, as air travel makes a significant contribution to our overall emissions. As part of a holistic approach to managing our climate impacts, we are focusing management effort on reducing travel by deploying digitally enabled office working practices and offsetting emissions from unavoidable flights as final mitigation.

As described earlier, the success of the work-from-home initiatives resulting from COVID-19 lockdowns is also driving a reduction in employee and business travel.

While employee commuting is also a Scope 3 activity, it makes up a significant portion of our emissions. Reductions in employee commuting and business travel also forms part of remote working policies and review of the Travel Policy. These initiatives will be supported by ongoing internal campaigns that empower our people to reduce their own emissions.

METRICS AND TARGETS CONTINUED

CARBON NEUTRAL BY 2025 CONTINUED

Responsible investment

As an asset owner and institutional investor, Discovery has a duty to act in the best long-term interests of its beneficiaries. We are a signatory to the Principles for Responsible Investment and seek to incorporate ESG issues into investment practices as required by our Group Responsible Investment policy.

As a large portion of Discovery's discretionary funds are invested in cash and fixed income investments, it is not always possible to directly influence the climate change policies of these portfolios. Where we have significant equity exposure (through the unit-linked funds our clients invest in) we work closely with our asset managers to enhance our ESG approach and incorporate achievable climate change objectives through proxy voting and engagement in equity holdings. This may include compliance with environmental legislation; efficient use of resources; pollution prevention and biodiversity conservation; as well as prevention of or adaptation to climate change.

FOR DETAILS ON OUR INVESTMENT APPROACH, SEE RESPONSIBLE INVESTMENT IN OUR SUSTAINABILITY REPORT.

Sustainable procurement practices

Discovery is undertaking a supplier mapping exercise and policy review to maximise ESG considerations in the procurement process. This will ensure the procurement of goods and services from socially and environmentally responsible suppliers subscribing to core values in the areas of human rights, labour standards, the environment, and anti-corruption. Care is being taken not to discriminate against small and micro enterprises given the important role they play in the South African economic landscape, and instead exploring ways to support them to begin their own sustainability pathways.

Climate-related performance

Overview of our performance against energy, water and waste:

	Unit	Trend	30 June 2021	30 June 2020	30 June 2019	30 June 2018
Energy						
Energy consumption – total	**MWh**	↓	**33 873**	40 810	41 991	50 093
Fuels	**MWh**	↓	**5 028**	6 535	7 288	5 543
Purchased electricity	**MWh**	↓	**28 845**	34 275	34 703	44 550
Water						
Water withdrawal – total	**Kilolitre**	↓	**78 963**	140 598	140 232	116 797
Waste						
Weight of waste – total	**Tonnes**	↓	**145**	401	503	751
% Waste recycled	**%**	↑	**72%**	73%	58%	81%
% Waste to landfill	**%**	↓	**23%**	26%	41%	18%

COVID-19 has had a large impact on recorded consumption and emissions for the Group, with purchased electricity, water consumption and waste generation all reducing against the trend prior to the pandemic. This decline is predominantly due to Discovery shifting a large proportion of its workforce to a work-from-home operating model and the reduction in business travel, to national and international destinations, due to lockdown restrictions.

Despite partial easing of lockdown restrictions during certain stages of the pandemic resulting in slightly higher levels of employees returning to office campuses, consumption metrics for the year in review have continued reducing. We do not anticipate a return to consumption levels seen prior to the pandemic due to a greater use of a hybrid model in future.

METRICS AND TARGETS CONTINUED

Greenhouse gas (GHG) emissions

Scope emissions (CO_2e) at 30 June 2021

				South Africa	UK	USA	FY2021	% change	FY2020	FY2019 (Base year)
Scope 1, 2 and 3	**Scope 1 and 2**	**Scope 1**	Mobile combustion	615	81	n/a	**696**	(34%)	**1 056**	1 262
			Product use: Refrigerant gases (Kyoto Protocol)	255	–	n/a	**255**	(66%)	**746**	62
			Stationary combustion	154	231	n/a	**385**	(26%)	**519**	486
		Scope 2	Purchased electricity	28 022	47	180	**28 249**	(13%)	**32 590**	33 863
		Total		**29 047**	**359**	**180**	**29 586**	(15%)	**34 911**	35 673
	Scope 3	**Scope 3**	Business travel	512	– *	– *	**512**	(87%)	**3 939**	5 615
			Upstream transport and distribution	64	– *	– *	**64**	(34%)	**97**	146
			Employee commute#	7 024	– *	– *	**7 024**	(54%)	**15 384**	19 936
			Purchased goods and services: Paper	69	– *	– *	**69**	(3%)	**71**	136
			Purchased goods and services: Water	73	– *	– *	**73**	(44%)	**130**	128
			Waste generated in operations	51	– *	– *	**51**	(64%)	**144**	277
		Total		**7 793**	**– ***	**– ***	**7 793**	(61%)	**19 766**	26 238
	***Total** (location-based)*			**36 841**	**359**	**180**	**37 380**	(32%)	**54 676**	61 911
Out of Scopes	Out of Scopes	Out of Scopes	Product use: Refrigerant gasses (non-Kyoto Protocol)	95	–	–	**95**	191%	**33**	34
		Total		**95**	–	–	**95**	191%	**33**	34
Total				**36 935**	**359**	**180**	**37 474**	(32%)	**54 709**	61 945

** = Not reported*
n/a = Not applicable
 # = Includes an estimated 2 939 tCO_2e for employees working from home in lieu of the office.

There have been minor restatements of comparative data in the table above to ensure that metrics are accurate. These restatements are due to availability of data in prior years, changes in reporting boundary, or tariff adjustments.

ALL SCOPE EMISSIONS AS ABOVE ARE INDEPENDENTLY ASSURED BY VERIFY CO_2. THE INDEPENDENT VERIFICATION STATEMENT IS AVAILABLE FOR DOWNLOAD AT WWW.DISCOVERY.CO.ZA/CORPORATE/CORPORATE-SUSTAINABILITY.

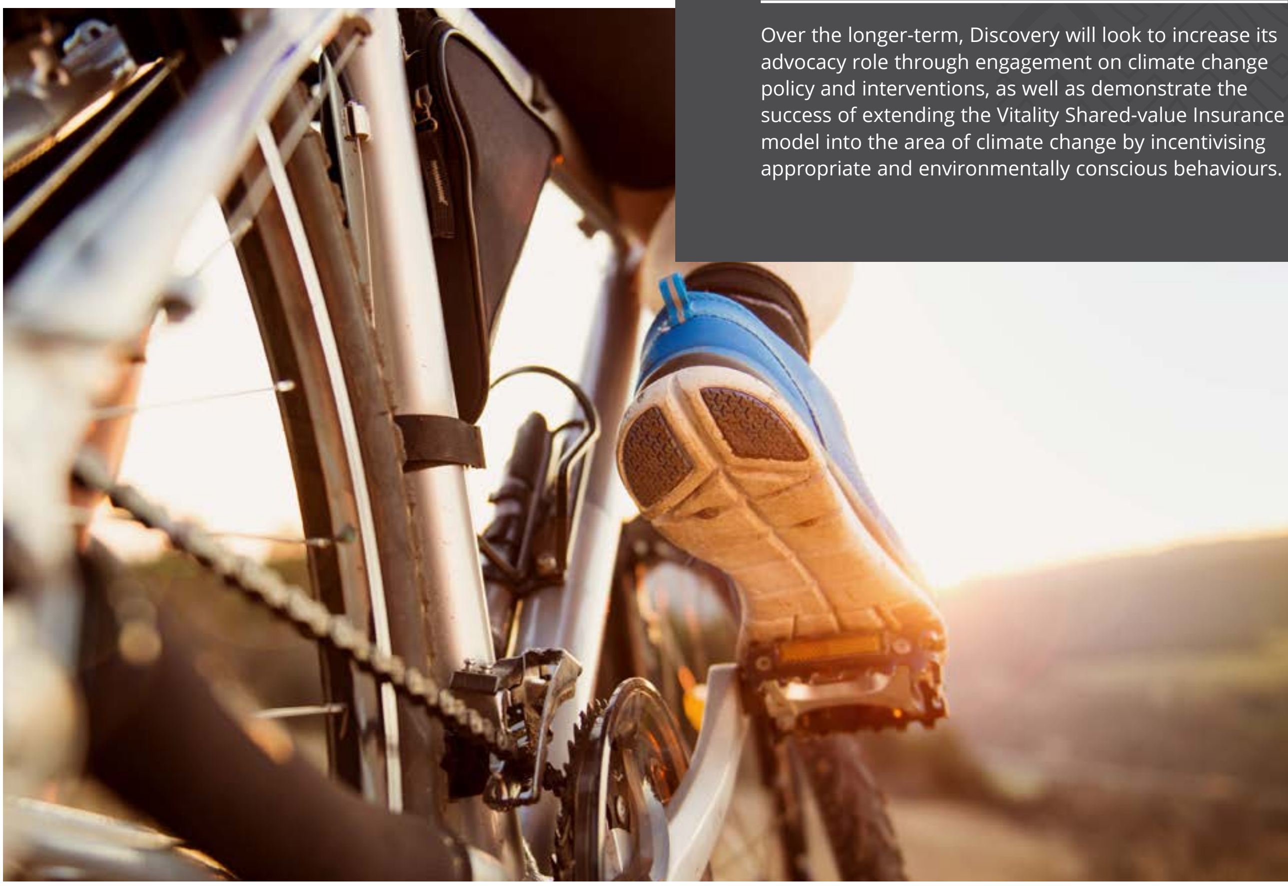
10 LOOKING AHEAD

Discovery's core purpose of making people healthier and enhancing and protecting their lives is aligned to the goal of maintaining an environment that enables and sustains good health. As a purpose led and active corporate citizen, we are committed to reducing the direct environmental impact of our operations through responsible energy, water and waste management and consumption while exploring alternative solutions for further reducing long-term impact.

We endeavour to:

- Comply with all relevant regulatory requirements and other compliance obligations
- Disclose our progress, performance and plans in line with the recommendations of the Task Force on Climate-related Financial Disclosures
- Continually monitor and reduce our direct environmental impact, including greenhouse gas emissions by improving our energy use efficiencies, water usage and waste management
- Implement the zero to landfill waste goal for all our main offices by 2023
- Monitor and reduce our indirect impacts associated with our supply chain
- Understand and be responsive to environmental risks and opportunities and how they impact our business
- Incorporate environmental factors into business decisions
- Increase employee awareness and training
- Through our policies and our actions, seek to protect and build our reputation across all aspects of our business.

Over the longer-term, Discovery will look to increase its advocacy role through engagement on climate change policy and interventions, as well as demonstrate the success of extending the Vitality Shared-value Insurance model into the area of climate change by incentivising appropriate and environmentally conscious behaviours.



Discovery

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