DISCOVERY

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED **30 JUNE**

2020

DISCOVERY LIMITED
Registration number 1999/007789/06

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BASIS OF PREPARATION

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

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

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

How we report to our stakeholders

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

*Our 2020 Annual Financial Results Presentation can be accessed at **www.discovery.co.za/corporate/investor-relations***

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

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

*Our 2020 Annual Financial Statements can be accessed at **www.discovery.co.za/corporate/investor-relations***

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

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

DIRECTORS' RESPONSIBILITY STATEMENT

for the year ended 30 June 2020

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

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

The directors have reviewed Discovery's budget and cash flow forecast for the year to 30 June 2021. On the basis of this review, and in light of the current financial position and available cash resources, the directors have no reason to believe that Discovery will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the Annual Financial Statements.

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

- Safeguarding of assets against unauthorised use or disposition, and
- The maintenance of proper accounting records and the reliability of financial information used within the business, or for publication.

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

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

Discovery's external auditors, PricewaterhouseCoopers Inc., have audited the Annual Financial Statements and their unqualified report appears on pages 10 to 15.

The Annual Financial Statements of Discovery for the year ended 30 June 2020, which appear on pages 22 to 180 as well as Annexure F have been approved by the Board of Directors on 15 September 2020 and are signed on its behalf by:

A Gore
Chief Executive Officer

DM Viljoen
Chief Financial Officer

CERTIFICATE BY THE COMPANY SECRETARY

for the year ended 30 June 2020

It is hereby certified in terms of section 88(2)(e) of the Companies Act, that Discovery Limited has for the year ended 30 June 2020 lodged with the Registrar of Companies all such returns as are required by a public company in terms of this Act and that all such returns are true, correct and up to date.

MJ Botha
Company Secretary
15 September 2020

REPORT OF THE DISCOVERY LIMITED AUDIT COMMITTEE

We, the Discovery Limited Audit Committee (DLAC) are pleased to present our report for the financial year ended 30 June 2020. This report has been prepared based on the requirements of the Companies Act, Act 71 of 2008 (Companies Act), as amended, the King Code of Governance for South Africa (King IV), the JSE Listings Requirements and other applicable regulatory requirements.

This report aims to provide details on how the DLAC discharged its various responsibilities during the period under review as well as provide insight to significant matters that arose and how these were addressed by the DLAC so as to ensure the integrity of Discovery's financial reporting.

TERMS OF REFERENCE, ROLES AND RESPONSIBILITIES

The DLAC is an independent statutory committee constituted in terms of section 94 (7) of the Companies Act. Below is a summary of the DLAC statutory and governance mandate. It provides an oversight role underpinned by the JSE's combined assurance model, following the King IV principle of good governance. Duties are delegated to the DLAC by way of a formal Terms of Reference, which is reviewed annually. The DLAC has conducted its affairs in compliance with its Terms of Reference and has discharged the responsibilities contained therein which include the following:

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

Structure of the audit committees in Discovery Group

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

The Discovery Group Europe Limited grouping and Discovery Bank Holdings Limited grouping and the Vitality Group International Inc grouping each have their own audit committees.

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

REPORT OF THE DISCOVERY LIMITED AUDIT COMMITTEE
continued

COMPOSITION AND GOVERNANCE

The DLAC is constituted as per section 94(4) of the Companies Act and consists of a minimum of three independent non-executive directors of the Discovery Limited Board of Directors. It meets at least four times per annum as per its Terms of Reference, and in the year ended 30 June 2020 met six times.

The DLAC has the appropriate balance of knowledge, skill and tenure required to discharge its duties. The membership, qualifications and attendance of the members of the DLAC are as follows:

Committee member	Qualifications	Number of meetings held during the year ended 30 June 2020	Number of meetings eligible to attend	Number of meetings attended
D Macready (Chairman)[1]	BCom (Hons), CTA, CA (SA)	6	3	3
AL Owen[1]	BSc (Hons), FIA, FPMI	6	4	4
SE De Bruyn	LLB (Hons), MA	6	6	5
SV Zilwa	BCompt (Hons), CTA, CA (SA)	6	6	6

1 *Mr D Macready took over the chairmanship from Mr AL Owen after Mr AL Owen retired effective 14 February 2020.*

The Chairman of Discovery's Board and non-executive directors are entitled to attend meetings after informing the Chairman of DLAC. The Chief Executive Officer, Chief Financial Officer, Chairman of the Actuarial Committee and executive directors attend meetings or parts of meetings by invitation only. The Chief Audit Executive and the external auditors meet with the DLAC, or the Chairman of the DLAC, before each meeting without management present, and attend meetings by invitation. The DLAC Chairman meets regularly with the Chief Financial Officer, the external auditor and the heads of internal audit, risk and compliance as well as with executive management where necessary.

MEETINGS CYCLE FOR THE YEAR

The DLAC meetings held during the financial year were as follows:

October 2019
Review of first-quarter performance. The DLAC self-assessment was completed and reviewed. Review of the governance structure of subsidiaries, the DLAC constitution, and the evidence supporting the independence, accreditation, skills and capacity of external audit. Review feedback on the accounting practices, disclosures and annual reports. Reviewed the co-operations and co-ordination between the internal and external auditors.

November 2019
Review of the external audit plan, the internal audit plan and strategy as well as consideration of the combined assurance model for the Discovery Group. Review of the external audit budgeted fees. Evaluated the effectiveness of the internal audit function.

February 2020
Feedback from subsidiary audit committees as well as other relevant committees such as Risk and Compliance, and Actuarial. Review of interim results for the six months to 31 December 2019 and SENS announcement.

April 2020
Review of Terms of Reference, the internal audit charter, outsourcing, the accounting policies and IFRS developments. Review of third-quarter results.

June 2020.
Review of unaudited year-to-date results and key financial and accounting judgements as well as any relevant tax matters. Formal evaluation of Group Finance and Group Internal Audit functions.

September 2020
Discussion and review or year-end reports from the external auditors and Group Internal Audit (GIA), feedback from subsidiary audit committees and other relevant committees such as Risk and Compliance, and Actuarial. Consideration of going concern. Review and approval of the annual financial statements, related SENS announcements and the Integrated Report.

REPORT OF THE DISCOVERY LIMITED AUDIT COMMITTEE
continued

KEY FOCUS AREAS DURING THE FINANCIAL YEAR ENDED 30 JUNE 2020

Key audit matters

The DLAC has assessed the appropriateness of the key audit matters reported by the external auditors and considered the key judgements and estimates pertaining to the annual financial statements. These key audit matters were addressed as follows:

Key Audit Matter	How the DLAC addressed the matter
Valuation of assets and liabilities arising from insurance contracts	The DLAC reviewed reports from the Group Chief Actuary and the external auditors on actuarial assumptions and basis changes. Evaluated the appropriateness of actuarial assumptions used in the setting of reserves – including negative rand reserves, taking into account recommendations made by the Actuarial Committee. This includes the supportability of the negative rand reserve (asset) in the Statement of financial position under a variety of stress scenarios. It has also considered the appropriateness of accounting policies and normalisation for the effect of losses arising from changes in economic assumptions in excess of discretionary margins.
Annual assessment of goodwill for impairment	The DLAC reviewed the goodwill impairment reviews that were based on the latest business planning inputs. It considered the sensitivity of the outcomes to declining growth rates and increasing discount rates.
Impact of the COVID-19 pandemic	DLAC considered the impact of COVID-19 on the economy, and the resulting impact on the applicability of the various scenarios, judgements and estimates used by management to prepare the annual financial statements. In particular, the impact on the valuation of assets and liabilities arising from insurance contracts.

Other significant matters

Significant matters are those matters which, in the view of the DLAC, were considered significant or material in nature requiring either the exercise of judgement or matters which were otherwise considered to be subjective from an accounting or auditing perspective.

The following areas deserved a key focus from DLAC during the year:

- Considered the accounting and operation impact of the COVID-19 pandemic and mitigating steps taken.
  - Requested management to provide feedback on impacts on systems, control environments, the finance function and the ability to perform both effective internal and external audits;
  - Requested and reviewed revised internal and external COVID-19 audit plans;
  - Initiated a specific group-wide key controls review given work from home; and
  - Reviewed the COVID-19 SENS trading updates issued in June 2020 and August 2020 respectively as to ensure transparent, fair, balanced and understandable reporting.
- Formulated a framework on 'Making Material judgements' in the application of IFRS for Discovery
- Evaluated the accounting and disclosures of the economic hedge entered into by VitalityLIfe to economically hedge its exposure to declining interest rates in the UK market.
- Oversaw the implementation of IFRS 16 *Leases* which became effective on 1 July 2019 for Discovery and applied to the interim results for the first time.
- Reviewed the progress of the IFRS 17 *Insurance Contracts* project work and considered the implications if Discovery chose to early adopt IFRS 17.
- Reviewed the license application to the Prudential Authority for Discovery to be regulated as an Insurance Group.
- Oversaw the change in segmental disclosures to reflect the emerging significance of Discovery Bank and Discovery Insure.
- Evaluated management's assessment of impairment of specified assets in accordance with IAS 36 *Impairment of Assets*, particularly in light of the effects of COVID-19.
- Evaluated management's assessment on the findings contained in the JSE's reports, of issuers listed on the JSE and the applicability of any such findings to Discovery Limited and its Annual Financial Statements. This incorporated the "Report on proactive monitoring of financial statements 2019", "Final Findings of our Thematic review of compliance with IFRS 9 and IFRS 15" as well as "Activities of the Financial reporting investigation Panel (FRIP) 2019".
- Reviewed the supportability of deferred tax assets raised on assessed losses.

REPORT OF THE DISCOVERY LIMITED AUDIT COMMITTEE
continued

Financial statement and accounting practices

The DLAC has reviewed the accounting policies and the consolidated and separate financial statements of Discovery and is satisfied that they are appropriate and comply with International Financial Reporting Standards (IFRS). The DLAC concluded that Discovery is a going concern.

A process has been established to receive and deal appropriately with any concerns and complaints relating to the accounting and reporting practices of Discovery. Any issues raised are immediately dealt with by the DLAC. No complaints were received during the year.

EXTERNAL AUDIT

Appointment and mandatory audit firm rotation (MAFR)

DLAC, having considered the matters set out in section 94 of the Companies Act , has nominated PricewaterhouseCoopers Inc. (PwC) for appointment as external auditor of the Discovery Group. PwC, with the specific approval of the DLAC, works closely in conjunction with Nexia SAB&T (a black owned auditing firm) for portion of the scope of the audit on a rotational basis.

The DLAC has satisfied itself that the external auditors are independent of Discovery and requisite assurance was sought and provided by the auditors that internal governance processes within the audit firm support and demonstrate its claim to independence.

PwC, as external auditors, are required to rotate the lead audit partner every five years. Accordingly, Mr Andrew Taylor replaced Mr Jorge Goncalves as lead audit partner for the 2019/20 financial year.

The DLAC further considered the following in relation to the appointment of the external auditors:

- The MAFR requirement which mandates the rotation of PwC from 1 July 2023. This, together with the future probable requirement by the Regulator to appoint joint auditors for an Insurance Group, means that any future rotation requires careful thought and planning to ensure appropriate continuity for Discovery Limited; and
- The current state of turmoil in the audit profession in South Africa and the fundamental demand on audit quality, specialisation, capacity, footprint and experience needed for auditing a global financial services group.

Given these circumstances the MAFR transition plan is an important deliverable for the DLAC in the forthcoming year.

Fees for audit and non-audit services

The DLAC, following consultation with executive management, approved the engagement letter, terms, audit plan and budgeted audit fees for the year ending 30 June 2020.

A formal policy exists in respect of the provision of non-audit services by the external auditors of Discovery and its subsidiaries, and a formal procedure governs the process whereby the auditors are appointed to provide any non-audit services, including a limitation on fees for non-audit services which shall not exceed 25% of the audit fees.

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

Audit accreditation and quality

In terms of the amended JSE Listings Requirements, the evaluation of suitability and relevant accreditation requirements of the external audit partner is now the responsibility of the DLAC, together with specific responsibility around audit quality. The following considerations were taken into account by the DLAC in the assessment in this regard:

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

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

The DLAC is recommending to the Board the re-election of PwC as auditors for the Discovery Group at the AGM on 26 November 2020.

REPORT OF THE DISCOVERY LIMITED AUDIT COMMITTEE
continued

INTERNAL AUDIT

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

In assessing the quality, performance and delivery of the internal audit plan including the scope of the work performed, the level of resources and coverage of the audit plan, the DLAC took cognisance of the following.

- Reviewed and approved the internal audit charter and audit plan and evaluated the independence, effectiveness and performance in line with its charter.
- Challenged both the focus, relevance and risk based emphasis of the audit plan in response to the extroadinary circumstances presented by the COVID-19 pandemic and the potential impact on the control environments.
- Considered reports on the Group's systems of internal control, including effective internal financial controls and the control environment.
- Reviewed significant issues raised by the internal audit processes and the adequacy of corrective action and accountability taken in response to such findings.
- Assessed the independence and effectiveness of the CAE, the internal audit function and the quality and extent of audit resources and found them to be satisfactory.
- Reviewed the external auditors annual assessment of internal audit in terms of the requirements of ISA 610 which reaffirmed the extent of reliance that could be placed on the work of internal audit.
- Noted that the external independent quality review of internal audit in accordance with King IV and IIAS standards was due next year, the last such review being conducted in 2016.
- Received the annual review and assessment provided by internal audit confirming the effectiveness of Discovery's governance, risk management and control processes.

The DLAC considers that internal audit exhibits a high level of professional objectivity, ethics and due care in fulfilling its responsibility across the Discovery Group.

FINANCIAL CONTROLS

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

Based on the results of this review, it is the view of the DLAC that Discovery's internal financial controls are effective in producing accurate financial information and a fair presentation of the financial performance of Discovery in the Annual Financial Statements.

REPORT OF THE DISCOVERY LIMITED AUDIT COMMITTEE
continued

OTHER MATTERS CONSIDERED BY THE DLAC

In further fulfilling its duties and discharging its obligations for the year ended 30 June 2020, the DLAC also considered:

Matter considered	Outcome
Evaluation of the expertise and experience of the finance function and financial director	The DLAC reviewed and satisfied itself of the appropriateness of the expertise, resources and experience of Discovery's finance function, including the Chief Financial Officer, Mr DM Viljoen.
Assessment of the effectiveness of DLAC	The Terms of Reference requires that the DLAC performs an assessment of its effectiveness every two years. An internally managed assessment of the effectiveness of the DLAC was carried out in the year ended 30 June 2019, and the next assessment will be in 2021.
Whistleblowing	The DLAC receives and deals with any whistleblowing, whether from within or outside Discovery, relating to the accounting practices and internal audit of Discovery, the content or auditing of Discovery's financial statements, the internal financial controls of Discovery and related matters. No such whistleblowing was received during the financial year.
Ethics and compliance	The DLAC is responsible for reviewing any major breach of Discovery's code of conduct and ethics and relevant legal, regulatory and other obligations as reported to the DLAC by the Social and Ethics Committee. The DLAC is satisfied that there has been no material breach of these standards or material non-compliance with laws and regulations. The DLAC is satisfied that it has complied with all its legal, regulatory and other obligations during the period under review.
Combined assurance	The combined assurance model provides an integrated plan of the various activities and sources of assurance including risk and compliance, external and internal audit, corporate finance functions and the Actuarial Committees. The DLAC has reviewed the combined assurance model, which has been implemented throughout the Group and has concluded that the model is both appropriate and effective in addressing the risks facing Discovery.
Going Concern	The DLAC considered management's assessment of the going concern, with particular focus on the assumptions within the COVID-19 pandemic climate, and determined that the going concern was appropriate.

KEY FOCUS AREAS FOR 2020/21

The DLAC has listed the following key focus areas for the financial year ending 30 June 2021:

- A post-COVID-19 impact review to evaluate and assess the estimates made as at 30 June 2020;
- External independent assessment of the Internal Audit function;
- A transition plan to implement MAFR as well as any joint audit requirements so as to ensure appropriate continuity of external audit.;
- Review project progress for the implementation of IFRS 17 including an analysis of policies, methodology and disclosures;
- Perform an assessment of the effectiveness of the DLAC;
- Review progress and implications of the Part VII transfer in Vitality Life UK; and
- Consider the adequacy of the assurance regarding the internal financial control environment to which the CEO and CFO will attest from 30 June 2021.

CONCLUSION

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

The DLAC has reviewed the consolidated and separate financial statements of Discovery Limited for the year ended 30 June 2020 and, based on the information provided to the DLAC, considers that Discovery complies, in all material respects, with the requirements of the Companies Act and International Financial Reporting Standards (IFRS).

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

D Macready
Chairman: Discovery Limited Audit Committee
15 September 2020

INDEPENDENT AUDITOR'S REPORT

for the year ended 30 June 2020

TO THE SHAREHOLDERS OF DISCOVERY LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Discovery Limited (the Company) and its subsidiaries (together the Group) as at 30 June 2020, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Discovery Limited's consolidated and separate financial statements set out on pages 22 to 179 comprise:

- the group and company statements of financial position as at 30 June 2020;
- the group and company income statements for the year then ended;
- the group and company statements of other comprehensive income for the year then ended;
- the group and company statements of changes in equity for the year then ended;
- the group and company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Certain required disclosures have been presented elsewhere in the document titled "Discovery Annual Financial Statements for the year ended 30 June 2020", rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

Basis for opinion

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

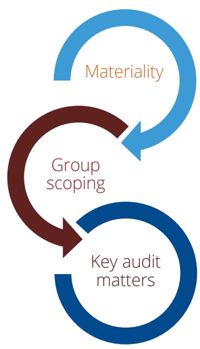
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach

Overview



Overall Group materiality

- R398 million, which represents 5% of adjusted consolidated profit before tax.

Group audit scope

- Our group scoping included full scope audits for twenty seven components based on financial significance, audit risks and statutory audit requirements for twenty seven components.

Key audit matters

- Valuation of assets and liabilities arising from insurance contracts; and
- Annual assessment of goodwill for impairment.

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

Materiality

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

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

Overall Group materiality	R398 million
How we determined it	5% of the consolidated profit before tax
Rationale for the materiality benchmark applied	We chose consolidated profit before tax as the benchmark because, in our view, it is an appropriate measure of underlying performance and the benchmark against which the performance of the Group is most commonly measured by users. The consolidated profit before tax was adjusted for unusual items included within the transfer from assets/liabilities under insurance contracts financial statement line item. The following impacts have been excluded because they are considered unusual and not reflective of the normal operational performance of the Group: ▪ future mortality, morbidity and economic effects of the Covid-19 pandemic; and ▪ economic assumption adjustments net of discretionary margins and interest rate derivative. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

How we tailored our group audit scope

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

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

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

Key audit matters

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

INDEPENDENT AUDITOR'S REPORT *continued*

for the year ended 30 June 2020

Consolidated financial statements

Key audit matter	How our audit addressed the key audit matter
Valuation of assets and liabilities arising from insurance contracts *Refer to Section 13 of Annexure A – Accounting policies and Notes 2, 4.2, 5 and 18 to the financial statements* The Group has recognised assets arising from insurance contracts to the value of R 48 billion, and liabilities arising from insurance contracts of R82 billion at 30 June 2020. The actuarial value of assets and liabilities arising from insurance contracts is determined based on a prospective discounted cash flow valuation basis calculated as the difference between the present value of future benefit payments plus expenses and the present value of future premiums. In valuing the assets and liabilities arising from insurance contracts, various assumptions are made, which include best estimate assumptions regarding the future expected claims experience, premium income, expenses and commission. Changes to these assumptions may result in a material change to the valuation. The most significant assumptions made in determining the value of the assets and liabilities arising from insurance contracts relate to:	Using our actuarial expertise, we performed, the following procedures with respect to these balances: ▪ Obtained an understanding of the Group's actuarial control environment and governance, including the functioning of the Actuarial Committee (and subsidiary Actuarial Committees). ▪ Evaluated the effectiveness of the liability build-up control performed by management to explain the sources of profit and corroborated to relevant information. ▪ Challenged the appropriateness of all significant assumptions adopted by management by comparing the assumptions to results of actuarial experience investigations conducted by management and benchmarking the assumptions to relevant life insurance industry trends. We accepted management's assumptions as they were comparable to these benchmarks.
Impact of the Vitality programme on the valuation of assets and liabilities arising from insurance contracts: As for most life insurers, assumptions relating to mortality, morbidity and the level of lapses are significant in the determination of the value of policyholder liabilities and assets. The Group is unique due to its Vitality programme. In terms of this programme, policyholders are provided access to a number of services and benefits to encourage them to become healthier. Policyholders earn Vitality points which determine their Vitality status. The mortality, morbidity and lapse assumptions within the valuation of policyholder liabilities and assets in the Group are specifically impacted by the Discovery Vitality policyholder statuses. The Discovery Vitality policyholder statuses inform the policyholder behaviour experience expected in future and therefore these assumptions. The Vitality status distribution is updated every year based on the actual Vitality status of the policyholders.	*Impact of the Vitality programme on the valuation of assets and liabilities arising from insurance contracts:* We assessed the assumptions used by the Group in the valuation of the insurance contract assets and liabilities in terms of the Financial Soundness Valuation (FSV) basis as described in the Standard of Actuarial Practice (SAP) 104 and the Group accounting policy as set out in Section 13 of Annexure A - Accounting policies. In particular, we tested: ▪ The reasonability of the assumptions used by the Group in setting the Vitality status distribution and the progression between statuses by comparing these to historical experience; and ▪ The data inputs into the model by verifying that these are consistent with actual experience. We found the assumptions to be comparable with the underlying evidence.
Use of discretionary margins with respect to profit recognition: The life insurance operations sell profitable insurance products. Applying the reserving basis using only compulsory margins as prescribed by regulations would result in an upfront profit being recognised at the inception of new business contracts. Profits recognised at initial recognition of the insurance contracts are, however, limited to the extent of actual acquisition costs incurred through the addition of discretionary margins. The discretionary margins are reset at every valuation date to reflect the underlying profitability of the portfolio and are released over the term of a policy in line with the risk borne. Changes to the discretionary margins have a direct impact on the profit recognition in a period and therefore need careful consideration to ensure compliance with the Section 13 of Annexure A - Accounting policies.	*Use of discretionary margins with respect to profit recognition:* Our work included, amongst others, the following procedures: ▪ We agreed the acquisition costs incurred to the group income statement to assess whether that all acquisition costs were captured in the determination of the discretionary margins at 30 June 2020. No exceptions were noted in this regard. ▪ We assessed whether the calculation of the discretionary margin transfer is consistent with the methodology outlined by the accounting policy. No inconsistencies were noted in this regard.
Allowance for COVID-19 within the valuation basis: COVID-19 is expected to have an impact on future demographic and economic experience. Management has allowed for this in the best estimate assumptions of the assets and liabilities arising from insurance contracts. Given the lack of historical experience, these assumptions are highly subjective and judgement based. We considered the valuation of assets and liabilities arising from insurance contracts to be a matter of most significance to our audit as it involves complex and subjective judgement about future events, policyholder behaviour and economic conditions.	*Allowance for COVID-19 within the valuation basis:* Our work included, the following procedures: ▪ We obtained an understanding of the process followed by management to determine the adjustments to the best estimate assumptions due to COVID-19. We noted that the adjustments made agreed to those that were approved by those charged with governance.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td></td><td>We tested the magnitude of the impact on the assets and liabilities arising from insurance contracts due to the additional COVID-19 allowances by stressing the valuation for these allowances. We compared this to management's calculation and noted no material differences.</td></tr>
<tr><td>Annual assessment of Goodwill for impairment
Refer to Section 7 of Annexure A – Accounting policies and Notes 4.1 and 10 to the financial statements
The Group tests each cash-generating unit (CGU) containing goodwill for impairment on an annual basis. The recoverable amount of each CGU is estimated as the present value of future cash flows that are expected to be derived from the CGU (i.e. its value-in-use).

As at 30 June 2020 the Group has recognised goodwill of R5.1 billion which arose from the following historic acquisitions:
The acquisitions of Vitality Health, Insure Your Health and KYS Paid Limited (Vitality Health CGU) and Vitality Life (Vitality Life CGU) as part of business combinations in the UK with a balance of R2.7 billion at year-end; and
The acquisition of the DiscoveryCard business (Discovery Bank CGU) which resulted in the recognition of goodwill of R2.4 billion.
The methodology and assumptions applied in determining the recoverable amounts of these CGUs are set out below:

Vitality Health CGU and Vitality Life CGU
The methodology and assumptions applied by the Group in determining the recoverable amounts of these CGUs are consistent with prior years. The value-in-use is calculated as the present value of the best-estimate pre-tax cash flows of the CGU for the in-force policies at the valuation date and 10 years of new business. The most significant input relates to the determination of the discount rate. Management applied judgement in determining the risk-free rate, equity risk premium as well as Beta risk, which are factors used in determining the discount rate.

Discovery Bank CGU
In determining the recoverable amount of the Discovery Bank CGU management has applied assumptions and judgement relating to forecasted cash flows, the cost of equity applied in discounting the cash flows, customer growth rates and the expensing of system build costs and intangible assets acquired in the business combination over the useful lives of 10 years.

We considered management's annual impairment assessment of goodwill to be a matter of most significance to our audit, as it is subject to estimation uncertainty and significant judgement by management with respect to the inputs into the calculation of the recoverable amount.</td><td>We obtained management's calculation of the recoverable amount of the CGUs and performed, amongst others, the following procedures:
We assessed whether the methodology and source of information for the calculation was consistent with International Accounting Standard (IAS) 36 - Impairment of assets and to that used in prior years. No exceptions were noted.
We obtained an understanding of the assumptions used by management in the valuation models by inspecting the valuation calculation and impairment testing memorandum prepared by management.
We performed a sensitivity analysis on the key model assumptions used in determining the recoverable amount of the CGUs and noted the inputs listed below to be the most sensitive inputs into the valuations.
In respect of the Vitality Health CGU and the Vitality Life CGU:
We agreed the cash flows used in the calculation to the cash flows used in the insurance contract and embedded value valuations of the books of business associated with these entities, which we have assessed as part of the testing performed on the valuation of assets and liabilities arising from insurance contracts.
Using our valuation expertise, we developed our own range of acceptable discount rates considering other similar entities or transactions. We noted that the discount rate used by management was below the range of acceptable discount rates. We assessed the materiality of this by using our range of acceptable discount rates to perform an independent valuation in the procedure below.
We performed an independent valuation of the value-in-use of the Vitality Health and Vitality Life CGUs, using cash flows that incorporate the future expected mortality, morbidity and economic effects of the COVID-19 pandemic and our independent range of acceptable discount rates. We noted that sufficient headroom is available when compared to the carrying value of the CGUs.
In respect of the Discovery Bank CGU:
Using our valuation expertise, we assessed the significant inputs and assumptions used in the valuation model, which include the terminal growth rate, discount rate, estimated customer numbers and customer profits, by developing an independent expectation that incorporates the impact of COVID-19 and performed sensitivity analyses for these assumptions.
We performed an independent valuation of the Discovery Bank CGU and noted that sufficient headroom is available when compared to the carrying value of the CGU.</td></tr>
</table>

Separate financial statements

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Discovery Annual Financial Statements for the year ended 30 June 2020", which includes the Directors' Report, the Report of the Audit Committee and the Certificate by the Company Secretary as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the document titled "Discovery Integrated Annual Report 2020", which is expected to be made available to us after that date. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the consolidated and separate financial statements

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT *continued*

for the year ended 30 June 2020

inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and / or Company to cease to continue as a going concern.

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Discovery Limited for 20 years.

PricewaterhouseCoopers Inc.
Director: Andrew Graham Taylor
Registered Auditor
Johannesburg
16 September 2020

DIRECTORS' REPORT
for the year ended 30 June 2020

The directors present their 21st annual report, which forms part of the consolidated and separate financial statements of Discovery Limited for the year ended 30 June 2020.

NATURE OF BUSINESS

Discovery Limited (the Company) is listed on the Johannesburg Stock Exchange and is an integrated financial services organisation specialising in health insurance, life assurance, wellness, investments and savings products, short-term insurance and banking products. The Company is directly and indirectly the holding company of:

Audited information	Percentage holding	Country
Discovery Central Services Proprietary Limited	100%	SA
Discovery Connect Distribution Services Proprietary Limited	100%	SA
Discovery Health Proprietary Limited which holds the interests in:	100%	SA
– Discovery Third Party Recovery Services Proprietary Limited	100%	SA
– PrimeMed Administrators Proprietary Limited	100%	SA
– Discovery HealthCare Services Proprietary Limited which holds the interests in:	100%	SA
◦ Discovery Medical Suppliers Proprietary Limited	100%	SA
◦ Grove Nursing Services Proprietary Limited	100%	SA
◦ Southern RX Distributors Proprietary Limited	100%	SA
– Medical Services Organisation International Proprietary Limited which holds the interest in:	70%	SA
◦ MSO Eswatini Swaziland	51%	Swaziland
– MSO International (Isle of Man) which holds the interest in:	70%	Isle of Man
◦ Global Access Health Network SARL	80%	DRC
◦ MSOI Health Risk Managers Limited	85%	Nigeria
Discovery Insure Limited which holds the interest in:	100%	SA
– Discovery Telematic Services Proprietary Limited[1]	100%	SA
Discovery Investment Management Proprietary Limited (dormant)	100%	SA
Discovery Life Collective Investments Proprietary Limited	100%	SA
Discovery Life Investment Services Proprietary Limited which holds the interest in:	100%	SA
– Discovery Life Nominees Proprietary Limited	100%	SA
Discovery Life Limited	100%	SA
Discovery Pref Holding Company (RF) Limited	100%	SA
Discovery Bank Holdings Limited which holds the interest in:	100%	SA
– Discovery Bank Limited	100%	SA
Discovery Vitality Proprietary Limited	100%	SA
Discovery Partner Markets Asia Private Limited which holds the interest in:	100%	Singapore
– Discovery Partner Markets Services Private Limited	100%	Singapore
Discovery Finance Company Europe Limited	100%	UK
Discovery Group Europe Limited which holds the interests in:	100%	UK
– Discovery Offshore Holdings No 2 Limited (dormant)	100%	UK
– Discovery Holdings Europe Limited which holds the interest in:	100%	UK
◦ Better Health Insurance Advice (previously Insure Your Health Limited)	100%	UK
◦ Vitality Corporate Services Limited which holds the interests in:	100%	UK
▪ Vitality Healthy Workplace Limited	100%	UK
◦ Vitality Life Limited which holds the interest in:	100%	UK
▪ Vitality Health Insurance Limited which holds the interest in:	100%	UK
• Vitality Health Limited	100%	UK
◦ Vitality Invest Trustee Company Limited	100%	UK
Vitality Group International Inc., which holds the interests in:	100%	USA
– Discovery Vitality Australia Proprietary Limited	100%	Australia
– Vitality Management Company LLC	100%	USA
– The Vitality Group Inc*., which holds the interest in:	99.9%	USA
◦ The Vitality Group LLC	100%	USA

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

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

1 *Change effective 1 July 2020.*

DIRECTORS' REPORT *continued*

for the year ended 30 June 2020

In addition to the above subsidiaries, Discovery consolidates unit trusts in which the Group has control in terms of IFRS 10 *Consolidated Financial Statements*. The consolidated unit trusts include:

- Discovery Aggressive Dynamic Asset Optimiser Fund of Funds
- Discovery Balanced Fund
- Discovery Cautious Balanced Fund
- Discovery Conservative Dynamic Asset Optimiser Fund of Funds
- Discovery Diversified Income Fund
- Discovery Equity Fund
- Discovery Flexible Property Fund
- Discovery Global Balanced Fund of Funds (amalgamated into Discovery Worldwide Best Ideas Fund)
- Discovery Global Equity Feeder Fund
- Discovery Global Real Estate Securities Feeder Fund
- Discovery Global Value Equity Feeder Fund
- Discovery Moderate Balanced Fund
- Discovery Moderate Dynamic Asset Optimiser Fund of Funds
- Discovery Money Market Fund
- Discovery Target Retirement 2010 Fund (amalgamated into Discovery Target Retirement 2015 Fund)
- Discovery Target Retirement 2015 Fund
- Discovery Target Retirement 2020 Fund
- Discovery Target Retirement 2025 Fund
- Discovery Target Retirement 2030 Fund
- Discovery Target Retirement 2035 Fund
- Discovery Target Retirement 2040 Fund
- Discovery Target Retirement 2045 Fund
- Discovery Target Retirement 2050 Fund
- Discovery Target Retirement 2055 Fund
- Discovery Target Retirement 2060 Fund
- Discovery Worldwide Best Ideas Fund

REVIEW OF RESULTS AND COVID-19 IMPACTS

Resilient operating performance during the pandemic; financial strength and strategic relevance going forward

The full-year period to 30 June 2020 was uniquely complex, with the COVID-19 pandemic creating considerable economic uncertainty, market volatility and societal need, against an already challenging economic backdrop. Discovery's response was focused on three areas: protecting its people, protecting and supporting its clients, and supporting the country – underpinned by a disciplined strategy to maintain Group financial strength and resilience.

Financial Performance

Performance over the period was framed by the following key issues:

OPERATING PERFORMANCE WAS RESILIENT

For the full year ended 30 June 2020, normalised operating profit was up 9% to R8 409 million (before providing for COVID 19-related impacts, decreasing by 22% after the provision to R6 069 million) and normalised headline earnings decreased by 26% to R3 747 million. Normalised headline earnings per share (diluted) decreased by 27% to 566.7 cents and headline earnings per share (diluted) decreased by 94% to 44.7 cents.

The following table summarises the position:

Metrics	**% change over prior year**
Group normalised profit from operations (before allowing for COVID-19 provision)	**9%**
Group normalised profit from operations (after allowing for COVID-19 provision)	**(22%)**
Group normalised headline earnings	**(26%)**
Headline earnings (after economic assumption changes due to long-term interest rates)	**(94%)**

DIRECTORS' REPORT *continued*

for the year ended 30 June 2020

Per-business performance was also resilient as outlined below:

Business	Operating profit before reserving for future COVID-19 COVID impacts	Strategic observation
Discovery Health	+5%	Showed continued operational excellence and provided significant support to members and society
Discovery Life	+25% (-8% after COVID-19 reserve)	Rebounded after a challenging FY19 with positive operational experience variances and cash generation
Discovery Invest	-14%	Continued strong asset gathering amid a weak market
Discovery Insure	+59%	Continued scaling while demonstrating high quality of business
Discovery Bank	+296% operating loss increase	Successfully completed client migrations, fully deposit funded; rapid learnings to improve user experience and value proposition
Vitality Health	+104% (+9% after COVID-19 reserve)	Operational excellence with a continued focus on quality of business and relevance resulting in excellent retention
Vitality Life	-49% (-147% after COVID-19 reserve)	Executed on its turnaround plan; set up for future recovery
Vitality Group	+91%	Resilient revenue and strong operational leverage driving growth; increasing relevance with partners adopting Shared-Value model
Ping An Health	+72%	Exceptional growth; continuing to invest for long-term opportunity

Actuarial dynamics also performed well and demonstrated particular resilience during the final quarter of the year. Over the period, SA and the UK experienced severe lockdowns, however lapse experience was contained within Discovery's actuarial assumptions for all businesses, except Discovery Invest. Claims experience was also better than assumptions for all operations, except Vitality Life, where the effects of the pandemic emerged sooner. New business was curtailed during the severe lockdowns, but the impact was mitigated by increased digital enablement. This was particularly evident in Ping An Health, which delivered significant growth during China's lockdown period through its digital channel.

A CONSERVATIVE COVID-19 RESERVE OF R3.4 BILLION WAS CREATED

The Group provided R3.4 billion for future COVID-19-related impacts on claims and lapses, so the expected effects are fully recognised and reserved for in the 2020 reporting year. This resulted in a R2.3 billion profit impact, net of discretionary margins. Discovery's own data and insights have been overlaid onto global and local data to build sophisticated models to consider three scenarios, with the provisions established in the medium scenarios, as a prudent best estimate. By middle September 2020, 16% of the Discovery Life had been used, with the balance sufficient for a potential second wave.

INTEREST RATES HAD A R4.8 BILLION (PRE-TAX) EFFECT ON HEADLINE EARNINGS

In terms of long-term interest rates, the significant movements in positive real rates of return in SA and negative real rates of return in the UK has a significant effect on policy values and headline earnings, but none on cash flows, solvency and capital in SA; and since the implementation of the hedge strategy - little impact in the UK. The impact in the period was R3.6 billion for Discovery Life and GBP 60.5 million (R1 195 million) net of the valuation of the hedge for Vitality Life, with no bearing on operating performance. These have been normalised out of the Group's financial result.

Business-specific performance

Discovery's Ambition 2023 remains the strategic focus for the medium-term, with the goal of being a leading financial services organisation globally, and being a powerful force for social good. Refer to the Integrated Annual Report for a review of the business-specific results.

SHARE CAPITAL

The share capital of the Company at 30 June 2020 was as follows:

Class of shares	Authorised number of shares	Issued number of shares
Ordinary shares of 0.1 cent per share	**1 000 000 000**	**658 290 736**
A preference shares	**40 000 000**	**–**
B preference shares	**20 000 000**	**8 000 000**
C preference shares	**20 000 000**	**–**

DIVIDENDS

Dividends paid during the current and prior financial year

B preference shares

Payment date	Nature and financial period	Dividend declared per share
16 March 2020	**Interim dividend Financial year 2020**	**505.41097 cents (404.32878 cents net of dividend withholding tax)**
23 September 2019	Final dividend Financial year 2019	508.28767 cents (406.63014 cents net of dividend withholding tax)
11 March 2019	Interim dividend Financial year 2019	506.71233 cents (504.36986 cents net of dividend withholding tax)

Ordinary shares

Payment date	Nature and financial period	Dividend declared per share
23 March 2020	**Interim dividend Financial year 2020**	**101 cents (80.8 cents net of dividend withholding tax)**
7 October 2019	Final dividend Financial year 2019	114 cents (91.2 cents net of dividend withholding tax)
18 March 2019	Interim dividend Financial year 2019	101 cents (80.8 cents net of dividend withholding tax)

Final dividends declaration in respect of the 2020 financial year

The directors are of the view that the Group is adequately capitalised at this time.

B preference share cash dividend declaration:

On 7 September 2020, the directors declared a final gross cash dividend of 433.21918 cents (346.57534 cents net of dividend withholding tax) per B preference share for the period 1 January 2020 to 30 June 2020, payable from the income reserves of the Company. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

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

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Monday, 21 September 2020
Shares commence trading ex-dividend	Tuesday, 22 September 2020
Record date	Friday, 25 September 2020
Payment date	Monday, 28 September 2020

B preference share certificates may not be dematerialised or rematerialised between Tuesday, 22 September 2020 and Friday 25 September 2020, both days inclusive.

Ordinary share cash dividend declaration:

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

Capital

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

	2020		2019	
	Statutory Capital Requirements	**Cover**	Statutory Capital Requirements	Cover
Discovery Life	**R14 835 million**	**1.8 times**	R17 396 million	1.6 times
Discovery Insure	**R885 million**	**1.8 times**	R789 million	1.7 times
Vitality Health	**GBP 102.3 million (R2 194 million)**	**1.7 times**	GBP 97 million (R1 777 million)	1.4 times
Vitality Life Ltd	**GBP 228.3 million (R4 896 million)**	**2 times**	GBP 208 million (R3 810 million)	1.5 times

DIRECTORS AND PRESCRIBED OFFICERS

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

Executive directors	Non-executive directors
A Gore	ME Tucker
HD Kallner	HL Bosman
NS Koopowitz	Dr BA Brink
Dr A Ntsaluba	SE De Bruyn
A Pollard	R Farber
B Swartzberg	F Khanyile
DM Viljoen	Dr TV Maphai
	D Macready (appointed 3 February 2020)
	HP Mayers (non-executive, effective 28 November 2019)
	AL Owen (resigned 14 February 2020)
	SV Zilwa

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

The Companies Act and associated regulations introduced the concept of prescribed officers and related remuneration disclosure. The Remuneration Committees considered the Act, obtained legal opinion and assesses this definition on annual basis against the roles and responsibilities of its people. Following the restructure of reporting lines and composites for the year ended 30 June 2020, the Remuneration Committee resolved that the executive directors of Discovery Limited are the prescribed officers of the group.

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

DIRECTORS' REPORT *continued*

for the year ended 30 June 2020

COMPANY SECRETARY

Mr MJ Botha continues in office as Company Secretary.

Registered office
1 Discovery Place
Sandton
2196

Postal address
PO Box 786722
Sandton
2146

DIRECTORS' INTERESTS IN CONTRACTS

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

BORROWING POWERS

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

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

EVENTS AFTER THE REPORTING DATE

The events after the reporting date are noted in Group Note 42. There are no other significant events after the reporting date, being 30 June 2020, to the date of the approval of the Annual Financial Statements, namely, 15 September 2020.

AUDITORS

It will be proposed at the Annual General Meeting of shareholders, that PricewaterhouseCoopers Inc. continue in office in accordance with section 90(1) of the Companies Act.

GROUP STATEMENT OF FINANCIAL POSITION

at 30 June 2020

R million	Notes	Group 2020	Group 2019
Assets			
Goodwill	10	**5 070**	4 642
Intangible assets	7	**6 381**	5 597
Property and equipment	6	**4 643**	4 212
Assets arising from insurance contracts	5	**48 042**	48 781
Deferred acquisition costs	8	**632**	536
Assets arising from contracts with customers	9	**954**	752
Investment in equity-accounted investees	11	**2 713**	1 950
Deferred income tax asset	23	**3 511**	2 372
Financial assets			
– Loans and advances to customers at amortised cost	12	**1 848**	–
– Investments at amortised cost	12	**2 523**	1 943
– Investments at fair value through profit or loss	12	**102 714**	90 205
– Derivative financial instrument	13	**1 370**	375
Insurance receivables, contract receivables and other receivables	14	**11 436**	9 015
Current income tax asset		**182**	136
Reinsurance contracts	15	**400**	314
Cash and cash equivalents	16	**17 909**	9 403
TOTAL ASSETS		**210 328**	180 233
Equity			
Capital and reserves			
Ordinary share capital and share premium	17.1	**10 148**	10 142
Perpetual preference share capital	17.2	**779**	779
Other reserves		**3 269**	452
Retained earnings		**30 353**	31 710
		44 549	43 083
Non-controlling interest		**4**	*
TOTAL EQUITY		**44 553**	43 083
Liabilities			
Liabilities arising from insurance contracts	18	**82 411**	70 522
Liabilities arising from reinsurance contracts	19	**12 465**	10 835
Deferred income tax liability	23	**8 514**	8 697
Contract liabilities to customers	9	**808**	433
Financial liabilities			
– Borrowings at amortised cost	20	**19 836**	14 682
– Other payables at amortised cost	22	**14 233**	10 262
– Deposits from customers		**2 427**	–
– Investment contracts at fair value through profit or loss	21	**23 012**	20 674
– Derivative financial instrument	13	**992**	509
Employee benefits	24	**284**	260
Current income tax liability		**793**	276
TOTAL LIABILITIES		**165 775**	137 150
TOTAL EQUITY AND LIABILITIES		**210 328**	180 233

* *Amount is less than R500 000.*

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

GROUP INCOME STATEMENT

for the year ended 30 June 2020

R million	Notes	Group June 2020 Audited	Group June 2019 Audited
Insurance premium revenue		**49 775**	43 036
Reinsurance premiums		**(6 308)**	(5 595)
Net insurance premium revenue	25	**43 467**	37 441
Fee income from administration business		**11 337**	10 404
Net banking fee and commission income		**150**	–
Banking fee and commission income		**182**	–
Banking fee and commission expense		**(32)**	–
Vitality income		**3 875**	3 653
Other income		**1 100**	1 063
Investment income using the effective interest rate method	26	**379**	398
Net bank interest and similar income		**71**	29
Bank interest and similar income using the effective interest rate		**162**	29
Bank interest and similar expense using the effective interest rate		**(91)**	–
Net fair value gains on financial assets at fair value through profit or loss	27	**4 093**	4 265
Net income		**64 472**	57 253
Net claims and policyholders' benefits	28	**(23 246)**	(20 879)
Claims and policyholders' benefits		**(26 856)**	(24 538)
Insurance claims recovered from reinsurers		**3 610**	3 659
Acquisition costs	29	**(6 547)**	(6 100)
Marketing and administration expenses	30	**(22 118)**	(19 954)
Amortisation of intangibles from business combinations		**(76)**	(99)
Expected credit losses		**(181)**	–
Recovery of expenses from reinsurers		**2 876**	2 830
Net transfer to/from assets and liabilities under insurance contracts		**(13 497)**	(4 706)
– change in assets arising from insurance contracts		**2 038**	5 321
– change in assets arising from reinsurance contracts		**53**	7
– change in liabilities arising from insurance contracts		**(9 418)**	(8 050)
– change in liabilities arising from reinsurance contracts		**(462)**	(1 984)
– economic assumption adjustments net of discretionary margins		**(5 708)**	–
Fair value adjustment to liabilities under investment contracts		**(151)**	(809)
Profit from operations		**1 532**	7 536
Finance costs	32	**(1 568)**	(1 375)
Gain on previously held interests in DiscoveryCard business		**–**	761
Gain on dilution and disposal of equity-accounted investments		**3**	844
Impairment of goodwill		**(9)**	(17)
Foreign exchange gains	33	**578**	*
Share of net profits from equity-accounted investments		**264**	170
Profit before tax		**800**	7 919
Income tax expense	34	**(624)**	(1 305)
Profit for the year		**176**	6 614
Profit/(loss) attributable to:			
– ordinary shareholders		**97**	6 533
– preference shareholders		**81**	81
– non-controlling interest		**(2)**	*
		176	6 614
Earnings per share for profit attributable to ordinary shareholders of the Company during the year (cents):	35		
– basic		**14.8**	1 001.5
– diluted		**14.7**	1 001.1

** Amount is less than R500 000.*

GROUP STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2020

R million	Group June 2020 Audited	Group June 2019 Audited
Profit for the year	**176**	6 614
Items that are or may be reclassified subsequently to profit or loss:		
Currency translation differences	**2 800**	(140)
– unrealised gains/(losses)	**2 768**	(142)
– tax on unrealised (gains)/losses	**32**	2
Cash flow hedges	**(430)**	(175)
– unrealised losses	**(762)**	(91)
– tax on unrealised losses/gains	**59**	(7)
– losses/(gains) recycled to profit or loss	**319**	(98)
– tax on recycled losses/gains	**(46)**	21
Share of other comprehensive income from equity-accounted investments	**293**	(19)
– change in fair value of debt instruments at fair value through other comprehensive income	**3**	–
– currency translation differences	**290**	(19)
Other comprehensive income/(losses) for the year, net of tax	**2 663**	(334)
Total comprehensive income for the year	**2 839**	6 280
Attributable to:		
– ordinary shareholders	**2 760**	6 199
– preference shareholders	**81**	81
– non-controlling interest	**(2)**	*
Total comprehensive income for the year	**2 839**	6 280

* *Amount is less than R500 000.*

GROUP STATEMENT OF CASH FLOWS

for the year ended 30 June 2020

R million	Notes	Group June 2020 Audited	Group June 2019 Audited
Cash flow from operating activities		**8 065**	1 738
Cash generated by operations	36.1	**19 000**	12 779
Purchase of investments held to back policyholder liabilities		**(37 316)**	(35 109)
Proceeds from disposal of investments held to back policyholder liabilities		**26 218**	23 831
		7 902	1 501
Dividends received		**342**	339
Interest received		**2 516**	2 274
Interest paid		**(1 406)**	(1 219)
Taxation paid	36.2	**(1 289)**	(1 157)
Cash flow from investing activities		**(3 030)**	(2 844)
Purchase of financial assets		**(26 497)**	(21 725)
Proceeds from disposal of financial assets		**25 532**	21 831
Purchase of property and equipment		**(290)**	(510)
Proceeds from disposal of property and equipment		**4**	95
Purchase of software and other intangible assets		**(1 726)**	(1 999)
Proceeds from disposal of intangible assets		**–**	22
Proceeds from the disposal of equity-accounted investments		**–**	402
Acquisition of business net of cash		**16**	(736)
Additional investment in equity-accounted investments		**(69)**	(224)
Cash flow from financing activities		**2 202**	(344)
Proceeds from issuance of ordinary shares	36.3	**–**	1 854
Shares issue costs	36.3	**–**	(19)
Acquisition of additional interest in subsidiary		**–**	(1 104)
Purchase of treasury shares		**(4)**	–
Dividends paid to ordinary shareholders		**(1 413)**	(1 400)
Dividends paid to preference shareholders		**(81)**	(81)
Proceeds from borrowings	36.4	**10 339**	2 147
Repayment of borrowings	36.4	**(6 639)**	(1 741)
Net increase/(decrease) in cash and cash equivalents		**7 237**	(1 450)
Cash and cash equivalents at beginning of the year		**9 403**	10 888
Exchange gains/(losses) on cash and cash equivalents		**1 269**	(35)
Cash and cash equivalents at end of the year	16	**17 909**	9 403

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GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2020

	Attributable to equity holders of the Company				Attributable to equity holders of the Company					
R million	Share capital and share premium	Preference share capital	Share-based payment reserve	Investment reserve[1]	Foreign currency translation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	**Total**
Year ended 30 June 2019										
At beginning of the year	8 308	779	327	–	744	1	27 362	37 521	*	37 521
Total comprehensive income for the year	–	81	–	–	(159)	(175)	6 533	6 280	*	6 280
Profit for the year	–	81	–	–	–	–	6 533	6 614	–	6 614
Other comprehensive income	–	–	–	–	(159)	(175)	–	(334)	–	(334)
Transactions with owners	1 834	(81)	(286)	–	–	–	(2 185)	(718)	–	(718)
Share issue	1 854	–	–	–	–	–	–	1 854	–	1 854
Share issue costs	(19)	–	–	–	–	–	–	(19)	–	(19)
Change in ownership without change in control	–	–	–	–	–	–	(1 104)	(1 104)	–	(1 104)
Increase in treasury shares	(5)	–	–	–	–	–	–	(5)	–	(5)
Delivery of treasury shares	4	–	–	–	–	–	–	4	–	4
Transfer of vested equity-settled share schemes	–	–	(319)	–	–	–	319	–	–	–
Employee share option schemes:										
– Value of employee services	–	–	33	–	–	–	–	33	–	33
Dividends paid to preference shareholders	–	(81)	–	–	–	–	–	(81)	–	(81)
Dividends paid to ordinary shareholders	–	–	–	–	–	–	(1 400)	(1 400)	–	(1 400)
At end of the year	10 142	779	41		585	(174)	31 710	43 083	*	43 083
Year ended 30 June 2020										
At beginning of the year	**10 142**	**779**	**41**	**–**	**585**	**(174)**	**31 710**	**43 083**	*****	**43 083**
IFRS transitional adjustments	**–**	**–**	**–**	**–**	**–**	**–**	**(41)**	**(41)**	**–**	**(41)**
Adjusted balance at beginning of the year	**10 142**	**779**	**41**	**–**	**585**	**(174)**	**31 669**	**43 042**	*****	**43 042**
Total comprehensive income for the year	**–**	**81**	**–**	**3**	**3 090**	**(430)**	**97**	**2 841**	**(2)**	**2 839**
Profit for the year	**–**	**81**	**–**	**–**	**–**	**–**	**97**	**178**	**(2)**	**176**
Other comprehensive income	**–**	**–**	**–**	**3**	**3 090**	**(430)**	**–**	**2 663**	**–**	**2 663**
Transactions with owners	**6**	**(81)**	**154**	**–**	**–**	**–**	**(1 413)**	**(1 334)**	**6**	**(1 328)**
Delivery of treasury shares	**10**	**–**	**(10)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Increase in treasury shares	**(4)**	**–**	**–**	**–**	**–**	**–**	**–**	**(4)**	**–**	**(4)**
Acquisition of subsidiaries with non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6**	**6**
Employee share option schemes:										
– Value of employee services	**–**	**–**	**164**	**–**	**–**	**–**	**–**	**164**	**–**	**164**
Dividends paid to preference shareholders	**–**	**(81)**	**–**	**–**	**–**	**–**	**–**	**(81)**	**–**	**(81)**
Dividends paid to ordinary shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**(1 413)**	**(1 413)**	**–**	**(1 413)**
At end of the year	**10 148**	**779**	**195**	**3**	**3 675**	**(604)**	**30 353**	**44 549**	**4**	**44 553**

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

** Amount is less than R500 000.*

1. SEGMENT INFORMATION

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

An operating segment is a component of an entity:

(a) That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);

(b) Whose operating results are regularly reviewed by the entity's CODM to make decisions about resources to be allocated to the segment and assess its performance; and

(c) For which discrete financial information is available.

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

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

(a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments;

(b) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; and

(c) Its assets are 10 per cent or more of the combined assets of all operating segments.

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

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

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

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

(i) **Health South Africa:** administers and provides managed care services to medical schemes and renders administration services to other business segments within the Group.

(ii) **Life South Africa:** offers a range of insurance and financial solutions to the Group's clients against the financial impact of lifestyle-changing events in South Africa.

(iii) **Invest South Africa:** offers, through a range of investment fund choices, including Discovery managed unit trusts, a comprehensive and flexible range of investment choices. These products are sold through a number of investment wrappers including Discovery Life policies and are offered to individuals in South Africa.

(iv) **Vitality South Africa:** offers health and lifestyle benefits with selected partners to the Group's clients.

(v) **Insure South Africa:** offers a range of personal line insurance (motor, building, household content and portable processions) to the Group's clients against the financial impact of loss or damage. The segment also includes Discovery's interest in Cambridge Mobile Telematics (CMT).

(vi) **Bank South Africa:** offers retail banking solutions, including deposits and loans and advances, to clients in the South African market. The Bank is still in start-up phase. It also includes DiscoveryCard.

(vii) **Health United Kingdom:** offers consumer-engaged private medical insurance products to employer groups and individuals in the United Kingdom. All contracts in this segment are short-term insurance contracts.

(viii) **Life United Kingdom:** offers a risk-only life assurance product. All contracts in this segment are long-term assurance contracts offered to both employer groups and individuals in the United Kingdom.

(ix) **All other segments:** includes those segments that do not meet the quantitative thresholds set out in IFRS 8 and cannot be aggregated with another reportable segment. It includes the following operating segments:

- Insure South Africa commercial: provides commercial short-term risk insurance products to the South African market.
- SA Distribution: provides sales and distribution services in respect of all SA products.
- Vitality Group: provides a Vitality platform to international insurance businesses.
- Other new business development costs: expenses incurred to investigate new products and markets.
- UK, US, SA and Singapore head office costs, where not allocated to another segment.

1. SEGMENT INFORMATION *continued*

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

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

(i) The VitalityLife results are reclassified to account for the contractual arrangement in respect of the business written on the Statement of financial position of Prudential Assurance Company Limited, as a reinsurance contract under IFRS 4 *Insurance Contracts*;

(ii) The Discovery Unit Trusts (DUT) are consolidated into Discovery's results for IFRS purposes. In the Segment information the DUT column includes the effects of consolidating the unit trusts into Discovery's results, effectively being the income and expenses relating to units held by third parties;

(iii) The effects of eliminating intercompany transactions on consolidation and normalised operating profit adjustments; and

(iv) The effects of reclassifying items to align to IFRS results.

Change in presentation

At each reporting date, Discovery must review whether the segments being disclosed still comply with IFRS 8 *Segment reporting*. During the current financial year segmental information has been changed to align with the change in reportable segments, i.e. Insure South Africa and Bank South Africa are disclosed. The comparative information has been accordingly restated.

Discovery

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2020

1. SEGMENT INFORMATION *continued*

R million	SA Health	SA Life	SA Invest	SA Insure	SA Vitality	SA Bank[2]	UK Health	UK Life	All other segments	Segment total	IFRS reporting adjustments	IFRS total
30 June 2020												
Income statement												
Insurance premium revenue	252	12 984	15 602	3 544	–	–	9 100	5 705	3 330	50 517	(742)	49 775
Reinsurance premiums	(1)	(2 564)	–	(66)	–	–	(1 589)	(2 789)	(41)	(7 050)	742	(6 308)
Net insurance premium revenue	251	10 420	15 602	3 478	–	–	7 511	2 916	3 289	43 467	–	43 467
Fee income from administration businesses	7 238	–	2 246	12	–	137	30	–	1 687	11 350	(13)	11 337
Net banking fee and commission income	–	–	–	–	–	150	–	–	–	150	–	150
Banking fee and commission income	–	–	–	–	–	182	–	–	–	182	–	182
Banking fee and commission expense	–	–	–	–	–	(32)	–	–	–	(32)	–	(32)
Vitality income	–	–	–	–	2 401	121	452	212	689	3 875	–	3 875
Other income	883	39	–	–	–	120	69	–	18	1 129	(29)	1 100
Investment income earned on assets backing policyholder liabilities	–	13	–	119	–	1	9	37	1	180	(180)	–
Net bank interest and similar income	–	–	–	–	–	63	–	–	–	63	8	71
Bank interest and similar income using the effective interest rate	–	–	–	–	–	162	–	–	–	162	–	162
Bank interest and similar expense using the effective interest rate	–	–	–	–	–	(99)	–	–	–	(99)	8	(91)
Finance charge on negative reserve funding	–	–	–	–	–	–	–	(838)	–	(838)	838	–
Inter-segment funding[1]	–	(762)	762	–	–	–	–	–	–	–	–	–
Net fair value gains on financial assets at fair value through profit or loss	(20)	867	834	32	(2)	92	29	768	59	2 659	1 434	4 093
Net income	8 352	10 577	19 444	3 641	2 399	684	8 100	3 095	5 743	62 035	2 058	64 093
Net claims and policyholders' benefits	(100)	(6 079)	(10 542)	(1 915)	–	–	(3 623)	(798)	(189)	(23 246)	–	(23 246)
Claims and policyholders' benefits	(100)	(7 926)	(10 542)	(1 939)	–	–	(4 796)	(1 964)	(229)	(27 496)	640	(26 856)
Insurance claims recovered from reinsurers	–	1 847	–	24	–	–	1 173	1 166	40	4 250	(640)	3 610
Acquisition costs	(30)	(1 566)	(1 080)	(479)	(66)	–	(797)	(1 814)	123	(5 709)	(838)	(6 547)
Credit impairment charges	–	–	–	–	–	(181)	–	–	–	(181)	–	(181)
Marketing and administration expenses										–		–
– depreciation and amortisation	(176)	(7)	(9)	(84)	(15)	(236)	(359)	(46)	(612)	(1 544)	(210)	(1 754)
– derecognition of intangible assets and property and equipment	(29)	–	–	(74)	(9)	–	–	–	(84)	(196)	–	(196)
– impairment of intangible assets	–	–	–	–	–	–	–	–	(63)	(63)	–	(63)
– other expenses	(4 844)	(1 976)	(984)	(824)	(2 302)	(1 438)	(3 297)	(2 063)	(2 625)	(20 353)	260	(20 093)
Recovery of expenses from reinsurers	–	–	–	–	–	–	826	2 050	–	2 876	–	2 876
Transfer from assets/liabilities under insurance contracts												
– change in assets arising from insurance contracts	–	1 557	–	–	–	–	–	(2 788)	29	(1 202)	3 240	2 038
– change in assets arising from reinsurance contracts	–	27	–	7	–	–	8	11	–	53	–	53
– change in liabilities arising from insurance contracts	–	(238)	(5 809)	(39)	–	–	(28)	(18)	(3 110)	(9 242)	(176)	(9 418)
– change in liabilities arising from reinsurance contracts	–	678	–	–	–	–	–	2 099	–	2 777	(3 239)	(462)
Fair value adjustment to liabilities under investment contracts	–	(2)	(190)	–	–	–	–	–	4	(188)	37	(151)
Share of net profits from equity-accounted investments	17	–	–	13	–	–	–	–	222	252	–	252
Normalised profit/(loss) from operations	3 190	2 971	830	246	7	(1 171)	830	(272)	(562)	6 069	1 132	7 201
Investment income earned on shareholder investments and cash	65	21	45	10	27	–	1	12	746	927	(548)	379
Economic assumptions adjustments net of discretionary margins and interest rate derivative	–	(3 635)	–	–	–	–	–	(1 195)	–	(4 830)	(878)	(5 708)
Economic assumptions adjustments net of discretionary margins	–	(3 635)	–	–	–	–	–	(2 073)	–	(5 708)	–	(5 708)
Fair value gains on VitalityLife interest rate derivative	–	–	–	–	–	–	–	878	–	878	(878)	–
Net fair value gains/(losses) on financial assets at fair value through profit or loss	–	128	4	–	–	–	–	(120)	263	275	(275)	–
Restructuring costs	–	–	–	–	–	–	–	(100)	–	(100)	100	–
Gains from dilution of equity accounted investments	–	–	–	3	–	–	–	–	–	3	–	3
Impairment of goodwill	–	–	–	–	–	–	–	–	(9)	(9)	–	(9)
Initial expenses related to Prudential Book transfer	–	–	–	–	–	–	–	(71)	–	(71)	71	–
Transaction costs related to VitalityLife interest rate derivatives	–	–	–	–	–	–	–	(45)	–	(45)	45	–
Amortisation of intangibles from business combinations	–	–	–	–	–	–	–	–	(76)	(76)	–	(76)
Market rentals related to Head Office building adjusted for finance costs and depreciation	–	–	–	–	–	–	–	–	(259)	(259)	259	–
Finance costs	(286)	–	–	–	–	–	(7)	(257)	(1 389)	(1 939)	371	(1 568)
Foreign exchange gains	15	–	36	–	–	–	–	–	527	578	–	578
Profit before tax	2 984	(515)	915	259	34	(1 171)	824	(2 048)	(759)	523	277	800
Income tax expense	(826)	147	(256)	(64)	(10)	270	(129)	239	282	(347)	(277)	(624)
Profit for the year	2 158	(368)	659	195	24	(901)	695	(1 809)	(477)	176	–	176

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2020

1. SEGMENT INFORMATION *continued*

R million	SA Health	SA Life	SA Invest	SA Insure	SA Vitality	SA Bank	UK Health	UK Life	All other segments	Segment total	IFRS reporting adjustments	IFRS total
30 June 2019												
Income statement												
Insurance premium revenue	167	12 131	14 267	3 158	–	–	8 429	4 750	801	43 703	(667)	43 036
Reinsurance premiums	(1)	(2 410)	–	(261)	–	–	(1 393)	(2 177)	(20)	(6 262)	667	(5 595)
Net insurance premium revenue	166	9 721	14 267	2 897	–	–	7 036	2 573	781	37 441	–	37 441
Net fee and commission income	6 815	–	2 050	12	–	219	15	–	1 311	10 422	(18)	10 404
Fee income from administration businesses	6 815	–	2 050	12	–	219	15	–	1 311	10 422	(18)	10 404
Banking fee and commission income	–	–	–	–	–	–	–	–	–	–	–	–
Banking fee and commission expense	–	–	–	–	–	–	–	–	–	–	–	–
Vitality income	–	–	–	–	2 329	120	501	157	546	3 653	–	3 653
Other income	782	42	–	–	–	224	39	–	(2)	1 085	(22)	1 063
Investment income earned on assets backing policyholder liabilities	–	14	1	142	–	–	10	42	(1)	208	(208)	–
Net bank interest and similar income	–	–	–	–	–	29	–	–	–	29	–	29
Bank interest and similar income using the effective interest rate	–	–	–	–	–	29	–	–	–	29	–	29
Bank interest and similar expense using the effective interest rate	–	–	–	–	–	–	–	–	–	–	–	–
Finance charge on negative reserve funding	–	–	–	–	–	–	–	(243)	–	(243)	243	–
Inter-segment funding[1]	–	(754)	754	–	–	–	–	–	–	–	–	–
Net fair value gains on financial assets at fair value through profit or loss	7	1 056	1 849	1	–	–	40	211	32	3 196	1 069	4 265
Net income	7 770	10 079	18 921	3 052	2 329	592	7 641	2 740	2 667	55 791	1 064	56 855
Net claims and policyholders' benefits	(64)	(6 037)	(8 989)	(1 734)	–	–	(3 525)	(513)	(17)	(20 879)	–	(20 879)
Claims and policyholders' benefits	(65)	(8 205)	(8 989)	(1 903)	–	–	(4 613)	(1 133)	(30)	(24 938)	400	(24 538)
Insurance claims recovered from reinsurers	1	2 168	–	169	–	–	1 088	620	13	4 059	(400)	3 659
Acquisition costs	(6)	(1 705)	(1 138)	(405)	(87)	(14)	(732)	(1 888)	118	(5 857)	(243)	(6 100)
Marketing and administration expenses												
– depreciation and amortisation	(223)	(4)	(4)	(70)	(8)	(51)	(251)	(34)	(399)	(1 044)	(210)	(1 254)
– impairment of intangibles assets	(4)	–	–	–	(5)	–	–	–	(23)	(32)	–	(32)
– other expenses	(4 423)	(1 876)	(904)	(744)	(2 169)	(823)	(3 148)	(2 060)	(2 458)	(18 605)	(63)	(18 668)
Recovery of expenses from reinsurers	–	–	–	–	–	–	814	2 016	–	2 830	–	2 830
Transfer from assets/liabilities under insurance contracts												
– change in assets arising from insurance contracts	–	3 475	–	–	–	–	–	1 570	(4)	5 041	280	5 321
– change in assets arising from reinsurance contracts	–	10	–	(5)	–	–	(8)	10	–	7	–	7
– change in liabilities arising from insurance contracts	(9)	(251)	(6 837)	53	–	–	(33)	(17)	(791)	(7 885)	(165)	(8 050)
– change in liabilities arising from reinsurance contracts	–	(458)	–	–	–	–	–	(1 246)	–	(1 704)	(280)	(1 984)
Fair value adjustment to liabilities under investment contracts	–	(3)	(83)	–	–	–	–	–	–	(86)	(723)	(809)
Share of net profits from equity-accounted investments	3	–	–	8	–	–	–	–	159	170	–	170
Normalised profit/(loss) from operations	3 044	3 230	966	155	60	(296)	758	578	(748)	7 747	(340)	7 407
Investment income earned on shareholder investments and cash[4]	57	8	35	30	42	–	1	14	635	822	(424)	398
Net fair value gains/(losses) on financial assets at fair value through profit or loss	–	224	(9)	–	–	–	–	–	(144)	71	(71)	–
Gains from dilution of equity accounted investments	–	–	–	808	–	–	–	–	15	823	21	844
Gain on previously held interests in DiscoveryCard business	–	–	–	–	–	–	–	–	761	761	–	761
Impairment of goodwill	–	–	–	–	–	–	–	–	(17)	(17)	–	(17)
Initial expenses related to Prudential Book transfer	–	–	–	–	–	–	–	(28)	–	(28)	28	–
Amortisation of intangibles from business combinations	–	–	–	–	–	–	–	–	(99)	(99)	–	(99)
Market rentals related to Head Office building adjusted for finance costs and depreciation	–	–	–	–	–	–	–	–	(281)	(281)	281	–
Finance costs[4]	(270)	(2)	–	–	–	–	–	(210)	(1 185)	(1 667)	292	(1 375)
Foreign exchange gains/(losses)	1	–	6	–	–	–	–	–	(7)	–	–	–
Profit before tax	2 832	3 460	998	993	102	(296)	759	354	(1 070)	8 132	(213)	7 919
Income tax expense	(741)	(880)	(280)	(195)	(29)	113	(38)	(138)	670	(1 518)	213	(1 305)
Profit for the period	2 091	2 580	718	798	73	(183)	721	216	(400)	6 614	–	6 614

1 *The inter-segment funding of R754 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.*

2. MANAGEMENT OF INSURANCE RISK

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

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

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

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

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

Contracts which are long term in nature

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

Contracts which are short term in nature

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

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

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

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

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

2. MANAGEMENT OF INSURANCE RISK *continued*

Lapse and surrender risk *continued*

Contracts that are long term in nature

For individual life insurance products there is a risk:

- of reduced profits arising from lower than expected withdrawals at later durations of certain policies in cases where the reserves have turned positive. This is since withdrawals on such policies allow the reserves to be released as profits in the absence of surrender values being offered; and
- that withdrawals are selective from a claims experience point of view. For example, healthy lives may find it easier to obtain cover elsewhere compared to less healthy lives.

Future earnings on individual life plans are dependent on the number of policies remaining in future years and thus future earnings are dependent on the lapse rate. The future expected earnings vary by the premium funding method chosen by the policyholder. In general, the higher the increases, the higher the withdrawal risk to future earnings.

For investment products with insurance risk, there is a risk:

- that the surrender value may exceed the policy value, net of expenses, at early durations; and
- that withdrawals are higher than expected. Future earnings arising from Invest plans are dependent on the value of assets under management and thus future earnings are dependent on the withdrawal and surrender rate.

Contracts that are short term in nature

For Discovery Insure there is a risk of reduced profits arising from higher than expected withdrawals at early durations of policies, resulting in acquisition costs not being recovered.

For example, Discovery provides unique rewards and benefits as well as integration to members which has proven to be a credible risk differentiator. Premium discounts or cover increases are available to policyholders who actively engage in a healthier lifestyle and utilise the Vitality benefits. Better terms are thus offered to healthy lives compared to less healthy lives.

No surrender benefit is offered on risk benefits and thus the loss on withdrawal is reduced.

COMMISSION CLAW BACK

Discovery predominantly distributes via independent brokers, intermediaries and tied agents.

Commissions are clawed back from intermediaries where a policy lapses within a specified timeframe since inception. The amount of commission clawback depends on the duration of the policy in months and gradually reduces from 100% to 0% and is over a specified period depending on product sold.

EXPERIENCE MONITORING

Lapse experience is monitored on a monthly basis and data is analysed to establish possible trends for which management action can be taken.

Where there is insufficient historic data to provide credible results, for example within VitalityLife Whole of Life, reliance is placed on reinsurers' advice, industry experience as well as experience from Discovery Life.

PROACTIVE CONSERVATION

Targeted conservation campaigns are run pro-actively. For example, financial advisors are notified of clients that do not have certain features on their policies that are correlated with good persistency. Financial advisors are thus encouraged to add such features.

2. MANAGEMENT OF INSURANCE RISK *continued*

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

2. MANAGEMENT OF INSURANCE RISK *continued*

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

2. MANAGEMENT OF INSURANCE RISK *continued*

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

2. MANAGEMENT OF INSURANCE RISK *continued*

Insurance risk	Description	How Discovery manages the risk
Reputational risk	Reputational risk is the risk of negative market reaction towards Discovery. Discovery may thus not be able to apply management policies to reduce risk. Discovery Life offers policies that integrate with the product offerings within the Discovery Group. The reputational risk to Discovery Life is thus extended to the reputational risk of the entire Discovery Group. Discovery Life management reviews all product offerings to minimise the reputational risk. Reputational risk may also arise on investment products with insurance risk, if these products experience worse investment returns than competitors. This may lead to lower future new business and higher surrenders. For VitalityHealth, reputational risk arises from exclusions of treatments which is provided by competitors.	Reputational risk is carefully controlled. Decisions to repudiate claims are reviewed by a review committee comprising of a senior underwriter and claims assessor, representatives of the legal department and the medical team, as well as a compliance officer. Marketing material and policy wording are reviewed and designed to be clear and unambiguous to avoid creating unreasonable policyholder expectations. All products are approved prior to launch, by either the Head of the Actuarial Function or Actuarial Committee, depending on the business line. Sign-off is also done prior to launch from a market conduct perspective. For investment products with insurance risk, the risk on investment returns is mitigated through the use of reputable experienced fund managers and unique, innovative products covering specific risks.
Risks significant to long-term insurance		
Mismatching and market risk	Mismatching is the risk that insurance-related cash outflows (e.g. benefit payments, administration expenses) do not match expected future cash inflows (predominately future premiums). Mismatching risk can also arise when movements in assets and liabilities are out of line given changes in market risk, i.e. equity price risk, interest rate risk or currency risk. The value of assets and liabilities arising from insurance contracts are subject to interest rate risk, thus a risk that a change in the discount rate could cause a change in the value of the assets and liabilities arising from insurance contracts.	For assets arising from contracts, Discovery covers the insurance related outflows by expected future cash inflows (predominately future premiums). This is supported by positive future net cash flows arising from insurance contracts. For liabilities arising from insurance contracts, the insurance related cash outflows are matched with a combination of a release of policyholder assets (net of retained fees), investment return on these assets and cash flows. For further discussion on how Discovery manages this risk, refer to note 2.4. More specifically: – For mismatching risk, refer note 2.4.1 and 2.4.2 – For interest rate risk, refer note 2.4.3 – For currency risk, refer note 2.4.4

2. MANAGEMENT OF INSURANCE RISK *continued*

Insurance risk	Description	How Discovery manages the risk
Underwriting experience risk – Individual life plans and investment products with insurance risk	For individual life plans, there is a risk that actual mortality and morbidity experience is higher than expected. This could arise as a result of the number of claims or the value of claims being higher than expected. In addition, there is a risk that the emergence of a new disease or epidemic can increase the number of claims. On guaranteed annuities there is a risk that mortality experience is lower than expected and thus income payments continue for longer than expected. The guaranteed annuity book of Discovery Life was insignificant at 30 June 2020. Discovery Life does not offer any deferred annuities where the annuity rate at a future point in time is guaranteed for new entrants. Investment products with insurance risk are not directly impacted by mortality and morbidity risks. The Annuity Integrator's Ill-health booster boosts retirement income on severe illness. The Annuity Integrator's Longevity booster boosts retirement income every 10 years. The Life Booster increases the investment fund value by between 5% and 15% on death, depending on Vitality status. The costs of the benefits were allowed for in the product design and pricing of the benefits. Selection risk is the risk that worse risks than expected are attracted and these risks are then charged inadequate premiums. Selection could also lead to higher than expected mortality and morbidity experience on individual life plans or lower mortality on guaranteed annuity policies.	The risks are managed through various mechanisms: **PRODUCT DESIGN AND PRICING** Products are carefully designed to minimise adverse selection. Rating factors are applied to standard premium rates to differentiate between different levels of risk. For example, premiums are differentiated by income, education level, smoker status, gender, medical history and age. – From January 2013 onwards, no differentiation of premiums or benefits on the basis of gender is allowed in the UK. – Discovery Life has the unique ability to take additional rating factors into account for example the current medical scheme claims and lifestyle factors. All new premium rates are reviewed and approved by either the Head of Actuarial Function or Actuarial Committee. Product integration between the different product offerings in Discovery helps to attract healthier lives than average in the market, leading to positive selection. The product integration incentivises engagement in the Vitality programme, which has a positive impact on risk experience. For certain of the product options offered under the individual life plans, Discovery has retained the option to review premium rates annually throughout the life of the contract because of uncertainties underlying the value of the benefits offered. Only premiums that can be predicted with confidence are guaranteed. Where guarantees are offered, Discovery guarantees that premiums can only be reviewed every 10 years and increased by a maximum of 25% over and above contractual premium increases. The guarantee provided to the policyholder will, however, be strengthened based on the policyholder's actual annual historic Vitality status. Discovery Life predominantly operates in the high end of the South African insurance market where the risk of HIV/AIDS is lower than for the South African market as a whole. The impact of HIV/AIDS is considered and allowed for during the product development and pricing.

2. MANAGEMENT OF INSURANCE RISK *continued*

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2020

2. MANAGEMENT OF INSURANCE RISK *continued*

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

2. MANAGEMENT OF INSURANCE RISK *continued*

Insurance risk	Description	How Discovery manages the risk
Underwriting experience risk *continued*		DISCOVERY INSURE Discovery Insure aims to manage risk through diversifying the pool of insured risks by establishing a balanced portfolio of insurance risks over a wide geographical area. Short-term insurance risks are priced on an individual basis, therefore a minimal cross subsidy exists between risks. Premiums are calculated using statistical regression techniques. Insurance risk factors identified would typically include past insurance history, type and value of asset covered, measures taken to protect the asset, primary use of covered item and various other pertinent factors. Discovery Insure's quotation and administration system calculates risk on an individual basis based on information captured by brokers and agents for each risk. Individual risks are accepted automatically up to cut-off limits which vary by risk type. Insurance conditions and exclusions are also automatically set at an individual risk level. Individual risks greater than the limit are automatically referred and underwritten by the underwriting department. No risks are accepted which exceed the upper limits of the reinsurance contracts without the necessary facultative cover being arranged. Discovery Insure uses telematics to manage risk. The telemetry received in respect of vehicles in which the devices are installed, highlights speeding, harsh breaking, harsh cornering and other risk related incidents. By informing the driver of how they are driving and in turn rewarding them for driving well, the risk of an accident is reduced. The 'deep install' device is also equipped with a stolen vehicle recovery transponder that increases the probability of recovering a vehicle should it be stolen.
		REINSURANCE – VITALITYHEALTH VitalityHealth currently utilises financial reinsurance to better match the high upfront costs of acquisition with the profit emergence across the lifetime of the policies written. VitalityHealth currently has quota share agreements in place with three reinsurers with an outstanding balance of GBP 175.8 million (R3 770 million) at year end (2019: GBP 154.2 million (R2 773 million)).

2. MANAGEMENT OF INSURANCE RISK *continued*

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

2.1 Capital adequacy requirements and protection against adverse experience

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

2.1.1 Discovery Life

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

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

2. MANAGEMENT OF INSURANCE RISK *continued*

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

2.1.1 Discovery Life *continued*

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

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

2.1.2 VitalityLife

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

The business that was written on Prudential Assurance Company's (PAC's) life insurance license (up to 31 December 2015) will, as per contractual agreement with PAC, still be valued under the Solvency I or old capital requirement rules described below until it is transferred to the VLL license. After this date this business would need to be fully Solvency II compliant. The business written on the own life insurance license within VitalityLife (from 1 January 2016) needs to be fully Solvency II compliant.

SOLVENCY I

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

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

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

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

- Mortality risk
- Expense risk
- Market risk
- Health risk.

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

SOLVENCY II

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

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

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

2. MANAGEMENT OF INSURANCE RISK *continued*

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

2.1.3 VitalityHealth

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

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

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

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

With effect from 1 January 2016 the insurance regulatory regime Solvency II was implemented in the UK. Refer to earlier in the report for discussion on Solvency II. Under this solvency regime, firms have the opportunity to either follow the standard formula approach, or apply to the regulators to move away from this. VitalityHealth follows a standard formula, and as such has a Solvency Capital Requirement in line with that prescribed. Annually, the business publically discloses a Solvency and Financial Condition Report (SFCR) alongside private disclosures to the regulators on its Own Risk and Solvency Assessment (ORSA). The standard formula approach is also annually reviewed to determine its appropriateness for the business and as at 30 June 2020 the standard formula review determined it was not an inappropriate assessment of the risks present in VitalityHealth.

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

2.1.4 Discovery Insure

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

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

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

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

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

2. MANAGEMENT OF INSURANCE RISK *continued*

2.2 Liquidity risk

2.2.1 Contracts that are long-term in nature

DISCOVERY LIFE AND DISCOVERY INVEST

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

R million	Total	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2020						
Discovery Life	**25 247**	**1 424**	**8 168**	**6 093**	**5 623**	**3 939**
Discovery Invest	**6 518**	**612**	**1 718**	**2 112**	**1 723**	**353**
2019						
Discovery Life	29 138	2 755	7 500	6 861	7 215	4 808
Discovery Invest	6 989	656	1 793	2 130	1 982	428

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

VITALITYLIFE, INCLUDING VITALITYINVEST

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

2.2.2 Contracts that are short-term in nature

VITALITYHEALTH

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

DISCOVERY INSURE

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

2. MANAGEMENT OF INSURANCE RISK *continued*

2.3 Concentration risk

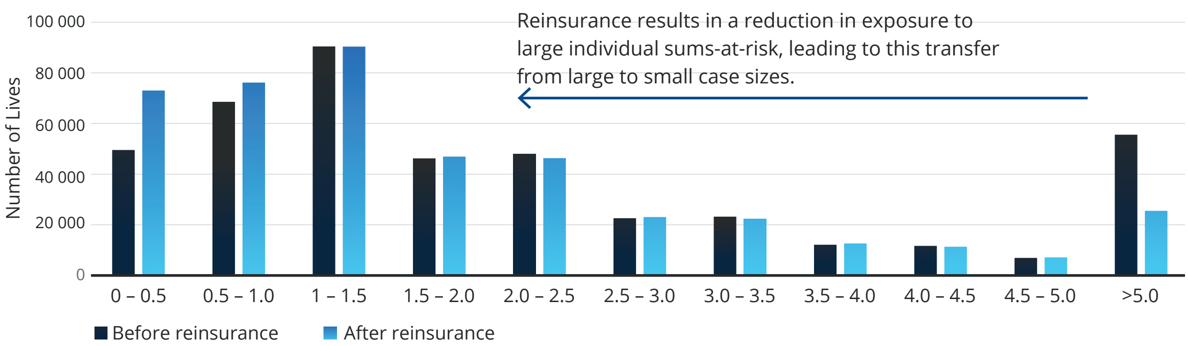
2.3.1 Claims experience risk

DISCOVERY LIFE

Discovery Life maintains a well-diversified portfolio of policies. Reinsurance is further used to protect against the concentration of risk. Catastrophe reinsurance protects against the accumulation of claims from a single event, for example an airplane crash. The catastrophe reinsurance for Discovery Life covers single event disasters for up to R830 million where the net of reinsurance impact is greater than R42 million. For its biggest four group schemes, a further layer of catastrophe reinsurance cover of R3 250 million in excess of R872 million is in place.

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

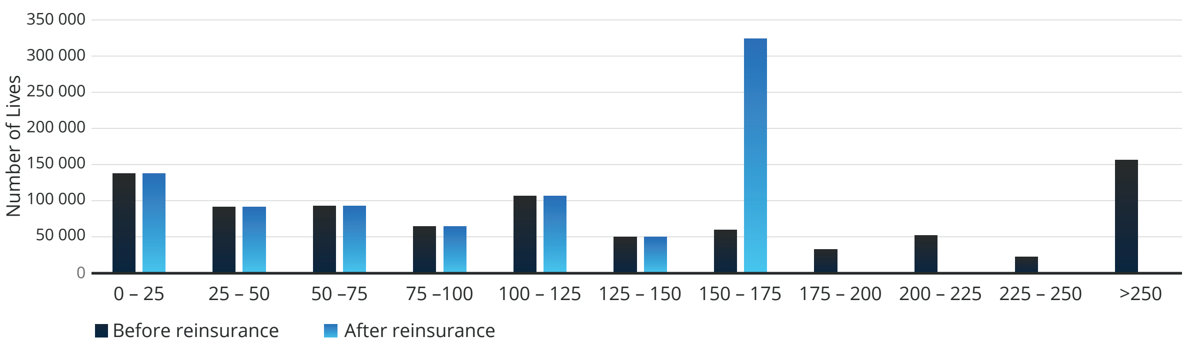
Distribution of Sums Retained: before and after reinsurance (Sum retained – Rm)



VITALITYLIFE

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

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



2. MANAGEMENT OF INSURANCE RISK *continued*

2.3 Concentration risk *continued*

2.3.1 Claims experience risk *continued*

VITALITYHEALTH

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

DISCOVERY INSURE

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

Discovery Insure is exposed to a concentration of insurance risk in the Gauteng province in South Africa where 47.1% (2019: 48.5%) of the total sum insured is domiciled.

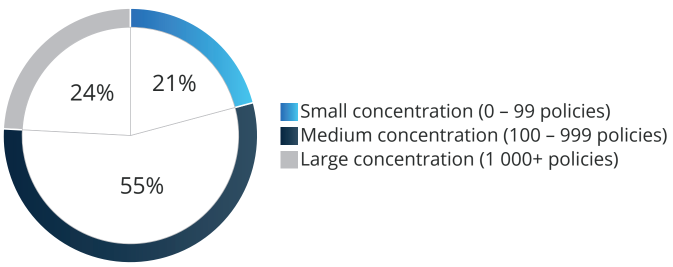
2.3.2 Withdrawal concentration risk

DISCOVERY LIFE AND VITALITYLIFE

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

	Brokers and agents		Maximum exposure to single intermediary % of total premium income	
	2020	2019	**2020**	2019
Long term insurance				
– Discovery Life	**7 683**	8 000	**2.1%**	1.2%
– VitalityLife	**28 580**	26 581	**3.1%**	1.56%

API concentation by intermediary – Discovery Life



2. MANAGEMENT OF INSURANCE RISK *continued*

2.4 Mismatching and market risk

2.4.1 Assets arising from insurance contracts

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

R million	2020	2019
Assets arising from insurance contracts relating to:		
– Discovery Life	**31 992**	33 873
– VitalityLife	**16 023**	14 908
– VItalityInvest	**27**	–
	48 042	48 781

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

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

- the prevailing risk-free SA gilt yield curve for Discovery Life; and
- a modified passive rate (2019: passive rates) for VitalityLife whereby the one-year average of the risk-free gilt yield is used. The assumption is only changed if the one-year average changes by more than a predetermined range around the set passive rate.

R million	Total	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2020						
Discovery Life	**31 992**	**1 314**	**9 225**	**8 576**	**7 738**	**5 139**
VitalityLife	**16 023**	**4 346**	**12 120**	**7 880**	**5 755**	**(14 078)**
2019						
Discovery Life	33 873	2 687	8 481	8 345	8 828	5 532

2. MANAGEMENT OF INSURANCE RISK *continued*

2.4 Mismatching risk *continued*

2.4.2 Liabilities arising from insurance contracts *continued*

Refer to page 57 for a breakdown of the assets backing these liabilities. A reconciliation of the liabilities arising from insurance contracts disclosed in the cash flows below to the Statement of financial position (refer to note 18):

R million	2020	2019
Long-term insurance contract liabilities with fixed and guaranteed terms	19 998	14 697
Negative insurance liability included in unit-linked insurance contracts	(4 894)	(4 372)
Discovery Invest value of liabilities arising from insurance contracts	**15 104**	10 325

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

R million	Total	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2020						
Discovery Invest	**(15 104)**	**(4 158)**	**(13 790)**	**1 447**	**1 429**	**(32)**
2019						
Discovery Invest	(10 325)	(2 713)	(10 099)	1 243	1 281	(37)

2.4.3 Market risk – Interest rate risk

DISCOVERY LIFE

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

VITALITYLIFE

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

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

The derivative instruments comprise of:

- Two interest rate swaps, with a nominal value of GBP 350 million (R7 505 million) and GBP 90 million (R1 930 million) respectively. These interest rate swap derivatives swap exposure to variable interest rates in return for a fixed interest rate referenced to the 25-year UK swap rate as at 25 October 2019 ('reference swap rate 1') and 10 June 2020 ('reference swap rate 2') respectively. Both interest rate swap derivatives are in place for an extended period of time; and
- Two put swap options (payer swaption) acquired during the period. Swaption one which was acquired at a premium of GBP 6.2 million (R133 million) and was settled before year-end. Swaption two was acquired for GBP 12.3 million (R264 million) and is valid until May 2023. These swaptions give Discovery the participation in the benefit should interest rates rise by more than 0.45% above reference rate 1 and 0.88% above reference rate 2.

2. MANAGEMENT OF INSURANCE RISK *continued*

2.4 Mismatching risk *continued*

2.4.3 Market risk – Interest rate risk *continued*

VITALITYLIFE *continued*

Due to the nature of the underlying exposures, the hedge accounting requirements of IFRS were not met. Therefore, these two derivative instruments were classified at fair value with changes recognised in profit or loss throughout the term which may result in volatility in the reported IFRS earnings of VitalityLife. As at 30 June 2020, the following mark-to-market positions were recorded:

	Line item in financial statements	June 2020
Statement of financial position		
Interest rate swap valuation	**Financial assets:** Derivative – financial instruments at fair value through profit or loss	**GBP 44.3 million (R950 million)**
Swaption valuation	**Financial assets:** Derivative – financial instruments at fair value through profit or loss	**GBP 0.1 million (R2 million)**
	Original premium	**GBP 18.5 million (R396 million)**
	Deferred payments	**(GBP 12.3 million) ((R264 million))**
	Fair value remeasurement	**(GBP 6.1 million) ((R120 million))**
Income statement		
Fair value remeasurement loss	Net fair value gains/(losses) on financial assets at fair value through profit or loss	**GBP 38.4 million (R758 million)**
Transaction costs	Marketing and administration expenses	**GBP 2.3 million (R45 million)**

From an economic perspective, VitalityLife effectively fixed the reference swap rate as at 25 October 2019 (being 0.96%). In doing so, VitalityLife limited its exposure to approximately GBP 43.7 million (R937 million) as a result of the valuation of specified future policy obligations. This estimate excludes the cost of option premiums and ignores any potential basis risk.

DISCOVERY LIFE AND DISCOVERY INVEST

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

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

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

2.4.4 Market Risk – Currency risk

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

Other insurance business lines do not have significant currency risk.

2. MANAGEMENT OF INSURANCE RISK *continued*

2.5 Sensitivity analysis

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

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

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

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

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

2.5.1 Discovery Life

	Gross exposure		Net of reinsurance	
	Assets under insurance contracts R million	Change from base assumption %	Assets under insurance contracts R million	Change from base assumption %
Base: June 2020 assumptions	**31 992**		**28 819**	
Lapses +10% (e.g. from x% to 1.1x%)	**28 583**	**(10.7)**	**25 572**	**(11.3)**
Lapses –10% (e.g. from x% to 0.9x%)	**36 092**	**12.8**	**32 744**	**13.6**
Investment return and inflation –1% (e.g. from 5% to 4%)	**33 050**	**3.3**	**29 801**	**3.4**
Investment return and inflation +1% (e.g. from 5% to 6%)	**30 857**	**(3.5)**	**27 762**	**(3.7)**
Expense assumption +10%	**31 505**	**(1.5)**	**28 332**	**(1.7)**
Expense assumption –10%	**32 479**	**1.5**	**29 306**	**1.7**
Mortality and morbidity +10%	**25 932**	**(18.9)**	**24 124**	**(16.3)**
Mortality and morbidity –10%	**38 244**	**19.5**	**33 712**	**17.0**
Real curve –1% and inflation +1%	**33 816**	**5.7**	**30 399**	**5.5**
Real curve +1% and inflaton –1%	**30 360**	**(5.1)**	**27 407**	**(4.9)**
Base: June 2019 assumptions	33 873		30 061	
Lapses +10% (e.g. from x% to 1.1x%)	30 008	(11.4)	26 378	(12.3)
Lapses –10% (e.g. from x% to 0.9x%)	38 557	13.8	34 547	14.9
Investment return and inflation –1% (e.g. from 5% to 4%)	35 033	3.4	31 111	3.5
Investment return and inflation +1% (e.g. from 5% to 6%)	32 759	(3.3)	29 039	(3.4)
Expense assumption +10%	33 375	(1.5)	29 563	(1.7)
Expense assumption –10%	34 371	1.5	30 559	1.7
Mortality and morbidity +10%	27 373	(19.2)	25 041	(16.7)
Mortality and morbidity –10%	40 602	19.9	35 312	17.5
Real curve –1% and inflation +1%	36 032	6.4	31 928	6.2
Real curve +1% and inflaton –1%	32 089	(5.3)	28 522	(5.1)

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

The above sensitivities reflect the impact on profit or loss if there not discretionary margins.

2. MANAGEMENT OF INSURANCE RISK *continued*

2.5 Sensitivity analysis *continued*

2.5.1 Discovery Life *continued*

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

	Liabilities under insurance contracts R million	Change from base assumption %
Base: June 2020 assumptions	**15 104**	
Lapses +10% (e.g. from x% to 1.1x%)	**15 225**	**0.8**
Lapses –10% (e.g. from x% to 0.9x%)	**15 028**	**(0.5)**
Investment return and inflation –1% (e.g. from 5% to 4%)	**15 680**	**3.8**
Investment return and inflation +1% (e.g. from 5% to 6%)	**14 554**	**(3.6)**
Expense assumption +10%	**15 199**	**0.6**
Expense assumption –10%	**15 008**	**(0.6)**
Mortality and morbidity +10%	**15 133**	**0.2**
Mortality and morbidity –10%	**15 073**	**(0.2)**
Real curve –1% and inflation +1%	**15 000**	**(0.7)**
Real curve +1% and inflaton –1%	**15 230**	**0.8**
Base: June 2019 assumptions	10 325	
Lapses +10% (e.g. from x% to 1.1x%)	10 346	0.2
Lapses –10% (e.g. from x% to 0.9x%)	10 361	0.3
Investment return and inflation –1% (e.g. from 5% to 4%)	10 792	4.5
Investment return and inflation +1% (e.g. from 5% to 6%)	9 880	(4.3)
Expense assumption +10%	10 423	0.9
Expense assumption –10%	10 225	(1.0)
Mortality and morbidity +10%	10 353	0.3
Mortality and morbidity –10%	10 295	(0.3)
Real curve –1% and inflation +1%	10 464	1.4
Real curve +1% and inflaton –1%	10 210	(1.1)

2.5.2 VitalityLife – assets arising from insurance contracts

	Gross exposure		Net of Reinsurance	
	Assets arising from insurance contracts R million	Change from base assumption %	Assets arising from insurance contracts R million	Change from base assumption %
Base: June 2020 assumptions	**16 023**		**8 153**	
Lapses +10% (e.g. from x% to 1.1x%)	**15 667**	**(2.2)**	**7 992**	**(2.0)**
Lapses –10% (e.g. from x% to 0.9x%)	**16 380**	**2.2**	**8 321**	**2.1**
Investment return and inflation –1% (e.g. from 5% to 4%)	**13 440**	**(16.1)**	**5 284**	**(35.2)**
Investment return and inflation +1% (e.g. from 5% to 6%)	**17 587**	**9.8**	**9 987**	**22.5**
Expense assumption +10%	**15 767**	**(1.6)**	**7 897**	**(3.1)**
Expense assumption –10%	**16 279**	**1.6**	**8 409**	**3.1**
Mortality and morbidity +10%	**13 939**	**(13.0)**	**7 277**	**(10.7)**
Mortality and morbidity –10%	**18 115**	**13.1**	**8 987**	**10.2**
Real curve -1% and inflation +1%	**17 487**	**9.1**	**9 959**	**22.2**
Real curve +1% and inflaton –1%	**13 344**	**(16.7)**	**5 088**	**(37.6)**
Base: June 2019 assumptions	14 908		9 347	
Lapses +10% (e.g. from x% to 1.1x%)	14 464	(3.0)	9 019	(3.5)
Lapses –10% (e.g. from x% to 0.9x%)	15 387	3.2	9 704	3.8
Investment return and inflation –1% (e.g. from 5% to 4%)	13 545	(9.1)	7 794	(16.6)
Investment return and inflation +1% (e.g. from 5% to 6%)	15 729	5.5	10 345	10.7
Expense assumption +10%	14 726	(1.2)	9 166	(1.9)
Expense assumption –10%	15 096	1.3	9 536	2.0
Mortality and morbidity +10%	13 523	(9.3)	8 643	(7.5)
Mortality and morbidity –10%	16 307	9.4	10 048	7.5
Real curve –1% and inflation +1%	15 608	4.7	10 267	9.8
Real curve +1% and inflaton –1%	13 564	(9.0)	7 758	(17.0)

The above sensitivities reflect the impact on profit or loss if there not discretionary margins.

2. MANAGEMENT OF INSURANCE RISK *continued*

2.5 Sensitivity analysis *continued*

2.5.3 VitalityHealth – IBNR Reserves

VitalityHealth's reserves are set based on traditional actuarial chain ladder models. The chain ladder models assume that there is stability in the delays from treatment date to payment date (therefore future payments can be estimated using historical experience). Within the monthly reserving process, adjustments to the model results are made where evidence arises that there are changes in development patterns.

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

The IBNR is GBP 27.7 million (R497 million) at 30 June 2020 (2019: GBP 26.7 million (R485 million)), which approximates 1.2 months' worth of claims – which is the expected delay in claims reporting discussed above. Claims provisions at 30 June 2020 includes a supplier settlement and disputed claims provision reflecting the probability weighted settlement of supplier invoices and claims in dispute. The total of such provisions is GBP 1.5 million (R27 million) (2019: GBP 3 million (R54 million)).

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

Million	**2020 Rands**	2019 Rands	**2020 GBP**	2019 GBP
Base case	**603**	497	**28.1**	27.7
Lower bound	**493**	445	**23.0**	24.8
Upper bound	**658**	551	**29.3**	30.7

2.5.4 INSURE – IBNR Reserves

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

The claims reserve for the personal lines business – made up of both the IBNR and OCR reserves – is R295 million at 30 June 2020 (2019: R280 million). Sensitivity tests were performed with the results on the outlined below. Currently the IBNR reserve is set at the 71st percentile level. Given the OCR is not probabilistic in nature, the sensitivity tests are performed purely on the IBNR reserve.

Million	**2020 Rands**	2019 Rands
Base case (71st percentile)	**295.0**	280.3
50th percentile	**261.0**	273.6
95th percentile	**355.0**	292.2

3. MANAGEMENT OF FINANCIAL RISK

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

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

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

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

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

Financial risks are managed by Discovery as follows:

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

Discovery has not significantly changed the processes used to manage its financial risks from previous periods.

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

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

3. MANAGEMENT OF FINANCIAL RISK *continued*

The following tables reconcile the Group Statement of financial position to the classes of risks and the categories listed on the previous page. The look-through basis has been applied to investments in mutual funds to assist in the identification of Discovery's financial risks and will not agree to the investment disclosure in note 12.

					Shareholder	
Group R million	Total	Unit-linked investment contracts	Unit-linked insurance contracts	Insurance contracts[1]	Financial assets and liabilities	Other assets and liabilities
30 June 2020						
Assets arising from insurance contracts	**48 042**	**–**	**–**	**48 042**	**–**	**–**
Financial instruments mandatorily at fair value through profit or loss:						
Listed:						
– Equity securities	**44 748**	**13 638**	**30 563**	**258**	**289**	**–**
– Equity linked notes	**639**	**103**	**513**	**1**	**22**	**–**
– Debt securities	**35 886**	**5 872**	**12 840**	**15 370**	**1 804**	**–**
– Inflation linked securities	**1 896**	**–**	**428**	**1 466**	**2**	**–**
– Money market securities	**8 984**	**1 286**	**3 281**	**63**	**4 354**	**–**
Unlisted:						
– Equity securities	**208**	**11**	**165**	**–**	**32**	**–**
– Equity linked notes	**1 785**	**35**	**1 739**	**–**	**11**	**–**
– Debt securities	**23**	**3**	**8**	**12**	**–**	**–**
– Inflation linked securities	**20**	**–**	**20**	**–**	**–**	**–**
– Money market securities	**8 525**	**1 381**	**2 923**	**3 080**	**1 141**	**–**
At amortised cost:						
Unlisted:						
– Debt	**439**	**–**	**–**	**–**	**439**	**–**
– Fixed deposits	**2 084**	**–**	**–**	**–**	**2 084**	**–**
Derivative financial instruments at fair value:						
– used as cash flow hedges	**14**	**–**	**–**	**–**	**14**	**–**
– not designated as hedging instruments	**1 356**	**–**	**–**	**–**	**1 356**	**–**
Receivables:						
– Insurance receivables	**6 179**	**–**	**–**	**–**	**6 179**	**–**
– Contract receivables	**1 413**	**–**	**–**	**–**	**1 413**	**–**
– Other receivables	**3 844**	**420**	**806**	**15**	**1 522**	**1 081**
Loans and advances	**1 848**	**–**	**–**	**–**	**1 848**	**–**
Reinsurance contracts	**400**	**–**	**–**	**400**	**–**	**–**
Cash and cash equivalents	**17 909**	**483**	**2 014**	**5**	**15 407**	**–**
Other assets	**24 086**	**–**	**854**	**–**	**–**	**23 232**
Total assets	**210 328**	**23 232**	**56 154**	**68 712**	**37 917**	**24 313**
Liabilities arising from insurance contracts	**82 411**	**–**	**49 783**	**32 628**	**–**	**–**
Liabilities arising from reinsurance contracts	**12 465**	**–**	**–**	**12 465**	**–**	**–**
Borrowings at amortised cost	**19 836**	**–**	**–**	**–**	**19 836**	**–**
Investment contracts at fair value through profit or loss	**23 012**	**23 012**	**–**	**–**	**–**	**–**
Derivative financial instruments at fair value:						
– used as cash flow hedges	**854**	**–**	**–**	**–**	**854**	**–**
– not designated as hedging instruments	**138**	**1**	**2**	**–**	**135**	**–**
Other payables at amortised cost	**14 233**	**219**	**621**	**315**	**12 778**	**300**
Customer deposits	**2 427**	**–**	**–**	**–**	**2 427**	**–**
Other liabilities	**10 399**	**–**	**–**	**–**	**–**	**10 399**
Total liabilities	**165 775**	**23 232**	**50 406**	**45 408**	**36 030**	**10 699**

3. MANAGEMENT OF FINANCIAL RISK *continued*

Group R million	Total	Unit-linked investment contracts	Unit-linked insurance contracts	Insurance contracts	Shareholder Financial assets and liabilities	Shareholder Other assets and liabilities
30 June 2019						
Assets arising from insurance contracts	48 781	–	–	48 781	–	–
Financial instruments mandatorily at fair value through profit or loss:						
Listed:						
– Equity securities	42 290	13 462	28 068	148	612	–
– Equity linked notes	2 066	135	1 910	–	21	–
– Debt securities	25 942	3 478	10 128	10 224	2 112	–
– Inflation linked securities	1 222	47	176	998	1	–
– Money market securities	4 276	452	1 678	31	2 115	–
Unlisted:						
– Equity securities	1 052	327	697	8	20	–
– Equity linked notes	1 062	47	995	1	19	–
– Debt securities	177	49	125	–	3	–
– Inflation linked securities	28	–	28	–	–	–
– Money market securities	12 090	1 933	4 024	3 988	2 145	–
At amortised cost:						
Unlisted:						
– Debt	26	–	–	–	26	–
– Fixed deposits	1 917	–	–	–	1 917	–
Derivative financial instruments at fair value:						
– used as cash flow hedges	176	–	–	–	176	–
– not designated as hedging instruments	199	4	14	–	181	–
Receivables:						
– Insurance receivables	4 920	–	–	–	4 920	–
– Contract receivables	1 369	–	–	–	1 369	–
– Other receivables	2 726	219	478	2	1 178	849
Reinsurance contracts	314	–	–	314	–	–
Cash and cash equivalents	9 403	691	2 053	7	6 652	–
Other assets	20 197	–	728	–	–	19 469
Total assets	180 233	20 844	51 102	64 502	23 467	20 318
Liabilities arising from insurance contracts	70 522	–	45 448	25 074	–	–
Liabilities arising from reinsurance contracts	10 835	–	–	10 835	–	–
Borrowings at amortised cost	14 682	–	–	–	14 682	–
Investment contracts at fair value through profit or loss	20 674	20 674	–	–	–	–
Derivative financial instruments at fair value:						
– used as cash flow hedges	250	–	–	–	250	–
– not designated as hedging instruments	259	4	11	–	244	–
Other payables at amortised cost	10 262	166	543	189	9 222	142
Other liabilities	9 666	–	–	–	–	9 666
Total liabilities	137 150	20 844	46 002	36 098	24 398	9 808

3. MANAGEMENT OF FINANCIAL RISK *continued*

The financial risks associated with each category are discussed below.

3.1 Unit-linked investment contracts

Unit-linked investment contracts relate to contracts where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. The market risk (including equity price, interest rate and currency risk) for these contacts are therefore borne by the policyholder. Discovery holds the assets on which the unit prices are based and as a result there is no mismatch.

Group R million	June 2020	June 2019
Financial instruments mandatorily at fair value through profit or loss:		
Listed:		
– Equity securities	**13 638**	13 462
– Equity linked notes	**103**	135
– Debt securities	**5 872**	3 478
– Inflation linked securities	**–**	47
– Money market securities	**1 286**	452
Unlisted:		
– Equity securities	**11**	327
– Equity linked notes	**35**	47
– Debt securities	**3**	49
– Money market securities	**1 381**	1 933
Derivative financial instruments at fair value:		
– not designated as hedging instruments	**–**	4
Receivables:		
– Other receivables	**420**	219
Cash and cash equivalents	**483**	691
Total assets	**23 232**	20 844
Investment contracts at fair value through profit or loss	**23 012**	20 674
Derivative financial instruments at fair value:		
– not designated as hedging instruments	**1**	4
Other payables at amortised cost	**219**	166
Total liabilities	**23 232**	20 844

3.1.1 Market risk

Discovery's primary exposure to market risk from these contracts is the volatility in asset management fees earned by Discovery, due to the impact of interest rate, equity price and currency movements on the fair value of the assets held in the linked funds, on which the investment management fees are based. A decrease of 10% in the value of the assets would reduce the asset management fees by R45 million per annum (2019: R43 million).

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

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.1 Unit-linked investment contracts *continued*

3.1.2 Credit risk

Credit risk is borne by the policyholder. For the majority of the unit-linked investments, Discovery has invested in mutual funds in order to provide for obligations under unit-linked investment contract liabilities. Each mutual fund has its own legal constitution and operates within a mandate that is delegated to the appointed fund manager. Credit risks assumed within the assets held are controlled by various protection mechanisms within the mandate and in law. For example, the Collective Investment Schemes Control Act of 2002, in South Africa prescribes maximum limits to concentration risk exposures. Each fund's trustees or board appoints administrators who are responsible to ensure that the fund's mandate and any internal and legislated control procedures are adhered to. In the event of breach they are obligated to bring it immediately to the attention of the fund's trustees or board and management of the administrators for remedial action.

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

3.1.3 Liquidity risk

Certain contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. This surrender value is equal to or less than the carrying amount of the contract liabilities. If all the contracts with this option were surrendered at the financial year-end, a loss of R533 million (2019: R447 million) would have been recorded in profit or loss. This loss would result from an impairment to the asset raised for costs of obtaining contracts, but the impact is reduced by the surrender penalties receivable. A maturity analysis based on the earliest contractual repayment date would present 100% (2019: 100%) of the policyholder liabilities due within one year. The assets held to match these policyholder liabilities are realisable in the short-term.

3.2 Unit-linked insurance contracts

A unit-linked insurance contract is an IFRS-defined insurance contract with a component that is linked to the units of an underlying portfolio. For this component, Discovery holds the assets on which the unit prices are based. However, the gross unit liabilities are reduced by the present value of future charges less the present value of future expenses and risk claims. Some market risk is therefore retained on these contracts. The unit-linked component is not accounted for separately from the host insurance contract.

	Investments held at risk of investment policyholders	
Group R million	**June 2020**	June 2019
Financial instruments mandatorily at fair value through profit or loss:		
Listed:		
– Equity securities	**30 563**	28 068
– Equity linked notes	**513**	1 910
– Debt securities	**12 840**	10 128
– Inflation linked securities	**428**	176
– Money market securities	**3 281**	1 678
Unlisted:		
– Equity securities	**165**	697
– Equity linked notes	**1 739**	995
– Debt securities	**8**	125
– Inflation linked securities	**20**	28
– Money market securities	**2 923**	4 024
Derivative financial instruments at fair value:		
– not designated as hedging instruments	**–**	14
Receivables:		
– Other receivables	**806**	478
Cash and cash equivalents	**2 014**	2 053
Other assets	**854**	728
Total assets	**56 154**	51 102
Liabilities arising from insurance contracts	**49 783**	45 448
Borrowings at amortised cost		–
Derivative financial instruments at fair value:		
– not designated as hedging instruments	**2**	11
Other payables at amortised cost	**621**	543
Total liabilities	**50 406**	46 002

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.2 Unit-linked insurance contracts *continued*

The assets are greater than the liabilities as a result of the Negative insurance liability of R4 894 million (2019: R4 372 million) included in unit-linked insurance contracts (refer to note 18) and the deferred tax asset of R854 million (2019: R728 million) in relation to the Individual Policyholder Fund.

3.2.1 Market risk

Discovery's primary exposure to market risk from these contracts is the volatility in asset management fees due to the impact of interest rate, equity price and currency movements on the fair value of the assets held in the linked funds, on which the investment management fees are based. A decrease of 10% in the value of the assets would reduce the asset management fees by R111 million per annum (2019: R109 million).

3.2.2 Credit risk

Credit risk is borne by the policyholder. For the majority of the unit-linked investments, Discovery has invested in mutual funds in order to provide for obligations under unit-linked insurance contract liabilities. Each mutual fund has its own legal constitution and operates within a mandate that is delegated to the appointed fund manager. Credit risks assumed within the assets held are controlled by various protection mechanisms within the mandate and in law. For example, the Collective Investment Schemes Control Act of 2002, in South Africa prescribes maximum limits to concentration risk exposures. Each fund's trustees or board appoints administrators who are responsible to ensure that the fund's mandate and any internal and legislated control procedures are adhered to. In the event of breach they are obligated to bring it immediately to the attention of the fund's trustees or board and management of the administrators for remedial action.

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

3.2.3 Liquidity risk

All contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. This surrender value is equal to or less than the carrying amount of the contract liabilities. If all the contracts with this option were surrendered at the financial year-end, a loss of R5 175 million (2019: R4 481 million) would have been recorded in profit or loss. This loss results from the impairment of assets arising from insurance contracts relating to these contracts, but the impact is reduced by the surrender penalties receivable.

A maturity analysis based on the earliest contractual repayment date would present R54 433 million (2019: R48 780 million) of the liabilities as due on the earliest period of the table (between 0 and one year), R23 million (2019: R38 million) of the liabilities would be due between one and two years, and R190 million (2019: R155 million) of the liabilities would be due between three and five years. The assets held to match these policyholder liabilities are very liquid.

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.3 Insurance contracts

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

Group R million	June 2020	June 2019
Assets arising from insurance contracts	**48 042**	48 781
Financial instruments mandatorily at fair value through profit or loss:		
Listed:		
– Equity securities	**258**	148
– Equity linked notes	**1**	–
– Debt securities	**15 370**	10 224
– Inflation linked securities	**1 466**	998
– Money market securities	**63**	31
Unlisted:		
– Equity securities	**–**	8
– Equity linked notes	**–**	1
– Debt securities	**12**	–
– Money market securities	**3 080**	3 988
Receivables:		
– Other receivables	**15**	2
Reinsurance contracts	**400**	314
Cash and cash equivalents	**5**	7
Total assets	**68 712**	64 502
Liabilities arising from insurance contracts	**32 628**	25 074
Liabilities arising from reinsurance contracts	**12 465**	10 835
Other payables at amortised cost	**315**	189
Total liabilities	**45 408**	36 098

3.3.1 Market risk

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

3.3.2 Credit risk

Discovery is exposed to credit risk through financial investments comprising money market and debt instruments entered into to match policyholders' insurance contract liabilities. Discovery is exposed to the issuer's credit standing on these instruments which is monitored by the CCIC by setting a minimum credit rating. Discovery has appointed reputable asset managers to manage these instruments. Information regarding the aggregated credit risk exposure for debt and money market instruments categorised by Moody's credit ratings is provided below. Refer to www.moodys.com for rating definitions.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2020

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.3 Insurance contracts *continued*

3.3.2 Credit risk *continued*

Group R million	Total	Aaa	Aa1 Aa2 Aa3	A1 A2 A3	Baa1 Baa2 Baa3	Govt[1]	Not rated
30 June 2020							
Financial instruments mandatorily at fair value through profit or loss:							
Listed:							
– Equity securities	**258**	**–**	**–**	**–**	**–**	**–**	**258**
– Equity linked notes	**1**	**–**	**–**	**–**	**–**	**–**	**1**
– Debt securities	**15 370**	**718**	**69**	**8**	**–**	**14 554**	**21**
– Inflation linked securities	**1 466**	**245**	**176**	**–**	**–**	**1 045**	**–**
– Money market securities	**63**	**–**	**38**	**25**	**–**	**–**	**–**
Unlisted:							
– Debt securities	**12**	**12**	**–**	**–**	**–**	**–**	**–**
– Money market securities	**3 080**	**1 811**	**782**	**481**	**–**	**–**	**6**
Cash and cash equivalents	**5**	**4**	**1**	**–**	**–**	**–**	**–**
	20 255	**2 790**	**1 066**	**514**	**–**	**15 599**	**286**
30 June 2019							
Financial instruments at fair value through profit or loss:							
Listed:							
– Equity securities	148	–	–	–	–	–	148
– Debt securities	10 224	54	145	4	–	10 020	1
– Inflation linked securities	998	–	20	–	–	978	–
– Money market securities	31	–	18	10	–	–	3
Unlisted:							
– Equity securities	8	–	–	–	–	–	8
– Equity linked notes	1	–	–	–	–	–	1
– Money market securities	3 988	50	1 137	2 346	406	–	49
– Cash and cash equivalents	7	1	6	–	–	–	–
	15 405	105	1 326	2 360	406	10 998	210

1 *These instruments are held in the South African government.*

3.3.3 Liquidity risk

The liquidity risk for assets and liabilities arising from insurance contracts are discussed in insurance risks on pages 36 and 37. The financial investments held at fair value through profit or loss are realisable in the short term.

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities

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

	Investments held at risk of shareholders	
Group R million	**June 2020**	June 2019
Financial instruments mandatorily at fair value through profit or loss:		
Listed:		
– Equity securities	**289**	612
– Equity linked notes	**22**	21
– Debt securities	**1 804**	2 112
– Inflation linked securities	**2**	1
– Money market securities	**4 354**	2 115
Unlisted:		
– Equity securities	**32**	20
– Equity linked notes	**11**	19
– Debt securities	**–**	3
– Money market securities	**1 141**	2 145
At amortised cost:		
Unlisted:		
– Debt	**439**	26
– Fixed deposits	**2 084**	1 917
Derivative financial instruments at fair value:		
– used as cash flow hedges	**14**	176
– not designated as hedging instruments	**1 356**	181
Receivables:		
– Insurance receivables	**6 179**	4 920
– Contract receivables	**1 413**	1 369
– Other receivables	**1 522**	1 178
Loans and advances	**1 848**	–
Cash and cash equivalents	**15 407**	6 652
Total assets	**37 917**	23 467
Borrowings at amortised cost	**19 836**	14 682
Derivative financial instruments at fair value:		
– used as cash flow hedges	**854**	250
– not designated as hedging instruments	**135**	244
Customer deposits	**2 427**	–
Other payables at amortised cost	**12 778**	9 222
Total liabilities	**36 030**	24 398

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

3.4.1 Market risk

EQUITY PRICE RISK

INVESTMENTS

Discovery is exposed to equity price risk because of investments held by the Group which have been classified as investments at fair value through profit or loss (FVTPL), on the Statement of financial position. To manage its equity risk arising from investments in equity securities and equity linked notes of R311 million (2019: R633 million), the Group diversifies its portfolio and uses experienced asset managers.

For shareholder investments, a 10% increase in the equity markets would result in a profit of R9 million before tax (2019: R63 million). A 10% decrease in the equity markets would result in a loss of R9 million before tax (2019: R5 million). This impact would be recognised in the Income statement. The sensitivity is based on the assumption that the equity markets had increased/decreased by 10% with all other variables held constant.

HEDGE DERIVATIVE INSTRUMENTS

Discovery is also exposed to equity price risk through its cash-settled share incentive schemes, namely the Phantom share scheme and the Acquisition share scheme, the details of which are described in note 31. This liability has been included in Other payables at amortised cost in the table in note 3.4. To manage this risk, Discovery has purchased a combination of total return equity swaps (TRS) and call options from Ba2 – Baa3 (2019: Baa or A-rated) South African banks to hedge a portion of its exposure to changes in the Discovery share price.

Hedge ineffectiveness for TRS and call options can arise from:

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

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

Discovery hedges circa 90% of its exposure for those hedges is substantively matching the critical terms of the hedging instrument and hedged item (such as the settlement dates, maturity dates, notional amounts).

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

3.4.1 Market risk *continued*

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

As at 30 June 2020, approximately 100% (2019: 92%) of this exposure is hedged. The hedges were designed to be highly effective, where the critical terms of the hedge or return swaps substantially match that of the phantom share scheme on a per instrument basis. Combinations of total return, total return equity swaps and call options were designated on a unit for unit basis to substantially match the terms of the phantom share and call option units.

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

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

Maturity date	Strike price	Number of call options
2020		
Year end June 2021	**110.40 – 141.65**	**754 076**
Year end June 2022	**110.40 – 141.65**	**272 942**
Year end June 2023	**141.65**	**170 827**
2019		
Year end June 2020	97.89 – 141.65	1 330 267
Year end June 2021	110.40 – 141.65	754 076
Year end June 2022	110.40 – 141.65	272 942
Year end June 2023	141.65	170 827

The notional value of the outstanding cash-settled call options held by the Group at 30 June 2020 was R161 million (2019: R319 million).

The fair value of the call options is repriced at each reporting date and was calculated on a Black-Scholes model using the same assumptions as tabled in note 33.

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

Maturity date	Reference price	Number of total return equity swaps
2020		
Year end June 2021	**114.96 – 173.59**	**2 058 914**
Year end June 2022	**114.96 – 173.59**	**1 655 491**
Year end June 2023	**141.65 – 173.59**	**1 085 365**
Year end June 2024	**147.04 – 173.59**	**499 954**
2019		
Year end June 2020	97.89 – 171.04	1 727 832
Year end June 2021	114.96 – 173.59	1 941 355
Year end June 2022	129.13 – 173.59	1 641 637
Year end June 2023	141.65 – 173.59	1 071 511
Year end June 2024	173.59	486 100

The notional value of the outstanding total TRS held by the Group at 30 June 2020 was R791 million (2019: R990 million). The fair value of the TRS is calculated by discounting the future cash flows of the instruments.

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

II. ACQUISITION SHARE SCHEME

As at 30 June 2020, approximately 98% (2019: 89%) of this exposure is hedged. The hedges were designed to be highly effective, where the terms of the hedge or total return equity swaps substantially match that of the acquisition share scheme on a per instrument basis.

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

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

Maturity date	Reference price	Number of total return equity swaps
2020		
Year ended June 2021	**118.31 – 150.38**	**618 591**
Year ended June 2022	**129.00 – 150.51**	**698 716**
Year ended June 2023	**147.50 – 150.51**	**579 914**
Year ended June 2024	**150.38 – 150.51**	**119 956**
Year ended June 2025	**150.51**	**97 818**
2019		
Year ended June 2020	118.31 – 150.38	620 348
Year ended June 2021	118.31 – 150.38	618 591
Year ended June 2022	129.00 – 150.38	592 267
Year ended June 2023	147.50 – 150.38	78 422
Year ended June 2024	150.38	19 261

The notional value of the outstanding total return equity swaps held by the Group at 30 June 2020 was R324 million (2019: R270 million). The fair value of the total return equity swaps is calculated by discounting the future cash flows of the instruments.

At 30 June 2020, the fair value of the derivative instruments purchased to hedge the Phantom and Acquisition share schemes, is R324 million (2019: R90 million) (refer to note 13). To reduce the credit risk exposure from the hedge derivative instruments purchased, Discovery has entered into collateral agreements with the relevant financial institutions to post cash collateral periodically, equal to the fair value of the derivatives.

Discovery does not hold any cash collateral at 30 June 2020 (2019: R285 million) (refer to note 22). A total of R407 million cash collateral is being held by counterparty banks (refer to note 14) at 30 June 2020. The posting of the collateral does not result in legal settlement of the outstanding derivative balance. The collateral will only be used to settle the derivative upon default or bankruptcy of either party. The offsetting requirements of IAS 32 are therefore not met.

Discovery recognises the effective portion of fair value changes of derivatives that are designated and qualify as cash flow hedges and prove to be highly effective in relation to the hedged risk, in the cash flow hedging reserve in the Statement of other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. A loss of R13 million (2019: R5 million gain) was recognised in profit or loss during the current year as a result of ineffectiveness. This amount has been included under 'Net fair value gains on financial assets at fair value through profit or loss', in the Income statement (refer to note 27).

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

Group R million	June 2020	June 2019
Balance at beginning of the year	**–**	(57)
Unrealised losses accumulated in equity	**(409)**	(33)
Tax on unrealised losses	**59**	7
Recycled to profit or loss during the current year[1]	**309**	104
Tax on recycled gains	**(46)**	(21)
Balance at end of the year	**(87)**	–

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2020

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

	June 2020	June 2019
Recycled to profit or loss within one year	**(12)**	(2)
Recycled to profit or loss within two to five years	**(75)**	3
	(87)	1

INTEREST RATE RISK

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

Group R million	Carrying amount	Fixed	Floating	Non-interest bearing
June 2020				
Financial instruments mandatorily at fair value through profit or loss:				
Listed:				
– Equity securities	289	–	–	289
– Equity linked notes	22	–	–	22
– Debt securities	1 804	1 264	529	11
– Inflation linked securities	2	2	–	–
– Money market securities	4 354	2 337	1 991	26
Unlisted:				
– Equity securities	32	–	–	32
– Equity linked notes	11	–	–	11
– Money market securities	1 141	330	755	56
At amortised cost:				
Unlisted:				
– Debt	439	439	–	–
– Fixed deposits	2 084	246	1 838	–
Derivative financial instruments at fair value:				
– used as cash flow hedges	14	14	–	–
– not designated as hedging instruments	1 356	–	1 093	263
Receivables				
– Insurance receivables	6 179	23	–	6 156
– Contract receivables	1 413	–	39	1 374
– Other receivables	1 522	29	620	873
Loans and advances	1 848	–	1 848	–
Cash and cash equivalents	15 407	1 308	13 924	175
Total financial assets	**37 917**	**5 992**	**22 637**	**9 288**
Borrowings at amortised cost	19 836	10 172	9 664	–
Derivative financial instruments at fair value:				
– used as cash flow hedges	854	853	–	1
– not designated as hedging instruments	135	41	5	89
Customer deposits	2 427	599	–	1 828
Other payables at amortised cost	12 778	158	7 405	5 215
Total financial liabilities	**36 030**	**11 823**	**17 074**	**7 133**

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

Group R million	Carrying amount	Fixed	Floating	Non-interest bearing
30 June 2019				
Financial instruments mandatorily at fair value through profit or loss:				
Listed:				
– Equity securities	612	–	–	612
– Equity linked notes	21	–	–	21
– Debt securities	2 112	1 878	234	–
– Inflation linked securities	1	–	1	–
– Money market securities	2 115	1 098	1 017	–
Unlisted:				
– Equity securities	20	–	–	20
– Equity linked notes	19	–	–	19
– Debt securities	3	1	1	1
– Money market securities	2 145	627	1 448	70
At amortised cost:				
Unlisted:				
– Debt	26	26	–	–
– Fixed deposits	1 917	230	1 687	–
Derivative financial instruments at fair value:				
– used as cash flow hedges	176	166	–	10
– not designated as hedging instruments	181	144	–	37
Receivables:				
– Insurance receivables	4 920	72	–	4 848
– Contract receivables	1 369	127	–	1 242
– Other receivables	1 178	27	206	945
Cash and cash equivalents	6 652	1 454	5 195	3
Total financial assets	23 467	5 850	9 789	7 828
Borrowings at amortised cost	14 682	8 414	6 268	–
Derivative financial instruments at fair value:				
– used as cash flow hedges	250	244	–	6
– not designated as hedging instruments	244	5	–	239
Other payables at amortised cost	9 222	58	3 728	5 436
Total financial liabilities	24 398	8 721	9 996	5 681

INVESTMENTS

For shareholder investments, a 1% increase in the local interest rate would result in an increase of R7 million of investment income from these investments (2019: R59 million). A 1% decrease in the local interest rate would result in a decrease of R5 million of investment income from these investments (2019: R55 million). The sensitivity is based on the assumption that the interest rate had increased/decreased by 1% with all other variables held constant.

BORROWINGS AT AMORTISED COST AND RELATED HEDGES

Discovery is exposed to interest rate risk through long-term borrowings held with various financial institutions.

Group R million	Ref	**2020** **Carrying value**	**2020** **Facility value**	2019 Carrying value	2019 Facility value
Interest rate risk from borrowings from banks					
Fixed rate loan facility	i	**5 792**	**5 796**	4 818	4 850
Floating interest rate facility with floating-to-fixed interest rate swap	ii	**4 536**	**4 500**	3 844	3 825
Floating interest rate facilities	iii	**1 630**	**1 500**	760	675
Foreign floating interest rate facilities	iii	**3 498**	**4 460**	1 612	2 697
Total bank borrowings (refer to note 20)		**15 456**	**16 256**	11 034	12 047

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

i. The fixed rate loan facilities have the following profiles, with interest payable quarterly in arrears other than footnote 2:

Interest rate per annum	Maturity date	Capital repayment	**Facility value 2020**	Facility value 2019
Fixed at 10.94%	10 June 2021	Maturity	–	500
Fixed at 10.59%	10 June 2021	Annually	–	1 100
Fixed at 10.20%	17 March 2020	Maturity	–	800
Fixed at 10.23%	16 May 20200	Maturity	–	200
Fixed at a weighted average rate of 11.56%	Various maturities	Instalments	596	650
Fixed at 10.46%[1]	21 November 2024	Maturity	200	200
Fixed at 10.60%	20 December 2023	Maturity	1 400	1 400
Fixed at 9.62%	22 February 2025	Maturity	2 500	–
Fixed at 8.92%	10 March 2023	Maturity	1 100	–
Total fixed rate loan facilities 30 June			**5 796**	4 850

1 *Interest is payable semi-annually in arrears.*

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

Hedge ineffectiveness for interest rate swaps can arise from:

- day one fair value of the swap,
- events leading to mismatch in terms.

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

Group R million	**2020**	2019
Balance at beginning of the year	**173**	56
Unrealised losses accumulated in equity	**353**	124
Tax on unrealised losses	**–**	–
Recycled to profit or loss during the current year[1]	**(10)**	(7)
Tax on recycled gains	**–**	–
Balance at end of the year	**516**	173
The cash flow hedge will be recycled to profit or loss as follows:		
Recycled to profit or loss within one year	**–**	7
Recycled to profit or loss within two to five years	**377**	75
Recycled to profit or loss within six to ten years	**139**	91
	516	173

1 *Disclosed as finance costs in profit or loss.*

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

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

Group R million	2020 Nominal value	2020 Fair value liability	2019 Nominal value	2019 Fair value liability
Maturity date:				
30 September 2021	**–**	**–**	375	(10)
15 December 2021	**–**	**–**	450	(11)
21 November 2022	**500**	**(47)**	500	(19)
2 March 2023	**1 000**	**(99)**	1 000	(32)
21 November 2024	**800**	**(110)**	800	(46)
21 November 2024	**1 200**	**(121)**	–	–
21 August 2026	**700**	**(107)**	700	(45)
21 August 2026	**300**	**(32)**	–	–
	4 500	**(516)**	3 825	(163)

Also see Group note 20 for further details.

iii. Discovery has long-term borrowings at floating rates in the UK and South Africa. The floating rate is managed by aligning the interest rate exposure to the underlying operational assets for which these borrowings have been raised. The interest rates earned on the underlying operational assets are at a higher margin.

NON-HEDGE DERIVATIVE FINANCIAL INSTRUMENTS

I. INTEREST RATE SWAP

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

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

At 30 June 2020 DHEL is party to one (2019: one) open derivative contract. The fixed interest payable is 0.99% (2019: 1.03%) on a notional derivative value of GBP 279.8 million (2019: GBP 184.5 million). At 30 June 2020 the fair value of the derivative was an asset of GBP 6.5 million (R139 million) (2019 GBP 8 million (R144 million)).

Although the instrument reduces the exposure to the volatility of the index, the derivative instrument does not qualify for hedge accounting. Accordingly, the derivative has been classified as a financial asset or liability carried at fair value through profit or loss. The fair value adjustment of GBP 6.5 million (R128.4 million) has been recognised in 'Net fair value gains on financial assets at fair value through profit or loss'. (2019: GBP 7 million (R128.2 million)). The current open derivative contract expires on 30 September 2020.

II. DERIVATIVE INSTRUMENTS USED BY DISCOVERY'S ASSET MANAGERS

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

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

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

Group R million	Notional amount	Fair value asset	Fair value liability
June 2020			
Interest rate contracts:			
– fixed for floating swaps	**–**	**–**	**–**
– floating for fixed swaps	**70**	**–**	**5**
	70	**–**	**5**
June 2019			
Interest rate contracts:			
– fixed for floating swaps	–	*	*
– floating for fixed swaps	(3 825)	–	*
	(3 825)	*	*

* *Amount is less than R500 000.*

CURRENCY RISK

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

Group R million	Total	Rand	GBP in UK subsidiary	GBP other	USD in US subsidiary	USD other	Other currencies
30 June 2020							
Financial instruments mandatorily at fair value through profit or loss:							
Listed:							
– Equity securities	**289**	**49**	**3**	**25**	**–**	**181**	**31**
– Equity linked notes	**22**	**21**	**–**	**–**	**–**	**–**	**1**
– Debt securities	**1 804**	**617**	**1 174**	**–**	**–**	**3**	**10**
– Inflation linked securities	**2**	**–**	**2**	**–**	**–**	**–**	**–**
– Money market securities	**4 354**	**754**	**3 596**	**–**	**–**	**4**	**–**
Unlisted:							
– Equity securities	**32**	**21**	**–**	**–**	**–**	**11**	**–**
– Equity linked notes	**11**	**11**	**–**	**–**	**–**	**–**	**–**
– Money market securities	**1 141**	**1 141**	**–**	**–**	**–**	**–**	**–**
At amortised cost:							
Unlisted:							
– Debt	**439**	**439**	**–**	**–**	**–**	**–**	**–**
– Fixed deposits	**2 084**	**1 864**	**220**	**–**	**–**	**–**	**–**
Derivative financial instruments at fair value:							
– used as cash flow hedges	**14**	**14**	**–**	**–**	**–**	**–**	**–**
– not designated as hedging instruments	**1 356**	**252**	**1 092**	**–**	**–**	**12**	**–**
Receivables							
– Insurance receivables	**6 179**	**1 810**	**4 333**	**–**	**–**	**36**	**–**
– Contract receivables	**1 413**	**758**	**–**	**–**	**456**	**1**	**198**
– Other receivables	**1 522**	**1 377**	**140**	**–**	**1**	**–**	**4**
Loans and advances	**1 848**	**1 848**	**–**	**–**	**–**	**–**	**–**
Cash and cash equivalents	**15 407**	**4 941**	**9 426**	**193**	**455**	**339**	**53**
Total financial assets	**37 917**	**15 917**	**19 986**	**218**	**912**	**587**	**297**
Borrowings at amortised cost	**19 836**	**15 920**	**3 905**	**–**	**11**	**–**	**–**
Derivative financial instruments at fair value:							
– used as cash flow hedges	**854**	**854**	**–**	**–**	**–**	**–**	**–**
– not designated as hedging instruments	**135**	**135**	**–**	**–**	**–**	**–**	**–**
Customer deposits	**2 427**	**2 427**	**–**	**–**	**–**	**–**	**–**
Other payables at amortised cost	**12 778**	**2 578**	**9 835**	**6**	**253**	**68**	**38**
Total financial liabilities	**36 030**	**21 914**	**13 740**	**6**	**264**	**68**	**38**

A 10% increase or decrease in the respective foreign exchange rates of USD, GBP and EUR would result in additional gains of R179 million, or in the case of decrease, a loss of R179 million, recognised in profit or loss.

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

Group R million	Total	Rand	GBP in UK subsidiary	GBP other	USD in US subsidiary	USD other	Other currencies
30 June 2019							
Financial instruments mandatorily at fair value through profit or loss:							
Listed:							
– Equity securities	612	291	42	22	–	195	62
– Equity linked notes	21	21	–	–	–	–	–
– Debt securities	2 112	1 007	1 099	–	–	6	–
– Inflation linked securities	1	1	–	–	–	–	–
– Money market securities	2 115	495	1 620	–	–	–	–
Unlisted:							
– Equity securities	20	8	–	2	–	10	–
– Equity linked notes	19	19	–	–	–	–	–
– Debt securities	3	2	–	1	–	–	–
– Money market securities	2 145	2 132	–	2	–	10	1
At amortised cost:							
Listed:							
– Debt	–	–	–	–	–	–	–
Unlisted:							
– Debt	26	26	–	–	–	–	–
– Fixed deposits	1 917	1 735	182	–	–	–	–
Derivative financial instruments at fair value:							
– used as cash flow hedges	176	176	–	–	–	–	–
– not designated as hedging instruments	181	37	144	–	–	–	–
Receivables:							
– Insurance receivables	4 920	1 860	3 043	–	–	17	–
– Contract receivables	1 369	828	–	20	381	5	135
– Other receivables	1 178	1 047	83	–	8	14	26
Cash and cash equivalents	6 652	2 236	3 554	69	493	246	54
Total financial assets	23 467	11 921	9 767	116	882	503	278
Borrowings at amortised cost	14 682	13 065	1 617	–	–	–	–
Derivative financial instruments at fair value:							
– used as cash flow hedges	250	250	–	–	–	–	–
– not designated as hedging instruments	244	244	–	–	–	–	–
Other payables at amortised cost	9 222	2 804	6 057	20	120	215	6
Total financial liabilities	24 398	16 363	7 674	20	120	215	6

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

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

	USD	GBP
30 June 2020	**17.41**	**21.44**
30 June 2019	14.15	17.98

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

INVESTMENTS

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

CURRENCY DERIVATIVE CONTRACTS

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

Discovery entered into these agreements as an economic hedge against foreign currency risk for expenses to be paid in the future. These transactions are not designated as hedges and as a result gains and losses are recognised in profit and loss. The amount recognised in profit or loss for the current year was a gain of R284 million (2019: R162 million), with a corresponding derivative asset and liability of R263 million and R6 million respectively. (2019: Derivative asset R35 million and derivative liability R64 million). The notional value of these contracts are GBP 118.65, USD 39.4million and EUR 7.9 million (2019: GBP 123.2 million and USD 1.5million).

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

BORROWINGS

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

3.4.2 Credit risk

Key areas where Discovery is exposed to credit risk are:

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

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

CREDIT EXPOSURE FOR DEBT INSTRUMENTS, MONEY MARKET INSTRUMENTS AND CASH AND CASH EQUIVALENTS

The following table provides information regarding the aggregated credit risk exposure for debt instruments, money market instruments and cash and cash equivalents, categorised by Moody's credit ratings.

Group R million	Total	Aaa	Aa1 Aa2 Aa3	A1 A2 A3	Baa1 Baa2 Baa3	Ba1 Ba2 Ba3	Govt[1]	Not rated
30 June 2020								
Financial instruments mandatorily at fair value through profit or loss:								
Listed:								
– Equity securities	**289**	**–**	**9**	**–**	**–**	**–**	**–**	**280**
– Equity linked notes	**22**	**–**	**1**	**–**	**–**	**–**	**–**	**21**
– Debt securities	**1 804**	**171**	**453**	**428**	**700**	**–**	**52**	**–**
– Inflation linked securities	**2**	**–**	**2**	**–**	**–**	**–**	**–**	**–**
– Money market securities	**4 354**	**34**	**1 546**	**942**	**1 762**	**–**	**68**	**2**
Unlisted:								
– Equity securities	**32**	**–**	**1**	**–**	**–**	**–**	**–**	**31**
– Equity linked notes	**11**	**–**	**–**	**–**	**–**	**–**	**–**	**11**
– Money market securities	**1 141**	**30**	**1 064**	**5**	**–**	**–**	**42**	**–**
At amortised cost:								
Unlisted:								
– Debt	**439**	**–**	**–**	**–**	**–**	**–**	**439**	**–**
– Fixed deposits	**2 084**	**–**	**220**	**–**	**1 619**	**245**	**–**	**–**
Cash and cash equivalents	**15 407**	**657**	**10 816**	**459**	**301**	**2 223**	**781**	**170**
	25 585	**892**	**14 112**	**1 834**	**4 382**	**2 468**	**1 382**	**515**

Group R million	Total	Aaa	Aa1 Aa2 Aa3	A1 A2 A3	Baa1 Baa2 Baa3	Ba1 Ba2 Ba3	Govt	Not rated
30 June 2019								
Financial instruments mandatorily at fair value through profit or loss:								
Listed:								
– Equity securities	612	86	–	27	–	121	–	378
– Equity linked notes	21	–	–	–	–	–	–	21
– Debt securities	2 112	108	304	475	499	–	726	–
– Inflation linked securities	1	1	–	–	–	–	–	–
– Money market securities	2 115	59	151	1 064	770	55	6	10
Unlisted:								
– Equity securities	20	–	–	–	–	–	–	20
– Equity linked notes	19	–	–	–	–	–	–	19
– Debt securities	3	–	1	1	–	–	–	1
– Money market securities	2 145	88	1 574	356	–	72	7	48
At amortised cost:								
Unlisted:								
– Debt	26	–	–	–	–	–	26	–
– Fixed deposits	1 917	–	–	182	1 505	230	–	–
Cash and cash equivalents	6 652	46	3 322	390	1 242	708	21	924
	15 643	388	5 352	2 495	4 016	1 186	785	1 421

1 *These instruments are held in the South African government.*

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

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

CREDIT RISK RELATING TO RECEIVABLES

The table below summarises Discovery's shareholder insurance receivables, contract receivables and other receivables, at 30 June. This table only relates to shareholder's credit exposure and will therefore not agree to note 14. Refer to tables provided on page 57 and 58.

Group R million	Ref	June 2020	June 2019
Receivables arising from insurance and reinsurance contracts:			
– Premium debtors	i	**692**	558
– Less provision for impairment of premium debtors		**(93)**	(83)
– Reinsurance debtors	ii	**5 580**	4 445
Contract receivables:			
– Closed scheme debtors	iii	**103**	100
– Discovery Health Medical Scheme	iii	**650**	670
– Other contract receivables		**709**	599
– Less allowance for expected credit losses		**(49)**	–
Other loans and receivables:			
– Agents and brokers	iv	**491**	390
– BEE partners' rights-issue funding		**19**	17
– Cash-in-transit debtors		**5**	4
– Discovery Unit Trust debtors		**1**	8
– Expired hedge receivables		**–**	24
– FNB – DiscoveryCard receivable		**52**	70
– Loans to BEE initiatives		**214**	165
– Security deposit on derivatives[1]		**407**	39
– Vitality partner debtors		**116**	76
– Other debtors		**653**	728
– Less provision for impairment of financial other loans and receivables – simplified approach		**(132)**	–
– Less provision for impairment of other loans and receivables		**(304)**	(343)
		9 114	7 467

1 Refer to page 66 for an explanation of the nature of the security deposit (cash collateral).

Credit risk relating to receivables is managed as follows:

i. Premium debtors are not rated by Discovery as exposure to any single customer is insignificant. The premium debtors comprise amounts receivable from individuals and corporates. In addition, Discovery suspends benefits when contributions are not received. Premium debtors that are past due are handled by a specialist area in business. Where amounts remain uncollected for more than six months, the debtors are then handed to specialist debt collection agencies.

ii. VitalityHealth makes use of financial reinsurance as a financing tool for new business acquisition costs. The receipt from the reinsurer is recognised in profit or loss upfront in the year received. GBP 175.8 million (R3 770 million) (2019: GBP 154.2 million (R2 773 million)) is outstanding in respect of cashless reinsurance treaties. The credit ratings of these reinsurers are Aa2 and Aa3.

Refer to page 73 for detail regarding the management of risk in respect of reinsurance receivables raised for expected recoveries on projected claims and amounts due from reinsurers in respect of claims already paid. Discovery's liability as primary insurer is not discharged.

iii. The Discovery Health Medical Scheme (DHMS) has been rated AAA(za) by Global Credit Ratings. The closed schemes have not been rated. Payments by DHMS and the other closed schemes are managed by Discovery and are paid by the seventh of the following month.

iv. Agents and brokers are subject to a comprehensive relationship management programme including credit assessment. Agents and brokers are not rated by Discovery as exposure to any single intermediary is insignificant. The widespread nature of the individual amounts combined with this close management relationship reduces credit risk. Most commission claw backs are offset against future payments and hence the risk of outstanding commission clawbacks is reduced.

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

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

Group R million	Gross 2020	Impairment 2020	Gross 2019	Impairment 2019
Not past due (current)	**8 196**	**(132)**	7 257	(120)
30 days	**254**	**(33)**	131	(19)
60 days	**137**	**(20)**	65	(11)
90 days	**133**	**(17)**	50	(8)
120 days	**149**	**(35)**	61	(25)
150 days	**96**	**(9)**	22	(11)
>150 days	**727**	**(332)**	307	(232)
	9 692	**(578)**	7 893	(426)

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

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

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

3.4.3 Liquidity risk

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

Cash held by the operating entities is managed by Group treasury. Group treasury invests it in interest-bearing accounts, time deposits and money market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. At the reporting date, the shareholders held money market funds and cash and cash equivalents of R20 902 million (2019: R11 325 million).

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

Group R million	Total	<1 year	1 – 2 year	3 – 5 years	6 – 10 years	> 10 years
30 June 2020						
Borrowings net of interest rate swap	**26 810**	**2 186**	**3 489**	**14 687**	**4 612**	**1 836**
Derivative financial instruments at fair value:						
– used as cash flow hedges	**854**	**157**	**131**	**427**	**139**	**–**
– not designated as hedging instruments	**135**	**109**	**17**	**9**	**–**	**–**
Other payables at amortised cost	**12 778**	**5 656**	**123**	**801**	**20**	**6 178**
Deposits from customer	**2 427**	**2 146**	**281**	**–**	**–**	**–**
Total financial liabilities	**43 004**	**10 254**	**4 041**	**15 924**	**4 771**	**8 014**

Group R million	Total	<1 year	1 – 2 year	3 – 5 years	6 – 10 years	> 10 years
30 June 2019						
Borrowings net of interest rate swap	25 151	2 897	3 309	9 396	6 634	2 915
Derivative financial instruments at fair value:						
– used as cash flow hedges	250	10	48	101	91	–
– not designated as hedging instruments	243	239	3	1	–	–
Other payables at amortised cost	9 222	8 121	972	116	13	–
Total	34 866	11 267	4 332	9 614	6 738	2 915

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

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.5 Capital management

The Group's objectives when managing capital are:

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

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

FINANCIAL LEVERAGE RATIO

As part of the capital management process, the Group monitors its capital structure utilising the Financial Leverage Ratio (FLR). This ratio is calculated as total debt[1] divided by total debt plus total equity. The Group's strategy is to maintain a prudent FLR of 28% per the Group Risk Appetite statement. The table below summarises the FLR at 30 June.

Group R million	2020	2019
– Amount owed to Prudential Assurance Company Limited[2]	–	1 760
– Borrowings at amortised cost (refer to note 20)	14 956	11 361
Total debt and guarantees	**14 956**	13 121
Total equity	**44 553**	43 083
Financial Leverage Ratio (%)	**25.1**	23.3

1. *Excluding all IFRS 16 lease liabilities of R4 380 million (2019: R3 321 million (only the lease liability relating to the new office building, recognised in terms of IAS 17 was excluded). It further excludes non-guaranteed deposit facilities of R500 million.*
2. *The liability represents the acquisition costs in respect of business written on Prudential Assurance Company's (Prudential) life insurance license and were funded by Prudential. The liability is repaid on a matched basis as the cash flows emerge from this business. In the event that the cash flows do not emerge as anticipated, VitalityLife would be required to repay these liabilities from other resources. The liability is net of capital injected by Discovery for solvency I requirements and retained losses. 2020 Reflects a nil amount as in terms of the level premium reinsurance treaty entered into, a security deposit was required to be placed by the reinsurer, to reduce counterparty risk. During the 2020 financial year, additional amounts were received as 'deposit back' in excess of the negative reserve funding. The agreements indicate that offset is applicable up to the amount of the negative reserve funding. Any additional amounts of the deposit back received thereafter, are included in cash. The corresponding liability to the reinsurer has been accounted for in Other payables at amortised cost (refer to note 22).*

The FLR at 30 June 2020 is in line with Discovery's risk appetite.

Minimum capital requirements

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

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

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.6 Fair value estimation

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

Level 1: includes financial instruments that are measured using unadjusted, quoted prices in an active market for identical financial instruments. Quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

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

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

For the amounts disclosed in the fair value hierarchy table, the look-through basis has not been applied to the mutual fund balances and the amounts will therefore agree to the amounts disclosed in the Statement of financial position.

Group R million	Level 1	Level 2	Level 3	Total
30 June 2020				
Financial assets				
Financial instruments mandatorily at fair value through profit or loss:				
– Equity securities	32 953	120	–	33 073
– Equity linked notes	–	2 318	–	2 318
– Debt securities	29 965	1 708	–	31 673
– Inflation linked securities	1 332	156	–	1 488
– Money market securities	2 688	10 289	–	12 977
– Mutual funds	21 185	–	–	21 185
Derivative financial instruments at fair value:				
– used as cash flow hedges	–	14	–	14
– not designated as hedging instruments	–	1 356	–	1 356
Total financial assets	88 123	15 961	–	104 084
Financial liabilities				
Investment contracts at fair value through profit or loss:	–	23 012	–	23 012
Derivative financial instruments at fair value:				
– used as cash flow hedges	–	854	–	854
– not designated as hedging instruments	–	138	–	138
Total financial liabilities	–	24 004	–	24 004

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.6 Fair value estimation *continued*

Group R million	Level 1	Level 2	Level 3	Total
30 June 2019				
Financial assets				
Financial instruments mandatorily at fair value through profit or loss:				
– Equity securities	33 966	1 015	–	34 981
– Equity linked notes	23	3 178	–	3 201
– Debt securities	19 531	1 599	–	21 130
– Inflation linked securities	554	–	–	554
– Money market securities	7 362	6 403	–	13 762
– Mutual funds	16 574	–	–	16 574
Derivative financial instruments at fair value:				
– used as cash flow hedges	–	176	–	176
– not designated as hedging instruments	–	199	–	199
Total financial assets	78 010	12 570	–	90 580
Financial liabilities				
Investment contracts at fair value through profit or loss	–	20 674	–	20 674
Derivative financial instruments at fair value:				
– used as cash flow hedges	–	250	–	250
– not designated as hedging instruments	–	259	–	259
Total financial liabilities	–	21 183	–	21 183

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

Specific valuation techniques used to value financial instruments in level 2

- Discovery Life has invested in equity linked notes offered by international banks in order to back certain unit-linked contract liabilities. The calculation of the daily value of the equity linked investments is made by the provider of the note. Discovery Life has procedures in place to ensure that these prices are correct. Aside from the daily reasonableness checks versus similar funds and movement since the prior day's price, the fund values are calculated with reference to a specific formula or index, disclosed to the policyholders, which is recalculated by Discovery Life in order to check if the price provided by the provider is correct.
- If a quoted market price is not available on a recognised stock exchange or from a broker for non-exchange traded financial instruments, the fair value of the instrument is estimated by the asset managers, using valuation techniques including the use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions.
- The fair value of the hedged derivatives is calculated, as follows:
  - The fair value of call options is calculated based on a Black-Scholes model;
  - The fair value of the return swaps is calculated by discounting the future cash flows of the instruments; and
  - The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.7 Offsetting financial assets and financial liabilities

Financial assets

The following financial assets are subject to offsetting:

Group R million	Gross financial assets	Gross offsetting financial liabilities	Net amount presented
30 June 2020			
Cash and cash equivalents	**21 099**	**(3 190)**	**17 909**
30 June 2019			
Cash and cash equivalents	9 473	(70)	9 403

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

Cash collateral

To reduce the credit risk exposure from the hedge derivative instruments purchased (refer to note 3.4.1), Discovery has entered into collateral agreements with the relevant financial institutions to post cash collateral periodically, equal to the fair value of the derivatives. A total of R1 150 million cash collateral is being held by Discovery and R407 million was being held by the various financial institutions as at 30 June 2020 (2019: R285 million held by Discovery and R39 million held by various financial institutions).

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Assumptions and estimates form an integral part of financial reporting and have an impact on the amounts reported. Assumptions are based on historical experience and expectations of future outcomes and anticipated changes in the environment. Assumptions are further regularly reviewed in the light of emerging experience and adjusted where required.

4.1 Annual assessment of goodwill impairment

Discovery has, in accordance with IFRS, assessed Goodwill for impairment as at 30 June 2020. In determining the recoverable amount of the cash generating units (CGUs) to which the goodwill was allocated (refer note 10), the following key estimates were made:

VitalityHealth and VitalityLife

The goodwill allocated to these CGUs represent the value of future new business expected to be written by VitalityHealth and VitalityLife and has been allocated between VitalityHealth and VitalityLife based on management's estimate of the present value of future new business for each entity as at 31 July 2010.

The value-in-use is calculated as the present value of the best-estimate pre-tax cash flows of the CGU for the in-force policies at the valuation date and 10 years of new business. The 10-year forecast was considered appropriate to better reflect the long term specific growth prospects, rather than applying a straight terminal value. For the policies in-force at the valuation date and for each tranche of new business, the cash flows are projected over a 10-year period and a terminal value is applied in the final year of the projection, calculated using a growth rate assumption appropriate for the decline in the best-estimate, pre-tax cash flows.

The methodologies and assumptions applied in determining the recoverable amount is consistent with those in the prior periods, updated for new information. The information is consistent with actual results relative to budgeted amounts. During the reporting period, the recoverable amount for VitalityHealth and VitalityLife was higher than the carrying amount, therefore no impairment is necessary. The key assumptions were stressed. The stresses performed was not only limited to the impact of COVID-19, but extended further. The stresses performed include significant drop in new business, stresses relating to mortality, lapses and morbidity. The result is that there was still sufficient headroom and no impairment necessary.

The cash flows have considered both the 'value-in-force' business as well as new business. The significant inputs related to the determination of the discount rates for both VitalityLife and VitalityHealth:

- A long-term Bank of England gilt of 0.5% was used as the risk free rate;
- An equity risk premium for United Kingdom of 3.5% was added; and
- For Beta Risk:
  - VitalityLIfe: The Beta Risk is the beta of the FTSE Life insurance index relative to the FTSE 350 Index over a five-year period.
  - VitalityHealth: The Beta Risk as per VitalityLife, adjusted based on the ration of the specialist US listed health insurers to the average S&P 500 Life and Health Insurance Index over a four-year period. There are no specialist health insurers listed in the UK.

Discovery Bank

The Discovery Bank CGU was identified by considering the various assets that collectively produce independent cash flows for Discovery Bank. Discovery Bank's income streams comprise of interest earned on loans to customers, interest on excess cash invested, fees (e.g. banking fees, interchange fees, transaction fees) from the banking activities and profits from the DiscoveryCard business.

In determining the assets to attribute to the Discovery Bank CGU, Discovery considered the assets required to performing banking operations (being the banking license costs), the internally developed software brought into use and the goodwill that is associated with the DiscoveryCard business acquisition.

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

4.1 Annual assessment of goodwill impairment *continued*

Management has reviewed its 20-year business forecast, which comprise:

- A detailed 10-year business plan. The 10-year plan takes into consideration regulatory capital requirements, macro-economic forecasts and customer behaviour assumptions when forecasting a statement of financial position, income statement and resultant equity cash flows to/from shareholders. The 10-year period used to assess impairment is longer than the standard 5 year forecast model and is supported by the fact that the business is still in the start-up phase, resulting in a 5 year forecast not adequately reflecting the business plan. In addition, through the DiscoveryCard business, management has insights from 16 years of customer data to model.
- A terminal value at end of year 10. This is calculated using an extended cash flow forecasting method until the growth in earnings has stabilised (year 20) and a final value considering perpetual terminal growth. This terminal value, discounted to year 10, is then assessed for reasonability by calculating an implied Price/Earnings ratio at that point in time.
- In the near term, expected credit losses and customer spending patterns were stressed for the impact of COVID-19.

The key assumptions used in the estimation are as follows:

- Cash flows are discounted at the cost of equity which includes a risk free base rate of 9.39%, based on a 10-year SA Bond Curve and a blended risk free rate of 9.09% based on SA Bond Curves for 10 to 20 years. The adjusted cost of equity is reflective of the risk specific to the assets;
- Conservative customer growth has been assumed, targeting an achievable level of customers in year 10. Thereafter, the customer base was treated as stable, with projected growth in profits in line with estimate nominal GDP; and
- System build costs as well as intangible assets acquired in the business combination have been expensed over their useful life of 10 years.

Based on management's assessment, no impairment was identified.

4.2 Policyholder liabilities assumptions and estimates (including assets arising from insurance contracts)

The discount and growth rates have been stressed to reflect inflationary terminal growth and a higher risk in the cash flows. The base case and stressed case did not identify any impairment.

Discovery Life and VitalityLife

The insurance policies issued are valued using various methodologies and assumptions. The methodology is described in accounting policy 13.1. The assumptions used are best estimate assumptions, with the addition of explicit compulsory margins required by:

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

and discretionary margins described in accounting policy 13.1.1. The process used to decide on best estimate assumptions is described below.

EXPERIENCE INVESTIGATIONS

Experience investigations into lapse, mortality, morbidity, expenses and other key accounting estimates are performed at every valuation date. The data for the months since the previous valuation date forms the basis of each investigation. The experience of prior periods is also considered to establish trends and add credibility to the results.

The most recent experience investigations were performed at 30 June 2020.

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

4.2 Policyholder liabilities assumptions and estimates (including assets arising from insurance contracts) *continued*

MORTALITY AND MORBIDITY

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

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

An allowance is made for the impact of AIDS on South African mortality rates. This is described in detail under the AIDS assumption below.

SURRENDER AND LAPSE RATES

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

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

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

COVID-19 PROVISIONS FOR DISCOVERY LIFE AND VITLALITYLIFE

At June 2020, Discovery Life and Invest and VitalityLife raised COVID-19 provisions of R2 160 million and R569 million respectively to allow for an expected increase in lapses and claims over the short term. The estimate for excess mortality was based on an assessment of various internal and external COVID-19 projection models. The expected increase in lapses over the short term was set in light of the worsening economic factors and experience in the book over previous stress periods.

Sensitivities from the base estimate have been tested against internal targets for capital adequacy and liquidity. Our sensitivities affirmed we remain well capitalised.

TAXATION

Future tax is allowed for according to the current tax legislation and current tax rates. It is assumed that future tax on statutory profits will be payable at the prevailing company tax rate of 28% (2019: 28%) in South Africa. The prevailing tax rate in the UK is 19% (2019: 19%). Tax amendments for Life Insurance companies introduced a Risk Policy Fund for all new risk business written after 1 July 2016. In terms of this legislation Discovery Life elected to move existing risk business to this Fund. As a result of these changes the assessed loss in the Individual Policyholder Fund is now expected to stop increasing and will be utilised over time. Therefore, in terms of *IAS 12: Income Taxes*, a value of R854 million (2019: R728 million), which was previously implicit in the valuation of insurance contract liabilities, was recognised as an explicit deferred tax asset. The value is net of deferred capital gains tax liabilities.

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

Deferred tax arises on the other temporary differences between the accounting basis and the tax basis.

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

4.2 Policyholder liabilities assumptions and estimates (including assets arising from insurance contracts) *continued*

ECONOMIC ASSUMPTIONS/INVESTMENT RETURNS

For Discovery Life and Invest, the discount rate is based on the risk free rates at 30 June 2020. The real rate assumption is based on the average of the real rate curves for the preceding twelve months. This real rate assumption will remain unchanged over time unless the equivalent single rate which is derived based on the weighted duration of the cash flows moves by more than 25 basis points since the preceding valuation. The inflation assumption is set as the differential between the assumed nominal and real interest rates.

Refer to note 2.5.1 for sensitivity analysis on the real rates.

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

For comparison purposes, it is noted that the single risk free rate at 30 June 2020 would have increased to 12.5% (2019: 10.50%). The implied single real interest rate has also increased to 4.17% at June 2020 (2019: 3.26%).

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

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

For VitalityLife, previously the investment rate is set in line with the expected long-term return on a portfolio of UK government and corporate fixed interest assets of appropriate term and nature, less a margin to protect against adverse experience. VitalityLife adopts a modified passive approach for setting economic assumptions. The nominal investment return is set as the active market rate on UK long-term swap rates plus a fixed adjustment (based on long-term averages) for liquidity premium, the gilt/ swap spread and cash flow weighting. The best estimate inflation assumption is set in line with long-term UK inflation expectations and observed real yields consistent with the term of the liabilities. The risk free rate at 30 June 2020 was set at 0.89% (2019: 2.10% p.a.), unchanged from the prior period.

The investment fees and tax rates are taken into account in setting the economic assumptions. Refer to note 2.5.2 for sensitivity analysis on the real rates.

EXPENSE ASSUMPTIONS

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

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

Per policy expenses are projected to increase in line with consumer price inflation.

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

HIV/AIDS

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

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

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

4.2 Policyholder liabilities assumptions and estimates (including assets arising from insurance contracts) *continued*

REINSURANCE

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

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

AUTOMATIC PREMIUM INCREASES

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

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

POLICY ALTERATIONS

In the calculation of policyholder liabilities, no allowance is made for policy alterations over time in accordance with actuarial guidance.

CHANGES IN ASSUMPTIONS

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

Modelling and assumptions changes were made to the valuation at 30 June 2020 to ensure that assumptions are in line with the best estimate of future experience. For Discovery Life, the total effect of these changes on the Assets arising from insurance contracts was a decrease in the assets on the Financial Soundness Valuation basis of R5 572 million (2019: R1 261 million decrease). For VitalityLife, the total effect of these changes was a decrease in the assets of R2 489 million (2019: R42 million increase).

In addition to this, the discretionary margins were reset to reflect the underlying profitability of the overall portfolio. The reset of margins decreased the assets on the Financial Soundness Valuation basis by R1 367 million (2019: R529 million decrease). Refer to note 5 for an analysis of these changes.

SENSITIVITIES

The sensitivity of the policyholder liabilities on the Financial Soundness Valuation basis is set out in note 2.1.1. The sensitivity of the policyholder liabilities on the INSPRU basis is set out in note 2.2.1.

4.3 Recognition of deferred tax assets

Discovery recognises deferred tax assets to the extent that it is probable that taxable profit will be available against which these deductible temporary differences can be utilised. Management annually assesses the probability of future taxable profits to evaluate appropriateness of the deferred tax to raise. As a result of the assessment, management has raised the following additional, individually significant, deferred tax assets:

Discovery Life Individual Policyholder Fund

Refer to section 4.2 'Policyholder liabilities assumptions and estimates (including assets arising from insurance contracts) – Taxation'.

5. ASSETS ARISING FROM INSURANCE CONTRACTS

R million	Group 2020	Group 2019
Long-term insurance contracts – gross	**48 042**	48 781
Less: ceded to reinsurers (refer to note 19)	**(11 043)**	(9 373)
Long-term insurance contracts – net	**36 999**	39 408
Current	**3 652**	4 013
Non-current	**33 347**	35 395
	36 999	39 408
Movement in assets arising from insurance contracts		
Balance at beginning of the year	**39 408**	36 202
Movement for the year:		
Expected movement in policyholder liabilities[2]	**(2 625)**	(2 953)
Unwinding of discount rate[2]	**2 170**	2 003
New business written	**3 834**	4 747
Experience variances	**(660)**	(812)
Economic	**(129)**	(132)
Operational	**(531)**	(680)
Modelling and method changes	**(111)**	1 419
Benefit changes	**–**	2 066
Changes in assumptions	**(7 950)**	(2 638)
Economic	**(5 478)**	(679)
Operational	**(2 472)**	(1 959)
Changes in margins[1]	**1 367**	(529)
Translation differences	**1 566**	(97)
Balance at end of the year	**36 999**	39 408

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

2 *In June 2018, Discovery Life changed the discount rate assumption used in the calculation of its IFRS reserves from an implied single interest rate derived from the risk-free yield curve (i.e. a single flat rate), to the nominal risk-free curve. This change in methodology impacted the unwind in the reserve in future periods and ensured closer alignment to the run-off pattern implied by the yield curve. However, the nominal curve tends to include a risk premium at longer durations, contributing to the observed upward sloping yield curve. To compensate for this risk premium and to fairly represent the unwinding of the reserve in the near future, Discovery Life rebases the yield curve annually to reflect the run-off. For the year ended 30 June 2019, the impact of rebasing of the yield curve was R360 million, and was included in the line item 'expected movements in policyholder liabilities'. For this financial year-ended 30 June 2020, and future reporting periods, the impact of rebasing of the yield curve will be included in 'unwinding of the discount rate'. For the year ended 30 June 2020, the impact was R622 million. Prior period information was not restated.*

6. PROPERTY AND EQUIPMENT

Group R million	Land and buildings	Furniture, fittings and equipment	Computer equipment and operating systems	Leasehold improve-ments	Motor Vehicles	Telematics devices	Total
Year ended 30 June 2020							
Opening carrying amount	**3 007**	**82**	**221**	**796**	**16**	**90**	**4 212**
IFRS 16 Transition	**573**	**–**	**64**	**–**	**1**	**–**	**638**
Adjusted balance at 1 July 2019	**3 580**	**82**	**285**	**796**	**17**	**90**	**4 850**
Translation differences	**66**	**4**	**14**	**13**	**–**	**–**	**97**
Additions	**93**	**23**	**155**	**33**	**13**	**48**	**365**
Disposals							
– Cost	**–**	**–**	**(1)**	**–**	**–**	**(3)**	**(4)**
– Accumulated depreciation	**–**	**–**	**1**	**–**	**–**	**2**	**3**
Derecognition							
– Cost	**–**	**(10)**	**(13)**	**–**	**–**	**(33)**	**(56)**
– Accumulated depreciation	**–**	**3**	**10**	**–**	**–**	**18**	**31**
Depreciation charge	**(302)**	**(32)**	**(153)**	**(102)**	**(9)**	**(45)**	**(643)**
Closing carrying amount	**3 437**	**70**	**298**	**740**	**21**	**77**	**4 643**
At 30 June 2020							
Cost	**4 081**	**301**	**1 061**	**1 145**	**74**	**246**	**6 908**
Accumulated depreciation	**(644)**	**(231)**	**(763)**	**(405)**	**(53)**	**(169)**	**(2 265)**
Carrying amount	**3 437**	**70**	**298**	**740**	**21**	**77**	**4 643**
Year ended 30 June 2019							
Opening carrying amount	3 029	75	228	827	17	96	4 272
Translation differences	(3)	*	*	*	–	–	(3)
Additions	193	51	116	149	7	54	570
Disposals							
– Cost	–	(50)	(9)	(77)	–	(4)	(140)
– Accumulated depreciation	–	32	9	–	–	2	43
Derecognition and impairment							
– Cost	–	*	*	–	–	(26)	(26)
– Accumulated depreciation	–	–	–	–	–	15	15
Depreciation charge	(212)	(26)	(123)	(103)	(8)	(47)	(519)
Closing carrying amount	3 007	82	221	796	16	90	4 212
At 30 June 2019							
Cost	3 345	268	786	1 089	60	234	5 782
Accumulated depreciation	(338)	(186)	(565)	(293)	(44)	(144)	(1 570)
Carrying amount	3 007	82	221	796	16	90	4 212

* *Amount is less than R500 000.*

Derecognition

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

6. PROPERTY AND EQUIPMENT *continued*

LEASED ASSETS

The table below summarises leased assets. For the financial year ended 30 June 2020 the information relates to those assets held in accordance with IFRS 16 *Leases* where a right-of-use asset is recognised. For the financial year ended 30 June 2019 the information relates to those assets held as a finance lease in accordance with IAS 17 *Leases*.

R million	Group 2020	Group 2019
Land and buildings	3 232	2 832
Computer equipment and operating systems	100	53
Leasehold improvements	133	212
Motor vehicles	1	–
Total	**3 466**	3 097

7. INTANGIBLE ASSETS

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

7. INTANGIBLE ASSETS *continued*

Group R million	Software development[1]	Business acquisitions: Identifiable intangibles	Banking license	Total
Year ended 30 June 2019				
Opening carrying amount	3 830	458	1 203	5 491
Translation differences	(7)	(3)	–	(10)
Additions	1 949	–	–	1 949
Disposals				
– Cost	(22)	–	(1 337)	(1 359)
– Accumulated amortisation	–	–	191	191
Acquisitions of business	–	150	–	150
Amortisation charge	(735)	(71)	(28)	(834)
Amortisation capitalised to new asset	51	–	–	51
Impairment				
– Cost	(36)	–	–	(36)
– Accumulated amortisation	27	–	–	27
Derecognition				
– Cost	(52)	–	–	(52)
– Accumulated amortisation	29	–	–	29
Closing carrying amount	5 034	534	29	5 597
At 30 June 2019				
Cost	7 322	1 711	29	9 062
Accumulated amortisation	(2 288)	(1 177)	–	(3 465)
Carrying amount	5 034	534	29	5 597

* *Amount is less than R500 000.*

1 *Software development additions includes an amount of R47 million of finance costs that have been capitalised during the prior year.*

Business acquisitions

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

Included in the value of business acquisitions are:

- Customer contracts represented by value-in-force business acquired in the Standard Life Healthcare and PrimeMed business combinations. The carrying amount as at 30 June 2020 is R396 million (2019: R390 million); and
- Client relationships and Core Deposit Funding Benefit acquired in the DiscoveryCard business combination. The carrying amounts as at 30 June 2020 are R113 million and R17 million respectively (2019: R125 million and R19 million).

Banking license

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

8. DEFERRED ACQUISITION COSTS

R million	Group 2020	Group 2019
Balance at beginning of the year	**536**	469
Translation differences	**93**	(5)
Additions	**1 439**	163
Deferred acquisition costs amortised	**(1 436)**	(91)
Balance at end of the year	**632**	536

For the current year, the asset relates to acquisition costs incurred in relation to health contracts that are expected to be recovered out of future revenue margins.

9. ASSETS ARISING FROM CONTRACTS WITH CUSTOMERS AND CONTRACT LIABILITIES

Group R million	Assets arising from contracts with customer[1]	Costs of obtaining contracts[1]	Contract liabilities	Contract receivables[2]
Year ended 30 June 2020				
Balance at beginning of the year	**8**	**744**	**(433)**	**1 369**
Accrued income recognised during the year	**91**	**–**	**–**	**–**
Payments received	**(1)**	**–**	**–**	**(11 098)**
Costs of obtaining new contracts	**–**	**309**	**–**	**–**
Amortised during the year	**–**	**(210)**	**–**	**–**
Contract liabilities recognised in the current year	**–**	**–**	**(669)**	**–**
Revenue recognised in the year	**–**	**–**	**367**	**11 064**
Provision of impairment of contract receivables	**–**	**–**	**–**	**(49)**
Foreign exchange revaluations	**–**	**–**	**–**	**30**
Revenue recognised for changes related to prior year	**–**	**–**	**(12)**	**–**
Translation differences	**10**	**3**	**(61)**	**97**
Balance at end of the year	**108**	**846**	**(808)**	**1 413**

1 Presented as assets arising from contracts with customers.
2 Presented as part of insurance receivables, contract receivables and other receivables.

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

Group R million	Assets arising from contracts with customer[1]	Costs of obtaining contracts[1]	Contract liabilities	Contract receivables[2]
Year ended 30 June 2019				
Balance at beginning of the year	–	681	(324)	971
Accrued income recognised during the year	94	–	–	–
Payments received	(86)	–	–	(1 937)
Costs of obtaining new contracts	–	215	–	–
Amortised during the year	–	(152)	–	–
Contract liabilities recognised in the current year	–	–	(253)	–
Revenue recognised in the year	–	–	139	2 336
Revenue recognised for changes related to prior year	–	–	5	–
Translation differences	–	–	–	(1)
Balance at end of the year	8	744	(433)	1 369

1 Presented as assets arising from contracts with customers.
2 Presented as part of insurance receivables, contract receivables and other receivables.

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

The contract liability primarily relates to the advance consideration received from customers for initial advisor fees, for which revenue will be recognised over the expected terms of the arrangement.

Transaction price allocated to remaining performance obligations under contracts:

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

Group R million	Contract amount for future service	< 1 year	2 – 3 years	4 – 5 years	> 5 years
Year ended 30 June 2019					
Provision of stand ready Intellectual Property services	536	115	166	132	123
Total	536	115	166	132	123

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

10. GOODWILL

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

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

Reconciliation of goodwill	Value in functional currency on date of acquisition	R million Group 2020	R million Group 2019
Goodwill			
– VitalityHealth[1, 2]	GBP 100.3 million	**2 151**	1 804
– VitalityLife[1]	GBP 23.4 million	**502**	421
– Discovery Bank[3]	ZAR 2 417 million	**2 417**	2 417
– Medical Services Organisation Group[4]	ZAR 9 million	**–**	–
Total		**5 070**	4 642

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

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

3 R2 417 million goodwill from the acquisition of the DiscoveryCard business on 1 March 2019 was allocated to the Discovery Bank CGU.

4 At the end of December 2019 Discovery acquired controlling stakes in Medical Services Organisation and MSO International which performs medical administration services across Africa for expatriates. Subsequent to the acquisition this goodwill was fully impaired.

11. EQUITY-ACCOUNTED INVESTEES

R million	Group 2020	Group 2019
Carrying value of material interest in associates and joint ventures	**1 815**	1 243
Carrying value of individually immaterial interest in associates	**873**	688
Carrying value of individually immaterial interest in joint ventures	**25**	19
Investment in equity-accounted investees	**2 713**	1 950

Material interests in associates and joint ventures

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

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

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

	Ping An Health
Ownership structure	Equity-accounted Associate
Nature	Insurance
Place of business	China

R million	2020	2019
% of ownership interest	**25%**	25%
Summarised statement of comprehensive income		
Revenue	**18 023**	9 557
Net Profit	**1 141**	667
Other comprehensive income	**74**	–
Total comprehensive income	**1 215**	667
Summarised statement of financial position		
Current assets	**17 515**	8 415
Non-current assets	**17 953**	9 119
Current liabilities	**(6 711)**	(3 171)
Non-current liabilities	**(22 664)**	(10 399)
Net assets	**6 093**	3 964
Reconciliation to carrying amounts:		
Opening net assets	**3 964**	2 714
Profit for the year	**1 141**	667
Other comprehensive income	**74**	–
Increase in share capital and share premium	**–**	640
Translation differences	**914**	(57)
Closing net assets	**6 093**	3 964
Group's share of net assets	**1 523**	991
Goodwill	**292**	252
Carrying value at 30 June	**1 815**	1 243

11. EQUITY-ACCOUNTED INVESTEES *continued*

Individually immaterial associates and joint ventures

Cambridge Mobile Telematics transaction

During the prior financial year, Cambridge Mobile Telematics (CMT), an associate investment of Discovery and strategic partner to Discovery Insure since 2014, announced a USD 500 million (R7.2 billion) investment from the SoftBank Vision Fund.

This transaction resulted in Discovery's effective shareholding in CMT reducing from 16.5% to 10% on a fully diluted basis. Discovery's profit from the transaction was USD 55.7 million (R790 million), R402 million of which was realised in cash in return for the disposal of shares held in CMT. The remainder of the gain was as a result of a net increase in assets of CMT. The profit has been included in the 'Gain on dilution and disposal of equity-accounted investments' in the Income statement.

Discovery's strategic partnership with CMT remains in place following the transaction. Discovery still has significant influence as Discovery has representation on the Board of Directors.

Summary of financial information

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

Group R million	Associates 2020	Associates 2019	Joint ventures 2020	Joint ventures 2019
Aggregate carrying amount	**873**	688	**25**	19
Aggregate amounts of the group's share of (loss)/profit for the year	**(37)**	(24)	**16**	27
Gain on dilution and disposal of equity-accounted investments	**3**	844	**–**	–

12. FINANCIAL ASSETS

R million		**Group 2020**	Group 2019
The Group's investment in financial assets are summarised by measurement category in the table below:			
Financial assets at amortised cost		**4 371**	1 943
Investment at amortised cost[1]		**2 523**	1 943
– Debt securities		**439**	25
– Fixed term deposits		**2 084**	1 918
Loans and advances to customers	12.1	**1 848**	–
Investments at fair value through profit and loss – mandatorily		**102 714**	90 205
– Equity securities		**33 073**	34 981
– Equity linked notes[2]		**2 318**	3 201
– Debt securities		**31 673**	21 130
– Inflation linked securities		**1 488**	554
– Money market securities		**12 977**	13 765
– Mutual funds		**21 185**	16 574
Total investments		**107 085**	92 148
Listed		**92 043**	76 990
Unlisted		**15 042**	15 158
		107 085	92 148
Shareholder investments		**12 026**	8 991
– Investments at amortised cost		**4 371**	1 943
– Investments at fair value through profit and loss – mandatorily		**7 655**	7 048
Policyholder investments		**95 059**	83 157
– Investments at fair value through profit and loss – mandatorily		**95 059**	83 157
Total investments		**107 085**	92 148

1 *The fair value of instruments at amortised cost approximates the carrying amount due to the relatively short term nature of the instrument.*
2 *Majority of the equity linked notes are Rand denominated investments providing equity exposure together with either a floor of 80% of the highest price observed since inception or a return after five years based on the best of three different unit trusts or indices.*

12. FINANCIAL ASSETS *continued*

Maturity profile:

- Shareholder investments
  - these investments are held at fair value through profit and loss (mandatorily) as a long-term investment but may be utilised when required by business in line with the entities' business model for these assets.
  - investments at amortised cost have a maturity of less than one year, except for R425 million (2019: R439 million) that will mature between one and two years. All loans and advances have a maturity of less than one year.
- Policyholder investments are those financial assets at fair value through profit or loss that are held to back policyholder liabilities. Except for R23 million (2019: R38 million) which will be held to back unit-linked insurance contracts with a maturity profile between one and two years and R190 million (2019: R155 million) which will be held to back unit-linked insurance contracts with a maturity profile between three and five years (refer to note 3.2.3), the balance can be withdrawn in the short term.

12.1 Loans and advances to customers

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

12.1.1 Loans and advances per credit risk rating

As at 30 June 2020

Group R million	DRG 1 – 4	DRG 5 – 7	DRG 8 – 10	Not rated	Total
Stage 1	998	547	–	48	1 593
Stage 2: SICR[1]	*	*	303	1	304
Stage 2: Arrears	9	20	51	6	86
Stage 3	3	6	16	6	31
Total gross advances	**1 010**	**573**	**370**	**61**	**2 014**

* *Amount is less than R500 000.*
1 *Significant increase in credit risk.*

The analysis above excludes accrued interest.

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

12. FINANCIAL ASSETS *continued*

12.1.2 Reconciliation of the expected credit loss (ECL)

As at 30 June 2020

Group R million	Stage 1	Stage 2: SICR	Stage 2: Arrears	Stage 3: Default	Total
30 June 2020					
Balance at beginning of the year	*	*	*	*	*
Total changes in ECL due to changes in balances of advances	**84**	**38**	**20**	**3**	**145**
New loans originated and acquired[1]	45	38	21	4	108
Repayments and other movements[2]	39	*	(1)	*	38
Changes in ECL due to derecognition other than write-off	*	*	*	(1)	(1)
	84	38	20	3	145
Transfers between stages					
Transfer (to)/from stage 1	–	16	7	15	38
Transfer (to)/from stage 2: SICR	(2)	–	1	2	1
Transfer (to)/from stage 2: Arrears	*	(2)	–	3	1
Transfer (to)/from stage 3	(1)	*	(2)	–	(3)
Balance at end of the year	**81**	**52**	**26**	**23**	**182**

** Amount is less than R500 000.*

The Group's policy is to transfer closing balances based on the ECL stated at the end of the reporting period.

1 *During the financial year ended 30 June 2020, the increase in new loans originated and acquired was primarily as a result of migrating customers from the FNB platform to the Discovery Bank platform. Gross Loans and advances as a result of migration amounted to R836 million with a related ECL of R77 million.*

2 *During the financial year under review, management has adjusted for the effects of COVID-19 in considering forward looking macro-economic factors. The adjustment specifically associated with the factors had an increase in ECL of R31 million.*

3 *During the financial year under review, management implemented specified changes in ECL model assumptions as it improves and enhances its ECL model. The effects of these changes increased the ECL by R13 million.*

13. DERIVATIVE FINANCIAL INSTRUMENTS

R million	Group 2020 Assets	Group 2020 Liabilities	Group 2019 Assets	Group 2019 Liabilities
Derivatives used as cash flow hedges:				
Equity price risk derivatives	14	(338)	176	(86)
Interest rate swaps	–	(516)	–	(163)
Derivatives not designated as hedging instruments:				
Interest rate swaps	1 091	(8)	144	–
Swaptions	2	–	–	–
Equity price risk derivatives	–	(41)	–	(5)
Expected credit loss derivatives	–	(83)	–	(175)
Currency derivative contracts	263	(6)	55	(80)
	1 370	(992)	375	(509)
Current	259	(854)	281	(90)
Non-current	1 111	(138)	94	(419)
	1 370	(992)	375	(509)

Total return swaps and call options are entered into to hedge exposure to equity price risk related to share schemes. This includes a day one profit or loss balance of R102 million (2019: R41 million).

13. DERIVATIVE FINANCIAL INSTRUMENTS *continued*

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

Year ended 30 June 2020

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

* *Amount is less than R500 000.*

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

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

13. DERIVATIVE FINANCIAL INSTRUMENTS *continued*

Year ended 30 June 2019

Group R million	Notional amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the Statement of financial position where the hedging instrument is presented	Changes in fair value of hedging instrument used for calculating hedge ineffectiveness	Ineffectiveness recognised in profit or loss	Line item in which hedge ineffectiveness is presented
		Assets	Liabilities				
Equity price risk	1 579	176	(86)		(419)	5	
Total return swaps	1 260	85	(86)	Financial Assets – Derivatives	(341)	5	Net fair value gains on financial assets at fair value through profit or loss
Call options	319	91	–	Financial Assets – Derivatives Financial Liabilities – Derivatives	(78)	*	Net fair value gains on financial assets at fair value through profit or loss
Interest rate risk	3 825	–	(163)		(154)	–	
Interest rate swaps	3 825	–	(163)	Financial Liabilities – Derivatives	(154)	–	Net fair value gains on financial assets at fair value through profit or loss

* *Amount is less than R500 000.*

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

Group R million	Changes in the value of the hedging instrument recognised in other comprehensive income	Amount reclassified from the cash flow hedge reserve to profit or loss	Line item in which the recycled amount is presented	Carrying amount of the hedged item		Changes in fair value of hedged item used for calculating hedge ineffectiveness	Cash flow hedge reserve
				Assets	Liabilities		
Equity price risk	(33)	104		–	741	459	1
Total return swaps	(15)	79	Cash flow hedges – gains recycled to profit or loss	–	679	376	3
Call options	(18)	25	Cash flow hedges – gains recycled to profit or loss	–	62	83	(2)
Interest rate risk	124	(7)		–	3 854	146	(175)
Interest rate swaps	124	(7)	Cash flow hedges – gains recycled to profit or loss	–	3 854	146	(175)

14. INSURANCE RECEIVABLES, CONTRACT RECEIVABLES AND OTHER RECEIVABLES

R million		Group 2020	Group 2019
Receivables arising from insurance and reinsurance contracts:		**6 179**	4 920
– Premium debtors		**692**	558
– Less provision for impairment of premium debtors	14.1	**(93)**	(83)
– Reinsurance debtors		**5 580**	4 445
Contract receivables		**1 413**	1 369
– Closed scheme debtors		**103**	100
– Discovery Health Medical Scheme		**650**	670
– International partner market receivables			196
– Other contract receivables		**709**	403
– Less allowance for expected credit losses	14.2	**(49)**	–
Other non-financial receivables[1]		**1 081**	849
– Prepayments		**898**	729
– Value-added tax asset		**104**	75
– Other debtors		**79**	45
Other financial receivables:		**2 763**	1 877
– Discovery Unit Trust debtors		**1 169**	626
– Expired hedge receivables		**–**	24
– FNB – DiscoveryCard receivable		**52**	70
– Cash-in-transit debtors		**96**	86
– Loans to BEE initiatives		**213**	165
– Security deposit on derivatives		**407**	39
– Vitality partner debtors		**116**	76
– BEE partners' rights-issue funding		**19**	17
– Agents and brokers		**491**	390
– Other debtors[1]		**636**	727
– Less allowance for expected credit losses	14.2	**(436)**	(343)
Total insurance receivables, contract receivables and other receivables		**11 436**	9 015
Current		**7 140**	6 018
Non-current		**4 296**	2 997
		11 436	9 015

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

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

14.1 Provision for impairment of premium debtors

Group R million	<30 days	30 – 60 days	60 – 120 days	more than 120 days	Total
Year ended 30 June 2020					
Balance at beginning of the year	**44**	**25**	**9**	**5**	**83**
Increase in provision	**11**	**25**	**7**	**5**	**48**
Amount utilised during the period	**(9)**	**(18)**	**(9)**	**(4)**	**(40)**
Translation difference	*****	**1**	*****	**1**	**2**
Balance at end of the year	**46**	**33**	**7**	**7**	**93**
Year ended 30 June 2019					
Balance at beginning of the year	31	22	6	4	63
Increase in provision	13	19	11	5	48
Amount utilised during the period	*	(16)	(8)	(4)	(28)
Translation difference	*	*	*	*	*
Balance at end of the year	44	25	9	5	83

* *Amount is less than R500 000.*

14.1 Reconciliation of expected credit losses (ECL)

	General model			Simplified model		
Group R million	Stage 1 (12month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL/ credit impaired)	Not Credit impaired	90 days past due/ credit impaired	Total
Year ended 30 June 2020						
Balance at beginning of the year	44	3	192	80	26	345
Increase in provision	6	5	57	51	92	211
Amount utilised during the period	(9)	–	–	(8)	(61)	(78)
Translation difference	7	–	–	–	–	7
Balance at end of the year	48	8	249	123	57	485
Year ended 30 June 2019						
Balance at beginning of the year	31	2	177	7	15	232
Increase in provision	16	*	15	73	43	147
Amount utilised during the period	(3)	–	–	–	(33)	(36)
Translation difference	*	–	–	–	–	*
Balance at end of the year	44	2	192	80	25	343

* *Amount is less than R500 000.*

15. REINSURANCE CONTRACTS

R million	Group 2020	Group 2019
Reinsurers' share of insurance contract liabilities	**400**	314
Current	**400**	314

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

16. CASH AND CASH EQUIVALENTS

R million	Group 2020	Group 2019
Cash at bank and in hand	**16 990**	7 972
Short-term deposits	**919**	1 431
	17 909	9 403

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

17. SHARE CAPITAL AND SHARE PREMIUM

17.1 Ordinary share capital and share premium

Group R million	Issued Share capital	Issued Share premium	Treasury shares Discovery Health	Treasury shares BEE share trust	Total outstanding
At 1 July 2018	1	8 379	(14)	(58)	8 308
Share movements:					
– share issue	*	**1 854**	**–**	**–**	**1 854**
– treasury shares delivered	**–**	**–**	**–**	**4**	**4**
– treasury share purchases	**–**	**–**	**–**	**(5)**	**(5)**
Share issue costs	**–**	**(19)**	**–**	**–**	**(19)**
At 30 June 2019	**1**	**10 214**	**(14)**	**(59)**	**10 142**
Share movements					
– treasury shares delivered	**–**	**–**	**–**	**10**	**10**
– treasury share purchases	**–**	**–**	**–**	**(4)**	**(4)**
At 30 June 2020	**1**	**10 214**	**(14)**	**(53)**	**10 148**

* *Amount is less than R500 000.*

Number of shares	Issued	Treasury shares Discovery Health	Treasury shares BEE share trust	Total outstanding
At 1 July 2018	646 844 992	(680 268)	(1 106 742)	645 057 982
Share movements:				
– share issue	**11 445 744**	**–**	**–**	**11 445 744**
– treasury shares delivered	**–**	**–**	**139 252**	**139 252**
– treasury shares purchased	**–**	**–**	**(40 000)**	**(40 000)**
At 30 June 2019	**658 290 736**	**(680 268)**	**(1 007 490)**	**656 602 978**
Share movements				
– treasury shares delivered	**–**	**–**	**81 030**	**81 030**
– treasury share purchases	**–**	**–**	**(40 000)**	**(40 000)**
At 30 June 2020	**658 290 736**	**(680 268)**	**(966 460)**	**656 644 008**

The total authorised number of ordinary shares is 1 billion (2019: 1 billion), with a par value of 0.1 cent per share.

Share issue in 2019 financial reporting period

Discovery raised capital by way of a vendor consideration placement as contemplated in the JSE Listing Requirements and allowed for in its Memorandum of Incorporation. This resulted in an increase in the capital of R1.85 billion. Costs of R19 million were incurred in respect of the vendor consideration placement and have been written-off against share premium. Shares in issue have increased by 11 445 744 shares (9 963 483 shares on 12 November 2018 and 1 482 261 shares on 29 November 2018) to 658 290 736 shares.

17. SHARE CAPITAL AND SHARE PREMIUM *continued*

17.2 Preference share capital

R million	Group 2020	Group 2019
Authorised		
40 000 000 A no par value preference shares	**–**	–
20 000 000 B preference shares of R100 each	**2 000**	2 000
20 000 000 C no par value preference shares	**–**	–
	2 000	2 000
Issued		
8 000 000 B preference shares of R100 each	**800**	800
Share issue costs	**(21)**	(21)
At 30 June	**779**	779

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

18. LIABILITIES ARISING FROM INSURANCE CONTRACTS

R million	Group 2020	Group 2019
Gross		
– claims reported and loss adjustment expenses	**9 290**	8 428
– claims incurred but not reported	**1 754**	1 382
– EFA liability	**69**	60
– unearned premiums	**1 548**	544
– unit-linked insurance contracts	**49 752**	45 411
– with fixed and guaranteed terms	**19 998**	14 697
Total liabilities arising from insurance contracts, gross	**82 411**	70 522
Recoverable from reinsurers		
– claims incurred but not reported	**(394)**	(312)
– unearned premiums	**(6)**	(2)
Total reinsurers' share of liabilities arising from insurance contracts (refer to note 15)	**(400)**	(314)
Net		
– claims reported and loss adjustment expenses	**9 290**	8 428
– claims incurred but not reported	**1 360**	1 070
– EFA liability	**69**	60
– unearned premiums	**1 542**	542
– unit-linked insurance contracts	**49 752**	45 411
– with fixed and guaranteed terms	**19 998**	14 697
Total liabilities arising from insurance contracts, net	**82 011**	70 208
Current[1]	**66 677**	57 405
Non-current	**15 334**	12 803
	82 011	70 208

1 *Includes R54 646 million (2019: R49 783 million) which is repayable to policyholders on demand. For contractual maturity refer to note 3.2.3. Included in the change in liabilities arising from insurance contracts on the Statement of comprehensive income is R115 million (2019: R113 million) of benefit expenses which is a reconciling item due to the cash flow impact of these benefit expenses in this note.*

18. LIABILITIES ARISING FROM INSURANCE CONTRACTS *continued*

Movements in the liabilities are as follows.

Group R million	2020 Gross	2020 Reinsurance	2020 Net	2019 Gross	2019 Reinsurance	2019 Net
Claims reported and loss adjustment expenses and IBNR						
Notified claims	**8 428**	*****	**8 428**	7 296	–	7 296
Incurred but not reported	**1 382**	**(312)**	**1 070**	1 351	(304)	1 047
Balance at beginning of the year	**9 810**	**(312)**	**9 498**	8 647	(304)	8 343
Cash paid for claims settled in the year	**(11 441)**	**23**	**(11 418)**	(10 380)	156	(10 224)
Increase/(decrease) in liabilities:						
– arising from current year claims	**13 121**	**(137)**	**12 984**	12 134	(201)	11 933
– arising from prior year claims	**(742)**	**65**	**(677)**	(577)	35	(542)
Translation differences	**296**	**(33)**	**263**	(14)	2	(12)
Balance at end of the year	**11 044**	**(394)**	**10 650**	9 810	(312)	9 498
Notified claims	**9 290**	**–**	**9 290**	8 428	*	8 428
Incurred but not reported	**1 754**	**(394)**	**1 360**	1 382	(312)	1 070
Balance at end of the year	**11 044**	**(394)**	**10 650**	9 810	(312)	9 498
EFA liability						
Balance at beginning of the year	**60**	**–**	**60**	53	–	53
Increase in the year	**20**	**–**	**20**	17	–	17
Cash paid	**(11)**	**–**	**(11)**	(10)	–	(10)
Balance at end of the year	**69**	**–**	**69**	60	–	60
Provisions for unearned premiums						
Balance at beginning of the year	**544**	**(2)**	**542**	551	(4)	547
Increase in the year	**1 942**	**(6)**	**1 936**	981	(2)	979
Release in the year	**(1 098)**	**2**	**(1 096)**	(982)	4	(978)
Translation differences	**160**	**–**	**160**	(6)	–	(6)
Balance at end of the year	**1 548**	**(6)**	**1 542**	544	(2)	542

* *Amount is less than R500 000.*

R million	Group 2020	Group 2019
Unit-linked insurance contracts		
Balance at beginning of the year	**45 411**	40 631
Premiums received	**12 542**	10 502
Fair value adjustment	**57**	1 466
Withdrawals	**(7 008)**	(5 538)
Fees	**(1 143)**	(1 042)
Movement in negative insurance liability	**(522)**	(594)
Translation differences	**415**	(14)
Balance at end of the year	**49 752**	45 411
Balance is made up as follows:		
Unit-linked liabilities	**54 646**	49 783
Negative insurance liability	**(4 894)**	(4 372)
	49 752	45 411
With fixed and guaranteed terms		
Balance at beginning of the year	**14 697**	11 606
Expected movement in policyholder liabilities	**(2 716)**	(2 539)
Unwinding of discount rate	**835**	703
New business written	**6 352**	4 200
Experience variances	**830**	727
Balance at end of the year	**19 998**	14 697

19. LIABILITIES ARISING FROM REINSURANCE CONTRACTS

R million	Group 2020	Group 2019
Financial reinsurance	**1 422**	1 462
Reinsurance recoveries relating to assets arising from insurance contracts (refer to note 5)	**11 043**	9 373
	12 465	10 835
Balance at beginning of the year	**10 835**	8 918
Increase in liability	**462**	1 984
– gross increase in liability	**598**	1 512
– receipt arising from reinsurance contracts	**2 588**	2 246
– reinsurance premiums paid	**(2 724)**	(1 774)
Translation differences	**1 168**	(67)
Balance at end of the year	**12 465**	10 835
Current	**1 278**	1 417
Non-current	**11 187**	9 418
	12 465	10 835

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

20. BORROWINGS AT AMORTISED COST

R million	Ref	Group 2020	Group 2019
Borrowings from banks	(i)	**15 456**	11 034
Lease liabilities (2019: finance lease liability)	(ii)	**4 380**	3 648
		19 836	14 682
Current		**1 345**	1 795
Non-current		**18 491**	12 887
		19 836	14 682

(i) Borrowings from banks

Movement analysis of borrowings

R million	Group 2020	Group 2019
Balance at beginning of the year	**11 034**	9 050
Loans raised	**10 339**	2 147
Loans repaid	**(6 389)**	(207)
Settlement of derivative capitalised to loan by counterparty	**(6)**	(7)
Interest accrued	**1 033**	875
Interest paid	**(957)**	(807)
Raising fees capitalised	**(29)**	(4)
Translation differences	**431**	(13)
Balance at end of the year	**15 456**	11 034

20. BORROWINGS AT AMORTISED COST *continued*

(i) Borrowings from banks *continued*

SA borrowing facilities

DISCOVERY LIMITED

In 2017, Discovery registered an unsecured R10 billion Domestic Medium Term Note (DMTN) programme. In terms of this programme, Discovery had issued a cumulative amount of R2.2 billion in JSE Listed Notes to 30 June 2019. Discovery further issued, via bond placements, 5-year and 7-year Floating Rate Notes of R1.2 billion and R300 million respectively on 26 November 2019. During the current year, Discovery Limited refinanced 5-year bank facility loans totalling R3.6 billion entered into in 2016 for a further 3 and 5 years, through the issue of a series unlisted DMTN notes totalling R1.1 billion and R2.5 billion ultimately maturing in March 2023 and February 2025, respectively. IFRS treated the refinance as a derecognition event, resulting in a net modification loss of R4 million in profit or loss. These unlisted notes have been structured through an underwritten subscription agreement with a bank and guaranteed by Discovery Health and Discovery Vitality.Discovery Limited has other borrowings of R1 billion (2019: R4.6 billion) for long term funding requirements. The borrowings were acquired for general corporate purposes in order to fund the various growth initiatives within the Group.

The facilities have the following profile and salient terms.

Facility amount R million	Interest rate per annum	Variable rate	Maturity date	Capital repayment
500	Fixed at 9.71%[1]	3 month Jibar	21 November 2022	Maturity
1 000	Fixed at 10.28%[1]	3 month jibar + 245bps	02 March 2023	Maturity
1 100	Fixed at 8.92%	–	10 March 2023	Maturity
200	Fixed at 10.46%[2]	–	21 November 2024	Maturity
800	Fixed at 10.31%[1]	3 month jibar + 191bps	21 November 2024	Maturity
1 200	Fixed at 9.21%[1]	3 month jibar + 191bps	21 November 2024	Maturity
2 500	Fixed at 9.62%	–	22 February 2025	Maturity
700	Fixed at 10.29%[1]	3 month jibar + 180bps	21 August 2026	Maturity
300	Fixed at 9.40%[1]	3 month jibar + 180bps	21 November 2026	Maturity
8 300				

1 The interest rate has been fixed through interest rate swaps. Refer to discussion on "Interest Rate Risk" in note 3.4.1.
2 Interest is payable semi-annually in arrears.

The borrowings are unsecured senior debt and are not callable or convertible. Interest is payable quarterly in arrears, other than footnote 2 in the table above.

As indicated above, certain borrowing facilities which have floating interest rates have been hedged using interest rate swaps. This is aligned with the Group's strategy to manage exposure to interest rate. The change in the fair value of the related borrowing facility used as the basis for calculating and recognising any hedge effectiveness for the period is R366 million. Please refer to note 13 for more detail on the interest rate swaps.

For variable rate loans, the amortised cost approximates fair value. For fixed rate loans, the fair value does not materially differ from the amortised cost.

DISCOVERY CENTRAL SERVICES

Discovery Central Services, a subsidiary of the Discovery Limited, entered into a new unsecured R1.4 billion five year loan facility in December 2018. Interest on this facility has been fixed at 10.60% per annum. Interest is payable quarterly in arrears and capital is repayable in full at maturity on 20 December 2023.

Discovery Central Services previously also entered into borrowing facilities for an amount of R650 million. Interest rates on the utilised amount is fixed at a weighted average rate of 11.56% per annum, with capital and interest repayable in instalments over the duration of the loan facility.

During the current financial year R68 million (2019: R82 million) of this facility was repaid. The balance owing at 30 June 2020 amounts to R543 million (2019: R548 million) which includes accrued interest.

Discovery Health Proprietary Limited, Discovery Vitality Proprietary Limited and Discovery Limited have provided guarantees in respect of the Discovery Central Services facilities.

Discovery Central Services also drew down on an unsecured revolving credit facilities of R0.5 billion, interest rates between 6.7% and 7.94% per annum, which were repaid during the year.

20. BORROWINGS AT AMORTISED COST *continued*

DISCOVERY BANK

Discovery Bank, a subsidiary of the Discovery Limited, entered into a 2 year revolving credit facility of R1 billion. The facility is structured with R0.5 billion guaranteed by Discovery Limited, Discovery Vitality and Discovery Health, while the remaining R0.5 billion is not guaranteed. Interest on both facilities is linked to the 3-month JIBAR plus a margin of 1.25% per annum and 1.35% per annum. Interest is payable quarterly in arrears and capital is repayable in full at maturity on 19 July 2021.

UK borrowing facilities

Discovery Finance Company Europe Limited (DFinCo), registered in the UK and a wholly-owned subsidiary of Discovery Limited, previously entered into term facilities totalling GBP 150 million. These borrowings were used to fund the new business acquisition costs incurred by VitalityLife, which were previously funded by The Prudential Assurance Company Limited (Prudential).

Discovery had GBP 90 million owing on this facility at 30 June 2019. A further GBP10 million of this facility was repaid during the year. The remaining GBP 80 million was refinanced into a new amortising facility in March 2020, for a further 40 months to 31 July 2023.

DFinCo also entered into a credit facility agreement totalling GBP 28 million on 17 April 2020. These facilities are short-term in nature repayable on 17 April 2021.

The salient terms of the facilities are as follows:

FACILITY 1

Facility amount:	GBP 80 million
Facility utilised:	GBP 80 million
Type of borrowings:	Senior unsecured
Capital repayable:	Bi-annual instalments of GBP 7.5 million commences on 1 April 2021, with a final bullet payment at maturity of GBP 42.5 million
Interest rate:	Floating, linked to 3 month London Interbank Offered Rate (LIBOR plus a margin of 2.65%
Security:	None
Maturity date:	31 July 2023
Callable/Convertible:	Not applicable
Interest payable:	Quarterly in arrears

FACILITY 2

Facility amount:	GBP 28 million
Facility utilised:	GBP 28 million
Type of borrowings:	Senior unsecured
Capital repayable:	Repayable at maturity
Interest rate:	Fixed at 1% per annum
Security:	None
Maturity date:	17 April 2021
Callable/Convertible:	Not applicable
Interest payable:	Quarterly in arrears

Discovery Holdings Europe Limited, registered in the UK and ultimately a wholly-owned subsidiary of Discovery Limited, entered into term facilities totalling GBP 55 million. These facilities are earmarked to fund the new business acquisition costs incurred by VitalityLife.

The salient terms of the refinanced facility is as follows:

FACILITY

Facility amount:	GBP 55 million
Facility utilised:	GBP 55 million
Type of borrowings:	Senior unsecured
Capital repayable:	Repayable at maturity
Interest rate:	Floating, linked to 3 month London Interbank Offered Rate (LIBOR plus a margin of 2.29%
Security:	None
Maturity date:	31 July 2023
Callable/Convertible:	Not applicable
Interest payable:	Quarterly in arrears

Discovery Limited, Discovery Health Proprietary Limited and Discovery Vitality Proprietary Limited have provided guarantees in respect of all of the UK borrowing facilities. The UK borrowing facilities impose limitations on total borrowings applicable to the UK entities. A breach of these restrictions would require immediate repayment of any outstanding balance. At 30 June 2020 there was no breach.

20. BORROWINGS AT AMORTISED COST *continued*

(ii) Leases

R million	Group 2020
Balance at beginning of the year – old finance leases	**3 648**
Balance at beginning of the year – IFRS 16 transition	**748**
New leases entered into	**44**
Interest payable	**441**
Repayments	**(576)**
Translation difference	**75**
Balance at the end of the year	**4 380**

Total payments for leases for the year is R826 million.

Group R million	Minimum lease payments	Finance cost	Present value
30 June 2019			
Due within one year	408	(51)	357
Due between two and five years	1 823	(532)	1 291
Due between six and ten years	2 821	(1 517)	1 304
Due between eleven and fifteen years	2 490	(1 794)	696
	7 542	(3 894)	3 648

During the 2018 financial year Discovery took occupation of a new head office building under a finance lease. A lease liability and related asset (refer to note 6) of R3 155 million was raised. At year end, R3 370 million (2019: R3 321 million) remained outstanding. Finance charges of R362 million (2019: R357 million) have been recognised in profit or loss and repayments of R313 million (2019: R286 million) have been made.

21. INVESTMENT CONTRACTS AT FAIR VALUE THROUGH PROFIT OR LOSS

R million	Group 2020	Group 2019
The movements during the year were as follows:		
Balance at beginning of the year	**20 674**	17 927
Deposits received	**8 085**	5 342
Account balances paid on withdrawal and other terminations in the year	**(5 898)**	(3 404)
Fair value adjustment	**151**	809
Balance at end of the year	**23 012**	20 674
Current[1]	**23 012**	20 674

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

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

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

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

22. OTHER PAYABLES AT AMORTISED COST

R million	Group 2020	Group 2019
Commissions payable	**300**	231
Digicore payable	**9**	11
Discovery Unit Trust creditors	**432**	421
Due to reinsurers	**667**	326
Intermediary payables	**90**	92
Payables and accrued liabilities	**2 399**	2 422
Payroll creditors	**845**	963
Policyholder unallocated funds	**564**	414
Security deposits on derivatives[1]	**1 150**	285
Straight-lining operating lease payments	**–**	53
Unsettled trades	**148**	49
VitalityLife working capital funding[2]	**6 627**	4 199
Expired hedge payables	**29**	–
Other financial payables	**673**	529
Other non-financial payables	**300**	267
Value-added tax liability[3]	**155**	142
Premiums received in advance	**145**	125
	14 233	10 262
Current	**5 956**	5 665
Non-current	**8 277**	4 597
	14 233	10 262

1 *2020 Reflects a nil amount as in terms of the level premium reinsurance treaty entered into, a security deposit was required to be placed by the reinsurer, to reduce counterparty risk. During the 2020 financial year, additional amounts were received as 'deposit back' in excess of the negative reserve funding. The agreements indicate that offset is applicable up to the amount of the negative reserve funding. Any additional amounts of the deposit back received thereafter, are included in cash. This value represents the corresponding liability.*

2 *Includes the 'deposit back' of GBP 288 million (R6 176 million) (2019: GBP 194 million (R3 491 million)) related to the level premium reinsurance treaty in respect of business written on Prudential Assurance Company's (Prudential's) life license, payable to the reinsurer. Refer to note 3.5.*

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

23. DEFERRED INCOME TAX

R million	Group 2020	Group 2019
Deferred tax asset – non-current	**3 511**	2 372
Deferred tax liability – non-current	**(8 514)**	(8 697)
Total	**(5 003)**	(6 325)
Movement summary		
Balance at beginning of the year	**(6 325)**	(6 033)
Income statement charge	**1 122**	(258)
Capital gains taxations charged to other comprehensive income	**14**	1
Deferred tax on cash flow hedge charged to other comprehensive income	**13**	12
Deferred tax recognised on business combination	**1**	(42)
Translation differences	**172**	(5)
Balance at end of the year	**(5 003)**	(6 325)

23. DEFERRED INCOME TAX *continued*

Deferred taxation comprises:

Group R million	Opening balance	Charge for the year	Translation differences	Closing balance
Year ended 30 June 2020				
Assessed loss in Company Policyholder's Fund	**226**	**(23)**	**–**	**203**
Assessed loss in Individual Policyholder's Fund	**728**	**126**	**–**	**854**
Assessed loss in subsidiaries	**1 313**	**394**	**78**	**1 785**
Unrealised gains/(losses) on financial instruments	**(50)**	**43**	**–**	**(7)**
Cash flow hedge	**(13)**	**65**	**–**	**52**
Deferred acquisition costs	**(167)**	**(5)**	**6**	**(166)**
Contract liability	**24**	**(13)**	**7**	**18**
Difference between accounting and tax balances arising from insurance contracts	**(8 854)**	**173**	**–**	**(8 681)**
Difference between wear and tear and depreciation	**(1 150)**	**(108)**	**(1)**	**(1 259)**
Leases	**1 014**	**72**	**2**	**1 088**
Intangibles recognised on acquisition of businesses	**(72)**	**10**	**(12)**	**(74)**
Prepayments	**(41)**	**1**	**–**	**(40)**
Provisions	**161**	**64**	**–**	**225**
Share-based payments	**93**	**(43)**	**1**	**51**
Unutilised special transfer balances	**477**	**111**	**–**	**588**
Other	**(14)**	**283**	**91**	**360**
	(6 325)	**1 150**	**172**	**(5 003)**

Group R million	Opening balance	Charge for the year	Translation differences	Closing balance
Year ended 30 June 2019				
Assessed loss in Company Policyholders' Fund	69	157	–	226
Assessed loss in Individual Policyholders' Fund	579	149	–	728
Assessed loss in subsidiaries	655	662	(4)	1 313
Unrealised gains/(losses) on financial instruments	(117)	67	–	(50)
Cash flow hedge	(36)	23	–	(13)
Deferred acquisition costs	(198)	31	–	(167)
Contract liability	55	(31)	–	24
Difference between accounting and tax balances arising from insurance contracts	(7 875)	(979)	–	(8 854)
Difference between wear and tear and depreciation	(131)	(1 019)	–	(1 150)
Finance leases	5	1 005	–	1 010
Intangibles recognised on acquisition of businesses	(85)	13	–	(72)
Operating leases	4	–	–	4
Prepayments	(10)	(31)	–	(41)
Provisions	144	18	(1)	161
Share-based payments	89	4	–	93
Unutilised special transfer balances	570	(93)	–	477
Pre-trade expenditure	127	(127)	–	–
Other	116	(130)	–	(14)
	(6 039)	(281)	(5)	(6 325)

23. DEFERRED INCOME TAX *continued*

Assessed losses

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

R million	Group 2020	Group 2019
Vitality Group International, Inc (will begin to expire in 2021)	**–**	1 150
Discovery Central Services (Pty) Ltd	**1 356**	681
Discovery Connect Distribution Services (Pty) Ltd	**524**	445
Discovery Group Europe Ltd	**50**	11
Discovery Life – Individual Policyholders' Fund	**9 994**	11 427
Discovery Medical Suppliers (Pty) Ltd	**–**	3
Discovery Partner Market Services PTE LTD	**51**	49
Grove Nursing Services (Pty) Ltd	**36**	31
PrimeMed Administrators (Pty) Ltd	**–**	2
Southern Rx (Pty) Ltd	**80**	70
Discovery Vitality Australia (Pty) Ltd	**126**	70
	12 217	13 869

A deferred tax asset has been recognised on assessed losses in the Discovery Life Individual Policyholder Fund. Refer to note 4.3.

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

24. EMPLOYEE BENEFITS

R million	Group 2020	Group 2019
Leave pay		
Balance at beginning of the year	**260**	232
Additional provisions raised	**331**	335
Used during the year	**(283)**	(282)
Paid to terminated employees	**(24)**	(25)
Balance at end of the year	**284**	260
Current	**229**	215
Non-current	**55**	45
	284	260

25. NET INSURANCE PREMIUM REVENUE

R million	Group 2020	Group 2019
Health	**7 688**	7 157
Recurring premiums	**9 278**	8 552
Reinsurance premiums	**(1 590)**	(1 395)
Individual life and invest	**30 176**	25 368
Recurring premiums	**23 883**	19 547
Single premiums	**10 777**	9 603
Reinsurance premiums	**(4 484)**	(3 782)
Group life	**1 945**	1 964
Recurring premiums	**2 131**	2 108
Reinsurance premiums	**(186)**	(144)
Short-term insurance	**3 658**	2 952
Recurring premiums	**3 706**	3 226
Reinsurance premiums	**(48)**	(274)
	43 467	37 441
Insurance premium revenue	**49 775**	43 036
Outward reinsurance premiums	**(6 308)**	(5 595)
	43 467	37 441

26. INVESTMENT INCOME

R million	Group 2020	Group 2019
At amortised cost interest income using the effective interest rate method	**36**	5
Cash and cash equivalents interest income using the effective interest rate method	**343**	393
	379	398
Attributable to:		
– shareholders	**207**	190
– policyholders	**172**	208
	379	398

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

R million	Group 2020	Group 2019
Investment income	**2 496**	2 231
– Interest	**2 155**	1 891
– Dividends	**341**	340
Net realised gains	**426**	324
Net fair value (losses)/gains	**(215)**	599
Hedge ineffectiveness	**(13)**	5
Mutual fund contributions	**1 399**	1 106
	4 093	4 265

28. NET CLAIMS AND POLICYHOLDERS' BENEFITS

R million	Group 2020	Group 2019
Health insurance claims	**3 700**	3 580
Gross claims	**4 875**	4 669
Less: Reinsurance recoveries	**(1 175)**	(1 089)
Individual life insurance claims	**3 984**	4 117
Death	**2 139**	2 532
Disability	**2 704**	2 679
Payback benefits	**1 343**	1 119
Less: Reinsurance recoveries	**(2 202)**	(2 213)
Group life insurance claims	**1 566**	1 699
Death	**819**	791
Disability	**911**	1 078
Payback benefits	**8**	5
Less: Reinsurance recoveries	**(172)**	(175)
Individual investment benefits	**10 721**	9 010
Surrenders	**10 106**	8 476
Guaranteed payments	**57**	59
Annuity payments	**558**	475
Short-term insurance claims	**3 275**	2 473
Gross claims	**3 336**	2 655
Less: Reinsurance recoveries	**(61)**	(182)
	23 246	20 879
Claims and policyholders' benefits	**26 856**	24 538
Insurance claims recovered from reinsurers	**(3 610)**	(3 659)
Net claims and policyholders' benefits	**23 246**	20 879

29. ACQUISITION COSTS

R million	Group 2020	Group 2019
Commission and other costs obtaining contracts	**6 550**	6 172
Movement in deferred acquisition costs (refer to note 8)	**(3)**	(72)
	6 547	6 100

30. MARKETING AND ADMINISTRATION EXPENSES

R million	Group 2020	Group 2019
Auditors remuneration		
Audit fees	**69**	55
Fees for other services	**14**	1
Prior year	**1**	6
	84	62
Lease charges		
Operating lease charges – property	**–**	149
Operating lease charges – computer and office equipment	**–**	143
Short-term leases	**74**	–
Low value item leases	**176**	
	250	292
Staff costs including executive directors[1]		
Salaries, wages and allowances	**7 061**	6 082
Medical aid fund contributions	**421**	368
Defined contribution provident fund contributions	**336**	296
Social security levies	**263**	239
Share-based payment expenses		
– equity-settled	**164**	13
– cash-settled	**54**	455
– loss on cash flow hedge	**360**	26
Staff training	**51**	68
Recruitment fees	**36**	54
Temporary staff	**216**	237
Provision for leave pay	**48**	53
Other	**247**	203
	9 257	8 094
Other operating costs		
Amortisation of software (note 7)[2]	**1 111**	735
Building related and office costs	**524**	495
Depreciation of property and equipment (note 6)	**643**	519
Loss on derecognition of assets	**196**	–
(Gains)/losses on disposal of property and equipment	**(3)**	2
Impairment of intangible assets	**63**	32
Allowance for expected credit losses on receivables	**90**	50
Insurance	**37**	34
IT systems and consumables	**1 971**	1 597
Marketing and distribution costs	**1 254**	1 282
Non-executive directors fees	**27**	27
Professional fees	**707**	656
Vitality benefit expenses	**3 964**	3 856
Other operating expenses	**1 943**	2 240
	12 527	11 506
Total marketing and administration expenses	**22 118**	19 954

1 *Executive directors' and prescribed officers' remuneration is included in employee costs. Refer to Directorate for detailed disclosure.*
2 *The transactions relating to business combinations are not included in marketing and administration expenses as it is disclosed separately in the income statement.*

31. SHARE-BASED PAYMENTS AND LONG TERM INCENTIVES

Incentive schemes

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

1. BEE STAFF SHARE TRUST

In 2005, 5 290 000 shares in Discovery Limited's shares were issued to the BEE staff share trust for current and future employees. These shares had all been allocated during prior years. 980 000 additional shares have been purchased accumulatively in prior years, for future allocation to employees. An additional 40 000 shares were purchased by the BEE staff share trust during the current year. The trusts consists of two components; the allocation scheme and the option scheme as described below.

ALLOCATION SCHEME

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

OPTION SCHEME

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

2. DISCOVERY'S PHANTOM SCHEME

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

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

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

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

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

4. ACQUISITION SCHEMES

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

5. THE VITALITY GROUP PHANTOM STOCK PLAN

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

Other long term incentive schemes

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

6. THE VITALITYHEALTH AND VITALITYLIFE PHANTOM SHARE SCHEME

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

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

7. THE VITALITYHEALTH AND VITALITYLIFE SCHEME

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

8. OTHER DEVELOPMENT SEGMENT SCHEMES

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

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

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

Date granted	Share/ Option price	Final vesting date	Shares under option at beginning of year	Share/ Options granted during year	Share/ Options vested during year	Share/ Options cancelled or adjusted during year	**Shares under option at end of year**
1. BEE staff share trust							
01/07/2013 – 30/06/2014	R0.00	30/09/2019	1 944	–	(626)	(1 318)	**–**
01/07/2014 – 30/06/2015	R0.00	28/02/2020	8 253	–	(8 253)	–	**–**
01/07/2015 – 30/06/2016	R0.00	30/09/2021	23 394	–	(10 856)	(1 691)	**10 847**
01/07/2015 – 30/06/2016	R122.40	01/03/2021	11 029	–	–	–	**11 029**
01/07/2015 – 30/06/2016	R121.50	30/03/2021	24 692	–	–	–	**24 692**
01/07/2016 – 30/06/2017	R0.00	02/05/2022	103 435	–	(31 280)	(6 874)	**65 281**
01/07/2016 – 30/06/2017	R113.00	30/11/2021	3 186	–	(1 062)	–	**2 124**
01/07/2016 – 30/06/2017	R122.50	30/11/2021	106 671	–	–	(5 224)	**101 447**
01/07/2017 – 30/06/2018	R0.00	22/05/2023	87 377	–	(28 835)	4666	**63 208**
01/07/2018 – 30/06/2019	R0.00	30/04/2024	19 303	–	(1 124)	11 947	**30 126**
01/07/2018 – 30/06/2020	R0.00	30/09/2025	–	61 050	–	(4 158)	**56 892**
2. The Discovery Limited phantom scheme							
01/07/2014 – 30/06/2015	R0.00	30/09/2019	259 764	–	(253 979)	(5 785)	**–**
01/07/2014 – 30/06/2015	R97.89	30/09/2019	519 534	–	(507 963)	(11 571)	**–**
01/07/2015 – 30/06/2016	R0.00	30/04/2021	454 652	–	(224 068)	(12 918)	**217 666**
01/07/2015 – 30/06/2016	R122.50 – R134.94	30/04/2021	899 546	–	(443 259)	(25 837)	**430 450**
01/07/2016 – 30/06/2017	R0.00	30/04/2022	1 626 233	–	(539 402)	(56150)	**1 030 681**
01/07/2016 – 30/06/2017	R110.40 – R115.23	30/04/2022	319 797	–	(105 646)	(8 064)	**206 087**
01/07/2017 – 30/06/2018	R0.00	31/03/2023	2 341 474	–	(579 193)	(73 408)	**1 688 873**
01/07/2017 – 30/06/2018	R84.76 – R141.65	31/03/2023	721 580	–	(181 466)	(8 360)	**531 754**
01/07/2018 – 30/06/2019	R0.00	31/03/2024	1 981 744	–	(15 952)	(52 905)	**1 912 887**
3. Discovery LTIP (equity settled)							
01/07/2019 – 30/06/2020	R0.00	30/09/2024	–	3 606 216	–	(25 544)	**3 580 672**
4. Acquisition schemes							
01/07/2013 – 30/06/2014	R0.00	30/06/2019	2 168	–	–	(329)	**1 839**
01/07/2014 – 30/06/2015	R0.00	30/06/2020	37 345	–	(31 262)	(1 943)	**4 140**
01/07/2015 – 30/06/2016	R0.00	30/06/2021	93 473	–	(46 424)	(8 990)	**38 059**
01/07/2016 – 30/06/2017	R0.00	30/06/2022	747 282	–	(635 562)	(20 436)	**91 284**
01/07/2017 – 30/06/2018	R0.00	30/06/2023	640 099	–	(36 437)	(38 071)	**565 591**
01/07/2018 – 30/06/2019	R0.00	30/06/2024	684 445	–	(9 061)	(26 434)	**648 950**
01/07/2019 – 30/06/2020	R0.00	30/06/2025	–	766 481	–	–	**766 481**
5. The Vitality Group phantom stock plan							
01/10/2015	USD 0.00	01/10/2019	517 847	–	(517 847)	–	**–**
01/10/2016	USD 0.00	01/10/2020	1 204 590	–	(602 295)	(63 699)	**538 596**
01/10/2017	USD 0.00	01/10/2021	930 319	–	–	(930 319)	**–**
01/10/2018	USD 0.00	01/10/2022	673 305	–	–	(673 305)	**–**

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

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

	Spot price	Risk free rate	Exercise price	Option term	Volatility	Dividend yield
BEE staff share trust						
Issued in prior years	R113 – R127.14	7.35% – 8.50%	R113 – R122.50	up to 1.25 years	26.19% – 27.37%	R0.71 – R1.07
Phantom scheme						
01/07/2015 – 30/06/2016	R104.55	3.59% – 3.89%	R122.50 – R134.94	up to 0.83 years	61.14% – 73.14%	R0.85 – R0.90
01/07/2016 – 30/06/2017	R104.55	3.59% – 3.89%	R114.96 – R115.23	up to 1.25 years	54.49% – 73.14%	R0.88 – R0.98
01/07/2017 – 30/06/2018	R104.55	3.59% – 3.89%	R134.94 – R141.65	up to 2.25 years	44.14% – 73.14%	R1.01 – R1.07

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

The Discovery Limited phantom scheme, long term incentive plan scheme and Acquisition schemes are cash-settled and are thus repriced at each reporting date.

As noted in Note 3.4.1, Discovery is exposed to equity price risk through its cash-settled share incentive schemes, namely the Phantom share scheme and the Acquisition share scheme, the details of which have been described above. To manage this risk, Discovery has purchased a combination of total return swaps and call options from Ba2 – Baa3 (2019: Baa or A–) rated South African banks to hedge a portion of its exposure to changes in the Discovery share price.

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

32. FINANCE COSTS

R million	Group 2020	Group 2019
Interest expense on:		
– Borrowings measured at amortised cost using the effective interest rate method	**1 033**	827
– Release from other comprehensive income	**10**	7
– Cash flow hedge recycled from other comprehensive income	**50**	39
– Redeemable preference shares	**–**	90
Breakage fee	**–**	33
Interest using the effective interest rate method	**–**	57
– Finance lease (IAS 17)	**–**	400
– Lease liabilities (IFRS 16)	**441**	–
– Interest on other payables using the effective interest rate method	**34**	12
	1 568	1 375

33. FOREIGN EXCHANGE GAINS/LOSSES

R million	Group 2020	Group 2019
Net foreign exchange gains/(losses)	**578**	*

* *Amount is less than R500 000.*

The total amount of foreign exchange gains losses recognised in profit or loss is R734 million (2019: R13 million) presented within various within various line. The net foreign exchange gains and losses arise primarily from the foreign denominated loans.

34. TAXATION

R million	Group 2020	Group 2019
Charge for the year:		
Current taxation	**1 746**	1 047
Normal taxation	**1 723**	1 047
Capital gains taxation	**23**	–
Deferred taxation	**(1 122)**	258
	624	1 305

	%	%
Taxation rate reconciliation		
Effective taxation rate	**78.0**	16.5
Subsidiary losses not provided for	**(95.5)**	(1.8)
Prior year (under)/ over provision	**(0.3)**	(0.6)
Deferred tax asset raised on prior year losses/unrecognised prior period losses utilised in current period	**27.6**	8.7
Alignment to 'new IFRS tax-adjusted basis'	**(0.1)**	(1.5)
Tax on Individual Policyholder Fund	**3.3**	2.5
Tax on Company Policyholder Fund	**0.8**	2.0
Capital profits and dividend income	**14.4**	0.5
Capital gains tax	**0.8**	0.7
Non-deductible expenditure: Capital in nature	**(7.5)**	(1.3)
Non-deductible expenditure: Other individually immaterial	**(0.2)**	(1.7)
Non-taxable income: Gain on previously held interest	**–**	2.7
Non-taxable income: Other individually immaterial	**0.2**	2.1
Tax rate change – decrease	**1.4**	0.4
Tax rate differences	**4.6**	1.8
Tax on eliminated intergroup transactions	**0.5**	(3)
Standard rate of taxation	**28.0**	28.0

For South African entities that are in a tax paying position, tax has been provided at 28% (2019: 28%). Discovery uses the South African tax rate in respect of its tax rate reconciliation as Discovery Limited (holding company listed on the JSE) is domiciled in South African and the most significant operations are in South Africa.

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

35. EARNINGS PER SHARE

	Group 2020	Group 2019
Basic earnings per share		
Earnings per share is based on net profit after tax attributable to ordinary shareholders and the weighted number of ordinary shares in issue.		
Net profit attributable to ordinary shareholders (R million)	**97**	6 533
Weighted number of ordinary shares in issue (000's)	**656 648**	652 295
Basic earnings per share (cents)	**14.8**	1 001.5
Diluted earnings per share		
Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.		
Weighted average ordinary shares in issue (000's) adjusted for:	**656 648**	652 295
– Weighted average ordinary shares in the staff share trusts (000's)	**181**	273
– Weighted average ordinary shares related to long term share incentive scheme (000's)	**4 414**	–
	661 242	652 568
Diluted earnings per share (cents)	**14.7**	1 001.1

35. EARNINGS PER SHARE *continued*

	Group 2020	Group 2019
Headline earnings		
Headline earnings per share is based on the net profit after tax attributable to ordinary shareholders adjusted for items of a capital nature and the weighted average number of ordinary shares in issue.		
Headline earnings reconciliation (R million)		
Net profit attributable to ordinary shareholders	**97**	6 533
Adjusted for:		
– gain on dilution and disposal of equity-accounted investments	**(3)**	(844)
– tax on gain on dilution and disposal of equity-accounted investments	**–**	178
– gain on previously held interests in DiscoveryCard business	**–**	(761)
– impairment of goodwill	**9**	17
– (gain)/loss on disposal of property and equipment	**(3)**	2
– tax on gain/loss on disposal of property and equipment	**1**	(1)
– impairment of intangible assets	**63**	32
– tax on impairment of intangible assets	**(19)**	(9)
– derecognition of intangible assets and property and equipment	**196**	–
– tax on derecognition of intangible assets and property and equipment	**(47)**	–
– Discovery Limited's share of headline earnings adjustments made by equity-accounted investees:		
◦ derecognition of intangible assets and property and equipment	**2**	–
◦ tax on derecognition of intangible assets and property and equipment	**–**	–
Headline earnings	**296**	5 147
Headline earnings per share (cents):		
– basic	**45.0**	789.0
– diluted	**44.7**	788.7
Normalised headline earnings is calculated by adjusting headline earnings with significant items that are not considered to be part of Discovery's normal operations. These adjustments include those gains or losses associated with changes in economic assumptions recognised in profit or loss, net of any gains or losses on derivatives to offset such changes in economic assumptions. Adjustments are shown net of tax.		
Headline earnings	**296**	5 147
– amortisation of intangibles from business combinations	**76**	99
– deferred tax on amortisation of intangibles from business combinations	**(16)**	(15)
– costs relating to disposal of equity-accounted investments	**–**	21
– tax on costs relating to disposal of equity-accounted investments	**–**	(6)
– debt restructuring costs resulting from DiscoveryCard business transaction	**–**	33
– deferred tax assets raised on assessed losses	**(275)**	(326)
– deferred tax timing difference related to new 'adjusted IFRS' tax basis and Corporate Policyholder Fund assessed loss	**–**	(38)
– unrealised (gains)/losses on foreign exchange contracts not designated as a hedge	**(263)**	134
– tax on unrealised on foreign exchange contracts not designated as a hedge	**74**	(37)
– initial expenses related to Prudential Book transfer	**71**	28
– tax on initial expenses related to Prudential Book transfer	**(14)**	(5)
– changes in economic assumptions in excess of available discretionary margin	**5 708**	–
– tax on charges in economic assumptions in excess of available discretionary margin	**(1 413)**	–
– intrinsic fair value changes on VitalityLife derivatives	**(758)**	–
– tax on intrinsic fair value change on VitalityLife derivatives	**144**	–
– restructuring costs	**100**	–
– tax on restructuring costs, net of tax	**(20)**	–
– transaction costs related to interest rate derivatives	**45**	–
– tax on transaction costs related to VitalityLife interest rate derivatives	**(8)**	–
Normalised headline earnings	**3 747**	5 035
Normalised headline earnings per share (cents):		
– basic	**570.7**	771.9
– diluted	**566.7**	771.6

36. CASH FLOW INFORMATION

36.1 Cash generated by operations

	Group 2020	Group 2019
Profit before taxation	**800**	7 919
Adjusted for:		
Investment income	**(4 274)**	(3 724)
Realised investment gains and losses	**(426)**	(335)
Finance costs	**1 568**	1 375
Premiums,claims, benefits and investment charges for liabilities under investment contracts	**2 187**	1 820
Non cash items:		
Allowance for expected credit losses	**136**	50
Amortisation of intangibles from business combinations	**76**	99
Amortisation of software	**1 111**	735
Assets arising from contracts with customers	**119**	58
Contract liabilities movement	**314**	109
Deferred acquisition costs	**(3)**	(72)
Derecognition and impairment of intangible assets	**234**	32
Derecognition and impairment of property and equipment	**25**	11
Depreciation	**643**	519
Fair value adjustment to liabilities under investment contracts	**151**	809
Gain from derivatives	**531**	(57)
Gain on dilution and disposal of equity-accounted investments	**(3)**	(844)
Gain on previously held interest in DiscoveryCard business	**–**	(761)
Hedge ineffectiveness	**13**	(5)
Impairment of goodwill	**9**	17
(Gain)/loss on disposal of property and equipment	**(3)**	2
Operating lease payments in advance	**–**	10
Provision for employee benefits	**48**	53
Share-based payment expenses – cash settled	**54**	455
Share-based payment expenses – equity settled	**164**	–
Share of profits from equity-accounted investments	**(264)**	(170)
Transfer to assets under insurance contracts	**(2 038)**	(5 321)
Transfer to assets under reinsurance contracts	**(53)**	(7)
Transfer to liabilities under insurance contracts	**9 418**	8 050
Transfer to liabilities under reinsurance contracts	**462**	1 984
Economic assumption adjustments net of discretionary margins	**5 708**	–
Translation differences	**(460)**	(3)
Unearned premiums	**844**	(1)
Unrealised losses/(gains) on investments at fair value through profit or loss	**215**	(599)
Working capital changes:		
Insurance receivables, contract receivables and other receivables	**(3 957)**	(1 454)
Other payables at amortised cost	**5 651**	2 025
	19 000	12 779

36.2 Taxation paid

	Group 2020	Group 2019
Balance at beginning of the year	**(140)**	(254)
Taxation charged for the year in the income statement	**(624)**	(1 305)
Adjustment for movement in deferred taxation	**(1 122)**	258
Taxation charged for the year in other comprehensive income	**32**	2
Translation differences	**(46)**	2
Balance at end of the year	**611**	140
	(1 289)	(1 157)

36. CASH FLOW INFORMATION *continued*

36.3 Proceeds from issuance of shares

	Group 2020	Group 2019
Shares issued	–	1 854
Shares issue costs	–	(19)
	–	1 835

36.4 Movement of borrowings

	Group 2020	Group 2019
Balance at beginning of the year excluding overdrafts with banks	**14 682**	14 073
Leased asset acquired and IFRS 16 transition	**792**	13
Increase in borrowings	**10 339**	2 147
Raising fees capitalised	**(29)**	(4)
Interest accrued on borrowings	**1 474**	1 331
Interest capitalised to intangible assets	–	47
Interest recognised in profit or loss	**1 474**	1 284
Interest paid on borrowings	**(1 289)**	(1 124)
Repayment of borrowings	**(6 639)**	(1 741)
Translation differences	**506**	(13)
Balance at end of the year excluding overdrafts with banks	**19 836**	14 682

37. COMMITMENTS

37.1 Capital commitments

R million	Group 2020	Group 2019
Capital expenditure approved but not contracted for at the reporting date is as follows:		
Property and equipment including new head office leasehold improvements	–	22
Intangible assets	**189**	11
Development costs for Discovery Bank	**388**	67
	577	100

37.2 Operating lease commitments

Discovery has various operating lease agreements. Most leases contain renewal options. Lease terms do not contain restrictions on Discovery's activities concerning dividends, additional debt or further leasing.

R million	Group 2020	Group 2019
Discovery leases certain computer and office equipment under operating leases. The remaining periods of the leases are from two months to four years. The future minimum commitments are as follows:		
Due within one year		48
Due within two to five years		154
Due after five years		5
Cash flow commitment		207
Discovery leases certain land and buildings under operating leases. The remaining periods of the leases are from two months to ten years. The future minimum commitments in terms of the leases of land and buildings:		
Due within one year		42
Due within two to five years		126
Due after five years		22
Cash flow commitment		190
Accrued to a liability (refer to note 22)		(53)
Net commitment		137

38. DIVIDENDS PER SHARE

38.1 Dividends per ordinary share

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

The dividends paid in 2019 totalled R1 400 million and comprised a final dividend of 114 cents per share paid on 8 October 2018 and an interim dividend of 101 cents per share paid on 18 March 2019.

38.2 Dividends per preference share

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

The dividends paid in 2019 totalled R81 million and comprised a final dividend of 501.91781 cents per share paid on 17 September 2018 and an interim dividend of 506.71233 cents per share paid on 11 March 2019.

39. CONTINGENCIES

The Group is exposed to no material contingencies at 30 June 2020.

40. RELATED PARTIES

40.1 List of related parties as defined

Subsidiaries

Details of subsidiaries directly and indirectly owned by Discovery Limited are contained in Company note 1. Also refer to Directors' report 'Nature of Business'.

Associates and Joint Ventures

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

Corporate investors

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

Key management personnel

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

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

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

40. RELATED PARTIES *continued*

40.2 Transactions with related parties

Where relevant, amounts are excluding VAT.

Rand Merchant Investment Holdings Limited (RMI)

During the prior year, Rand Merchant Insurance Holdings Limited (RMI) subscribed for 2 865 565 shares as part of the vendor consideration placement and maintained its 25.04% shareholding in Discovery Limited (refer to note 17.1 for details of the vendor consideration placement). RMI pre-agreed to participate in the share placement and earned an underwriting commission of R1 million.

Discovery Health Medical Scheme (DHMS)

Discovery Health (part of the segment SA Health) administers DHMS and provides managed care services for which it charges an administration fee and a managed healthcare fee respectively. These fees are determined on an annual basis and approved by the trustees of DHMS. The fees totalled R6 190 million (2019: R5 853 million). Discovery offers the members of DHMS access to the Vitality programme. Discovery Health also provides wellness services to DHMS. The fees received for these services totalled R38 million (2019: R30 million).

Discovery Third Party Recovery Services (DTPRS) paid DHMS R16 million (2019: R14 million) to purchase all the risks and rewards of ownership to the claims due from the Road Accident Fund up to 31 December 2019 (2019: 9 September 2019). DTPRS also provides a service to DHMS to recover all claims that are due from the Compensation for Occupational Injuries and Diseases. DTPRS received R15 million (2019: R22 million) for this service. DTPRS owes DHMS R3 million (2019: R6 million) at year-end.

Discovery Vitality receives monthly contributions from DHMS members that have activated the Vitality Wellness programme through various product integrations. The membership fees totalled R1 687 million for the year ended 30 June 2020 (2019: R1 591 million).

DHMS owes the Discovery Group R646 million (2019: R670 million) at year-end.

Closed schemes

Discovery Health administers the following restricted membership medical schemes:

- Anglo Medical Scheme.
- Anglovaal Group Medical Scheme.
- Bankmed Medical Scheme.
- BMW Employees Medical Aid Scheme.
- Glencore Medical Scheme.
- LA Health Medical Scheme.
- Lonmin Medical Scheme.
- Malcor Medical Aid.
- Naspers Medical Fund.
- Netcare Medical Scheme
- Quantum Medical Aid Society.
- Remedi Medical Scheme.
- Retail Medical Scheme.
- TFG Medical Scheme.
- Tsogo Sun Group Medical Scheme.
- University of KwaZulu-Natal Medical Scheme.
- Engen Medical Benefit Fund.
- The South African Breweries Medical Aid.

Discovery Health charges these schemes administration fees which are determined on an annual basis and approved by the trustees of the respective closed schemes. The fees totalled R1 141 million (2019: R1 064 million).

DTPRS paid Bankmed RNil million (2019: R6 million) to purchase all the risks and rewards of ownership for the claims due from the Road Accident Fund (RAF) up to 31 July 2018. At 30 June 2020, R1 million (2019: RNil) was receivable from Bankmed, for recovery services, performed by DTPRS on behalf of Bankmed members from the RAF. DTPRS also provides a service to Bankmed to recover all claims that are due from the Compensation for Occupational Injuries and Diseases. DTPRS received R1 million (2019: R1 million) for this service.

Discovery Vitality receives monthly contributions from the closed scheme members that have activated the Vitality Wellness programme through various product integrations. The membership fees totalled R99 million (2019: R91 million).

Amounts due to the Discovery Group at year-end totalled R104 million (2019: R100 million).

40. RELATED PARTIES *continued*

40.2 Transactions with related parties *continued*

Cambridge Mobile Telematics Inc. (CMT)

Discovery Insure paid fees on a monthly basis to CMT for the collation and interpretation of data and the translating of driving behaviour into scorable events. Fees paid for the year totalled R11 million (2019: R11 million).

Discovery Franchises

Discovery has established a network of 32 franchises in order to establish a national footprint for its products. Discovery has paid R239 million (2019: R262 million) in fees to the franchises.

The franchises participate in the Acquisition Scheme (refer to note 31 for further details). During the year, R4 million (2019: R14 million) was accrued for in terms of this scheme.

The Discovery Foundation

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

The Discovery Foundation has made no investments into the Discovery Unit Trusts during the current or prior year.

The Discovery Fund

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

The Discovery Fund received contributions from Discovery of R23 million during the year (2019: R29 million). Discovery also paid a management fee of R2 million (2019: R2 million).

Discovery staff pension and provident funds

The Discovery Pension and Provident Funds ("the Funds") were set-up specifically for Discovery staff. Contributions to the Funds during the year amounted to R461 million (2019: R250 million). The Funds have invested R27 million (2019: R1 226 million) into financial assets managed by Discovery Life Collective Investments, and R1 320 million in unit linked insurance policies with Discovery Life (2019: RNil million), these policies are linked to unit trusts managed by Discovery Life Collective Investments. In February 2020 the Discovery Limited Board approved the appointment of the Discovery Retirement Funds comprising funds underwritten by Discovery Life and registered as the Discovery Life Pension Umbrella Fund and the Discovery Life Provident Umbrella Fund, as retirement fund provider to the Discovery Staff. In April 2020 the Board of the Funds resolved to transfer the assets of the Funds to the Discovery Retirement Funds with effect from 1 July, this transfer is still subject to the regulated Section 14 transfer process. The Board also resolved to close the Funds after the transfer is completed and there are no assets remaining in the Funds.

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

INSURANCE CONTRACTS

	Aggregated insured cover		Premiums received		Claims paid	
R'000	**2020**	2019	**2020**	2019	**2020**	2019
Life insurance	**1 070 749**	1 361 601	**6 543**	10 097	**–**	–
Short-term insurance	**444 908**	547 607	**2 154**	2 380	**424**	745
Short-term health insurance	**–**	–	**53**	38	**4**	108

40. RELATED PARTIES *continued*

40.2 Transactions with related parties continued

INVESTMENT CONTRACTS

	Investment values		Premiums received		Withdrawal benefits		Investment returns	
R'000	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Investment contracts	**62 735**	62 466	**6 634**	2 269	**8 322**	2 669	**3 391**	(3 709)

VITALITY LOYALTY PROGRAMME

	Premiums received		Amounts paid	
R'000	**2020**	2019	**2020**	2019
Vitality benefits	**78**	59	**1 397**	1 870

DISCOVERYCARD

	Card fees received		Discounts paid	
R'000	**2020**	2019	**2020**	2019
DiscoveryCard	**20**	177	**39**	17

DISCOVERYBANK

	Loans		Savings		Fees	
R'000	**2020**	2019	**2020**	2019	**2020**	2019
DiscoveryBank	**969**	–	**10 688**	247	**338**	330

Key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management accrued 80 056 Discovery miles as part of the DiscoveryCard loyalty programme for the year ended 30 June 2020 (2019: 376 578).

Aggregate shareholdings of key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management, in Discovery Limited as at 30 June 2020 was 87 263 243 ordinary shares (2019: 93 992 083 ordinary shares).

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

- sponsorship and enterprise development grants to the value of R1.7 million (2019: R1.5 million) were made to organisations where members of key management personnel have significant influence.
- Discovery acquired signage for the new head office to the value of Rnil (2019: R1.2 million) from a company controlled by a family member of key management personnel.

41. CHANGE IN ACCOUNTING POLICY

IFRS 16 *Leases*

BACKGROUND

IFRS 16 replaces IAS 17 *Leases*, as well as the related interpretations. The core principle of IFRS 16 is that the lessee should recognise all rights and obligations arising from leasing arrangements in its Statement of financial position. The most significant change to Discovery pertains to the accounting treatment for those leases that were classified as operating leases from Discovery's perspective as the lessee.

IFRS 16 eliminates the classification of leases for lessees as either operating or finance leases as per IAS 17. Instead, IFRS 16 introduces a single lessee accounting model, where a right of use (ROU) asset together with a lease liability for the future payments is recognised for all leases with a term of more than 12 months, unless the underlying asset is of a low value. Where Discovery is the lessee, it has elected, in accordance with IFRS 16, not to apply the lessee accounting model where the lease is a short-term lease. Short-term leases have a lease term of 12 months or less and does not include a renewal option. The rental payments for short-term leases are expensed on a straight-line basis over the lease term.

IFRS 16 does not introduce significant changes for lessors, or to those leases previously classified as finance leases from the lessee's perspective, and as a result the accounting policies for these transactions had no material change.

ADOPTION AND TRANSITION

On adoption of IFRS 16, Discovery applied the modified retrospective approach to transition on 1 July 2019. This approach requires the cumulative effect of initially applying IFRS 16 as an adjustment to the opening reserves at 1 July 2019. As required by IFRS 16, Discovery did not restate its comparative financial results. Accordingly:

- Discovery's previously reported financial results up to 30 June 2019 are presented in accordance with the requirements of IAS 17; and
- From 1 July 2019 Discovery's financial results are presented in terms of IFRS 16.

On adoption of IFRS 16, Discovery recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 July 2019. The incremental borrowing rates were calculated for each legal entity within the Group that entered into lease arrangements. The incremental borrowing rate considers a base interest rate reflective of the jurisdiction in which the legal entity operates (South Africa, United Kingdom and United States of America), the term of the lease arrangement and the nature of the assets.

ROU assets were measured retrospectively at the amount equal to the lease liability at the commencement of the lease, using the discount rate as determined on 1 July 2019 for the lease liability, and depreciated from commencement date up until 30 June 2019.

The resulting difference between the lease liability and the ROU asset as at 1 July 2019 is recognised as an adjustment to the opening retained earnings. In addition, any previously recognised rights (e.g. prepaid rentals) or obligations (e.g. straight-line accruals) are also derecognised as adjustments to the opening retained earnings on 1 July 2019.

PRACTICAL EXPEDIENTS APPLIED

In applying IFRS 16 for the first time, Discovery used the following practical expedients permitted by IFRS 16:

- accounting for leases with a remaining lease term of less than 12 months as at 1 July 2019, as short-term leases, provided there was no option to extend the term. For short-term rentals, the lessee recognises the payments as an expense on a straight-line basis;
- the use of a single discount rate for a specified portfolio of leases that have reasonably similar characteristics. This was applied to the Franchises offices;
- the exclusion of initial direct costs for the measurement of the ROU asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

IDENTIFYING LEASES, LOW VALUE ASSETS AND LEASING ACTIVITIES

Effective 1 July 2019, all leases, which either had a term not less than 12 months or not deemed a low value asset, were recognised as a ROU asset and a corresponding lease liability.

Discovery leases the following assets with a range of lease terms:

– Large offices	5 – 15 years
– Small offices/Franchise offices (SA only)	1 – 3 years
– Computer equipment (e.g. servers) (SA only)	3 – 4 years
– Motor vehicles (UK only)	3 years

41. CHANGE IN ACCOUNTING POLICY *continued*

IFRS 16 *Leases continued*

Leases of low value assets relate to those categories of assets which at inception of the lease typically have a value, if bought new, of no more than approximately R70 000. For Discovery, these categories include computer equipment such as desktops, laptops, monitors and related IT peripherals.

Contracts where the service provider has a substantive right to substitute the asset for an alternative asset during the lease term is not regarded as a lease, but instead a service contract. Accordingly, these contracts are not accounted for in accordance with IFRS 16. For Discovery, such contracts include items such as vending machines.

EXTENSION OR TERMINATION OPTIONS

Extension or termination options are included in a number of the building leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are considered in the lease term when there is reasonable certainty that those options will be exercised.

Effect of changes in IFRS 16 on date of initial application[1]

At 1 July 2019

R million	Group 30 June 2019 Previously reported Audited	IFRS 16 Adjustments	Group 1 July 2019 Restated
Assets			
Property and equipment	**4 212**	638	**4 850**
Total impact on assets		638	
Equity			
Retained earnings	**31 710**	(41)	**31 669**
Liabilities			
Financial liabilities			
Borrowings at amortised cost	**14 682**	748	**15 430**
Other payables at amortised cost	**10 262**	(63)	**10 199**
Deferred income tax liabilities	**8 697**	(6)	**8 691**
Total impact on equity and liabilities		638	

The increase in Property and equipment and Borrowings at amortised cost related to:

R million	Property and equipment	Borrowings at amortised cost[2]
Land and buildings	573	681
Computer equipment and operating systems	64	66
Motor vehicles	1	1
	638	748

1 *In the finalisation of accounts for the period 30 June 2020, Discovery identified that in its interim financial results, it incorrectly treated a reimbursement of fit-out costs from the lessor in the measurement of its Buildings ROU asset. Discovery has corrected its calculation, and the values above are after its correction. Accordingly, the values in the table above are R29 million less for its ROU asset, R1million less for Borrowing at amortised cost and R28 million more for Retained earnings than those values included in the interim financial results. The change has no impact on earnings during the period.*

2 *The ranges of incremental borrowing rates applied on transition was 8.02%-9.9% in South Africa, 1.92% – 4.43% in the UK and 7.25% within the US.*

41. CHANGE IN ACCOUNTING POLICY *continued*

Reconciliation of lease liability

R million	2020
Lease Commitments as at 30 June 2019[1]	**1 058**
Discounted using the group's incremental borrowing[2]	**(191)**
Add: Finance lease liabilities recognised as at 30 June 2019	**3 648**
Less: Short-term leases recognised on a straight-line basis as expense	**(10)**
Less: Low-value leases recognised on a straight-line basis as expense	**(91)**
Less: contract reassessed as service agreements	**(18)**
Lease liability as at 1 July 2019	**4 396**

1 *Includes committed and uncommitted lease commitment at 30 June 2019.*
2 *The ranges of incremental borrowing rates applied on transition was 8.02% - 9.9% in South Africa, 1.92% - 4.43% in the UK and 7.25% within the US.*

42. EVENTS AFTER REPORTING DATE

B preference share cash dividend declaration:

On 7 September 2020, the directors declared a final gross cash dividend of 433.21918 cents (346.57534 cents net of dividend withholding tax) per B preference share for the period 1 January 2020 to 30 June 2020, payable from the income reserves of the Company. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

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

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Monday, 21 September 2020
Shares commence trading ex-dividend	Tuesday, 22 September 2020
Record date	Friday, 25 September 2020
Payment date	Monday, 28 September 2020

B preference share certificates may not be dematerialised or rematerialised between Tuesday, 22 September 2020 and Friday, 25 September 2020, both days inclusive.

Ordinary share cash dividend declaration:

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

Discovery Bank

Subsequent to year-end, Discovery Bank successfully migrated the DiscoveryCard Platinum client portfolio, comprising of 62 512 customers from the FNB platform onto its own platform. The transfer was funded by various institutional deposits amounting to R1.3 billion.

DISCOVERY

COMPANY ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE

2020

COMPANY STATEMENT OF FINANCIAL POSITION

at 30 June 2020

R million	Notes	Company 2020	Company 2019
Assets			
Investments in subsidiaries	2	**25 658**	22 739
Investment in associate and joint venture	3	**991**	991
Financial assets			
– Derivative financial instruments at fair value	4	**242**	37
– Loans to subsidiaries	5	**7 856**	6 135
– Loans to BEE partners	6	**116**	73
– Other receivables	7	**358**	17
Deferred income tax asset	13	**–**	23
Current income tax asset		**–**	21
Cash and cash equivalents	20.5	**188**	84
Total assets		**35 409**	30 120
Equity			
Capital and reserves			
Ordinary share capital and share premium	8.1	**10 331**	10 331
Preference share capital	8.2	**779**	779
Other reserves		**4**	192
Retained earnings		**5 085**	5 309
Total equity		**16 199**	16 611
Liabilities			
Financial liabilities			
– Borrowings at amortised cost	9	**8 356**	6 841
– Derivative financial instruments at fair value	10	**522**	220
– Financial guarantee contracts	21	**52**	35
– Trade and other payables	11	**9 088**	5 294
– Loans from subsidiaries	12	**1 102**	1 119
Deferred income tax liability	13	**1**	–
Current income tax liability		**89**	–
Total liabilities		**19 210**	13 509
Total equity and liabilities		**35 409**	30 120

COMPANY INCOME STATEMENT

for the year ended 30 June 2020

R million	Notes	Company 2020	Company 2019
Investment income	14	**1 625**	1 776
– at amortised cost interest income, using the effective interest rate		**462**	400
– other investment income		**1 163**	1 376
Other income	15	**35**	20
Net fair value gains/(losses) on financial instruments at fair value through profit or loss	16	**263**	(144)
Marketing and administration expenses	17	**(14)**	(10)
Movement in allowance for expected credit losses	18	**9**	(4)
Profit from operations		**1 918**	1 638
Finance costs		**(832)**	(759)
Foreign exchange gains/(losses)		**370**	(10)
Profit before tax		**1 456**	869
Taxation	19	**(184)**	24
Profit for the year		**1 272**	893
Attributable to:			
– ordinary shareholders		**1 191**	812
– preference shareholders		**81**	81
		1 272	893

COMPANY STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2020

R million	Company 2020	Company 2019
Profit for the year	**1 272**	893
Items that are or may be reclassified subsequently to profit or loss:		
Cash flow hedges	**(350)**	(110)
– unrealised losses	**(360)**	(117)
– gains reclassified to profit or loss	**10**	7
Other comprehensive income for the year, net of tax	**(350)**	(110)
Total comprehensive income for the year	**922**	783
Attributable to:		
– ordinary shareholders	**841**	702
– preference shareholders	**81**	81
	922	783

COMPANY STATEMENT OF CASH FLOWS

for the year ended 30 June 2020

R million	Notes	Company 2020	Company 2019
Cash flow from operating activities		**3 882**	4 045
Cash generated by operations	20.1	**3 408**	3 340
Dividends received		**1 155**	1 364
Interest received		**113**	83
Interest paid		**(744)**	(671)
Taxation paid	20.2	**(50)**	(71)
Cash flow from investing activities		**(3 780)**	(5 043)
Increase investment in subsidiary	20.3	**(2 753)**	(4 570)
Increase investment in associate		**–**	(160)
Proceeds on disposal of financial assets		**–**	130
Increase in loans granted to subsidiaries	5	**(2 302)**	3 391
Proceeds from settlement of subsidiary loans	5	**1 275**	2 948
Cash flow from financing activities		**2**	1 043
Proceeds from long-term borrowings	20.4	**5 104**	698
Repayment of long-term borrowings	20.4	**(3 606)**	(7)
Proceeds from issuance of ordinary shares		**–**	1 854
Share issue costs		**–**	(19)
Dividends paid to ordinary shareholders		**(1 415)**	(1 402)
Dividends paid to preference shareholders		**(81)**	(81)
Net increase in cash and cash equivalents		**104**	45
Cash and cash equivalents at beginning of the year		**84**	39
Cash and cash equivalents at end of the year	20.5	**188**	84

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2020

Company R million	Share capital and share premium	Preference share capital	Hedging reserve	Share-based payment reserve	Retained earnings	Total
Year ended 30 June 2019						
At beginning of the year	8 496	779	(56)	327	5 899	15 445
Total comprehensive income for the year	–	81	(110)	–	812	783
Profit for the year	–	81	–	–	812	893
Other comprehensive income	–	–	(110)	–	–	(110)
Transactions with owners	1 835	(81)	–	31	(1 402)	383
Share issue	1 854	–	–	–	–	1 854
Share issue costs	(19)	–	–	–	–	(19)
Increase in BEE share option scheme	–	–	–	31	–	31
Dividends paid to ordinary shareholders	–	–	–	–	(1 402)	(1 402)
Dividends paid to preference shareholders	–	(81)	–	–	–	(81)
Balance at 30 June 2019	10 331	779	(166)	358	5 309	16 611
Year ended 30 June 2020						
At beginning of the year	**10 331**	**779**	**(166)**	**358**	**5 309**	**16 611**
Total comprehensive income for the year	**–**	**81**	**(350)**	**–**	**1 191**	**922**
Profit for the year	**–**	**81**	**–**	**–**	**1 191**	**1 272**
Other comprehensive income	**–**	**–**	**(350)**	**–**	**–**	**(350)**
Transactions with owners	**–**	**(81)**	**–**	**162**	**(1 415)**	**(1 334)**
Increase in BEE share option scheme	**–**	**–**	**–**	**162**	**–**	**162**
Dividends paid to ordinary shareholders	**–**	**–**	**–**	**–**	**(1 415)**	**(1 415)**
Dividends paid to preference shareholders	**–**	**(81)**	**–**	**–**	**–**	**(81)**
Balance at 30 June 2020	**10 331**	**779**	**(516)**	**520**	**5 085**	**16 199**

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2020

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these separate financial statements are consistent with those set out in Annexure A. In addition to those policies, the following policies apply specifically to these separate financial statements.

Investment in subsidiaries, associates and joint ventures

Investments in subsidiaries, are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes directly attributable cost of the investment.

Investments in associates and joint ventures are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes directly attributable cost of the investment.

Financial guarantee contracts

The Company accounts for financial guarantee contracts (FGCs) in accordance with IFRS 9 *Financial Instruments* (IFRS 9). The Company issues FGCs to assist in securing funding for its subsidiaries.

FGCs are contracts which require the Company as the issuer of the contract, to make specified payments to reimburse the holder for a loss that the holder incurs because the specified debtor fails to make payment when it is due under the original or modified terms of the debt instrument.

The Company measures the FGC:

- Initially at fair value; and
- Subsequently at the higher of:
  - The amount of expected credit losses determined under IFRS 9 (calculation 1); and
  - The amount initially recognised less, when appropriate, the cumulative amount of income recognised under the principles of IFRS 15 *Revenue from Contracts with Customers* (calculation 2).

Initial recognition

In the instances where the Company issues FGCs for the debt of a related entity in the Discovery Group, the Company determines the fair value. These FGCs are seen as transactions in a capacity as shareholder and are treated as capital contributions.

In some instances, the other Discovery Group entity can also pay a premium to the issuer of the FGCs. The Company then determines if the price represents the fair value, or whether there is still an additional benefit of the FGC that the Company should recognise.

In the instance where the Company does not receive all the premiums upfront, it recognises the FGC using a net approach. The net approach requires that the Company presents the financial guarantee as its fair value less all future premiums.

Subsequent measurement

The Company recognises financial guarantee fee income as follows:

- Amortises the fair value recognised on initial recognition over the period that the FGC is outstanding, being generally the period of the underlying debt.
- Recognises any premiums received for issuing the FGC also as financial guarantee fee income.
- Where the Company has applied the net approach, the Company adjusts for the premiums subsequently received to ensure it takes into account all premiums in using calculation 2.

The Company calculates the lifetime expected credit losses for purposes of calculation 1.

Where the outcome is such that calculation 1 is more than calculation 2, differences are recognised and presented as part of expected credit losses.

Where the outcome is such that calculation 2 is more than calculation 1, no adjustments are required. Any previously recognised expected credit losses can be reversed, but limited to the total value previously recognised.

Derecognition

The Company derecognises FGCs when the FGC is extinguished, expires or the underlying debt is extinguished.

At the date of derecognition:

- Where the FGC is extinguished in exchange for a new FGC to the same holder and in respect of the same guaranteed entity, the FGC derecognised is seen as compensation for the new FGC.
- In all other instances, the FGC is derecognised with an associated gain or loss in profit or loss.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2020

1. MANAGEMENT OF FINANCIAL RISK

The Company's activities expose it to a variety of financial risks. Financial risks include market risk, credit risk and liquidity risk. Refer to Group Note 3 "Management of financial risk" for a detailed explanation of financial risks and how they are managed.

1.1 Interest rate risk

Sensitivity to changes in interest rates is relevant to financial assets or liabilities bearing floating interest rates due to the risk that future cash flows fluctuate. However, sensitivity will also be relevant to fixed-rated financial assets and financial liabilities that are re-measured to fair value.

The table below details the specific interest rate risk that the Company is exposed to:

Company R million	Carrying amount	Fixed	Floating	Non-interest bearing
At 30 June 2020				
Derivative financial instruments at fair value:				
– Not designated as hedging instruments	**242**	**–**	**–**	**242**
Loan to subsidiaries	**7 856**	**1 807**	**3 367**	**2 682**
Loans to BEE partners	**116**	**–**	**116**	**–**
Trade and other receivables	**358**	**–**	**–**	**358**
Cash and cash equivalents	**188**	**52**	**136**	**–**
Total financial assets	**8 760**	**1 859**	**3 619**	**3 282**
Borrowings at amortised cost	**8 356**	**3 819**	**4 537**	**–**
Derivative financial instruments at fair value:				
– Not designated as hedging instruments	**6**	**–**	**–**	**6**
– Used as cash flow hedges	**516**	**516**	**–**	**–**
Financial guarantee contracts	**52**	**–**	**–**	**52**
Trade and other payables	**9 088**	**–**	**–**	**9 088**
Loans from subsidiaries	**1 102**	**–**	**682**	**420**
Total financial liabilities	**19 120**	**4 335**	**5 219**	**9 566**
At 30 June 2019				
Derivative financial instruments at fair value:				
– Not designated as hedging instruments	37	–	–	37
Loan to subsidiaries	6 135	966	3 897	1 272
Loans to BEE partners	73	–	73	–
Trade and other receivables	17	–	–	17
Cash and cash equivalents	84	22	62	–
Total financial assets	6 346	988	4 032	1 326
Borrowings at amortised cost	6 841	2 822	4 019	–
Derivative financial instruments at fair value:				
– Not designated as hedging instruments	64	–	–	64
– Used as cash flow hedges	156	156	–	–
Financial guarantee contracts	35	–	–	35
Trade and other payables	5 294	–	–	5 294
Loans from subsidiaries	1 119	500	619	–
Total financial liabilities	13 509	3 478	4 638	5 393

A change of 1% in the interest rate would result in an increase/decrease of R34 million (2019: R32 million) in interest income and R49 million (2019: R46 million) in finance costs. The sensitivity is based on the assumption that the interest rate has increased/decreased by 1% with all other variables held constant.

1. MANAGEMENT OF FINANCIAL RISK *continued*

1.2 Currency risk

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

The following table segregates the currency exposure by major currency:

Company R million	Total	Rand	GBP	USD
At 30 June 2020				
Derivative financial instruments at fair value:				
– Not designated as hedging instruments	**242**	**242**	**–**	**–**
Loans to subsidiaries	**7 856**	**5 544**	**2 312**	**–**
Loans to BEE partners	**116**	**116**	**–**	**–**
Trade and other receivables	**358**	**110**	**248**	**–**
Cash and cash equivalents	**188**	**140**	**48**	**–**
Total financial assets	**8 760**	**6 152**	**2 608**	**–**
Borrowings at amortised cost	**8 356**	**8 356**	**–**	**–**
Derivative financial instruments at fair value:				
– Not designated as hedging instruments	**6**	**6**	**–**	**–**
– Used as cash flow hedges	**516**	**516**	**–**	**–**
Financial guarantee contracts	**52**	**47**	**5**	**–**
Trade and other payables	**9 088**	**9 088**	**–**	**–**
Loans from subsidiaries	**1 102**	**1 102**	**–**	**–**
Total financial liabilities	**19 120**	**19 115**	**5**	**–**
At 30 June 2019				
Derivative financial instruments at fair value:				
– Not designated as hedging instruments	37	37	–	–
Loans to subsidiaries	6 135	4 715	1 420	–
Loans to BEE partners	73	73	–	–
Trade and other receivables	17	–	–	17
Cash and cash equivalents	84	84	–	–
Total financial assets	6 346	4 909	1 420	17
Borrowings at amortised cost	6 841	6 841	–	–
Derivative financial instruments at fair value:				
– Not designated as hedging instruments	64	64	–	–
– Used as cash flow hedges	156	156	–	–
Financial guarantee contracts	35	35	–	–
Trade and other payables	5 294	5 294	–	–
Loans from subsidiaries	1 119	1 119	–	–
Trade and other payables	13 509	13 509	–	–

1.3 Credit risk

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

Key areas where the Company is exposed to credit risk are:

- *Financial assets comprising money market and debt instruments* – The Company is exposed to the issuer's credit standing on these instruments which is monitored by the CCIC by setting a minimum credit rating. The aggregate credit risk exposure for financial assets categorised by credit ratings is provided on the next page.
- *Cash and cash equivalents* – This risk is managed by monitoring exposure to external financial institutions against limits set by the CCIC.

1. MANAGEMENT OF FINANCIAL RISK *continued*

1.3 Credit risk *continued*

Credit exposure for debt instruments, money market instruments and cash and cash equivalents

The following table provides information regarding the credit risk exposure categorised by Moody's credit ratings. These are credit ratings for assets in stage 1 (refer to note 18) in the Company financial statements:

Company R million	Total	Aaa	Aa1-3	A1-3	Baa1-3	Ba1-3	Govt[1]	Internally rated/ assessed
At 30 June 2020								
Derivative financial instruments at fair value:								
– Not designated as hedging instruments	**242**	**–**	**–**	**65**	**177**	**–**	**–**	**–**
Loans to subsidiaries	**7 856**	**–**	**–**	**–**	**–**	**–**	**–**	**7 856**
Loans to BEE partners	**116**	**–**	**–**	**–**	**–**	**–**	**–**	**116**
Cash and cash equivalents	**188**	**78**	**50**	**–**	**59**	**–**	**1**	**–**
	8 402	**78**	**50**	**65**	**236**	**–**	**1**	**7 972**
At 30 June 2019								
Derivative financial instruments at fair value:								
– Not designated as hedging instruments	37	–	–	–	26	11	–	–
Loans to subsidiaries	6 135	–	–	–	–	–	–	6 135
Loans to BEE partners	73	–	–	–	–	–	–	73
Cash and cash equivalents	84	27	51	1	1	–	–	4
	6 329	27	51	1	27	11	–	6 212

1 These instruments are held in the South African government.

Long-term credit ratings were used in the above credit risk analysis.

Discovery Limited has issued financial guarantees as security of loans incurred by subsidiaries in the Group. The carrying amount of the underlying loans are R5 979 million (2019: R3 607 million) and have a credit risk similar to Discovery Limited.

1.4 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities due to insufficient cash available to meet commitments as and when due.

Cash flow forecasting is performed by the Company and liquidity requirements are monitored to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Company's debt financing plans and covenant compliance.

Cash held by the Company is managed by Group Treasury. Treasury invests it in interest-bearing accounts, term deposits and money market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide headroom as determined by the above-mentioned forecasts. At the reporting date, the Company had money market funds and cash and cash equivalents of R188 million (2019: R84 million).

1. MANAGEMENT OF FINANCIAL RISK *continued*

1.4 Liquidity risk *continued*

The table below analyses Discovery Limited's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. These amounts do not agree to the Statement of financial position as these are the undiscounted contractual payments.

Company R million	Total	<1 year	1 – 2 years	3 – 5 years	6 – 10 years	Open ended
At 30 June 2020						
Borrowings	**11 777**	**802**	**1 304**	**8 541**	**1 130**	**–**
Derivatives not designated as hedging instruments	**6**	**6**	**–**	**–**	**–**	**–**
Trade and other payables	**9 088**	**9 088**	**–**	**–**	**–**	**–**
Loans from subsidiaries:						
– interest-free loans	**420**	**–**	**–**	**420**	**–**	**–**
– interest-bearing loans	**624**	**–**	**–**	**624**	**–**	**–**
	21 915	**9 896**	**1 304**	**9 585**	**1 130**	**–**
Financial guarantee contracts	**5 979**	**5 979**	**–**	**–**	**–**	**–**
	27 894	**15 875**	**1 304**	**9 585**	**1 130**	**–**
At 30 June 2019						
Borrowings	9 269	1 370	1 585	4 399	1 915	–
Derivatives not designated as hedging instruments	64	64	–	–	–	–
Trade and other payables	5 294	5 294	–	–	–	–
Loans from subsidiaries:						
– interest-free loans	500	–	–	500	–	–
– interest-bearing loans	851	–	–	851	–	–
	15 978	6 728	1 585	5 750	1 915	–
Financial guarantee contracts	3 607	3 607	–	–	–	–
	19 585	10 335	1 585	5 750	1 915	–

1.5 Fair value estimation

Discovery Limited's financial instruments measured at fair value have been disclosed using a fair value hierarchy. The hierarchy has three levels that reflect the significance of the inputs used in measuring fair value. These are as follows:

Level 1 includes financial instruments that are measured using unadjusted, quoted prices in an active market for identical financial instruments. Quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

(a) Quoted prices for similar instruments or identical instruments in markets which are not considered to be active; or

(b) Valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

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

1. MANAGEMENT OF FINANCIAL RISK *continued*

1.5 Fair value estimation *continued*

Company R million	Total	Level 1	Level 2	Level 3
At 30 June 2020				
Derivative financial instruments at fair value:				
– Not designated as hedging instruments	**242**	**–**	**242**	**–**
Total financial assets	**242**	**–**	**242**	**–**
Derivative financial instruments at fair value:				
– Not designated as hedging instruments	**6**	**–**	**6**	**–**
– Used as cash flow hedges	**516**	**–**	**516**	**–**
Total financial liabilities	**522**	**–**	**522**	**–**
At 30 June 2019				
Derivative financial instruments at fair value:				
– Not designated as hedging instruments	37	–	37	–
Total financial assets	37	–	37	–
Derivative financial instruments at fair value:				
– Not designated as hedging instruments	64	–	64	–
– Used as cash flow hedges	156	–	156	–
Total financial liabilities	220	–	220	–

2. INVESTMENTS IN SUBSIDIARIES

	Issued ordinary capital R million		Effective percentage holding %		Investment in subsidiaries[4] R million	
	2020	2019	**2020**	2019	**2020**	2019
Vitality Group International Inc.[1]	**2 621**	2 552	**100**	100	**815**	746
Discovery Connect Distribution Services (Pty) Ltd	**555**	*	**100**	100	**555**	*
Discovery Central Services (Pty) Ltd	*****	*	**100**	100	**33**	33
Discovery Finance Company Europe Ltd[2]	**393**	393	**100**	100	**394**	395
Discovery Group Europe Ltd[2]	**13 340**	12 274	**100**	100	**13 332**	12 261
Discovery Health (Pty) Ltd	**271**	271	**100**	100	**527**	495
Discovery Insure Ltd	**2 402**	2 315	**100**	100	**1 515**	1 423
Discovery Life Ltd	**1 416**	1 416	**100**	100	**1 722**	1 704
Discovery Life Collective Investments (Pty) Ltd	**15**	15	**100**	100	**15**	15
Discovery Life Investment Services (Pty) Ltd	**3**	3	**100**	100	**3**	3
Discovery Pref Holdings Company (RF) Ltd	*****	*	**100**	100	*****	*
Discovery Vitality (Pty) Ltd	*****	*	**100**	100	**11**	8
Discovery Partner Market Asia Private Ltd[3]	**211**	211	**100**	100	**113**	113
Discovery Bank Holdings Ltd	**6 495**	5 520	**100**	100	**6 623**	5 543
					25 658	22 739

** Amount is less than R500 000.*
1 Incorporated in the United States of America.
2 Incorporated in England and Wales.
3 Incorporated in Singapore.
4 Investments in subsidiaries include cost less impairments plus the value of share options issued to subsidiary staff.

Refer to company note 20.3 for a detailed movement analysis.

3. INVESTMENT IN ASSOCIATE AND JOINT VENTURE

R million	% ownership interest 2020	% ownership interest 2019	Company 2020	Company 2019
Investment at cost:				
– Ping An Health Insurance Company in China, Limited	**25%**	25%	**991**	991
– AIA Vitality (Hong Kong) Limited	**44%**	44%	*****	*
			991	991

* *Amount is R103.*

Refer to Group note 11 for disclosure of the investment in associate and joint ventures.

4. DERIVATIVE FINANCIAL ASSETS

R million	Company 2020	Company 2019
Derivatives not designated as hedging instruments	**242**	37
– Current	**242**	37

Refer to Group note 3.4 'Currency derivative contracts' for a detailed description of the derivative financial instruments listed above.

5. LOANS TO SUBSIDIARIES[1]

R million		Company 2020	Company 2019
Balance at beginning of the year		**6 135**	5 419
Additional loan granted		**2 302**	3 391
Repayment of loans		**(1 275)**	(2 948)
Interest receivable		**352**	325
Allowance for expected credit losses		**34**	(43)
Foreign exchange revaluations		**308**	(9)
Balance at end of the year		**7 856**	6 135
Discovery Group Europe Ltd	i	**2 312**	1 822
Discovery Health (Pty) Ltd	ii	**2 862**	2 586
Discovery Connect Distribution Services (Pty) Ltd	iii	**–**	455
Discovery Central Services (Pty) Ltd	iv	**2 263**	772
Discovery Life Investment Services (Pty) Ltd	v	**419**	500
		7 856	6 135
Current		**3 317**	773
Non-current		**4 539**	5 362
		7 856	6 135

1 *All loans to subsidiaries are measured at amortised cost, which approximates to fair value.*

5. LOANS TO SUBSIDIARIES *continued*

i. Discovery Limited has granted nine GBP denominated loans and one ZAR denominated loan to Discovery Group Europe Limited (DGEL), a foreign subsidiary of Discovery Limited, the terms are as follows:

GBP denominated

Loan 1 – accrues interest at 400 basis points above 3 month LIBOR and is repayable on 31 July 2020. The value of the loan outstanding at 30 June 2020 is R315 million (GBP 14.7 million) (2019: R251 million (GBP 14 million)).

Loan 2 – accrues interest at 200 basis points above 3 month LIBOR and is repayable on 1 April 2027. The value of the loan outstanding at 30 June 2020 is R527 million (GBP 24.7 million) (2019: R434 million (GBP 24.7 million)).

Loan 3 – accrues interest at 600 basis points above 3 month LIBOR and is repayable on 1 November 2027. The value of the loan outstanding at 30 June 2020 is R128 million (GBP 6 million) (2019: R106 million (GBP 6 million)).

Loan 4 – accrues interest at 600 basis points above 3 month LIBOR and is repayable on 1 June 2028. The value of the loan outstanding at 30 June 2020 is R224 million (GBP 10.5 million) (2019: R185 million (GBP 10.5 million)).

Loan 5 – accrues interest at 600 basis points above 3 month LIBOR and is repayable on 21 August 2028. The value of the loan outstanding at 30 June 2020 is R192 million (GBP 9 million) (2019: R158 million (GBP 9 million)).

Loan 6 – accrues interest at 600 basis points above 3 month LIBOR and is repayable on 24 November 2028. The value of the loan outstanding at 30 June 2020 is R139 million (GBP 6.5 million) (2019: R114 million (GBP 6.5 million)).

Loan 7 – accrues interest at 615 basis points above the Bank of England base rate and is repayable on 1 March 2029. The value of the loan outstanding at 30 June 2020 is R60 million (GBP 2.8 million) (2019: R49 million (GBP 2.8 million)).

Loan 8 – accrues interest at 615 basis points above the Bank of England base rate and is repayable on 1 June 2029. The value of the loan outstanding at 30 June 2020 is R152 million (GBP 7.1 million) (2019: R126 million (GBP 7.1 million)).

Loan 9 – accrued interest at 615 basis points above the Bank of England base rate and is repayment on 31 July 2029. The value of the loan outstanding at 30 June 2020 is R139 million (GBP 6.5 million).

ZAR denominated

Loan 1 – accrues interest at 200 basis points above the 3 month JIBAR and is repayable on 11 November 2022. The value of the loan outstanding at 30 June 2020 is R436 million (2019: R399 million).

Interest of R143 million was earned in respect of these loans in the current financial year (2019: R114 million) and R307 million foreign exchange gains was recognised in profit and loss (2019: R9 million gain).

ii. Discovery Limited has granted loans of R727 million and R1 283 million to Discovery Health. The loan for R727 million, accrues interest at 240 basis points above the 3 month JIBAR and is repayable on 30 June 2021. The loan for R1 283 million, accrues interest at a fixed rate of 10.2% and is repayable on 31 July 2022. The loans will become payable upon maturity and interest is payable quarterly, with the option available for Discovery Health to capitalise the interest to the value of the loan. The value of the loans outstanding at 30 June 2020 is R2 862 million (2019: R2 586 million).

iii. Discovery Limited granted loans totalling R387 million to Discovery Connect Distribution Services. The loans accrued interest at First National Bank’s published prime overdraft lending rate. The loans were repaid on 30 June 2020.

iv. During 2020, Discovery Central Services increased the interest free loan from Discovery Limited by R1 490 million (2019: R589 million decrease). The value of the loan outstanding at 30 June 2020 is R2 263 million (2019: R772 million).

v. Discovery Limited granted an interest-free subordinated loan to Discovery Life Investment Services. The value of the loan outstanding at 30 June 2020 is R419 million (2019: R500 million).

6. LOANS TO BEE PARTNERS[1]

R million	**Company 2020**	Company 2019
Balance at the beginning of the year	**73**	111
Interest receivable	**3**	5
Additional loan granted	**40**	54
Repayment of loans	**–**	(97)
Balance at end of the year	**116**	73
Current	**116**	73
Non-current	**–**	–
	116	73

1 All loans to BEE partners are measured at amortised cost, which approximates to fair value.

Financial assistance was provided to Discovery's BEE Partners in April 2015 to assist them in following their rights in terms of the Discovery Limited's rights issue. Interest accrues at a rate of prime less 0.5% and is repayable on 31 March 2021. However, the outstanding balance is repayable immediately if they are no longer a BEE partner. Discovery further increased bridge loans by R40m in 2020 at an interest rate of prime less 2%. There is no fixed term to this loan.

7. OTHER RECEIVABLES

R million	**Company 2020**	Company 2019
Value-added tax	*****	*
Other debtors	**–**	17
Intercompany receivables	**248**	*
Prepayments	**110**	–
	358	17
Intercompany receivables include:		
– Discovery Pref Holdings Company (RF) Ltd	**–**	*
– Discovery Holdings Europe Ltd	**235**	–
– Discovery Finance Co Europe Ltd	**13**	–
	248	*

** Amount is less than R500 000.*

8. SHARE CAPITAL AND SHARE PREMIUM

8.1 Ordinary share capital and share premium

	Number of shares	Share capital R million	Share premium R million	Total R million
Issued				
At 1 July 2018	646 844 992	1	8 495	8 496
Share movements:				
– shares issued	11 445 744	*	1 854	1 854
– share issue costs	–	–	(19)	(19)
At 30 June 2019	658 290 736	1	10 330	10 331
At 30 June 2020	**658 290 736**	**1**	**10 330**	**10 331**

** Amount is less than R500 000.*

The total authorised number of ordinary shares is 1 billion (2019: 1 billion), with a par value of 0.1 cent per share.

8. SHARE CAPITAL AND SHARE PREMIUM *continued*

8.2 Preference share capital

R million	Company 2020	Company 2019
Authorised		
40 000 000 A no par value preference shares	**–**	–
20 000 000 B preference shares of R100 each	**2 000**	2 000
20 000 000 C no par value preference shares	**–**	–
	2 000	2 000
Issued		
8 000 000 B preference shares of R100 each	**800**	800
Share issue costs	**(21)**	(21)
At 30 June 2020	**779**	779

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

9. BORROWINGS AT AMORTISED COST

R million	Company 2020	Company 2019
Borrowings from banks[1]	**8 356**	6 841
Current	**53**	711
Non-current	**8 303**	6 130
	8 356	6 841

1 Collateral in the form of financial guarantees by Discovery Health and Discovery Vitality has been given to secure these borrowings.

Bank borrowings

In 2017, Discovery registered an unsecured R10 billion Domestic Medium Term Note (DMTN) programme. In terms of this programme, Discovery issued R1.5 billion (2019: R0.7 billion) JSE Listed Notes during the current year. The carrying amount of the listed notes approximates their fair value. During the current year, 5 year bank facility loans totalling R3.6 billion entered into in 2016 were refinanced for a further 3 and 5 years, through the issue of unlisted DTMN notes of R1.1 billion and R2.5 billion maturing in March 2023 and February 2025, respectively. These unlisted notes have been structured through an underwritten subscription agreement with a Bank. Discovery Limited has other borrowings of R1 billion (2019: R4.6 billion) for long term funding requirements. The borrowings were acquired for general corporate purposes in order to fund the various growth initiatives within the Group.

The facility has the following profile and salient terms:

Facility amount R million	Interest rate per annum	Maturity date	Capital repayment
500	Fixed at 9.71%[1]	21 November 2022	Maturity
1 000	Fixed at 10.28%[1]	02 March 2023	Maturity
1 100	Fixed at 8.92%	10 March 2023	Maturity
800	Fixed at 10.31%[1]	21 November 2024	Maturity
1 200	Fixed at 9.21%[1]	21 November 2024	Maturity
200	Fixed at 10.46%[2]	21 November 2024	Maturity
2 500	Fixed at 9.62%	22 February 2025	Maturity
700	Fixed at 10.29%[1]	21 August 2026	Maturity
300	Fixed at 9.40%[1]	21 November 2026	Maturity
8 300			

1 The interest rate has been fixed through interest rate swaps.
2 Interest is payable semi-annually in arrears.

The borrowings are unsecured senior debt and are not callable or convertible. Interest is payable quarterly in arrears other footnote 2 in the table above. Refer to company note 20.4 for movement analysis.

Also refer Goup note 20.

10. DERIVATIVE FINANCIAL LIABILITIES

R million	Company 2020	Company 2019
Interest rate swap – used as cash flow hedges	**516**	156
Derivatives not designated as hedging instruments	**6**	64
	522	220
Current	**6**	64
Non-current	**516**	156
	522	220

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

11. TRADE AND OTHER PAYABLES

R million		Company 2020	Company 2019
Accrued expenditure		**6**	2
Dividends due to shareholders		**10**	4
Intercompany payables		**9 072**	5 288
		9 088	5 294
Intercompany payables include:			
– Discovery Health (Pty) Ltd	i	**3 973**	3 850
– Discovery Connect Distribution (Pty) Ltd		*****	–
– Discovery Life Ltd	ii	**5 099**	1 438
		9 072	5 288

* *Amount is less than R500 000.*

i. Discovery Limited receives funds from Discovery Health Proprietary Limited through a loan account, based on operational requirements. The loan is interest free and is settled as and when sufficient cash becomes available.

ii. Discovery Limited received funds from Discovery Life Limited in 2020 to assist with operational requirements. The loan is interest-free and is settled as and when sufficient cash becomes available.

The amortised cost of the trade and other payables approximate the fair value due to the short term nature of these payables.

12. LOANS FROM SUBSIDIARIES

R million		Company 2020	Company 2019
Discovery Life Ltd	i	**1 102**	1 119
		1 102	1 119

i. Discovery Limited issued 5-year term Investment Notes totalling R500 million to Discovery Life on 30 June 2017. Investment Notes bear interest at variable 3 month JIBAR, currently 8.44% per annum (2019: 10.69%) and is repayable in arrears together with capital on 30 June 2022. Discovery Life further granted Discovery Limited an interest-free loan of R500 million in 2019, which matures on 20 June 2024. The amortised cost of these instruments approximates the fair value.

13. DEFERRED INCOME TAX (LIABILITY)/ASSET

R million	Company 2020	Company 2019
Deferred tax asset – non-current	**–**	23
Deferred tax liability – non-current	**(1)**	–
	(1)	23
Movement summary:		
Balance at beginning of the year	**23**	(1)
Income statement charge	**(24)**	24
Balance at end of the year	**(1)**	23
Deferred taxation comprises:		
Assessed losses	*****	24
Unrealised gains on financial instruments	**(1)**	(1)
	(1)	23

** Amount is less than R500 000.*

14. INVESTMENT INCOME[1]

R million	Company 2020	Company 2019
Cash and cash equivalents interest income	**8**	12
At amortised cost interest income, using the effective interest rate	**462**	400
Dividends received from subsidiaries and equity-accounted investments	**1 155**	1 364
	1 625	1 776
** Amount is less than R500 000.*		
Dividends received from subsidiaries and equity-accounted investments include:		
– Discovery Health (Pty) Ltd	**1 148**	1 100
– AIA Vitality (Hong Kong) Ltd	**–**	18
– Discovery Life Investment Services (Pty) Ltd	**–**	150
– Discovery Partner Markets Asia	**7**	–
– Discovery Pref Holding Company (RF) Ltd	**–**	96
	1 155	1 364

1 Investment income for Discovery Limited is seen as Revenue.

15. OTHER INCOME

R million		Company 2020	Company 2019
Guarantee fees	i	**22**	20
Amortisation of financial guarantee contract	ii	**13**	–
		35	20

i. Discovery Limited issued guarantees in respect of Discovery Finance Company Europe obligations. A guarantee fee is charged by Discovery Limited to Discovery Finance Company Europe.

ii. Amortisation of initial financial guarantee contracts over the term of the loan. Refer to Company note 21 for a list of all the guarantees that Discovery Limited has issued.

16. NET FAIR VALUE GAINS/(LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

R million	Company 2020	Company 2019
Realised loss on derivatives not designated as hedging instruments	**(3)**	(7)
Fair value gains/(losses) on derivatives not designated as hedging instruments	**266**	(137)
	263	(144)

17. MARKETING AND ADMINISTRATION EXPENSES

R million	Company 2020	Company 2019
Marketing and administration expenses comprises:		
– Audit fees	**3**	4
– Professional fees	**8**	3
– Other	**3**	3
	14	10

18. MOVEMENT IN ALLOWANCE FOR EXPECTED CREDIT LOSSES[1]

R million	Company 2020	Company 2019
Loans to subsidiaries:		
– Discovery Health (Pty) Ltd	**(10)**	(3)
– Discovery Central Services (Pty) Ltd	**–**	(1)
– Discovery Life Investment Services (Pty) Ltd	**1**	*
– Discovery Pref Holding Company (RF) Ltd	*****	*
– Discovery Group Europe Ltd	**(24)**	9
– Discovery Connect Distribution Services (Pty) Ltd	**(1)**	(1)
– Discovery Holdings Europe Limited	*****	–
– Discovery Finance Company Europe Limited	*****	–
Financial guarantee contracts:		
– Discovery Central Services Pty Ltd	**25**	–
	(9)	4

** Amount is less than R500 000.*
1 In determining the expected credit loss, Discovery assigned risk ratings to subsidiaries relative to Discovery Limited where a Moody's rating was not available. All these loans are high quality.

	12 month credit losses	Lifetime credit losses	Total
30 June 2020			
Balance at beginning of the year	**43**	**–**	**43**
Decrease in allowance	**(9)**	**–**	**(9)**
Balance at end of the year	**34**	**–**	**34**
30 June 2019			
Balance at beginning of the year	39	–	39
Increase in allowance	4	–	4
Balance at end of the year	43	–	43

19. TAXATION

R million	Company 2020	Company 2019
South African normal taxation		
Current tax	**(160)**	–
Prior year over provision	*****	*
Deferred tax	**(24)**	24
	(184)	24

* *Amount is less than R500 000.*

	%	%
Taxation rate reconciliation		
Effective taxation rate	**(12.6)**	2.8
Capital profits and dividend income	**(22.2)**	(43.9)
Disallowed expenditure: Capital in nature	**6.7**	11.5
Taxable Income: International tax adjustments	**0.1**	1.6
Standard rate of taxation	**(28)**	(28)

20. CASH FLOW INFORMATION

R million	Company 2020	Company 2019
20.1 Cash generated by operations		
Profit before taxation	**1 456**	869
Adjusted for:		
Interest received	**(470)**	(412)
Dividends received	**(1 155)**	(1 364)
Realised gains on derivatives not designated as hedging instruments	**–**	(18)
Finance costs	**832**	759
Non-cash items:		
Movement in expected credit losses	**(9)**	4
Fee income from financial guarantee contracts	**(13)**	–
Fair value (gains)/losses on derivatives not designated as hedging instruments	**(263)**	162
Unrealised foreign exchange (gains)/losses	**(370)**	10
Working capital changes:		
Loans and receivables	**(298)**	(53)
Trade and other payables and loans from subsidiaries	**3 698**	3 383
	3 408	3 340
20.2 Taxation paid		
Balance at beginning of the year	**21**	(50)
Taxation charged for the year in the Statement of other comprehensive income	**(160)**	–
Balance at end of the year	**89**	(21)
	(50)	(71)
20.3 Increase in investment in subsidiary		
Balance at beginning of the year	**22 739**	18 103
Value of share options issued to subsidiary staff	**162**	31
Financial guarantee contracts raised	**9**	35
Financial guarantee contracts derecognised	**(5)**	–
Balance at end of the year	**(25 658)**	(22 739)
	(2 753)	(4 570)

R million	Company 2020	Company 2019
20.4 Long-term borrowings		
Balance at beginning of the year	**6 841**	6 132
Interest accrued	**708**	652
Interest paid	**(691)**	(634)
Settlement of derivative capitalised to loan by counterparty	**(6)**	(7)
Increase in borrowings	**5 120**	700
Raising fees capitalised	**(16)**	(2)
Repayment of borrowings	**(3 600)**	–
Balance at end of the year	**8 356**	6 841
20.5 Cash and cash equivalents		
Cash at bank and in hand	**57**	1
Short-term deposits	**131**	83
	188	84

21. FINANCIAL GUARANTEE CONTRACTS

R million		Company 2020	Company 2019
Discovery Limited has provided guarantees for the following subsidiaries:			
Discovery Finance Co Europe Ltd	i	**1**	2
Discovery Central Services (Pty) Ltd	ii	**47**	33
Discovery Insure Ltd		**–**	*
Discovery Holdings Europe Ltd	iii	**4**	–
Discovery Bank Ltd	iv	*****	–
		52	35

* *Amount is less than R500 000.*

i Discovery Limited has issued a guarantee for 2 facilities in respect of the obligations of Discovery Finance Company Europe Limited in the amount of GBP 80 million and GBP 28 million. As at 30 June 2020, Discovery Finance Company Europe Limited owed GBP 108.2 million (2019: GBP 89.7 million) in respect of these borrowing facilities.

ii During 2018, Discovery Central Services entered into borrowing facilities for an amount of R650 million to fund the systems build of Discovery Bank. The full amount has been drawn down and the balance outstanding at 30 June 2020 is R596 miilion (2019: R548 million). In 2019, Discovery Central Services entered into a 5 year borrowing facility for an amount of R1.4 billion. These funds were acquired for general corporate purposes and the full facility was used. Discovery Health, Discovery Vitality and Discovery Limited have provided guarantees in respect of these facilities.

iii During 2020, Discovery Holdings Europe Limited entered into borrowing facilities for an amount of GBP 55 million to fund its operations. This facility has been guaranteed by Discovery Limited.

iv Discovery Limited issued a guarantee for a facility in respect of the obligations of Discovery Bank in the amount of R500 million. This facility has also been guaranteed by Discovery Vitality and Discovery Health.

22. EVENTS AFTER REPORTING DATE

Refer to Group note 42 for a list of the events after reporting date.

DISCOVERY

ANNEXURES

ANNEXURE A – GROUP ACCOUNTING POLICIES

for the year ended 30 June 2020

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented, except for those accounting policies resulting from the initial application of IFRS 16 Leases and the change in the accounting policy on presentation of insurance and reinsurance finance income and finance expenses – refer to note 41 which sets out the adoption of these new accounting policies. Other interpretations, amendments and annual improvements effective for the first time in the current year have been considered and have no impact on the current reporting period.

1. Basis of presentation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Discovery's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are outlined in Group note 4 to the Annual Financial Statements.

All monetary information and figures presented in these financial statements are stated in millions of Rand (R million), unless otherwise indicated.

New standards and amendments which became effective during the financial year

During the financial period, the following standards and amendments that have a significant impact on Discovery became effective:

- IFRS 16 Leases. Refer to accounting policy 22 Leases and Note 41 Changes in accounting policy in the consolidated financial statements.

New standards and amendments to published standards not yet effective

- Discovery has not early adopted any accounting standards, amendments or annual improvements issued but not yet effective.
- The accounting standards, amendments and annual improvements described below are those that are expected to have an impact on Discovery's results and/or disclosures. Accounting standards, amendments and annual improvements not mentioned below are not expected to have a significant impact on recognised amounts.

Title and Effective date	Scope	Potential impact
IFRS 17 *Insurance Contracts* Effective date: 1 July 2023	IFRS 17 was issued in May 2017, with amendments issued in June 2020. **General model** INITIAL RECOGNITION Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at: ▪ the total of the fulfilment cash flows, comprising: – the estimated future cash flows; – an adjustment to reflect the time value of money; and – an explicit risk adjustment for non- financial risk; and ▪ the contractual service margin (CSM).	Discovery has implement an IFRS 17 transition programme under the sponsorship of the Chief Financial Officer. Discovery has allocated sufficient resources over the project life to ensure successful implementation. The CFO heads up the Steering Committee comprises of the respective Insurance business CFOs, Chief Actuaries, Internal Audit and IT specialist. The Steering Committee is supported by a Technical Advisory Group comprising of IFRS Specialists, Actuaries, Financial Managers, Tax and external auditors.

1. Basis of presentation *continued*

Title and Effective date	Scope	Potential impact
IFRS 17 *Insurance Contracts* Effective date: 1 July 2023	SUBSEQUENTLY: Subsequent to initial recognition, the liability of a group of insurance contracts comprises the liability of remaining coverage (fulfilment cash flows and CSM) as well as the liability for incurred claims (claims and expenses already incurred but not yet paid). ▪ The fulfilment cash flows are remeasured at each reporting period to reflect current estimates. Changes in fulfilment cash flows are treated in a number of ways: – Change in time value of money (i.e. yields) and financial risk (e.g. inflation indices) are reflected in profit or loss, or other comprehensive income of both dependent on accounting policy elections; – Changes in past and current services are recognized in profit or loss; and – Changes related to future services are recognized in the CSM to the extent there is CSM. Any excess is recognized in profit or loss immediately. ▪ The CSM (representing unearned profit) is recognised as the entity provides services over the coverage period. PRESENTATION: ▪ Insurance revenue, derived from change in liability for remaining coverage; ▪ Investment components are excluded from insurance revenue and insurance services expenses; ▪ Insurance finance income and expenses is presented separately from insurance revenue; and ▪ Entities can choose to disaggregate the presentation of insurance finance income or expenses between profit or loss and other comprehensive income (OCI).	During 2018 to 2020 Discovery completed the initial impact assessments, including several pilot projects on selected products aimed at assessing the financial impacts of the standard. Significant progress has been made on the development of accounting and actuarial policies and methodologies. The most significant impact will be within the long-term insurance businesses of Discovery Life and VitalityLife, including their respective investment businesses. It is expected that that impact will be minimal within the short-term insurance businesses, which are expected to apply the PAA. These business include Discovery Insure, Group Life and Vitality Health. The following tentative observations are made in the IFRS 17 project: ▪ Discovery is still assessing if it will early adopt IFRS 17 or only adopt at the mandatory date. Should Discovery elect to early adopt, it will do so one year early; ▪ Discovery is considering the accounting policy election of IFRS 17 to present 'insurance finance income and expenses' in other comprehensive income with a subsequent release to profit or loss; ▪ Discovery believes it has sufficient robust data to enable it to apply IFRS 17 with full retrospective statement; and ▪ Discovery believes that many of its accounting policies today (e.g. discounting at a current rate, build-up of compulsory and discretionary margins as well as its best estimates of income and costs) places it in a strong position to transition smoothly to IFRS 17.

1. Basis of presentation *continued*

Title and Effective date	Scope	Potential impact
	Simplified model Aside from this general model, the standard provides, as a simplification, the premium allocation approach (PAA). This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less. **Variable fee approach** For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.	The focus within the next period is the formalization and sign-off of policies and methodologies internally by all committees and external auditors. Discovery aims to implement the CSM engine and models into production to produce required disclosures.
Amendment to definition of material – amendments to IAS 1 and IAS 8 Effective date: 1 July 2020	The definition of material has been amended in both IAS 1 and IAS 8. This new definition states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements". The new elements incorporated in the definition are: obscuring information; expected to influence decisions and that the users are the primary users of general purpose financial statements. These amendments are not expected to have a significant impact on the financial statements but could change the way information in the financial statements is presented. This is particularly relevant in the clarity of disclosures to not obscure information. In addition, the clarification of the users to determine what is material, could result in a more focused group being considered in making materiality judgements.	This amendment is not expected to have a significant impact on Discovery's results, but would be considered prospectively in making materiality judgements as part of the preparation of the financial statements.
Definition of a business – amendments to IFRS 3 Effective date: 1 July 2020	The amendments to IFRS 3 revise the definition of a business and the related application guidance in determining whether an acquisition is a business. The amendments indicate that outputs are not critical to a business, however inputs and a substantial process are the defining factors. The application of the definitions is also dependent on whether the process acquired includes a workforce, and whether the process can be easily replaced without significant cost or effort, particularly where there are no outputs. The amendments also include a simplified optional "fair value concentration test". For acquisitions where substantially all of the fair value of the assets acquired is concentrated in a single asset or group of similar assets the acquisition is not a business and is accounted for as an asset acquisition. This optional test is applicable on a transaction by transaction basis.	The amendment will apply prospectively to business acquired on or after 1 July 2020 and will therefore not impact completed transactions.

2. Consolidation

The consolidated financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries, joint ventures and associates.

2.1 Business combinations

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a business is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, Discovery recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, being the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired, is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

2.2 Consolidation of entities in which the Group holds less than 50%

Discovery analysed its relationships with the Discovery Unit Trusts and has determined that it has significant power to direct the relevant activities of the funds, has sufficient exposure to the variable returns of the funds and the ability to use its power over the investee to affect its returns. This analysis concluded that Discovery has control of the Discovery Unit Trusts even if the economic interest is less than 50% and is therefore required to consolidate these funds.

Of the 27 (2019: 27) Discovery Unit Trusts consolidated at 30 June 2020 Discovery holds less than a 50% economic interest in 3 (2019: 3) of these funds. Refer to page 17 for a list of consolidated unit trusts.

2.3 Subsidiaries

Subsidiaries are all entities (including structured entities) over which Discovery has control. Discovery controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to Discovery. Consolidation is discontinued from the date on which control ceases.

Intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated. Unrealised gains or losses are also eliminated. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by Discovery.

2.4 Associates and joint ventures

Associates are entities over which Discovery has the ability to exercise significant influence but not control over the financial and operational policies. Significant influence is determined based primarily on percentage voting rights, generally between 20% and 50%, together with other factors such as board participation and participation in the policy-making process. In certain instances, Discovery holds less than 20% equity interests, but holds rights that still give it significant influence. These are equity accounted.

A joint venture is a joint arrangement whereby the parties have joint control of an arrangement and have rights to the net assets of the arrangement.

Discovery recognises its interest in an associate or a joint venture as an investment and accounts for that investment using the equity method. Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost. The carrying amount is adjusted to recognise Discovery's share of the post-acquisition profit or loss of the investee and is recognised in profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in Discovery's proportionate interest in the investee arising from changes in the investee's other comprehensive income. Such changes include those arising from foreign exchange translation differences. Discovery's share of those changes is recognised in other comprehensive income. Discovery will discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture.

2. Consolidation *continued*

2.4 Associates and joint ventures *continued*

Discovery discontinues equity accounting when the carrying amount of the investment in an associate or a joint venture reaches zero, unless it has incurred obligations, guaranteed obligations or made payments on behalf of the associate or the joint venture. Discovery resumes equity accounting only after its share of the profits equals the share of losses not recognised. Discovery increases the carrying amount of investments with its share of the associate's or joint venture's income when equity accounting is resumed.

As Discovery's investment in an associate or a joint venture includes goodwill identified on acquisition, Discovery assesses at each reporting date whether there is objective evidence that an associate or a joint venture is impaired. If such evidence of impairment exists, Discovery calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value.

Unrealised gains or losses on transactions between Discovery and its associates or joint ventures are eliminated to the extent of the Group's interest in these entities unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group. (The carrying amount of equity-accounted investments are tested for impairment (see accounting policy 9.3 for the policy on impairment).

3. Foreign currency translation

3.1 Functional and presentation currency

Items included in the financial statements of each of Discovery's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Rand, which is the functional and presentation currency of Discovery Limited.

3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from:

- The settlement of trading transactions is included in the results of operating activities in profit or loss;
- The settlement of financing transactions and from the translation at year-end exchange rates of assets and liabilities denominated in foreign currencies are recognised in profit or loss as foreign exchange gains and losses; and
- Qualifying cash flow hedges are deferred in the statement of other comprehensive income and are recycled to profit or loss in the periods in which the hedged item affects profit or loss.

3.3 Group companies

The results and financial position of all Discovery entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each Statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each Income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at rates at the date of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity, namely the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognised in the foreign currency translation reserve in the Statement of other comprehensive income. When a foreign operation is partially disposed of or sold, such exchange differences are recognised in profit or loss as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

4. Property and equipment

Property and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Discovery and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Property and equipment are depreciated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Owner occupied property	40 years
Leasehold improvements	Shorter of estimated life or period of lease
Leased asset	3 – 15 years
Computer equipment	3 – 7 years
Furniture, fittings and building fit out	5 – 15 years
Motor vehicles	4 years
Telematics devices	2 – 5 years

The assets' residual values and useful lives are reviewed at each reporting period and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to dispose and value-in-use.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount. These are recorded in profit or loss.

5. Intangible assets

5.1 Computer software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable software products controlled by Discovery are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product, include the software development employee costs and an appropriate portion of directly attributable overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs are recognised as assets from the point where the recognition criteria above are satisfied, and are amortised once the asset is ready for use, over their useful lives (between three and ten years). The amortisation is reflected under marketing and administration expenses in profit or loss.

Computer software development costs recognised as assets are amortised over their useful lives.

Software	3 – 7 years
Core Systems	10 years

5. Intangible assets *continued*

5.2 Other intangible assets

Discovery does not recognise costs incurred to internally developed trademarks, patents and similar rights and assets, including franchises and management contracts. These costs are recognised in profit or loss in the period in which they are incurred.

Purchased intangible assets which represent rights to receive future profits are capitalised at their fair values, represented by the estimated net present value of future cash flows relating to existing business, or at a value as determined by an independent valuer. These intangible assets are amortised into profit or loss as profits are expected to emerge and only tested for impairment if an indication of impairment arises.

Intangible assets acquired as part of business combinations were capitalised at their fair value, represented by the estimated net present value of future cash flows relating to existing business, or at a value as determined by an independent valuer. These intangible assets are amortised over their useful lives and only tested for impairment if an indication of impairment arises.

6. Deferred acquisition costs

The direct costs of acquiring new business, which are expected to be recovered out of future revenue margins, are deferred over the period in which the related performance obligations are satisfied and recognised as an asset in the Statement of financial position. The accounting policies relating specifically to deferred acquisition costs for insurance are detailed in accounting policies 13.

7. Goodwill

Goodwill arises on the acquisition of businesses and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the cash generating unit (CGU) containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

8. Impairment of non-financial assets

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that goodwill may be impaired.

Other assets, including equity accounted investments, intangible assets and costs of obtaining contracts, other than those relating to insurance contracts (see accounting policy 13), are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Such indicators include continued losses, changes in technology, market, economic, legal and operating environments.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is measured using the higher of the fair value less costs to sell and the value-in-use. Value-in-use is the present value of projected cash flows covering the remaining useful life of the asset. An impairment loss is recognised in profit or loss immediately.

Other assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

9. Financial instruments

Discovery initially recognises financial instruments when it becomes party to the contract.

Financial instruments are measured at initial recognition at fair value net of directly attributable transaction costs, unless the financial instrument is classified as fair value through profit or loss. For instruments classified at fair value through profit or loss attributable transaction costs are immediately expensed.

9. Financial instruments

9.1 Financial assets

9.1.1 RECOGNITION, CLASSIFICATION, MEASUREMENT AND DERECOGNITION

At initial recognition, the Group considers the appropriate classification as at Amortised cost (AC); Fair value through profit or loss (FVTPL) or Fair value through other comprehensive income (FVOCI) for debt instruments. Discovery considers:

- Whether the contractual cash flows of the financial asset are solely payments of principal and interest ('SPPI'). Such contractual cash flows are consistent with a basic lending arrangement, and compensates Discovery for the elements of time value of money, credit risk and other basic lending risks and a profit margin. Examples of such instruments include Treasury Bills, Government Bonds, cash and fixed term deposits. It excludes instruments such as equity-linked financial assets or puttable investments in unit trusts; and
- The business model for holding the financial assets.

Based on the criteria above, Discovery will classify a debt instrument as at:

- Amortised cost, if the financial asset meets the SPPI criterion and is held for the purpose to collect the contractual cash flows. Examples of this include loans and advances to customers (e.g. credit card advances) and fixed term deposits;
- Fair value with changes in other comprehensive income (debt instruments), if the financial asset meets the SPPI criterion and is held both to collect contractual cash flows and by selling the financial assets. Discovery currently does not hold financial assets in this category. However, specified associates do have certain of their debt instruments in the category.
- Fair value through profit or loss, for all other financial assets that do not meet the criteria above (mandatorily). In addition, Discovery can designate financial assets into this category if this will reduce measurement inconsistencies (i.e. 'accounting mismatch') (designated). Discovery's business includes, amongst others, providing unit-linked insurance, unit-linked investment and non-linked insurance products to customers. Financial assets and liabilities in these portfolios are managed to achieve the objectives of the portfolio and to ensure that liabilities are appropriately matched with assets. In considering whether the objective of a portfolio is to collect contractual cash flows or to trade in financial instruments, Discovery considers the purpose for which instruments are held, the methods of risk management in a portfolio, the manner of performance reporting on a portfolio and the basis for determining compensation to managers for asset performance. For those financial assets backing insurance contracts, Discovery measures these financial assets at fair value through profit or loss. Unit-linked investment contracts are also mandatorily classified at fair value through profit or loss. For those financial assets backing insurance contracts, Discovery measures these financial assets at fair value through profit or loss. Unit-linked investment contracts are also mandatorily classified at fair value through profit or loss.

For equity instruments Discovery is permitted to make the irrevocable election to present changes in fair value in other comprehensive income, however cumulative gains or losses recognised cannot be reclassified to profit or loss on disposal. This election is available on an instrument by instrument basis. This election has only been made in the accounting records of specified associates. All other equity instruments are measured at FVTPL.

	Subsequent measurement
Amortised cost (AC)	These instruments are measured at amortised cost using the effective interest rate method. Movements in the balance of the instrument relate to expected credit losses, interest income and foreign exchange gains and losses which are recognised on profit or loss.
(Fair value through profit or loss (FVTPL)	These instruments are measured at fair value with gains and losses, interest and dividends recognised in profit or loss.
Fair value through other comprehensive income (FVOCI) – equity	These instruments are measured at fair value with gains and losses recognised in other comprehensive income. Dividends are recognised in profit or loss.
Fair value through other comprehensive income (FVOCI) – debt	These instruments are measured at fair value with changes in fair value recognised in other comprehensive income. Discovery recognises interest using effective interest rate method, movements in the balance related to expected credit losses, interest income and foreign exchange gains and losses which in profit or loss.

There are no financial assets that have been designated at fair value through profit or loss.

The business model for managing a group of financial instruments is expected to remain stable, in rare instances where the business model changes there can be a reclassification of the business model. Any reclassifications are applied prospectively from the first day of the first reporting period after the change in business model, with no restatement of any previously recognised gains, losses or interest. Discovery has not had any changes in business models in the current reporting period and consequently there have been no reclassifications.

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and Discovery has also transferred substantially all risks and rewards of ownership.

9. Financial instruments *continued*

9.1 Financial assets *continued*

9.1.2 EXPECTED CREDIT LOSSES

Expected credit losses are recognised on the following items:

- Debt instrument at amortised cost, which includes treasury bills, banking loans and advances and fixed deposits. This also includes loan commitment for undrawn credit facilities;
- Lease receivables;
- Financial guarantee contracts;
- Other receivables which are financial assets at amortised cost;
- Contract receivables and contracts assets with non-insurance customers and cash and cash equivalents.

Discovery has a multitude of different debtors and loans included in other receivables which are financial assets, which do not represent a homogeneous group of assets. The approach to determining credit losses varies according to the asset type, past bad debt experience and the potential to incorporate forward looking information. In certain instances, financial assets have been grouped based on shared characteristics (i.e. debt payment pattern similarities, financial instruments with collateral, debtor type), and expected credit losses determined on a collective basis.

The general expected credit loss approach requires that Discovery assess the credit risk of the instrument and determine whether there has been a significant increase in credit risk since initial recognition.

- Where there has not been a significant increase in credit risk since initial recognition expected credit losses are measured as the 12 month expected credit losses.
- Where there has been a significant increase in credit risk, expected credit losses are recognised as the life time credit losses.

Discovery measures expected credit losses on:

- financial assets that are not credit-impaired at the reporting date as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that Discovery expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to Discovery if the commitment is drawn down and the cash flows that Discovery expects to receive (adjusted using a credit conversion factor).

Discovery does not recognise expected credit losses on Treasury Bills issued by the South African Reserve Bank as well as cash and cash equivalents receivable on demand due to the assessment that it is immaterial

SIGNIFICANT INCREASE IN CREDIT RISK

At each reporting date, Discovery assesses whether the credit risk on a financial asset has increased significantly since initial recognition. When making the assessment, an entity shall use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses.

Qualitative	Quantitative
▪ when contractual payments are more than 30 days past due the presumption is applied in conjunction with Discovery Risk Grade (DRG) ▪ the eligibility rules used in the credit under-writing and account management strategies are considered as triggers of significant increase in credit risk, since they provide a view in terms of how the client performs on their other credit facilities outside Discovery Bank. The rules comprise of a list of statuses at the bureau such as: judgements; adverse; deceased; and debt counselling statuses. ▪ performing (up-to-date and current) accounts that have shown deterioration with respect to Discovery Bank risk grades will also be regarded as a significant increase in credit risk.	Currently the Discovery Bank is not considering the quantitative triggers of significant increase in credit risk due to lack of origination data on the back book (ie DiscoveryCard joint venture data). As the book in Discovery Bank matures it will be in a position to perform the assessment

9. Financial instruments *continued*

9.1 Financial assets *continued*

9.1.2 EXPECTED CREDIT LOSSES *continued*

CREDIT IMPAIRED AND DEFAULT

Discovery considers a financial instrument to be credit-impaired where current circumstances and economic conditions indicate that the expected future cash flows from a financial instrument may not be recoverable. These circumstances include but are not limited to: evidence of financial or operational challenges for the debtor and missed contractual payments.

Default is defined on a facility level and considers both quantitative and qualitative factors as provided in the Basel capital framework. The qualitative criterion requires banks to identify credit deterioration before the exposure becomes delinquent "unlikeliness to pay" events, while the quantitative criterion requires banks to look at the material delinquency status.

The following factors are what constitutes default from a qualitative and quantitative perspective, and it is in line with the South African Reserve Bank definition.

Qualitative	Quantitative
▪ The borrower is placed in debt counselling/debt review ▪ The borrower is deceased ▪ The facility has undergone a distressed restructure/ special arrangement ▪ The facility has been transferred to charge off/legal status or ▪ The client is under debt review; ▪ The client is insolvent; ▪ The facility is written off	A material amount on the facility is 90 days or more in arrears, whereby material is set to avoid technical defaults.

WRITE-OFF

Discovery Bank will reduce the gross carrying amount of a financial asset when the it has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. Currently the write-off point is based on time in default and is set as 12 months in default. To ensure the appropriateness of the write-off point, the proposed write-off point will be assessed on an annual basis and both time in default and recency of repayments will be considered.

Where Discovery has no reasonable expectation of recovery of a debt the amount is written off, this is considered to occur when all avenues of legal recourse to recover the debt have been unsuccessful.

9.2 Financial liabilities

At initial recognition, the Group considers the appropriate classification as at Amortised costs (AC) or Fair value through profit or loss (FVTPL).

Financial liabilities are measured at FVTPL if:

- is it is held for trading; or
- if the financial liabilities are part of a group of financial assets and financial liabilities which are managed and performance evaluated on a fair value basis. These include financial liabilities held within the portfolios of unit-linked insurance, unit-linked investments.

All other financial liabilities in Discovery is measured at amortised cost.

Qualitative	Subsequent measurement
Amortised cost (AC)	These instruments are measured at amortised cost using the effective interest rate method. Interest income and foreign exchange gains and losses are recognised on profit or loss.
Fair value through profit or loss (FVTPL)	These instruments are measured at fair value with gains and losses and any interest recognised in profit or loss.

Discovery has investment contracts which have financial risk, and are consequently recognised and measured in terms of IFRS 9 rather than IFRS 4 Insurance Contracts. These contracts are classified at fair value through profit or loss. The policies are linked to the return on underlying financial assets and are directly matched. The movement on Discovery's own credit risk is considered immaterial. The remaining financial liabilities are carried at amortised cost.

Financial liabilities are derecognised when the obligation is extinguished.

9. Financial instruments *continued*

9.3 Offset

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of Discovery or the counterparty.

9.4 Modifications

Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability at fair value, including calculating a new effective interest rate, with the difference in the respective carrying amounts being recognised in other gains and losses on financial instruments within non-interest revenue. The date of recognition of a new asset is consequently considered to be the date of initial recognition for impairment calculation purposes.

If the terms are not substantially different for financial assets or financial liabilities, the group recalculates the new gross carrying amount by discounting the modified cash flows of the financial asset or financial liability using the original effective interest rate. The difference between the new gross carrying amount and the original gross carrying amount is recognised as a modification gain or loss within credit impairments (for distressed financial asset modifications) or in other gains and losses on financial instruments within noninterest revenue (for all other modifications).

In assessing whether a financial asset was substantially modified, Discovery performs a qualitative assessment to determine if the terms were substantially modified. In assessing whether a financial liability has been substantially modified Discovery performs both a qualitative and quantitative (10% threshold) assessment to determine if the terms were substantially modified.

10. Derivative financial instruments

Derivative financial instruments are classified as held for trading unless they are designated as effective hedging instruments.

Discovery initially recognises derivative financial instruments in the Statement of financial position at fair value on the date which a derivative contract is entered into (the best evidence of fair value on day one is the transaction price) and subsequently re-measures these instruments to fair value. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Fair values are obtained from quoted prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Discovery is permitted to designate certain derivatives as either:

- Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), or
- Hedges of highly probable forecast transactions (cash flow hedges).

Discovery documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. Discovery also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are expected to be and have been highly effective in offsetting changes in fair values or cash flows of hedged items. Discovery continues to apply hedge accounting, as permitted in IFRS, consistent with IAS 39 *Financial Instruments: Recognition and Measurements*.

10.1 Cash flow hedge

Discovery recognises the effective portion of fair value changes of derivatives that are designated as cash flow hedges in the cash flow hedging reserve in the Statement of other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within net fair value gains on financial assets at fair value through profit or loss in the income statement.

Amounts accumulated in the Statement of other comprehensive income are recycled to profit or loss in the period in which the hedged item will affect profit or loss. Where the forecast transaction or a foreign currency firm commitment results in the recognition of a non-financial asset or liability, the gains and losses previously deferred are transferred from the Statement of other comprehensive income and included in the initial measurement of the cost of the non-financial asset or liability. Where the forecast transaction subsequently results in the recognition of a financial asset or liability, gains or losses deferred in equity are transferred from the statement of other comprehensive income when the financial asset or liability is sold or impaired.

10. Derivative financial instruments *continued*

10.1 Cash flow hedge *continued*

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss.

10.2 Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of all such derivative instruments are recognised immediately in profit or loss, within net fair value gains on financial assets at fair value through profit or loss in the income statement.

10.3 Hedging reserve

The hedging reserve includes the cash flow hedge reserve. The cash flow hedge reserve is used to recognise the effective portion of gains or losses on derivatives that are designated and qualify as cash flow hedges. Amounts are subsequently recycled to profit or loss as follows:

- For the effective portion recycled for hedges relating to share-based payments, as part of marketing and administration expenses (staff costs); and
- For the effective portion recycled for hedges relation to interest rate risk, as part of finance costs.

11. Cash and cash equivalents

Cash and cash equivalents comprise:

- Cash in hand;
- Deposits held at call and short notice; and
- Balances with banks.

Cash and cash equivalents only include items held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. Cash and cash equivalents have a maturity of less than three months from the date of acquisition. Cash and cash equivalents are carried at amortised cost (or in specified instances at fair value through profit or loss) which due to their short-term nature approximates fair value.

Due to Discovery's sweeping arrangements in-force with various financial institutions, positive and negative cash balances are presented on a net basis for the purpose of presenting cash and cash equivalents in the statement of cash flows.

12. Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets to the holder. Incremental costs directly related to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Where any Group company purchases Discovery Limited equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to Discovery Limited equity holders. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to Discovery Limited equity holders, net of any directly attributable incremental transaction costs and the related income tax effects.

13. Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. Discovery defines significant insurance risk as the possibility of having to pay benefits, on the occurrence of an insured event, that are significantly more than the benefits payable if the insured event did not occur.

Discovery developed its accounting policies for insurance contracts before the adoption of IFRS 4. As provided for in IFRS 4, Discovery continues to apply these same accounting policies for the recognition and measurement of obligations arising from insurance contracts that it issues and reinsurance contracts that it holds.

13. Insurance contracts *continued*

13.1 Recognition and measurement

Insurance contracts are classified into four main categories, depending on the duration of the risk and the type of risk insured.

13.1.1 INDIVIDUAL LIFE INSURANCE

These contracts insure against a comprehensive spectrum of risks, including life, disability, severe illness and income continuation cover. These contracts are long-term in nature.

VALUATION OF POLICYHOLDER LIABILITIES

For the published accounts, the actuarial value of policyholder liabilities is determined based on a prospective discounted cash flow valuation basis calculated as the difference between the present value of future benefit payments plus expenses and the present value of future premiums. Best estimate assumptions regarding the future expected claims experience, premium income, expenses and commission are used. Where the same policy includes both insurance and investment components and where the policy is classified as an insurance policy, the liability for the insurance benefits and investment benefits are separately calculated. These components of the liability are not unbundled for reporting purposes. (Refer to accounting policy 14 for the recognition and measurement of investment benefit liabilities).

Where the value of policyholder liabilities is negative in aggregate, this is shown as assets arising from insurance contracts.

Applying the valuation basis using the best estimate assumptions described above, would result in a gain at initial recognition. Compulsory and discretionary margins are therefore added to the best estimate assumption to avoid the premature recognition of future profits. At initial recognition, profits are recognised to the extent of the actual acquisition costs incurred but considering the premium loadings available on the total portfolio to recoup acquisition costs.

Discretionary and compulsory margins are therefore added to the best estimate assumptions within the following framework.

- All margins are at least equal to the compulsory margins prescribed by regulations.
- For the discount rate and lapse rate margins, the direction of the margins may vary based on policy type and duration to ensure that the margin is in the conservative direction, overall.
- Given the level of uncertainty in the best estimate assumptions for lapse, mortality and morbidity, margins are added to protect against future possible adverse experience.
- Additional margins are added to allow for the release of profit over the term of the policy.
- Margins are released over the term of a policy in line with the risk borne.
- The best estimate assumptions and margins are reset at every valuation date to reflect the underlying profitability of the portfolio. Changes to assumptions, models and benefits are therefore offset at the portfolio level through an increase in discretionary margin (or release if sufficient discretionary margin exists). The impact of experience variances (with the exception of lapse and mortality experience) on the end-of-period prospective liability recognised in respect of in-force policies is offset at the portfolio level against an increase in discretionary margin (or release if sufficient discretionary margin exists). The impact of experience variances on the in-period cash flows is accounted for in profit or loss for the period and not offset through changes in discretionary margins.
- Where there are insufficient discretionary margins to offset losses arising from negative changes in economic assumptions or changes in non-economic assumptions, models and benefit, those losses in excess of the discretionary margin are recognised immediately in profit or loss.
- In subsequent periods, positive changes in economic assumptions and positive variance in non-economic assumptions, models and benefits are first recognised separately in profit or loss to extent that it reverses related losses previously recognised in profit or loss.

Contractual premium and benefit increases are included in the valuation of the policyholder liability. It is further assumed that no voluntary benefits are taken up where a future take-up of these benefits would reduce the liability. This is in line with South African actuarial guidance which requires that expected profits in respect of future options that may be taken up by policyholders should not be recognised in the policyholder liability.

The actuarial liabilities are calculated gross of reinsurance. The expected impact of reinsurance is valued separately.

The valuation basis meets the requirement of the liability adequacy test as required by IFRS 4 for individual life insurance and no additional tests are performed.

The liability estimates are reviewed at every reporting period and any changes in estimates to the liability are reflected in profit or loss as they occur.

13. Insurance contracts *continued*

13.1 Recognition and measurement *continued*

13.1.1 INDIVIDUAL LIFE INSURANCE *continued*

PREMIUM REVENUE

For individual life insurance contracts, premiums are recognised as revenue when due. Premiums are shown net of premium discounts received, premiums provided for as bad debts and before the deduction of commission. Premiums exclude taxes and levies.

INSURANCE BENEFITS AND CLAIMS

Insurance benefits and claims relating to individual life insurance contracts are recognised in profit or loss based on the estimated liability for benefits owed to the contract holder. Death, disability and severe illness and surrender claims are accounted for when notified. These claims include claims reported but not yet validated. The estimate is determined taking into account the likelihood of the claim being valid and the expected severity of the claim given that the claim is valid. The proportion to be included is estimated separately for each benefit type. An estimate of the expected claim amount is charged to profit or loss and included in liabilities under insurance contracts. Maturity and income disability are recorded as incurred. Liabilities are held to reflect incurred but not yet reported (IBNR) claims. The IBNR liabilities are modified to reflect actual current operating conditions. The liabilities are calculated gross of reinsurance. An asset is then raised to allow for the expected recoveries from reinsurers.

ACQUISITION COSTS

Acquisition costs for these contracts represent commission and other costs that relate to the securing of new contracts and the renewing of existing contracts. The valuation basis for valuing insurance contracts makes implicit allowance for the deferral of acquisition costs and hence no explicit deferred acquisition cost asset is recognised in the Statement of financial position. These are expensed in profit or loss.

13.1.2 GROUP LIFE INSURANCE

These contracts insure against a comprehensive spectrum of protection benefits on a group basis. Life cover, severe illness, disability and income continuation benefits are offered. These contracts are short-term in nature.

PREMIUM REVENUE

For group life insurance contracts, premiums are recognised as revenue when due. Premiums are shown net of premiums provided for as bad debts, before the deduction of commission and exclude taxes and levies.

INSURANCE BENEFITS AND CLAIMS

Insurance benefits and claims relating to group life insurance contracts are recognised in profit or loss based on the estimated liability for benefits owed to the contract holder. Death, disability and severe illness and surrender claims are accounted for when notified. These claims include claims reported but not yet validated. The estimate is determined taking into account the likelihood of the claim being valid and the expected severity of the claim given that the claim is valid. The proportion to be included is estimated separately for each benefit type. An estimate of the expected claim amount is charged to profit or loss and included in liabilities under insurance contracts. Maturity and income disability are recorded as incurred. Liabilities are held to reflect IBNR claims. The IBNR is modified to reflect actual current operating conditions. The liabilities are calculated gross of reinsurance. An asset is then raised to allow for the expected recoveries from reinsurers.

ACQUISITION COSTS

Acquisition costs for group life insurance contracts comprise all direct costs arising from the sale of insurance contracts. Commissions are expensed as incurred.

13.1.3 HEALTH INSURANCE

These contracts insure policyholders against healthcare-related claims.

PREMIUM REVENUE

Health insurance premiums received in respect of annual contracts are recognised proportionally over the period of the coverage. The portion of the premium received on in-force contracts that relates to unexpired risks at the reporting period is reported as unearned premiums within liabilities arising from insurance contracts. The unearned premium income is amortised on a straight- line basis.

INSURANCE BENEFITS AND CLAIMS

Benefits payable under health insurance contracts are accounted for as incurred. Liabilities are held to reflect IBNR claims. The IBNR calculation is performed using the chain ladder approach. This allows for the historic patterns of claims payment in determining the likely future emergence of claims. The IBNR is further modified to reflect current operational conditions or known events. The liabilities are calculated gross of reinsurance. An asset is then raised to allow for the expected recovery from reinsurers.

13. Insurance contracts *continued*

13.1 Recognition and measurement *continued*

13.1.3 HEALTH INSURANCE *continued*

DEFERRED ACQUISITION COSTS

The direct costs (commissions) of acquiring short-term health insurance business which are incurred during the year, but which are expected to be recoverable out of future revenue margins, are deferred and disclosed as an asset in the Statement of financial position (gross of tax). The costs are deferred over the period of the contract and amortised on a straight-line basis in line with unearned premiums.

FINANCIAL REINSURANCE

Where a financial reinsurance contract is taken out to protect against lapses, all acquisition costs related to the policy are effectively deferred over the period of the reinsurance contract.

13.1.4 SHORT-TERM INSURANCE

These monthly contracts insure policyholders against a comprehensive spectrum of short-term risks including, but not limited to, motor vehicle and household cover.

PREMIUM REVENUE

Short-term insurance premiums received in respect of monthly contracts are recognised as revenue when due. Premiums are shown before the deduction of commission, less the fuel cash back rewards described below, and exclude value-added tax.

UNEARNED PREMIUM PROVISION

An unearned premium provision is created at the commencement of each insurance contract and is released as the risk covered by the contract expires. The Unearned Premium Provision, represents a proportion of premiums underwritten in the current year, which relate to risks which have not expired by the end of the financial year. This is calculated on a time-proportionate basis for even risks. Therefore, the unearned premium is released over the period of insurance using a method which approximates the time period of the risk covered. The unearned premium provision is calculated on a gross basis.

REINSURANCE COMMISSION INCOME

Reinsurance commission income is recognised in profit or loss over the period of the related direct insurance business assumed.

INSURANCE BENEFITS AND CLAIMS

Claims are accounted for as incurred and consist of claims paid, movement in the provision for outstanding claims and related claims handling expenses.

The provision for outstanding claims is based on estimates of the cost of settling all claims incurred but unpaid at the reporting date, whether reported or not. Related anticipated reinsurance recoveries are disclosed separately as assets in the Statement of financial position and are included in recoveries from reinsurers in profit or loss.

SALVAGE AND SUBROGATION RECOVERIES

Certain short-term insurance contracts allow Discovery to sell property acquired as a result of a claim (salvage). Discovery may also have the legal right to pursue third parties for payment of some or all of the costs (subrogation).

The estimated salvage and subrogation reimbursements are treated as a reduction in the measurement of claims liability.

ACQUISITION COSTS

Acquisition costs for these contracts comprise all direct costs arising from the sale of insurance contracts and are recognised in profit or loss for monthly policies and deferred in acquisition costs for future periods, over the term of the contract.

INSURE FUNDER ACCOUNT (IFA)

This relates to a benefit on a short-term insurance product. A fuel cash back can be used to either reduce the premium that the policyholder is required to pay for the month in question or can be doubled and paid into an IFA.

Where the policyholder has used the fuel cash back to reduce the monthly premium, the reduction has been shown in insurance premium revenue in profit or loss as incurred.

13. Insurance contracts *continued*

13.1 Recognition and measurement *continued*

13.1.4 SHORT-TERM INSURANCE *continued*

If the policyholder has elected to double the fuel cash back and paid it into an EFA, an EFA liability is raised. The EFA liability is calculated using a discounted cash flow approach and is disclosed in liabilities arising from insurance contracts in the Statement of financial position and the movement is disclosed in the transfer to liabilities under insurance contracts.

When the member uses funds in the EFA to pay for his excess or other costs, the excess is paid by Discovery and an expense is included in claims in the income statement.

Where the member withdraws the funds after three years, the member is paid out in cash and an expense is disclosed against insurance premium revenue in the income statement.

13.2 Embedded derivatives arising from insurance contracts

A unit-linked insurance contract is an insurance contract with an embedded derivative linking payments on the contract to units of an investment fund purchased with the consideration received from the contract holders. This embedded derivative meets the definition of an insurance contract and is therefore not accounted for separately from the host insurance contract. The liability for such contracts is adjusted for all changes in the fair value of the underlying assets.

Discovery does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or amount based on a fixed amount and an interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host insurance contract and meet the definition of a derivative. Embedded derivatives that are separated from the host contract are fair valued through profit or loss.

13.3 Liability adequacy test

At the reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to profit or loss initially by writing off deferred acquisition costs and by subsequently establishing a provision for losses arising from the liability adequacy test.

13.4 Reinsurance contracts

Contracts entered into by Discovery with reinsurers under which Discovery is compensated for insured events on one or more contracts that meet the classification requirements for insurance contracts are classified as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial assets.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

The amounts Discovery is required to pay under its reinsurance contracts held are recognised as reinsurance liabilities (liabilities arising from reinsurance contracts).

Outward reinsurance premiums are recognised as an expense and are accounted for when due under the reinsurance contract. The amounts due to Discovery under its reinsurance contracts are recognised as reinsurance assets (classified within insurance receivables). Discovery assesses its reinsurance assets for impairment on an annual basis.

In certain cases there is a net gain or loss at inception of a reinsurance contract:

- Where these amounts relate directly to a reimbursement of expenses the gain is disclosed as a recovery of expenses from reinsurers; or
- Other gains or losses are amortised over the life of the reinsurance contract on a consistent basis as the profit is expected to emerge on the underlying policies but considering the contractual terms and intent of the specific reinsurance contract.

In certain cases there is a net gain or loss upon early termination of a reinsurance contract. Where these amounts result directly from the termination, they are recognised as at the termination date and disclosed as recapture of reinsurance in profit or loss.

13.5 Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. Discovery assesses its receivables for expected credit losses on an annual basis following the same method used for financial assets.

14. Investment contracts

Investment contracts are those contracts that transfer financial risk without significant insurance risk. Financial risk refers to the risk of a possible future change in the value of an asset or financial instrument due to a change in interest rate, commodity price, index of prices, foreign exchange rate or other measurable variables.

Discovery issues investment contracts without fixed benefits (e.g. unit-linked and structured products) and investment contracts with fixed and guaranteed benefits (e.g. term certain annuity).

Valuation of policyholder liabilities

Investment contracts without fixed benefits are financial liabilities whose fair value is dependent on the fair value of the underlying financial assets and derivatives (unit-linked) which are classified at fair value through profit or loss. Discovery designates these investment contracts to be measured at fair value through profit or loss because it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. See accounting policy 7 for the financial assets backing these liabilities.

Discovery's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. The fair value of a unit-linked financial liability is determined using the current unit price that reflects the fair values of the financial assets contained within Discovery's unitised investment funds linked to the financial liability. The fair value of the financial liabilities is obtained by multiplying the number of units attributed to each policyholder at the reporting date by the unit price for the same date.

For investment contracts with fixed and guaranteed terms, valuation techniques are used to establish the fair value at inception and at each reporting date. Valuation techniques include discounted cash flow analysis using current market rates of interest and reference to other instruments that are substantially the same.

Premium revenue

All premiums received under investment contracts are recorded as deposits to investment contract liabilities and claims incurred on investment contracts are recorded as deductions from investment contract liabilities.

Fees on investment contracts

Service fee income on investment management contracts is recognised over time as and when the related performance obligation is satisfied. Refer accounting policy note 20. Fees on investment contracts are included in fee income from administrative business.

A deferred revenue liability (DRL) is recognised as a contract liability to contracts with customers in respect of upfront fees for financial advice, investment management and other services which are directly attributable to a contract that are charged for securing the investment management service contract. The DRL is then released to revenue when the performance obligations are satisfied, which corresponds to the underlying expected profit signature of the contract.

Regular fees are charged to the customer monthly either directly or by making a deduction from invested funds.

Costs of obtaining contracts

Deferred acquisition costs on investment contracts represent the contractual customer relationship and the right to receive future investment management fees. Incremental costs directly attributable to securing rights to receive policy fees for services sold with investment contracts, are recognised as an asset where they can be identified separately and measured reliably and it is probable that they will be recovered. An incremental cost is one that would not have been incurred if the Group had not secured the investment contract.

The asset represents the Group's contractual right to benefit from providing asset management services and is amortised over the expected life of the contract as the entity recognises the related revenue.

15. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs against the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment and amortised over the period of the facility to which it relates.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in profit or loss as finance costs using the effective interest rate method.

16. Deferred income tax

Discovery calculates deferred income tax on all temporary differences using the Statement of financial position approach. Deferred tax liabilities or assets are calculated by applying corporate tax rates that have been substantively enacted to the temporary differences between the tax values of assets and liabilities and their carrying amount, where such temporary differences are expected to result in taxable or deductible amounts in determining taxable income for future periods when the carrying amount of the assets or liabilities are recovered or settled.

Discovery recognises deferred tax assets if the directors of Discovery consider it probable that future taxable income will be available against which the tax losses can be utilised.

Temporary differences arise primarily from the difference between accounting and tax balances arising from insurance contracts, depreciation of property and equipment, effect of accounting for leases, revaluation of certain financial assets and liabilities, provisions for leave pay, provisions for share-based payments and tax losses carried forward. For leases, Discovery assesses the lease asset and lease liability together as a single transaction and assesses the temporary difference on a net basis.

Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income.

Deferred tax related to cash flow hedges, which are charged or credited directly to the statement of other comprehensive income, is also credited or charged directly to the statement of other comprehensive income and is subsequently recognised in profit or loss when the gain or loss is realised.

Deferred income tax assets and liabilities are offset when:

- There is a legally enforceable right to offset current tax assets against current tax liabilities; and
- When the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

If offsetting does not apply, Discovery separately discloses the deferred tax asset and deferred tax liability.

17. Employee benefits

17.1 Post-employment benefits

Discovery operates defined contribution schemes, the assets of which are held in separate private trustee-administered funds. Discovery pays contributions to these funds on a mandatory basis. These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Discovery employees. Qualified actuaries perform annual valuations. Discovery has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

17. Employee benefits *continued*

17.2 Share-based compensation

Discovery operates equity-settled and cash-settled share-based compensation plans.

EQUITY-SETTLED SHARE-BASED COMPENSATION PLANS

Discovery expenses the fair value of the employee services received in exchange for the grant of the options, over the vesting period of the awards, as employee costs, with a corresponding credit to a share-based payment reserve in the Statement of changes in equity. The total value of the services received is calculated with reference to the fair value of the options on grant date.

The fair values of the options are determined excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each reporting date, Discovery revises its estimate of the number of options expected to vest. Any changes to the estimated number of options are recognised in profit or loss immediately.

CASH-SETTLED SHARE-BASED COMPENSATION PLANS

Discovery recognises employee services received in exchange for cash-settled share-based payments at the fair value of the liability incurred and expenses these services over the vesting period of the benefits, as employee costs.

The liability is re-measured at each reporting period to its fair value, with all changes recognised immediately in profit or loss.

17.3 Leave pay

Discovery accrues in full the employees' rights to annual leave entitlement in respect of past service. This is expensed over the period the services are rendered.

17.4 Profit share and bonus plan

Discovery operates several other profit sharing and bonus compensation arrangements and recognises these when a constructive obligation has been created by past practice. These are calculated with reference to predetermined formulae. The Group has other deferred compensation schemes in place where employees are incentivised based on a variable other than the share price of Discovery Limited, such as embedded value, value of in-force and earnings multiples. Discovery recognises a liability and the related expense is included in employee costs in profit or loss.

18. Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less from the reporting date. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

19. Contingent liabilities

Discovery discloses a contingent liability when:

- It has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- It has a present obligation that arises from past events but not recognised because:
  - It is not probable that an outflow of resources will be required to settle an obligation; or
  - The amount of the obligation cannot be measured with sufficient reliability.

20. Revenue recognition

The Group's primary source of revenue arises on the sale of insurance contracts which are accounted for under IFRS 4 Insurance Contracts and are excluded from the scope of IFRS 15 Revenue from Contracts with Customers. IFRS 15 is applicable to the Group's revenue from administration business, Vitality income and banking fee and commission income.

IFRS 15 requires that once contracts have been identified, the entity identifies the performance obligations in the contract. This is determined on the basis of whether the customer can benefit from the promised good or service individually or together with other readily available resources and whether the performance obligation is distinct in the context of the contract. For the Group, most contracts contained a single performance obligation.

20. Revenue recognition *continued*

The timing of revenue recognition is dependent on whether the entity transfers control over the good or service over time or at a point in time. In determining the appropriate timing for revenue recognition, the Group considers whether the customer benefits as the entity performs. For most revenue types, Group entities provide stand ready services to customers, where customers benefit as the entities services are consumed. In limited instances where revenue is not recognised over time it is recognised at a point in time when control transfers. For revenue recognised over time the stand ready service is recognised straight line over the term of the contract.

In determining the amount of revenue to recognise, the Group considers any uncertainty created through variable consideration contained in the contract, and constrains the recognition of revenue in order to recognise revenue only to the extent that it is highly probably that a significant reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty is resolved. The Group also considers the impact of the timing of receiving payments for revenue transactions and determines whether a significant financing component should be taken into account in the measurement of the transaction price. As the Group's contracts routinely include single performance obligations, there is limited complexity in allocating transaction prices to performance obligations.

Payment terms vary across the different revenue types earned by the Group.

Where contracts with customers involve a third party, the Group considers whether it is acting as the principal or the agent in the delivery of the promised goods or services to the customer. This assessment is based on whether the Group controls the goods or services before it is transferred to the customer.

For certain contracts with customers, Discovery receives income in advance of discharging the related performance obligation. In these instances, the amount is recognised as a contract liability incurred in the acquisition or fulfilment of a contract. Discovery considers whether there are costs incurred for the acquisition or fulfilment of a contract. These costs are recognised as an asset and amortised over the expected period over which performance obligations under the contract are satisfied. Contract costs incurred that are considered to be of a general and administrative nature, (that are not explicitly recovered from the customer), are expensed as incurred.

Where the transaction price included in a contract is payable less than 12 months from the date of satisfying the related performance obligation the practical expedient is applied in that a significant financing component is not recognised. Similarly, where costs of obtaining a contract would be amortised over 1 year or less the costs are not recognised as a separate asset.

Nature of performance obligations	Fee income is recognised on health administration and managed care services rendered. Fee income is also generated on asset administration and fees earned on use of intellectual property. In the respective business these are considered revenue and are seen as single performance obligations in the respective legal entities. These are separated by underlying reported entity in the segmental report shown in note 1.	Vitality income includes the fee income that members of corporations pay to access the Vitality benefit, as well as various activation fees for activating additional benefits. The performance obligation relates to access to the Vitality rewards programme and partner benefits provided to members.	Banking fee and commission income includes banking service fees for banking services. The performance obligation relates to the access to banking and banking services rendered. Commission income relates to the interchange fees which Discovery Bank earns on transactions using debit or credit cards. The performance obligation relates to settlement of transactions via the card network.
When does control pass – Point in time (PIT) vs over time	Performance obligation to provide administration services are considered stand ready services, the customer obtains control over the service as the entity makes its services available on an "as and when" basis. As a result, revenue is recognised over time, as the respective entity makes the services available, based on the passage of time.	Performance obligations to provides access to benefits are considered stand ready services as the customers obtains benefits over the duration of the contract and when required by the customers. As a results revenue is recognised over times based on the passage of time.	The performance obligation associated with the banking fee and commission income are passes over time because the client obtains substantially all of the remaining benefits from the service over the period of the month for which the banking fee was charged.

20. Revenue recognition *continued*

	Fee income from administration business	Vitality Income	Banking fee and commission income
When are amounts payable	Amounts are billed on health administration and managed care business at the end of the respective month with amounts paid within 30 days. For fees on asset administration business, amounts are disinvested for the units held at the end of the related month. Certain fees for example advisor fees are received upfront but are deferred as a contract liability over the expected term of the entity's performance.	Amounts are billed either monthly, payable within 30 days, or billed on activation of the benefit, payable immediately.	Banking fees are charged monthly and payment is immediate. Interchange income is charges at point of payment and settled daily in batch format.
Variable consideration and estimates	There is no potential for amounts of revenue to vary relating to discounts or rebates on the health administration business. For the asset administration business, fees are determined with reference to assets under management at a point in time. There are no benchmark performance based fees. The nature of the integrated products that Discovery sells related to the invest business allows for fee discounts and rebates to be determined based on client behaviour. Revenue is estimated and recognised in line with the constraint on variable consideration, only to the extent that it is highly probable that there will not be a significant reversal of revenue already recognised once the uncertainty is resolved. The fee discounts and rebates are determined according to a fixed methodology incorporating policyholder specific information including Vitality status. Discovery has experience in estimating these amounts, which are based on a limited number of outcomes. There is no financing component.	There are no adjustments to the transaction price as a result of any variable consideration. There is no significant financing component.	There are no adjustments to the transaction price as a result of any variable consideration. There is no significant financing component.
Costs to capitalise	Where costs are incurred directly to secure a new health administration customer, and the contract is expected to exceed 12 months, the costs are capitalised and amortised over the expected term of the contract. Costs are routinely incurred on the asset administration business related to commission and other incremental costs of entering into the contract. These are capitalised and recognised over the expected duration of the customer relationship. These assets are tested for impairment to the extent that the carrying amount of the asset exceeds the expected remaining net cash inflows form the customer contract.	In respect of the Apple watch benefit, Discovery incurs costs upfront to purchase the device and provide it to the customer. These costs are deferred and recognised over the two year term of the benefit	None.

Insurance premium revenue

Insurance premium revenue includes individual life insurance premiums, group life insurance premiums, health insurance premiums and short-term insurance premiums. These are accounted for as described in accounting policy 13.

21. Other non-revenue income

21.1 Investment income

Investment income comprises dividends and received interest received from assets held at amortised cost and cash and cash equivalents.

Discovery recognises dividends when Discovery's right-to-receive payment is established. This is on the "last day to trade" for listed shares and on the "date of declaration" for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares.

Interest is accounted for on an accrual basis using the effective interest rate method.

21.2 Net fair value gains on financial assets at fair value through profit or loss

Net fair value gains on financial assets at fair value through profit or loss include gains arising from interest, dividends and net realised and unrealised gains on financial assets held at fair value through profit or loss.

22. Leases

22.1 Leases after 1 July 2019

This policy applies from 1 July 2019 to leases.

IDENTIFICATION OF A LEASE

At inception of a contract, Discovery assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, Discovery uses the definition of a lease in IFRS 16.

Contracts where the service provider has a substantive right to substitute the asset for an alternative asset during the lease term is not regarded as a lease, but instead a service contract. Accordingly, these contracts are not accounted for in accordance with IFRS 16. For Discovery, such contracts include items such as vending machines.

At commencement or on modification of a contract that contains a lease component, Discovery allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property Discovery has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component

Discovery recognises a right-of-use asset and a lease liability at the lease commencement date. Discovery presents right-of-use assets in 'Property and equipment' and lease liabilities in 'Borrowings at amortised cost' in the Statement of financial position.

Discovery leases the following assets with a range of lease terms:

– Large offices	5 – 15 years
– Small offices/Franchise offices (SA only)	1 – 3 years
– Computer equipment (e.g. servers) (SA only)	3 – 4 years
– Motor vehicles (UK only)	3 years

MEASUREMENT

LEASE LIABILITY

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. Generally, Discovery uses its incremental borrowing rate as the discount rate.

Discovery determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased. The incremental borrowing rates were calculated for each legal entity within Discovery that entered into lease arrangements. The incremental borrowing rate considers a base interest rate reflective of the jurisdiction in which the legal entity operates (South Africa, United Kingdom and United States of America), the term of the lease arrangement and the nature of the assets.

22. Leases *continued*

22.1 Leases after 1 July 2019 *continued*

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that Discovery is reasonably certain to exercise, lease payments in an optional renewal period if Discovery is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless Discovery is reasonably certain not to terminate early.

Extension or termination options are included in a number of the building leases across Discovery. These terms are used to maximise operational flexibility in terms of managing contracts. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are considered in the lease term when there is reasonable certainty that those options will be exercised.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in Discovery's estimate of the amount expected to be payable under a residual value guarantee, if Discovery changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

RIGHT-OF-USE ASSET

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, less any lease incentives received. Discovery receives incentives such as reimbursements for installations or rent free periods.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to Discovery by the end of the lease term or the cost of the right-of-use asset reflects that Discovery will exercise a purchase option.

In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

SHORT-TERM LEASES AND LOW VALUE ITEMS

Discovery has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. Discovery recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Leases of low value assets relate to those categories of assets which at inception of the lease typically have a value, if bought new, of no more than approximately R70 000. For Discovery, these categories include computer equipment such as desktops, laptops, monitors and related IT peripherals.

Short-term leases are those leases with a lease term of less than 12 months.

22.2 Leases prior to 1 July 2019

FINANCE LEASES

Discovery classifies leases as finance leases where it assumes substantially all the benefits and risks of ownership, based on the substance of the arrangement at inception of the lease.

Finance leases are capitalised at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the minimum lease payments. Discovery allocates each lease payment between the liability and finance costs to achieve a constant rate of interest on the finance balance outstanding. The finance cost is recognised in profit or loss.

The assets acquired are depreciated over the useful life of the assets, unless it is not probable that Discovery will take ownership of the assets, in which case the assets are depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

22. Leases *continued*

22.2 Leases prior to 1 July 2019 *continued*

OPERATING LEASES

Discovery classifies leases as operating leases where the lessor effectively retains the risks and benefits of ownership. Operating lease payments are recognised in profit or loss on a straight-line basis over the period of the lease. Minimum rentals due after year-end are reflected under commitments.

Discovery recognises as an expense any penalty payment to the lessor for early termination of an operating lease, in the period in which termination takes place.

23. Marketing and administration expenses

Marketing and administration expenses include marketing and development expenditure, all other non-acquisition related expenditure and benefits paid under the Vitality programme. These costs are expensed in profit or loss as incurred.

24. Finance costs

Finance costs (net of investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets) directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other finance costs are recognised as an expense in profit or loss on an accrual basis using the effective interest rate method.

In addition, finance costs include any recycled gains or losses from other comprehensive income arising from cash flow hedges of interest rates, amortisation of financing related fees such as loan commitment fees and letter of credit fees as well as modification gains and losses on borrowings.

25. Direct and indirect taxes

Direct taxes include South African and foreign jurisdiction corporate tax payable and are disclosed as taxation in profit or loss.

Indirect taxes include various other taxes paid to central and local governments, including value-added tax and skills development levies. Indirect taxes are included as part of marketing and administration expenses in profit or loss.

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed. It is calculated using taxation rates that have been enacted or substantively enacted by the reporting date, in each particular jurisdiction within which the Discovery entities operate.

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

26. Dividend distribution

Dividend distribution to Discovery Limited's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved.

ANNEXURE B – DIRECTORATE

REMUNERATION AND FEES

Payment to directors for the year ended 30 June 2020 for services rendered are set out in the table below. It should be noted that these payments reflect cash payments made to directors during the financial year and therefore all variable pay components are reflective of performance measurements **relating to previous periods**). The variable pay components relating to the current year under review are physically paid in the following financial year and are analysed in detail in the Group's annual remuneration report and are more reflective of the performance of the period under review.

Payments to directors for the year ended 30 June 2020 for services rendered are as follows:

R'000	Services as directors[9]	Basic salary[9]	Performance bonus	Phantom scheme payments	Provident fund contributions	Other benefits[1]	Total
Executive							
A Gore	–	**6 767**	**4 375**	**3 636**	**1 088**	**413**	**16 279**
HD Kallner	–	**5 105**	**7 258**	**11 036**	**271**	**168**	**23 838**
NS Koopowitz[2,10]	–	**19 858**	**18 798**	**44 887**	**214**	**541**	**84 298**
HP Mayers[3,10]	–	**11 644**	**7 598**	**50 258**	**1 160**	**1 205**	**71 865**
Dr A Ntsaluba	–	**4 281**	**3 417**	**2 400**	**342**	**273**	**10 713**
A Pollard[4]	–	**7 857**	**4 323**	**5 191**	**197**	**298**	**17 866**
B Swartzberg	–	**4 902**	**3 682**	**3 166**	**470**	**173**	**12 393**
DM Viljoen	–	**4 419**	**3 350**	**2 331**	**722**	**89**	**10 911**
Sub-total	**–**	**64 833**	**52 801**	**122 905**	**4 464**	**3 160**	**248 163**
Non-executive							
ME Tucker[5]	**5 448**	–	–	–	–	–	**5 448**
HL Bosman[6]	**1 524**	–	–	–	–	–	**1 524**
Dr BA Brink	**944**	–	–	–	–	–	**944**
SE De Bruyn	**1 364**	–	–	–	–	–	**1 364**
R Farber[7]	**2 445**	–	–	–	–	**3 764**	**6 209**
FN Khanyile[8]	**769**	–	–	–	–	–	**769**
D Macready	**693**	–	–	–	–	–	**693**
DR TV Maphai*	**1 263**	–	–	–	–	–	**1 263**
H Mayers	**420**	–	–	–	–	–	**420**
AL Owen[5]	**2 224**	–	–	–	–	**185**	**2 409**
SV Zilwa*	**1 832**	–	–	–	–	–	**1 832**
Sub-total	**18 926**	**–**	**–**	**–**	**–**	**3 949**	**22 875**
Total	**18 926**	**64 833**	**52 801**	**122 905**	**4 464**	**7 109**	**271 038**
Less: paid by subsidiaries	**(18 926)**	**(64 833)**	**(52 801)**	**(122 905)**	**(4 464)**	**(7 109)**	**(271 038)**
Paid by holding company	**–**	**–**	**–**	**–**	**–**	**–**	**–**

1 *"Other benefits" comprise medical aid contributions, travel and other allowances.*

2 *Salary and incentive are paid in GBP.*

3 *Remuneration consists of GBP and Rands components.*

4 *Salary and incentive are paid in USD.*

5 *Salary and incentive are paid in GBP.*

6 *Director's fees for services rendered by HL Bosman are paid to Rand Merchant Investment Holdings Limited.*

7 *Director's fees for services rendered are paid in AUD.*

8 *Director's fees for services rendered by F Khanyile are paid to WDB Investment Holdings Proprietary Limited.*

9 *In response to the Presidents call, all executive and certain non-executive directors heeded by forfeiting an effective one-month's salaries/fees to enable the Company to donate further towards the Solidarity Fund and similar charities. Executive directors forfeited R1.7m and non-executive directors forfeited R1.4m. Executive directors forfeited a further R0.9m in FY21.*

10 *The phantom scheme payment amounts for NS Koopowitz and HP Mayers include the once-off vesting of special phantom share allocations linked to the final buy-out in 2014 of Vitality UK and therefore represents a multi-year scheme with single maturity. These special phantom allocations were designed to align with the VitalityHealth and VitalityLife minority interest share participation in which other UK senior management obtained a physical minority share interests and where participants had the option to sell such shares to Discovery Group Europe Limited after maturity. NS Koopowitz and HP Mayers were not participants in the physical share scheme but were awarded phantom shares that replicated the scheme and also forfeited the normal 2014 long term incentive plan awards. The once-off and final amounts paid under this phantom scheme amounted to £1,453,400 each (R28.7 million).*

* *Black non-executive directors participated in the Discovery Limited BEE transaction and have R18.6m loans outstanding to the Company.*

ANNEXURE B – DIRECTORATE *continued*

REMUNERATION AND FEES *continued*

Payment to directors for the year ended 30 June 2019 for services rendered are set out in the table below. It should be noted that these payments reflect cash payments made to directors during the financial year and therefore all variable pay components are reflective of performance measurements **relating to previous periods**). The variable pay components relating to the current year under review are physically paid in the following financial year and are analysed in detail in the Group's annual remuneration report and are more reflective of the performance of the period under review.

Payments to directors for the year ended 30 June 2019 for services rendered are as follows:

R'000	Services as directors	Basic salary	Perfor-mance bonus	Phantom scheme payments	Provident fund contri-butions	Other benefits[1]	Total
Executive							
A Gore	–	6 910	6 590	6 259	1 036	391	21 186
HD Kallner	–	5 176	7 922	10 016	259	157	23 530
NS Koopowitz[2]	–	16 344	17 334	7 922	180	429	42 209
HP Mayers[3]	–	15 823	18 394	3 235	1 657	384	39 493
Dr A Ntsaluba	–	4 338	4 278	4 894	325	252	14 087
A Pollard[4]	–	6 433	2 486	5 689	129	250	14 987
JM Robertson[5]	–	660	640	4 881	135	17	6 333
B Swartzberg	–	5 165	5 090	5 122	266	160	15 803
DM Viljoen	–	4 510	4 440	2 748	688	77	12 463
Sub-total	–	65 359	67 174	50 766	4 675	2 117	190 091
Non-executive							
ME Tucker	1 477	–	–	–	–	–	1 477
HL Bosman[9]	1 448	–	–	–	–	–	1 448
Dr BA Brink	1 306	–	–	–	–	–	1 306
SE De Bruyn	1 247	–	–	–	–	–	1 247
R Enslin[6]	970	–	–	–	–	–	970
R Farber[8]	3 074	–	–	–	–	3 072	6 146
MI Hilkowitz	4 213	–	–	–	–	–	4 213
FN Khanyile[10]	631	–	–	–	–	–	631
Dr TV Maphai	1 011	–	–	–	–	–	1 011
TT Mboweni	317	–	–	–	–	–	317
AL Owen[7]	2 755	–	–	–	–	194	2 949
SV Zilwa	1 741	–	–	–	–	–	1 741
Sub-total	20 190	–	–	–	–	3 266	23 456
Total	20 190	65 359	67 174	50 766	4 675	5 383	213 547
Less: paid by subsidiaries	(20 190)	(65 359)	(67 174)	(50 766)	(4 675)	(5 383)	(213 547)
Paid by holding company	–	–	–	–	–	–	–

1 "Other benefits" comprise medical aid contributions, travel and other allowances.
2 Salary and incentive are paid in GBP.
3 Remuneration consists of GBP and Rand components.
4 Salary and incentive are paid in USD.
5 JM Robertson retired as executive director from the Board of Discovery Limited with effect from 31 August 2018.
6 Director's fees for services rendered are paid in USD.
7 Director's fees for services rendered are paid in GBP.
8 Director's fees for services rendered are paid in AUD and Rand components.
9 Director's fees for services rendered by HL Bosman are paid to Rand Merchant Investment Holdings Limited.
10 Director's fees for services rendered by F Khanyile are paid to WDB Investment Holdings Proprietary Limited.

DIRECTORS' PARTICIPATION IN LONG-TERM INCENTIVE SCHEMES

Discovery's directors and prescribed officers participate in the various long-term incentive schemes offered by the Group and their participation is disclosed below. Refer to Group note 31.1 for a detailed description of the various schemes offered.

Discovery Limited phantom share scheme

Directors and prescribed officers participation as at 30 June 2020:

Directors and prescribed officers	Outstanding shares	Date granted	Strike price R	Final vesting date	**Value at 30 June 2020 R**
A Gore	3 614	30/09/2015	–	30/09/2020	**377 844**
	7 228	30/09/2015	134.94	30/09/2020	**–**
	16 212	30/09/2016	–	30/09/2021	**1 694 965**
	41 841	30/09/2017	–	30/09/2022	**4 374 477**
	48 027	30/09/2018	–	30/09/2023	**5 021 223**
HD Kallner	2 410	30/09/2015	–	30/09/2020	**251 913**
	4 819	30/09/2015	134.94	30/09/2020	**–**
	37 959	30/09/2016	–	30/09/2021	**3 968 613**
	28 062	30/09/2017	–	30/09/2022	**2 933 882**
	219 941	01/04/2018	–	01/04/2023	**22 994 858**
	32 211	30/09/2018	–	30/09/2023	**3 367 660**
HP Mayers	2 410	30/09/2015	–	30/09/2020	**251 913**
	4 819	30/09/2015	134.94	30/09/2020	**–**
A Ntsaluba	2 410	30/09/2015	–	30/09/2020	**251 913**
	4 819	30/09/2015	134.94	30/09/2020	**–**
	19 115	30/09/2016	–	30/09/2021	**1 998 421**
	14 799	30/09/2017	–	30/09/2022	**1 547 235**
	29 599	30/09/2017	141.65	30/09/2022	**–**
	28 312	30/09/2018	–	30/09/2023	**2 960 020**
A Pollard	803	30/09/2015	–	30/09/2020	**83 980**
	1 606	30/09/2015	134.94	30/09/2020	**–**
	3 794	30/09/2016	–	30/09/2021	**396 610**
	7 588	30/09/2016	114.96	30/09/2021	**–**
	5 693	30/09/2017	–	30/09/2022	**595 229**
	11 386	30/09/2017	141.65	30/09/2022	**–**
	6 560	30/09/2018	–	30/09/2023	**685 848**
B Swartzberg	2 410	30/09/2015	–	30/09/2020	**251 913**
	4 819	30/09/2015	134.94	30/09/2020	**–**
	21 747	30/09/2016	–	30/09/2021	**2 273 597**
	5 894	30/09/2017	–	30/09/2022	**616 165**
	11 786	30/09/2017	141.65	30/09/2022	**–**
	11 274	30/09/2018	–	30/09/2023	**1 178 697**
DM Viljoen	37 893	01/05/2017	–	30/04/2022	**3 961 666**
	16 838	30/09/2017	–	30/09/2022	**1 760 361**
	33 674	30/09/2017	141.65	30/09/2022	**–**
	30 388	30/09/2018	–	30/09/2023	**3 177 065**

DIRECTORS' PARTICIPATION IN LONG-TERM INCENTIVE SCHEMES *continued*

Discovery Limited long-term incentive plan

Directors and prescribed officers participation as at 30 June 2020:

Directors and prescribed officers	Outstanding shares	Date granted	Exercise price R	Final vesting date	**Value at 30 June 2020 R**
A Gore	76 399	30/09/2019	–	30/09/2024	**7 987 515**
HD Kallner	51 240	30/09/2019	–	30/09/2024	**5 357 142**
A Ntsaluba	45 253	30/09/2019	–	30/09/2024	**4 731 201**
A Pollard	14 662	30/09/2019	–	30/09/2024	**1 532 912**
B Swartzberg	15 372	30/09/2019	–	30/09/2024	**1 607 143**
DM Viljoen	48 340	30/09/2019	–	30/09/2024	**5 053 947**

The Vitality Group Inc. stock plan

Directors and prescribed officers participation as at 30 June 2020:

Directors and prescribed officers	Outstanding shares	Date granted	Exercise price US$	Final vesting date	**Value at 30 June 2020 US$**
A Pollard	118 592	01/10/2016	0.73	01/10/2020	**220 757**

The Vitality Group Cash-settled plan

Directors and prescribed officers

Directors and prescribed officers	Outstanding units	Date granted	Exercise price US$	Final vesting date	**Value at 30 June 2020 US$**
A Pollard	184 207	2017/09/30	–	2022/09/30	**184 207**
	145 859	2018/09/30	–	2023/09/30	**145 859**
	278 536	2019/09/30	–	2024/09/30	**278 536**
B Swartzberg	190 683	2017/09/30	–	2022/09/30	**190 683**
	250 654	2018/09/30	–	2023/09/30	**250 654**
	287 542	2019/09/30	–	2024/09/30	**287 542**

The VitalityHealth and VitalityLife phantom share schemes

Directors and prescribed officers participation as at 30 June 2020:

Directors and prescribed officers	Outstanding shares	Date granted	Exercise price GBP	Final vesting date	**Value at 30 June 2020 GBP**
NS Koopowitz	6 498	31/10/2016	–	2020	**217 943**
	9 750	06/11/2017	–	2021	**382 688**
	14 041	05/11/2018	–	2022	**532 013**
	13 007	01/03/2020	–	2023	**535 238**

DIRECTORS' PARTICIPATION IN LONG-TERM INCENTIVE SCHEMES *continued*

Other development segment schemes

Directors and prescribed officers participation as at 30 June 2020:

Directors and prescribed officers	Outstanding shares	Date granted	Exercise price R	Final vesting date	Value at 30 June 2020 R
HD Kallner	6 335	01/07/2017	–	30/09/2020	**662 282**
	7 408*	01/07/2017	–	30/06/2021	**774 506**

* *Participation in scheme commenced on 1 July 2017, allocated value was only converted into shares on 1 July 2019.*

DIRECTORS' INTERESTS IN SHARES

According to the Register of Directors' Interests, maintained by Discovery in accordance with the provisions of section 30(4)(d) of the Companies Act, directors and prescribed officers of Discovery have disclosed the following interest in the ordinary shares of the Company at 30 June 2020:

Directors and prescribed officers	Direct beneficial	Indirect beneficial	Total 2020	Direct beneficial	Indirect beneficial	Total 2019
A Gore	**–**	**50 496 775**[1]	**50 496 775**	–	50 496 775	50 496 775
H Bosman	**–**	**77 027**	**77 027**	–	77 027	77 027
Dr BA Brink	**–**	**–**	**–**	20 000	–	20 000
SE De Bruyn	**1 800**	**–**	**1 800**	65 800	–	65 800
R Farber	**55 076**	**–**	**55 076**	55 076	–	55 076
HD Kallner	**100 398**	**–**	**100 398**	100 398	–	100 398
F Khanyile	**800**	**–**	**800**	800	–	800
NS Koopowitz	**–**	**962 004**	**962 004**	–	962 004	962 004
Dr TV Maphai	**1 919**	**407 395**	**409 314**	1 919	407 395	409 314
HP Mayers	**36 948**	**7 699 716**[2]	**7 736 664**	36 948	8 599 716	8 636 664
A Ntsaluba	**90 164**	**–**	**90 164**	103 164	–	103 164
A Pollard	**1 193 099**	**–**	**1 193 099**	1 193 099	–	1 193 099
B Swartzberg	**3 384 227**	**22 733 115**[3]	**26 117 342**	3 384 227	22 733 115	26 117 342
DM Viljoen	**10 000**	**–**	**10 000**	10 000	–	10 000
SV Zilwa	**–**	**12 780**	**12 780**	–	27 780	27 780
	4 874 431	**82 388 812**	**87 263 243**	6 542 459	87 449 624	93 992 083

1 *Includes 42 400 000 ordinary shares which are subject to security.*
2 *Includes 7 699 716 ordinary shares which are subject to security.*
3 *Includes 10 200 000 ordinary shares which are subject to security.*

There has been no change in the directors' interests in Discovery Limited's shares between 30 June 2020 and the date of publication of this annual report.

ANNEXURE C – ANALYSIS OF SHAREHOLDERS
at 30 June 2020

ORDINARY SHAREHOLDERS

	Number of shareholders	% of total shareholders	Number of shares	% of issued capital
Shareholder spread				
1 – 1 000 shares	26 080	81.79	5 509 578	0.84
1 001 – 10 000 shares	4 701	14.74	13 279 288	2.02
10 001 – 100 000 shares	832	2.61	25 234 734	3.83
100 001 – 1 000 000 shares	194	0.61	58 736 135	8.92
1 000 001 shares and over	79	0.25	555 531 001	84.39
	31 886	**100.00**	**658 290 736**	**100**
Public/non-public shareholders				
Non-public shareholders	**24**	**0.08**	**254 567 150**	**38.67**
– Directors of the Company	14	0.05	87 263 243	13.26
– BEE employee share trust	1	0.00	966 460	0.14
– Own holdings	1	0.00	680 268	0.10
– Key management personnel	5	0.02	836 311	0.13
– Trustees of pension funds	2	0.01	10 278	0.00
– Strategic holdings (more than 10%)	1	0.00	164 810 590	25.04
Public shareholders	**31 862**	**99.92**	**403 723 586**	**61.33**
	31 886	**100**	**658 290 736**	**100**

	Number of shares	%
Beneficial shareholders' holding of 5% or more		
Rand Merchant Investment Holdings Limited	164 810 590	25.04
Government Employees Pension Fund	57 334 567	8.71

B PREFERENCE SHAREHOLDERS

	Number of shareholders	% of total shareholders	Number of shares	% of issued capital
Shareholder spread				
1 – 1 000 shares	1 364	61.00	366 850	4.58
1 001 – 10 000 shares	765	34.22	2 255 636	28.20
10 001 – 100 000 shares	**94**	**4.20**	**2 693 353**	**33.67**
100 001 – 1 000 000 shares	**13**	**0.58**	**2 684 161**	**33.55**
	2 236	**100**	**8 000 000**	**100**
Public/non-public shareholders				
Non-public shareholders (more than 5%)	2	0.09	2 328 758	29.11
– Strategic holdings (more than 5%)	**2**	**0.09**	**2 328 758**	**29.11**
Public shareholders	**2 234**	**99.91**	**5 671 242**	**70.89**
	2 236	**100**	**8 000 000**	**100**

	Number of shares	%
Beneficial shareholders' holding of 5% or more		
Outsurance Insurance Company Ltd	500 000	6.25
	500 000	**6.25**

ANNEXURE D – EMBEDDED VALUE
REPORT ON THE REVIEW OF THE EMBEDDED VALUE STATEMENT

OF DISCOVERY LIMITED AND ITS SUBSIDIARIES TO THE DIRECTORS OF DISCOVERY LIMITED

INTRODUCTION

We have reviewed the Embedded Value Statement of Discovery Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 30 June 2020, as set out on pages 182 to 191 of the Discovery Annual Financial Statements for the year ended 30 June 2020 (the "Report"). The Report is prepared for the for the purpose of determining the value and performance of the Group. The directors of Discovery Limited are responsible for the preparation and presentation of the Report in accordance with the embedded value basis set out in the Basis of Preparation section of the Report and for determining that the basis of preparation is acceptable in the circumstances. Our responsibility is to express a conclusion on this Report based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope that an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the Report is not prepared, in all material respects, in accordance with the basis set out in the Basis of Preparation section of the Report.

BASIS OF ACCOUNTING AND RESTRICTION ON USE

Without modifying our conclusion, we draw attention to the Basis of Preparation section of the Report, which describes the basis of accounting. The Report is prepared for the purpose of determining the value and performance of the Group. As a result, the Report may not be suitable for another purpose. Our report is intended solely for the directors of Discovery Limited and should not be used by any other parties. We agree to the publication of our report in the Discovery Annual Financial Statements for the year ended 30 June 2020 provided it is clearly understood by the recipients of the Discovery Annual Financial Statements for the year ended 30 June 2020 that they enjoy such receipt for information only and that we accept no duty of care to them in respect of our report.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Andrew Graham Taylor
Registered Auditor
Johannesburg
15 September 2020

ANNEXURE D – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2020

The embedded value of Discovery consists of the following components:

- the adjusted net worth attributed to the business at the valuation date;
- plus: the present value of expected future shareholder cash flows from the in-force covered business;
- less: the cost of required capital.

The present value of future shareholder cash flows from the in-force covered business is calculated as the value of projected future after-tax shareholder cash flows of the business in-force at the valuation date, discounted at the risk discount rate.

The required capital are the assets attributed to the covered business above the amount required to back covered business liabilities, whose distribution to shareholders is restricted as they are allocated to cover regulatory and internal capital requirements.

The value of new business is the present value, at the point of sale, of the projected future after-tax shareholder cash flows of the new business written by Discovery, discounted at the risk discount rate, less an allowance for the reserving strain, initial expenses and cost of required capital. The value of new business is calculated using the current reporting date assumptions.

The embedded value includes the insurance and administration profits of the covered business in the Discovery Limited group. Covered business includes business written in South Africa through Discovery Life ("Life"), Discovery Invest ("Invest"), Discovery Health ("Health") and Discovery Vitality ("Vitality"), and in the United Kingdom through VitalityLife and VitalityHealth. For Vitality Group, Ping An Health, MyOwn Health, Discovery Insure, Discovery Bank and VitalityInvest, no published value has been placed on the current in-force business as the businesses have not yet reached suitable scale with predictable experience.

In August 2011, Discovery raised R800 million through the issue of non-cumulative, non-participating, non-convertible preference shares. For embedded value purposes this capital, net of share issue expenses, has been excluded from the adjusted net worth.

The embedded value at 30 June 2020 has been materially impacted by the COVID-19 global pandemic, resulting in both experience variances and short term provisions for adverse future experience. Refer to Tables 5 and 6 for details.

Following the finalisation of the agreement with Prudential in February 2020 to delay the transfer of the VitalityLife business on the Prudential licence to the Vitality Life Limited licence ("the Part VII transfer", which is subject to the relevant legal and regulatory approvals), an adjustment has been made in the embedded value to allow for the cost of this arrangement and the cost of the required capital for VitalityLife.

The 30 June 2020 embedded value results and disclosures were subjected to an external review.

ANNEXURE D – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2020

TABLE 1: GROUP EMBEDDED VALUE

R million	**30 June 2020**	30 June 2019	% change
Shareholders' funds	**44 553**	43 083	3
Adjustment to shareholders' funds from published basis[1]	**(32 080)**	(32 690)	
Adjusted net worth[2]	**12 473**	10 393	
Value of in-force covered business before cost of required capital	**64 305**	63 862	
Cost of required capital	**(5 944)**	(3 038)	
Discovery Limited embedded value	**70 834**	71 217	(1)
Number of shares (millions)	**656.6**	656.6	
Embedded value per share	**R107.88**	R108.46	(1)
Diluted number of shares (millions)	**657.6**	657.6	
Diluted embedded value per share[3]	**R107.71**	R108.30	(1)

1 *A breakdown of the adjustment to shareholders' funds is shown in the table below. Note that where relevant, adjustments have been converted using the closing exchange rate of R21.44/GBP (June 2019: R17.98/GBP)*

R million	**30 June 2020**	30 June 2019
Life and Invest net assets under insurance contracts	**(18 564)**	(20 764)
Vitality Life Limited and Discovery funded VitalityLife business on the Prudential licence net assets under insurance contracts	**(6 320)**	(5 812)
VitalityHealth financial reinsurance asset	**(3 078)**	(2 315)
VitalityHealth and VitalityHealth Insurance Limited deferred acquisition costs (net of deferred tax)	**(467)**	(382)
VitalityLife receivable relating to the Unemployment Cover benefit (net of deferred tax)	**(21)**	(19)
Goodwill relating to the acquisition of Standard Life Healthcare and the Prudential joint venture	**(2 653)**	(2 225)
Intangible assets (net of deferred tax) in covered businesses	**(945)**	(800)
Net preference share capital	**(779)**	(779)
Reversal of 1 Discovery Place IAS 17 financial lease accounting	**747**	406
Equity settled share based payment provision adjustment	**0**	–
	(32 080)	(32 690)

The "equity settled share based payment provision adjustment" adjustment reflects the difference between the provision in the IFRS equity and the mark-to-market value of the equity settled share based payments. At 30 June 2020 this adjustment is R0.33 million.

2 *The following table sets out the capital position of the covered businesses with the required capital on a consistent basis to that used in the embedded value:*

ANNEXURE D – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2020

R million	30 June 2020	30 June 2019
Shareholders' funds	**44 553**	43 083
Adjustment to shareholders' funds	**(32 080)**	(32 690)
Adjusted net worth	**12 473**	10 393
Excess of available capital over adjusted net worth	**23 231**	26 773
Available capital	**35 704**	37 166
Required capital	**29 932**	30 987
Excess available capital	**5 772**	6 179

The excess of available capital over adjusted net worth reflects the difference between the adjusted net worth and the available capital. This includes:

- *The net preference share capital of R779 million which is included as available capital.*
- *The difference between Vitality Life Limited's Solvency II Pillar 1 Own Funds and its adjusted net worth and adds back the negative reserves eliminated on the Discovery funded VitalityLife business on the Prudential licence.*
- *The difference between Life and Invest's Pillar 1 Own Funds and its adjusted net worth.*

The required capital at June 2020 for Life and Invest is R18 544 million (June 2019: R21 724 million), for Health and Vitality is R935 million (June 2019: R909 million), for VitalityHealth is R2 963 million (June 2019: R2 350 million) and for VitalityLife is R7 490 million (June 2019: R6 004 million). For Life and Invest, the required capital was set equal to 1.25 times the SAM Pillar 1 Solvency Capital Requirement. For Health and Vitality, the required capital was set equal to two times the monthly renewal expense and Vitality benefit cost. For VitalityHealth, the required capital amount was set equal to 1.35 times the Solvency II Pillar 1 Solvency Capital Requirement. For the VitalityLife business on the Prudential licence, the required capital was set equal to the UK Solvency I long term insurance capital requirement as per the agreement with Prudential up to the Part VII transfer, thereafter it is set equal to 1.4 times the Solvency II Pillar 1 Solvency Capital Requirement. For the business sold on the Vitality Life Limited licence, the required capital was set equal to 1.4 times the Solvency II Pillar 1 Solvency Capital Requirement.

3 *The diluted embedded value per share adjusts for treasury shares held in the Discovery BEE Share Trust where the impact is dilutive.*

TABLE 2: VALUE OF IN-FORCE COVERED BUSINESS

R million	Value before cost of required capital	Cost of required capital	Value after cost of required capital
at 30 June 2020			
Health and Vitality	**22 321**	**(419)**	**21 902**
Life and Invest[1]	**23 752**	**(1 244)**	**22 508**
VitalityHealth[2]	**10 077**	**(495)**	**9 582**
VitalityLife[2, 3]	**8 155**	**(3 786)**	**4 369**
Total	**64 305**	**(5 944)**	**58 361**
at 30 June 2019			
Health and Vitality	21 465	(394)	21 071
Life and Invest[1]	27 277	(1 177)	26 100
VitalityHealth[2]	7 840	(378)	7 462
VitalityLife[2]	7 280	(1 089)	6 191
Total	63 862	(3 038)	60 824

1 *Included in the Life and Invest value of in-force covered business is R1 440 million (June 2019: R1 429 million) in respect of investment management services provided on off balance sheet investment business. The net assets of the investment service provider are included in the adjusted net worth.*
2 *The value of in-force has been converted using the closing exchange rate of R21.44/GBP (June 2019: R17.98/GBP).*
3 *The increase over the financial year in the cost of required capital for VitalityLife is explained under Table 6.*

TABLE 3: GROUP EMBEDDED VALUE EARNINGS

R million	Twelve months ended 30 June 2020	Twelve months ended 30 June 2019
Embedded value at end of period	**70 834**	71 217
Less: Embedded value at beginning of period	**(71 217)**	(65 624)
Increase in embedded value	**(383)**	5 593
Net change in capital[1]	**–**	(1 839)
Dividends paid	**1 494**	1 481
Transfer to hedging reserve	**430**	175
Employee share option schemes	**(164)**	(33)
Increase in treasury shares	**4**	5
Acquisition of subsidiaries with non-controlling interest[2]	**(6)**	–
Change in ownership[3]	**–**	1 104
IFRS transitional arrangements[4]	**41**	73
Embedded value earnings	**1 416**	6 559
Annualised return on opening embedded value	**2.0%**	10.0%

1 *The net change in capital reflects share issues (net of costs) and an increase (decrease) in treasury shares in the period.*
2 *This balance arose from the acquisition of the MSO Group in Health.*
3 *The change in ownership reflects the acquisition of the remaining 48.87% interest in Discovery Bank from FRIHL, being the non-controlling interest.*
4 *The IFRS transitional arrangements reflects the retrospective adjustments arising from the adoption of IFRS 9 and IFRS 15 to the opening balances at 1 July 2018.*

TABLE 4: COMPONENTS OF GROUP EMBEDDED VALUE EARNINGS

	Twelve months ended 30 June 2020				Year ended 30 June 2019
R million	Net worth	Cost of required capital	Value of in-force covered business	**Embedded value**	Embedded value
Total profit from new business (at point of sale)	(4 614)	(271)	6 807	**1 922**	2 622
Profit from existing business					
▪ Expected return	6 125	72	191	**6 388**	6 000
▪ Change in methodology and assumptions[1]	2 871	(2 118)	(9 512)	**(8 759)**	(1 930)
▪ Experience variances	250	(107)	(10)	**133**	19
Impairment, amortisation and fair value adjustment[2]	(16)	–	–	**(16)**	(37)
Increase in goodwill and intangibles	(313)	–	–	**(313)**	(244)
Other initiative costs[3]	(93)	–	44	**(49)**	914
Non-recurring expenses	(181)	–	–	**(181)**	(3)
Acquisition costs[4]	(7)	–	(5)	**(12)**	(39)
Finance costs	(1 368)	–	–	**(1 368)**	(1 060)
Foreign exchange rate movements	899	(482)	2 927	**3 344**	(178)
Other[5]	18	–	1	**19**	76
Return on shareholders' funds[6]	308	–	–	**308**	419
Embedded value earnings	3 879	(2 906)	443	**1 416**	6 559

1 *The changes in methodology and assumptions will vary over time to reflect adjustments to the model and assumptions as a result of changes to the operating and economic environment. The current period's changes are described in detail in Table 6 below (for previous periods refer to previous embedded value statements).*

2 *This item reflects the amortisation of the intangible assets reflecting the banking costs, the PrimeMed acquisition and capital expenditure in VitalityInvest and Discovery Group Europe Limited.*

3 *This item includes the profits of non–covered businesses (including Discovery Insure, Vitality Group and Ping An Health) and costs of start–up businesses (including Discovery Bank, VitalityInvest, a commercial offering in Discovery Insure, and an Umbrella Fund offering in Invest). Head office costs which relate to non–covered business are also included in this item.*

4 *Acquisition costs relate to commission paid on the Life business and expenses incurred in writing Health and Vitality business that has been written over the period but will only be activated and on risk after the valuation date. These policies are not included in the embedded value or the value of new business and therefore the costs are not deducted from the value of new business.*

5 *This item includes, among other items, the tax benefits or losses that will emerge as the VitalityHealth DAC and intangible software assets amortise or increase.*

6 *The return on shareholders' funds is shown net of tax and management charges.*

TABLE 5: EXPERIENCE VARIANCES

R million	Health and Vitality Net worth	Health and Vitality Value of in-force	Life and Invest Net worth	Life and Invest Value of in-force	VitalityHealth Net worth	VitalityHealth Value of in-force	VitalityLife Net worth	VitalityLife Value of in-force	**Total**
Renewal expenses	74	–	3	(2)	(43)	–	10	–	**42**
Lapses and surrenders[1]	(10)	(298)	88	23	–	295	(99)	(147)	**(148)**
Mortality and morbidity[2]	–	–	147	(1)	(151)	–	(103)	–	**(108)**
Policy alterations[3]	–	40	(516)	174	–	–	(9)	(73)	**(384)**
Premium and fee income	127	–	(23)	106	69	–	(10)	(51)	**218**
Economic[4]	19	335	(499)	(557)	–	–	–	–	**(702)**
Commission	–	–	–	–	(27)	–	–	–	**(27)**
Tax[5]	90	–	603	(566)	170	–	55	–	**352**
Reinsurance	–	–	–	–	(2)	–	49	(31)	**16**
Maintain modelling term[6]	–	369	–	189	–	66	–	–	**624**
Vitality benefits	(27)	–	–	–	–	–	65	–	**38**
Other	(2)	2	(26)	61	188	–	40	(51)	**212**
Total	271	448	(223)	(573)	204	361	(2)	(353)	**133**

1 *For Health and Vitality, the lapse and surrender experience variance relates to lower than expected replacement of exiting members in compulsory membership schemes. For VitalityLife, the experience variance relates largely to adverse lapse experience on the term indexed optimiser product.*

2 *The mortality and morbidity experience for VitalityHealth includes a premium deferral provision for non–COVID–19 claims delayed due to private hospital utilisation by the National Health Service during the pandemic.*

3 *The policy alterations experience for Life and Invest arises largely due to servicing and fund switches.*

4 *For Health and Vitality, the economic experience variance relates to the impact on administration and managed care fees of in–period inflation being higher than that assumed. The experience for Life and Invest arises largely due to lower than expected linked asset growth for the period under review.*

5 *The tax variance for Life and Invest arises due to a movement in the deferred tax asset which delays the payment of tax.*

6 *The projection term for Health and Vitality, Life and VitalityHealth at 30 June 2020 has not been changed from that used in the 30 June 2019 embedded value calculation. Therefore, an experience variance arises because the total term of the in–force covered business is effectively increased by twelve months.*

ANNEXURE D – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2020

TABLE 6: METHODOLOGY AND ASSUMPTION CHANGES

R million	Health and Vitality Net worth	Health and Vitality Value of in-force	Life and Invest Net worth	Life and Invest Value of in-force	VitalityHealth Net worth	VitalityHealth Value of in-force	VitalityLife Net worth	VitalityLife Value of in-force	Total
Modelling changes[1]	–	–	(99)	116	–	–	(6)	(849)	**(838)**
Expenses[2]	–	(239)	(9)	(51)	–	–	17	(374)	**(656)**
Lapses[3]	–	(394)	106	(936)	–	–	24	(404)	**(1 604)**
Mortality and morbidity[4]	–	–	–	(844)	–	–	(107)	(165)	**(1 116)**
Benefit changes	–	(25)	–	–	–	–	–	–	**(25)**
Tax[5]	–	–	–	–	–	(187)	–	18	**(169)**
Economic assumptions[6]	–	(805)	(40)	(2 716)	–	299	(397)	(1 136)	**(4 795)**
Premium and fee income[7]	24	545	–	–	–	–	(40)	(115)	**414**
Reinsurance and financing[8]	–	–	1 412	(1 490)	–	(26)	–	–	**(104)**
Other[9]	–	–	1 843	(1 486)	–	–	143	(366)	**134**
Total	24	(918)	3 213	(7 407)	–	86	(366)	(3 391)	**(8 759)**

1 *For VitalityLife, the cost of required capital following the Part VII transfer has been updated following the February 2020 agreement with Prudential. This cost is sensitive to the economic conditions and the business mix at the time of the Part VII transfer. This impact is partially offset by a methodology change in the calculation of the lapse risk component of the required capital and a change in the risk–free rate to be set with reference to UK swap rates rather than the IFRS interest rate.*

2 *For VitalityLife, the value of in–force includes the fees payable to Prudential for the delay of the Part VII transfer.*

3 *The lapse assumption includes the impact of a short term stress to lapse assumptions in anticipation of adverse economic conditions over the next two years.*

4 *For Life and VitalityLife, the mortality and morbidity assumption change relates to the increased provision for COVID–19 related claims.*

5 *For VitalityHealth the tax relates to the UK future tax rate changing from 17% to 19%.*

6 *For Life, Invest, Health and Vitality the economic assumptions item relates to the impact of updating the assumptions relative to the Johannesburg Stock Exchange nominal and real yield risk–free curves at 30 June 2020. For VitalityHealth the item relates to the impact of changing the risk discount rate. For VitalityLife the item relates to the impact of updating the assumptions relative to the Solvency II yield curves and the IFRS interest rates, offset by a gain in the interest rate hedge.*

7 *For Health and Vitality, the premium and fee income item relates to an update of the contractual administration and managed care fees charged for DHMS.*

8 *For Life, the reinsurance and financing item primarily relates to the impact of financing arrangements.*

9 *For VitalityLife, the other item relates to the margin reset to offset experience variances, as per the accounting policy, as well as an adjustment in the value of in-force for the market value of the swaption as at 30 June 2020. For Life the other item relates to the change in the matching strategy for long-term claims reserves.*

ANNEXURE D – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2020

TABLE 7: EMBEDDED VALUE OF NEW BUSINESS

R million	Twelve months ended 30 June 2020	30 June 2019	% change
Health and Vitality			
Present value of future profits from new business (at point of sale)	**910**	832	
Cost of required capital	**(27)**	(27)	
Present value of future profits from new business (at point of sale) after cost of required capital	**883**	805	10
New business annualised premium income[1]	**3 972**	3 716	7
Life and Invest			
Present value of future profits from new business (at point of sale)[2]	**668**	1 242	
Cost of required capital	**(82)**	(82)	
Present value of future profits from new business (at point of sale) after cost of required capital	**586**	1 160	(49)
New business annualised premium income[3]	**2 886**	2 897	(0)
Annualised profit margin[4]	**2.5%**	4.6%	
Annualised profit margin excluding Invest business	**5.8%**	10.2%	
VitalityHealth[5]			
Present value of future profits from new business (at point of sale)	**262**	330	
Cost of required capital	**(56)**	(59)	
Present value of future profits from new business (at point of sale) after cost of required capital	**206**	271	(24)
New business annualised premium income (Rand)[6]	**1 308**	1 294	1
Annualised profit margin[4]	**2.5%**	3.2%	
VitalityLife[7]			
Present value of future profits from new business (at point of sale)	**353**	520	
Cost of required capital	**(106)**	(134)	
Present value of future profits from new business (at point of sale) after cost of required capital	**247**	386	(36)
New business annualised premium income (Rand)	**956**	995	(4)
Annualised profit margin[4]	**3.2%**	5.0%	

1 Health new business annualised premium income is the gross contribution to the medical schemes. The new business annualised premium income shown above excludes premiums in respect of members who join an existing employer where the member has no choice of medical scheme, as well as premiums in respect of new business written during the period but only activated after 30 June 2020.

The total Health and Vitality new business annualised premium income written over the period was R6 146 million (June 2019: R6 831 million).

2 Included in the Life and Invest embedded value of new business is R29 million (June 2019: R70 million) in respect of investment management services provided on off balance sheet investment business.

Risk business written prior to the valuation date allows certain Invest business to be written at financially advantageous terms, the impact of which has been recognised in the value of new business.

3 Life new business is defined as Life policies to which Life became contractually bound during the reporting period, including policies whose first premium is due after the valuation date. Invest new business is defined as business where at least one premium has been received and which has not been refunded after receipt. Invest new business also includes Discovery Retirement Optimiser policies to which Life and Invest became contractually bound during the reporting period, including policies whose first premium is due after the valuation date.

The new business annualised premium income of R2 886 million (June 2019: R2 897 million) (single premium APE: R1 453 million (June 2019: R1 321 million)) shown above excludes automatic premium increases and servicing increases in respect of existing business. The total new business annualised premium income written over the period, including automatic premium increases of R1 496 million (June 2019: R1 370 million) and servicing increases of R576 million (June 2019: R648 million), was R4 958 million (June 2019: R4 915 million) (single premium APE: R1 507 million (June 2019: R1 382 million)). Single premium business is included at 10% of the value of the single premium.

Policy alterations and internal replacement policies, including Discovery Retirement Optimisers added to existing Life Plans, are shown in Table 5 as experience variances and not included as new business. Term extensions on existing contracts are not included as new business.

4 The annualised profit margin is the value of new business expressed as a percentage of the present value of future premiums.

5 The VitalityHealth value of new business is calculated as the value at point of sale of the new business written premium in–force at the valuation date multiplied by the Margin multiplied by the Annuity Factor less the new business cash flows from point of sale to the valuation date. The assumptions for the Margin and Annuity Factor are shown in Table 8.

6 VitalityHealth new business is defined as individuals and employer groups which incepted during the reporting period. The new business annualised premium income shown above has been adjusted to exclude premiums in respect of members who join an existing employer group after the first month, as well as premiums in respect of new business written during the period but only activated after 30 June 2020.

7 VitalityLife new business is defined as policies to which VitalityLife became contractually bound during the reporting period, including policies whose first premium is due after the valuation date.

BASIS OF PREPARATION

TABLE 8: EMBEDDED VALUE ECONOMIC ASSUMPTIONS

		30 June 2020	30 June 2019
Beta coefficient		**0.75**	0.75
Equity risk premium (%)		**3.5**	3.5
Risk discount rate (%)			
Health and Vitality[1]		**14.125**	11.875
Life and Invest[1]		**15.125**	13.125
VitalityHealth		**2.89**	3.61
VitalityLife		**3.065**	4.725
Rand/GB Pound exchange rate			
Closing		**21.44**	17.98
Average		**19.75**	18.32
Margin over Expense inflation to derive Medical inflation (%)			
South Africa		**3.00**	3.00
Expense inflation (%)[2]			
South Africa	– Health and Vitality	**7.39**	6.13
	– Life and Invest	**8.33**	7.24
United Kingdom		**2.50**	2.50
Pre-tax investment return (%)			
South Africa	– Cash[1]	**11.00**	9.00
	– Life and Invest bonds[3]	**12.50**	10.50
	– Health and Vitality bonds[3]	**11.50**	9.25
	– Equity[1]	**16.00**	14.00
United Kingdom	– VitalityHealth risk-free rate	**0.27**	0.99
	– VitalityLife risk–free rate	**0.44**	2.10
	– VitalityLife IFRS interest rate	**1.35**	2.50
	– VitalityLife investment return	**1.58**	2.50
Income tax rate (%)			
South Africa		**28**	28
United Kingdom – long term		**19**	17
VitalityHealth Assumptions			
– Margin (net of tax and cost of capital) (%)		**14.1**	14.1
– Annuity Factor		**6.37**	6.13
Projection term			
– Health and Vitality		**20 years**	20 years
– Discovery Life – ViF		**40 years**	40 years
– Group Life		**10 years**	10 years
– VitalityLife		**No cap**	No cap
– VitalityHealth[4]		**20 years**	20 years

1 *Derived as a margin over (or below for cash) the respective pre–tax investment return for bonds.*

2 *The inflation assumption is derived as the difference between the nominal and real yield curve at each duration. As an indication, the cash flow weighted average inflation is shown in the table. For the United Kingdom, the expense inflation assumption is 1.50% in the first year.*

3 *As indications, the cash flow weighted averages derived from the relevant yield curve(s) are shown.*

4 *The VitalityHealth projection term of 20 years is used in the derivation of the Annuity Factor.*

ANNEXURE D – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2020

The Discovery Limited embedded value is calculated based on a risk discount rate using the CAPM approach with specific reference to the Discovery beta coefficient. The assumed beta is fixed at 0.75. This has been set such that the risk discount rate proxies the result of a Weighted Average Cost of Capital approach with reference to the capital structure of the Group and the observed beta calculated using daily returns over a long time period. The observed beta is calculated with reference to the ALSI. The assumed beta will only change if the capital structure of the Group and / or the observed beta calculated using daily returns over a long time period suggest the beta assumption should depart significantly from the assumption at the financial year end. As beta values reflect the historic performance of share prices relative to the market they may not allow fully for non–market related and non–financial risk. Investors may want to form their own view on an appropriate allowance for these risks which have not been modelled explicitly.

Life and Invest mortality, morbidity and lapse and surrender assumptions were derived from internal experience, where available, augmented by reinsurance and industry information.

The Health and Vitality lapse assumptions were derived from the results of recent experience investigations.

The VitalityHealth assumptions were derived from internal experience.

VitalityLife assumptions were derived from internal experience, where available, augmented by reinsurance, industry and Discovery Limited group information.

Renewal expense assumptions were based on the results of the latest expense and budget information.

The initial expenses included in the calculation of the embedded value of new business are the actual costs incurred excluding expenses of an exceptional or non–recurring nature.

From 30 June 2020, the yield curve underlying the embedded value calculations were changed from the Prudential Authority yield curves to the Johannesburg Stock Exchange ("JSE") yield curves. The South African investment return assumptions for Life, Invest, Health and Vitality were based on the publicly available JSE risk–free nominal yield curve. The real yield assumption was set based on the publicly available JSE risk–free real yield curve, adjusted to remove volatility due to the nature of the index linked government bond market. Other economic assumptions were set relative to these two yield curves.

The current and projected tax position of the policyholder funds within the Life company has been taken into account in determining the net investment return assumption.

The risk–free rate assumption for VitalityHealth was based on the single interest rate derived from the risk–free zero coupon sterling yield curve.

From 30 June 2018, VitalityHealth calculate the value in–force at the valuation date as the in–force written premium multiplied by the Margin multiplied by the Annuity Factor, as set out in the table above. The Annuity Factor assumption is derived from assumed future lapse rates and premium increases. The Margin assumption reflects profit margins after tax and Cost of Capital. The assumptions underlying the Annuity Factor and Margin are set taking into account the current experience in the business at different durations.

From 30 June 2020, VitalityLife bases the risk–free rate on UK swap rates. The inflation rate is set in line with the short–term expectation of inflation for the first year, and beyond that is consistent with the Bank of England inflation target.

The cost of required capital is calculated using the difference between the risk discount rate and the net of tax asset return on tangible assets. The Vitality Life Limited and the VitalityLife business on the Prudential licence required capital amount is assumed to earn the investment return assumption, which is set based on the return on a portfolio of government and corporate bonds assumed to back the required capital. The Life and Invest cost of required capital is calculated assuming shareholder cash flow is limited to the cash flow available after having met both the required capital amount and an internally defined liquidity target capital requirement of tangible assets.

The embedded value has been calculated in accordance with the Actuarial Society of South Africa's Advisory Practice Note ("APN") 107: Embedded Value Reporting, except the recommended disclosure of Free Surplus and Required Capital has been adjusted to take into account the nature of the capital requirements in the covered businesses, as can be seen in Table 1 note 2.

ANNEXURE D – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2020

Sensitivity to the embedded value assumptions

The risk discount rate uses the CAPM approach with specific reference to the Discovery beta coefficient. As beta values reflect the historic performance of share prices relative to the market they may not allow fully for non–market related and non–financial risk. Investors may want to form their own view on an appropriate allowance for these risks which have not been modelled explicitly. The sensitivity of the embedded value and the embedded value of new business at 30 June 2020 to changes in the risk discount rate is included in the tables below.

For each sensitivity illustrated below, all other assumptions have been left unchanged. No allowance has been made for management action such as risk premium increases where future experience is worse than the base assumptions.

TABLE 9: EMBEDDED VALUE SENSITIVITY

		Health and Vitality		Life and Invest		VitalityHealth		VitalityLife			
R million	Adjusted net worth[2]	Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	**Embedded value**	% change
Base	12 473	22 321	(419)	23 752	(1 244)	10 077	(495)	8 155	(3 786)	**70 834**	
Impact of:											
Risk discount rate +1%	12 473	21 039	(451)	21 552	(1 165)	9 544	(470)	7 516	(5 327)	**64 711**	(9)
Risk discount rate -1%	12 473	23 740	(382)	26 342	(1 336)	10 667	(524)	8 850	(1 904)	**77 926**	10
Lapses -10%	12 080	23 115	(441)	25 143	(1 321)	11 402	(560)	8 782	(4 260)	**73 940**	4
Interest rates -1%[1]	10 848	22 250	(403)	24 290	(1 229)	10 560	(524)	8 356	(4 530)	**69 618**	(2)
Equity and property market value -10%	12 435	22 321	(419)	23 845	(1 263)	10 076	(495)	8 155	(3 786)	**70 869**	0
Equity and property return +1%	12 473	22 321	(419)	24 031	(1 250)	10 088	(495)	8 155	(3 786)	**71 118**	0
Renewal expenses -10%	12 556	24 416	(388)	24 247	(1 220)	10 826	(495)	8 297	(3 754)	**74 485**	5
Mortality and morbidity -5%	12 674	22 321	(419)	25 312	(1 123)	11 625	(495)	8 354	(3 742)	**74 507**	5
Projection term +1 year	12 473	22 644	(422)	23 890	(1 255)	10 153	(499)	8 155	(3 786)	**71 353**	1

1 All economic assumptions were reduced by 1%.

2 The sensitivity impact on the VitalityLife net of tax change in negative reserves is included in the adjusted net worth column.

The following table shows the effect of using different assumptions on the embedded value of new business.

TABLE 10: VALUE OF NEW BUSINESS SENSITIVITY

	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife			
R million	Value of new business	Cost of required capital	Value of new business	Cost of required capital	Value of new business	Cost of required capital	Value of new business	Cost of required capital	**Value of new business**	% change
Base	910	(27)	668	(82)	262	(56)	353	(106)	**1 922**	
Impact of:										
Risk discount rate +1%	836	(30)	453	(77)	186	(52)	220	(137)	**1 399**	(27)
Risk discount rate -1%	993	(25)	921	(88)	346	(60)	504	(55)	**2 536**	32
Lapses -10%	969	(29)	888	(87)	396	(63)	525	(146)	**2 453**	28
Interest rates -1%[1]	918	(26)	699	(81)	335	(60)	383	(106)	**2 062**	7
Equity and property return +1%	910	(27)	692	(82)	263	(56)	353	(106)	**1 947**	1
Renewal expense -10%	1 032	(26)	708	(80)	340	(56)	380	(100)	**2 198**	14
Mortality and morbidity -5%	910	(27)	764	(74)	422	(56)	398	(96)	**2 241**	17
Projection term +1 year	928	(28)	682	(83)	272	(57)	353	(106)	**1 961**	2
Acquisition costs -10%	939	(27)	820	(82)	298	(56)	483	(106)	**2 269**	18

1 All economic assumptions were reduced by 1%.

ANNEXURE E – FIVE-YEAR REVIEW

for the year ended 30 June 2020

	Group 2016	Group 2017	Group 2018	Group 2019	**Group 2020**	Compound growth %
Total new business API and other new business (R million)	15 207	15 917	16 878	19 246	**20 307**	7%
Gross inflows under management (R million)						
Gross inflows under management[1]	104 409	115 061	125 554	139 062	**154 833**	10%
Less: Collected on behalf of third parties	(59 014)	(68 165)	(74 459)	(80 199)	**(87 962)**	10%
Gross income of Group[1]	45 395	46 896	51 095	58 863	**66 871**	10%
Income statement extracts (R million)						
Profit from operations	5 803	6 245	8 260	7 536	**1 532**	(28%)
Headline earnings	3 641	4 404	5 803	5 147	**296**	(47%)
Abnormal expenses/(income)	671	252	(402)	(112)	**3 451**	
Normalised headline earnings	4 312	4 656	5 401	5 035	**3 747**	(3%)
Diluted normalised headline earnings per share (cents)	671.1	721.5	836.9	771.6	**566.7**	(4%)
Statement of financial position extracts (R million)						
Total assets	118 577	130 923	157 982	180 233	**210 328**	15%
Shareholders' funds	30 607	32 290	37 594	43 083	**44 549**	10%
Embedded value						
Embedded value (R million)	53 080	57 294	65 624	71 217	**70 834**	7%
Diluted embedded value per share (R)	82.17	88.67	101.56	108.30	**107.71**	7%
Key ratios						
Return on average equity (%)	13	14	16	16	**0.4**	
Return on average assets (%)	3	4	4	4	**0.1**	
Exchange rates						
Rand/US$						
– Closing	14.73	13.12	13.81	14.15	**17.41**	
– Average	14.60	13.61	12.86	14.17	**15.70**	
Rand/GBP						
– Closing	19.78	17.03	18.16	17.98	**21.44**	
– Average	21.44	17.29	17.33	18.32	**19.75**	
Share statistics						
Number of ordinary shares in issue						
– Weighted average (000's)	637 608	644 651	645 014	652 295	**656 648**	
– Diluted weighted average (000's)	642 534	645 236	645 408	652 568	**661 242**	
– End of period (000's)	647 428	646 845	646 845	658 291	**658 291**	
Price/diluted headline earnings (times)	18.3	17.7	17.6	19.3	**18.3**	
Share price (cents per share):						
– High	15 467	13 748	19 000	17 830	**15 163**	
– Low	11 000	10 910	12 719	13 287	**5 815**	
– Closing	12 250	12 792	14 750	14 911	**10 455**	
Market capitalisation (R million)	79 310	82 744	95 410	98 158	**68 824**	

1 *IFRS 15 Revenue from Contracts with Customers became effective 1 July 2018. 'Gross inflows under management' and 'Gross income of Group' have not been restated.*

ANNEXURE F – PRODUCT DESCRIPTIONS

Discovery enters into contracts that carry insurance risk or financial risk or both. The following table analyses the various contracts offered by the Group and the risks these contracts transfer.

The risks identified for the contracts above and the management thereof will be discussed as follows:

- Management of insurance risks: pages 34 to 55.
- Management of financial risks: pages 56 to 82.

Contracts offered by the Group	Risk type	2020 Number of policies	2020 Annualised Premium income (million)	2019 Number of policies	2019 Annualised premium income (million)
Discovery Individual Life		446 713	R11 389	446 475	R10 688
– Discovery Classic and Essential Life Plans	Insurance				
– Dollar Life Plan	Insurance				
– Business Life Plan	Insurance				
– Smart Life Plan	Insurance				
– Purple Life Plan	Insurance				
– Health Plan Protector[1]	Insurance				
– Medical Premium Waiver	Insurance				
– DiscoveryCard Protector[1]	Insurance				
– Standalone Global Education Protector[2]	Insurance				
– Supplementary Cancer Protector[2]	Insurance				
– Supplementary Gap Cover[2]	Insurance				
– Funeral Cover[2]	Insurance				
Discovery Employee Benefits		608 787	R2 451	544 443	R2 312
– Discovery Group Life[3]	Insurance				
– Discovery Umbrella Funds	Financial				
Discovery Life Other[2]		46 260	R200	35 466	R143
– PrimaryCare	Insurance				
Discovery Invest[4]		322 221	R12 559	309 160	R11 662
– Unit-linked contracts without significant insurance risk	Financial				
– Unit-linked contracts with significant insurance risk	Both				
– Guaranteed return plans	Both				
– Fixed annuities	Both				
– Discovery Retirement Optimiser: Linked	Both				
– Discovery Retirement Optimiser: Guaranteed	Both				
Discovery Insure		135 559	R451	159 171	R3 402
– Personal lines	Insurance				
– Commercial lines	Insurance				
VitalityHealth		681 323	GBP 511 (R10 964)	642 399	GBP 483 (R8 849)
– Individual product	Insurance				
– SME product	Insurance				
– Corporate product	Insurance				
VitalityLife		473 872	GBP 310 (R6 654)	434 072	GBP 288 (R5 276)
– VitalityLife Life Plan	Insurance				
– Essentials Plan	Insurance				
– Guaranteed 50s Plus Plan	Insurance				
– Relevant Life Plan	Insurance				
– Mortgage Plus Plan	Insurance				
– Business Protection Plan	Insurance				
– Vitality Optimiser	Insurance				
– Interest rate Optimiser	Insurance				
– Premium Optimiser	Insurance				

1 Discontinued
2 Note that these are on a stand-alone basis
3 Number of lives covered
4 Annualised premium income includes 10% of the value of single premium policies

Discovery Life

Discovery Life offers policyholders a range of insurance and financial solutions. The Discovery Life products reflect Discovery's underlying philosophy to make members healthier and to enhance and protect their lives.

Discovery Life offers some unique benefits that integrate with the benefits offered by Discovery Health, Discovery Vitality, DiscoveryCard, Discovery Bank, Discovery Insure and Discovery Invest.

Discovery Life Plan

The Discovery Life Plan provides protection against a comprehensive spectrum of risks. Discovery Life offers a Classic Life Plan with broad and comprehensive protection for the policyholder and his or her immediate family and an Essential Life Plan which offers cost effective protection for the principal policyholder and his or her spouse.

The Discovery Life Plan covers:

- Life Cover Benefits.
- Disability Benefits.
- Severe Illness Benefits.
- Income Continuation Benefits.

The Life Fund forms the base amount of cover insured under the Life Plan (the basic sum assured amount). The Life Fund can be linked to a benefit escalation rate, for example inflation, and will then automatically increase at each policy anniversary.

The key risk benefits are defined as a percentage of the Life Fund. The Life Fund is reduced by the amount of benefits paid from the Life Fund. The Life Fund can be protected against claims by means of the Minimum Protected Fund. Multiple claims are allowed against the Life Fund from the same benefit.

There are a number of risk benefits that are defined in monetary terms or in the form of indemnity benefits, rather than being expressed as a percentage of the Life Fund. These benefits include:

- Income Continuation Benefit.
- Global Education Benefit.
- Global Health Protector.

The Life Plan has unique features allowing policyholders to add benefits for other family members. The Global Education Protector, Global Health Protector, Childbirth Benefit, Child Severe Illness Benefit, Parent Severe Illness Benefit and Family Trauma Benefit allow protection for the whole immediate family.

By actively maintaining and improving their health, Discovery Life policyholders, through the Integrator Benefit, could receive premium discounts and refunds of premiums and/or increases in cover.

The Life Plan provides whole of life cover. Premium guarantees are offered and quantified on most benefits. For example, the premiums for Life Cover are guaranteed not to increase by more than 25% for any 10-year period over and above contractual premium increases. This percentage can be futher reduced through engagement in the Vitality programme.

Premiums are payable monthly. There are various funding methods that allow policyholders a choice of premium funding patterns. A combination of level premium funding patterns and annually increasing premium patterns are offered. The higher the compulsory future premium increase, the lower the starting premium.

The Dollar Life Plan, offers the ability to specify the sum insured in US Dollars and pay premiums in Rands, but linked to the Rand/Dollar exchange rate. The Business Life Plan is tailored to the needs of business owners.

The Smart Life Plan enhances Discovery Life's offering to a younger clientele, providing benefits which are tailored to appeal to individuals aged between 18 and 29.

Health Plan Protector (discontinued)

The Health Plan Protector funds contributions to the Discovery Health Medical Scheme in the event of death, disability or severe illness. It further rewards members for positive health management through the PayBack benefit and Health Dividends. The Health Plan Protector can be added to the Life Plan or can be bought on a stand-alone basis. The Health Plan Protector provides cover up to age 65, however premiums are not guaranteed.

ANNEXURE F – PRODUCT DESCRIPTIONS *continued*

Medical Premium Waiver

The Medical Premium Waiver funds contributions to a client's Health Plan in the event of death, disability or severe illness and can be bought on a stand-alone basis. The Health Plan Protector provides cover up to age 65, however premiums are not guaranteed.

DiscoveryCard Protector (discontinued)

The DiscoveryCard Protector covers the outstanding balance on the DiscoveryCard in the event of death, disability or severe illness. It further provides a monthly benefit for a defined period equal to the average DiscoveryCard spend in the six-month period prior to the life changing event.

Standalone Global Education Protector

The Global Education Protector funds education costs for children in the event of death, disability or severe illness of the insured life. Cover is provided to the earlier of the insured life reaching age 65 or the child reaching age 24. This benefit can be purchased on a standalone basis.

Supplementary Gap Cover

The Supplementary Gap Cover benefit offers lump sum cover for defined severe illnesses, funding for genomic sequencing of certain cancers, a home support benefit as well as a health premium waiver given a defined life changing event.

Supplementary Cancer Protector

The Supplementary Cancer Protector benefit will pay defined monthly amounts which can be used to meet costs that arise when a family is affected by cancer.

Funeral Cover

The Funeral Cover benefit will pay out a defined lump sum in the event of death which can be used to cover the costs of a funeral. This lump sum is doubled in the event of accidental death. An education benefit is automatically included at a defined amount which aims to fund the education costs for children upon death of the principal member or spouse. Optional memorial and grocery benefits may be added to the policy.

PrimaryCare

The PrimaryCare benefit is a healthcare product that is sold to employer groups. The product provides indemnity cover for low-income employees for primary healthcare including GP visits, dental benefits, and optical benefits. The PrimaryCare product is administered by Discovery Health, but is written on the Discovery Life licence. Policies are annually reviewable.

DISCOVERY EMPLOYEE BENEFITS

Discovery Employee Benefits offers employers retirement funds and group risk solutions for their employees.

Group Life

Discovery Employee Benefits offers a comprehensive spectrum of protection benefits on a group basis. Life Cover, Severe Illness, Disability and Income Continuation Benefits are offered. The policies offered under Group Life can be cancelled or the premiums adjusted at the end of the contract term (usually one year). These benefits are written on the Discovery Life licence.

Umbrella Fund

Discovery Umbrella Fund, launched in May 2018, offers employer groups a unique platform for the investment of retirement assets for their employees. Pension and provident funds are offered as well as in-fund preservation for members leaving the fund. Policies are annual and all fees are reviewable annually.

The Fund offers a wide range of investment options to members on internal and external asset portfolios that are offered by Discovery Invest; all funds offered are Regulation 28 compliant. Discovery Umbrella offers unique benefits in the form of investment boosts and fee discounts for low income members.

Discovery Invest

Discovery Invest offers investors access to a comprehensive and flexible range of investment solutions which can be tailored to the needs of each investor.

ANNEXURE F – PRODUCT DESCRIPTIONS *continued*

A range of investment wrappers are provided to ensure flexibility and to optimise the investments according to the investment objectives and time horizon of the investor. A wrapper is the legal structure that allows policyholders to make underlying investments with different tax and other legal implications.

The following wrappers are available:

- **Endowment:** A medium-term, local or offshore, investment vehicle that provides tax efficiencies for an investor with a five to ten-year time horizon.
- **Flexible investment:** A flexible investment vehicle that allows tailor made investment solutions whilst providing immediate access to funds.
- **Retirement plan:** A long-term investment vehicle providing a tax efficient structure for saving towards retirement.
- **Preserver plans:** An investment vehicle that helps to ensure retirement benefits continue to grow on a tax efficient basis once a policyholder has left the retirement plan of an employer.
- **Retirement income plan:** Fixed and linked annuities are provided giving flexibility to meet retirement needs.

A comprehensive range of investment fund choices are provided including unique Discovery Invest funds. The funds include:

- **Discovery Invest funds:** Includes a comprehensive range of Discovery Invest's single- and multi-manager funds across a range of asset classes.
- **Dynamically protected funds:** Unique Discovery Invest funds that are designed to protect investors against the major risks associated with investment choice, for example, underperformance by fund, asset class and geographic region.
- **Special purpose funds:** These funds are designed to provide solutions to investors looking to save for specific goals, such as retirement. These funds provide alternative and innovative management expertise.
- **External funds:** Discovery Invest provides a broad range of externally managed funds.

Invest offers various benefits which reduces the cost of investment and enhances benefits available under the Invest plans.

- **Investment Integrator:** Uses inter alia the health improvements from Vitality and tax efficiencies created to offer a cost effective endowment and increase the value of the investment. A fee reduction of up to 100% can be achieved on both administration and asset management fees. This benefit is no longer available to new business.
- **Annuity Integrator:** By releasing the value of a policyholder's life cover at retirement, the Annuity Integrator creates enhanced benefits for Discovery Retirement Income Plan investors. The benefits include increased retirement income, protection against longevity, protection against ill-health and protection against poor performance of underlying assets.
- **Guaranteed return plans:** Guaranteed return plans include the following:
  - The Guaranteed Growth Plan is a single premium endowment that provides a guaranteed return at the end of five years.
  - The Guaranteed Income Plan provides a guaranteed return at the end of five years on the chosen percentage of the lump sum contribution. The remainder of the lump sum will provide a monthly or annual income.
- **Upfront Investment Integrator:** Provides an upfront boost to the member's investment value of the lump sum Endowment plan.
- **Life Booster:** Provides a boost to the investment fund value on death of between 5% and 15% depending on the member's Vitality status.
- **Retirement Income Investment Integrator:** Boosts annual annuity payments received by up to 50% depending on the member's Vitality status and chosen annual annuity income.
- **Retirement Upfront Investment Integrator:** Provides an upfront boost to the member's investment value of the lump sum Retirement and Preserver plans.
- **Classic Benefits:** Consists of a range of benefits which enhance and protect the member's investment fund offered on the lump sum Retirement plans, Preserver plans and lump sum Flexible Investment plans.
- **Administration Fee Integrator:** A fee discount of up to 100% can be achieved on the administration fee of the Investment plan, where the discount is based on Vitality status and invested term.
- **Flexible Pan Retirement Integrator:** Provides a boost to the Retirement Upfront Investment Integrator of up to 50% of asset management fees paid in the Flexible Investment Plan.
- **Discovery Retirement Optimiser:** Offers funding for retirement and offers unique benefits that, together with a Discovery Life Plan, boosts retirement funding. Policyholders have a choice of linked investment portfolios or a portfolio that offers a guaranteed return in real terms. Funds offering a guaranteed return have been closed to new business.

VITALITYLIFE

Vitalitylife Plan

The VitalityLife Plan is a lifestyle protection plan which allows customers to select from a menu of benefits which includes:

- Life cover.
- Serious illness cover.
- Capital disability cover.
- Income protection insurance.
- Family income cover.
- Education cover.
- Waiver of premium on death, serious illness and/or incapacity.
- Additional optional serious illness cover for children.
- Lifestyle care cover.
- Protected Life and Serious Illness cover.
- Dementia and Frail Care cover.

The VitalityLife Plan has at its basis a Plan Account. The Plan Account defines the amount paid out under any benefit that is attached to it (the sum assured). The benefits that are attached to the Plan Account are expressed as a percentage of the Plan Account's value.

The Plan Account can be structured to provide cover that is level, increasing or decreasing.

The VitalityLife Plan can be written on a single or joint life basis and cover may be stand-alone or limited to the Plan Account whereby claims would accelerate payment of the Plan Account. Premiums are payable monthly in advance and can be guaranteed or reviewable. Premiums can either be level, increase at a fixed rate or increase at a rate related to the Retail Price Index in the UK. The Plan does not offer any surrender value. The VitalityLife Plan provides extensive severity-based cover for serious illness.

Essentials Plan

The Essentials Plan is a lower cost version of the VitalityLife Plan and provides roughly the same type of benefits and has the same structure.

Guaranteed 50 Plus Plan (run off existing book)

The Guaranteed 50 Plus Plan will pay out a fixed cash lump sum in the event of death, provided that the policy has been held for at least one year. It also provides guaranteed acceptance for people aged between 50 and 75, living in the UK.

Relevant Life Plan

The Relevant Life Plan is a Life cover only plan with substantial tax benefits for employers wanting to provide life cover for their employees. The structure is the same as for life cover on the above mentioned plans and includes the option to take different Vitality wellness program benefits.

Business Protection Plan

The Business Protection Plan provides insurance protection for businesses via key person cover, shareholder/partnership cover and/or loan protection.

Mortgage Plus Plan

The Mortgage Plus Plan provides insurance protection for individuals and families against death, disability and serious illness when taking out a mortgage on their home.

Vitality Optimiser

The Vitality Optimiser offers an upfront premium discount that varies in size depending on the policy term. Depending on engagement in the Vitality wellness programme, the premium discount can be increased, maintained or will be eroded over time.

Whole of Life Optimiser

The Whole of Life Premium Optimiser and Interest Rate Optimiser follows a similar structure to the Vitality Optimiser policy, offering an upfront premium discount and premium changes at each anniversary. Unlike Vitality Optimiser, where premiums change depending on Vitality Status, the annual premium changes are either fixed or depend on long-term interest rates.

ANNEXURE F – PRODUCT DESCRIPTIONS *continued*

Wellness Optimiser

Wellness Optimiser offers customers an upfront discount, similar to Vitality Optimiser. The future premiums will change annually depending on the policyholder's Wellness Status, and Vitality Status, which will be determined by the results of the on-going biennial health checks.

VITALITYHEALTH

VitalityHealth offers three main product types:

Individual product

This is offered to the retail market either direct or via a broker. The product features include:

- **Private Medical Insurance:** Cover is offered for a range of private healthcare-related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions.
- **Renewal pricing:** Prices offered at renewal depend on claims and Vitality status.
- **Vitality rewards:** A full Vitality package is offered, including gym offering and activity and status based healthcare-related rewards.

SME product

This is an age-rated product offered to small groups (typically 2-100 employees) either direct or via a broker. The product features include:

- **Private Medical Insurance:** Cover is offered for a range of private healthcare-related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions.
- **Cashback for employers:** A cashback is provided to employers after renewal depending on the levels of engagement achieved by their employees in the previous year.
- **Vitality rewards for employees:** A full Vitality package is offered, including gym offering and activity and status based healthcare-related rewards.

Corporate Product

This is an experience-rated product offered by brokers and employee benefit consultants. The product features include:

- **Private Medical Insurance:** Cover is offered for a range of private healthcare-related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions. Administration of healthcare trusts providing medical benefits to employees of large corporates is also available.
- **Vitality rewards for employees:** A base level Vitality package is offered to all members, including gym offering and healthcare-benefits. Employers can choose to add activity – and status-dependent rewards. A 'stand-alone' Vitality programme is also available to large corporates where medical benefits are not provided.

DISCOVERY INSURE

Discovery Insure underwrites both personal and more recently commercial lines business, specific products are as follows:

Motor

Provides cover for loss, damage and liabilities arising from the use or ownership of motor vehicles. The cover includes comprehensive, third party, fire, theft and third party liability cover.

Property

Provides cover for loss or damage from specified events – such as fire, storm, theft etc. – to movable and immovable property belonging to the insured.

Liability

Provides cover for risks relating to the insured incurring personal liability to specified third parties which are not specifically covered under another insurance contract.

Health Gap Cover

Provides cover shortfalls on specialist accounts for hospital admissions, shortfalls for specific treatment before and after hospital admissions, as well as additional funds for cancer treatment. Note that this product is sold as part of personal lines insurance only.

Discovery

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