



DISCOVERY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

DISCOVERY LIMITED

Registration number 1999/007789/06

ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2019

These Annual Financial Statements cover the Company and consolidated financial results of Discovery Limited and its subsidiaries

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Auditors:	PricewaterhouseCoopers Inc.
Prepared by:	L van Jaarsveldt CA(SA) and A Nel CA(SA)
Supervised by:	DM Viljoen CA(SA)

¹ Embedded value statement prepared by M Curtis (FASSA, FIA) as well as P Bolink (FASSA) and supervised by A Rayner (FASSA, FIA).

DIRECTORS' RESPONSIBILITY STATEMENT

for the year ended 30 June 2019

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 2020. 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 7 to 13.

The Annual Financial Statements of Discovery for the year ended 30 June 2019, which appear on pages 14 to 168 as well as Annexure A, have been approved by the Board of Directors on 3 September 2019 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 2019

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 2019 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
3 September 2019

REPORT OF THE AUDIT COMMITTEE

for the year ended 30 June 2019

We are pleased to present our report for the financial year ended 30 June 2019. The Audit Committee (the Committee) is an independent statutory committee. Duties are delegated to the Committee by the Board of Directors of Discovery Limited (Discovery).

The scope of the Committee extends to all activities of Discovery Limited and its subsidiaries, both locally and internationally. The Committee 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 Group, Discovery Bank Holdings Limited and Discovery Bank Limited, and the Vitality Group International Inc. Group have their own independent statutory Audit Committees.

Audit Committee Terms of Reference

The Committee has adopted formal Terms of Reference that have been approved by the Board of Directors. The Terms of Reference were reviewed during the year and minor amendments were made. The Committee has conducted its affairs in compliance with its Terms of Reference and has discharged the responsibilities contained therein.

Audit Committee members, meeting attendance and assessment

The Committee is constituted as per section 94(4) of the Companies Act and consists of 3 independent non-executive directors of Discovery. It meets at least four times per annum as per its Terms of Reference, and in the year ended 30 June 2019 met seven times.

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

The membership, qualifications and attendance of the members of the Committee are as follows:

Committee member	Qualifications	Number of meetings held during the year ended 30 June 2019	Number of meetings eligible to attend	Number of meetings attended
AL Owen (Chairman)	BSc (Hons), FIA, FPMI	7	7	7
SE De Bruyn	LLB (Hons), MA	7	7	6
SV Zilwa	BCompt (Hons), CTA, CA (SA)	7	7	6

An internally managed assessment of the effectiveness of the Committee was carried out during the year.

Role and responsibilities

STATUTORY DUTIES

The Committee's role and responsibilities include statutory duties as per the Companies Act and further responsibilities assigned to it by the Board which are contained in the Audit Committee Terms of Reference.

The Committee executed its duties in accordance with its Terms of Reference and applicable laws and regulations in force during the year ended 30 June 2019.

EXTERNAL AUDITOR APPOINTMENT AND INDEPENDENCE

The Committee considered the matters set out in section 94 of the Companies Act and nominated PricewaterhouseCoopers Inc. for appointment as external auditor of Discovery. PricewaterhouseCoopers Inc., with the approval of Discovery, worked in conjunction with Nexia SAB&T (a black owned auditing firm) for a portion of the audit.

The Committee has satisfied itself that the external auditors are independent of Discovery, as set out in section 94(8) of the Companies Act. Requisite assurance was sought and provided by the auditor that internal governance processes within the audit firm support and demonstrate its claim to independence.

The Committee ensured that the appointment of the auditors complied with all legislation relating to the appointment of auditors.

The Committee, following consultation with executive management, approved the engagement letter, terms, audit plan and budgeted audit fees for the year ending 30 June 2019.

REPORT OF THE AUDIT COMMITTEE *continued*

for the year ended 30 June 2019

The Committee reviews the performance of the external auditor and the value of the services on an annual basis and concluded that it is comfortable to recommend the appointment of PricewaterhouseCoopers Inc. for the coming year.

There is a formal policy 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 Committee 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 Committee. The Committee satisfied itself that the provision of non-audit services carried out by the external auditors during the year was in accordance with the approved policy.

FINANCIAL STATEMENTS AND ACCOUNTING PRACTICES

The Committee 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 Committee 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 Committee. No complaints were received during the year.

During the year, the Committee gave particular consideration to the following:

- the new standards, amendments and interpretations of IFRS applicable to the year including IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*.
- analysis of the potential impacts of the application of IFRS 17 *Insurance Contracts* and IFRS 16 *Leases*.
- 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.
- the supportability of deferred tax assets raised on assessed losses.
- the accounting treatment of the Discovery Bank's acquisition of the DiscoveryCard business and the acquisition of the additional 48% interest in Discovery Bank.
- the accounting treatment of the partial disposal of the interest in Cambridge Mobile Telematics (CMT) to the SoftBank Vision Fund.
- impairment testing of specified assets in accordance with IAS 36 *Impairment of Assets*.
- the findings contained in the JSE's "Report on proactive monitoring of financial statements 2018" of issuers listed on the JSE and the applicability of any such findings to Discovery Limited's Annual Financial Statements.

During the year the Committee conducted, with input from independent accounting and actuarial advisers, a review of certain aspects of Discovery's accounting policies relating to the life assurance entities in the Group. The Committee is satisfied that the policies comply with relevant standards and guidance including IFRS and local actuarial guidance. Two members of the Committee are members of Discovery's Group Actuarial Committee. The Committee is satisfied that the judgements made in setting and reviewing the long term actuarial assumptions used in the establishment of reserves and margins are reasonable.

INTERNAL FINANCIAL CONTROLS

The Committee is responsible for assessing Discovery's system of internal financial and accounting controls. In this regard the Committee 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 Committee 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.

INTERNAL AUDIT

The Committee reviewed and approved the Internal Audit Charter and the annual Internal Audit Plan, which have been prepared on a risk-based approach and updated in line with significant regulatory changes. In line with the Combined Assurance model, Internal Audit, together with other assurance providers and functions, provide assurance over the organisation's significant risks and material matters. The Audit Committee received an annual review and statement provided by Internal Audit confirming the effectiveness of Discovery's governance, risk management and control processes. The results of the annual internal effectiveness evaluation of the internal audit function found it to be both independent and effective in the discharge of its responsibilities. There are appropriate policies and processes in place to ensure the independence of the internal auditors. The performance of the Chief Audit Executive (CAE) was reviewed by the Committee and the Committee was satisfied with his performance and independence. In addition, the CAE in his role as Head of a Control Function was found to be fit and proper and his position functions independently of management. The Committee assessed the skills and adequacy of the internal audit team and found it satisfactory. An independent external assurance review is conducted at least every five years. The last such review was conducted in November 2016.

REPORT OF THE AUDIT COMMITTEE *continued*

for the year ended 30 June 2019

EVALUATION OF THE EXPERTISE AND EXPERIENCE OF THE FINANCE FUNCTION AND FINANCIAL DIRECTOR

The Committee 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.

WHISTLE BLOWING

The Committee receives and deals with any whistle blowing, 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 whistle blowing was received during the financial year.

ETHICS AND COMPLIANCE

The Committee 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 Committee by the Social and Ethics Committee. The Committee is satisfied that there has been no material breach of these standards or material non-compliance with laws and regulations. The Committee is satisfied that it has complied with all its legal, regulatory and other obligations during the period under review.

COMBINED ASSURANCE


The Committee has reviewed the combined assurance model which has been implemented throughout the Group. It has concluded that the model is appropriate and effective in addressing the risks facing Discovery.

Opinion

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

The Committee has reviewed the consolidated and separate financial statements of Discovery Limited for the year ended 30 June 2019 and, based on the information provided to the Committee, considers that Discovery complies, in all material respects, with the requirements of the Companies Act and International Financial Reporting Standards.

The Committee 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.



AL Owen

Chairman: Audit Committee

3 September 2019

INDEPENDENT AUDITOR'S REPORT

for the year ended 30 June 2019

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 2019, 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 (IFRSs) 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 19 to 167 and pages 181 to 185 comprise:

- the Group accounting policies;
- the Group and Company statements of financial position as at 30 June 2019;
- 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;
- the notes to the Group and Company financial statements;
- the Directorate; and
- Annexure A: Product descriptions.

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 sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively.

OUR AUDIT APPROACH

Overview

	Overall Group materiality R 396 million which represents 5% of the Group profit before tax.
	Group audit scope Our Group scoping included full scope audits based on financial significance, audit risks and statutory audit requirements for twenty seven components.
	Key audit matters <ul style="list-style-type: none"> ▪ Valuation of assets and liabilities arising from insurance contracts. ▪ Annual assessment of goodwill for impairment. ▪ Accounting for set up and acquisition of DiscoveryCard business by Discovery Bank Limited (Discovery Bank).

INDEPENDENT AUDITOR'S REPORT *continued*

for the year ended 30 June 2019

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	R396 million
How we determined it	5% of the Group profit before tax
Rationale for the materiality benchmark applied	We chose the Group profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. 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 seven operating segments comprising thirty one 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, Group audit risks 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 Group financial statements as a whole.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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 2019

Consolidated financial statements

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of assets and liabilities arising from insurance contracts</p> <p><i>Refer to Section 13 of the Group Accounting Policies and Notes 2, 4.2, 5 and 18 of the financial statements</i></p> <p>The valuation of assets and liabilities from insurance contracts of the Group was considered a matter of most significance to our audit as it involves complex and subjective judgement about future events, policyholder behaviour and economic conditions. Assumptions about these matters are made in determining the value of the policyholder assets and liabilities and changes to these may result in a material change to the valuation. The most significant factors in determining the value of the assets and liabilities from insurance contracts relate to:</p> <p><i>Impact of the Vitality programme on the valuation of assets and liabilities arising from insurance contracts:</i></p> <p>As for most life insurers, assumptions relating to mortality, morbidity and the level of lapses are significant in the determination of the value of policyholder liabilities and assets. The Group is unique in the South African market 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.</p> <p>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.</p> <p><i>Use of discretionary margins with respect to profit recognition:</i></p> <p>The life insurance operations sell profitable insurance products. Applying the reserving basis using only compulsory margins as required in terms of SAP 104, would result in an upfront profit being recognised at the inception of new business contracts.</p> <p>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 section 13 of the Group accounting policies.</p>	<p>Our actuarial experts performed, amongst others, the following procedures with respect to these balances:</p> <ul style="list-style-type: none"> ■ Considering the Group's actuarial control environment and governance such as the functioning of the Actuarial Committee (and subsidiary Actuarial Committees). ■ Inspecting the liability build-up control performed by management to explain the sources of profit and corroborating to relevant supportable information. ■ Challenging the appropriateness of all significant assumptions adopted by management, by comparing the assumptions to results of actuarial experience investigations conducted by management and benchmarking the assumptions to South African life insurance industry trends. We found management's assumptions to be reasonable. <p>We assessed the assumptions used by the Group in the valuation of the insurance contract assets and liabilities in terms of the Financial Soundness Valuation (FSV) basis as described in SAP 104 and the Group accounting policy as set out in section 13 of the Group accounting policies. In particular, we tested the assumptions used by the Group in setting the Vitality status distribution as well as the model which estimates the progression between statuses as well as data inputs into the model. We have assessed the reasonability of the Vitality status distribution and the progression used against actual experience in setting the assumption. We found management's assumptions to be reasonable.</p> <p>Our work focused, amongst others, on:</p> <ul style="list-style-type: none"> ■ Confirming whether all acquisition costs were captured in the determination of the discretionary margins at 30 June 2019 through comparison to the acquisition cost amounts in the income statement. ■ Re-performing management's reconciliation of the discretionary margin transfer required to match the acquisition costs incurred to ensure materially no upfront profit is recognised. We found that the net transfer for the year ended 30 June 2019 closely matched the level of acquisition costs incurred and that no material upfront profit had been recognised.

INDEPENDENT AUDITOR'S REPORT *continued*

for the year ended 30 June 2019

Key audit matter	How our audit addressed the key audit matter
<p>Annual assessment of Goodwill for impairment</p> <p><i>Refer to Section 6 of the Group Accounting Policies and Notes 4.1 and 10 of the financial statements</i></p> <p>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).</p> <p>The Group has a significant goodwill balance (R4.6 billion) in its Group Statement of financial position as at 30 June 2019 that arises from the following acquisitions:</p> <ul style="list-style-type: none"> ■ The historic 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 R2.2 billion at year-end; and ■ The acquisition of the DiscoveryCard business (Discovery Bank CGU) on 1 March 2019 resulting in goodwill of R2.4 billion being recognised. <p>The methodology and assumptions applied in determining the recoverable amounts of these CGUs are set out below:</p> <p>VITALITY HEALTH CGU AND VITALITY LIFE CGU</p> <p>The methodology and assumptions applied by the Group in determining the recoverable amounts of these CGUs are consistent with prior years with the most significant input relating 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.</p> <p>DISCOVERY BANK CGU</p> <p>In determining the recoverable amount of the Discovery Bank CGU management have 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.</p> <p>We considered management's annual impairment assessment 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 to the calculation of the recoverable amount used to assess the goodwill for impairment.</p>	<p>We obtained management's calculation of the recoverable amount of the CGUs and performed, amongst others, the following procedures:</p> <ul style="list-style-type: none"> ■ Considering if the methodology and source of information for the calculation is appropriate, noting no material exceptions; and ■ 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: <ul style="list-style-type: none"> - 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. 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. These were consistently applied and are considered reasonable; and - Our valuation experts assessed the discount rate for reasonableness by developing our own range of acceptable discount rates considering other similar entities or transactions. The discount rate used by management was found to be within the reasonable range of discount rates as determined by our valuation experts. ■ In respect of the Discovery Bank CGU: <ul style="list-style-type: none"> - We obtained an understanding of the assumptions used by management in the model; and - With the assistance of our valuation expertise, we assessed the significant inputs into the business model including the terminal growth rate. The inputs, including the terminal growth rate, used by management was found to be within the reasonable range of terminal growth rates as determined by our valuation experts.

INDEPENDENT AUDITOR'S REPORT *continued*

for the year ended 30 June 2019

Key audit matter	How our audit addressed the key audit matter
<p>Accounting for the acquisition of the DiscoveryCard business and non-controlling interest in Discovery Bank Limited</p> <p><i>Refer to Section 2 of the Group Accounting Policies and Notes 10.2 of the financial statements</i></p> <p>In the current financial year the Group obtained control over the DiscoveryCard business, as well as full ownership of Discovery Bank Limited.</p> <p><i>Accounting for the acquisition of the DiscoveryCard business</i> The Group acquired the remaining 25.01% economic interest that FirstRand Group (FirstRand) owned in the DiscoveryCard business. The acquisition was accounted for as a business combination in accordance with IFRS 3 <i>Business Combinations</i> (IFRS 3) as of 1 March 2019.</p> <p>In accounting for the business combination, management made specific judgements due to there being a series of transactions which were entered into in contemplation of each other and negotiated as a single package resulting in the Group obtaining control over the DiscoveryCard business.</p> <p><i>Acquisition of the non-controlling interest in Discovery Bank</i> The Group acquired FirstRand's 48% equity interest in Discovery Bank. The transaction was accounted for as a transaction with minority shareholders and treated as an equity transaction between the owners.</p> <p>We considered the accounting for the acquisition of the DiscoveryCard business and Discovery Bank to be a matter of most significance to our audit due to the following significant judgements applied by management in accounting for the transactions:</p> <ul style="list-style-type: none"> ■ Accounting for the series of transactions in which the Group acquired the DiscoveryCard business as a single transaction to effectively obtain control of the DiscoveryCard business; and ■ Accounting for the acquisition of the non-controlling interest separately from the business combination as an equity transaction between owners. 	<p>Our audit addressed this key audit matter as follows: We obtained an understanding of the various agreements governing the transactions described alongside.</p> <p>With regard to each transaction we performed the following:</p> <p><i>Accounting for the acquisition of the DiscoveryCard business</i></p> <ul style="list-style-type: none"> ■ We involved our accounting specialists in assessing the reasonableness of the date on which control was obtained and found this to be in accordance with the requirements of IFRS 10 <i>Consolidated Financial Statements</i> (IFRS 10). We determined this to be on 1 March 2019, which is the date on which FirstRand no longer had control over the relevant activities of the DiscoveryCard business. The date on which control was obtained is consistent with the date determined by management; ■ We evaluated the agreements and transactions as a whole to ascertain the nature of the transactions entered into. We concurred with management that these transactions are linked and should therefore be accounted for as a single transaction and that the transaction should be accounted for as a business combination in accordance with IFRS 3; ■ We utilised our valuations expertise to assess the reasonableness of the fair value of the underlying assets acquired in the business combination with reference to independent valuations, noting no material exceptions; and ■ We recalculated the profit of R761 million which arose from the fair value remeasurement of the Group's previously held interest (75% of the DiscoveryCard business) prior to obtaining control, noting no material exceptions. This formed part of the consideration transferred for this business combination in terms of IFRS 3. <p><i>Acquisition of the non-controlling interest in Discovery Bank</i> We concurred with management that the acquisition of 48% of the shareholding of Discovery Bank from FirstRand is a separate transaction with minorities of a subsidiary (Discovery Bank) with no loss of control and consequently the difference between the derecognised non-controlling interest and the fair value of the consideration paid is treated as an equity transaction between owners. As a consequence, a loss of R1.1 billion is recognised in Retained Earnings.</p>

Separate financial statements

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

INDEPENDENT AUDITOR'S REPORT *continued*

for the year ended 30 June 2019

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the document titled "Discovery Limited Annual Financial Statements for the year ended 30 June 2019", 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 Limited Integrated Annual Report 2019", 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 inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and / or Company to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT *continued*

for the year ended 30 June 2019

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, related safeguards.

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 19 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

Director: J Goncalves
Registered Auditor
Johannesburg
3 September 2019

DIRECTORS' REPORT

for the year ended 30 June 2019

The directors present their 20th annual report, which forms part of the consolidated and separate financial statements of Discovery Limited for the year ended 30 June 2019.

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
Discovery Insure Limited	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
◦ Health Protect Limited (deregistered September 2018)		
◦ 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		
◦ Vitality Life Limited	100%	UK
◦ Vitality Health Insurance Limited which holds the interest in:		
▪ Vitality Health 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

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

DIRECTORS' REPORT *continued*

for the year ended 30 June 2019

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 Class A
- Discovery Balanced Fund Class A
- Discovery Cautious Balanced Fund
- Discovery Conservative Dynamic Asset Optimiser Fund of Funds Class A
- Discovery Diversified Income Fund Class A
- Discovery Dynamic Equity Fund Class A (amalgamated into Discovery Equity Fund from 15 February 2019)
- Discovery Equity Fund Class A
- Discovery Flexible Property Fund Class A
- Discovery Global Balanced Fund of Funds Class A
- Discovery Global Equity Feeder Fund Class A
- Discovery Global Real Estate Securities Feeder Fund Class A
- Discovery Global Value Equity Feeder Fund Class A
- Discovery Moderate Balanced Fund Class A
- Discovery Moderate Dynamic Asset Optimiser Fund of Funds Class A
- Discovery Money Market Fund
- Discovery Target Retirement 2010 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 Class A

Review of results

Profit attributable to ordinary shareholders is R6 533 million, a 16% increase from profits of R5 652 million reported in the prior financial year. The profit for the year includes a gain on previously held interests in the DiscoveryCard business of R761 million and gains on dilution and disposal of equity-accounted investments of R844 million. Discovery also recognised deferred tax assets on assessed losses of R484 million and derecognised a reduction in deferred tax liabilities of R119 million, recognised in June 2018 as a result of timing differences on transition to the new 'adjusted IFRS' tax basis which became effective 1 July 2018. Unrealised losses on foreign exchange contracts not designated as hedges of R134 million also impacted the current year results. Normalised headline earnings, which excludes these items of income and other once-off items, decreased by 7% to R5 035 million.

Normalised operating profit per the segmental information, reflects the cash rental costs separately from the IFRS finance lease treatment, as individual business expenses and margins are managed on underlying cash rental costs incurred by each business. The IFRS results reflect finance costs and depreciation as required by IAS 17 *Leases*.

If normalised headline earnings were to be adjusted for the impact of the accounting treatment of the new head office lease, it would result in an increase of R202 million (2018: R150 million) in normalised headline earnings to R5 237 million (2018: R5 551 million) (decrease of 6% compared to the prior financial year). This adjustment would be calculated by replacing the depreciation of R210 million (2018: R126 million) and finance charges of R357 million (2018: R210 million) recognised in line with IFRS, with the actual market related rentals of R286 million (2018: R128 million), and adjusting for tax.

Share capital

The share capital of the Company at 30 June 2019 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	-

DIRECTORS' REPORT *continued*

for the year ended 30 June 2019

Dividends

DIVIDENDS PAID DURING THE CURRENT AND PRIOR FINANCIAL YEAR

B preference shares

Payment date	Nature and financial period	Dividend declared per share
11 March 2019	Interim dividend Financial year 2019	506.71233 cents (504.36986 cents net of dividend withholding tax)
17 September 2018	Final dividend Financial year 2018	501.91781 cents (401.53425 cents net of dividend withholding tax)
12 March 2018	Interim dividend Financial year 2018	518.15068 cents (414.52054 cents net of dividend withholding tax)

Ordinary shares

Payment date	Nature and financial period	Dividend declared per share
18 March 2019	Interim dividend Financial year 2019	101 cents (80.8 cents net of dividend withholding tax)
8 October 2018	Final dividend Financial year 2018	114 cents (91.2 cents net of dividend withholding tax)
19 March 2018	Interim dividend Financial year 2018	101 cents (80.8 cents net of dividend withholding tax)

FINAL DIVIDENDS DECLARATION IN RESPECT OF THE 2019 FINANCIAL YEAR

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

B preference share cash dividend declaration:

On 29 August 2019, the directors declared a final gross cash dividend of 508.28767 cents (406.63014 cents net of dividend withholding tax) per B preference share for the period 1 January 2019 to 30 June 2019, 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	Tuesday, 17 September 2019
Shares commence trading ex-dividend	Wednesday, 18 September 2019
Record date	Friday, 20 September 2019
Payment date	Monday, 23 September 2019

B preference share certificates may not be dematerialised or rematerialised between Wednesday, 18 September 2019 and Friday, 20 September 2019, both days inclusive.

Ordinary share cash dividend declaration:

On 3 September 2019, the directors declared a final gross cash dividend of 114 cents (91.2 cents net of dividend withholding tax) per ordinary share, out of income reserves for the year ended 30 June 2019. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

DIRECTORS' REPORT *continued*

for the year ended 30 June 2019

The issued ordinary share capital at the declaration date is 658 290 736 ordinary shares.

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Tuesday, 1 October 2019
Shares commence trading ex-dividend	Wednesday, 2 October 2019
Record date	Friday, 4 October 2019
Payment date	Monday, 7 October 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 2 October 2019 and Friday, 4 October 2019, both days inclusive.

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 Vitality Life are regulated under the European Solvency II regulatory regime, which was implemented from 1 January 2016.

	2019		2018	
	Statutory Capital Requirements	Cover	Statutory Capital Requirements	Cover
Discovery Life ¹	R17 396 million	1.6 times		
Discovery Insure ²	R789 million	1.7 times		
Vitality Health	GBP 97 million (R1 777 million)	1.4 times	GBP 87 million (R1 580 million)	1.4 times
Vitality Life	GBP 208 million (R3 810 million)	1.5 times	GBP 133 million (R2 414 million)	1.9 times

¹ Under the old regime, the statutory capital requirement was R866 million and was covered 3.5 times.

² Under the old regime, the statutory capital requirement was R630 million and was covered 2.0 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	Prescribed officers
A Gore	MI Hilkowitz (retired 28 February 2019)	Dr J Broomberg
HD Kallner	ME Tucker (appointed 1 March 2019)	K Rabson
NS Koopowitz	HL Bosman	
HP Mayers	Dr BA Brink	
Dr A Ntsaluba	SE De Bruyn	
A Pollard	R Enslin (resigned 19 June 2019)	
JM Robertson (retired 31 August 2018)	R Farber	
B Swartzberg	F Khanyile	
DM Viljoen	Dr TV Maphai	
	TT Mboweni (resigned 11 October 2018)	
	AL Owen	
	SV Zilwa	

Mr R Farber, Mr HL Bosman and Ms F Khanyile retire by rotation at the forthcoming Annual General Meeting of shareholders and are eligible and available for re-election.

Details of the directors' emoluments, participation in share incentive schemes and interests in the Company are reflected on pages 163 to 167.

DIRECTORS' REPORT *continued*

for the year ended 30 June 2019

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 44. There are no other significant events after the reporting date, being 30 June 2019, to the date of the approval of the Annual Financial Statements, namely, 3 September 2019.

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 ACCOUNTING POLICIES

for the year ended 30 June 2019

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 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*, as discussed in the basis of preparation below.

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.

Discovery has adopted IFRS 9 and IFRS 15 from 1 July 2018. Discovery has elected to defer the hedging requirements under IFRS 9 in line with the provisions of the standard.

As permitted by the transitional provisions of both IFRS 9 and IFRS 15, Discovery has not restated prior year comparative financial statements. Retrospective adjustments arising from the application of these standards are not included in the financial statement balances at 30 June 2018, but have been adjusted to the opening balances at 1 July 2018. Note 43 presents the required transitional disclosures required to understand the changes arising from the adoption of IFRS 9 and IFRS 15.

Discovery has considered the requirements of the interpretation, IFRIC 22 *Foreign Currency Transactions and Advance Consideration*, and has concluded that existing transactions are currently accounted on the basis clarified in the interpretation. 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.

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 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.
- During 2018, the IASB published a revised Conceptual Framework for Financial Reporting. This conceptual framework is not an accounting standard, rather it provides guidance and concepts to underpin the IASB's standard development process. This does not change any existing published accounting standard but could affect accounting policies developed by an entity where the IFRS do not stipulate accounting requirements. Discovery does not develop accounting policies with reference to the Conceptual Framework and thus does not anticipate any changes arising from the issuing of the Conceptual Framework for Financial Reporting.
- The IASB also released non-mandatory guidance on making materiality judgements (IFRS Practice Statement 2). Discovery has considered this guidance in making materiality judgements in its Annual Financial Statements.

GROUP ACCOUNTING POLICIES *continued*

for the year ended 30 June 2019

Title and Effective date	Scope	Potential impact
Standards and IFRICs		
<p>IFRS 16 <i>Leases</i></p> <p>Effective date 1 July 2019</p>	<p>The new standard requires lessees to recognise a lease liability and a 'right-of-use' asset for nearly all lease contracts. Lessor accounting has not substantially changed in the new standard.</p> <p>A lessee will measure the lease liabilities at the present value of future lease payments. The 'right-of-use' asset will initially be the same amount as lease liabilities, including costs directly related to entering into the lease. 'Right-of-use' assets will be amortised over the shorter period of the useful life or the end of the lease term.</p> <p>A lessee will not be required to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture).</p>	<p>Discovery currently has a cash flow commitment of R207 million in respect of land and buildings under operating leases (Refer to note 39.2). In terms of the new standard Discovery will be required to raise an asset and liability in respect of these leases in its Statement of financial position. In addition there will be a change in the timing of expense recognition in profit or loss, however there will be no overall impact over the lease term.</p> <p>Various processes have been put in place to determine all leases in the scope of the new standard and to accumulate and process the data necessary to perform the calculations of the lease liability and related right of use asset.</p> <p>Discovery will adopt the standard using the cumulative effect method where comparatives are not restated, but the cumulative impact of adopting the standard recognised in the opening balance at transition date. Discovery will also use the option to measure the right of use asset on a fully retrospective basis, with an adjustment to the opening balance on retained earnings in terms of the transitional provisions. This adjustment is not likely to be material.</p>
<p>IFRS 17 <i>Insurance Contracts</i></p> <p>Effective date: 1 July 2021 (1 July 2022 following due process)</p>	<p>IFRS 17 was issued in May 2017. 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. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.</p> <p>Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less.</p>	<p>The standard is expected to have a material impact on the recognition, measurement and presentation and disclosure for insurance contracts. The new standard will have significant impacts on underlying valuation models, systems, processes, internal controls and various other fundamental aspects of the insurance business.</p> <p>Discovery has established governance structures relating to the IFRS 17 project. The Audit Committee is ultimately responsible for the implementation of the accounting standard, with authority delegated to company CFO's and Chief actuaries. Discovery is in the process determining the transitional impact of the standard. Concurrently gaps in the current process and data are being identified.</p>
	<p>For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.</p>	

GROUP ACCOUNTING POLICIES *continued*

for the year ended 30 June 2019

Title and Effective date	Scope	Potential impact
<p>IFRIC 23: <i>Uncertainty over Income Tax Treatments</i></p> <p>Effective date: 1 July 2019</p>	<p>The IFRIC clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.</p> <p>An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. This includes where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates. The interpretation requires that the entity account for tax consequences based on the probability of the tax authority accepting the treatment. The effects of uncertainty are recognised using either the most likely amount or the expected value where there are a range of possible outcomes.</p>	<p>Discovery is assessing the extent of uncertain tax treatments which may be in scope of the new requirements.</p>
Amendments to issued standards		
<p>Definition of material – amendments to IAS 1 and IAS 8</p> <p>Effective date 1 July 2020</p>	<p>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.</p>	<p>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.</p>

GROUP ACCOUNTING POLICIES *continued*

for the year ended 30 June 2019

Title and Effective date	Scope	Potential impact
<p>Definition of a business – amendments to IFRS 3</p> <p>Effective date 1 July 2020</p>	<p>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 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.</p> <p>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.</p>	<p>The amendment will apply retrospectively to business acquired on or after 1 July 2020 and will therefore not impact completed transactions.</p>

2. CONSOLIDATION

The consolidated financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries, joint ventures and associates.

2.1 Business combinations

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a business is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, Discovery recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, being the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired, is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

2.2 Consolidation of entities in which the Group holds less than 50%

Discovery analysed its relationships with the Discovery Unit Trusts and has determined that it has significant power to direct the relevant activities of the funds, has sufficient exposure to the variable returns of the funds and the ability to use its power over the investee to affect its returns. This analysis concluded that Discovery has control of the Discovery Unit Trusts even if the economic interest is less than 50% and is therefore required to consolidate these funds.

Of the 27 (2018: 25) Discovery Unit Trusts consolidated at 30 June 2019 Discovery holds less than a 50% economic interest in 3 (2018: 4) of these funds. Refer to page 15 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.

GROUP ACCOUNTING POLICIES *continued*

for the year ended 30 June 2019

Investments in subsidiaries, in the separate financial statements of the Group's holding company, are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable cost of investment. 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 entitling it to 20% of board seats. These are equity accounted.

A joint venture is a joint arrangement whereby the parties have joint control of an arrangement and have rights to the net assets of the arrangement.

Discovery recognises its interest in an associate or a joint venture as an investment and accounts for that investment using the equity method. Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost. The carrying amount is adjusted to recognise Discovery's share of the post-acquisition profit or loss of the investee and is recognised in profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in Discovery's proportionate interest in the investee arising from changes in the investee's other comprehensive income. Such changes include those arising from foreign exchange translation differences. Discovery's share of those changes is recognised in other comprehensive income. Discovery will discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture.

Discovery discontinues equity accounting when the carrying amount of the investment in an associate or a joint venture reaches zero, unless it has incurred obligations, guaranteed obligations or made payments on behalf of the associate or the joint venture. Discovery resumes equity accounting only after its share of the profits equals the share of losses not recognised. Discovery increases the carrying amount of investments with its share of the associate's or joint venture's income when equity accounting is resumed.

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).

Investments in associates and joint ventures, in the separate financial statements of the Group's holding company, are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable cost of investment.

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.
- Qualifying cash flow hedges and qualifying net investment 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.

GROUP ACCOUNTING POLICIES *continued*

for the year ended 30 June 2019

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).
- All resulting exchange differences are recognised as a separate component of equity.

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.
- 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.

GROUP ACCOUNTING POLICIES *continued*

for the year ended 30 June 2019

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

5.2 Banking license

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.

5.3 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.

5.4 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.

5.5 Intangible assets identified in the acquisition of business combinations

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. 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.

7. FINANCIAL INSTRUMENTS

7.1 Financial assets – IFRS 9

The Group initially recognises financial instruments when it becomes party to the contract. 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. 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, and has not been elected for any instruments. Equity instruments are measured at FVTPL.

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.

GROUP ACCOUNTING POLICIES *continued*

for the year ended 30 June 2019

Financial instruments are classified on the basis of both the business model in which the instrument is held and its contractual cash flow characteristics.

Discovery determines its business models based on how groups of financial assets and liabilities are managed to achieve specific objectives. 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.

Despite the business model objectives, an entity can only hold an asset in a "to collect" business model and consequently measure the instrument at amortised cost where the cash flows from the instrument are solely the repayments of principal and interest.

	Classification requirements	Subsequent measurement
Amortised Cost (AC)	Financial instruments are classified at amortised cost where they are held in a business model whose objectives are achieved through the collection of cash flows and whose cash flow characteristics are solely payments of principal and interest. Instruments whose business model is the collection of contractual cash flows include cash and cash equivalents; fixed deposits with financial institutions; other receivables which are financial assets and banking loans and advances.	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)	Financial instruments which are held in a business model whose objectives are achieved through trading, or whose contractual cash flows are not solely payments of principal and interest, are classified at FVTPL. These instruments are considered as mandatorily classified at FVTPL. Instruments can also be designated at FVTPL where so designating eliminates or significantly reduces an accounting mismatch that would otherwise arise on measuring assets and liabilities on different bases. Discovery has various instrument types which are mandatorily classified at FVTPL including debt type instruments where there is significant trading activity.	These instruments are measured at fair value with gains and losses, interest and dividends recognised in profit or loss.

There are no financial assets that have been designated at fair value through profit or loss in the current reporting period. Financial assets that were designated as financial assets at fair value through profit or loss in terms of IAS 39, in the prior reporting period were those that are:

- Held in internal funds to match insurance contract liabilities that are linked to the changes in fair value of these assets. The designation of these assets at fair value through profit or loss eliminates or significantly reduces a measurement or recognition inconsistency which would arise on measuring financial assets and insurance and investment contract liabilities on different bases.
- These groups of assets and liabilities are also managed together and performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to Discovery's key management personnel.

No changes were introduced for the classification and measurement of financial liabilities, except for the recognition of changes in own credit risk, which is required to be recognised in other comprehensive income for liabilities designated at fair value through profit or loss with limited exceptions. Discovery has not reclassified any financial liabilities.

GROUP ACCOUNTING POLICIES *continued*

for the year ended 30 June 2019

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.

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.

7.2 Available-for-sale financial assets – For comparatives 1 July 2017 to 30 June 2018

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Available-for-sale financial assets are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition and are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in the Statement of other comprehensive income. When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in profit or loss as net realised gains/losses on available-for-sale financial assets and impairment on available-for-sale financial assets respectively.

Discovery recognises interest income and dividends received from these assets as part of investment income in profit or loss. Dividends are recognised when the entity's right to receive payment is established.

8. 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*.

8.1 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.

GROUP ACCOUNTING POLICIES *continued*

for the year ended 30 June 2019

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.

8.2 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.

8.3 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)
- For the effective portion recycled for hedges relation to interest rate risk, as part of finance costs.

9. EXPECTED CREDIT LOSSES AND IMPAIRMENT OF ASSETS

9.1 Financial assets carried at amortised cost

Expected credit losses are recognised on debt instruments measured at amortised cost, lease receivables, contracts assets with non-insurance customers and financial guarantee contracts. For Discovery the expected credit loss model is applicable to debt instruments disclosed as Investments at amortised cost, which includes treasury bills, banking loans and advances and fixed deposits; other receivables which are financial assets; contract assets from 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. There is assumed to be an increase in credit risk where a financial instrument is more than 30 days past due. A financial instrument is considered to be in default when it is more than 90 days past due.

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. 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 assets carried at amortised cost and Available-for-sale investments – For comparatives 1 July 2017 to 30 June 2018

Financial assets carried at amortised cost

Discovery assesses at each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is objective evidence that an impairment loss has been incurred the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss.

GROUP ACCOUNTING POLICIES *continued*

for the year ended 30 June 2019

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

Available-for-sale investments

Discovery assesses at the end of each reporting period whether there is objective evidence that an available-for-sale financial asset is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not subsequently reversed.

Discovery has taken the view that a 30% decline in the fair value of an investment in an equity instrument below cost would be classified as significant and a period of nine months or more would be a prolonged decline.

For debt securities, if any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

9.3 Impairment of other 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.

10. OFFSETTING FINANCIAL INSTRUMENTS

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 the company or the counterparty.

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

- Cash in hand.
- Deposits held at call and short notice.
- 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.

GROUP ACCOUNTING POLICIES *continued*

for the year ended 30 June 2019

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 the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to the Company's equity holders, net of any directly attributable incremental transaction costs and the related income tax effects.

13. INSURANCE CONTRACTS

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. Discovery defines significant insurance risk as the possibility of having to pay benefits, on the occurrence of an insured event, that are significantly more than the benefits payable if the insured event did not occur.

Discovery developed its accounting policies for insurance contracts before the adoption of IFRS 4. As provided for in IFRS 4, Discovery continues to apply these same accounting policies for the recognition and measurement of obligations arising from insurance contracts that it issues and reinsurance contracts that it holds.

13.1 Recognition and measurement

Insurance contracts are classified into four main categories, depending on the duration of the risk and the type of risk insured.

13.1.1 Individual life insurance

These contracts insure against a comprehensive spectrum of risks, including life, disability, severe illness and income continuation cover. These contracts are long-term in nature.

VALUATION OF POLICYHOLDER LIABILITIES

For the published accounts, the actuarial value of policyholder liabilities is determined based on a prospective discounted cash flow valuation basis calculated as the difference between the present value of future benefit payments plus expenses and the present value of future premiums. Best estimate assumptions regarding the future expected claims experience, premium income, expenses and commission are used. Where the same policy includes both insurance and investment components and where the policy is classified as an insurance policy, the liability for the insurance benefits and investment benefits are separately calculated. These components of the liability are not unbundled for reporting purposes. (Refer to accounting policy 14 for the recognition and measurement of investment benefit liabilities).

Where the value of policyholder liabilities is negative in aggregate, this is shown as assets arising from insurance contracts.

Applying the valuation basis using the best estimate assumptions described above, would result in a gain at initial recognition. Compulsory and discretionary margins are therefore added to the best estimate assumption to avoid the premature recognition of future profits. At initial recognition, profits are recognised to the extent of the actual acquisition costs incurred but considering the premium loadings available on the total portfolio to recoup acquisition costs.

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.

GROUP ACCOUNTING POLICIES *continued*

for the year ended 30 June 2019

Contractual premium and benefit increases are included in the valuation of the policyholder liability. It is further assumed that no voluntary benefits are taken up where a future take-up of these benefits would reduce the liability. This is in line with South African actuarial guidance which requires that expected profits in respect of future options that may be taken up by policyholders should not be recognised in the policyholder liability.

The actuarial liabilities are calculated gross of reinsurance. The expected impact of reinsurance is valued separately.

The valuation basis meets the requirement of the liability adequacy test as required by IFRS 4 for individual life insurance and no additional tests are performed.

The liability estimates are reviewed at every reporting period and any changes in estimates to the liability are reflected in profit or loss as they occur.

PREMIUM REVENUE

For individual life insurance contracts, premiums are recognised as revenue when due. Premiums are shown net of premium discounts received 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 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.

GROUP ACCOUNTING POLICIES *continued*

for the year ended 30 June 2019

13.1.3 Health insurance

These contracts insure policyholders against healthcare-related claims.

PREMIUM REVENUE

Health insurance premiums received in respect of annual contracts are recognised proportionally over the period of the coverage. The portion of the premium received on in-force contracts that relates to unexpired risks at the reporting period is reported as unearned premiums within liabilities arising from insurance contracts. The unearned premium income is amortised on a straight-line basis.

INSURANCE BENEFITS AND CLAIMS

Benefits payable under health insurance contracts are accounted for as incurred. Liabilities are held to reflect IBNR claims. The IBNR calculation is performed using the chain ladder approach. This allows for the historic patterns of claims payment in determining the likely future emergence of claims. The IBNR is further modified to reflect current operational conditions or known events. The liabilities are calculated gross of reinsurance. An asset is then raised to allow for the expected recovery from reinsurers.

DEFERRED ACQUISITION COSTS

The direct costs (commissions) of acquiring short-term health insurance business which are incurred during the year, but which are expected to be recoverable out of future revenue margins, are deferred and disclosed as an asset in the Statement of financial position (gross of tax). The costs are deferred over the period of the contract and amortised on a straight-line basis in line with unearned premiums.

FINANCIAL REINSURANCE

Where a financial reinsurance contract is taken out to protect against lapses, all acquisition costs related to the policy are effectively deferred over the period of the reinsurance contract.

13.1.4 Short-term insurance

These monthly contracts insure policyholders against a comprehensive spectrum of short-term risks including, but not limited to, motor vehicle and household cover.

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.

GROUP ACCOUNTING POLICIES *continued*

for the year ended 30 June 2019

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.

EXCESS FUNDER ACCOUNT (EFA)

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 EFA.

Where the policyholder has used the fuel cash back to reduce the monthly premium, the reduction has been shown in insurance premium revenue in profit or loss as incurred.

If the policyholder has elected to double the fuel cash back and paid it into an 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 the Company 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 following the same method used for financial assets.

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.
- 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.

GROUP ACCOUNTING POLICIES *continued*

for the year ended 30 June 2019

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 variable.

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) and are designated at inception as 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.

GROUP ACCOUNTING POLICIES *continued*

for the year ended 30 June 2019

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 as a finance lease, effect of straight-lining of operating leases, revaluation of certain financial assets and liabilities, provisions for leave pay, provisions for share-based payments and tax losses carried forward. However, the 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 fair value re-measurement of available-for-sale investments (relating to the prior reporting period) and 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.

GROUP ACCOUNTING POLICIES *continued*

for the year ended 30 June 2019

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 options, 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 health and asset administration business and Vitality 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 Discovery Group, most contracts contained a single performance obligation.

GROUP ACCOUNTING POLICIES *continued*

for the year ended 30 June 2019

The timing of revenue recognition is dependent on whether the entity transfers control over the good or service over time or at a point in time. In determining the appropriate timing for revenue recognition, the Group considers whether the customer benefits as the entity performs. For most revenue types, Group entities provide stand ready services to customers, where customers benefit as the entities services are consumed. In limited instances where revenue is not recognised over time it is recognised at a point in time when control transfers. For revenue recognised over time the stand ready service is recognised straight line over the term of the contract.

In determining the amount of revenue to recognise, the Group considers any uncertainty created through variable consideration contained in the contract, and constrains the recognition of revenue in order to recognise revenue only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty is resolved. The Group also considers the impact of the timing of receiving payments for revenue transactions and determines whether a significant financing component should be taken into account in the measurement of the transaction price. As the Group's contracts routinely include single performance obligations, there is limited complexity in allocating transaction prices to performance obligations.

Payment terms vary across the different revenue types earned by the Group.

Where contracts with customers involve a third party, the Group considers whether it is acting as the principal or the agent in the delivery of the promised goods or services to the customer. This assessment is based on whether the Group controls the good or service 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.

Discovery considers whether there are cost incurred in the acquisition of 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.

	Fee income on administration business	Vitality income
Nature of performance obligations	Fee income is recognised on health administration and managed care services rendered. Fee income is also generated on asset administration. 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 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 program and partner benefits provided to members..
When does control pass Point In Time (PIT) vs over time	Performance obligations to provide administration services are considered stand ready services, the customer obtains control over the service as the entity makes its services available on an "as and when" basis. As a result revenue is recognised over time, as the respective entity makes the services available, based on the passage of time.	Performance obligations to provide access to benefits are considered stand ready services as the customer obtains benefits over the duration of the contract and when required by the customer. As a result revenue is recognised over time based on the passage of time.
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 from 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.

GROUP ACCOUNTING POLICIES *continued*

for the year ended 30 June 2019

	Fee income on administration business	Vitality income
Variable consideration and estimates	<p>There is no potential for amounts of revenue to vary relating to discounts or rebates on health administration business.</p> <p>For asset administration business, fees are determined with reference to assets under management at a point in time. There are no benchmark performance based fees. The nature of the integrated products that Discovery sells related to the invest business allows for fee discounts and rebates to be determined based on client behaviour.</p> <p>Revenue is estimated and recognised in line with the constraint on variable consideration, only to the extent that it is highly probable that there will not be a significant reversal of revenue already recognised once the uncertainty is resolved.</p> <p>The fee discounts and rebates are determined according to a fixed methodology incorporating policyholder specific information including Vitality status, Discovery has experience in estimating these amounts, which are based on a limited number of outcomes. There is no financing component.</p>	<p>There are no adjustments to the transaction price as a result of any variable consideration. There is no significant financing component.</p>
Costs to capitalise	<p>Where costs are incurred directly to secure a new health administration customer, and the contract is expected to exceed 12 months, the costs are capitalised and amortised over the expected term of the contract. Costs are routinely incurred on asset administration business related to commission and other incremental costs of entering into the contract. These are capitalised and recognised over the expected duration of the customer relationship. These assets are tested for impairment to the extent that the carrying amount of the asset exceeds the expected remaining net cash inflows from the customer contract.</p>	<p>In respect of the Apple watch benefit, Discovery incurs costs upfront to purchase the device and provide it to the customer. These costs are deferred and recognised over the 2 year term of the benefit.</p>

Insurance premium revenue

Insurance premium revenue includes individual life insurance premiums, group life insurance premiums, health insurance premiums and short-term insurance premiums. These are accounted for as described in accounting policy 13.

21. OTHER NON-REVENUE INCOME

21.1 Investment income

Investment income comprises interest and dividends received on available-for-sale investments (relating to the prior reporting period), 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 realised gains on available-for-sale financial assets – For comparatives 1 July 2017 to 30 June 2018

Net realised gains comprise realised gains and losses on available-for-sale financial assets. The accumulated fair value gains and losses recognised in the Statement of other comprehensive income are accounted for on disposal of the investment in profit or loss as net realised gains and losses.

21.3 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.

GROUP ACCOUNTING POLICIES *continued*

for the year ended 30 June 2019

22. LEASES

22.1 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.

22.2 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 program. 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.

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.

GROUP ACCOUNTING POLICIES *continued*

for the year ended 30 June 2019

27. SEGMENT REPORTING

Discovery's operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers (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.
- (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.

GROUP STATEMENT OF FINANCIAL POSITION

at 30 June 2019

R million	Notes	Group 2019	Group 2018
Assets			
Assets arising from insurance contracts	5	48 781	43 625
Property and equipment	6	4 212	4 272
Intangible assets	7	5 597	5 491
Deferred acquisition costs	8	536	1 150
Assets arising from contracts with customers	9	752	-
Goodwill	10	4 642	2 247
Investment in equity-accounted investees	11	1 950	1 159
Financial assets			
- Available-for-sale investments	12	-	7 547
- Investments at amortised cost	12	1 943	-
- Investments at fair value through profit or loss	12	90 205	71 246
- Derivative financial instrument	13	375	494
Insurance receivables, contract receivables and other receivables	14	9 015	7 543
Deferred income tax asset	23	2 372	1 968
Current income tax asset		136	38
Reinsurance contracts	15	314	308
Cash and cash equivalents	16	9 403	10 894
Total assets		180 233	157 982
Equity			
Capital and reserves			
Ordinary share capital and share premium	17.1	10 142	8 308
Perpetual preference share capital	17.2	779	779
Other reserves		452	1 280
Retained earnings		31 710	27 227
Non-controlling interest		*	*
Total equity		43 083	37 594
Liabilities			
Liabilities arising from insurance contracts	18	70 522	61 488
Liabilities arising from reinsurance contracts	19	10 835	8 918
Financial liabilities			
- Borrowings at amortised cost	20	14 682	14 079
- Investment contracts at fair value through profit or loss	21	20 674	17 927
- Derivative financial instrument	13	509	78
- Trade and other payables	22	10 262	9 043
Deferred income tax liability	23	8 697	8 007
Deferred revenue	24	-	324
Contract liabilities to customers	9	433	-
Employee benefits	25	260	232
Current income tax liability		276	292
Total liabilities		137 150	120 388
Total equity and liabilities		180 233	157 982

* Amount is less than R500 000.

GROUP INCOME STATEMENT

for the year ended 30 June 2019

R million	Notes	Group 2019	Group 2018
Insurance premium revenue		43 036	36 685
Reinsurance premiums		(5 595)	(4 356)
Net insurance premium revenue	26	37 441	32 329
Fee income from administration business		10 404	9 252
Vitality income		3 653	4 491
Other income		1 063	-
Investment income using the effective interest rate method	27	398	895
- investment income earned on shareholder investments and cash		190	209
- investment income earned on assets backing policyholder liabilities		208	686
Bank interest and similar income using the effective interest rate		29	-
Net realised gains on available-for-sale financial assets	28	-	10
Net fair value gains on financial assets at fair value through profit or loss	29	4 265	5 823
Net income		57 253	52 800
Claims and policyholders' benefits		(24 538)	(20 714)
Insurance claims recovered from reinsurers		3 659	2 735
Net claims and policyholders' benefits	30	(20 879)	(17 979)
Acquisition costs	31	(6 100)	(5 594)
Marketing and administration expenses	32	(19 954)	(17 219)
Amortisation of intangibles from business combinations		(99)	(123)
Recovery of expenses from reinsurers		2 830	2 542
Transfer from assets/liabilities under insurance contracts		(4 706)	(4 859)
- change in assets arising from insurance contracts		5 321	5 141
- change in assets arising from reinsurance contracts		7	36
- change in liabilities arising from insurance contracts		(8 050)	(8 088)
- change in liabilities arising from reinsurance contracts	19	(1 984)	(1 948)
Fair value adjustment to liabilities under investment contracts	21	(809)	(1 308)
Profit from operations		7 536	8 260
Finance costs	34	(1 375)	(959)
Foreign exchange losses	35	*	(4)
Gain on dilution and disposal of equity-accounted investments	11	844	-
Gain on previously held interests in the DiscoveryCard business	10.2	761	-
Impairment of goodwill	10.1	(17)	-
Share of net profits from equity-accounted investments	11	170	115
Profit before tax		7 919	7 412
Income tax expense ¹	36	(1 305)	(1 677)
Profit for the year		6 614	5 735
Profit attributable to:			
- ordinary shareholders		6 533	5 652
- preference shareholders		81	83
- non-controlling interest		*	*
		6 614	5 735
Earnings per share for profit attributable to ordinary shareholders of the Company during the year (cents):	37		
- basic		1 001.5	876.1
- diluted		1 001.1	875.6

* Amount is less than R500 000.

¹ The 'Income tax expense' includes both policyholder and shareholder taxation. This therefore distorts the effective tax charge relative to profit before tax.

GROUP STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2019

R million	Group 2019	Group 2018
Profit for the year	6 614	5 735
Items that are or may be reclassified subsequently to profit or loss:		
Change in available-for-sale financial assets	-	37
- unrealised gains	-	64
- capital gains tax on unrealised gains	-	(19)
- realised gains transferred to profit or loss	-	(10)
- capital gains tax on realised gains	-	2
Currency translation differences	(140)	840
- unrealised (losses)/gains	(142)	856
- tax on unrealised losses/gains	2	(16)
Cash flow hedges	(175)	2
- unrealised (losses)/gains	(91)	200
- tax on unrealised gains/losses	(7)	(32)
- gains reclassified to profit or loss	(98)	(188)
- tax on reclassified gains	21	22
Share of other comprehensive income from equity-accounted investments	(19)	42
- change in available-for-sale financial assets	-	(9)
- currency translation differences	(19)	51
Other comprehensive income for the year, net of tax	(334)	921
Total comprehensive income for the year	6 280	6 656
Attributable to:		
- ordinary shareholders	6 199	6 573
- preference shareholders	81	83
- non-controlling interest	*	*
Total comprehensive income for the year	6 280	6 656

* Amount is less than R500 000.

GROUP STATEMENT OF CASH FLOWS

for the year ended 30 June 2019

R million	Notes	Group 2019	Group 2018
Cash flow from operating activities		1 738	3 414
Cash generated by operations	38.1	12 779	11 125
Purchase of investments held to back policyholder liabilities		(35 109)	(24 217)
Proceeds from disposal of investments held to back policyholder liabilities		23 831	16 179
Dividends received		1 501	3 087
Interest received		339	252
Interest paid		(1 219)	(759)
Taxation paid	38.2	(1 157)	(1 228)
Cash flow from investing activities		(2 844)	(2 433)
Purchase of financial assets		(21 725)	(23 631)
Proceeds from disposal of financial assets		21 831	23 621
Purchase of property and equipment		(510)	(470)
Proceeds from disposal of property and equipment		95	7
Purchase of intangible assets		(1 999)	(1 940)
Proceeds from disposal of intangible assets		22	-
Proceeds from disposal of equity-accounted investments		402	-
Additional investment in equity-accounted investments		(224)	(20)
Acquisition of business net of cash		(736)	-
Cash flow from financing activities		(344)	609
Proceeds from issuance of ordinary shares	38.3	1 854	-
Share issue costs	38.3	(19)	-
Acquisition of additional interest in subsidiary		(1 104)	-
Dividends paid to ordinary shareholders		(1 400)	(1 284)
Dividends paid to preference shareholders		(81)	(83)
Proceeds from borrowings	38.4	2 147	2 654
Repayment of borrowings	38.4	(1 741)	(678)
Net (decrease)/increase in cash and cash equivalents		(1 450)	1 590
Cash and cash equivalents at beginning of the year		10 888	9 097
Exchange (losses)/gains on cash and cash equivalents		(35)	201
Cash and cash equivalents at end of the year	16	9 403	10 888
Reconciliation to Statement of financial position			
Cash and cash equivalents		9 403	10 894
Overdrafts with banks included in borrowings at amortised cost		-	(6)
Cash and cash equivalents at end of the year		9 403	10 888

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2019

	Attributable to equity holders of the Company				Attributable to equity holders of the Company				Non-controlling interest	Total
	Share capital and share premium	Preference share capital	Share-based payment reserve	Available-for-sale investments ¹	Foreign currency translation reserve	Hedging reserve	Retained earnings	Total		
R million										
Year ended 30 June 2018										
At beginning of the year	8 306	779	314	180	(147)	(1)	22 859	32 290	*	32 290
Total comprehensive income for the year	-	83	-	28	891	2	5 652	6 656	*	6 656
Profit for the year	-	83	-	-	-	-	5 652	5 735	*	5 735
Other comprehensive income	-	-	-	28	891	2	-	921	-	921
Transactions with owners	2	(83)	13	-	-	-	(1 284)	(1 352)	-	(1 352)
Delivery treasury shares	2	-	-	-	-	-	-	2	-	2
Employee share option schemes	-	-	-	-	-	-	-	-	-	-
- Value of employee services	-	-	13	-	-	-	-	13	-	13
Dividends paid to preference shareholders	-	(83)	-	-	-	-	-	(83)	-	(83)
Dividends paid to ordinary shareholders	-	-	-	-	-	-	(1 284)	(1 284)	-	(1 284)
At end of the year	8 308	779	327	208	744	1	27 227	37 594	*	37 594
Year ended 30 June 2019										
At beginning of the year	8 308	779	327	208	744	1	27 227	37 594	*	37 594
IFRS transitional adjustments	-	-	-	(208)	-	-	131	(77)	-	(77)
IFRS transitional adjustments (tax impact)	-	-	-	-	-	-	4	4	-	4
Adjusted balance 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
Proceeds from treasury shares	-	-	-	-	-	-	-	-	-	-
Share buy-back	-	-	-	-	-	-	-	-	-	-
Employee share option schemes:										
- Value of employee services	-	-	33	-	-	-	-	33	-	33
Transfer of vested equity-settled share schemes	-	-	(319)	-	-	-	319	-	-	-
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

¹ This relates to the fair value adjustment of available-for-sale financial assets.

* Amount is less than R500 000.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2019

1. Segment information

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) **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.
- (vi) **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.
- (vii) **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:
 - SA Insure: provides motor vehicle, household, commercial and other short-term risk insurance products to the South African market.
 - SA Bank: includes start-up costs being incurred towards the launch of a bank in 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.

The Chief Executive Officers assess the performance of the reportable segments based on normalised profit/loss from operations. This measurement basis excludes the effects of business combinations, realised investment income and gains on financial assets at fair value through profit or loss and finance costs. Investment income and expenditure attributable to equity holders, and foreign exchange gains and losses (excluding foreign exchange gains and losses relating to operating profit or operating asset transactions) are not allocated to the segments as this type of activity is primarily driven by the Group treasury function which manages the cash position of the Group. Internal charges and transfer pricing adjustments are reflected in the performance of each business.

The segment information is presented on the same basis as reported to the Chief Executive Officers of the reportable segments. 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.
- (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.

Change in presentation

At each reporting date, Discovery must review whether the segments being disclosed still comply with IFRS 8 *Segment reporting*. There has been no changes to the reportable segments in the current financial year. Items disclosed in the various revenue line items have been reallocated to align with performance obligations in terms of IFRS 15. As a result, the prior year figures presented in the segmental report have been restated to include such adjustments. In order to achieve comparability with previously reported figures, these adjustments are being reversed in the 'IFRS 15 adjustments' column.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

1. Segment information *continued*

R million	SA Health	SA Life	SA Invest	SA Vitality	UK Health	UK Life	All other segments	Segment total	IFRS reporting adjustments			IFRS total
									UK Life	DUT	Disclosure adjustments	
30 June 2019												
Income statement												
Insurance premium revenue	167	12 131	14 267	-	8 429	4 750	3 959	43 703	(667)	-	-	43 036
Reinsurance premiums	(1)	(2 410)	-	-	(1 393)	(2 177)	(281)	(6 262)	667	-	-	(5 595)
Net insurance premium revenue	166	9 721	14 267	-	7 036	2 573	3 678	37 441	-	-	-	37 441
Fee income from administration business	6 815	-	2 050	-	15	-	1 542	10 422	-	-	(18)	10 404
Vitality income	-	-	-	2 329	501	157	666	3 653	-	-	-	3 653
Other income	782	42	-	-	39	-	222	1 085	-	-	(22)	1 063
Investment income earned on assets backing policyholder liabilities	-	14	1	-	10	42	141	208	-	-	-	208
Finance charge on negative reserve funding	-	-	-	-	-	-	29	29	-	-	-	29
Inter-segment funding ¹	-	(754)	754	-	-	(243)	-	(243)	243	-	-	-
Net fair value gains on financial assets at fair value through profit or loss	7	1 056	1 849	-	40	211	33	3 196	-	1 036	33	4 265
Net income	7 770	10 079	18 921	2 329	7 641	2 740	6 311	55 791	243	1 036	(7)	57 063
Claims and policyholders' benefits	(65)	(8 205)	(8 989)	-	(4 613)	(1 133)	(1 933)	(24 938)	400	-	-	(24 538)
Insurance claims recovered from reinsurers	1	2 168	-	-	1 088	620	182	4 059	(400)	-	-	3 659
Net claims and policyholders' benefits	(64)	(6 037)	(8 989)	-	(3 525)	(513)	(1 751)	(20 879)	-	-	-	(20 879)
Acquisition costs	(6)	(1 705)	(1 138)	(87)	(732)	(1 888)	(301)	(5 857)	(243)	-	-	(6 100)
Marketing and administration expenses												
- depreciation and amortisation	(223)	(4)	(4)	(8)	(251)	(34)	(520)	(1 044)	-	-	(210)	(1 254)
- impairment of intangible assets	(4)	-	-	(5)	-	-	(23)	(32)	-	-	-	(32)
- other expenses	(4 423)	(1 876)	(904)	(2 169)	(3 148)	(2 060)	(4 025)	(18 605)	(64)	(253)	254	(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	-	-	(8)	10	(5)	7	-	-	-	7
- change in liabilities arising from insurance contracts	(9)	(251)	(6 837)	-	(33)	(17)	(738)	(7 885)	-	(16)	(149)	(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)	-	(767)	44	(809)
Share of net profits from equity-accounted investments	3	-	-	-	-	-	167	170	-	-	-	170
Normalised profit/(loss) from operations	3 044	3 230	966	60	758	578	(889)	7 747	(64)	-	(68)	7 615
Investment income earned on shareholder investments and cash	57	8	35	42	1	14	33	190	-	-	-	190
Net fair value gains/(losses) on financial assets at fair value through profit or loss	-	224	(9)	-	-	-	(144)	71	-	-	(71)	-
Gains from dilution and disposal of equity accounted investments	-	-	-	-	-	-	823	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	(10)	(2)	-	-	-	(3)	(1 020)	(1 035)	-	-	(340)	(1 375)
Foreign exchange gains/(losses)	1	-	6	-	-	-	(7)	-	-	-	-	-
Profit before tax	3 092	3 460	998	102	759	561	(840)	8 132	(64)	-	(149)	7 919
Income tax expense	(741)	(880)	(280)	(29)	(38)	(138)	588	(1 518)	64	-	149	(1 305)
Profit for the year	2 351	2 580	718	73	721	423	(252)	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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

1. Segment information *continued*

R million					IFRS reporting adjustments								
	SA Health	SA Life Restated ²	SA Invest	SA Vitality Restated ³	UK Health	UK Life	All other segments	Segment total	UK Life ³	Disclosure DUT ⁴	adjustments ⁵	IFRS 15 adjustments ⁶	IFRS total
30 June 2018													
Income statement													
Insurance premium revenue	30	11 103	12 056	-	7 471	4 031	2 665	37 356	(671)	-	-	-	36 685
Reinsurance premiums	(2)	(2 141)	-	-	(1 165)	(1 559)	(160)	(5 027)	671	-	-	-	(4 356)
Net insurance premium revenue	28	8 962	12 056	-	6 306	2 472	2 505	32 329	-	-	-	-	32 329
Fee income from administration business	6 416	-	1 875	-	30	-	1 090	9 411	-	-	4	(163)	9 252
Vitality income	-	-	-	2 214	444	91	697	3 446	-	-	-	1 045	4 491
Other income	495	31	-	-	-	-	247	773	-	-	-	(773)	-
Investment income earned on assets backing policyholder liabilities	-	400	44	-	11	18	141	614	-	-	72	-	686
Finance charge on negative reserve funding	-	-	-	-	-	(160)	-	(160)	160	-	-	-	-
Inter-segment funding ¹	-	(708)	708	-	-	-	-	-	-	-	-	-	-
Net fair value gains/(losses) on financial assets at fair value through profit or loss	2	375	3 741	-	(1)	92	18	4 227	-	1 312	284	-	5 823
Net income	6 941	9 060	18 424	2 214	6 790	2 513	4 698	50 640	160	1 312	360	109	52 581
Claims and policyholders' benefits	(2)	(6 943)	(7 375)	-	(4 029)	(997)	(1 590)	(20 936)	447	(225)	-	-	(20 714)
Insurance claims recovered from reinsurers	1	1 534	-	-	938	584	125	3 182	(447)	-	-	-	2 735
Net claims and policyholders' benefits	(1)	(5 409)	(7 375)	-	(3 091)	(413)	(1 465)	(17 754)	-	(225)	-	-	(17 979)
Acquisition costs	(3)	(1 606)	(1 046)	(76)	(536)	(1 887)	(280)	(5 434)	(160)	-	-	-	(5 594)
Marketing and administration expenses													
- depreciation and amortisation	(305)	(8)	-	(3)	(238)	(18)	(242)	(814)	-	-	(126)	-	(940)
- impairment of intangible assets	(7)	-	-	-	(193)	-	-	(200)	-	-	-	-	(200)
- other expenses	(3 855)	(1 639)	(808)	(2 077)	(2 849)	(1 620)	(3 163)	(16 011)	(27)	-	68	(109)	(16 079)
Recovery of expenses from reinsurers	-	-	-	-	625	1 917	-	2 542	-	-	-	-	2 542
Transfer from assets/liabilities under insurance contracts													
- change in assets arising from insurance contracts	-	3 405	-	-	-	2 855	-	6 260	(1 119)	-	-	-	5 141
- change in assets arising from reinsurance contracts	-	25	-	-	5	6	(1)	35	1	-	-	-	36
- change in liabilities arising from insurance contracts	(1)	(35)	(8 031)	-	76	(10)	(49)	(8 050)	(1)	(21)	(16)	-	(8 088)
- change in liabilities arising from reinsurance contracts	-	(239)	-	-	-	(2 828)	-	(3 067)	1 119	-	-	-	(1 948)
Fair value adjustment to liabilities under investment contracts	-	(3)	(279)	-	-	-	-	(282)	-	(1 066)	40	-	(1 308)
Share of net profits from equity-accounted investments	8	-	-	-	-	-	107	115	-	-	-	-	115
Normalised profit/(loss) from operations	2 777	3 551	885	58	589	515	(395)	7 980	(27)	-	326	-	8 279
Investment income earned on shareholder investments and cash	66	111	26	30	1	6	41	281	-	-	(72)	-	209
Net realised gains on available-for-sale financial assets	-	6	1	-	-	-	3	10	-	-	-	-	10
Net fair value gains on financial assets at fair value through profit or loss	-	214	-	-	-	-	110	324	-	-	(324)	-	-
Initial expenses related to Prudential Book transfer	-	-	-	-	-	(2)	-	(2)	-	-	2	-	-
Amortisation of intangibles from business combinations	-	-	-	-	-	-	(123)	(123)	-	-	-	-	(123)
Market rentals related to Head Office building adjusted for finance costs	-	-	-	-	-	-	(208)	(208)	-	-	208	-	-
Finance costs	(41)	(9)	-	-	(1)	(2)	(713)	(766)	-	-	(193)	-	(959)
Foreign exchange gains/(losses)	(3)	-	(9)	-	-	(3)	11	(4)	-	-	-	-	(4)
Profit before tax	2 799	3 873	903	88	589	514	(1 274)	7 492	(27)	-	(53)	-	7 412
Income tax expense	(718)	(929)	(253)	(25)	(13)	(85)	303	(1 720)	27	-	16	-	(1 677)
Profit for the year	2 081	2 944	650	63	576	429	(971)	5 772	-	-	(37)	-	5 735

¹ The inter-segment funding of R708 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 With the introduction of the Insurance Act 18 of 2017, on 1 July 2018, the risk reserve is no longer required to be fully backed by tangible assets and hence some assets that previously backed positive risk reserves were released into shareholder funds. Investment income on these investments have been restated to include risk reserve interest of R286 million below operating profit, to afford better comparability. This has been presented as R72 million in 'Investment income earned on shareholder investments and cash' and R214 million of 'Net fair value gains on financial assets at fair value through profit or loss' below operating profit.

³ The contractual arrangement, for business written on Prudential Assurance Company's (PAC's) life insurance license (up to 31 December 2015), is reclassified as a reinsurance contract under IFRS 4.

⁴ 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.

⁵ The effects of eliminating intercompany transactions on consolidation and normalised operating profit adjustments.

⁶ Items disclosed in the various revenue line items have been reallocated to align with performance obligations in terms of IFRS 15. As a result, the prior year figures presented in the segmental report have been restated to include such adjustments. In order to achieve comparability with previously reported figures these adjustments are being reversed in the 'IFRS 15 adjustments' column.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

2. Management of insurance risk

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.

Contracts offered by the Group	Risk type	2019 Number of policies	2019 Annualised premium income (million)	2018 Number of policies	2018 Annualised premium income (million)
Discovery Individual Life		446 475	R10 688	429 817	R9 788
- 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*	Insurance				
- Medical Premium Waiver	Insurance				
- DiscoveryCard Protector*	Insurance				
- Standalone Global Education Protector**	Insurance				
- Supplementary Cancer Protector**	Insurance				
- Supplementary Gap Cover**	Insurance				
- Funeral Cover**	Insurance				
Discovery Employee Benefits		544 443	R2 312	512 715	R2 011
- Discovery Group Life***	Insurance				
- Discovery Umbrella Funds	Financial				
Discovery Life Other**		35 466	R143	17 866	R64
- PrimaryCare	Insurance				
Discovery Invest#		309 160	R11 662	288 599	R10 500
- 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		159 171	R3 402	150 717	R3 192
- Personal lines	Insurance				
- Commercial lines	Insurance				
VitalityHealth		642 399	GBP 483 (R8 849)	576 344	GBP 445 (R8 082)
- Individual product	Insurance				
- SME product	Insurance				
- Corporate product	Insurance				
VitalityLife		434 072	GBP 288 (R5 276)	385 818	GBP 260 (R4 712)
- 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				

* Discontinued

** Note that these are on a stand-alone basis

*** Number of lives covered

Annualised premium income includes 10% of the value of single premium policies

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

2. Management of insurance risk *continued*

The risks identified for the contracts above and the management thereof will be discussed as follows:

- **Management of insurance risks:** pages 52 to 72.
- **Management of financial risks:** pages 73 to 99.

The insurance risk under any one insurance contract is the possibility of a claim arising from that contract and the uncertainty of the amount and timing of the resulting claim. This risk is random and therefore unpredictable.

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 amount of claims over a defined period is different to 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 about the expected outcome will be. Discovery reduces claims variability by underwriting policies and by using reinsurance to protect against single large claims.

Discovery assumes the following risks transferred from insurance contracts:

<ul style="list-style-type: none"> ▪ Automatic increase take-up risk ▪ Concentration risk ▪ Currency risk ▪ Expense risk ▪ Lapse and surrender risk ▪ Liquidity risk ▪ Market and mismatching risk 	<ul style="list-style-type: none"> ▪ Modelling and data risk ▪ Operational/implementation risk ▪ Policy wording/legal risks ▪ Regulatory risk ▪ Reputational risk ▪ Tax risk ▪ Underwriting experience risk
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Discovery manages the above in terms of its risk management framework and holds regulatory and economic capital for protection against adverse experience.

The following section will briefly describe the insurance risks associated with the various contracts offered by the subsidiaries within the Group and the way the Group manages these risks.

2.1 DISCOVERY LIFE AND DISCOVERY INVEST

2.1.1 Insurance risks

Market and mismatching risk

Mismatching risk is the risk that movements in assets and liabilities are out of line given changes in market conditions as defined on page 73.

ASSETS UNDER INSURANCE CONTRACTS

For assets under insurance contracts, the insurance related cash outflows (e.g. benefit payments, administration expenses) are covered by expected future cash inflows (predominantly future premiums). This can clearly be seen by considering the positive future net cash flows arising from insurance contracts. These 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 under insurance contracts are disclosed in the table below.

R million	Total	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2019						
Discovery Life	33 873	2 687	8 481	8 345	8 828	5 532
2018						
Discovery Life	30 398	2 782	8 361	6 722	6 452	6 081

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

2. Management of insurance risk *continued*

2.1 DISCOVERY LIFE AND DISCOVERY INVEST *continued*

Discounting is performed using the prevailing risk free SA gilt yield curve. The value of assets under insurance contracts is subject to interest rate risk.

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

R million	2019	2018
Assets arising from insurance contracts at end of year	48 781	43 625
Adjusted for:		
Assets arising from insurance contracts relating to VitalityLife	(14 908)	(13 227)
Discovery Life value of discounted cash flows under insurance contracts	33 873	30 398

LIABILITIES 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 Discovery Life cash flows. Refer to page 74 for a breakdown of the assets backing these liabilities.

The expected discounted future cash flows in the calculation of liabilities under 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+
2019						
Discovery Invest	(10 325)	(2 713)	(10 099)	1 243	1 281	(37)
2018						
Discovery Invest	(7 828)	(2 530)	(7 318)	1 025	1 035	(40)

Reconciliation of the liabilities under insurance contracts disclosed in the cash flows above to the Statement of financial position (refer to note 19):

R million	2019	2018
Long-term insurance contract liabilities with fixed and guaranteed terms	14 697	11 606
Negative insurance liability included in unit-linked insurance contracts	(4 372)	(3 778)
Discovery Invest value of liabilities under insurance contracts	10 325	7 828

The value of assets and liabilities under insurance contracts is subject to interest rate risk. There is thus a risk that a change in the risk free gilt yield could cause a change in the value of the assets and liabilities under insurance contracts.

For Discovery Life, increased interest rates would result in an adverse impact on the present value of future profits. Future cash flows are largely linked to inflation, which maintains the value of cash flows in real terms. Lower than expected inflation adversely impacts the profitability of the book. Inflation and interest rates are generally correlated, which provides a natural hedge against adverse movements.

For Invest, investment policy fee income is dependent on the underlying value of policyholders' investments, which may be interest rate sensitive.

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 and gilts of appropriate duration.

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

2. Management of insurance risk *continued*

2.1 DISCOVERY LIFE AND DISCOVERY INVEST *continued*

Lapse and surrender risk

The majority of Discovery Life Plan policyholders have selected policies with automatic contractual premium and benefit increases. Similarly, the majority of Invest policyholders with recurring premium plans have selected automatic benefit increases. Policyholders have the option to lapse their policies or reduce premiums at any time.

There is a risk of financial loss due to the lapse, withdrawal or premium reduction rate 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 will not yet have been recouped. On Invest plans, the surrender value may also exceed the policy value, net of expenses, at early durations.

On Life Plans, 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 allows the reserves to be released as profits in the absence of surrender values being offered.

There is a further risk that Life Plan 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 under 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.

Future earnings under Invest plans are dependent on the value of assets under management and thus future earnings are dependent on the withdrawal and surrender rate.

The 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. For example, Vitality provides unique rewards and benefits to members and 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 benefit. Better terms are thus offered to healthy lives compared to less healthy lives.

- **COMMISSION CLAWBACK**

Discovery Life and Invest predominantly distributes via independent brokers and tied agents. Commissions are clawed back from intermediaries where a policy lapses within the first two years since inception. The amount of commission clawback depends on the duration of the policy in months and gradually reduces from 100% to 0% over the two year period for Discovery Life and five year period for Discovery Invest.

- **CLIENT RELATIONSHIPS**

All premiums are collected via debit order. Clients are contacted after a failed debit order and after notification of a cancellation. The reason for the cancellation is established and wherever possible the policies are conserved.

- **REINSURANCE**

Discovery has reinsurance treaties that protect a part of the assets under insurance contracts against a substantial increase in lapses. The reinsurance protects Discovery Life against the loss of assets under insurance contracts in the event that the aggregate lapse rate exceeds a predefined level.

- **EXPERIENCE MONITORING**

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

- **PROACTIVE CONSERVATION**

Targeted conservation campaigns are run 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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

2. Management of insurance risk *continued*

2.1 DISCOVERY LIFE AND DISCOVERY INVEST *continued*

Underwriting experience risk

There is a risk that actual mortality and morbidity experience is higher than expected on Life Plans. This could arise as a result of the number of claims or the value of claims being higher than expected.

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 2018. 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 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 Life Plans or lower mortality on guaranteed annuity policies.

There is a risk that the emergence of a new disease or epidemic can increase the number of claims. The risks are managed through:

- **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. 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 the Head of Actuarial Function. Product integration between the different product offerings in the Discovery Group helps to attract healthier lives than average in the market leading to positive selection.

For certain of the product-options offered under the Life Plan, Discovery Life 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 insurance market where the risk to AIDS is lower than for the market as a whole. The impact of HIV/AIDS is considered and allowed for during the product development and pricing.

Group 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.

- **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.

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.

Monthly internal quality assurance audits are performed on underwriting to minimise the risk of incorrect underwriting decisions.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

2. Management of insurance risk *continued*

2.1 DISCOVERY LIFE AND DISCOVERY INVEST *continued*

■ 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 and group business are covered by catastrophe reinsurance.

■ 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.

Expense risk

Expense risk is the risk of actual expenses being higher than expected. Expenses could exceed expectations due to an increase in the 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.

Modelling and data risk

The actuarial liabilities are calculated using complex discounted cash flow models. There is thus a risk that the model does not accurately project the policy cash flows in the future.

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 model was 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 model relies on data from the administration system and there is thus a further risk that the data does not accurately reflect the policies being valued.

The data 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.

Operational/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 process and procedures which are reviewed internally and externally to be in line with industry best practice. 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/implementation risk. Discovery does not have any legacy systems and processes to deal with thereby reducing operational risk.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

2. Management of insurance risk *continued*

2.1 DISCOVERY LIFE AND DISCOVERY INVEST *continued*

Regulatory risk

Discovery Life 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 interpretation thereof) may have on Discovery Life.

Discovery Life is a member of the Association for Savings and Investment SA, an industry-wide body that engages in discussions with policymakers and regulators.

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 Life have to be signed off by the Head of the Actuarial Function.

Discovery Life's compliance department enhances regulatory compliance through audits and by monitoring developments in the regulatory environment.

Policy wording/legal risks

There is a risk that Discovery could be financially exposed to obligations that are different to expected and not adequately provided for. The risk could also arise from legal proceedings.

The risk is managed when new products are developed and all policy wordings are reviewed by legal advisors and external advice is obtained where necessary to ensure that terms and conditions are clearly defined and unambiguous.

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 tax risk is mitigated.

Currency risk

All of Discovery Life's insurance benefits are Rand denominated, with the exception of the Global Linkage Benefit and the Dollar Life Plan. The Global Linkage benefit allows the sum insured to be linked to global investment markets or a selection of currencies and is fully reinsured. Premiums and benefits of the Dollar Life Plan are denominated in US Dollars. Discovery Life thus does not have significant net currency risk.

Capital adequacy requirements and protection against adverse experience

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.

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). In addition, 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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

2. Management of insurance risk *continued*

2.1 DISCOVERY LIFE AND DISCOVERY INVEST *continued*

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.

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 on the relevant SAM basis annually since 30 June 2013. A consistent level of solvency cover, comfortably in excess of the statutory minimum, was observed at all valuation dates.

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, which is exacerbated by timing mismatches between the 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.

Currently, Discovery Life'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. There is a need to meet liquidity requirements under 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.

Large sums assured above a defined retention level are reinsured, providing stability in claims experience and further reducing the liquidity risk.

The discounted expected statutory cash flows under in-force contracts after policyholder liabilities have been met, net of tax and reinsurance, 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+
2019						
Discovery Life	20 289	549	3 217	5 844	6 320	4 359
Discovery Invest	6 989	656	1 793	2 130	1 982	428
2018						
Discovery Life	20 709	730	3 560	5 321	5 910	5 188
Discovery Invest	7 358	912	2 506	1 892	1 696	352

The cash flows in the table above differ from those disclosed on pages 53 to 54, 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 Invest embedded value methodology. Cash flows arising under investment management contracts are also included. No allowance has been made for new business and related expenses.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

2. Management of insurance risk *continued*

2.1 DISCOVERY LIFE AND DISCOVERY INVEST *continued*

Reputational risk

Reputational risk is the risk of negative market reaction towards Discovery Life. Discovery Life may thus not be able to apply management policies to reduce risk.

Reputational risks are controlled in that all decisions to repudiate claims are carefully 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 wordings are reviewed and designed to be clear and unambiguous to avoid creating unreasonable policyholder expectations.

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. All products underwritten on the Discovery Life license are approved by the Head of the Actuarial Function prior to launch.

Reputational risk may also arise if Invest Plans experience worse investment returns than competitors. This may lead to lower future new business and higher surrenders. This risk is mitigated through the use of reputable experienced fund managers and unique, innovative products covering specific risks.

Concentration risk

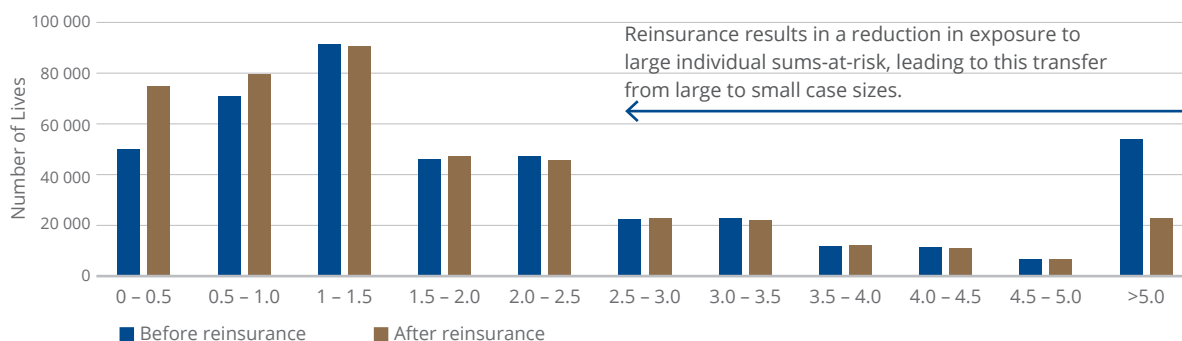
■ CLAIMS EXPERIENCE RISK

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. This risk is mitigated through catastrophe reinsurance.

Discovery Life maintains a well-diversified portfolio of policies. Reinsurance is further used to protect against the concentration of risk. Catastrophe reinsurance protects against 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 R800 million where the net of reinsurance impact is greater than R80 million. For its biggest four group schemes, a further layer of catastrophe reinsurance cover of R3 100 million in excess of R880 million is in place.

Reinsurance removes the exposure to large individual claims. The graph on the next page 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)



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

2. Management of insurance risk *continued*

2.1 DISCOVERY LIFE AND DISCOVERY INVEST *continued*

Concentration risk *continued*

■ WITHDRAWAL CONCENTRATION RISK

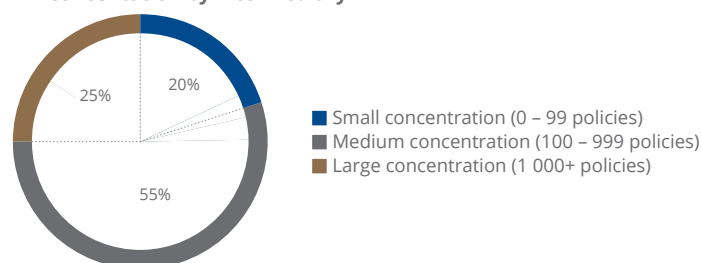
There is a financial risk of the withdrawal of a block of policies written by a single independent intermediary.

Discovery Life has a well-diversified book of business by source of new business and spread across more than 8 000 (2018: 7 900) brokers and agents.

The maximum exposure of Discovery Life to a single intermediary is smaller than 1.2% (2018: 1.2%) and to a group of intermediaries is 2.6% (2018: 2.6%) as a percentage of total premium income.

The distribution of annualised premium income (API) by concentration to an intermediary group is given in the following graph:

API concentration by intermediary



2.1.1 Sensitivity analysis

The financial impact of the key risks that Discovery Life 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.
- **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.
- **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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

2. Management of insurance risk *continued*

2.1 DISCOVERY LIFE AND DISCOVERY INVEST *continued*

The sensitivities in the table below relate to Discovery Life. Assets under insurance contracts in the Statement of financial position include assets for both Discovery Life and VitalityLife. The sensitivities disclosed reconcile to assets under insurance contracts per the Statement of financial position as follows:

R million	Gross		Reinsurance		Net	
	2019	2018	2019	2018	2019	2018
Assets under insurance contracts (per note 5)	48 781	43 625	(9 373)	(7 423)	39 408	36 202
Discovery Life	33 873	30 398	(3 812)	(3 320)	30 061	27 078
Vitality Life	14 908	13 227	(5 561)	(4 103)	9 347	9 124

Sensitivity analysis: Discovery Life – assets under insurance contracts

	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 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
Base: June 2018 assumptions	30 398		27 078	
Lapses +10% (e.g from x% to 1.1x%)	27 419	(9.8)	24 361	(10.0)
Lapses – 10% (e.g from x% to 0.9x%)	34 035	12.0	30 407	12.3
Investment return and inflation -1% (e.g. from 5% to 4%)	31 696	4.3	28 269	4.4
Investment return and inflation +1% (e.g. from 5% to 6%)	29 237	(3.8)	26 003	(4.0)
Expense assumption +10%	30 026	(1.2)	26 706	(1.4)
Expense assumption -10%	30 768	1.2	27 447	1.4
Mortality and morbidity +10%	25 571	(15.9)	22 684	(16.2)
Mortality and morbidity -10%	35 353	16.3	31 663	16.9

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

2. Management of insurance risk *continued*

2.1 DISCOVERY LIFE AND DISCOVERY INVEST *continued*

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.

For long-term insurance liabilities relating to fixed and guaranteed contracts and unit-linked contracts (refer to reconciliation on page 54), the sensitivities are detailed in the table below:

	Liabilities under insurance contracts R million	Change in variable %
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)
Base: June 2018 assumptions	7 828	
Lapses +10% (e.g. from x% to 1.1x%)	7 842	0.2
Lapses - 10% (e.g. from x% to 0.9x%)	7 867	0.5
Investment return and inflation -1% (e.g. from 5% to 4%)	8 202	4.8
Investment return and inflation +1% (e.g. from 5% to 6%)	7 473	(4.5)
Expense assumption +10%	7 918	1.1
Expense assumption -10%	7 738	(1.1)
Mortality and morbidity +10%	7 854	0.3
Mortality and morbidity -10%	7 802	(0.3)

2.2 VITALITYLIFE

2.2.1 Insurance risks

VitalityLife takes a proactive approach to managing its risk. Risk management processes are employed to ensure business units identify and control the risks to which they are exposed. Innovation is a strong focus of VitalityLife and is driven by the combined experience of VitalityLife and Discovery. VitalityLife also benefits from internal as well as the governance structures of Discovery.

The key insurance risks of the business are driven by the mortality and morbidity of VitalityLife policyholders. Claims experience and price competitiveness are reviewed at each monthly Management Committee. Experience analysis motivates changes to the assumptions used in the actuarial model. Consistent models are used for valuation and forecasting.

The life, serious illness, disability and income protection benefits of the VitalityLife product are reinsured with a maximum retention of 50%. The unemployment benefit offered as part of the VitalityLife product is fully reinsured.

Market and mismatching risk

The insurance-related cash outflows (e.g. benefit payments, administration expenses) have been matched predominantly with future premiums. The valuation discount rate is set with reference to the prevailing risk-free gilt yield. The value of assets under insurance contracts is subject to interest rate risk. The risk has been partially mitigated by the use of a passive interest rate assumption since June 2018 whereby the one-year average of the risk-free gilt yield is used and the assumption only changed if the one-year average changes by more than a predetermined range around the set passive rate. There is thus a risk that a change in the risk-free gilt yield could cause a change in the value of the assets under insurance contracts. VitalityLife has no investment or embedded derivative type products.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

2. Management of insurance risk *continued*

2.2 VITALITYLIFE *continued*

Lapse risk

Policyholders have the option to discontinue or reduce contributions at any time.

There is a risk of financial loss due to the withdrawal rate 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.

There is also a risk of lower than expected withdrawals at late durations of the policy since no surrender value is payable on withdrawal from a risk policy even where actuarial reserves are positive.

There is a further risk 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 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.

The 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.

Vitality provides unique rewards and benefits to policyholders which have proven to be a credible risk differentiator. Premium discounts are available to policyholders who actively engage in a healthier lifestyle and utilise the Vitality benefit. 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 CLAWBACK

VitalityLife predominantly distributes via independent intermediaries.

Commissions are clawed back from intermediaries where a policy lapses early on. The clawback period is currently either two or four years. The amount of commission clawback depends on the amount of unearned commission over the period. There is a credit risk associated with clawing back commission from brokers.

■ CLIENT RELATIONSHIPS

All premiums are collected via debit order. Clients are contacted after a failed debit order and after notification of a cancellation. The reason for the cancellation is established and wherever possible the policy is conserved.

■ EXPERIENCE MONITORING

Lapse experience is monitored on a monthly basis and analysed to establish possible trends for which management action can be taken. Data is currently not sufficient to provide credible results, so significant reliance is placed on reinsurers' advice, industry experience as well as experience from Discovery Life.

■ REINSURANCE

Reinsurance in VitalityLife protects against volatility in claims experience and against an accumulation of risk. In addition, reinsurers provide specialist advice when designing new products. VitalityLife also receive partial financing for new business strain from financing reinsurance treaties with reinsurers.

■ PROACTIVE CONSERVATION

Targeted conservation campaigns are run 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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

2. Management of insurance risk *continued*

2.2 VITALITYLIFE *continued*

Underwriting experience risk

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.

Selection 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.

There is a risk that the emergence of a new disease or epidemic can increase the number of claims. The risks are managed through:

- **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 (prior to 2013), medical history and age. From January 2013 onwards, no differentiation of premiums or benefits on the basis of gender is allowed in the UK.

For certain of the product-options offered, VitalityLife 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.

The Vitality Optimiser and Wellness Optimiser products incentivises engagement in the Vitality wellness programme which has a positive impact on risk experience.

- **UNDERWRITING**

Underwriting ensures that only insurable risks are accepted and that premiums reflect the unique circumstances of each risk. This is achieved by different levels of medical underwriting, depending on the answers to medical questions on the application form. 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.

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. In addition, reinsurers provide specialist advice when designing new products.

- **EXPERIENCE MONITORING**

Experience is monitored on a monthly basis and analysed to establish possible trends for which management action can be taken. Data is currently not sufficient to provide credible results, so significant reliance is placed on reinsurers' advice as well as experience from Discovery Life.

Expenses

Expense risk is the risk of actual expenses being higher than expected. Expenses could exceed expectations due to an increase in the expense inflation or due to a reduction in the number of in-force policies. 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.

Modelling and data risk

The actuarial liabilities are calculated using complex discounted cash flow models. There is thus a risk that the model does not accurately project the policy cash flows in the future.

The risk is controlled using specialist actuarial software that is widely used and accepted in the life insurance industry throughout the world.

Any changes made to the model are reviewed.

The model relies on data from the administration system and there is thus a further risk that the data does not accurately reflect the policies being valued.

The data is extracted from modern administration systems and subjected to detailed checks together with high-level reasonability checks. VitalityLife does not have any legacy systems that could impact on the data quality.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

2. Management of insurance risk *continued*

2.2 VITALITYLIFE *continued*

Operational/Implementation risk

Segregation of duties ensures multiple checks on process and further protects against the risk of fraud. VitalityLife does not have any legacy systems and processes to deal with, thereby reducing operational risk.

Regulatory risk

VitalityLife operates in a highly regulated environment. The regulatory risk can be defined as the potential detrimental impact of unexpected changes in regulations (or interpretation thereof).

Although VitalityLife 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, currently or in future. This risk is managed through constantly seeking legal advice on new product developments. Further, all insurance products issued by VitalityLife are subject to a rigorous sign-off process.

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 taxation legislation. Tax relief on expenses does not apply to protection business sold from January 2013 onwards.

External tax advice is obtained as required to ensure that products are structured in a tax efficient way.

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.

Results are published in Rands in Discovery's Annual Financial Statements creating movement in the values due to currency fluctuations.

Solvency capital requirements and protection against adverse experience

VitalityLife obtained its own life insurance license at the end of calendar year ending 2015. This significant milestone, together with the implementation of Solvency II in the UK from 1 January 2017 necessitates 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. The business written on the new life insurance license within VitalityLife (from 1 January 2017) needs to be fully Solvency II compliant.

SOLVENCY I

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. Margins are allowed for in the calculation of all insurance liabilities.

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).
- 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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

2. Management of insurance risk *continued*

2.2 VITALITYLIFE *continued*

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 Pillar 1 and Pillar 2 results. VitalityLife is required to provide capital to the Prudential Assurance Company (PAC) equal to 1 times the Pillar 1 capital requirement.

SOLVENCY II

Capital requirements under Solvency II is 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: the sum of the BEL and the RM.
- 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.

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. Liquidity risk arises due to a timing mismatch between the assets and liabilities.

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.

Policy wording/legal risks

There is a risk that VitalityLife could be financially exposed to obligations that are different to expected and not adequately provided for. The risk could also arise from legal proceedings or complaints by policyholders.

The risk is managed when new products are developed and all policy wordings are reviewed by legal advisors and external advice is obtained where necessary to ensure that terms and conditions are clearly defined and unambiguous.

Reputational risk

Reputational risk is the risk of negative market reaction towards VitalityLife. VitalityLife may thus not be able to apply management policies to reduce this risk.

Marketing material and policy wordings are reviewed and designed to be clear and unambiguous to avoid creating unreasonable policyholder expectations and are subject to a rigorous sign-off process.

VitalityLife management reviews all product offerings to minimise the reputational risk.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

2. Management of insurance risk *continued*

2.2 VITALITYLIFE *continued*

Concentration risk

- **CLAIMS EXPERIENCE RISK**

There is a risk that a concentration of risk can lead to worse than expected experience. VitalityLife maintains a well-diversified portfolio of policies. Reinsurance is further used to protect against the concentration of risk. Reinsurance removes the exposure to large individual claims.

- **WITHDRAWAL CONCENTRATION RISK**

There is a financial risk of the withdrawal of a block of policies written by a single independent intermediary. VitalityLife has a well-diversified book of business by source of new business and spread across more than 26 581 (2018: 24 742) brokers and agents. The maximum exposure of VitalityLife to a single intermediary is smaller than 1.56% (2018: 0.70%) of annualised premium income.

2.2.1 Sensitivity analysis

The financial impact of the key risks that VitalityLife 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:

2.2.1.1 **Lapses:** The lapse, surrender and withdrawal rates are increased or decreased across all policies and investment plans.

2.2.1.2 **Renewal expenses:** Renewal expense per policy is increased or decreased across all policies and investment plans.

2.2.1.3 **Mortality and morbidity:** The mortality rate, disability rate and severe illness rates are increased and decreased across all policies and investment plans.

2.2.1.4 **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.

The sensitivities in the table below relate to VitalityLife. Assets under insurance contracts in the Statement of financial position include assets for both Discovery Life and VitalityLife. The business written on Prudential Assurance Company's (PAC's) life insurance license (up to 31 December 2015) is classified as a reinsurance contract under IFRS 4. The reinsurance recoveries of R5 561 million (2018: R4 103 million) only relate to the business written on the VitalityLife license. The sensitivities disclosed reconcile to assets under insurance contracts per the Statement of financial position as follows:

R million	Gross		Reinsurance		Net	
	2019	2018	2019	2018	2019	2018
Assets under insurance contracts (per note 5)	48 781	43 625	(9 373)	(7 423)	39 408	36 202
Discovery Life	33 873	30 398	(3 812)	(3 320)	30 061	27 078
Vitality Life	14 908	13 227	(5 561)	(4 103)	9 347	9 124

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

2. Management of insurance risk *continued*

2.2 VITALITYLIFE *continued*

Sensitivity analysis: VitalityLife – assets under insurance contracts

	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 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
Base: June 2018 assumptions	13 227		9 124	
Lapses +10% (e.g. from x% to 1.1x%)	12 899	(2.5)	8 888	(2.6)
Lapses – 10% (e.g. from x% to 0.9x%)	13 572	2.6	9 368	2.7
Investment return and inflation – 1% (e.g. from 5% to 4%)	11 849	(10.4)	7 599	(16.7)
Investment return and inflation +1% (e.g. from 5% to 6%)	14 010	5.9	10 037	10.0
Expense assumption +10%	13 068	(1.2)	8 965	(1.7)
Expense assumption -10%	13 386	1.2	9 283	1.7
Mortality and morbidity +10%	12 190	(7.8)	8 538	(6.4)
Mortality and morbidity -10%	14 266	7.9	9 688	6.2

2.3 VITALITYHEALTH

2.3.1 Insurance risks

VitalityHealth operates in the UK Private Medical Insurance market (PMI), providing cover complementary to the National Health Service (NHS) public provision. The NHS provides health care cover for all citizens, including initial primary care with General Practitioners, meaning that PMI is taken out by individuals and businesses to provide additional access to non-emergency, non-chronic care services. The result of the PMI industry operating in harmony with the NHS provision is that VitalityHealth are not required to provide comprehensive primary and tertiary cover, hence the business operates in a different healthcare system when compared to South Africa.

The management of the business and the execution of VitalityHealth's strategy are subject to a number of risks. The key business risks and uncertainties affecting VitalityHealth relate to insurance risk, which arises from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. In particular, the risk is that claims experience turns out to be worse than anticipated in the pricing basis, and that claims reserves are insufficient to meet insurance liabilities as they fall due.

VitalityHealth's overall premium levels are determined by its pricing, lapse experience as well as the level of new business written.

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 do cancel between renewals. VitalityHealth is only obligated to continue to pay for any authorised treatment whilst premiums are being received from the policyholder.

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.

Frequency of claims can vary depending on, for instance, the levels of engagement with the Vitality program, and severity of claims can be influenced by new treatments or changes in medical inflation. In addition to renewal pricing changes, the standard terms and conditions applicable to the company's products mitigate the risk of late reporting of claims.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

2. Management of insurance risk *continued*

2.3 VITALITYHEALTH *continued*

2.3.1 Insurance risks *continued*

Across both premiums and claims, recent actual experience is compared against the financial forecasts, with any deviations investigated. The results provide a feedback loop into the overall pricing approach, enabling VitalityHealth to react quickly to any changes in behaviour.

The Company sets the acceptable level of insurance risk through its insurance risk policy.

The main features of the policy are:

- Insurance risk is only incurred in the pursuit of the Company's corporate and financial objectives, in particular to grow the business subject to maintaining adequate financial strength.
- The writing of business on approved rates, which have regard to experience of significant factors such as claims experience, persistency and expenses.
- The use of reinsurance where appropriate.
- The monitoring of the adequacy of reserves to cover insurance liabilities.
- Regular monitoring of the solvency capital of the Company.

Insurance risk is only undertaken within the permitted activities of the Company.

New business is written in accordance with approved pricing assumptions. Underwriting criteria is defined and aligned to the approved pricing assumptions.

Annually, the financial forecast is reviewed taking into account both emerging actual experience and anticipated future experience across both existing and new business. Within the annual results, excess of loss reinsurance is utilised to mitigate the risk of undue concentrations of insurance risk, however due to the short tail nature of the company's risks the vast majority of claims are expected to be settled within 12 months of reporting. As a result of this, VitalityHealth has not presented a comparison of actual claims compared with previous estimates and similarly, therefore, loss development tables are also not provided.

VitalityHealth currently has quota share agreements in place with three reinsurers with an outstanding balance of GBP 154.2 million (R2 773 million) at year end (2018: GBP 126.3 million (R2 294 million)).

VitalityHealth's business is short-term in nature meaning that the value of its assets and liabilities are not materially impacted by interest rates or other market risks, other than the property value for its own building in Stockport. It holds a well-diversified, liquid portfolio of short-term investments in line with its agreed investment mandate and is governed by a financial risk policy that covers credit, market and liquidity risk.

Capital adequacy requirements and protection against adverse experience

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

The objective of the Company'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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

2. Management of insurance risk *continued*

2.3 VITALITYHEALTH *continued*

2.3.1 Insurance risks *continued*

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 2019 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.

2.3.2 IBNR calculation

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 2019 (2018: 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 2019 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) (2018: GBP 3 million (R54 million)).

2.3.3 Sensitivity analysis

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	2019 Rands	2018 Rands	2019 GBP	2018 GBP
Base case (80th percentile)	497	485	27.7	26.7
50th percentile	445	427	24.8	23.5
95th percentile	551	539	30.7	29.7

2.4 DISCOVERY INSURE

2.4.1 Insurance risks

Discovery Insure covers clients for various short-term insurance risks. Such risks include the perils around property, motor and liability. 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.

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.

Discovery Insure also mitigates its insurance risk through the use of telematics. 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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

2. Management of insurance risk *continued*

2.4 DISCOVERY INSURE *continued*

The underwriting of insurance risk and the reinsurance of excessive insurance risk is further described below.

Underwriting strategy

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 the 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.

Reinsurance strategy

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.

Concentration of risk

There is a risk that a concentration of risk can lead to worse than expected claims experience. Discovery Insure is exposed to a concentration of insurance risk in the Gauteng province of South Africa where 48.5% (2018: 52%) of the Company's total sum insured is domiciled. In order to manage this concentration of insurance risk, the Company 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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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 Executive Committee and meets quarterly to focus on shareholder assets and the performance of asset managers responsible for managing these assets. The CCIC also sets exposure limits for exposures to individual counterparties.
- Discovery periodically engages external consultants to review past investment decisions.
- The Investment Committee is a sub-committee of the CCIC and meets monthly to make practical decisions regarding Discovery's liquidity and foreign currency exposure.

Discovery has not significantly changed the processes used to manage its 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. The table on page 52 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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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.

Group R million	Shareholder					
	Total	Unit-linked investment contracts	Unit-linked insurance contracts	Insurance contracts ¹	Financial assets and liabilities	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	-
Trade and other payables	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

¹ Effective from 1 July 2018, management presents those assets held within specific investment portfolios, to match specified liabilities arising from insurance contracts (for example claims reserves and IBNR), in the 'Insurance contracts' category. Where a specified portfolio is not held, such financial assets are classified as 'Shareholder financial assets and liabilities'. For the financial year ended 30 June 2018, if a similar approach was applied, financial assets to the value of R4.5 billion would have been reclassified from 'Shareholder financial assets and liabilities' to 'Insurance contracts'.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

3. Management of financial risk *continued*

R million	Total	Unit-linked investment contracts	Unit-linked insurance contracts	Insurance contracts	Shareholder Financial assets and liabilities	Other assets and liabilities
30 June 2018						
Assets arising from insurance contracts	43 625	-	-	43 625	-	-
Financial instruments at fair value through profit or loss:						
Listed:						
- Equity securities	39 800	11 973	27 688	139	-	-
- Equity linked notes	2 193	163	2 030	-	-	-
- Debt securities	18 092	2 771	6 334	8 987	-	-
- Inflation linked securities	1 096	47	79	970	-	-
- Money market securities	2 935	495	2 420	20	-	-
Unlisted:						
- Equity securities	877	281	590	6	-	-
- Equity linked notes	649	49	599	1	-	-
- Debt securities	73	26	47	-	-	-
- Money market securities	5 531	1 686	3 434	411	-	-
Available-for-sale financial instruments:						
Listed:						
- Equity securities	696	-	-	-	696	-
- Equity linked notes	15	-	-	-	15	-
- Debt securities	1 433	-	-	-	1 433	-
- Inflation linked securities	3	-	-	-	3	-
- Money market securities	4 039	-	-	-	4 039	-
Unlisted:						
- Equity securities	11	-	-	-	11	-
- Equity linked notes	7	-	-	-	7	-
- Debt securities	9	-	-	-	9	-
- Money market securities	1 334	-	-	-	1 334	-
Derivative financial instruments at fair value:						
- Used as cash flow hedges	337	-	-	-	337	-
- Not designated as hedging instrument	157	2	19	-	136	-
Loans and receivables:						
- Insurance receivables	4 190	-	-	-	4 190	-
- Other	3 353	165	382	2	2 242	562
Reinsurance contracts	308	-	-	308	-	-
Cash and cash equivalents	10 894	340	924	4	9 626	-
Other assets	16 325	-	579	-	-	15 746
Total assets	157 982	17 998	45 125	54 473	24 078	16 308
Liabilities arising from insurance contracts	61 488	-	40 631	20 857	-	-
Liabilities arising from reinsurance contracts	8 918	-	-	8 918	-	-
Borrowings at amortised cost	14 079	1	4	-	14 074	-
Investment contracts at fair value through profit or loss	17 927	17 927	-	-	-	-
Derivative financial instruments at fair value:						
- Used as cash flow hedges	51	-	-	-	51	-
- Not designated as hedging instrument	27	2	14	-	11	-
Trade and other payables	9 043	68	119	1	8 780	75
Other liabilities	8 855	-	-	-	-	8 855
Total liabilities	120 388	17 998	40 768	29 776	22 916	8 930

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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 contracts 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	Investments held at risk of investment policyholders	
	June 2019	June 2018
Financial instruments mandatorily at fair value through profit or loss:		
Listed:		
- Equity securities	13 462	11 973
- Equity linked notes	135	163
- Debt securities	3 478	2 771
- Inflation linked securities	47	47
- Money market securities	452	495
Unlisted:		
- Equity securities	327	281
- Equity linked notes	47	49
- Debt securities	49	26
- Money market securities	1 933	1 686
Derivative financial instruments at fair value:		
- not designated as hedging instruments	4	2
Receivables:		
- Other receivables	219	165
Cash and cash equivalents	691	340
Total assets	20 844	17 998
Borrowings at amortised cost	-	1
Investment contracts at fair value through profit or loss	20 674	17 927
Derivative financial instruments at fair value:		
- not designated as hedging instruments	4	2
Trade and other payables	166	68
Total liabilities	20 844	17 998

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 R43 million per annum (2018: R38 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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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 R447 million (2018: R388 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% (2018: 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.

Group R million	Investments held at risk of investment policyholders	
	June 2019	June 2018
Financial instruments mandatorily at fair value through profit or loss:		
Listed:		
- Equity securities	28 068	27 688
- Equity linked notes	1 910	2 030
- Debt securities	10 128	6 334
- Inflation linked securities	176	79
- Money market securities	1 678	2 420
Unlisted:		
- Equity securities	697	590
- Equity linked notes	995	599
- Debt securities	125	47
- Inflation linked securities	28	-
- Money market securities	4 024	3 434
Derivative financial instruments at fair value:		
- not designated as hedging instruments	14	19
Receivables:		
- Other receivables	478	382
Cash and cash equivalents	2 053	924
Other assets	728	579
Total assets	51 102	45 125
Liabilities arising from insurance contracts	45 448	40 631
Borrowings at amortised cost	-	4
Derivative financial instruments at fair value:		
- not designated as hedging instruments	11	14
Trade and other payables	543	119
Total liabilities	46 002	40 768

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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 372 million (2018: R3 778 million) included in unit-linked insurance contracts (refer to note 18) and the deferred tax asset of R728 million (2018: R579 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 R109 million per annum (2018: R97 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 R4 481 million (2018: R3 722 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 R48 780 million (2018: R44 167 million) of the liabilities as due on the earliest period of the table (between 0 and one year), R38 million (2018: R105 million) of the liabilities would be due between one and two years, and R155 million (2018: R137 million) of the liabilities would be due between three and five years. The assets held to match these policyholder liabilities are very liquid.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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 2019	June 2018
Assets arising from insurance contracts	48 781	43 625
Financial instruments mandatorily at fair value through profit or loss:		
Listed:		
– Equity securities	148	139
– Debt securities	10 224	8 987
– Inflation linked securities	998	970
– Money market securities	31	20
Unlisted:		
– Equity securities	8	6
– Equity linked notes	1	1
– Money market securities	3 988	411
Receivables:		
– Other receivables	2	2
Reinsurance contracts	314	308
Cash and cash equivalents	7	4
Total assets	64 502	54 473
Liabilities arising from insurance contracts	25 074	20 857
Liabilities arising from reinsurance contracts	10 835	8 918
Trade and other payables	189	1
Total liabilities	36 098	29 776

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 from the financial investments comprising money market and debt instruments entered 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.moody.com for rating definitions.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

3. Management of financial risk *continued*

3.3 INSURANCE CONTRACTS *continued*

3.3.2 Credit risk *continued*

Group		Aa1	A1	Baa1			
R million	Total	Aa2	A2	Baa2	Govt		
		Aa3	A3	Baa3	Baa3	Not rated	
30 June 2019							
Financial instruments mandatorily at fair value at 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
30 June 2018							
Financial instruments at fair value through profit or loss:							
Listed:							
- Equity securities	139	-	-	-	-	-	139
- Debt securities	8 987	159	294	-	-	8 534	-
- Inflation linked securities	970	-	20	-	-	950	-
- Money market securities	20	2	7	11	-	-	-
Unlisted:							
- Equity securities	6	-	-	-	-	-	6
- Equity linked notes	1	-	-	-	-	-	1
- Money market securities	411	36	332	8	1	-	34
Cash and cash equivalents	4	2	2	-	-	-	-
	10 538	199	655	19	1	9 484	180

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

3. Management of financial risk *continued*

3.3 INSURANCE CONTRACTS *continued*

3.3.3 Liquidity risk

The liquidity risk for assets and liabilities arising from insurance contracts are discussed in insurance risks on pages 59 and 67. The financial investments held at fair value through profit or loss are realisable in the short-term.

3.4 SHAREHOLDER FINANCIAL ASSETS AND LIABILITIES

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

Group R million	Investments held at risk of shareholders	
	June 2019	June 2018
Available-for-sale financial instruments:		
Listed:		
- Equity securities	-	696
- Equity linked notes	-	15
- Debt securities	-	1 433
- Inflation linked securities	-	3
- Money market securities	-	4 039
Unlisted:		
- Equity securities	-	11
- Equity linked notes	-	7
- Debt securities	-	9
- Money market securities	-	1 334
Financial instruments mandatorily at fair value through profit or loss		
Listed:		
- Equity securities	612	-
- Equity linked notes	21	-
- Debt securities	2 112	-
- Inflation linked securities	1	-
- Money market securities	2 115	-
Unlisted:		
- Equity securities	20	-
- Equity linked notes	19	-
- Debt securities	3	-
- Money market securities	2 145	-
At amortised cost		
Unlisted:		
- Debt	26	-
- Fixed deposits	1 917	-
Derivative financial instruments at fair value:		
- used as cash flow hedges	176	337
- not designated as hedging instruments	181	136
Receivables:		
- Insurance receivables	4 920	4 190
- Contract receivables	1 369	-
- Other receivables	1 178	2 242
Cash and cash equivalents	6 652	9 626
Total assets	23 467	24 078
Borrowings at amortised cost	14 682	14 074
Derivative financial instruments at fair value:		
- used as cash flow hedges	250	51
- not designated as hedging instruments	244	11
Trade and other payables	9 222	8 780
Total liabilities	24 398	22 916

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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 and classified on the consolidated Statement of financial position as investments at fair value through profit or loss (FVTPL) (2018: these financial assets were classified as available-for-sale). To manage its equity risk arising from investments in equity securities and equity linked notes of R633 million (2018: R711 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 R63 million before tax (2018: R77 million). A 10% decrease in the equity markets would result in a loss of R5 million before tax (2018: R31 million). This impact would be recognised in the Statement of other comprehensive income. 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 is described in note 33. This liability has been included in Trade and other payables in the table in note 3.4. To manage this risk, Discovery has purchased a combination of total return equity swaps and call options from Baa or A-rated South African banks to hedge a portion of its exposure to changes in the Discovery share price.

Hedge ineffectiveness for the total return equity swaps (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
- 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 accounting relationship is reviewed on a monthly basis and the hedging instruments and hedged items are de-designated and re-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 is substantively matching the critical terms of the hedging instrument and hedged item (such as the settlement dates, maturity dates, notional amounts), which results in a hedge ratio of 0.9:1.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

3. Management of financial risk *continued*

3.4 SHAREHOLDER FINANCIAL ASSETS AND LIABILITIES *continued*

i. Phantom share scheme (including certain other development segment schemes)

As at 30 June 2019, approximately 92% (2018: 99.3%) 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
2018		
Year end June 2019	86.76 – 134.94	1 672 071
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
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 2019 was R319 million (2018: R497 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
2018		
Year end June 2019	84.71 – 134.94	1 381 664
Year end June 2020	97.89 – 171.04	1 711 880
Year end June 2021	114.96 – 171.04	1 396 979
Year end June 2022	114.96 – 171.04	1 113 961
Year end June 2023	141.65 – 171.04	568 611
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 return equity swaps held by the Group at 30 June 2019 was R990 million (2018: R854 million). The fair value of the total return equity swaps is calculated by discounting the future cash flows of the instruments.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

3. Management of financial risk *continued*

3.4 SHAREHOLDER FINANCIAL ASSETS AND LIABILITIES *continued*

ii. Acquisition share scheme

As at 30 June 2019, approximately 89 % (2018: 84.8%) 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 probably 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
2018		
30 June 2018	84.06 – 134.94	818 838
30 June 2019	96.06 – 147.50	750 831
30 June 2020	118.31 – 147.50	611 487
30 June 2021	118.31 – 147.50	601 204
30 June 2022	118.31 – 147.50	80 506
30 June 2023	147.50	50 087
2019		
30 June 2020	118.31 – 150.38	620 348
30 June 2021	118.31 – 150.38	618 182
30 June 2022	129.00 – 150.38	580 236
30 June 2023	147.50 – 150.38	97 756
30 June 2024	150.38	18 808

The notional value of the outstanding total return equity swaps held by the Group at 30 June 2019 was R270 million (2018: R158 million). The fair value of the total return equity swaps is calculated by discounting the future cash flows of the instruments.

At 30 June 2019, the fair value of the derivative instruments purchased to hedge the Phantom and Acquisition share schemes, is R90 million (2018: R325 million) (refer to note 13). To reduce the credit risk exposure from the hedge derivative instruments purchased, Discovery has entered into collateral agreements with the relevant financial institutions to post cash collateral periodically, equal to the fair value of the derivatives.

A total of R285 million cash collateral is being held by Discovery at 30 June 2019 (2018: R210 million) (refer to note 22). The cash collateral held has been invested into money market securities and presented as financial assets in the Statement of financial position. A total of R39 million cash collateral is being held by counterparty banks (refer to note 14). The posting of the collateral does not result in legal settlement of the outstanding derivative balance. The collateral will only be used to settle the derivative upon default or bankruptcy of either party. The offsetting requirements of IAS 32 are therefore not met.

Discovery recognises the effective portion of fair value changes of derivatives that are designated and qualify as cash flow hedges and prove to be highly effective in relation to the hedged risk, in the cash flow hedging reserve in the Statement of other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. A gain of R5 million 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 29).

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

Group R million	June 2019	June 2018
Balance at beginning of the year	(57)	(33)
Unrealised gains accumulated in equity	(33)	(224)
Tax on unrealised gains	7	26
Recycled to profit or loss during the current year ¹	104	194
Tax on recycled gains	(21)	(20)
Balance at end of the year	-	(57)

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

3. Management of financial risk *continued*

3.4 SHAREHOLDER FINANCIAL ASSETS AND LIABILITIES *continued*

The cash flow hedge relating to the Phantom and Acquisition share scheme as at June is expected to be recycled to profit or loss as follows:

Group R million	June 2019	June 2018
Recycled to profit or loss within one year	(2)	(18)
Recycled to profit or loss within two to five years	3	(39)
	1	(57)

Interest rate risk

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

Group R million	Carrying amount	Fixed	Floating	Non-interest bearing
30 June 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
Trade and other payables	9 222	58	3 728	5 436
Total financial liabilities	24 398	8 721	9 996	5 681

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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 2018				
Available-for-sale financial assets:				
Listed:				
- Equity securities	696	-	-	696
- Equity linked notes	15	-	-	15
- Debt securities	1 433	1 255	178	-
- Inflation linked securities	3	-	3	-
- Money market securities	4 039	1 296	2 725	18
Unlisted:				
- Equity securities	11	-	-	11
- Equity linked notes	7	-	-	7
- Debt securities	9	2	7	-
- Money market securities	1 334	444	881	9
Derivative financial instruments at fair value:				
- used as cash flow hedges	337	337	-	-
- not designated as hedging instruments	136	-	-	136
Loans and receivables	6 432	32	296	6 104
Cash and cash equivalents	9 626	4 663	4 957	6
Total financial assets	24 078	8 029	9 047	7 002
Borrowings at amortised cost	14 074	8 333	5 741	-
Derivative financial instruments at fair value:				
- used as cash flow hedges	51	51	-	-
- not designated as hedging instruments	11	8	-	3
Trade and other payables	8 780	15	387	8 378
Total financial liabilities	22 916	8 407	6 128	8 381

INVESTMENTS

For shareholder investments, a 1% increase in the local interest rate would result in an increase of R59 million in the value of these investments (2018: R16 million). A 1% decrease in the local interest rate would result in a decrease of R55 million in the value of these investments (2018: R18 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	2019		2018	
		Carrying value	Facility value	Carrying value	Facility value
Interest rate risk from borrowings from banks					
Fixed rate loan facility	i	4 818	4 850	3 393	3 450
Floating interest rate facility with floating-to-fixed interest rate swap	ii	3 844	3 825	3 130	3 125
Floating interest rate facilities	iii	760	675	717	675
Foreign floating interest rate facilities	iii	1 612	2 697	1 810	2 174
Total bank borrowings (refer to note 20)		11 034	12 047	9 050	9 424

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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
Fixed at 10.94%	10 June 2021	Maturity	500
Fixed at 10.59%	10 June 2021	Annually ¹	1 100
Fixed at 10.20%	17 March 2022	Maturity	800
Fixed at 10.23%	16 May 2022	Maturity	200
Fixed at a weighted average rate of 11.61%	Various maturities	Instalments	650
Fixed at 10.46% ²	21 November 2024	Maturity	200
Total fixed rate loan facilities 30 June 2018			3 450
Fixed at 10.60%	20 December 2023	Maturity	1 400
Total fixed rate loan facilities 30 June 2019			4 850

¹ The loan has an amortising capital profile, having the first repayment extended to 10 June 2020 (originally 10 June 2019) and final settlement on 10 June 2021.

² 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 a floating-to-fixed interest rate swap. This interest rate swap has the economic effect of converting the borrowings from floating to fixed rates. Interest is payable quarterly in arrears, with capital repayable on maturity.

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	2019	2018
Balance at beginning of the year	56	34
Unrealised losses accumulated in equity	124	24
Tax on unrealised losses	-	6
Recycled to profit or loss during the current year ¹	(7)	(6)
Tax on recycled gains	-	(2)
Balance at end of the year	173	56
The cash flow hedge will be recycled to profit or loss as follows:		
Recycled to profit or loss within one year	7	7
Recycled to profit or loss within two to five years	75	31
Recycled to profit or loss within six to ten years	91	18
	173	56

¹ Disclosed as finance costs in profit or loss.

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

Group R million	2019		2018	
	Nominal value	Fair value liability	Nominal value	Fair value liability
Maturity date:				
30 September 2021	375	(10)	375	(5)
15 December 2021	450	(11)	450	(4)
21 November 2022	500	(19)	500	(8)
21 November 2024	800	(46)	800	(18)
21 August 2026	700	(45)	-	-
2 March 2023	1 000	(32)	1 000	(4)
	3 825	(163)	3 125	(39)

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

3. Management of financial risk *continued*

3.4 SHAREHOLDER FINANCIAL ASSETS AND LIABILITIES *continued*

- 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, which gives Discovery the ability to fix the borrowing interest rates should the interest environments weaken.

NON-HEDGE DERIVATIVE FINANCIAL INSTRUMENTS

I. INTEREST RATE SWAP

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 2019 DHEL is party to 1 (30 June 2018: 1) open derivative contract. The fixed interest payable is 1.03 % (2018: 0.87%) on a notional derivative value of GBP 184.5 million (2018: GBP 167.7 million). At 30 June 2019 the fair value of the derivative was an asset of GBP 8 million (R144 million) (2018 liability of GBP 0.4 million (R7 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 7 million (R128.2 million) has been recognised in 'Net fair value gains on financial assets at fair value through profit or loss'. (2018: GBP 1.4 million (R23 million)). The current open derivative contract expires on 10 September 2019.

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. The market values of these derivatives at 30 June are disclosed below. Discovery also has interest rate swap agreements and the value of exposure towards these parties was calculated by taking into consideration the ISDA agreements in place which allow for netting off between positive and negative exposures.

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

Group R million	Notional amount	Fair value asset	Fair value liability
June 2019			
Interest rate contracts:			
- fixed for floating swaps	-	*	*
- floating for fixed swaps	(3 825)	-	*
	(3 825)	*	*
June 2018			
Interest rate contracts:			
- fixed for floating swaps	(18)	*	*
- fixed for fixed swaps	(1)	*	*
- floating for fixed swaps	(32)	*	*
	(51)	*	*

* Amount is less than R500 000

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

3. Management of financial risk *continued*

3.4 SHAREHOLDER FINANCIAL ASSETS AND LIABILITIES *continued*

Currency risk

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

Group R million	Total	Rand	GBP in UK subsidiary	GBP other	USD in US subsidiary	USD other	Other currencies
30 June 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	-	-	-	-	-
Trade and other payables	9 222	2 804	6 057	20	120	215	6
Total financial liabilities	24 398	16 363	7 674	20	120	215	6

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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 2018							
Available-for-sale financial assets:							
Listed:							
- Equity securities	696	381	51	29	-	178	57
- Equity linked notes	15	15	-	-	-	-	-
- Debt securities	1 433	987	442	-	-	4	-
- Inflation linked securities	3	3	-	-	-	-	-
- Money market securities	4 039	1 929	1 984	-	-	126	-
Unlisted:							
- Equity securities	11	2	-	2	-	7	-
- Equity linked notes	7	7	-	-	-	-	-
- Debt securities	9	7	-	1	-	1	-
- Money market securities	1 334	1 150	181	-	-	3	-
Derivative financial instruments at fair value:							
- used as cash flow hedges	337	337	-	-	-	-	-
- not designated as hedging instruments	136	136	-	-	-	-	-
Loans and receivables	6 432	3 160	2 850	-	250	76	96
Cash and cash equivalents	9 626	6 318	2 776	84	109	222	117
Total financial assets	24 078	14 432	8 284	116	359	617	270
Borrowings at amortised cost							
14 074	12 264	1 810	-	-	-	-	-
Derivative financial instruments at fair value:							
- used as cash flow hedges	51	51	-	-	-	-	-
- not designated as hedging instruments	11	-	8	-	-	3	-
Trade and other payables	8 780	3 219	5 314	1	81	56	109
Total financial liabilities	22 916	15 534	7 132	1	81	59	109

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 2019	14.15	17.98
30 June 2018	13.81	18.16

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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

3. Management of financial risk *continued*

3.4 SHAREHOLDER FINANCIAL ASSETS AND LIABILITIES *continued*

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 R162 million (2018: R135 million), with a corresponding derivative asset and liability of R35 million and R64 million respectively. (2018: Derivative asset of R135 million). The notional value of these contracts are GBP 123.2 million (2018: GBP 115 million and CNY 40 million).

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 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 receivables'** – The management of this risk is discussed in detail on page 93 and 94.
- **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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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			Aa1	A1	Baa1	Ba1		
R million	Total	Aaa	Aa2	A2	Baa2	Ba2	Govt	Not rated
			Aa3	A3	Baa3	Ba3		
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

Group			Aa1	A1	Baa1	Ba1		
R million	Total	Aaa	Aa2	A2	Baa2	Ba2	Govt	Not rated
			Aa3	A3	Baa3	Ba3		
30 June 2018								
Available-for-sale financial assets:								
- Equity securities	707	164	-	15	50	162	-	316
- Equity linked notes	22	-	-	-	-	-	-	22
- Debt securities	1 442	84	84	480	2	-	790	2
- Inflation linked securities	3	2	-	-	1	-	-	-
- Money market securities	5 373	161	395	3 305	1 283	1	29	199
Cash and cash equivalents	9 626	426	1 508	5 454	2 180	34	5	19
	17 173	837	1 987	9 254	3 516	197	824	558

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 were assessed and considered immaterial. There are no amounts within these balances which are credit impaired or where there has been a significant increase in credit risk since initial recognition.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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 74 and 75.

Group R million	Ref	2019	2018
Receivables arising from insurance and reinsurance contracts:			
- Premium debtors	i	558	548
- Less allowance for expected credit losses		(83)	(62)
- Reinsurance debtors	ii	4 445	3 704
Contract receivables:			
- Closed scheme debtors	iii	100	118
- Discovery Health Medical Scheme	iii	670	628
- International partner market receivables		196	225
- Other contract receivables		403	-
Other receivables:			
- Agents and brokers	iv	390	356
- BEE partners' rights-issue funding		17	111
- Cash-in-transit debtors		4	73
- Discovery Unit Trust debtors		8	2
- Expired hedge receivables		24	18
- FNB - DiscoveryCard receivable		70	114
- Loans to BEE initiatives		165	105
- Loans to senior management		-	153
- Security deposit on derivatives		39	-
- Vitality partner debtors		76	86
- Other debtors		728	484
- Less allowance for expected credit losses		(343)	(231)
		7 467	6 432

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 148.6 million (R2 671 million) (2018: GBP 125.5 million (R2 278 million)) is outstanding in respect of cashless reinsurance treaties. The credit ratings of these reinsurers are Aa2 and Aa3.

Refer to page 91 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 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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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	2019		2018	
	Gross	Impairment	Gross	Impairment
Not past due (current)	7 257	(120)	6 187	(31)
30 days	131	(19)	88	(18)
60 days	65	(11)	85	(13)
90 days	50	(8)	39	(14)
120 days	61	(25)	16	(7)
150 days	22	(11)	35	(7)
>150 days	307	(232)	275	(203)
	7 893	(426)	6 725	(293)

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.

The movement in the allowance for expected credit losses as well as provision for impairment of premium debtors during the year was as follows:

Group R million	2019			2018
	12 month credit losses	Lifetime credit losses ¹	Total	
Balance beginning of year	31	262	293	276
IFRS transitional adjustment	24	59	83	-
Increase in allowance	64	6	70	52
Amounts utilised during the period	(12)	(15)	(27)	(35)
Balance at 30 June	120	306	426	293

¹ The simplified approach was applied to trade receivables and contract receivables as per the accounting policy. This has been included in lifetime credit losses.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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 R11 325 million (2018: R14 999 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	Open ended
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	-	-	-
Trade and other payables	9 222	4 631	972	116	13	-	3 490
Total	34 866	7 777	4 332	9 614	6 738	2 915	3 490

Group R million	Total	<1 year	1 – 5 years	6 –10 years	> 10 years	Open ended
30 June 2018						
Borrowings net of interest rate swap	22 015	1 568	12 960	4 392	3 095	-
Derivative financial instruments at fair value:						
– used as cash flow hedges	55	6	19	30	-	-
– not designated as hedging instruments	11	11	-	-	-	-
Trade and other payables	8 856	4 521	3 909	95	148	183
Total	30 937	6 106	16 888	4 517	3 243	183

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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.
- To consider capital management needs both in the short term and over a 5-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 debt¹ divided by total debt plus total equity. The Group's strategy is to maintain a prudent FLR of 28% per the Group Risk Appetite statement. The table below summarises the FLR at 30 June:

Group R million	2019	2018
- Amount owed to Prudential Assurance Company Limited ²	1 760	2 189
- Borrowings at amortised cost (refer to note 20)	11 361	10 842
- Guarantees issued for reinsurance contracts	-	50
Total debt and guarantees	13 121	13 081
Total equity	43 083	37 594
Financial Leverage Ratio (%)	23.3	25.8

¹ Excluding the finance lease liability in respect of the new head office building of R3 321 million (2018: R3 237 million).

² This 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.

In terms of the level premium reinsurance treaty entered into in respect of this business, a security deposit was required to be placed by the reinsurer, to reduce counterparty risk. At 30 June 2019, GBP 220 million (R3 950 million) (2018: GBP 169 million (R3 065 million)) was held as a security deposit. The contractual arrangement in respect of the business written on the Prudential license is accounted for as a reinsurance contract under IFRS 4 and as a result, the 'deposit back' held has been disclosed as a reduction of the negative reserve funding liability.

During the 2019 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 Trade and other payables.

At 30 June 2019, there is still an amount payable to Prudential of GBP 98 million (R1 760 million) (2018: GBP121 million (R2 189 million)).

The FLR at 30 June 2019 is therefore in line with Discovery's risk appetite.

Minimum capital requirements

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

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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. 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:

- 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 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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

3. Management of financial risk *continued*

3.6 FAIR VALUE ESTIMATION *continued*

Group R million	Level 1	Level 2	Level 3	Total
30 June 2018				
Financial assets				
Financial instruments at fair value through profit or loss:				
- Equity securities	29 769	873	-	30 642
- Equity linked notes	-	211	-	211
- Debt securities	15 120	534	-	15 654
- Inflation linked securities	1 096	-	-	1 096
- Money market securities	610	5 255	-	5 865
- Mutual funds	17 778	-	-	17 778
Available-for-sale financial instruments:				
- Equity securities	166	9	-	175
- Equity linked notes	-	20	-	20
- Debt securities	840	573	-	1 413
- Inflation linked securities	2	-	-	2
- Money market securities	2 382	1 787	-	4 169
- Mutual funds	1 768	-	-	1 768
Derivative financial instruments at fair value:				
- used as cash flow hedges	-	337	-	337
- not designated as hedging instruments	-	157	-	157
Total financial assets	69 531	9 756	-	79 287
Financial liabilities				
Investment contracts at fair value through profit or loss				
-	-	17 927	-	17 927
Derivative financial instruments at fair value:				
- used as cash flow hedges	-	51	-	51
- not designated as hedging instruments	-	27	-	27
Total financial liabilities	-	18 005	-	18 005

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.
 - The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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 2019			
Cash and cash equivalents	9 473	(70)	9 403
30 June 2018			
Cash and cash equivalents	11 055	(161)	10 894

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 R285 million cash collateral is being held by Discovery and R39 million was being held by the various financial institutions as at 30 June 2019 (2018: R210 million held by Discovery).

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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 2019. 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 years 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, with the result 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 1.5432% was used as the risk free rate;
- An equity risk premium for United Kingdom of 3.5% was added; and
- For Beta Risk, the FTSE Life insurance index relative to the FTSE 350 Index was used over a 5-year period

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 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.

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

- A detail 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.

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 9.11%, 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.
- System build costs as well as intangible assets acquired in the business combination have been expensed over their useful life of 10 years.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

4. Critical accounting estimates and judgements in applying accounting policies *continued*

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 2019.

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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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*

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% (2018: 28%) in South Africa. The prevailing tax rate in the UK is 19% (2018: 19%) but is expected to decrease to 17% in May 2020. The recent increase in Value Added Tax (VAT) in South Africa from 14% to 15% has been allowed for.

Tax amendments for Life companies introduced a Risk Policy Fund for all new risk business written after 1 July 2016. In terms of this legislation Discovery Life has also 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 R562 million, which was previously implicit in the valuation of insurance contract liabilities, was recognised as an explicit deferred tax asset in the 30 June 2017 financial year. The related balance for the year ended 30 June 2018 was R579 million. The balance has increased further over the current reporting period to stand at R728 million for the year ended 30 June 2019.

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.

Economic assumptions/Investment returns

For Discovery Life and Invest, the discount rate is set equal to the estimate of the risk free investment return rate. The inflation assumption is set as the differential between assumed nominal and real interest 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 2019 would have increased to 10.5% (2018: 10.25%). The implied single real interest rate has also increased to 3.26% at June 2019 (2018: 2.77%).

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, 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. 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 2019 was set at 2.10% p.a., unchanged from the prior period, for VitalityLife.

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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*

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 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.

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

Assumptions and methodologies are reviewed during each valuation. The impact of changes in the assumptions is reflected in profit or loss as the changes occur.

Modelling and assumptions changes were made to the valuation at 30 June 2019 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 R1 261 million (2018: R295 million decrease). For VitalityLife, the total effect of these changes was an increase in the assets of R42 million (2018: R134 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 R529 million (2018: R703 million increase). Refer to note 5 for an analysis of these changes.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

4. Critical accounting estimates and judgements in applying accounting policies *continued*

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:

Vitality Group International

During the year-ended, Vitality Group International has raised an addition R291 million in deferred tax assets associated with assessed losses. In determining the amount to raise, management had projected future profits and probability weighted the expected profits to compensate for uncertainty in cash flows (i.e. earlier years have a higher probability attached for realisation compared to later years) as well as for uncertainty in future regulations. Vitality Group International still has unrecognised assessed losses, refer note 23 Deferred income tax.

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 2019	Group 2018
Long-term insurance contracts – gross	48 781	43 625
Less: ceded to reinsurers (refer to note 19)	(9 373)	(7 423)
Long-term insurance contracts – net	39 408	36 202
Current	4 013	4 103
Non-current	35 395	32 099
	39 408	36 202
Movement in assets arising from insurance contracts		
Balance at beginning of the year	36 202	32 539
Movement for the year:		
Expected movement in policyholder liabilities	(2 953)	(3 392)
Unwinding of discount rate	2 003	2 425
New business written	4 747	3 980
Experience variances	(812)	(429)
Economic	(132)	(255)
Operational	(680)	(174)
Modelling and method changes	1 419	(155)
Benefit changes	2 066	(31)
Changes in assumptions	(2 638)	(6)
Economic	(679)	2 749
Operational	(1 959)	(2 755)
Changes in margins ¹	(529)	703
Exchange rate difference	(97)	568
Balance at end of the year	39 408	36 202

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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 2018							
Opening carrying amount	-	97	493	508	13	99	1 210
Translation differences	-	1	7	3	-	-	11
Additions	3 155	11	96	392	12	55	3 721
Disposals							
- Cost	-	(3)	(259)	(23)	(6)	(5)	(296)
- Accumulated depreciation	-	3	18	23	6	3	53
Derecognition and impairment							
- Cost	-	(84)	(219)	(119)	-	(22)	(444)
- Accumulated depreciation	-	84	219	119	-	11	433
Depreciation charge	(126)	(34)	(127)	(76)	(8)	(45)	(416)
Closing carrying amount	3 029	75	228	827	17	96	4 272
At 30 June 2018							
Cost	3 155	267	679	1 017	53	210	5 381
Accumulated depreciation	(126)	(192)	(451)	(190)	(36)	(114)	(1 109)
Carrying amount	3 029	75	228	827	17	96	4 272
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

* Amounts 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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

6. Property and equipment *continued*

Leased assets

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

Group R million	Land and buildings	Computer equipment and operating systems	Leasehold improvements	Total
Year ended 30 June 2018				
Opening carrying amount	-	108	241	349
Additions	3 155	37	59	3 251
Depreciation charge	(126)	(47)	(10)	(183)
Closing carrying amount	3 029	98	290	3 417
Cost	3 155	311	300	3 766
Accumulated depreciation	(126)	(213)	(10)	(349)
Closing carrying amount	3 029	98	290	3 417
Year ended 30 June 2019				
Opening carrying amount	3 029	98	290	3 417
Additions	13	-	-	13
Disposals	-	(12)	-	(12)
Cost	-	9	-	9
Accumulated depreciation	(210)	(39)	(78)	(327)
Depreciation charge	-	(3)	-	(3)
Translation differences	-	(3)	-	(3)
Closing carrying amount	2 832	53	212	3 097
Cost	3 168	296	300	3 764
Accumulated depreciation	(336)	(243)	(88)	(667)
Carrying amount	2 832	53	212	3 097

7. Intangible assets

Group R million	Software Development ¹	Business acquisitions: Identifiable Intangibles	Banking license and right to profit share	Total
Year ended 30 June 2018				
Opening carrying amount	2 318	500	1 253	4 071
Translation differences	63	29	-	92
Additions	2 177	-	2	2 179
Amortisation charge	(525)	(71)	(52)	(648)
Impairment	-	-	-	-
- cost	(343)	-	-	(343)
- Accumulated amortisation	143	-	-	143
Derecognition	-	-	-	-
- cost	(3)	-	-	(3)
Closing carrying amount	3 830	458	1 203	5 491
At 30 June 2018				
Cost	5 489	1 564	1 366	8 419
Accumulated amortisation	(1 659)	(1 106)	(163)	(2 928)
Carrying amount	3 830	458	1 203	5 491

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

7. Intangible assets *continued*

Group R million	Software development ¹	Business acquisitions: Identifiable intangibles	Banking license and right to profit share	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 ²	(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 (2018: R64 million) of finance costs that have been capitalised during the year.

2 Refer also to note 10.2 Acquisition of DiscoveryCard business.

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 2019 is R390 million.
- Client relationships and Core Deposit Funding Benefit acquired in the DiscoveryCard business combination. The carrying amounts as at 30 June 2019 are R125 million and R19 million respectively. Refer to note 10 for details on the business combination.

Banking license

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

8. Deferred acquisition costs

R million	Group 2019	Group 2018
Balance at beginning of the year	1 150	1 025
Transition to IFRS 15 (refer note 43 Changes in accounting policy)	(681)	-
Translation differences	(5)	24
Additions	163	925
Deferred acquisition costs amortised	(91)	(824)
Balance at end of the year	536	1 150

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

Prior to the implementation of IFRS 15, the carrying value of the deferred acquisition costs related to the following contracts:

R million	Group 2018
Investment management contracts	556
Insurance management contracts – including health and short term insurance	469
Vitality contracts	125
	1 150

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 2019				
Balance at beginning of the year	-	-	-	-
IFRS 15 transition	-	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.

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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

9. Assets arising from contracts with customers and contract liabilities *continued*

Transaction price allocated to remaining performance obligations under contracts:

Group R million	Contract amount for future service	Contract term			
		< 1 year	2 – 3 years	4 – 5 years	> 5 years
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

10.1 GOODWILL ACQUIRED IN BUSINESS COMBINATION

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 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 2019	Group 2018
Goodwill			
- VitalityHealth ^{1,2}	GBP 100.3 million	1 804	1 822
- VitalityLife ¹	GBP 23.4 million	421	425
- Discovery Bank ³	ZAR 2 417 million	2 417	-
- Vitality Healthy Workplace ⁴	GBP 0.9 million	-	-
Total		4 642	2 247

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. Refer to note 10.2.

⁴ In March 2019 Discovery increased its interest in the Vitality Healthy Workplace resulting in Discovery obtaining control. The obtaining of control of Vitality Healthy Workplace resulted in goodwill of GBP 0.9 million (R17 million) and an associated deemed gain on step-up of the previous interest held. Subsequent to the acquisition this goodwill was fully impaired.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

10. Goodwill *continued*

10.2 ACQUISITION OF DISCOVERYCARD BUSINESS

Background to transaction

During the current financial year Discovery obtained control over the DiscoveryCard business as well as full ownership of Discovery Bank. Consistent with Discovery's communication in its annual results for June 2018, the total combined acquisition price payable by Discovery to the FirstRand Group was R1.8 billion. The concluded transaction included:

- the acquisition of FirstRand Bank Limited Group's (FirstRand) equity interest in Discovery Bank
- acquiring the remaining 25.01% economic interest that FirstRand owned in the DiscoveryCard business
- Discovery Bank acquiring all rights to the DiscoveryCard book and related assets, which Discovery Bank has started to migrate during the current financial period.

The transaction received final approval by the respective regulatory authorities, including the Prudential Authority and the Competition Authorities, in November 2018.

The acquisition of FirstRand's equity interest in Discovery Bank constituted a transaction with non-controlling interest, and is accounted for as a separate transaction between equity holders. This resulted in R1 104 million being recognised in the Statement of changes in equity.

The acquisition of all rights to the DiscoveryCard book and related assets, together with the acquisition of the remaining 25.01% economic interest in the DiscoveryCard business, resulted in a business combination in accordance with IFRS. Discovery has not early adopted the amendments to the definition of a business in IFRS 3 *Business Combinations*.

Accounting for the business combination

On 1 March 2019 Discovery obtained control of the DiscoveryCard/FirstRand Bank Limited (FRB) Joint Venture Business (DiscoveryCard business). The DiscoveryCard business comprises those business activities that are associated with the granting and managing of credit provided as part of the DiscoveryCard credit card offering to existing Vitality members. The acquisition allows Discovery Bank to contract with customers in the DiscoveryCard business and the right to contract with and migrate clients on the DiscoveryCard business platform to the Discovery Bank platform.

SIGNIFICANT JUDGEMENTS

In accounting for the business combination, management made specific judgements in order to reflect the substance of the transaction and present information which is reliable and relevant. Where judgement was required, management considered first the guidance and requirements of other IFRSs dealing with similar and related issues, thereafter the general guidance in the Conceptual Framework. The following key judgements were made:

- The acquisition by Discovery Bank Holdings Limited of the remaining equity interest in Discovery Bank from FirstRand is a separate transaction between equity holders, and is not included as part of the business combination. Instead, the acquisition of the 48% is a transaction with non-controlling interest and is treated as an equity transaction between owners.
- The series of transactions in which Discovery acquired the DiscoveryCard business are linked, and should be accounted for as a single transaction. The transactions were entered into in contemplation of each other and negotiated as a single package to effectively obtain control over the DiscoveryCard business.
 - o The transaction is accounted for in accordance with IFRS 3 *Business Combinations*.
 - o The date of control for the purpose of the purchase price allocation was determined as 1 March 2019, being the date on which FRB no longer has control over the relevant activities of the DiscoveryCard business.
 - o The existing individual customer accounts in the DiscoveryCard business will only be recognised by Discovery Bank when the individual loans and advances are migrated onto the Discovery Bank platform.
 - o Included in the assets and liabilities acquired in the business combination is the expected credit loss derivative (ECL derivative), representing a potential obligation to migrate the book at an amount that is not reflective of the book's fair value. The liability will release to profit or loss during migration of the book.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

10. Goodwill *continued*

10.2 ACQUISITION OF DISCOVERYCARD BUSINESS *continued*

PURCHASE CONSIDERATION

Included in the purchase price is the fair value of the previously held interest in the DiscoveryCard business. As part of accounting for a Business Combination, any previously held interests are re-measured to fair value at the acquisition date and treated as part of the consideration transferred to obtain control. This method ensures that the cost to obtain control, as well as the recognised assets, liabilities and resulting goodwill, is correctly reflected at fair value at the date of obtaining control. The gain on previously held interest in the DiscoveryCard business amounted to R761 million. This is recognised in 'gain on previously held interests in the DiscoveryCard business' in the Income statement.

Included in the acquisition of the previously held interest in the DiscoveryCard business, changes in capital required are treated as an adjustment to the preference dividends. Based on the contracts, Discovery Bank will receive an amount of R292 million. This is recognised as a separate receivable from the DiscoveryCard business with a resultant reduction in the purchase price.

The acquired business included the following:

Group R million	2019
Identifiable assets and liabilities acquired	(67)
- Client relationships	130
- Core deposit funding benefit	20
- ECL derivative	(175)
- Deferred tax related to assets and liabilities acquired	(42)
Less: Purchase Consideration	(2 350)
- Fair value of previously held interest in DiscoveryCard business	(1 909)
- Acquisition of remaining 25.01% of DiscoveryCard business	(754)
- Less: Pre-acquisition dividends ¹	21
- Less: Capital receivable	292
Goodwill	2 417

¹ Pre-acquisition preference dividends are dividends that were paid to Discovery Bank before the business combination came into effect.

The respective identifiable assets and liabilities acquired, as well as the associated Goodwill, have been included in the Statement of financial position. The intangible assets will be amortised as follows:

- Client relationships	10 years
- Core deposit funding benefit	10 years

The core deposit funding benefit represents core deposits held by customers in the DiscoveryCard book which gives rise to low cost funding for loans and advances. Both the client relationships and core deposit funding benefit will be amortised to profit or loss over their respective useful life of 10 years.

The useful life of the core deposit funding benefit is interlinked to the client relationship, and accordingly also 10 years. The useful life was determined based on recent churn rate adjusted for estimates of customer behaviours.

Goodwill, which represents the value of future business expected to be written as well as synergies from migration of DiscoveryCard customers onto the Discovery Bank platform, is not amortised, but is assessed for possible impairment at each reporting date. The impairment is recorded in profit or loss, if necessary. At 30 June 2019 no impairment was recognised.

The following post transaction revenue and profit or loss have been included in Discovery's profit or loss for the period ending 30 June 2019:

DiscoveryCard business profit or loss (since 1 March 2019)	R67 million
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Should the transaction have been effective on 1 July 2018, the following revenue and profit or loss would have been included in Discovery's profit or loss for the period ending 30 June 2019:

DiscoveryCard business profit or loss (assume included since 1 July 2018)	R242 million
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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

11. Equity-accounted investees

R million	Group 2019	Group 2018
Carrying value of material interest in associates and joint ventures	1 243	933
Carrying value of individually immaterial interest in associates	688	214
Carrying value of individually immaterial interest in joint ventures	19	12
Investment in equity-accounted investees	1 950	1 159

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.

Ownership structure Nature Place of business	Ping An Health	
	Equity-accounted Associate	Insurance China
R million	2019	2018
% of ownership interest	25%	25%
Summarised statement of comprehensive income		
Revenue	9 557	7 022
Net Profit	667	385
Other comprehensive loss	-	(36)
Total comprehensive income	667	349
Summarised statement of financial position		
Current assets	8 415	3 542
Non-current assets	9 119	6 552
Current liabilities	(3 171)	(1 687)
Non-current liabilities	(10 399)	(5 693)
Net assets	3 964	2 714
Reconciliation to carrying amounts:		
Opening net assets	2 714	1 020
Profit for the year	667	385
Other comprehensive loss	-	(36)
Increase in share capital and share premium	640	1 258
Translation differences	(57)	87
Closing net assets	3 964	2 714
Group's share of net assets	991	679
Goodwill	252	254
Carrying value at 30 June	1 243	933

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

11. Equity-accounted investees *continued*

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.

INDIVIDUALLY IMMATERIAL ASSOCIATES AND JOINT VENTURES

Cambridge Mobile Telematics transaction

During the current 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 total comprehensive income

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

Group R million	Associates		Joint ventures	
	2019	2018	2019	2018
Aggregate carrying amount	688	214	19	12
Aggregate amounts of the group's share of (loss)/profit for the year	(24)	2	27	17
Gain on dilution and disposal of equity-accounted investments	844	-	-	-

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

12. Financial assets – investments

R million	Group 2019	Group 2018
The Group's investment in financial assets are summarised by measurement category in the table below:		
Available-for-sale financial assets:	-	7 547
- Equity securities	-	175
- Equity linked notes ¹	-	20
- Debt securities	-	1 413
- Inflation linked securities	-	2
- Money market securities	-	4 169
- Mutual funds	-	1 768
Investment at amortised cost ²	1 943	-
- Debt securities	25	-
- Fixed term deposits	1 918	-
Investments at fair value through profit and loss – mandatorily	90 205	-
- Equity securities	34 981	-
- Equity linked notes ¹	3 201	-
- Debt securities	21 130	-
- Inflation linked securities	554	-
- Money market securities	13 765	-
- Mutual funds	16 574	-
Investments at fair value through profit and loss – designated	-	71 246
- Equity securities	-	30 642
- Equity linked notes ¹	-	211
- Debt securities	-	15 654
- Inflation linked securities	-	1 096
- Money market securities	-	5 865
- Mutual funds	-	17 778
Total investments	92 148	78 793
Listed	76 990	68 184
Unlisted	15 158	10 609
	92 148	78 793
Shareholder investments	8 991	7 547
- Available-for-sale financial assets	-	7 547
- Investments at amortised cost	1 943	-
- Investments at fair value through profit and loss – mandatorily	7 048	-
Policyholder investments	83 157	71 246
- Investments at fair value through profit and loss – designated	-	71 246
- Investments at fair value through profit and loss – mandatorily	83 157	-
Total investments	92 148	78 793

1 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.

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

12. Financial assets – Investments *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 (2018: financial assets at available-for-sale).
- investments at amortised cost have a maturity of less than 1 year, except for R439 million that will mature between 1 and 2 years.

- Policyholder investments are those financial assets at fair value through profit or loss that are held to back policyholder liabilities. Except for R38 million (2018: R105 million) which will be held to back unit-linked insurance contracts with a maturity profile between one and two years and R155 million (2018: R137 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.

13. Derivative financial instruments

R million	Group 2019 Assets	Group 2019 Liabilities	Group 2018 Assets	Group 2018 Liabilities
Derivatives used as cash flow hedges:				
Equity price risk derivatives ¹	176	(86)	337	(12)
Interest rate swap	-	(163)	-	(39)
Derivatives not designated as hedging instruments:				
Interest rate swap	144	-	-	(7)
De-designated derivatives ²	-	(5)	-	-
Expected credit loss derivatives	-	(175)	-	-
Currency derivative contracts	55	(80)	157	(20)
	375	(509)	494	(78)
Current	281	(90)	296	(29)
Non-current	94	(419)	198	(49)
	375	(509)	494	(78)

¹ 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 R41 million (2018: R41 million).

² Due to certain employees resigning during the current period, certain share-based payment awards (hedged item) that had been designated as part of a hedging relationship, were forfeited. This resulted in the related derivatives (hedging instrument) being de-designated and presented separately. 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 29).

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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:

Group R million	Notional amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the Statement of financial position where the hedging instrument is presented	Changes in fair value of hedging instrument used for calculating hedge ineffective- ness	Ineffective- ness recognised in profit or loss	Line item in which hedge ineffectiveness is presented
		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)

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

14. Insurance receivables, contract receivables and other receivables

R million	Group 2019	Group 2018
Receivables arising from insurance and reinsurance contracts:	4 920	4 190
- Premium debtors	558	548
- Less provision for impairment of premium debtors	(83)	(62)
- Reinsurance debtors	4 445	3 704
Contract receivables ¹	1 369	971
- Closed scheme debtors	100	118
- Discovery Health Medical Scheme	670	628
- International partner market receivables	196	225
- Other contract receivables	403	-
Other receivables:	2 726	2 382
- Discovery Unit Trust debtors	626	489
- Expired hedge receivables	24	18
- FNB – DiscoveryCard receivable	70	114
- Cash-in-transit debtors	86	132
- Loans to BEE initiatives	165	105
- Loans to senior management	-	153
- Prepayments ²	729	494
- Security deposit on derivatives	39	-
- Value-added tax asset ²	75	40
- Vitality partner debtors	76	86
- BEE partners' rights-issue funding	17	111
- Agents and brokers	390	356
- Other debtors ²	772	515
- Less allowance for expected credit losses	(343)	(231)
Total insurance receivables, contract receivables and other receivables	9 015	7 543
Current	6 018	5 551
Non-current	2 997	1 992
	9 015	7 543

¹ These amounts were presented as part of Other loans and receivables in the prior year.

² Prepayments, Value-added tax assets and R45 million (2018: R28 million) included in 'Other debtors' are non-financial assets and 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.

15. Reinsurance contracts

R million	Group 2019	Group 2018
Reinsurers' share of insurance contract liabilities	314	308
Current	314	308

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

16. Cash and cash equivalents

R million	Group 2019	Group 2018
Cash at bank and in hand	7 972	5 049
Short-term deposits	1 431	5 845
	9 403	10 894
Reconciliation to cash flow statement		
The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the financial year as follows:		
Balances as above	9 403	10 894
Overdrafts with banks (note 20)	-	(6)
Balances per statement of cash flows	9 403	10 888

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

17. Share capital and share premium

17.1 ORDINARY SHARE CAPITAL AND SHARE PREMIUM

Group R million	Issued		Treasury shares		Total outstanding
	Share capital	Share premium	Discovery Health	BEE share trust	
At 1 July 2017	1	8 377	(14)	(58)	8 306
Share movements:					
- treasury shares delivered	-	2	-	-	2
At 30 June 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

* Amount is less than R500 000.

Number of shares	Issued	Treasury shares		Total outstanding
		Discovery Health	BEE share trust	
At 30 June 2017	646 844 992	(680 268)	(1 205 704)	644 959 020
Share movements:				
- treasury shares delivered	-	-	98 962	98 962
At 30 June 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	-	-	99 252	99 252
At 30 June 2019	658 290 736	(680 268)	(1 007 490)	656 602 978

The total authorised number of ordinary shares is 1 billion (2018: 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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

17. Share capital and share premium *continued*

17.2 PREFERENCE SHARE CAPITAL

R million	Group 2019	Group 2018
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 2019	Group 2018
Gross		
- claims reported and loss adjustment expenses	8 428	7 296
- claims incurred but not reported	1 382	1 351
- EFA liability	60	53
- unearned premiums	544	551
- unit-linked insurance contracts	45 411	40 631
- with fixed and guaranteed terms	14 697	11 606
Total liabilities arising from insurance contracts, gross	70 522	61 488
Recoverable from reinsurers		
- claims incurred but not reported	(312)	(304)
- unearned premiums	(2)	(4)
Total reinsurers' share of liabilities arising from insurance contracts (refer to note 15)	(314)	(308)
Net		
- claims reported and loss adjustment expenses	8 428	7 296
- claims incurred but not reported	1 070	1 047
- EFA liability	60	53
- unearned premiums	542	547
- unit-linked insurance contracts	45 411	40 631
- with fixed and guaranteed terms	14 697	11 606
Total liabilities arising from insurance contracts, net	70 208	61 180
Current ¹	57 405	52 177
Non-current	12 803	9 003
	70 208	61 180

¹ Includes R49 783 million (2018: R44 409 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 R113 million of benefit expenses which is a reconciling item due to the cash flow impact of these benefit expenses in this note.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

18. Liabilities arising from insurance contracts *continued*

Movements in the liabilities are as follows:

Group R million	2019			2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Claims reported and loss adjustment expenses and IBNR						
Notified claims	7 296	-	7 296	6 256	-	6 256
Incurring but not reported	1 351	(304)	1 047	1 255	(258)	997
Balance at beginning of the year	8 647	(304)	8 343	7 511	(258)	7 253
Cash paid for claims settled in the year	(10 380)	156	(10 224)	(8 992)	117	(8 875)
Increase/(decrease) in liabilities:						
- arising from current year claims	12 134	(201)	11 933	10 632	(153)	10 479
- arising from prior year claims	(577)	35	(542)	(589)	-	(589)
Translation differences	(14)	2	(12)	85	(10)	75
Balance at end of the year	9 810	(312)	9 498	8 647	(304)	8 343
Notified claims	8 428	*	8 428	7 296	-	7 296
Incurring but not reported	1 382	(312)	1 070	1 351	(304)	1 047
Balance at end of the year	9 810	(312)	9 498	8 647	(304)	8 343
EFA liability						
Balance at beginning of the year	53	-	53	38	-	38
Increase in the year	17	-	17	21	-	21
Cash paid	(10)	-	(10)	(6)	-	(6)
Balance at end of the year	60	-	60	53	-	53
Provisions for unearned premiums						
Balance at beginning of the year	551	(4)	547	700	(5)	695
Increase in the year	981	(2)	979	895	(4)	891
Release in the year	(982)	4	(978)	(1 078)	5	(1 073)
Translation differences	(6)	-	(6)	34	-	34
Balance at end of the year	544	(2)	542	551	(4)	547

* Amounts less than R500 000.

R million	Group 2019	Group 2018
Unit-linked insurance contracts		
Balance at beginning of the year	40 631	34 375
Premiums received	10 502	9 105
Fair value adjustment	1 466	3 362
Withdrawals	(5 538)	(4 560)
Fees	(1 042)	(1 069)
Movement in negative insurance liability	(594)	(582)
Translation differences	(14)	-
Balance at end of the year	45 411	40 631
Balance is made up as follows:		
Unit-linked liabilities	49 783	44 409
Negative insurance liability	(4 372)	(3 778)
	45 411	40 631
With fixed and guaranteed terms		
Balance at beginning of the year	11 606	9 853
Expected movement in policyholder liabilities	(2 539)	(1 868)
Unwinding of discount rate	703	583
New business written	4 200	2 707
Experience variances	727	331
Balance at end of the year	14 697	11 606

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

19. Liabilities arising from reinsurance contracts

R million		Group 2019	Group 2018
Financial reinsurance ¹		1 462	1 495
Reinsurance recoveries relating to assets arising from insurance contracts (refer to note 5)		9 373	7 423
		10 835	8 918
Balance at beginning of the year		8 918	6 746
Increase in liability		1 984	1 948
- gross increase in liability		1 512	3 297
- receipt arising from reinsurance contracts		2 246	144
- reinsurance premiums paid		(1 774)	(1 493)
Translation differences		(67)	224
Balance at end of the year		10 835	8 918
Current		1 417	1 249
Non-current		9 418	7 671
		10 835	8 918

¹ Renamed from 'Lapse risk treaties' in the prior year, to 'Financial reinsurance' to fully capture the nature of the underlying reinsurance contracts.

20. Borrowings at amortised cost

R million	Ref	Group 2019	Group 2018
Borrowings from banks	(i)	11 034	9 050
Redeemable preference shares	(ii)	-	1 402
Overdrafts with banks		-	6
Finance lease liability	(iii)	3 648	3 621
		14 682	14 079
Current		1 795	710
Non-current		12 887	13 369
		14 682	14 079

(I) BORROWINGS FROM BANKS

Movement analysis of borrowings:

R million		Group 2019	Group 2018
Balance at beginning of the year		9 050	6 774
Loans raised		2 147	2 654
Loans repaid		(207)	(558)
Settlement of derivative capitalised to loan by counterparty		(7)	(6)
Interest accrued		875	593
Interest paid		(807)	(516)
Raising fees capitalised		(4)	(11)
Translation differences		(13)	120
Balance at end of the year		11 034	9 050

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

20. Borrowings at amortised cost *continued*

(I) BORROWINGS FROM BANKS *continued*

SA borrowing facilities

Discovery Limited

During the prior financial year, Discovery registered an unsecured R10 billion Domestic Medium Term Note (DMTN) programme. In terms of this programme, Discovery issued R0.7 billion (2018: R1.5 billion) JSE Listed Notes during the current year. The carrying amount of the listed notes approximates their fair value. Discovery Limited has other borrowings of R4.6 billion (2018: 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	Maturity date	Capital repayment
500	Fixed at 10.94%	10 June 2021	Maturity
1 100	Fixed at 10.59%	10 June 2021	Annually ¹
375	Fixed at 10.39% ²	30 September 2021	Maturity
450	Fixed at 10.31% ²	15 December 2021	Maturity
175	Linked to 3 month JIBAR ³	10 March 2022	Maturity
800	Fixed at 10.20%	17 March 2022	Maturity
200	Fixed at 10.23%	16 May 2022	Maturity
500	Fixed at 9.71% ²	21 November 2022	Maturity
800	Fixed at 10.31% ²	21 November 2024	Maturity
200	Fixed at 10.46% ⁴	21 November 2024	Maturity
1 000	Fixed at 10.28% ²	2 March 2023	Maturity
6 100	Total as at 30 June 2018		
700	Fixed at 10.29% ²	21 August 2026	Maturity
6 800	Total as at 30 June 2019		

¹ Commencing on 10 June 2019 with final payment on 10 June 2021.

² The interest rate has been fixed through interest rate swaps. Refer to discussion on "Interest Rate Risk" in note 3.4.1.

³ As at 30 June 2019, interest is accruing at 9.6% per annum (2018: 9.58% per annum).

⁴ 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 4 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 R106 million. Please refer to note 13 for more detail on the interest rate swaps.

Discovery Central Services

Discovery Central Services, a subsidiary of the Discovery Group, entered into a new unsecured R1.4 billion 5 year loan facility in December 2018, as part of a broader debt refinancing programme (refer ii below). 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. Discovery Health Proprietary Limited, Discovery Vitality Proprietary Limited and Discovery Limited have provided guarantees in respect of these facilities. 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 R496 million (2018: R154 million) of the facility was utilised. R82 million (2018: R73 million) of this facility was repaid. The balance owing at 30 June 2019 amounts to R548 million (2018: R568 million) which includes accrued interest.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

20. Borrowings at amortised cost *continued*

UK borrowing facilities

Discovery previously entered into term facilities totaling GBP 150 million. These borrowings have been used to fund the new business acquisition costs incurred by VitalityLife, which were previously funded by The Prudential Assurance Company Limited (Prudential).

Discovery repaid GBP 50 million of this facility in previous financial periods and a further voluntary prepayment of GBP 10 million of this facility on 30 November 2018. The balance owing at 30 June 2019 amounts to GBP 90 million (R1 612 million) (2018: GBP 99.7 million (R1 810 million)). Included in the outstanding balance is GBP 39.5 million (R710 million) which matures on 23 June 2020.

The salient terms of the facilities are as follows:

Facility 1:

Facility amount:	GBP 100 million
Facility utilised:	GBP 100 million
Type of borrowings:	Senior unsecured
Capital repayable:	Bi-annual instalments of GBP 7.5 million commenced on 31 May 2016, with a final bullet payment at maturity of GBP 47.5 million (reduced to GBP 39.5 million after voluntary repayments)
Interest rate:	Floating, linked to 3 month London Interbank Offered Rate (LIBOR)
Security:	None
Maturity date:	23 June 2020
Callable/Convertible:	Not applicable
Interest payable:	Quarterly in arrears

Facility 2:

Facility amount:	GBP 50 million
Facility utilised:	GBP 50 million
Type of borrowings:	Senior unsecured
Capital repayable:	Full amount is repayable at maturity date
Interest rate:	Floating, linked to 3 month London Interbank Offered Rate (LIBOR)
Security:	None
Maturity date:	27 May 2021
Callable/Convertible:	Not applicable
Interest payable:	Quarterly in arrears

The borrowings from banks impose limitation on total borrowings. A breach of these restrictions would require immediate repayment of any outstanding balance. At 30 June 2019 there was no breach.

(II) REDEEMABLE PREFERENCE SHARES

In 2016 Discovery Pref Holding Company (RF) Limited, a subsidiary of the Discovery Group, issued 1 400 A preference shares at an issue price of R1 million each, as part of a debt syndication programme. The preference shares were issued at a fixed coupon rate of 8.225% per annum, paid bi-annually, redeemable on 29 June 2021. As part of a broader debt refinancing programme (referred to in (i) above), these preference shares were voluntarily redeemed on 20 December 2018, at nominal value. A breakage fee of R33 million was payable and has been accounted for in finance costs. For the calculation of normalised headline earnings, these costs have been added back.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

20. Borrowings at amortised cost *continued*

(III) CAPITALISED FINANCE LEASE LIABILITY

Commitments in relation to finance leases are payable as follows:

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
30 June 2018			
Due within one year	454	(86)	368
Due between two and five years	1 713	(503)	1 210
Due between six and ten years	2 640	(1 416)	1 224
Due between eleven and fifteen years	3 095	(2 276)	819
	7 902	(4 281)	3 621

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 note 6) of R3 155 million was raised in the prior year. At year end, R3 321 million (2018: R3 237 million) remained outstanding. Finance charges of R357 million (2018: R210 million) have been recognised on the finance lease liability in profit or loss and repayments of R286 million (2018: R128 million) have been made.

21. Investment contracts at fair value through profit or loss

R million	Group 2019	Group 2018
The movements during the year were as follows:		
Balance at beginning of the year	17 927	14 867
Deposits received	5 342	5 472
Account balances paid on withdrawal and other terminations in the year	(3 404)	(3 720)
Fair value adjustment	809	1 308
Balance at end of the year	20 674	17 927
Current ¹	20 674	17 927

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). In accordance with IFRS 9, Discovery has designated these contracts at fair value through profit or loss. Discovery's credit risk is not reflected in the measurement of the assets or consequently the liability, which is measured with reference to the underlying assets. Own credit risk has been assessed and determined to be immaterial.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

22. Trade and other payables

R million	Group 2019	Group 2018
Commissions payable	231	190
Digicore payable	11	9
Discovery Unit Trust creditors	421	184
Due to reinsurers	326	248
Intermediary payables	92	72
Payables and accrued liabilities	2 422	2 516
Payroll creditors	963	772
Policyholder unallocated funds	414	391
Premiums received in advance	125	246
Security deposits on derivatives	285	210
Straight-lining operating lease payments	53	43
Unsettled trades	49	54
VitalityLife working capital funding ¹	4 199	3 663
Value-added tax liability ²	142	76
Other creditors	529	369
	10 262	9 043
Current	5 665	4 710
Non-current	4 597	4 333
	10 262	9 043

¹ Includes the 'deposit back' of GBP 220 million (R3 950 million) (2018: GBP 169 million (R3 065 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

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

23. Deferred income tax

R million	Group 2019	Group 2018
Deferred tax asset	2 372	1 968
– Current	242	391
– Non-current	2 130	1 577
Deferred tax liability	(8 697)	(8 007)
– Current	(2)	36
– Non-current	(8 695)	(8 043)
Total	(6 325)	(6 039)
Movement summary		
Balance at beginning of the year	(6 039)	(5 626)
Income statement charge	(258)	(404)
IFRS 9 transitional adjustment allocated to retained earnings	6	–
Capital gains taxation on available-for-sale financial assets charged to other comprehensive income	1	(17)
Deferred tax on cash flow hedge charged to other comprehensive income	12	(10)
Deferred tax recognised on business combination	(42)	–
Translation differences	(5)	18
Balance at end of the year	(6 325)	(6 039)

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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 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)

Group R million	Opening balance	Charge for the year	Translation differences	Closing balance
Year ended 30 June 2018				
Assessed loss in Company Policyholders' Fund	41	28	-	69
Assessed loss in Individual Policyholders' Fund	562	17	-	579
Assessed loss in subsidiaries	355	281	19	655
Capital gains tax on available-for-sale financial instruments	(83)	(34)	-	(117)
Cash flow hedge	(34)	(2)	-	(36)
Deferred acquisition costs	(183)	(15)	-	(198)
Deferred revenue	35	(1)	-	34
Difference between accounting and tax balances arising from insurance contracts	(6 756)	(1 119)	-	(7 875)
Difference between wear and tear and depreciation	(87)	(46)	2	(131)
Finance leases	-	5	-	5
Income received in advance	38	(17)	-	21
Intangibles recognised on acquisition of businesses	(94)	14	(5)	(85)
Operating leases	8	(4)	-	4
Prepayments	(28)	18	-	(10)
Provisions	108	35	1	144
Share-based payments	84	5	-	89
Unutilised special transfer balances	386	184	-	570
Pre-trade expenditure	17	110	-	127
Other	(5)	110	1	116
	(5 626)	(431)	18	(6 039)

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

23. Deferred income tax *continued*

ASSESSABLE LOSSES

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

R million	Group 2019	Group 2018
Vitality Group International, Inc (will begin to expire in 2021)	1 150	3 106
Discovery Central Services (Pty) Ltd	681	238
Discovery Connect Distribution Services (Pty) Ltd	445	339
Discovery Group Europe Ltd	11	83
Discovery Life – Individual Policyholders' Fund	11 427	14 039
Discovery Medical Suppliers (Pty) Ltd	3	2
Discovery Partner Market Services PTE LTD	49	48
Grove Nursing Services (Pty) Ltd	31	26
PrimeMed Administrators (Pty) Ltd	2	2
Southern Rx (Pty) Ltd	70	57
Vitality Health Ltd	-	526
	13 869	18 466

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. Deferred revenue

R million	Group 2019	Group 2018
Balance at beginning of the year	324	291
IFRS transitional adjustment (refer note 43 Changes in accounting policies)	(324)	-
Income deferred	-	250
Income recognised through profit or loss	-	(219)
Translation differences	-	2
Balance at end of the year	-	324
Current	-	198
Non-current	-	126
	-	324

25. Employee benefits

R million	Group 2019	Group 2018
Leave pay		
Balance at beginning of the year	232	191
Additional provisions raised	335	205
Used during the year	(282)	(140)
Paid to terminated employees	(25)	(24)
Balance at end of the year	260	232
Current	215	192
Non-current	45	40
	260	232

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

26. Net insurance premium revenue

R million	Group 2019	Group 2018
Health	7 157	6 320
Recurring premiums	8 552	7 486
Reinsurance premiums	(1 395)	(1 166)
Individual life and invest	25 368	21 665
Recurring premiums	19 547	16 768
Single premiums	9 603	7 803
Reinsurance premiums	(3 782)	(2 906)
Group life	1 964	1 826
Recurring premiums	2 108	1 949
Reinsurance premiums	(144)	(123)
Short-term insurance	2 952	2 518
Recurring premiums	3 226	2 679
Reinsurance premiums	(274)	(161)
	37 441	32 329
Insurance premium revenue	43 036	36 685
Outward reinsurance premiums	(5 595)	(4 356)
	37 441	32 329

27. Investment income

R million	Group 2019	Group 2018
Available-for-sale financial assets	-	63
- Interest using the effective interest rate method	-	46
- Dividends	-	*
- Mutual fund distributions	-	17
At amortised cost interest income using the effective interest rate method	5	19
Cash and cash equivalents interest income using the effective interest rate method	393	813
	398	895
Attributable to:		
- shareholders	190	209
- policyholders	208	686
	398	895

* Amount is less than R500 000.

28. Net realised gains on available-for-sale financial assets¹

R million	Group 2019	Group 2018
Realised gains	-	10
- Money market securities	-	1
- Mutual funds	-	9
Realised losses	-	*
- Mutual funds	-	*
	-	10

* Amount is less than R500 000.

¹ This category is no longer available under IFRS 9.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

29. Net fair value gains on financial assets at fair value through profit or loss

R million	Group 2019	Group 2018
Investment income ¹	2 231	1 436
- Interest	1 891	1 184
- Dividends	340	252
Net realised gains	324	73
Net fair value gains	599	3 463
Hedge ineffectiveness	5	4
Mutual fund distribution	1 106	847
	4 265	5 823
<p>¹ Amounts reflected in the prior year related to financial assets that were designated at fair value through profit or loss (FVTPL) under IAS 39, whereas amounts reflected in the current year relate to financial assets that are mandatorily classified as at FVTPL in terms of IFRS 9.</p>		

30. Net claims and policyholders' benefits

R million	Group 2019	Group 2018
Health insurance claims	3 580	3 092
Gross claims	4 669	4 030
Less: Reinsurance recoveries	(1 089)	(938)
Individual life insurance claims	4 117	3 704
Death	2 532	1 701
Disability	2 679	2 557
Payback benefits	1 119	973
Less: Reinsurance recoveries	(2 213)	(1 527)
Group life insurance claims	1 699	1 567
Death	791	609
Disability	1 078	1 099
Payback benefits	5	4
Less: Reinsurance recoveries	(175)	(145)
Individual investment benefits	9 010	7 600
Surrenders	8 476	6 135
Guaranteed payments	59	53
Annuity payments	475	1 412
Short-term insurance claims	2 473	2 016
Gross claims	2 655	2 141
Less: Reinsurance recoveries	(182)	(125)
	20 879	17 979
Claims and policyholders' benefits	24 538	20 714
Insurance claims recovered from reinsurers	(3 659)	(2 735)
Net claims and policyholders' benefits	20 879	17 979

31. Acquisition costs

R million	Group 2019	Group 2018
Commission and other costs obtaining contracts	6 172	5 695
Movement in deferred acquisition costs (refer to note 8)	(72)	(101)
	6 100	5 594

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

32. Marketing and administration expenses

R million	Group 2019	Group 2018
Auditors remuneration		
Audit fees	55	41
Fees for other services	1	1
Prior year	6	3
	62	45
Operating lease charges		
Property	149	258
Computer and office equipment	143	121
	292	379
Staff costs including executive directors¹		
Salaries, wages and allowances	6 082	5 412
Medical aid fund contributions	368	323
Defined contribution provident fund contributions	296	310
Social security levies	239	183
Share-based payment expenses		
– equity-settled	13	25
– cash-settled	455	365
– loss/(gain) on cash flow hedge	26	(69)
Staff training	68	41
Recruitment fees	54	42
Temporary staff	237	269
Provision for leave pay	53	65
Other	203	168
	8 094	7 134
Other operating costs		
Amortisation of software (note 7) ²	735	525
Building related and office costs	495	551
Depreciation of property and equipment (note 6)	519	416
Loss/(gains) on disposal of property and equipment	2	(4)
Impairment of intangible assets	32	200
Allowance for expected credit losses on receivables	50	17
Insurance	34	28
IT systems and consumables	1 597	1 213
Marketing and distribution costs	1 282	1 109
Non-executive directors fees	27	22
Professional fees	656	569
Vitality benefit expenses	3 856	3 581
Other operating expenses	2 240	1 434
	11 506	9 661
Total marketing and administration expenses	19 954	17 219

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

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

33. 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 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. As at 30 June 2018, 125 781 were outstanding, which have all vested during the current financial period. 980 000 additional shares have been purchased accumulatively in prior years, for future allocation to employees. No additional shares were purchased by the BEE staff share trust during the current year. The trust 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. The Discovery Limited phantom scheme and Long term Incentive Plan 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. 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.

4. 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 4 year period but 3 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.

5. 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.

6. 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.

7. 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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

33. Share-based payments and long term incentives *continued*

The share/option schemes mentioned in bullet 1 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 4 have been classified as cash-settled schemes and a liability is raised in terms of IFRS 2. The other long term incentive schemes in bullets 5 and 6, 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							
01/07/2012 – 30/06/2013	R0.00	30/09/2018	3 090	-	(3 090)	-	-
01/07/2013 – 30/06/2014	R0.00	30/09/2019	33 431	-	(29 515)	(1 972)	1 944
01/07/2014 – 30/06/2015	R0.00	28/02/2020	18 014	-	(9 007)	(754)	8 253
01/07/2015 – 30/06/2016	R0.00	30/09/2021	11 029	-	-	-	11 029
01/07/2015 – 30/06/2016	R122.40	01/03/2021	37 037	-	(12 346)	-	24 691
01/07/2015 – 30/06/2016	R121.50	30/03/2021	41 791	-	(11 489)	(6 908)	23 394
01/07/2016 – 30/06/2017	R0.00	02/05/2022	8 496	-	(2 124)	(3 186)	3 186
01/07/2016 – 30/06/2017	R113.00	30/11/2021	127 728	-	(23 353)	2 296	106 671
01/07/2016 – 30/06/2017	R122.50	30/11/2021	160 027	-	(34 347)	(22 245)	103 435
01/07/2017 – 30/06/2018	R0.00	22/05/2023	55 246	-	(14 392)	46 523	87 377
01/07/2018 – 30/06/2019	R0.00	30/04/2024	-	19 303	-	-	19 303
2. The Discovery Limited phantom scheme							
01/07/2013 – 30/06/2014	R0.00	30/09/2018	247 956	-	(247 043)	(913)	-
01/07/2013 – 30/06/2014	R84.76	30/09/2018	491 449	-	(489 626)	(1 823)	-
01/07/2014 – 30/06/2015	R0.00	30/09/2019	547 802	-	(272 553)	(15 485)	259 764
01/07/2014 – 30/06/2015	R97.89	30/09/2019	1 095 617	-	(545 112)	(30 971)	519 534
01/07/2015 – 30/06/2016	R0.00	30/04/2021	756 683	-	(275 355)	(26 676)	454 652
01/07/2015 – 30/06/2016	R122.50 – R134.94	30/04/2021	1 442 248	-	(489 350)	(53 352)	899 546
01/07/2016 – 30/06/2017	R0.00	30/04/2022	2 305 260	-	(580 792)	(98 235)	1 626 233
01/07/2016 – 30/06/2017	R110.4 – R115.23	30/04/2022	449 784	-	(117 340)	(12 647)	319 797
01/07/2017 – 30/06/2018	R0.00	31/03/2023	2 469 829	-	(11 521)	(116 834)	2 341 474
01/07/2017 – 30/06/2018	R84.76 – R141.65	31/03/2023	786 846	-	(13 747)	(51 520)	721 580
01/07/2018 – 30/06/2019	R0.00	31/03/2024	-	2 053 697	-	(71 923)	1 981 744
3. Acquisition schemes							
01/07/2013 – 30/06/2014	R0.00	30/06/2019	44 225	-	(31 849)	(10 208)	2 168
01/07/2014 – 30/06/2015	R0.00	30/06/2020	98 487	-	(44 902)	(16 240)	37 345
01/07/2015 – 30/06/2016	R0.00	30/06/2021	752 464	-	(612 859)	(46 132)	93 473
01/07/2016 – 30/06/2017	R0.00	30/06/2022	864 494	-	(44 861)	(72 351)	747 282
01/07/2017 – 30/06/2018	R0.00	30/06/2023	682 212	-	(11 290)	(30 823)	640 099
01/07/2018 – 30/06/2019	R0.00	30/06/2024	-	684 445	-	-	684 445
4. The Vitality Group phantom stock plan							
01/10/2014	USD 0.00	01/10/2018	634 335	-	(634 335)	-	-
01/10/2015	USD 0.00	01/10/2019	1 035 694	-	(517 847)	-	517 847
01/10/2016	USD 0.00	01/10/2020	1 863 393	-	(621 131)	(37 672)	1 204 590
01/10/2017	USD 0.00	01/10/2021	970 294	-	-	(39 975)	930 319
01/10/2018	USD 0.00	01/10/2022	-	710 283	-	(36 978)	673 305

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

33. 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 2.25 years	26.19% – 27.37%	1.31 – 1.70
Phantom scheme						
01/07/2014 –						
30/06/2015	R149.11	6.96%	R97.89	up to 0.25 years	24.08%	0.00
01/07/2015 –						
30/06/2016	R149.11	6.64% – 6.96%	R122.50 – R134.94	up to 1.83 years	25.95% – 27.21%	0.00 – 1.81
01/07/2016 –						
30/06/2017	R149.11	6.66% – 6.96%	R115.23 – R114.96	up to 2.25 years	25.84% – 26.24%	0.00 – 2.10
01/07/2017 –						
30/06/2018	R149.11	6.65% – 6.96%	R141.65 – R97.89	up to 3.25 years	24.08% – 26.23%	0.00 – 1.75

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. The fair value of shares granted under these schemes during the current financial year, has been calculated using the closing price of R149.11 adjusted for expected future dividends that will be declared by Discovery during the vesting period.

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 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.

34. Finance costs

R million	Group 2019	Group 2018
Interest expense on:		
– Borrowings measured at amortised cost using the effective interest rate method	827	529
– Release from other comprehensive income	7	6
– Cash flow hedge recycled to other comprehensive income	39	18
– Redeemable preference shares	90	116
Breakage fee	33	–
Interest using the effective interest rate method	57	116
– Finance lease	400	254
– Interest on other payables using the effective interest rate method	12	36
	1 375	959

35. Foreign exchange losses

R million	Group 2019	Group 2018
Net foreign exchange losses	*	4

* Amount is less than R500 000.

The net foreign exchange gains and losses arise primarily from the settlement of foreign supplier balances.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

36. Taxation

R million	Group 2019	Group 2018
Charge for the year:		
Current taxation	1 047	1 273
Normal taxation	1 047	1 268
Capital gains taxation	-	5
Deferred taxation	258	404
	1 305	1 677
	%	%
<i>Taxation rate reconciliation</i>		
Effective taxation rate	16.5	22.6
Subsidiary losses not provided for	(1.8)	(0.4)
Prior year (under)/over provision	(0.6)	0.1
Deferred tax asset raised on prior year losses	8.7	4.1
Alignment to 'new IFRS tax-adjusted basis'	(1.5)	1.6
Tax on Individual Policyholder Fund	2.5	-
Tax on Company Policyholder Fund	2.0	-
Capital profits and dividend income	0.5	1.1
Capital gains tax	0.7	-
Non-deductible expenditure: Capital in nature	(1.3)	(1.4)
Non-deductible expenditure: Other individually immaterial	(1.7)	(0.6)
Non-taxable income: Gain on previously held interests	2.7	-
Non-taxable income: Other individually immaterial	2.1	0.1
Tax rate change – decrease	0.4	0.8
Tax rate differences	1.8	-
Tax on eliminated intergroup transactions	(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% (2018: 28%).

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.

37. Earnings per share

	Group 2019	Group 2018
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)	6 533	5 652
Weighted number of ordinary shares in issue (000's)	652 295	645 014
Undiluted earnings per share (cents)	1 001.5	876.1
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. Discovery has one category of dilutive potential ordinary shares namely:		
– shares issued from the staff share trusts which have not been delivered to participants		
Weighted average ordinary shares in issue (000's) adjusted for:	652 295	645 014
– Weighted average ordinary shares in the staff share trusts (000's)	273	394
	652 568	645 408
Diluted earnings per share (cents)	1 001.1	875.6

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

37. Earnings per share *continued*

	Group 2019	Group 2018
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	6 533	5 652
Adjusted for:		
- gain on dilution and disposal of equity-accounted investments	(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	17	-
- loss/(gain) on disposal of property and equipment	2	(4)
- tax on (loss)/gain on disposal of property and equipment	(1)	1
- impairment of intangible assets	32	200
- tax on impairment of intangible assets	(9)	(38)
- realised gains on available-for-sale financial assets	-	(10)
- capital gains tax on realised gains on available-for-sale financial assets	-	2
Headline earnings	5 147	5 803
Headline earnings per share (cents):		
- basic	789.0	899.6
- diluted	788.7	899.0
Normalised headline earnings (R million)		
Normalised headline earnings is calculated by adjusting headline earnings with significant items that are not considered to be part of Discovery's normal operations.		
Headline earnings	5 147	5 803
- accrual of dividends payable to preference shareholders	-	1
- amortisation of intangibles from business combinations	99	123
- deferred tax on amortisation of intangibles from business combinations	(15)	(14)
- 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	(326)	(352)
- deferred tax timing difference related to new 'adjusted IFRS' tax basis and Corporate Policyholder Fund assessed loss	(38)	(119)
- unrealised losses/(gains) on foreign exchange contracts not designated as a hedge	134	(110)
- tax on unrealised gains on foreign exchange contracts not designated as a hedge	(37)	33
- initial expenses related to Prudential Book transfer	28	(1)
- tax on initial expenses related to Prudential Book transfer	(5)	-
- duplicate rental and other building related costs	-	37
Normalised headline earnings	5 035	5 401
Normalised headline earnings per share (cents):		
- basic	771.9	837.4
- diluted	771.6	836.9

Normalised operating profit per the segmental information presented in note 1, reflects the cash rental costs separately from the IFRS finance lease treatment, as individual business expenses and margins are managed on underlying cash rental costs incurred by each business.

Normalised headline earnings adjusted for the impact of the accounting treatment of the new head office lease, would result in an increase of R202 million (2018: R150 million) in normalised headline earnings to R5 237 million (2018: R5 551 million). The adjustment is calculated by replacing the depreciation of R210 million (2018: R126 million) and finance charges of R357 million (2018: R210 million) recognised in line with IFRS, with the actual market related rentals of R286 million (2018: R128 million), and adjusting for tax. Normalised headline earnings per share (with market related cash rentals)(cents) would be 802.9 on an undiluted basis and 802.6 on a diluted basis.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

38. Cash flow information

R million	Group 2019	Group 2018
38.1 CASH GENERATED BY OPERATIONS		
Profit before taxation	7 919	7 412
Adjusted for:		
Investment income	(3 724)	(3 178)
Realised investment gains and losses	(335)	(83)
Financing costs	1 375	959
Premiums, claims, benefits and investment charges for liabilities under investment contracts	1 820	1 752
Non-cash items:		
Allowance for expected credit losses	50	17
Amortisation of intangibles from business combinations	99	123
Amortisation of software	735	525
Assets arising from contracts with customers	58	-
Contract liabilities movement	109	-
Deferred acquisition costs	(72)	(101)
Derecognition and impairment of intangible assets	32	203
Derecognition and impairment of property and equipment	11	11
Deferred revenue	-	31
Depreciation	519	416
Fair value adjustment to liabilities under investment contracts	809	1 308
Gain from derivatives	(57)	(138)
Gain on dilution and disposal of equity-accounted investments	(844)	-
Gain on previously held interest in DiscoveryCard business	(761)	-
Hedge ineffectiveness	(5)	-
Impairment of goodwill	17	-
Loss/(gain) on disposal of property and equipment	2	(4)
Operating lease payments in advance	10	(16)
Provision for employee benefits	53	65
Share-based payment expenses – cash settled	455	418
Share of profits from equity-accounted investments	(170)	(115)
Transfer to assets under insurance contracts	(5 321)	(5 141)
Transfer to assets under reinsurance contracts	(7)	(36)
Transfer to liabilities under insurance contracts	8 050	8 088
Transfer to liabilities under reinsurance contracts	1 984	1 948
Translation differences	(3)	57
Unearned premiums	(1)	(183)
Unrealised gains on investments at fair value through profit or loss	(599)	(3 463)
Working capital changes:		
Insurance receivables, contract receivables and other receivables	(1 454)	(908)
Trade and other payables	2 025	1 158
	12 779	11 125
38.2 TAXATION PAID		
Balance at beginning of the year	(254)	(189)
Taxation charged for the year in the income statement	(1 305)	(1 677)
Adjustment for movement in deferred taxation	258	404
Taxation charged for the year in other comprehensive income	2	(16)
Translation differences	2	(4)
Balance at end of the year	140	254
	(1 157)	(1 228)
38.3 PROCEEDS FROM ISSUANCE OF SHARES		
Shares issued	1 854	-
Shares issue costs	(19)	-
	1 835	-

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

38. Cash flow information *continued*

R million	Group 2019	Group 2018
38.4 MOVEMENT OF BORROWINGS		
Balance at beginning of the year excluding overdrafts with banks	14 073	8 523
Assets purchased on finance lease	13	3 251
Increase in borrowings	2 147	2 654
Raising fees capitalised	(4)	(12)
Interest accrued on borrowings	1 331	963
Interest capitalised to intangible assets	47	64
Interest recognised in profit or loss	1 284	899
Interest paid on borrowings	(1 124)	(750)
Repayment of borrowings	(1 741)	(678)
Translation differences	(13)	122
Balance at end of the year excluding overdrafts with banks	14 682	14 073

39. Commitments

R million	Group 2019	Group 2018
39.1 CAPITAL COMMITMENTS		
Capital expenditure approved but not contracted for at the reporting date is as follows:		
Property and equipment including new head office leasehold improvements	22	84
Intangible assets	11	377
Development costs for Discovery Bank	67	200
	100	661
39.2 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. 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	82
Due within two to five years	154	59
Due after five years	5	-
Cash flow commitment	207	141
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	89
Due within two to five years	126	197
Due after five years	22	169
Cash flow commitment	190	455
Accrued to a liability (refer to note 22)	(53)	(43)
Net commitment	137	412

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

40. Dividends per share

40.1 DIVIDENDS PER ORDINARY SHARE

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.

The dividends paid in 2018 totalled R1 284 million and comprised a final dividend of 98 cents per share paid on 9 October 2017 and an interim dividend of 101 cents per share paid on 19 March 2018.

40.2 DIVIDENDS PER PREFERENCE SHARE

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.

The dividends paid in 2018 totalled R83 million and comprised a final dividend of 520.68493 cents per share paid on 18 September 2017 and an interim dividend of 518.15068 cents per share paid on 12 March 2018.

41. Contingencies

The Group is exposed to no material contingencies at 30 June 2019.

42. Related parties

42.1 LIST OF RELATED PARTIES AS DEFINED

Subsidiaries

Details of subsidiaries directly owned by Discovery Limited are contained in Company note 1.

Associates and Joint Ventures

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

Corporate investors

RMI Holdings Limited has a 25.04% shareholding in Discovery Limited.

Key management personnel

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

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

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

42. Related parties *continued*

42.2 TRANSACTIONS WITH RELATED PARTIES

For purposes of this section Discovery Limited will be referred to as the Company and where relevant, amounts are excluding VAT.

Rand Merchant Insurance Holdings Limited (RMI)

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 R5 853 million (2018: R5 496 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 R30 million (2018: R34 million).

Discovery Third Party Recovery Services (DTPRS) paid DHMS R14 million (2018: R15 million) to purchase all the risks and rewards of ownership to the claims due from the Road Accident Fund up to 9 September 2019 (2018: 31 December 2017). DTPRS also provides a service to DHMS to recover all claims that are due from the Compensation for Occupational Injuries and Diseases. DTPRS received R22 million (2018: R19 million) for this service. DTPRS owes DHMS R6 million (2018: R7 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 591 million for the year ended 30 June 2019 (2018: R1 483 million).

DHMS owes the Discovery Group R670 million (2018: R634 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 (effective 1 January 2018).
- 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 064 million (2018: R892 million).

DTPRS paid Bankmed R6 million (2018: R9 million) to purchase all the risks and rewards of ownership for the claims due from the Road Accident Fund up to 31 August 2017. 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 (2018: 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 R91 million (2018: R83 million).

Amounts due to the Discovery Group at year-end totalled R100 million (2018: R82 million).

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

42. Related parties *continued*

42.2 TRANSACTIONS WITH RELATED PARTIES *continued*

Cambridge Mobile Telematics Inc. (CMT)

Discovery Insure procured the services of CMT to develop software for the smartphone telematics platform. R1 million (2018: R1 million) has been paid to CMT in respect of this software.

Discovery Insure also 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 (2018: R10 million).

Discovery Franchises

Discovery has established a network of 34 franchises in order to establish a national footprint for its products. Discovery has paid R262 million (2018: R284 million) in fees to the franchises.

The franchises participate in the Acquisition Scheme (refer to note 33 for further details). During the year, R14 million (2018: R19 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 year (2018: R69 million).

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 R29 million during the year (2018: R29 million). Discovery also paid a management fee of R2 million (2018: R5 million).

Discovery staff pension and provident funds

A pension and provident fund has been set-up specifically for the Discovery staff. Contributions made to this fund during the year amounted to R250 million (2018: R259 million). The pension and provident fund has invested R1 226 million (2018: R1 048 million) in Discovery Invest Target Retirement 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

- (i) Discovery Limited key management personnel's compensation, paid by the Company or on behalf of the Company for services rendered to Discovery Limited, is detailed in the Directorate on pages 163 to 164.
- (ii) Aggregate details of insurance, annuity and investment transactions between Discovery Limited, any subsidiary, associate or joint venture of Discovery Limited and key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management:

Insurance contracts

R'000	Aggregated insured cover		Premiums received		Claims paid	
	2019	2018	2019	2018	2019	2018
Life insurance	1 361 601	1 194 889	10 097	8 019	-	-
Short-term insurance	547 607	492 705	2 380	2 101	745	504

Investment contracts

R'000	Investment values		Premiums received		Withdrawal benefits		Investment returns	
	2019	2018	2019	2018	2019	2018	2019	2018
Investment contracts	62 466	64 172	2 269	2 445	2 669	15 709	(3 709)	4 761

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

42. Related parties *continued*

42.2 TRANSACTIONS WITH RELATED PARTIES *continued*

(iii) Aggregate details of transactions between VitalityHealth and key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management.

Health insurance

R'000	Premiums received		Claims paid	
	2019	2018	2019	2018
Health insurance	38	393	108	9

Aggregate details of transactions between Discovery Vitality Proprietary Limited and key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management:

Vitality loyalty programme

R'000	Premiums received		Amounts paid	
	2019	2018	2019	2018
Vitality benefits	59	102	1 870	1 933

DiscoveryCard

R'000	Card fees received		Discounts paid	
	2019	2018	2019	2018
DiscoveryCard	177	254	17	48

DiscoveryBank

R'000	Savings		Transactions	
	2019	2018	2019	2018
DiscoveryBank	247	-	330	-

(v) Key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management accrued 376 578 Discovery miles as part of the DiscoveryCard loyalty programme for the year ended 30 June 2019 (2018: 387 150).

(vi) 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 2019 was 93 992 083 ordinary shares (2018: 93 002 782 ordinary shares).

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

- pursuant to the approval granted by shareholders at the Company's annual general meeting, held on 26 November 2018, certain directors of Discovery including, A Gore, B Swartzberg and H Mayers, collectively subscribed for 1 482 261 shares as part of the vendor consideration placement. (refer to note 17.1 for details of the vendor consideration placement).
- sponsorship and enterprise development grants to the value of R1.5 million (2018: R0.8 million) were made to organisations where members of key management personnel have significant influence.
- Discovery acquired art work to the value of R1.2 million (2018: R2 million) from a company controlled by a family member of key management personnel.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

43. Change in accounting policy

CLASSIFICATION

IFRS 9 introduces new requirements for the classification of financial assets. In classifying financial assets, consistent with IFRS 9, 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 financial asset 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.
- Fair value with changes in other comprehensive income (equity instruments), if Discovery irrevocably designates the equity instrument in this category. Discovery currently does not hold financial assets in this 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). 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.

Shareholder investments were previously classified as available-for-sale under IAS 39 *Financial Instruments: Recognition and Measurement*. This category no longer exists under IFRS 9. These investments have been reclassified as at fair value through profit or loss (mandatorily). On reclassification, the balance on the available-for-sale reserve in equity has been transferred to retained earnings.

IMPAIRMENT

IFRS 9 introduces a new impairment model, namely the expected credit loss model, which will result in earlier recognition of credit losses by requiring allowances to cover both already-incurred losses and losses expected in the future. The impairment requirements relate to financial assets measured at amortised cost, fair value through profit or loss (debt instruments), contract assets recognised in accordance with IFRS 15 *Revenue from Contracts with Customers* and lease receivables recognised in accordance with IAS 17 *Leases*.

For Discovery, this relates to specified items disclosed on the Statement of financial position as 'Investments at amortised cost', 'Insurance Receivables, contract receivables and other receivables' and 'Assets arising from contracts with customers'. Discovery has assessed these balances for expected credit losses and raised R83 million on balances outstanding at 1 July 2018. This opening adjustment, in accordance with IFRS, has been reflected in retained earnings.

FINANCIAL LIABILITIES

No changes were introduced for the classification and measurement of financial liabilities, except for the recognition of changes in own credit risk, which is required to be recognised in other comprehensive income for liabilities designated at fair value through profit or loss with limited exceptions. Discovery has not reclassified any financial liabilities.

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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

43. Change in accounting policy *continued*

IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or services transfer to a customer. Performance obligations are those promised goods or services delivered to the customer per the contract in exchange for payment.

Discovery's revenue comprises primarily insurance premium revenue which is accounted for in terms of IFRS 4 *Insurance contracts*.

For non-insurance revenue, Discovery has performed detailed assessments on underlying contractual arrangements with customers. This included detailed assessments in respect of fee income for investment management services, fee income from administration business and Vitality income.

A R6 million adjustment was processed to the opening balance of retained earnings for a change in the timing of revenue recognition on several contracts. The impact was minimal as Discovery's non-insurance contracts transfers goods and render services within a short period. The disaggregation of revenue is disclosed in the segment report and in the income statement categories.

EFFECT OF CHANGES IN IFRS 9 AND IFRS 15 ON DATE OF INITIAL APPLICATION

At 1 July 2018

R million	Group 30 June 2018 Previously reported Audited	IFRS 9 Adjustments	IFRS 15 Adjustments	Group 1 July 2018 Restated
Assets				
Deferred acquisition costs	1 150	-	(681)	469
Contract assets from customers	-	-	681	681
Financial assets				
- Available-for-sale investments	7 547	(7 547)	-	-
- Investments at fair value through profit or loss – Designated	71 246	(71 246)	-	-
- Investments at fair value through profit or loss – Mandatorily		77 393	-	77 393
- Investments at amortised cost ¹	-	1 400	-	1 400
- Loans and receivables including insurance receivables	7 543	(83)	6	7 466
Equity				
Other reserves	1 280	(208)	-	1 072
Retained earnings	27 227	125	6	27 358
Non-controlling interest	*	-	-	*
Liabilities				
Deferred revenue	324	-	(324)	-
Contract liabilities to customers	-	-	324	324

* Amount is less than R500 000.

¹ Note that there are no changes in carrying amount arising from a changing measurement attribute on transition to IFRS 9. The fair value of the investments transferred to amortised cost approximated the amortised cost value, and hence no measurement adjustment was required on transition.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

44. Events after reporting date

B PREFERENCE SHARE CASH DIVIDEND DECLARATION:

On 29 August 2019, the directors declared a final gross cash dividend of 508.28767 cents (406.63014 cents net of dividend withholding tax) per B preference share for the period 1 January 2019 to 30 June 2019, 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	Tuesday, 17 September 2019
Shares commence trading "ex" dividend	Wednesday, 18 September 2019
Record date	Friday, 20 September 2019
Payment date	Monday, 23 September 2019

B preference share certificates may not be dematerialised or rematerialised between Wednesday, 18 September 2019 and Friday, 20 September 2019, both days inclusive.

ORDINARY SHARE CASH DIVIDEND DECLARATION:

Notice is hereby given that the directors have declared a final gross cash dividend of 114 cents (91.2 cents net of dividend withholding tax) per ordinary share, out of income reserves for the year ended 30 June 2019. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

The issued ordinary share capital at the declaration date is 658 290 736 ordinary shares.

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Tuesday, 1 October 2019
Shares commence trading "ex" dividend	Wednesday, 2 October 2019
Record date	Friday, 4 October 2019
Payment date	Monday, 7 October 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 2 October 2019 and Friday, 4 October 2019, both days inclusive.

COMPANY STATEMENT OF FINANCIAL POSITION

at 30 June 2019

R million	Notes	Company 2019	Company 2018
Assets			
Investments in subsidiaries	2	22 739	18 103
Investment in associate and joint venture	3	991	831
Financial assets			
- Available-for-sale investments	4	-	130
- Derivatives	5	37	135
- Loans to subsidiaries	6	6 135	5 419
- Loans to BEE partners	7	73	111
- Other receivables	8	17	*
Deferred income tax asset	14	23	-
Current income tax asset		21	-
Cash and cash equivalents	21.5	84	39
Total assets		30 120	24 768
Equity			
Capital and reserves			
Ordinary share capital and share premium	9.1	10 331	8 496
Preference share capital	9.2	779	779
Other reserves		192	273
Retained earnings		5 309	5 936
Total equity		16 611	15 484
Liabilities			
Financial liabilities			
- Borrowings at amortised cost	10	6 841	6 132
- Derivatives	11	220	39
- Financial guarantee contracts	22	35	-
- Trade and other payables	12	5 294	2 505
- Loans from subsidiaries	13	1 119	557
Deferred income tax liability	14	-	1
Current income tax liabilities		-	50
Total liabilities		13 509	9 284
Total liabilities and equity		30 120	24 768

* Amount is less than R500 000.

COMPANY INCOME STATEMENT

for the year ended 30 June 2019

R million	Notes	Company 2019	Company 2018
Investment income	15	1 776	3 761
– at amortised cost interest income, using the effective interest rate		400	327
– other investment income		1 376	3 434
Other income	16	20	24
Net fair value (losses)/gains on financial instruments at fair value through profit or loss	17	(144)	133
Marketing and administration expenses	18	(10)	(6)
Movement in allowance for expected credit losses	19	(4)	–
Profit from operations		1 638	3 912
Finance costs		(759)	(529)
Foreign exchange (losses)/gains		(10)	55
Profit before tax		869	3 438
Taxation	20	24	(74)
Profit for the year		893	3 364
Attributable to:			
– ordinary shareholders		812	3 281
– preference shareholders		81	83
		893	3 364

COMPANY STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2019

R million	Company 2019	Company 2018
Profit for the year	893	3 364
Items that are or may be reclassified subsequently to profit or loss:		
Change in available-for-sale financial assets	–	(5)
– unrealised loss	–	(6)
– capital gains tax on unrealised loss	–	1
Cash flow hedges	(110)	(21)
– unrealised losses	(117)	(23)
– deferred tax	–	(4)
– gains reclassified to profit or loss	7	6
Other comprehensive income for the year, net of tax	(110)	(26)
Total comprehensive income for the year	783	3 338
Attributable to:		
– ordinary shareholders	702	3 255
– preference shareholders	81	83
	783	3 338

COMPANY STATEMENT OF CASH FLOWS

for the year ended 30 June 2019

R million	Notes	Company 2019	Company 2018
Cash flow from operating activities		4 045	1 888
Cash generated by operations	21-1	3 340	(538)
Dividends received		1 364	2 878
Interest received		83	29
Interest paid		(671)	(452)
Taxation paid	21-2	(71)	(29)
Cash flow from investing activities		(5 043)	(3 186)
Increase investment in subsidiary	21-3	(4 570)	(1 109)
Increase investment in associate		(160)	-
Purchase of financial assets	4	-	(4 632)
Proceeds on disposal of financial assets	4	130	4 552
Increase in loans granted to subsidiaries	6	(3 391)	(2 238)
Proceeds from settlement of subsidiary loans	6	2 948	241
Cash flow from financing activities		1 043	1 118
Proceeds from long-term borrowings	21-4	698	2 488
Repayment of long-term borrowings	21-4	(7)	-
Proceeds from issuance of ordinary shares		1 854	-
Share issue costs		(19)	-
Dividends paid to ordinary shareholders		(1 402)	(1 287)
Dividends paid to preference shareholders		(81)	(83)
Net increase/(decrease) in cash and cash equivalents		45	(180)
Cash and cash equivalents at beginning of the year		39	219
Cash and cash equivalents at end of the year	21-5	84	39

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2019

Company R million	Share capital and share premium	Preference share capital	Hedging reserve	Share- based payment reserve	Available- for-sale investments	Retained earnings	Total
Year ended 30 June 2018							
At beginning of the year	8 496	779	(35)	314	7	3 942	13 503
Total comprehensive income for the year	-	83	(21)	-	(5)	3 281	3 338
Profit for the year	-	83	-	-	-	3 281	3 364
Other comprehensive income	-	-	(21)	-	(5)	-	(26)
Transactions with owners	-	(83)	-	13	-	(1 287)	(1 357)
Increase in BEE share option scheme	-	-	-	13	-	-	13
Dividends paid to ordinary shareholders	-	-	-	-	-	(1 287)	(1 287)
Dividends paid to preference shareholders	-	(83)	-	-	-	-	(83)
Balance at 30 June 2018	8 496	779	(56)	327	2	5 936	15 484
Year ended 30 June 2019							
At beginning of the year	8 496	779	(56)	327	2	5 936	15 484
IFRS transitional adjustments	-	-	-	-	(2)	(37)	(39)
Adjusted balance 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

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2019

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 page 73 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 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
At 30 June 2018				
Available-for-sale financial assets:				
- Debt securities	7	*	7	-
- Money market securities	123	34	89	-
Derivative financial instruments at fair value:				
- Not designated as hedging instruments	135	135	-	-
Loans to subsidiaries	5 419	1 473	2 578	1 368
Loans to BEE partners	111	-	111	-
Cash and cash equivalents	39	-	39	-
Total financial assets	5 834	1 642	2 824	1 368
Borrowings at amortised cost	6 132	2 825	3 307	-
Derivative financial instruments at fair value:				
- Used as cash flow hedges	39	39	-	-
Trade and other payables	2 505	-	-	2 505
Loans from subsidiaries	557	-	557	-
Total financial liabilities	9 233	2 864	3 864	2 505

A change of 1% in the interest rate would result in an increase/decrease of R32 million in interest income and 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.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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 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	-	-
Total financial liabilities	13 509	13 509	-	-
At 30 June 2018				
Available-for-sale financial assets:				
- Debt securities	7	7	-	-
- Money market securities	123	123	-	-
Derivative financial instruments at fair value:				
- Not designated as hedging instruments	135	135	-	-
Loans to subsidiaries and BEE partners	5 530	4 538	992	-
Cash and cash equivalents	39	1	15	23
Total financial assets	5 834	4 804	1 007	23
Borrowings at amortised cost	6 132	6 132	-	-
Derivative financial instruments at fair value:				
- Used as cash flow hedge	39	39	-	-
Trade and other payables and loans from subsidiaries	3 062	3 062	-	-
Total financial liabilities	9 233	9 233	-	-

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 Discovery Limited is exposed to credit risk are:

- *Financial assets comprising money market and debt instruments* – Discovery Limited is exposed to the issuer's credit standing on these instruments which is monitored by the CCIC by setting a minimum credit rating. The aggregate credit risk exposure for financial assets categorised by credit ratings is provided on the next page.
- *Cash and cash equivalents* – This risk is managed by monitoring exposure to external financial institutions against limits set by the CCIC.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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 19):

Company R million	Total	Aaa	Aa1-3	A1-3	Baa1-3	Ba1-3	Internally rated/ assessed
At 30 June 2019							
Derivative financial instruments at fair value:							
- Not designated as hedging instrument	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
At 30 June 2018							
Available-for-sale financial assets:							
- Debt securities	7	3	*	4	-	-	-
- Money market securities	123	73	46	1	2	-	1
Cash and cash equivalents	39	-	-	-	39	-	-
Loans to subsidiaries	5 419	-	-	-	-	-	5 419
Loans to BEE partners	111	-	-	-	-	-	111
	5 699	76	46	5	41	-	5 531

* Amount is less than R300 000.

Long-term credit ratings were used on the above credit risk analysis.

Discovery Limited has issued financial guarantees as security of loans incurred by subsidiaries in the Group. The earliest period that Discovery Limited could potentially be called upon to make payment in accordance with the financial guarantee is within 1 year. The carrying amount amounted to R3 607 million (2018: R2 387 million).

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 Discovery Limited 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 Discovery Limited is managed by 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, Discovery Limited had money market funds and cash and cash equivalents of R84 million (2018: R162 million).

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

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:

Company R million	Total	<1 year	1-2 years	3-5 years	6-10 years	Open ended
At 30 June 2019						
Borrowings net of interest rate swaps*	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	-
At 30 June 2018						
Borrowings net of interest rate swaps*	8 674	910	2 422	4 186	1 156	-
Trade and other payables	2 505	-	-	-	-	2 505
Loans from subsidiaries	557	-	-	557	-	-
	11 736	910	-	4 743	1 156	2 505

* These amounts do not agree to the Statement of financial position as these are the undiscounted contractual payments.

Discovery Limited has issued financial guarantees as security of loans incurred by subsidiaries in the Group. The earliest period that Discovery Limited could potentially be called upon to make payment in accordance with the financial guarantee is within 1 year. The carrying amount amounted to R3 607 million (2018: R2 387 million).

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:

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

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

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

1. Management of financial risk *continued*

1.5 FAIR VALUE ESTIMATION *continued*

For the amounts disclosed in 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.

Company R million	Total	Level 1	Level 2	Level 3
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 hedge	156	-	156	-
Total financial liabilities	220	-	220	-
At 30 June 2018				
Available-for-sale investments				
- Mutual funds	130	130	-	-
Derivative financial instruments at fair value:				
- Not designated as hedging instruments	135	-	135	-
Total financial assets	265	130	135	-
Derivative financial instruments at fair value:				
- Used as cash flow hedge	39	-	39	-
Total financial liabilities	39	-	39	-

2. Investments in subsidiaries

	Issued ordinary capital R million		Effective percentage holding %		Investment in subsidiaries ⁴ R million	
	2019	2018	2019	2018	2019	2018
Vality Group International Inc. ¹	2 552	2 380	99.99	99.99	746	619
Discovery Connect Distribution Services (Pty) Ltd	*	*	100	100	*	*
Discovery Central Services (Pty) Ltd	*	*	100	100	33	*
Discovery Finance Company Europe Ltd ²	393	393	100	100	395	393
Discovery Group Europe Ltd ²	12 274	11 731	100	100	12 261	11 718
Discovery Health (Pty) Ltd	271	271	100	100	495	488
Discovery Insure Ltd	2 315	2 176	100	100	1 423	1 284
Discovery Life Ltd	1 416	1 416	100	100	1 704	1 700
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	8	8
Discovery Partner Market Asia Private Ltd ³	211	211	100	100	113	113
Discovery Bank Holdings Ltd	5 520	1 758	100	100	5 543	1 762
					22 739	18 103

* 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 and the value of share options issued to subsidiary staff.

Refer to company note 21.3 for a detailed movement analysis.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

3. Investment in associate and joint venture

R million	% ownership interest		Company 2019	Company 2018
	2019	2018		
Investment at cost:				
- Ping An Health Insurance Company in China, Limited	25%	25%	991	831
- AIA Vitality (Hong Kong) Limited	44%	44%	*	*
			991	831

* Amount is R103.

Refer to Group note 11 for disclosure of the investment in associate and joint ventures.

4. Financial assets – investments

R million	Company 2019	Company 2018
Available-for-sale financial assets:		
- Mutual funds	-	130
	-	130
Movement analysis:		
Balance at beginning of the year	130	56
Transfer to cash and cash equivalents ¹	(130)	-
Additions	-	4 631
Disposals	-	(4 552)
Loss on fair value adjustment	-	(5)
Balance at end of the year	-	130

¹ Effective from 1 July 2018 management includes these assets as part of its cash management.

Notes 1.1 to 1.4 apply the look-through basis to the financial assets, to assist in the identification of Discovery's financial risks.

5. Derivative financial assets

R million	Company 2019	Company 2018
Derivatives not designated as hedging instruments	37	135
Current	37	135

Refer to page 91 for a detailed description of the derivative financial instruments listed above.

6. Loans to subsidiaries¹

R million		Company 2019	Company 2018
Balance at beginning of the year		5 419	3 047
Additional loan granted		3 391	2 238
Repayment of loans		(2 948)	(241)
Interest receivable		325	316
Allowance for expected credit losses		(43)	-
Exchange differences		(9)	59
Balance at end of the year		6 135	5 419
Discovery Group Europe Ltd	i	1 822	1 359
Discovery Health (Pty) Ltd	ii	2 586	2 352
Discovery Connect Distribution Services (Pty) Ltd	iii	455	340
Discovery Central Services (Pty) Ltd	iv	772	1 363
Discovery Life Investment Services (Pty) Ltd	v	500	5
		6 135	5 419
Current		773	1 406
Non-current		5 362	4 013
		6 135	5 419

¹ All loans to subsidiaries are measured at amortised cost, which approximates to fair value.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

6. Loans to subsidiaries *continued*

- i. Discovery Limited has granted eight 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 2019 is R251 million (GBP 14.0 million) (2018: R242 million (GBP 13.3 million)).

Loan 2 – accrues interest at 600 basis points above 3 month LIBOR and is repayable on 1 April 2027. The value of the loan outstanding at 30 June 2019 is R434 million (GBP 24.7 million) (2018: R448 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 2019 is R106 million (GBP 6 million) (2018: R110 million (GBP 6.1 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 2019 is R185 million (GBP 10.5 million) (2018: R192 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 2019 is R158 million (GBP 9 million). This loan was granted during the current financial year.

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 2019 is R114 million (GBP 6.5 million). This loan was granted during the current financial year.

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 2019 is R49 million (GBP 2.8 million). This loan was granted during the current financial year.

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 2019 is R126 million (GBP 7.1 million). This loan was granted during the current financial year.

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 2019 is R399 million (2018: R367 million).

Interest of R114 million was earned in respect of these loans in the current financial year (2018: R75 million) and R9 million foreign exchange gains was recognised in profit and loss (2018: R59 million loss).

- 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 2019 is R2 586 million (2018: R2 352 million), comprising of capital of R2 010 million (2018: R2 010 million), provision for expected credit losses of R11 million (2018: Rnil) and interest of R587 million (2018: R342 million).
- iii. Discovery Limited granted loans totaling R387 million to Discovery Connect Distribution Services. The loans accrue interest at First National Bank's published prime overdraft lending rate and are repayable on 30 June 2021. The loans and the interest will become payable upon maturity. The value of the loans outstanding at 30 June 2019 is R455 million (2018: R340 million), comprising of capital of R387 million (2018: R307 million), provision for expected credit losses of R1 million (2018: Rnil) and interest of R69 million (2018: R33 million).
- iv. During 2019, Discovery Central Services net settled R589 million of the interest free loan with Discovery Limited. The value of the loan outstanding at 30 June 2019 is R772 million (2018: R1 363 million).
- v. Discovery Limited granted an interest-free subordinated loan to Discovery Life Investment Services. The value of the loan outstanding at 30 June 2019 is R500 million.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

7. Loans to BEE partners¹

R million	Company 2019	Company 2018
Balance at the beginning of the year	111	101
Interest receivable	5	10
Additional loan granted	54	-
Repayment of loans	(97)	-
Balance at end of the year	73	111
Current	73	96
Non-current	-	15
	73	111

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 within five years. However, the outstanding balance is repayable immediately if they are no longer a BEE partner. Discovery further granted a bridge loan of R54 million in 2019 to another BEE partner, Mohau Equity Partners, at an interest rate of prime less 2% repayable on a rolling period of 60 days.

8. Other receivables

R million	Company 2019	Company 2018
Value-added tax – Vat Output	*	*
Other debtors	17	-
Intercompany receivables	*	-
	17	*
Intercompany receivables include:		
– Discovery Pref Holdings Company (RF) Ltd	*	-
	*	-

* Amount is less than R500 000.

9. Share capital and share premium

9.1 ORDINARY SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	Share capital R million	Share premium R million	Total R million
Issued				
At 1 July 2017	646 844 992	1	8 495	8 496
At 30 June 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

* Amount is less than R500 000.

The total authorised number of ordinary shares is 1 billion (2018: 1 billion), with a par value of 0.1 cent per share.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

9. Share capital and share premium *continued*

9.2 PREFERENCE SHARE CAPITAL

R million	Company 2019	Company 2018
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 2019	779	779

The 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.

10. Borrowings at amortised cost

R million	Company 2019	Company 2018
Borrowings from banks ¹	6 841	6 132
Current	711	313
Non-current	6 130	5 819
	6 841	6 132

¹ Collateral in the form of financial guarantees by Discovery Health and Discovery Vitality has been given to secure these borrowings.

Bank borrowings

During the current financial year, Discovery further borrowed R700 million under the Domestic Medium Term Note (DMTN) programme that was registered in 2018. 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 10.94%	10 June 2021	Maturity
1 100	Fixed at 10.59%	10 June 2021	Annually ¹
375	Fixed at 10.39% ²	30 September 2021	Maturity
450	Fixed at 10.31% ²	15 December 2021	Maturity
175	Linked to 3 month JIBAR ³	10 March 2022	Maturity
800	Fixed at 10.20%	17 March 2022	Maturity
200	Fixed at 10.23%	16 May 2022	Maturity
500	Fixed at 9.71% ²	21 November 2022	Maturity
800	Fixed at 10.31% ²	21 November 2024	Maturity
200	Fixed at 10.46% ⁴	21 November 2024	Maturity
1 000	Fixed at 10.28% ²	02 March 2023	Maturity
700	Fixed at 10.29% ²	21 August 2026	Maturity
6 800			

¹ The payment for 10 June 2019 was extended to 10 June 2020 and final payment will be 10 June 2021.

² The interest rate has been fixed through interest rate swaps.

³ As at 30 June 2019, interest is accruing at 9.60% per annum (2018: 9.58%)

⁴ 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 (except for, as noted in footnote 4) in the table above. Refer to company note 21.4 for movement analysis.

The amortised cost for the borrowings approximates the fair value.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

11. Derivative financial liabilities

R million	Company 2019	Company 2018
Interest rate swap – used as cash flow hedge	156	39
Derivatives not designated as hedging instrument	64	-
	220	39
Current	64	-
Non-current	156	39
	220	39

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

12. Trade and other payables

R million	Company 2019	Company 2018
Accrued expenditure	2	4
Dividends due to shareholders	4	4
Intercompany payables	5 288	2 497
	5 294	2 505
Intercompany payables include:		
- Discovery Health (Pty) Ltd	i 3 850	2 402
- Discovery Pref Holding Company (RF) Ltd	ii -	95
- Discovery Life Investment Services (Pty) Ltd	iii 1 438	-
	5 288	2 497

- i. Discovery Limited receives funds from Discovery Health 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 Pref Holding Company (RF) Limited through a loan account to assist with the Company's operational requirements in the prior year. The loan is interest free and is settled as and when sufficient cash becomes available.
- iii. Discovery Limited received funds from Discovery Life Investment Services through a loan account to assist with the Company's 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.

13. Loans from subsidiaries

R million	Company 2019	Company 2018
Discovery Life Ltd	i 1 119	557
	1 119	557

- i. Discovery Limited issued 5-year term Investment Notes totaling R500 million to Discovery Life on 30 June 2017. Investment Notes bear interest at variable 3 month JIBAR, currently 10.69% per annum (2018: 10.62%) 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.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

14. Deferred income tax

R million	Company 2019	Company 2018
Deferred tax asset	23	-
- Current	23	-
Deferred tax liability	-	1
- Current	-	1
	23	1
Movement summary:		
Balance at beginning of the year	(1)	2
Income statement charge	24	-
Deferred tax on cash flow hedge charged to other comprehensive income	-	(4)
Deferred tax on investment charged to other comprehensive income	-	1
Balance at end of the year	23	(1)
Deferred taxation comprises:		
Assessed losses	24	-
Unrealised gains on financial instruments	(1)	(1)
	23	(1)

15. Investment income¹

R million	Company 2019	Company 2018
Cash and cash equivalents interest income	12	*
At amortised cost interest income, using the effective interest rate	400	327
Dividends received from subsidiaries and equity-accounted investments	1 364	3 415
Available-for-sale investment income	-	19
	1 776	3 761
<i>* Amount is less than R500 000</i>		
Dividends received from subsidiaries and equity-accounted investments include:		
- Discovery Health (Pty) Ltd	1 100	2 904
- Discovery Vitality Ltd	-	491
- AIA Vitality (Hong Kong) Ltd	18	20
- Discovery Life Investment Services (Pty) Ltd	150	-
- Discovery Pref Holding Company (RF) Ltd	96	-
	1 364	3 415

¹ Investment income for Discovery Limited is seen as Revenue.

16. Other income

R million	Company 2019	Company 2018
Guarantee fees	20	24
	20	24

Discovery Limited issued a guarantee to HSBC Bank in respect of Discovery Finance Company Europe's obligations. A guarantee fee is charged by Discovery Limited to Discovery Finance Company Europe.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

17. Net fair value (losses)/gains on financial instruments at fair value through profit or loss

R million	Company 2019	Company 2018
Realised loss on derivatives not designated as hedging instruments	(7)	(2)
Fair value losses on derivatives not designated as hedging instruments	(137)	135
	(144)	133

18. Marketing and administration expenses

R million	Company 2019	Company 2018
Marketing and administration expenses comprises:		
- Audit fees	4	3
- Professional fees	3	2
- Other	3	1
	10	6

19. Movement in allowance for expected credit losses¹

R million	Company 2019	Company 2018
Discovery Health (Pty) Ltd	(3)	-
Discovery Central Services (Pty) Ltd	(1)	-
Discovery Life Investment Services (Pty) Ltd	*	-
Discovery Pref Holding Company (RF) Ltd	*	-
Discovery Group Europe Ltd	9	-
Discovery Connect Distribution Services (Pty) Ltd	(1)	-
	4	-

* Amount is less than R500 000.

¹ In determining the expected credit loss, Discovery assigned risk ratings to subsidiaries relative to Discovery Limited if a Moody's rating was not available. All these loans are high quality.

R million	Company 2019			Company 2018
	12 month credit losses	Lifetime credit losses ¹	Total	
Balance at beginning of the year	-	-	-	-
IFRS Transition adjustment	39	-	39	-
Increase in allowance	4	-	4	-
Balance at end of the year	43	-	43	-

¹ The simplified approach was applied to trade receivables and contract receivables as per the accounting policy. This has been included in lifetime credit losses.

20. Taxation

R million	Company 2019	Company 2018
South African normal taxation		
Current tax	-	(74)
Prior year over provision	*	*
Deferred tax	24	-
	24	(74)
	%	%
Taxation rate reconciliation		
Effective taxation rate	2.8	2.2
Capital profits and dividend income	(43.9)	27.8
Disallowed expenditure: Capital in nature	11.5	(1.6)
Taxable Income: International tax adjustments	1.6	(0.4)
Standard rate of taxation	(28)	28

* Amount is less than R500 000.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

21. Cash flow information

R million	Company 2019	Company 2018
21.1 CASH GENERATED BY OPERATIONS		
Profit before taxation	869	3 438
Adjusted for:		
Interest received	(412)	(346)
Dividends received	(1 364)	(3 415)
Realised (gains)/losses on non-hedge derivatives not designated as hedging instruments	(18)	2
Finance costs	759	529
Non-cash items:		
Movement in expected credit losses of intercompany loans	4	-
Fair value losses/(gains) on derivatives not designated as hedging instruments	162	(135)
Unrealised foreign exchange losses/(gains)	10	(58)
Working capital changes:		
Loans and receivables	(53)	41
Trade and other payables and loans from subsidiaries	3 383	(594)
	3 340	(538)
21.2 TAXATION PAID		
Balance at beginning of the year	(50)	(5)
Taxation charged for the year in the Statement of other comprehensive income	-	(74)
Balance at end of the year	(21)	50
	(71)	(29)
21.3 INCREASE IN INVESTMENT IN SUBSIDIARY		
Balance at beginning of the year	18 103	16 444
Delivery of shares	-	45
Dividend in specie	-	491
Value of share options issued to subsidiary staff	31	14
Financial guarantee contracts raised	35	-
Balance at end of the year	(22 739)	(18 103)
	(4 570)	(1 109)
21.4 LONG-TERM BORROWINGS		
Balance at beginning of the year	6 132	3 630
Interest accrued	652	448
Interest paid	(634)	(428)
Settlement of derivative capitalised to loan by counterparty	(7)	(6)
Increase in borrowings	700	2 500
Raising fees capitalised	(2)	(12)
Balance at end of the year	6 841	6 132
21.5 CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	1	39
Short-term deposits	83	*
	84	39

* Amount is less than R500 000.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2019

22. Financial guarantee contracts¹

R million		Company 2019	Company 2018
Discovery Limited has provided guarantees for the following subsidiaries:			
Discovery Finance Co Europe Ltd	i	2	-
Discovery Central Services (Pty) Ltd	ii	33	-
Discovery Insure Ltd	iii	*	-
		35	-

* Amount is less than R500 000.

¹ Financial guarantee contracts are measured initially at fair value, which generally would be the premium received. However, in the instance of a related party, the fair value would not equal the premium (which is often zero). Accordingly, Discovery Limited has calculated the fair value.

Subsequent measurement of financial guarantee contracts is at the higher of:

- The expected credit loss determined in accordance with IFRS 9; or
 - Initial value, less amount amortised in accordance with IFRS 15.
- i Discovery Limited has issued a guarantee to HSBC Bank in respect of the obligations of Discovery Finance Company Europe in the amount of GBP 150 million. As at 30 June 2019, Discovery Finance Company Europe owed 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 2019 is 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 Discovery Limited has guaranteed the obligations of Discovery Insure to Digicore Holdings Limited in terms of the agreement entered into between Discovery Insure and Digicore Holdings Limited and C-Track (SA) Proprietary Limited.

22. Events after reporting date

Refer to Group note 44 for a list of the events after reporting date.

23. Change in accounting policy

R million	Company 30 June 2018 previously reported Audited	IFRS 9 adjustment	Company 1 July 2018 Restated
Assets			
Financial assets			
- Available-for-sale investments	130	(130)	-
- Fair value through profit or loss (mandatorily)	-	130	130
- Loans to subsidiaries – amortised cost	5 419	(39)	5 380
Equity			
Other reserves	2	(2)	-
Retained earnings	5 936	(37)	5 899

The previously held 'available-for-sale' instruments are money market instruments with puttable features and therefore does not meet the criteria to be classified at amortised cost or at fair value with changes through other comprehensive income.

The IFRS 9 adjustment related to the expected credit losses on loans to subsidiaries.

DIRECTORATE

Remuneration and fees

Payments to directors for the year ended 30 June 2019 for services rendered are as follows:

R'000	Services as directors	Basic salary	Performance bonus	Phantom scheme bonus	Provident fund contributions	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
Prescribed officers							
Dr J Broomberg	-	4 863	3 899	3 593	243	150	12 748
K Rabson	-	4 639	3 985	5 952	232	386	15 194
Sub-total	-	9 502	7 884	9 545	475	536	27 942
Non-executive							
MI Hilkwitz	4 213	-	-	-	-	-	4 213
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
FN Khanyile ¹⁰	631	-	-	-	-	-	631
Dr TV Maphai	1 011	-	-	-	-	-	1 011
TT Mboweni	317	-	-	-	-	-	317
SV Zilwa	1 741	-	-	-	-	-	1 741
AL Owen ⁷	2 755	-	-	-	-	194	2 949
Sub-total	20 190	-	-	-	-	3 266	23 456
Total	20 190	74 861	75 058	60 311	5 150	5 920	241 489
Less: paid by subsidiaries	(20 190)	(74 861)	(75 058)	(60 311)	(5 150)	(5 920)	(241 489)
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 JM Robertson retired as executive director from the Board of Discovery Limited with effect from 31 August 2018.

⁶ Directors 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 by R Farber were paid in AUD and Rand components.

⁹ Director's fees for services rendered by HL Bosman were paid to Rand Merchant Insurance Holdings Limited.

¹⁰ Director's fees for services rendered by F Khanyile were paid to WDB Investment Holdings Proprietary Limited.

DIRECTORATE *continued*

Remuneration and fees *continued*

Payments to directors for the year ended 30 June 2018 for services rendered are as follows:

R'000	Services as directors	Basic salary	Perfor- mance bonus	Phantom scheme bonus	Provident fund contri- butions	Other benefits ¹	Total
Executive							
A Gore	-	6 600	5 412	6 406	990	313	19 721
R Farber ²	-	4 351	5 320	5 011	-	413	15 095
HD Kallner	-	4 913	5 070	9 526	246	141	19 896
NS Koopowitz ³	-	15 304	15 215	13 115	173	419	44 226
HP Mayers ⁴	-	15 358	12 787	6 901	1 651	377	37 074
Dr A Ntsaluba	-	4 127	3 719	6 399	309	223	14 777
A Pollard ⁵	-	5 679	5 100	6 943	228	270	18 220
JM Robertson	-	3 760	3 100	6 112	770	93	13 835
B Swartzberg	-	4 906	4 355	5 874	252	142	15 529
DM Viljoen	-	4 277	750	-	652	71	5 750
Sub-total	-	69 275	60 828	66 287	5 271	2 462	204 123
Prescribed officers							
Dr J Broomberg	-	4 614	3 645	5 754	231	136	14 380
K Rabson	-	4 404	3 424	5 921	220	358	14 327
Dr P Moumakwa ⁶	-	1 903	2 669	5 094	204	57	9 927
Sub-total	-	10 921	9 738	16 769	655	551	38 634
Non-executive							
MI Hilkwitz	4 200	-	-	-	-	-	4 200
R Farber ²	1 353	-	-	-	-	-	1 353
Dr BA Brink	1 286	-	-	-	-	-	1 286
HL Bosman ⁷	1 278	-	-	-	-	-	1 278
SE de Bruyn Sebotsa	1 371	-	-	-	-	-	1 371
R Enslin ⁸	830	-	-	-	-	99	929
F Khanyile ⁹	614	-	-	-	-	-	614
Dr TV Maphai	859	-	-	-	-	-	859
TT Mboweni	1 317	-	-	-	-	-	1 317
AL Owen ¹⁰	2 446	-	-	-	-	175	2 621
SV Zilwa	1 577	-	-	-	-	-	1 577
Sub-total	17 131	-	-	-	-	274	17 405
Total	17 131	80 196	70 566	83 056	5 926	3 287	260 162
Less: paid by subsidiaries	(17 131)	(80 196)	(70 566)	(83 056)	(5 926)	(3 287)	(260 162)
Paid by holding company	-	-	-	-	-	-	-

¹ "Other benefits" comprise medical aid contributions, travel and other allowances.

² R Farber was redesignated as a non-executive director on 1 April 2018. Remuneration and services rendered fees consists of AUD and Rand components.

³ Salary and incentive are paid in GBP.

⁴ Remuneration consists of GBP and Rands components.

⁵ Salary and incentive are paid in USD.

⁶ Dr P Moumakwa resigned as prescribed officer effective 31 January 2018.

⁷ Director's fees for services rendered by HL Bosman were paid to Rand Merchant Insurance Holdings Limited.

⁸ Director's fees for services rendered are paid in USD.

⁹ Director's fees for services rendered by F Khanyile were paid to WDB Investment Holdings Proprietary Limited.

¹⁰ Director's fees for services rendered are paid in GBP.

DIRECTORATE *continued*

Directors' participation in share incentive schemes

Discovery's directors and prescribed officers participate in the various share incentive schemes offered by the Group and their participation is disclosed below. Refer to Group note 32.1 for a detailed description of the various schemes offered.

DISCOVERY LIMITED PHANTOM SHARE SCHEME

Directors and prescribed officers participation as at 30 June 2019:

Directors and prescribed officers	Outstanding shares	Date granted	Strike price R	Final vesting date	Value at 30 June 2019 R
J Broomberg	2 742	30/09/2014	-	30/09/2019	412 304
	5 484	30/09/2014	97.89	30/09/2019	287 851
	4 217	30/09/2015	-	30/09/2020	634 077
	8 433	30/09/2015	134.94	30/09/2020	130 206
	13 178	30/09/2016	-	30/09/2021	1 981 632
	24 620	30/09/2017	-	30/09/2022	3 702 356
	22 709	30/09/2018	-	30/09/2023	3 414 979
A Gore	4 700	30/09/2014	-	30/09/2019	706 824
	9 400	30/09/2014	97.89	30/09/2019	493 457
	7 228	30/09/2015	-	30/09/2020	1 086 947
	14 457	30/09/2015	134.94	30/09/2020	223 208
	24 318	30/09/2016	-	30/09/2021	3 656 941
	55 788	30/09/2017	-	30/09/2022	8 389 399
	48 027	30/09/2018	-	30/09/2023	7 222 300
HD Kallner	13 860	30/09/2014	-	30/09/2019	2 084 304
	27 721	30/09/2014	97.89	30/09/2019	1 455 160
	4 819	30/09/2015	-	30/09/2020	724 681
	9 638	30/09/2015	134.94	30/09/2020	148 803
	56 939	30/09/2016	-	30/09/2021	8 562 412
	37 416	30/09/2017	-	30/09/2022	5 626 618
	293 255	01/04/2018	-	01/04/2023	44 099 687
	32 211	30/09/2018	-	30/09/2023	4 843 890
HP Mayers	3 134	30/09/2014	-	30/09/2019	471 216
	6 267	30/09/2014	97.89	30/09/2019	328 980
	4 819	30/09/2015	-	30/09/2020	724 681
	9 638	30/09/2015	134.94	30/09/2020	148 803
A Ntsaluba	3 134	30/09/2014	-	30/09/2019	471 216
	6 267	30/09/2014	97.89	30/09/2019	328 980
	4 819	30/09/2015	-	30/09/2020	724 681
	9 638	30/09/2015	134.94	30/09/2020	148 803
	28 672	30/09/2016	-	30/09/2021	4 311 658
	19 732	30/09/2017	-	30/09/2022	2 967 298
	39 465	30/09/2017	141.65	30/09/2022	344 529
28 312	30/09/2018	-	30/09/2023	4 257 559	
A Pollard	1 045	30/09/2014	-	30/09/2019	157 072
	2 089	30/09/2014	97.89	30/09/2019	109 660
	1 607	30/09/2015	-	30/09/2020	241 585
	3 213	30/09/2015	134.94	30/09/2020	49 601
	5 690	30/09/2016	-	30/09/2021	855 700
	11 381	30/09/2016	114.96	30/09/2021	403 124
	7 591	30/09/2017	-	30/09/2022	1 141 535
	15 181	30/09/2017	141.65	30/09/2022	132 530
	6 560	30/09/2018	-	30/09/2023	986 493

DIRECTORATE *continued*

Directors' participation in share incentive schemes *continued*

DISCOVERY LIMITED PHANTOM SHARE SCHEME *continued*

Directors and prescribed officers	Outstanding shares	Date granted	Strike price R	Final vesting date	Value at 30 June 2019 R
K Rabson	2 742	30/09/2014	-	30/09/2019	412 304
	5 484	30/09/2014	97.89	30/09/2019	287 851
	15 333	30/09/2015	-	30/09/2020	2 305 701
	30 665	30/09/2015	134.94	30/09/2020	473 468
	13 178	30/09/2016	-	30/09/2021	1 981 632
	24 620	30/09/2017	-	30/09/2022	3 702 356
	22 709	30/09/2018	-	30/09/2023	3 414 979
B Swartzberg	3 134	30/09/2014	-	30/09/2019	471 216
	6 267	30/09/2014	97.89	30/09/2019	328 980
	4 819	30/09/2015	-	30/09/2020	724 681
	9 638	30/09/2015	134.94	30/09/2020	148 803
	32 620	30/09/2016	-	30/09/2021	4 905 358
	7 858	30/09/2017	-	30/09/2022	1 181 686
	15 715	30/09/2017	141.65	30/09/2022	137 192
11 274	30/09/2018	-	30/09/2023	1 695 384	
DM Viljoen	56 839	01/05/2017	-	30/04/2022	8 547 411
	22 450	30/09/2017	-	30/09/2022	3 376 031
	44 899	30/09/2017	141.65	30/09/2022	391 968
	30 388	30/09/2018	-	30/09/2023	4 569 747

THE VITALITY GROUP INC. PHANTOM STOCK PLAN

Directors and prescribed officers participation as at 30 June 2019:

Directors and prescribed officers	Outstanding shares	Date granted	Exercise price US\$	Final vesting date	Value at 30 June 2019 US\$
A Pollard	115 429	01/10/2015	0.75	01/10/2019	207 772
	237 184	01/10/2016	0.73	01/10/2020	207 771
	245 609	01/09/2017	0.62	30/09/2022	196 487
	145 859	30/09/2018	0.76	30/09/2023	116 687
B Swartzberg	254 244	30/09/2017	0.62	30/09/2022	203 395
	250 654	30/09/2018	0.76	30/09/2023	200 523

THE VITALITYHEALTH AND VITALITYLIFE PHANTOM SHARE SCHEMES

Directors and prescribed officers participation as at 30 June 2019:

Directors and prescribed officers	Outstanding shares	Date granted	Exercise price GBP	Final vesting date	Value at 30 June 2019 GBP
NS Koopowitz	6 624	17/09/2015	-	2019	256 018
	19 978	26/01/2016	154.13	2019	1 291 514
	12 996	31/10/2016	-	2020	479 292
	14 624	06/11/2017	-	2021	595 928
	14 041	05/11/2018	-	2022	548 582
HP Mayers	19 978	26/01/2016	154.13	2019	1 291 514
	12 996	31/10/2016	-	2020	479 292
	14 624	06/11/2017	-	2021	595 928
	14 041	05/11/2018	-	2022	548 582

DIRECTORATE *continued*

Directors' participation in share incentive schemes *continued*

OTHER DEVELOPMENT SEGMENT SCHEMES

Directors and prescribed officers participation as at 30 June 2019:

Directors and prescribed officers	Outstanding shares	Date granted	Exercise price R	Final vesting date	Value at 30 June 2019 R
HD Kallner	19 544	01/07/2017	-	30/09/2019	2 938 967
	6 335	01/07/2017	-	30/09/2020	952 597

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 2019:

Directors and prescribed officers	Direct beneficial	Indirect beneficial	Total 2019	Direct beneficial	Indirect beneficial	Total 2018
A Gore	-	50 496 775	50 496 775	-	49 618 784	49 618 784
HD Kallner	100 398	-	100 398	100 398	-	100 398
NS Koopowitz	-	962 004	962 004	-	962 004	962 004
HP Mayers	36 948	8 599 716	8 636 664	36 948	8 449 550	8 486 498
A Ntsaluba	103 164	-	103 164	110 164	-	110 164
A Pollard	1 193 099	-	1 193 099	1 423 099	-	1 423 099
JM Robertson	1 404 439	3 390 812	4 795 251	1 404 439	3 390 812	4 795 251
B Swartzberg	3 384 227	22 733 115	26 117 342	3 384 227	22 279 011	25 663 238
DM Viljoen	10 000	-	10 000	10 000	-	10 000
Dr J Broomberg	132 842	-	132 842	152 842	-	152 842
K Rabson	-	755 000	755 000	-	755 000	755 000
H Bosman	-	77 027	77 027	-	77 027	77 027
Dr BA Brink	20 000	-	20 000	25 000	-	25 000
SE De Bruyn	65 800	-	65 800	65 800	-	65 800
R Farber	55 076	-	55 076	55 076	-	55 076
F Khanyile	800	-	800	-	-	-
Dr TV Maphai	1 919	407 395	409 314	1 919	491 395	493 314
AL Owen	33 747	-	33 747	33 747	-	33 747
SV Zilwa	-	27 780	27 780	-	34 780	34 780
	6 542 459	87 449 624	93 992 083	6 803 659	86 058 363	92 862 022

There has been no change in the directors' interests in Discovery Limited's shares between 30 June 2019 and the date of publication of this annual report.

ANALYSIS OF SHAREHOLDERS

at 30 June 2019

Ordinary shareholders

	Number of shareholders	% of total shareholders	Number of shares	% of issued capital
Shareholder spread				
1 – 1 000 shares	28 791	80.04	7 030 728	1.07
1 001 – 10 000 shares	5 934	16.50	16 476 233	2.50
10 001 – 100 000 shares	941	2.62	27 637 136	4.20
100 001 – 1 000 000 shares	215	0.60	62 418 033	9.48
1 000 001 shares and over	87	0.24	544 728 622	82.75
	35 968	100.00	658 290 752	100.00
Public/non-public shareholders				
Non-public shareholders	28	0.08	347 276 757	52.75
– Directors of the Company	17	0.05	93 104 241	14.14
– Empowerment*	6	0.01	35 957 359	5.46
– Own holdings	1	0.00	680 268	0.10
– Key management personnel	2	0.01	887 842	0.14
Strategic holdings (more than 5%)	2	0.01	216 647 047	32.91
Public shareholders	35 940	99.92	311 013 995	47.25
	35 968	100.00	658 290 752	100.00

* Included in empowerment are 1 076 268 shares that are held by a director of Discovery Limited.

	Number of shares	%
Beneficial shareholders' holding of 5% or more		
Rand Merchant Insurance Holdings Limited	164 810 590	25.04
Government Employees Pension Fund	51 836 457	7.87
A Gore	50 496 775	7.67

B preference shareholders

	Number of shareholders	% of total shareholders	Number of shares	% of issued capital
Shareholder spread				
1 – 1 000 shares	81	84	2 566 354	32.08
1001 shares and above	16	16	5 433 646	67.92
	97	100	8 000 000	100.00
Public/non-public shareholders				
Non-public shareholders (more than 5%)	7	7.21	4 027 128	50.34
– Strategic holdings (more than 5%)	7	7.21	4 027 128	50.34
Public shareholders	90	92.79	3 972 872	49.66
	97	100.00	8 000 000	100

	Number of shares	%
Beneficial shareholders' holding of 5% or more		
Investec Securities (Pty) Limited	1 380 234	17.25
Outsurance Insurance Company Ltd	500 000	6.25
Momentum Asset Management	492 213	6.15
Nedgroup Private Wealth (Pty) Ltd	421 342	5.27
Coronation Asset Management (Pty) Ltd	415 223	5.19
Bridge Fund Managers Pty Ltd	412 253	5.15
Prescient Investment Management	405 863	5.07
	4 027 128	50.34

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 2019, as set out on pages 170 to 179 (the "Report"). The Report is prepared for the purpose of determining the value and performance of the Group. The directors of Discovery Limited are responsible for the preparation and presentation of the Report in accordance with the Embedded Value basis set out in the Basis of Preparation section of the Report and for determining that the basis of preparation is acceptable in the circumstances. Our responsibility is to express a conclusion on this Report based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of financial information consist of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Report is not prepared, in all material respects, in accordance with the basis set out in the Basis of Preparation section of the Report.

Basis of Accounting and Restriction on Use

Without modifying our conclusion, we draw attention to the Basis of Preparation section of the Report, which describes the basis of accounting. The Report is prepared for the purpose of determining the value and performance of the Group. As a result, the Report may not be suitable for another purpose. Our report is intended solely for the directors of Discovery Limited and should not be used by any other parties. We agree to the publication of our report in the Discovery Limited Annual Financial Statements for the year ended 30 June 2019 provided it is clearly understood by the recipients of the Discovery Limited Annual Financial Statements for the year ended 30 June 2019 that they enjoy such receipt for information only and that we accept no duty of care to them in respect of our report.



PricewaterhouseCoopers Inc.
Director: J. Goncalves
Registered Auditor
Johannesburg
3 September 2019

EMBEDDED VALUE STATEMENT

for the year ended 30 June 2019

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.

For Discovery Life, the basis for preparing the regulatory balance sheet has changed from the Statutory Valuation Method ("SVM") to the Solvency Assessment and Management ("SAM") basis, with effect from 1 July 2018. As the regulatory balance sheet influences the timing of free cash flow emergence, it has necessitated a change in the embedded value methodology. As a consequence, negative reserves are no longer zeroised at a per policy level, which implies that policies with negative reserves can be used to match policies with positive reserves as well as the required capital where appropriate. This effectively results in a transfer of value from value of in-force to net worth.

In addition, a new tax basis came into effect for South African long term insurance companies on 1 July 2018, which requires the zeroisation of net policyholder liabilities at a tax fund level. The change has an impact on the timing of the tax payments, but not the overall level throughout the embedded value projection period.

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 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 30 June 2019 embedded value results and disclosures were subjected to an external review.

EMBEDDED VALUE STATEMENT

for the year ended 30 June 2019

Table 1: Group embedded value

R million	30 June 2019	30 June 2018	% change
Shareholders' funds	43 083	37 594	15
Adjustment to shareholders' funds from published basis ¹	(32 690)	(32 261)	
Adjusted net worth ²	10 393	5 333	
Value of in-force covered business before cost of required capital	63 862	62 702	
Cost of required capital	(3 038)	(2 411)	
Discovery Limited embedded value	71 217	65 624	9
Number of shares (millions)	656.6	645.1	
Embedded value per share	R108.46	R101.73	7
Diluted number of shares (millions)	657.6	646.2	
Diluted embedded value per share ³	R108.30	R101.56	7

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 R17.98/GBP (June 2018: R18.16/GBP):

R million	30 June 2019	30 June 2018
Life net assets under insurance contracts		(20 764)
Vitality Life Limited and Discovery funded VitalityLife business on the Prudential licence net assets under insurance contracts		(4 834)
VitalityHealth financial reinsurance asset	(2 315)	(1 898)
VitalityHealth and VitalityHealth Insurance Limited deferred acquisition costs (net of deferred tax)	(382)	(331)
VitalityLife receivable relating to the Unemployment Cover benefit (net of deferred tax)	(19)	(27)
Goodwill relating to the acquisition of Standard Life Healthcare and the Prudential joint venture	(2 225)	(2 247)
Intangible assets (net of deferred tax) in covered businesses	(800)	(874)
Net preference share capital	(779)	(779)
Reversal of 1 Discovery Place IAS 17 financial lease accounting	406	208
	(32 690)	(32 261)

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:

R million	30 June 2019	30 June 2018
Shareholders' funds	43 083	37 594
Adjustment to shareholders' funds	(32 690)	(32 261)
Adjusted net worth	10 393	5 333
Excess of available capital over adjusted net worth	26 773	5 411
Available capital	37 166	10 744
Required capital	30 987	8 915
Excess available capital	6 179	1 829

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 required capital at June 2019 for Life is R21 724 million (June 2018: R1 732 million), for Health and Vitality is R909 million (June 2018: R840 million), for VitalityHealth is R2 350 million (June 2018: R2 133 million) and for VitalityLife is R6 004 million (June 2018: R4 210 million). For Life, 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. For the business sold on the Vitality Life Limited licence, the required capital was set equal to the excess of 1.4 times the Solvency II Pillar 1 Solvency Capital Requirement.

3 The diluted embedded value per share allows for Discovery's BEE transaction where the impact is dilutive i.e. where the current embedded value per share exceeds the current transaction value.

EMBEDDED VALUE STATEMENT

for the year ended 30 June 2019

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 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
at 30 June 2018			
Health and Vitality	21 046	(380)	20 666
Life and Invest ¹	28 066	(909)	27 157
VitalityHealth ²	7 057	(336)	6 721
VitalityLife ²	6 533	(786)	5 747
Total	62 702	(2 411)	60 291

1 Included in the Life and Invest value of in-force covered business is R1 429 million (June 2018: R1 317 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 R17.98/GBP (June 2018: R18.16/GBP).

Table 3: Group embedded value earnings

R million	Twelve months ended	
	30 June 2019	30 June 2018
Embedded value at end of period	71 217	65 624
Less: Embedded value at beginning of period	(65 624)	(57 294)
Increase in embedded value	5 593	8 330
Net change in capital ¹	(1 839)	(2)
Dividends paid	1 481	1 367
Transfer to hedging reserve	175	3
Employee share option schemes	(33)	(13)
Increase in treasury shares	5	-
Change in ownership ²	1 104	-
IFRS transitional arrangements ³	73	-
Embedded value earnings	6 559	9 685
Annualised return on opening embedded value	10.0%	16.9%

1 The net change in capital reflects share issues (net of costs) and an increase (decrease) in treasury shares in the period.

2 The change in ownership reflects the acquisition of the remaining 48.87% interest in Discovery Bank from FRIHL, being the non-controlling interest.

3 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.

EMBEDDED VALUE STATEMENT

for the year ended 30 June 2019

Table 4: Components of Group embedded value earnings

R million	Twelve months ended 30 June 2019			Year ended 30 June 2018	
	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)	(4 627)	(302)	7 551	2 622	2 826
Profit from existing business					
▪ Expected return	6 197	(50)	(147)	6 000	5 955
▪ Change in methodology and assumptions ¹	4 669	(140)	(6 459)	(1 930)	787
▪ Experience variances	(162)	(153)	334	19	305
Impairment, amortisation and fair value adjustment ²	(37)	-	-	(37)	(54)
Increase in goodwill and intangibles	(244)	-	-	(244)	(246)
Other initiative costs ³	868	-	46	914	(285)
Non-recurring expenses ⁴	(3)	-	-	(3)	(30)
Acquisition costs ⁵	(40)	-	1	(39)	(122)
Finance costs	(1 060)	-	-	(1 060)	(714)
Foreign exchange rate movements	(30)	18	(166)	(178)	1 016
Other ⁶	76	-	-	76	(15)
Return on shareholders' funds ⁷	419	-	-	419	262
Embedded value earnings	6 026	(627)	1 160	6 559	9 685

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.

³ This item includes profits and costs of start-up businesses, and expenses incurred to investigate new products and markets. Start-up costs include costs in relation to the 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. Included in this item for 30 June 2019 are once-off gains from the dilution of Discovery Insure's investment in Cambridge Mobile Telematics.

⁴ This item includes once-off costs relating to fees payable by Health.

⁵ 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.

⁶ 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.

⁷ The return on shareholders' funds is shown net of tax and management charges.

EMBEDDED VALUE STATEMENT

for the year ended 30 June 2019

Table 5: Experience variances

R million	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		Total
	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	
Renewal expenses	82	-	50	(8)	39	-	4	-	167
Lapses and surrenders ¹	17	31	(1)	(141)	-	200	(223)	12	(105)
Mortality and morbidity ²	-	-	(320)	46	20	-	12	-	(242)
Policy alterations	-	62	(497)	416	-	-	(5)	(40)	(64)
Premium and fee income ³	106	-	22	(254)	53	-	(43)	(25)	(141)
Economic ⁴	(12)	(202)	104	(361)	-	-	-	-	(471)
Commission	-	-	-	-	(93)	-	-	-	(93)
Tax ⁵	127	-	319	(268)	207	-	(44)	-	341
Reinsurance	-	-	-	-	(59)	-	(76)	111	(24)
Maintain modelling term ⁶	-	363	-	189	-	54	-	-	606
Vitality benefits	12	-	-	-	-	-	(69)	-	(57)
Other	21	(1)	(28)	13	15	-	98	(16)	102
Total	353	253	(351)	(368)	182	254	(346)	42	19

¹ The lapse and surrender experience for VitalityLife relate to higher than expected cancellations from inception, premium write-offs due to lapses and commission write-offs due to broker default, partially offset by higher than expected commission claw back and favourable lapse variance on the IFRS reserves.

² The mortality and morbidity experience for Life and Invest reflects a period of volatility in mortality claims, primarily as a result of a small number of large claims observed in the period.

³ The premium and fee income experience for Life arises largely due to the impact of Vitality status distribution shifts compared to expected levels.

⁴ The economic experience for Health and Vitality reflects the impact on administration and managed care fees due to the in-period inflation being lower than that assumed.

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 2019 has not been changed from that used in the 30 June 2018 embedded value calculation. Therefore, an experience variance arises because the total term of the in-force covered business is effectively increased by twelve months.

Table 6: Methodology and assumption changes

R million	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		Total
	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	
Modelling changes ¹	-	-	3 364	(3 026)	-	18	9	108	473
Expenses	-	(201)	(3)	(36)	-	-	-	-	(240)
Lapses ²	-	-	-	(1 254)	-	-	(14)	(70)	(1 338)
Mortality and morbidity ³	-	-	-	(444)	-	-	23	102	(319)
Benefit changes ⁴	-	(32)	(3)	1 251	-	-	-	(121)	1 095
Tax ⁵	-	-	-	(699)	-	-	-	-	(699)
Economic assumptions ⁶	-	(899)	(94)	(727)	-	138	5	(88)	(1 665)
Premium and fee income ⁷	-	-	-	1 198	-	-	(103)	(257)	838
Reinsurance ⁸	-	-	1 255	(1 308)	-	(6)	-	-	(59)
Other ⁹	-	-	(1)	(13)	-	-	231	(233)	(16)
Total	-	(1 132)	4 518	(5 058)	-	150	151	(559)	(1 930)

¹ For Life and Invest, the modelling change item relates to methodology changes associated with the implementation of SAM.

² For Life and Invest, the lapses item relates to a realignment of lapse assumptions, as well as a short term basis strengthening.

³ For Life and Invest, the mortality and morbidity items reflects a revision of the Income Continuation Benefit incidence rates. For VitalityLife, the impact relates to a review of the Vitality status distribution assumptions used in determining the discounts rates applied to reinsurance rates and decrement assumptions.

⁴ For Life and Invest, the benefit changes item relates to a review of the Life product structure to align more closely with experience by various Health plans. For VitalityLife, the impact reflects an increase in the renewal expenses to allow for a contribution towards servicing costs related to the Vitality program.

⁵ For Invest, the tax item reflects the impact of the change to the new adjusted IFRS tax basis.

⁶ For Life, Invest, Health and Vitality the economic assumptions item relates to the impact of updating the assumptions relative to the publicly available Prudential Authority nominal and real yield risk-free curves at 30 June 2019.

⁷ For Life and Invest, the premium and fee income item relates to a premium review on a legacy tranche of policies. For VitalityLife, the impact relates to a review of the Vitality status distribution assumptions used in determining average premium increases at policy anniversary.

⁸ For Life, the reinsurance item primarily relates to the impact of the financing reinsurance arrangements.

⁹ For VitalityLife, the other item relates to the margin reset to offset acquisition costs and assumption and methodology changes, as per the accounting policy, and an alignment of the compulsory margins in VitalityLife to those used by Life.

EMBEDDED VALUE STATEMENT

for the year ended 30 June 2019

Table 7: Embedded value of new business

R million	Twelve months ended		
	30 June 2019	30 June 2018	% change
Health and Vitality			
Present value of future profits from new business (at point of sale)	832	985	
Cost of required capital	(27)	(29)	
Present value of future profits from new business (at point of sale) after cost of required capital	805	956	(16)
New business annualised premium income ¹	3 716	4 086	(9)
Life and Invest			
Present value of future profits from new business (at point of sale) ²	1 242	1 376	
Cost of required capital	(82)	(74)	
Present value of future profits from new business (at point of sale) after cost of required capital	1 160	1 302	(11)
New business annualised premium income ³	2 897	2 773	4
Annualised profit margin ⁴	4.6%	5.6%	
Annualised profit margin excluding Invest business	10.2%	10.7%	
VitalityHealth⁵			
Present value of future profits from new business (at point of sale)	330	263	
Cost of required capital	(59)	(44)	
Present value of future profits from new business (at point of sale) after cost of required capital	271	219	24
New business annualised premium income (Rand) ⁶	1 294	1 161	11
Annualised profit margin ⁴	3.2%	3.1%	
VitalityLife⁷			
Present value of future profits from new business (at point of sale)	520	407	
Cost of required capital	(134)	(58)	
Present value of future profits from new business (at point of sale) after cost of required capital	386	349	11
New business annualised premium income (Rand)	995	898	11
Annualised profit margin ⁴	5.0%	5.4%	

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 2019.

The total Health and Vitality new business annualised premium income written over the period was R6 801 million (June 2018: R6 735 million).

² Included in the Life and Invest embedded value of new business is R70 million (June 2018: R110 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 897 million (June 2018: R2 773 million) (single premium APE: R1 321 million (June 2018: R1 195 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 370 million (June 2018: R1 254 million) and servicing increases of R648 million (June 2018: R615 million), was R4 915 million (June 2018: R4 642 million) (single premium APE: R1 382 million (June 2018: R1 248 million)). Single premium business is included at 10% of the value of the single premium.

Policy alterations and internal replacement policies, including Discovery Retirement Optimisers added to existing Life Plans, are shown in Table 5 as experience variances and not included as new business. Term extensions on existing contracts are not included as new business.

⁴ The annualised profit margin is the value of new business expressed as a percentage of the present value of future premiums.

⁵ The VitalityHealth value of new business is calculated as the value at point of sale of the new business written premium in-force at the valuation date multiplied by the Margin multiplied by the Annuity Factor less the new business cash flows from point of sale to the valuation date. The assumptions for the Margin and Annuity Factor are shown in Table 8.

⁶ VitalityHealth new business is defined as individuals and employer groups which inceptioned during the reporting period. The new business annualised premium income shown above has been adjusted to exclude premiums in respect of members who join an existing employer group after the first month, as well as premiums in respect of new business written during the period but only activated after 30 June 2019.

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.

EMBEDDED VALUE STATEMENT

for the year ended 30 June 2019

BASIS OF PREPARATION

Table 8: Embedded value economic assumptions

	30 June 2019	30 June 2018
Beta coefficient	0.75	0.75
Equity risk premium (%)	3.5	3.5
Risk discount rate (%)		
Health and Vitality ¹	11.875	12.155
Life and Invest ¹	13.125	12.875
VitalityHealth	3.61	4.02
VitalityLife	4.725	4.725
Rand/GB Pound exchange rate		
Closing	17.98	18.16
Average	18.32	17.33
Margin over Expense inflation to derive Medical inflation (%)		
South Africa	3.00	3.00
Expense inflation (%)		
South Africa ² – Health and Vitality	6.13	6.91
– Life and Invest	7.24	7.48
United Kingdom	3.00	3.00
Pre-tax investment return (%)		
South Africa – Cash ¹	9.00	8.75
– Life and Invest bonds ³	10.50	10.25
– Health and Vitality bonds ³	9.25	9.53
– Equity ¹	14.00	13.75
United Kingdom – VitalityHealth investment return	0.99	1.40
– VitalityLife investment return	2.10	2.50
Income tax rate (%)		
South Africa	28	28
United Kingdom – long term ⁴	17	17
VitalityHealth Assumptions		
– Margin (net of tax and cost of capital) (%)	14.1	14.1
– Annuity Factor	6.13	6.00
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 ⁵	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.

³ As indications, the cash flow weighted averages derived from the relevant yield curve(s) are shown.

⁴ The United Kingdom Corporation tax rate assumed is 19% in 2019 to 2020, and 17% beyond that.

⁵ The VitalityHealth projection term of 20 years is used in the derivation of the Annuity Factor.

EMBEDDED VALUE STATEMENT

for the year ended 30 June 2019

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 2018, the South African investment return assumptions for Life, Invest, Health and Vitality were based on the publically available Prudential Authority risk-free nominal yield curve. The real yield assumption was set based on the publically available Prudential Authority 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 best estimate investment return 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.

VitalityLife adopts a passive approach for setting economic assumptions. The nominal investment return and real return rate are fixed unless market conditions depart significantly from the assumptions at the financial year end. Other economic assumptions were set relative to these two passive yields.

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. Vitality Life Limited and the VitalityLife business on the Prudential licence required capital amount is assumed to earn the same return as the assets backing the VitalityLife policyholder liabilities. 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.

EMBEDDED VALUE STATEMENT

for the year ended 30 June 2019

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 2019 to changes in the risk discount rate is included in the tables below.

For each sensitivity illustrated below, all other assumptions have been left unchanged. No allowance has been made for management action such as risk premium increases where future experience is worse than the base assumptions.

Table 9: Embedded value sensitivity

R million	Health and Vitality			Life and Invest		VitalityHealth		VitalityLife		Embedded value	% change
	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		
Base	10 393	21 465	(394)	27 277	(1 177)	7 840	(378)	7 280	(1 089)	71 217	
Impact of:											
Risk discount rate +1%	10 393	20 200	(429)	24 656	(1 129)	7 439	(359)	6 829	(1 302)	66 298	(7)
Risk discount rate -1%	10 393	22 871	(355)	30 387	(1 232)	8 283	(399)	7 796	(790)	76 954	8
Lapses -10%	10 591	22 196	(414)	29 572	(1 262)	8 838	(426)	7 803	(1 248)	75 650	6
Interest rates -1% ¹	9 708	21 394	(379)	28 021	(1 221)	8 150	(399)	7 403	(1 688)	70 989	-
Equity and property market value -10%	10 353	21 465	(394)	26 839	(1 209)	7 886	(378)	7 280	(1 089)	70 753	(1)
Equity and property return +1%	10 393	21 465	(394)	27 595	(1 186)	7 840	(378)	7 280	(1 089)	71 526	-
Renewal expenses -10%	10 464	23 574	(365)	27 740	(1 140)	8 465	(378)	7 371	(1 022)	74 709	5
Mortality and morbidity -5%	10 574	21 465	(394)	29 157	(1 011)	9 055	(378)	7 432	(1 047)	74 853	5
Projection term +1 year	10 393	21 784	(399)	27 440	(1 179)	7 893	(381)	7 280	(1 088)	71 743	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

R million	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		Value of new business	% change
	Value of new business	Cost of required capital	Value of new business	Cost of required capital	Value of new business	Cost of required capital	Value of new business	Cost of required capital		
Base	832	(27)	1 242	(82)	330	(59)	520	(134)	2 622	
Impact of:										
Risk discount rate +1%	761	(30)	947	(79)	250	(55)	388	(152)	2 030	(23)
Risk discount rate -1%	911	(24)	1 592	(86)	418	(63)	669	(102)	3 315	26
Lapses -10%	888	(29)	1 523	(88)	469	(65)	689	(177)	3 210	22
Interest rates -1% ¹	839	(26)	1 321	(85)	399	(63)	553	(235)	2 703	3
Equity and property return +1%	832	(27)	1 271	(82)	330	(59)	520	(134)	2 651	1
Renewal expense -10%	949	(26)	1 287	(79)	419	(59)	545	(125)	2 911	11
Mortality and morbidity -5%	832	(27)	1 355	(70)	503	(59)	564	(124)	2 974	13
Projection term +1 year	850	(28)	1 258	(82)	339	(59)	520	(134)	2 664	2
Acquisition costs -10%	858	(27)	1 388	(82)	363	(59)	632	(103)	2 970	13

¹ All economic assumptions were reduced by 1%.

FIVE-YEAR REVIEW

for the year ended 30 June 2019

	Group 2015	Group 2016	Group 2017	Group 2018	Group 2019	Compound growth %
Total new business API and other new business (R million)	16 834	15 207	15 917	16 878	19 246	3%
Gross inflows under management (R million)						
Gross inflows under management ¹	89 483	104 409	115 061	125 554	139 062	12%
Less: Collected on behalf of third parties	(51 587)	(59 014)	(68 165)	(74 459)	(80 199)	12%
Gross income of Group ¹	37 896	45 395	46 896	51 095	58 863	12%
Income statement extracts (R million)						
Profit from operations	5 229	5 803	6 245	8 260	7 536	10%
Headline earnings	5 285	3 641	4 404	5 803	5 147	(1%)
Abnormal expenses/(income)	(1 258)	671	252	(402)	(112)	
Normalised headline earnings	4 027	4 312	4 656	5 401	5 035	6%
Diluted normalised headline earnings per share (cents)	663.0	671.1	721.5	836.9	771.6	4%
Statement of financial position extracts (R million)						
Total assets	95 880	118 577	130 923	157 982	180 233	17%
Shareholders' funds	27 356	30 607	32 290	37 594	43 083	12%
Embedded value						
Embedded value (R million)	52 295	53 080	57 294	65 624	71 217	8%
Diluted embedded value per share (R)	82.29	82.17	88.67	101.56	108.30	7%
Key ratios						
Return on average equity (%)	25	13	14	16	16	
Return on average assets (%)	6	3	4	4	4	
Exchange rates						
Rand/US\$						
– Closing	12.18	14.73	13.12	13.81	14.15	
– Average	11.49	14.60	13.61	12.86	14.17	
Rand/GBP						
– Closing	19.19	19.78	17.03	18.16	17.98	
– Average	18.04	21.44	17.29	17.33	18.32	
Share statistics						
Number of ordinary shares in issue						
– Weighted average (000's)	598 946	637 608	644 651	645 014	652 295	
– Diluted weighted average (000's)	607 290	642 534	645 236	645 408	652 568	
– End of period (000's)	647 428	647 428	646 845	646 845	658 291	
Price/diluted headline earnings (times)	19.1	18.3	17.7	17.6	19.3	
Share price (cents per share):						
– High	14 195	15 467	13 748	19 000	17 830	
– Low	9 050	11 000	10 910	12 719	13 287	
– Closing	12 647	12 250	12 792	14 750	14 911	
Market capitalisation (R million)	81 880	79 310	82 744	95 410	98 158	

¹ 'Gross inflows under management' and 'Gross income of Group' have not been restated for the impact of IFRS15 Revenue from contracts with customers.

ANNEXURE A: PRODUCT DESCRIPTIONS

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 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.

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, replacing the historical Global Linkage Benefit, 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 was launched in September 2017 and 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 A: 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 stand-alone 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.

ANNEXURE A: PRODUCT DESCRIPTIONS *continued*

Discovery Invest

Discovery Invest offers investors access to a comprehensive and flexible range of investment solutions which can be tailored to the needs of each investor.

A range of investment wrappers are provided to ensure flexibility and to optimise the investments according to the investment objectives and time horizon of the investor. A wrapper is the legal structure that allows policyholders to make underlying investments with different tax and other legal implications.

The following wrappers are available:

- **Endowment:** A medium-term 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 has been closed to new business.

ANNEXURE A: PRODUCT DESCRIPTIONS *continued*

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.
- Health cover.
- Waiver of premium on death, serious illness and/or incapacity.
- Additional optional serious illness cover for children.
- Cancer relapse cover.
- 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

The Guaranteed 50 Plus Plan will pay out a fixed cash lump sum in the event of death, provided that the policy has been held for at least one year. It also provides guaranteed acceptance for people aged between 50 and 75, living in the UK.

RELEVANT LIFE PLAN

The Relevant Life Plan is a Life cover only plan with substantial tax benefits for employers wanting to provide life cover for their employees. The structure is the same as for life cover on the above mentioned plans and includes the option to take different Vitality wellness program benefits.

BUSINESS PROTECTION PLAN

The Business Protection Plan provides insurance protection for businesses via key person cover, shareholder/partnership cover and/or loan protection.

MORTGAGE PLUS PLAN

The Mortgage Plus Plan provides insurance protection for individuals and families against death, disability and serious illness when taking out a mortgage on their home.

VITALITY OPTIMISER

The Vitality Optimiser offers an upfront premium discount that varies in size depending on the policy term. Depending on engagement in the Vitality wellness programme, the premium discount can be increased, maintained or will be eroded over time.

ANNEXURE A: PRODUCT DESCRIPTIONS *continued*

VitalityLife *continued*

WHOLE OF LIFE OPTIMISER

The Whole of Life Premium Optimiser and Interest Rate Optimiser follows a similar structure to the Vitality Optimiser policy, offering an upfront premium discount and premium changes at each anniversary. Unlike Vitality Optimiser, where premiums change depending on Vitality Status, the annual premium changes are either fixed or depend on long-term interest rates.

WELLNESS OPTIMISER

Wellness Optimiser offers customers an upfront discount, similar to Vitality Optimiser. The future premiums will change annually depending on the policyholder's Wellness Status, and Vitality Status, which will be determined by the results of the on-going biennial health checks.

VitalityHealth

VitalityHealth offers three main product types:

INDIVIDUAL PRODUCT

This is offered to the retail market either direct or via a broker. The product features include:

- **Private Medical Insurance:** Cover is offered for a range of private healthcare-related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions.
- **Renewal pricing:** Prices offered at renewal depend on claims and Vitality status.
- **Vitality rewards:** A full Vitality package is offered, including gym offering and 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 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.

