



# Discovery Group

## Nomination of Directors, Board Diversity and Evaluation of Directors Policy





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# 1. Introduction

## 1.1 PURPOSE

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Discovery Limited (“Discovery”/ “Discovery Group”) was founded with the core purpose to make people healthier, and to enhance and protect their lives. Discovery has a unique entrepreneurial spirit with a strong emphasis on innovation and strives to attract the best talent for its organisation. It empowers its executive management team, expects the highest level of integrity and congruence to the Discovery values, and requires astuteness and accountability.

This policy sets out the principles for the nomination of directors within Discovery Limited, the principles in place to promote diversity within its Board, as well as the principles followed to evaluate the performance of the individual directors and collective Board and its committees.

The policy is informed by corporate governance best practice and meets regulatory requirements.

## 1.2 SCOPE

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This policy is applicable to Discovery Limited and includes:

- The Board
- Board Committees
- Individual members of the Board of Directors (executive and non-executive directors), and
- The Company Secretary.

All local and international subsidiary operations of Discovery Limited should apply the principles and intent of this policy in nominating directors, driving diversity on their boards, and evaluating boards and individual members thereof.

# 2. Policy principles

## 2.1 NOMINATIONS OF DIRECTORS

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The Discovery Limited Board of Directors acknowledges the need for a nominations policy as recommended by the Johannesburg Stock Exchange Debt Listings Requirements. This section of the Policy sets out the practices of the Board in respect of matters such as the nomination, selection, screening, and appointment of members of the Board.

### 2.1.1 CONSTITUTION AND COMPOSITION OF THE BOARD

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As stated in Discovery Limited’s Memorandum of Incorporation, the Board will have no less than four directors, and the Board will determine the number of directors serving on it at any time.

The knowledge, expert skills and experience of its current directors as well as the size, independence, demographics, gender and racial diversity (refer to paragraph 3.2 below) of its members will be considered to ensure that it operates effectively, considering the size, nature and complexity of the company’s business and that of the Discovery Group. The composition of the Board will be reviewed annually to ensure that an appropriate combination of knowledge, expert skills and experience of current members are maintained and that it remains in line with the Board’s race and gender diversity targets.



## 2.1.2 BOARD MEMBERSHIP CRITERIA<sup>1</sup>

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Board members will always ascribe to the Discovery values and uphold them. These are more comprehensively described in the group's values statement but include values of innovation and optimism, business astuteness and prudence, great people, liberating the best in people, intellectual leadership, integrity, honesty and fairness, tenacity, urgency and drive, "customer, customer, customer" and being a force for good. It is important for Discovery to maintain its entrepreneurial culture by having directors on the Board who know the origins of the Group as well as the spirit and culture of the business, for continuity and corporate memory.

Board members should individually and collectively possess the following characteristics to enable sound and prudent execution of accountabilities and responsibilities:

- a) The necessary professional and/or formal education qualifications commensurate with the size, complexity and risk profile of Discovery
- b) Technical and business managerial knowledge, skill and expertise
- c) Knowledge and understanding of the laws and regulations that govern the activities of Discovery
- d) Independence of mind in the best interests of Discovery and conflicts of interest whether actual or perceived should be disclosed, effectively managed and/or avoided where necessary
- e) The required level of financial soundness/stability
- f) Diligence in performing their duties and devote sufficient time to Boards affairs
- g) The ability to balance the legitimate and reasonable needs, interests and expectations of all stakeholders in the best interest of Discovery
- h) The ability to make responsible decisions which build sustainable businesses by having regard to Discovery's economic, social and environmental impact on the community
- i) Must be of good repute and integrity with due consideration of their criminal, financial, professional or supervisory antecedents
- j) Act with transparency in exercising their governance role and responsibilities and accountable for the execution of responsibilities, even when these were delegated
- k) Any other additional requirements, as may be deemed fit by the Board, and
- l) Must have sufficient time to fully carry out responsibilities.

When assessing the skills and suitability of a director, the Board should consider the collective knowledge, competence and experience of the current Board with respect to:

- a) Market knowledge
- b) The systems of governance, risk management and internal control, but with reference to the risks faced by Discovery
- c) Financial and actuarial knowledge and understanding as well as expertise in other areas of specialisation such as technology, and
- d) The regulatory framework and requirements.

## 2.1.3 BOARD MEMBER APPOINTMENT

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Directors are appointed through a formal transparent process performed by the Board. The Nominations Committee ("Committee") is mandated to identify, consider and recommend potential candidates for approval by the Board. Discovery Limited is a designated insurance group under the Insurance Act (18 of 2017) and therefore the Prudential Authority ("PA") needs to approve the appointment of persons to serve as a director of the Board. Appointment is subject to approval by shareholders at any shareholders meeting or the annual general meeting, per ordinary resolution.

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<sup>1</sup> KING IV, Principle 7, RP 14 - 19



The Board, with the recommendation of the Committee, will assess and take into consideration every director's circumstances and the nature, scale and complexity of other directorships held in order to assess and ensure that directors are able to devote sufficient time and duly discharge their responsibilities as a director.

The Prudential Authority ("PA") approves the appointment of persons to serve as a director of the Board of Discovery Limited. This is due to Discovery Limited being a designated Insurance Group under the Insurance Act (18 of 2017). All Board appointments are subject to engagement with and prior approval of the PA. In terms of the requirements of the Companies Act, all new appointments are required to be proposed for re-election by shareholders and shareholder approval by way of ordinary resolution at the first shareholders meeting or at the annual general meeting following appointment.

In terms of the Fit and Proper Policy, the following checks are conducted on the appointment of a director and thereafter on a frequent basis:

- a) Credit
- b) Criminal
- c) Anti-money laundering sanctions
- d) Politically exposed persons
- e) Adverse media, and
- f) Qualifications (on appointment).

A person who meets any of the following criteria may be appointed to the Board but will not be deemed to an independent director of the Board:<sup>2,3</sup>

- a) A representative of a major shareholder
- b) A direct or indirect shareholder of more than 5% of the total issued shares of Discovery
- c) A direct or indirect shareholding of less than 5% of the total issued shares of Discovery which are material to his/her personal wealth
- d) A professional advisor, material customer or supplier to Discovery such that a reasonable and informed third party would conclude in the circumstances that the integrity, impartiality or objectivity of that director is compromised by that relationship
- e) Who in the past three years has been a key member of the external audit team directly or indirectly responsible for performing the statutory audit of Discovery
- f) Been an executive director, the CEO or executive officer of Discovery at any time during the preceding three years
- g) Served as an independent non-executive director of Discovery for a period of nine years and on assessment were found to no longer be independent
- h) A member of an immediate family of an individual who falls within any of the above categories, and
- i) Is entitled to remuneration contingent on the performance of Discovery.

When considering the appointment of a foreign or domestic prominent influential person<sup>4</sup> as a director, the Committee should take into account the requirements set out in the Johannesburg Stock Exchange Debt Listings Requirements. Politically exposed persons are screened in terms of the Anti-Money Laundering and Counter-Financing Terrorisms Risk Management and Compliance Programme.

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<sup>2</sup> King IV, Part 5.3, Principle 7, RP 28

<sup>3</sup> S94 (4) Companies Act, 91 of 2008

<sup>4</sup> Domestic Influential Person is defined in Schedule 3A to the Financial Intelligence Centre Act 31 of 2001



## 2.1.4 AMENDMENTS TO THIS SECTION OF THE POLICY

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Changes to this section of the policy or deviations, together with the reasons therefor will be immediately announced on SENS in accordance with the JSE Debt Listings Requirements.<sup>5</sup>

## 2.2 BOARD DIVERSITY

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The Discovery Limited Board of Directors acknowledges the need for a policy on the promotion of broader diversity at board level, specifically focusing on the promotion of the diversity attributes of gender, race, culture, age, field of knowledge, skills and experience, as required by the principles of good governance and the Johannesburg Stock Exchange Listings Requirements.

This policy does not address employee diversity, which is covered by the Broad-Based Black Economic Empowerment Policy, for employees of South African domiciled entities.

### 2.2.1 BOARD STATEMENT

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The Board believes in the benefits that diversity brings and it recognises that diversity of thought makes prudent business sense. The Board is committed to enhance diversity to achieve these benefits in line with its stated values. The Committee must assist the Board in implementing this policy.

### 2.2.2 LEGISLATIVE IMPERATIVES AND BEST PRACTICE

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The Board of Directors of Discovery Limited, as a company listed on the Johannesburg Stock Exchange and as a licensed controlling company of an insurance group, must comprise the appropriate balance of ability, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively considering the nature, scale and complexity of the business and its risks.

Discovery Limited must report to shareholders in its annual report on how the board of directors or the Nomination Committee, have considered and applied the Board Diversity Policy in the nomination and appointment of directors. If applicable, it must be explained why any of the diversity indicators have not been applied, and report on progress made in respect thereof against agreed voluntary targets.

### 2.2.3 DIVERSITY

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Diversity should be understood as the varied perspectives and approaches offered by members of different identity groups.

For purposes of Board composition, diversity includes, but is not limited to, business and industry knowledge, skills and experience, age, gender, race, and culture. The Board will make good use of these differences and distinctions among individuals in determining the optimum composition of the Board.

Having a Board composed of men and women with diverse skills, experience, backgrounds and perspectives has the following benefits:

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<sup>5</sup> JSE L.R Nominations of Directors 7.8



- Credibility
- Competitive advantage
- Robust understanding of opportunities, issues and risks
- Inclusion of different concepts, ideas, and relationships
- Better understanding of customer base and the environment that the business operates in
- Enhanced decision-making and dialogue, and
- Heightened capacity for oversight of the organisation and its governance.

## 2.2.4 TARGETS, ASSESSMENT AND REPORTING

Discovery has set realistic and measurable voluntary targets for 2025 to achieve appropriate race and gender diversity on the Discovery Limited Board.

Progress towards achieving these targets must be reported on in the Integrated Annual Report.

The Committee will annually review Board composition and make recommendations on the appointment of new directors and actions that may be taken to meet the voluntary targets referred to above. In reviewing Board composition, the Committee must, in advising the Board, consider the benefits of all aspects of diversity in order to enable it to discharge its duties and responsibilities effectively and in accordance with this policy.

The Committee must table its reviews at the first Board meeting following the completion of the reviews.

The following Discovery Limited Board race and gender diversity targets have been proposed, as at 30 June 2020:

	Race (SA entities only)	Gender
Short-term (2023)	35% Black	25% Female
Long-term (2025)	40% Black	30% Female

While the imperative for racial and gender diversity in subsidiary boards outside South Africa are important, it does not have the same context and as such the voluntary targets on race and gender are for the Discovery Limited Board only.

## 2.3 EVALUATION OF DIRECTORS

The Board acknowledges the need for an Evaluation of Directors' Policy, as required by sound governance practice in terms of King IV.

In addition, in terms of the Johannesburg Stock Exchange Debt Listings Requirements, all debt issuers must have a policy on the evaluation of the performance of the Board of the applicant issuer and that of its committees, its Chairperson and its individual directors, pursuant to the provisions of the King IV Report on Corporate Governance for South Africa 2016 (King IV). The issuer must confirm this by reporting to holders of debt securities in its annual financial statements that the Board of directors has executed this responsibility.

Performance evaluations produce insights into the effectiveness of the Board. There are several factors that the Board must consider in order to ensure that the process adds value and contributes to improve its performance. These factors include:

- All Board members should support the evaluation process. Board members need to give the evaluation process due regard and attention to ensure that it is effective. This includes applying their minds to the evaluation



questions and answering these honestly, complying with agreed timelines and making time for interviews held).

- The evaluation process should ensure anonymity of responses in order to illicit honest and frank input from members.
- The Company Secretary or nominee will take responsibility for the process to ensure it is carried out effectively.

The Board meeting following an evaluation should provide sufficient time on the agenda for a presentation and discussion of the evaluation results. An action plan should be created to address the results to ensure that development areas and concerns are adequately addressed.

### 2.3.1 REASONS FOR AND BENEFITS OF PERFORMANCE EVALUATIONS

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The Board is the custodian of corporate governance. There is a direct correlation between the performance of the Discovery Group and the performance of its Boards. Board culture influences the organisational culture, and it is thus important to assess and develop the culture that is required at all levels.

Continuous performance assessments provide the Board with an opportunity to review and improve its performance. A rigorous performance evaluation allows the Board to reflect on its roles and responsibilities, its culture and relationship with management.

Performance evaluations are a useful diagnostic tool which aims to help identify where the Board is performing well and which areas require development. Some of the benefits that arise from performing regular performance evaluations include:

- Identifying key development areas
- Identifying director development programmes to improve competency of Board members
- Improving Board composition through identifying skills needed on the Board
- Using the results to inform the nomination and election processes of new Board members
- Managing performance of Board members and the Company Secretary, and
- Identifying changes needed to company and Board governance documents/processes.

### 2.3.2 RESPONSIBILITY

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The Chairperson, with the support of the Company Secretary, is responsible for leading the performance evaluation of the Board or relevant committee.

Where the Board does not have a lead independent member, the Board should appoint an independent non-executive member to lead the performance assessment of the Chairperson.

The Chairperson should relay the results of the evaluation to the members of the Board or relevant committee and afford the members an opportunity to discuss the results openly.

Where individual peer evaluations are conducted, the Chairperson should have one-on-one consultations with each member to review the results and manage any performance issues which have been identified. Individual peer evaluation results should be kept confidential and should be treated with appropriate sensitivity. These results should not be shared with the rest of the members of the Board or relevant committee in order to avoid causing a negative and/or disruptive impact on the morale of individual members and overall Board dynamics.

### 2.3.3 WHAT IS EVALUATED AND HOW OFTEN

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The performance evaluation should examine the roles and responsibilities of the Board, the effectiveness of committees, its relationship with key governance players and overall, assess the key areas which impact its effectiveness.

The Board assesses its overall performance and identifies its developmental areas. The committee evaluations allow the Board to evaluate the committee's contribution and effectiveness in fulfilling its mandate. Individual evaluations provide insights into the competency and engagement levels of each member of the Board. These also include specific evaluations of the Chairperson and Company Secretary. Individual peer evaluations should be used when determining whether to nominate a member for re-election.

The Board will conduct a formal performance evaluation every year. An independent assessment will be conducted from time to time bearing in mind that best practice guidelines suggests that an independent assessment should be conducted every third year.

#### 2.3.4 METHODS

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##### **Quantitative and/or qualitative methods**

Quantitative methods aim to obtain specific, numerical and measurable data through surveys or questionnaires. The results are aggregated and reported back to the Board and committees.

Qualitative methods are utilised to reveal trends in thought and opinions of Board members and this can take the form of one-on-one interviews, observation of Board meetings and review of applicable documentation. King IV is not prescriptive on the format of performance evaluations and the decision ultimately depends on the needs of the organisation.

##### **Internal vs external facilitated evaluations**

Internally facilitated performance evaluations are conducted by the Chairperson, lead independent director or Company Secretary. Externally facilitated evaluations are conducted by an independent third party.

Irrespective of which method is applied, the facilitator should aim to illicit honest and frank inputs from the Board members.

Conducting an externally facilitated evaluation means that the process by which Board members' views and scores are obtained is independently facilitated. It is still a self-evaluation and thus the evaluation report provided is still a reflection of what the Board, as a whole, feels. An externally facilitated performance evaluation affords the process a level of objectivity and candour.

Whichever method is used, the evaluation should not cause disruption or cause tension on the Board. Responses received should be private and confidential and results should be handled with the requisite sensitivity as needed.

#### 2.3.5 RESULTS OF EVALUATIONS

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The Discovery Board is committed to continuous development. It is crucial that the outcomes of performance evaluations and the identified action items are implemented and embedded into the practices of the Board.

Communicating and understanding the results of the performance evaluation is a crucial part of the process.



### 3. Compliance with this Policy

Compliance with this policy will be monitored. Any breach of, or non-compliance with this policy must be communicated to the policy owner as soon as reasonably practical. The policy owner, with input from the Chairperson of the Nominations Committee, will consider the appropriate action(s) required. If agreement on the appropriate action(s) cannot be reached, the Chairperson of the Nominations Committee will decide whether the breach or non-compliance is sufficiently material to be escalated further, and if so, it will be escalated to the Board.

All instances of non-compliance with this policy will be included within the regular risk reporting process.