ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2022

DISCOVERY LIMITED

Registration number 1999/007789/06

CONTENTS

BASIS OF PREPARATION

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

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

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

HOW WE REPORT TO OUR STAKEHOLDERS

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

W Our 2022 Annual Financial Results Presentation can be accessed at ***www.discovery.co.za/corporate/investor-relations***

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

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

W Our 2022 Annual Financial Statements can be accessed at ***www.discovery.co.za/corporate/investor-relations***

Our **SUSTAINABLE REPORT**, provides information on how the Group delivered on its commitment to be a powerful force for good for our clients.

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

Our **TCFD REPORT** is our climate report against the recommendations of the Task Force on Climate-related Financial Disclosure.

Our **REMUNERATION REPORT** provides the material disclosures of the Group's Remuneration Policy and implementation thereof.

DIRECTORS' RESPONSIBILITY STATEMENT

for the year ended 30 June 2022

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 2023. 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, written or electronic and the reliability of financial information used within the business, or for the publication thereof, including submissions to the companies and Intellectual Property Commission (CIPC).

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. and KPMG Inc., have audited the Annual Financial Statements and their unqualified report appears on pages 14 to 19.

The Annual Financial Statements of Discovery for the year ended 30 June 2022, which appear on pages 25 to 202 have been approved by the Board of Directors on 6 September 2022 and are signed on its behalf by:

M Tucker
Chairperson

A Gore
Chief Executive Officer

CHIEF EXECUTIVE AND CHIEF FINANCIAL OFFICER INTERNAL FINANCIAL CONTROL RESPONSIBILITY STATEMENT

for the year ended 30 June 2022

After due, careful, and proper consideration, in accordance with the JSE Listings Requirements 3.84(k), each of the directors, whose names are stated below, hereby confirm that:

a) the Annual Financial Statements set out on pages 25 to 202 fairly present, in all material respects, the financial position, financial performance and cashflows of the issuer in terms of IFRS;

b) to best of our knowledge and belief, no facts have been omitted or untrue statements made that would make the Annual Financial Statements false or misleading;

c) internal financial controls have been put in place to ensure that material information relating to the issuer and its consolidated subsidiaries have been provided to prepare the financial statements of the issuer;

d) the internal financial controls are adequate and effective and can be relied upon in compiling the Annual Financial Statements, having fulfilled our role and function as executive directors with primary responsibility for implementation and execution of controls;

e) where we are not satisfied, we have disclosed to the Discovery Limited Audit Committee and the auditors any deficiencies in design and operational effectiveness of the internal financial controls, and have remediated or taken steps to remedy the deficiencies; and

f) We are not aware of any fraud involving directors.

A Gore
Chief Executive Officer
7 September 2022

DM Viljoen
Chief Financial Officer
7 September 2022

CERTIFICATE BY THE COMPANY SECRETARY

for the year ended 30 June 2022

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 2022 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.

Nobuhle Mbongo

NN Mbongo
Company Secretary
7 September 2022

REPORT OF THE DISCOVERY LIMITED AUDIT COMMITTEE

for the year ended 30 June 2022

We are pleased to present the Discovery Limited Audit Committee's (DLAC) report for the financial year ended 30 June 2022. Our report provides details on how we accomplished our various statutory obligations, as well as the various key and significant audit matters, we considered during the period. Our committee carried out its responsibilities, including those relating to the audit and financial reporting obligations of the Group, as set out in its Terms of Reference.

This report has been prepared based on the requirements of the Companies Act, Act 71 of 2008 (Companies Act), as amended, the King Code of Governance for South Africa (King IV), the JSE Listings Requirements, JSE Debt Listings Requirements and other applicable regulatory requirements.

TERMS OF REFERENCE, ROLES AND RESPONSIBILITIES

The DLAC is an independent statutory committee constituted under section 94 (7) of the Companies Act. DLAC recognises the important oversight role it performs to meet the requirements of the Companies Act, the King Code of Governance for South Africa (King IV), the. JSE Listing Requirments and other applicable regulatory requirements.

The DLAC provides independent oversight and challenge across the Group's financial reporting and internal control procedures. The Board has delegated the following key functions to the DLAC through a formal Terms of Reference which is reviewed annually. These include, but are not limited to.

- Overseeing the Group's financial reporting process. The review considers the integrity and fairness of the information and the review of significant estimates and judgements made by management in producing the financial information. Furthermore, the DLAC deals with concerns, if any, from outside Discovery regarding the application of accounting principles and external reporting. The review includes the review of the financial statements and the annual integrated report, which requires information to be fair, balanced and consistent with other information produced.
- Nominating for appointment, managing and overseeing the relationship with the Group's joint external auditors, including scope, fees, quality control, effectiveness and independence of the External Audit function. The DLAC also manages the policy, fees and the nature of non-audit services provided by the external auditors. In its evaluation, the DLAC also must satisfy itself regarding the experience, capacity, skill and respective accreditation of the audit team.
- Managing and overseeing the performance, conduct, quality and effectiveness of the Group's internal audit functions. The DLAC also reviews the annual work plan, capacity, scope and staffing of internal audit.
- Considering the appropriateness, capacity and expertise of senior members of the finance team.
- Reviewing the Group's internal controls and assurance processes, including dealing with any complaints on the internal financial control environment.
- Overseeing the effectiveness of Group governance with particular reference to the various subsidiary audit committee.
- Reviewing the appropriateness of the combined assurance model and plan for the Group, ensuring the inclusion of all material risk areas, and that acceptable coordinated coverage of the various assurance activities result in an effective control environment to support the integrity of information used for decision making as well as reporting to external stakeholders
- Undertaking formal assessments of finance and internal audit functions.

Structure of the audit committees in Discovery Group

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

The Discovery Group Europe Limited grouping, which includes Vitality Life and Vitality Health, the Discovery Bank Holdings Limited grouping, and the Vitality Group International Inc grouping each have their own individual audit committees.

There is regular liaison and communication between the Chairperson of the DLAC and the Chairpersons of the various main subsidiary audit committees on all key matters that are relevant to the Group. The DLAC receives regular reports from the various subsidiary audit committees which includes in person feedback at reporting periods. In addition, the Chair of the DLAC has the opportunity to attend any of the subsidiary audit committee meetings as an invitee.

REPORT OF THE DISCOVERY LIMITED AUDIT COMMITTEE *continued*
for the year ended 30 June 2022

COMPOSITION AND GOVERNANCE

The DLAC consists of a minimum of three independent non-executive directors of the Discovery Limited Board of Directors. During the financial year ended 30 June 2022, the committee held six meetings as per the standard meeting cycle described below, two ad hoc meetings and an annual trilateral meeting with the Prudential Authority.

The DLAC has the appropriate balance, diversity of knowledge, financial skills, and experience to execute its duties effectively. The membership, qualifications, and attendance of the members of the DLAC for the year ended 30 June 2022 are as follows:

Committee member	Qualifications	Number of meetings eligible to attend	Number of meetings attended
D Macready (Chairperson)	BCom (Hons), CTA, CA (SA)	6	6
SE De Bruyn[1]	LLB (Hons), MA	3	2
M Hlahla[2]	BA (Hons) (Economics), MA	6	6
M Schreuder	BCom (Hons), FIA, FASSA	6	6
SV Zilwa[3]	BCompt (Hons), CTA, CA (SA)	3	3

1 M Hlahla appointed with effect from 15 August 2021.
2 SE de Bruyn retired with effect from 24 November 2021.
3 SV Zilwa did not stand for re-election as a member of the Audit Committee at the Annual General Meeting with effect from 24 November 2021

In addition to their membership on the DLAC, the committee members also serve across all key board committees to ensure a collective and integrated oversight of key matters across the Discovery Group.

Committee member	Actuarial committee	Risk and compliance committee	Remuneration committee	Social and Ethics committee
D Macready	x	x		
M Hlahla			x	x
M Schreuder	x	x (Chairperson)		

The Chairperson of Discovery's Board and other non-executive directors are entitled to attend any meetings on request. The Chief Executive Officer, Chief Financial Officer, Chairperson of the Actuarial Committee, and executive directors attend meetings or parts of meetings by invitation only. Other members of management are invited to attend meetings to provide the DLAC with greater insights into specific issues or areas of the Group. The Chairperson has regular contact with the management team to discuss relevant matters directly.

The DLAC Chairperson meets regularly with the Chief Financial Officer, the Heads of Actuarial, Risk and Compliance, and executive management where necessary.

The internal and external auditors have direct access to the Chairperson, including closed sessions without management during the year, on any matter that they regard as relevant to fulfilling the DLAC's responsibilities. In addition, the Chairperson meets with the internal audit and the external auditors before each meeting and at other times as necessary by either party before Committee meetings.

REPORT OF THE DISCOVERY LIMITED AUDIT COMMITTEE *continued*
for the year ended 30 June 2022

MEETINGS CYCLE FOR THE YEAR

The regular cycle of DLAC meetings during the financial year and the main focus areas were:

2021

October

Review of year-end process for the year ended June 2021 and investor feedback following release of results.

Review of external auditor accreditation, independence and recommendation of joint auditor appointment of PwC and KPMG for the financial year end audit June 2022 at the annual general meeting.

COVID-19 monitoring.

IFRS 17 project progress.

November

COVID-19 monitoring.

Internal audit POPIA audit review.

Review of the external audit plan, with focus on the allocation of audit work for purposes of joint audit.

IFRS 17 project progress with focus on the project plan.

Review of annual JSE proactive monitoring report.

2022

February

Feedback from subsidiary audit committees as well as other relevant committees such as Risk and Compliance and Actuarial.

Review of interim results for the six months to 31 December 2021 and SENS announcement

Feedback on the evaluation of the effectiveness of the DLAC by an independent external consultancy firm.

April

Review of external audit plan and budgeted fees for the year ended 30 June 2022.

Reviewed the accounting policies and IFRS developments, including consideration for the recently concluded AmplifyHealth transaction.

IFRS 17 project progress, with focus on feedback on the key policies and decisions made by the respective governance structures in the project, benchmarks Also reviewed the updated timelines.

June

Review of unaudited year-to-date results and key financial and accounting judgements as well as any relevant tax matters.

Review of annual impairment assessment in accordance with IFRS.

Actions finalised arising from the effectiveness review performed December 2021 – February 2022.

Review and approve the annual internal audit plan, significant areas of focus, as well as resources and budgeted fees

August

Discussion and review of year-end reports from the external auditors and Group Internal audit (GIA), feedback from subsidiary audit committees and other relevant committees such as Risk and Compliance, and Actuarial

Consideration for going concern, solvency and liquidity.

Review and approval of the annual financial statements, related SENS announcements and summary financial statements.

REPORT OF THE DISCOVERY LIMITED AUDIT COMMITTEE *continued*
for the year ended 30 June 2022

KEY FOCUS AREAS DURING THE FINANCIAL YEAR ENDED 30 JUNE 2022

Key audit matters

The DLAC annually assesses the Key Audit Matters (KAMs) reported by the external auditors and considers the key judgements and estimates pertaining to the annual financial statements. Accordingly, the KAMs of the joint auditors for the current period were addressed as follows.

Key Audit Matter	How the DLAC addressed the matter
Valuation of assets and liabilities arising from insurance contracts	The DLAC reviewed reports from the Group Chief Actuary and the external auditors on actuarial assumptions and basis changes. Evaluated the appropriateness of actuarial assumptions used in the setting of reserves, including negative rand reserves, taking into account recommendations made by the Actuarial Committee.
Key judgements and estimates made specifically associated with COVID-19 pandemic in the valuation of assets and liabilities arising from insurance contracts.	The DLAC, together with the external auditors, have spent the past two years reviewing the movements in estimates, assumptions, provisions and discretionary margins through the various waves of COVID both in SA and UK. Special consideration was given during the current period to the provisioning, both at the interim as well at the end of the year. As COVID-19 moves from a pandemic to becoming more endemic, the Group wide COVID-19 specific provisions at the beginning of the period of R3.1 billion have either been utilized or reversed within the period. No new specific provisions have been raised at year-end. Further consideration has been given to the longer term effects in the long term mortality and morbidity changes as well as short term strengthening in the individual Life businesses within their respective Actuarial Committees.
The annual assessment for impairment of goodwill and intangible assets	The DLAC reviewed the impairment assessments that were based on the latest business planning inputs. It considered the sensitivity of these estimates to various scenarios. The most material of these is the valuation of Discovery Bank which is sensitive to the discount rate, business plan performance and most notably the terminal growth rate. Management re-engaged an external valuator to perform an independent valuation and this valuation together with that performed by the auditors provided acceptable headroom both at a Bank and Group carrying levels. Note 4 'Significant accounting estimates and judgement in applying accounting policies' of the financial statements sets out the respective significant accounting estimates and judgements.

Significant matters

Significant matters are those matters which, in the view of the DLAC, were considered significant or material in nature, requiring either the exercise of judgement or matters which were otherwise considered to be subjective from an accounting or auditing perspective. The following areas received a key focus from DLAC during the year:

COVID 19 TREATMENT AND DISCLOSURES

DLAC has spent the past two years reviewing the movements in estimates, assumptions, provisions and discretionary margins through the various waves of COVID in Discovery's operations both in South Africa and United Kingdom. Whilst the impact of COVID-19 has been experienced differently across the various Discovery Group of entities and geographies, the DLAC adopted a coordinated approach across the various audit, actuarial and risk committees as well as the various control functions and assurance providers.

To fulfil its mandate of financial reporting DLAC has focused on transparent and understandable reporting particularly pertaining to the specific COVID-19 claims provisioning and utilisation. Careful consideration was given during the current period to the provisioning both at the interim and at the year-end.

As COVID-19 moves from a pandemic to becoming more endemic, the Group wide COVID specific provisions at the beginning of the period of R3.1bn have either been utilised or reversed within the period under review. No new specific provisions have been raised at year-end. Future consideration however has been given to the longer term effects of COVID 19 in the long term mortality and morbidity changes as well as short term strengthening where required within the actuarial dynamics of each of the individual businesses.

REPORT OF THE DISCOVERY LIMITED AUDIT COMMITTEE *continued*

for the year ended 30 June 2022

IFRS 17 INSURANCE CONTRACTS

The successful implementation of IFRS 17 is a key focus of the DLAC. The Chairperson of the DLAC is also the chairperson of the IFRS 17 Governance Committee, which is a subset of the various Discovery and Vitality audit and actuarial committees. The IFRS 17 Governance Committee receives detailed feedback from the respective IFRS 17 project groups and also allows for appropriate debates on key policy and modelling elections. Note 29 of Annexure B sets out in more detail the governance structures of the IFRS 17 project.

The past year has seen significant progress being made in the preparation for transition of IFRS 17:

- With current working assumptions, Discovery has modelled the retrospective application of IFRS 17 up to June 2021 for the majority of its insurance portfolios. The benefit of such a significant exercise has enabled a rigourous and informed debate on accounting policy elections and modelling. The fully retrospective approach has allowed Discovery to evaluate how its products behave during various scenarios such as the financial crises of 2008,volatile periods of market movements in foreign exchange and interest rates as well as during the COVID-19 pandemic.
- The insights of these outputs have assisted both DLAC and the Board to consider how information will best be reported in the financial statements, including directional steering of transitional balances. This enables a good understanding of the new reporting, which in itself is a significant shift from existing reporting of insurance contracts and confirmed the value in richer presentation and disclosures to enable more comparability within the industry.
- Discovery subject matter experts on IFRS, Tax and Actuarial actively partake in various insurance industry forums to keep close to recent market practice and developments. This ensures that debates on the various accounting policy elections and modelling are well thought through and benchmarked to best industry practice. In particular, Discovery has remained closely attuned to the developments in draft tax legislation in both South Africa and United Kingdom so as to clearly understand any impacts the legislation could have on the recognised assets and liabilities of Discovery.
- The members of Discovery Board, the various Board sub-committees, as well as executives of the various insurance business lines, have had extensive training sessions on IFRS 17, including the practical interpretation and application within the context of the Discovery Group businesses.
- The project focus for the next financial year is the implementation of the parallel run, completion of the audit of transition balances and ensuring business as usual financial reporting. For a more detailed breakdown of the project focus for the next financial year, refer to Note 29 of Annexure B.

OTHER SIGNIFICANT ITEMS ALSO CONSIDERED

- Evaluated management's assessment of impairment of specified assets under IAS 36 Impairment of Assets. In addition to the focus on Goodwill of Discovery Bank as noted in the KAMs above, the DLAC also considered specifically the goodwill of VitalityHealth and VitalityLife as well as the carrying value of material associates. The DLAC is satisfied that there was no risk of impairment of these assets.
- Reviewed the supportability of deferred tax assets raised on assessed losses.
- In February 2022 Discovery announced its partnership with AIA in establishing Amplify Health. The DLAC has considered and reviewed, together with the external auditors, the appropriate accounting treatments to reflect the various elements arising from the Amplify Health arrangement.
- As noted in last year's DLAC report was the key focus to review progress and resolution of the Part VII transfer of the Prudential Assurance Company ('PAC') book in Vitality Life UK. DLAC notes the agreement reached by Discovery and the PAC earlier in the year to defer the initially intended transfer of PAC book from the PAC balance sheet to the Vitality Life balance sheet. Given the deferral options, this can be practically viewed as an indefinite deferral.

REPORT OF THE DISCOVERY LIMITED AUDIT COMMITTEE *continued*

for the year ended 30 June 2022

Financial statement and accounting practices

The DLAC has reviewed the accounting policies and the consolidated and separate financial statements of Discovery and is satisfied that Discovery has established financial reporting procedures and that those procedures are operating as intended, are appropriate, and comply with International Financial Reporting Standards (IFRS). This includes consideration of all entities included in the consolidated Annual Financial Statements, to ensure access to all financial information to the issuer to effectively prepare and report on the financial statements of Discovery. The DLAC confirmed the going concern basis for the preparation of the both interim and Annual Financial Statements.

During the year, the DLAC reviewed the following financial reporting matters to ensure the integrity and fairness of financial information:

- The IFRS interpretation committee issued a decision on 'Configuration or Customisation Costs in a Cloud Computing Arrangement'. The interpretation specifies how to account for customisation costs within a cloud computing arrangement. More specifically, whether the customisations costs may be capitalised or deferred, or whether the costs should be expensed. The DLAC requested management to perform a detail review of all customisation costs capitalised as part of software across Discovery Group. It was identified that certain previously capitalised costs should be reclassified out of intangible assets, either as a prepayment or immediately expensed.
- Clarification on the policy for utilisation of discretionary margins when insurance contracts are backed by financial assets.
- A DLAC process is established to receive and deal appropriately with any concerns and complaints relating to Discovery's accounting and reporting practices. The DLAC immediately deals with any issues raised. No specific issues have been raised during the course of the financial year.
- As part of its annual work plan, the DLAC evaluates management's assessment of the findings in the most recent JSE's Pro-active monitoring report. Management performs a detailed assessment of the JSE findings against Discovery's Annual Financial Statements to identify any potential areas of non-compliance or future improvements or enhancement in Discovery's disclosures. The review was completed in November 2021 with the release of the JSE Pro-active monitoring report 2021. No significant deficiencies were identified, but smaller changes were incorporated into the interim results and annual financial statements in light of recommendation from the report.

Finally, DLAC has considered the accounting treatments, significant unusual transactions, and accounting judgements. DLAC has evaluated management's judgements and reporting decisions in relation to the annual integrated report and ensured all material disclosures had been included. In addition, it has reviewed both financial and non-financial information, forward-looking statements, and sustainability information.

EXTERNAL AUDIT

Auditor appointment, accreditation and quality and fees

DLAC is responsible for the appointment, compensation and oversight of the independent joint external auditors namely KPMG Inc (KPMG) and PricewaterhouseCoopers Inc. (PwC), who were appointed as joint auditors effective 1 July 2021.

- The DLAC has assessed both the independence and objectivity and satisfied itself that the external auditors are independent of Discovery. The requisite assurance was sought and provided by the auditors that internal governance processes within each audit firm support and demonstrate its claim to independence.
- The DLAC has also reviewed the appropriate JSE accreditation of the individual audit partners responsible for the audit sign-off, and has reviewed the most recent IRBA inspection reports of the respective auditors.
- A formal policy exists in respect of the provision of non-audit services by the external auditors of Discovery and its subsidiaries, and a formal procedure governs the process whereby the auditors are appointed to provide any non-audit services, including a limitation on fees for non-audit services which shall not exceed 25% of each joint auditor audit fee. During the year, the policy was amended to specifically address joint auditor appointments. Non-audit services was less than 5% of total audit fees of each respective joint auditor.
- The Chairperson of the DLAC pre-approves the nature and extent of any non-audit services that the external auditors provide in terms of the agreed pre-approval policy, and the schedule of approved non-audit services is reviewed annually by the DLAC.
- The DLAC, following consultation with executive management, approved the engagement letter, terms, audit plan and main areas of focus as well as budgeted audit fees for the year ending 30 June 2022. This approval of the audit plan included specific consideration as to the allocation of work between the joint auditors.
- The DLAC Chairman met with both KPMG and PWC lead partners prior to every DLAC meeting to discuss the 2021/22 audit plan, key areas of focus, scope, findings and conclusions as well as confirming the suitability of any reliance on GIA. The DLAC met with the external auditors independently twice for the year under review during reporting periods.
- In terms of the conditions laid out in section 94(8) of the Companies Act and based on its assessment taking consideration of the criteria of King IV, the JSE and general guidance to Audit Committees, the DLAC is satisfied with the performance and quality of the external audit, the external auditors and lead partners for the year ended 30 June 2022.
- DLAC received feedback from the external auditors on the audit of the Annual Financial Statements of the Group, the critical accounting estimates and judgements as well as cross reviews and including the Summary of Audit Differences for the year ended 30 June 2022. DLAC notes the unqualified independent auditors report in relation to Discovery Limited and the Group.
- DLAC recommends to the Board the re- appointment of KPMG and PwC as external auditors of Discovery Limited and the Group for the year ending 30 June 2023.

The DLAC has further considered the MAFR requirement, which mandates the rotation of PwC from 1 July 2023 and the announced intention to nominate Deloitte & Touche to replace PwC from 1 July 2023 as joint external auditors with KPMG from that date. Accordingly, the DLAC has considered the commencement of the shadow process starting during the forthcoming financial year.

REPORT OF THE DISCOVERY LIMITED AUDIT COMMITTEE *continued*

for the year ended 30 June 2022

GROUP INTERNAL AUDIT (GIA)

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

DLAC is satisfied that GIA displays a high level of professional objectivity as well as professional ethics in performing its work.

An external independent quality assessment of internal audit was conducted by SizweNtsalubaGobodo Grant Thornton ("SNG GT") in 2021 and GIA received a rating of "Generally Conforms" to the Institute of IIA Standards and Code of Ethics, as well as to each of the individual Standards. "Generally conforms" is the best possible rating that can be achieved.

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

- Reviewed and approved the internal audit charter and audit plan and evaluated the independence, effectiveness, and performance in line with its charter.
- Challenged the audit plan's focus, relevance, and risk-based emphasis in response to the extraordinary circumstances presented by the COVID-19 pandemic and the potential impact on the control environments.
- Considered reports on the Group's internal control systems, with a specific focus on the effectiveness of internal financial controls, including financial reporting controls.
- Reviewed significant issues raised by the internal audit processes and the adequacy of corrective action and accountability taken in response to such findings.
- Assessed the independence and effectiveness of the CAE, the internal audit function and the quality and extent of audit resources and found them to be satisfactory.
- Received the annual assessment provided by internal audit confirming the effectiveness of Discovery's governance, risk management and control processes.
- Reviewed the external auditors' annual assessment of internal audit in terms of the requirements of ISA 610, which reaffirmed the extent of reliance that could be placed on the internal audit work.

REPORT OF THE DISCOVERY LIMITED AUDIT COMMITTEE *continued*

for the year ended 30 June 2022

FINANCIAL CONTROLS

The DLAC is responsible for assessing Discovery's system of internal financial and accounting controls. In this regard, the DLAC has, among other things, 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 internal financial controls systems.

For the year ended 30 June 2022, DLAC reviewed the combined assurance reassessment of the design, documentation, and testing coverage of financial controls inclusive of financial reporting controls as well as the executive attestation process to support the responsibility statement attested by the Chief Executive and Chief Financial Officer. The attestation in terms of the JSE Equity Listings Requirement 3.84(k) is set out on page 3 of the Discovery Limited's Annual Financial Statements.

Based on the results of these reviews, it is the view of the DLAC that Discovery's internal financial controls effectively produce accurate financial information and a fair presentation of the financial performance of Discovery in the Annual Financial Statements

OTHER MATTERS CONSIDERED BY THE DLAC

In further fulfilling its duties and discharging its obligations for the year ended 30 June 2022, the DLAC also considered:

Matter considered	Outcome
Assessment of the effectiveness of DLAC	During the year an Independent externally managed assessment was performed by a renowned international consultancy on the effectiveness of the DLAC. A satisfactory conclusion was achieved.
Regulator meetings	The DLAC had participated in the annual bilateral and trilateral meetings as set up with the respective regulator bodies.
Evaluation of the expertise and experience of the finance function and financial director	The DLAC reviewed and satisfied itself with the appropriateness of Discovery's finance function's expertise, resources, and experience, including the Chief Financial Officer, Mr DM Viljoen.
Independent quality assurance reviews on Discovery internal and external assurance providers	During the year, Discovery undertook independent quality assurance reviews on the various internal and external assurance providers, i.e., excluding first-line management. Group Risk Management, Group Compliance, and the Actuarial Function have been completed, obtaining high assurance.
Combined assurance	The combined assurance model provides an integrated plan of the various activities and sources of assurance, including risk and compliance, external and internal audit, corporate finance functions and the Actuarial Committees. The DLAC has reviewed the combined assurance model, which has been implemented throughout the Group and has concluded that the model is both appropriate and effective in addressing the risks facing Discovery.
Whistleblowing	The DLAC receives and deals with any complaints or whistleblowing, whether from within or outside Discovery, relating to the accounting practices and internal audit of Discovery, the content or auditing of Discovery's financial statements, the internal financial controls of Discovery and related matters. No such whistleblowing was received during the financial year.
Ethics and compliance	The DLAC is responsible for reviewing any major breach of Discovery's code of conduct and ethics and relevant legal, regulatory, and other obligations reported to the DLAC by the Social and Ethics Committee. The DLAC is satisfied that there has been no material breach of these standards or material non-compliance with laws and regulations. The DLAC is satisfied that it has complied with all its legal, regulatory, and other obligations during the period under review.

REPORT OF THE DISCOVERY LIMITED AUDIT COMMITTEE *continued*
for the year ended 30 June 2022

KEY FOCUS AREAS FOR THE FINANCIAL YEAR 2023

The DLAC will remain focused on:

- Monitoring and evaluation of the Group's preparation for the implementation of IFRS 17 Insurance Contracts, which becomes effective 1 July 2023 for Discovery Group. DLAC will continue to play a pivotal role, together with the Group Actuarial Committee, in the IFRS 17 Governance Committee's oversight in assessing, monitoring and reviewing the progress, challenges, major decision points and impacts of its implementation across the Discovery Group.
- Ensuring the effective functioning of the Group's financial systems and processes, financial control environment, monitored by an effective combined assurance model. This includes the monitoring the implementation of the amended JSE Listings Requirements, including the effectiveness of internal financial controls.
- Oversee the group's second phase of its audit firm rotation plan in response to the IRBA's Mandatory Audit Firm Rotation (MAFR) rule with the proposed final audit of PwC for the year ended 30 June 2023. As was communicated previously, Deloitte will be proposed at the next annual general meeting to be appointed as the incoming joint auditor with effect from 1 July 2023, i.e. for the year ended 30 June 2024.
- The implications of ESG risk in measuring the sustainability and societal impact of the Group, together with ESG accounting disclosures and assurance processes.
- Supporting the Board of Discovery Limited in the implementation of a revised subsidiary governance framework which will further enhance the governance and oversight of subsidiaries within a rapidly expanding and complex multi-national group whilst maintaining its common purpose, values and Shared-Value business model.

CONCLUSION

The DLAC is satisfied that it has complied with all statutory duties and duties given to it by the Board under the Terms of Reference.

The DLAC has reviewed the consolidated and separate financial statements of Discovery Limited for the year ended 30 June 2022 and, based on the information provided to the DLAC, considers that Discovery complies, in all material respects, with the requirements of the Companies Act and International Financial Reporting Standards (IFRS).

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

D Macready
Chairperson: Discovery Limited Audit Committee
7 September 2022

INDEPENDENT AUDITORS' REPORT
for the year ended 30 June 2022

TO THE SHAREHOLDERS OF DISCOVERY LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our opinion

We have audited the consolidated and separate financial statements of Discovery Limited (the Group and Company), set out on pages 25 to 202 which comprise:

- the Group and Company statements of financial position at 30 June 2022;
- 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 annual financial statements (which include Annexures A, B and C), including a summary of significant accounting policies..

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Discovery Limited at 30 June 2022, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

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 *Auditors' responsibilities for the audit of the consolidated and separate financial statements* section of our report.

We are independent of the Group and Company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITORS' REPORT *continued*

for the year ended 30 June 2022

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

Key audit matter	How our audit addressed the key audit matter
Valuation of assets and liabilities arising from insurance contracts Refer to Section 13 of Annexure B – Group accounting policies, and notes 2, 4.1, 5 and 18 to the consolidated financial statements At 30 June 2022, the Group held assets arising from insurance contracts to the value of R56 645m and liabilities arising from insurance contracts of R109 200m. The assets and liabilities arising from insurance contracts related to individual life and group life policies, with the key audit matter focussing on individual life policies underwritten by Discovery Life. The actuarial value of those individual life assets and liabilities arising from insurance contracts that are long-term in nature is determined based on a prospective discounted cash flow valuation basis, calculated as the difference between the present value of future benefit payments plus expenses and the present value of future premiums. In valuing these assets and liabilities arising from insurance contracts relating to individual life policies underwritten by Discovery Life, management applies significant judgement and various assumptions are made, including best estimate assumptions regarding the future expected claims experience, premium income, expenses and commission. Changes to these assumptions may result in a material change to the valuation. The most significant assumptions made in determining the value of these assets and liabilities arising from insurance contracts relate to: *Impact of the Vitality programme on the valuation of assets and liabilities arising from insurance contracts relating to individual life policies underwritten by Discovery Life –* As for most life insurers, assumptions relating to mortality, morbidity and the level of surrender and lapses are significant in the determination of the valuation of policyholder liabilities and assets arising from insurance contracts. The Group is unique due to its Vitality programme. In terms of this programme, policyholders are provided access to a number of services and benefits to encourage them to become healthier and are awarded Vitality points, which ultimately determine their Vitality status. The mortality, morbidity and lapse assumptions within the valuation of policyholder liabilities and assets arising from insurance contracts 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 adjustments are therefore made to the mortality, morbidity, and lapse assumptions to reflect the expected impact of engagement in the Vitality programme. The Discovery Vitality status distribution is updated every year based on the actual Vitality status of the policyholders.	The primary procedures we performed to address this key audit matter included the following: We involved our actuarial specialist, with specialised skills and knowledge, to assist in: ▪ Gaining an understanding of the Group's actuarial internal control environment and governance, including the functioning of the Group's Actuarial Committee (and where applicable, the subsidiaries' Actuarial Committees) and testing the design and implementation of certain key controls related to this assessment. ▪ We tested the design and implementation of the liability build-up control performed by management to support the sources of profit and we corroborated the movements in the liability to relevant underlying information, from both internal and external sources. ▪ Evaluating the appropriateness of the valuation methodology applied by the Group to determine the value of assets and liabilities arising from insurance contracts. In doing so, we considered the principles and integrity of the Group's models against acceptable industry standards. ▪ Challenging management with respect to the appropriateness of all significant assumptions adopted in the determination of the valuation of assets and liabilities arising from insurance contracts by comparing these assumptions to the results of historical actuarial experience investigations conducted by management, including benchmarking these assumptions against South African life insurance industry trends to determine whether they are reasonable and supportable. ▪ Evaluating the compliance of the valuation of the assets and liabilities arising from insurance contracts against the requirements of the Financial Soundness Valuation (FSV) basis as described in the Standard of Actuarial Practice (SAP) 104 and the Group's accounting policies as set out in Section 13 of Annexure B – Group Accounting policies. Our further procedures included: ▪ Evaluating, on a sample basis, the integrity of the underlying data, which informs the assumptions used in the determination of the value of assets and liabilities arising from insurance contracts ▪ Assessing the appropriateness of disclosures included in the consolidated financial statements in accordance with the requirements of IFRS 4 – Insurance Contracts (IFRS 4) and the directors' approved valuation methodologies and assumptions.

INDEPENDENT AUDITORS' REPORT *continued*

for the year ended 30 June 2022

Key audit matter	How our audit addressed the key audit matter
Use of discretionary margins with respect to profit recognition – The individual life insurance operations sell profitable insurance products. Applying the reserving basis using only compulsory margins as prescribed by regulations would result in a premature recognition of future profits being recognised at the inception of new business contracts; and therefore, certain discretionary margins are added to the best estimate assumptions 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. These 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 these discretionary margins have a direct impact on the profit recognition in a period and the Group has therefore established a framework as disclosed in Section 13 of Annexure B – Group accounting policies, to utilise the available discretionary margin in a specified order. We considered the valuation of assets and liabilities arising from insurance contracts to be a key audit matter in our audit of the consolidated financial statements, as it involves complex and subjective judgement about future events, policyholder behaviour and economic conditions.	*Impact of the Vitality programme on the valuation of assets and liabilities arising from insurance contracts relating to individual life policies underwritten by Discovery Life –* In particular, our procedures included: ▪ Evaluating, on a sample basis, the reasonability of the Group's assumptions in setting the Discovery Vitality status distribution, and the progression between statuses, by comparing these against historical trends; and ▪ Evaluating, on a sample basis, the integrity of the data inputs captured in the models by assessing whether the inputs used are consistent with historic actual experience. *Use of discretionary margins with respect to profit recognition –* In particular, our procedures included: ▪ Assessing whether all acquisition costs were appropriately captured in the determination of the discretionary margins at 30 June 2022 by comparing these input amounts to the audited acquisition cost amounts included in the Group's income statement; and ▪ Evaluating the appropriateness of the calculation of the discretionary margin transfer against the requirements of the methodology set out in the Group's accounting policies in Section 13 of Annexure B – Group Accounting policies.

INDEPENDENT AUDITORS' REPORT *continued*

for the year ended 30 June 2022

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill for the Discovery Bank cash-generating unit (CGU) *Refer to Section 7 of Annexure B – Group accounting policies, and notes 4.2 and 10 to the consolidated financial statements* At 30 June 2022, the Group held goodwill in relation to the Discovery Bank cash-generating unit (CGU) at a carrying value of R2 417 million. This goodwill arose from the acquisition of the DiscoveryCard business. In accordance with the terms of IAS 36 – Impairment of Assets (IAS 36), the Group annually assesses goodwill allocated to the Discovery Bank CGU for impairment. The recoverable amount of the Discovery Bank CGU is estimated based on the fair value less costs to sell. Inherent in the determination of fair value less costs to sell is estimation uncertainty, as the fair value measurement is categorised as level 3 on the fair value hierarchy given that it makes use of unobservable inputs using the income approach. Management has applied judgement in determining the inputs in deriving its fair value measurement with regards to the assets that are attributable to the Discovery Bank CGU including the forecast cash flows and customer growth rates, the expensing of system-build costs and intangible assets acquired in the business combination and in the determination of the terminal growth rate and the discount rate applied. Furthermore, management has applied judgement in determining the risk-free rate and the beta factor to be applied in deriving the discount rate. We considered the impairment assessment of goodwill for the Discovery Bank CGU to be a key audit matter in our audit of the consolidated financial statements, as it involves complex and subjective judgement and is subject to estimation uncertainty.	The primary procedures we performed to address this key audit matter included the following: ▪ Gaining an understanding of the process followed by management to assess goodwill for the Discovery Bank CGU for impairment, including management's key assumptions and testing the design and implementation of certain key controls related to this assessment. We involved our valuation and economic specialists, with specialised skills and knowledge, to assist in: ▪ Evaluating the appropriateness of the valuation methodology applied by management to calculate the recoverable amount of the Discovery Bank CGU. In doing so, we considered the principles and integrity of the discounted cash flow model against the requirements of IAS 36 and acceptable industry standards. ▪ Evaluating the appropriateness of management's assumptions against external market data or industry standards, including the discount rate applied, customer growth rates, and spend assumptions that drive income as well as the reasonableness of the expensing of system-build costs and intangible assets acquired and other cash flow items, including working capital requirements and the credit loss ratios applied in the business valuation. ▪ Performing various sensitivity analyses over management's forecast cash flows, customer growth rates, the terminal growth rate and discount rate applied to assess the impact of changes in these key assumptions on the recoverable amount of the Discovery Bank CGU. Our further procedures included: ▪ Assessing the appropriateness of disclosures included in the consolidated financial statements in accordance with the requirements of IAS 36.

INDEPENDENT AUDITORS' REPORT *continued*

for the year ended 30 June 2022

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 2022", which includes the Directors' report, the Report of the Discovery Limited 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 auditors' report, and the document titled "Discovery Limited Integrated Annual Report for the year ended 30 June 2022", 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 auditors' 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 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 obtained prior to the date of this auditors' 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 IFRS 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 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.

Auditors' 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 auditors' 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 auditors' 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 auditors' report. However, future events or conditions may cause the Group and/or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITORS' REPORT *continued*

for the year ended 30 June 2022

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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 KPMG Inc. and PricewaterhouseCoopers Inc. have been the joint auditors of Discovery Limited for one year.

Prior to the commencement of the joint audit relationship, PricewaterhouseCoopers Inc. was the sole auditor of Discovery Limited for twenty-one years.

Pricewaterhouse Coopers Inc.
Director: Andrew Graham Taylor
Registered Auditor
Jukskei View
4 Lisbon Lane
Waterfall City
2090
South Africa
Date 7 September 2022

KPMG Inc.
Director: Mark Danckwerts
Registered Auditor
KPMG Crescent
85 Empire Road
Parktown
2193
South Africa
Date 7 September 2022

DIRECTORS' REPORT
for the year ended 30 June 2022

The directors present their 23rd annual report, which forms part of the consolidated and separate annual financial statements of Discovery Limited for the year ended 30 June 2022.

NATURE OF BUSINESS

Discovery Limited (the Company) is listed on the JSE Limited and is an integrated financial services organisation specialising in health insurance, life assurance, wellness, investments and savings, short-term insurance and banking.

Discovery is a shared value insurance company whose purpose and ambition are achieved through a pioneering business model that incentivises people to be healthier, and enhances and protects their lives. Our unique and sophisticated Shared-value insurance model delivers better health and value for clients, superior actuarial dynamics for the insurer and a healthier society. It is a powerful platform of integrated assets and capabilities, which has positioned us well to respond to the following key trends that were accelerated by COVID-19 and remain relevant:

- a focus on health, wellness and resilience (nature of risk)
- accelerated use of technology and increased digitisation
- increased importance of purpose and trust

Discovery continues to drive the execution of existing market-specific strategies through its composite model, with the following strategic objectives established for each:

- South Africa: To be the perfect composite model, number 1 in our chosen segments in every industry, and the Bank pivoting to growth as the composite-maker within SA
- United Kingdom: To have best in breed products across businesses and operating as a fully integrated composite business with a seamless One Vitality client journey and to have a successful entry into motor insurance
- Vitality Global (incorporating Vitality Group and Ping An Health Insurance): To be the foremost provider of health and wellness intellectual property, powered by the right combination of technology and analytics - accelerating the growth of global insurers by attracting, engaging and delighting their clients

Group Structure

The Company is directly and indirectly the holding company of subsidiaries and investments as set out in Annexure A. In addition, Discovery is required to consolidate certain unit trusts which are deemed to be under the Group's control in terms of IFRS 10 *Consolidated Financial Statements*. These are also set out in Annexure A.

YEAR UNDER REVIEW

The operating environment in the year under review was characterised by two significant factors: Firstly, the evolution of COVID-19, as the pandemic has eased and appears to be approaching endemic stage, with conditions in most markets normalising, except for Asia, which was affected by severe lockdowns and restrictions. Secondly, considerable geo-political polarisation and macro-economic volatility, caused by a combination of the COVID-19 pandemic, Ukraine conflict, and supply side constraints. This resulted in higher inflation, increased interest rates as well as currency and market volatility.

Discovery's results for the full year ended 30 June 2022 reflected a strong operational performance.

- Normalised profit from operations increased by 45% to R9 384 million for the year under review. The SA and UK Composites delivered strong growth in normalised operating profit and new business. The SA results were driven by a strong recovery from Discovery Life partially offset by Discovery Insure's results being severely impacted by adverse weather and supply-side inflation related to motor vehicle repairs. The operating performance of Vitality Global reflected the specific dynamics of the impact of COVID-19 on the Asian markets with PAH further impacted by the decline in the Chinese investment markets.
- The Group is emerging through a cycle of intense organic investment into new initiatives, dominated by the investment into Discovery Bank, which has seen excellent high-quality growth over the period. The period saw increased investment into Vitality Health International, particularly for the establishment of Amplify Health in partnership with AIA, as announced on 15 February 2022. Additionally, the Group streamlined certain initiatives with a focus on those businesses expected to generate significant value. In addition to reviewing its stake in AIA Health in Australia, the Group decided to exit the UK investment market given the structural change in market conditions, mainly driven by significant margin compression.
- New Business API (Annual Premium Income) increased by 6% despite a reduction in PAH new business primarily due to a restructuring of the cooperation with Ping An Life for business written in certain regions in China as part of the overall re-alignment of PAH to focus on growing high quality own license business. Persistency continued to exceed expectations in all businesses
- Normalised Headline Earnings increased 71% to R5 816 million and headline earnings increased 74% to R5 204 million, both positively impacted by mark-to-market foreign currency gains. Within headline earnings, the negative effect of higher long-term interest rates in SA was partly offset by the benefit of higher long-term interest rates in the UK. A portion of the full benefit in the UK, after hedge effects, was recognised as an increase in discretionary margins.

DIRECTORS' REPORT *continued*
for the year ended 30 June 2022

The reporting period included the end of the Delta third wave of the COVID-19 pandemic in South Africa (SA) and the highly infectious but less virulent Omicron variant. While R3.7 billion COVID-19 claims, gross of reinsurance, were paid in the year in SA, the earnings impact was limited as previously raised COVID-19 provisions have been adequate. As the pandemic appears to be approaching endemic stage, focus has shifted to incorporating the longer-term implications of COVID-19, resulting in significant strengthening of the mortality and morbidity bases in Discovery Life and Vitality Life in the June 2022 actuarial review.

Normalised profit from operations over prior year

The following table demonstrates the contribution of key businesses to the growth in normalised profit from operations of 45% compared to the prior year.

Business	Normalised profit from operations 12 months ended 30 June 2022 R million	% change 12 months ended 30 June 2022
Discovery Health	3 600	+5%
Discovery Life	4 028	+200%
Discovery Invest	1 204	+11%
Discovery Insure	(162)	-165%
SA Composite (excluding new initiatives)*	8 679	41%
VitalityHealth	1 328	+39%
VitalityLife	671	+4%
UK Composite (excluding new initiatives)	1 999	+25%
Vitality Group	473	+13%
Ping An Health	338	-18%
Vitality Global (excluding new initiatives)	811	-2%
New initiatives (excluding Bank)	(1 115)	Increase in spend 14%
Discovery Bank	(990)	Reduction in spend 10%
Normalised Profit from operations*	9 384	+45%

* *Includes includes R9 million for SA Vitality (2021: R43 million)*

DIRECTORS' REPORT *continued*
for the year ended 30 June 2022

SHARE CAPITAL

Details of the authorised and issued share capital, together with details of shares issued during the year, appear in note 17 to the Annual Financial Statements.

DIVIDENDS

Details of dividends paid and declared are set out in note 43 and note 44 to the Annual Financial Statements. While the Group's capital position remains robust, in light of the uncertain future impact of COVID-19 and the volatile global macroeconomic environment, the Discovery Board has decided to retain its prior stated position and has decided not to declare an ordinary final dividend for the year ended 30 June 2022. The reintroduction of an ordinary dividend will be considered on an ongoing basis.

CAPITAL

Solvency and liquidity test

The directors have performed the requisite solvency and liquidity tests where required by the Companies Act, 71 of 2008, as amended.

Statutory capital requirements

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

	2022		2021	
	Statutory Capital Requirements	**Cover**	Statutory Capital Requirements	Cover
Discovery Life	**R20 322 million**	**1.7 times**	R17 647 million	1.8 times
Discovery Insure	**R1 138 million**	**1.2 times**	R1 079 million	1.6 times
Vitality Health	**GBP 117.2 million (R2 344 million)**	**1.5 times**	GBP 105.6 million (R2 084 million)	1.6 times
VitalityLife Limited	**GBP 297.1 million (R5 943 million)**	**2.1 times**	GBP 225.5 million (R4 451million)	2.4 times

EMBEDDED VALUE

Discovery generated a strong return on opening embedded value (RoEV) of 14.8%, benefitting from particularly favourable lapse experience and after the impact of a significant strengthening of the future mortality and morbidity basis. Liquidity and solvency as well as the Group's capital position remained strong and is robust under various stress scenarios across the Group. The financial leverage ratio improved to 23.8%, well below the internally set guidance threshold of 28%.

Ping An Health Insurance (PAH)

During the period under review, Discovery made a capital contribution to PAH of R1.5 billion. While this has been funded in the interim by way of a bridge facility and internal resources, it had been indicated that in terms of the capital management principles applied, such capital requirements by associates and subsidiaries are typically funded by way of capital issuance at Discovery Limited level. Given that the final regulatory approval by the Chinese Banking and Insurance Regulatory Commission was prolonged, the capital continues to be funded as set out above. However, it remains the intention to replace the funding with a capital issuance of only this amount if and when markets are conducive.

Part VII Transfer Deferral

Discovery and the Prudential Assurance Company (PAC) have finalised the agreement to a long-term deferral of the transfer of the initial Vitality Life back-book of business originally written on the PAC license that was to be transferred to the Vitality Life Limited license (the Part VII transfer). The agreement is such that the Part VII transfer is now deferred for the long-term with options to extend further and for all intents and purposes should be viewed as an indefinite deferral.

DIRECTORS' REPORT *continued*

for the year ended 30 June 2022

DIRECTORS AND PRESCRIBED OFFICERS

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

Executive directors	Non-executive directors
A Gore	HL Bosman
HD Kallner	R Farber
NS Koopowitz	**Independent non-executive directors**
Dr A Ntsaluba	ME Tucker (Chairperson)
A Pollard	Dr BA Brink (retired 24 November 2021)
B Swartzberg	SE De Bruyn (retired 24 November 2021)
DM Viljoen	M Hlahla (appointed 15 August 2021)
	F Khanyile
	D Macready
	Dr TV Maphai
	T Mboweni (appointed 5 May 2022)
	M Schreuder
	B van Kralingen (appointed 7 April 2022)
	SV Zilwa

Ms M Hlahla has been appointed as an independent non-executive director with effect from 15 August 2021. Ms Hlahla will be a member of the Audit Committee as well as the Social and Ethics Committee and Remuneration Committee. Ms. Hlahla's appointment strengthens the independence and business skills on the board and its committees.

Ms SE De Bruyn, an independent non-executive director, retired, effective 24 November 2021. This is in line with the Company's board's rotation and succession planning. Ms De Bruyn has served as an independent non-executive director of the Company since 2005 and has served as the chairperson of the Remuneration Committee and as a member of the Audit Committee. Ms De Bruyn has also retired as a non-executive director of Discovery Life Limited, Discovery Health (Pty) Ltd and Discovery Vitality (Pty) Ltd.

Dr BA Brink, an independent non-executive director, retired, effective 24 November 2021. This is in line with the Company's board's rotation and succession planning. Dr Brink has served as an independent non-executive director of the Company since 2004 and has served as a member of the Treating Customers Fairly Subcommittee, Social and Ethics Committee as well as the Risk and Compliance Committee. Dr Brink has also retired as a non-executive director of Discovery Health (Pty) Ltd and Discovery Vitality (Pty) Ltd.

Ms B van Kralingen has been appointed as an independent non-executive director with effect from 7 April 2022. Ms van Kralingen's appointment strengthens the Board's global business experience, together with technology and artificial intelligence expertise.

Mr T Mboweni has been appointed as an independent non-executive director with effect from 5 May 2022. Mr Mboweni will be a member of the Risk and Compliance Committee and the Remuneration Committee as well as a non-executive director of Discovery Life Limited. Mr Mboweni's appointment will bring a wealth of experience in finance, economics, and business advisory within emerging markets.

Ms F Khanyile, an independent non-executive director, has been appointed as Chairperson of the Remuneration Committee following the retirement of Ms SE De Bruyn.

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

Details of the directors' emoluments, participation in share incentive schemes and interests in the Company are reflected in Annexure C and in the Group's Remuneration report.

DIRECTORS' REPORT *continued*
for the year ended 30 June 2022

COMPANY SECRETARY
Ms NN Mbongo continues in office as Company Secretary.

Registered office	Postal address
1 Discovery Place	PO Box 786722
Sandton	Sandton
2196	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
Refer to Group note 44 for a list of the events after reporting date.

AUDITORS
It will be proposed at the Annual General Meeting of shareholders, that PricewaterhouseCoopers Inc. (PWC) and KPMG Inc. be reappointed as joint external auditors in accordance with section 90(1) of the Companies Act.

In accordance with the IRBA requirements on mandatory audit firm rotation, this appointment will be the last re-appointment of PWC. Thereafter, PWC may not be reappointed for a period of five financial years. Discovery has communicated in its SENS announcement dated 9 June 2021 its intention to appoint Deloitte & Touche as joint auditor after 30 June 2023.

GROUP STATEMENT OF FINANCIAL POSITION
at 30 June 2022

R million	Notes	**Group 2022**	Group 2021
Assets			
Goodwill	10	**4 912**	4 879
Intangible assets	7	**6 539**	6 371
Property and equipment	6	**3 811**	4 188
Assets arising from insurance contracts	5	**56 645**	50 483
Deferred acquisition costs	8	**640**	585
Assets arising from contracts with customers	9A	**1 549**	1 248
Investment in equity-accounted investees	11	**6 008**	3 459
Deferred tax asset	24	**4 455**	3 948
Financial assets			
– Loans and advances to customers at amortised cost	12	**3 944**	3 361
– Investments at amortised cost	12	**7 161**	5 604
– Investments at fair value through profit or loss	12	**141 494**	130 937
– Derivative financial instruments at fair value through profit or loss	13	**276**	249
Insurance receivables, contract receivables and other receivables	14	**13 113**	10 533
Non-current assets held of sale	11.2.1	**171**	–
Current tax asset		**220**	391
Reinsurance contracts	15	**511**	445
Cash and cash equivalents	16	**19 775**	20 013
TOTAL ASSETS		**271 224**	246 694
Equity			
Capital and reserves			
Ordinary share capital and share premium	17.1	**10 178**	10 151
Perpetual preference share capital	17.2	**779**	779
Other reserves		**3 621**	1 935
Retained earnings		**38 972**	33 550
Equity		**53 550**	46 415
Non-controlling interest		**5**	4
TOTAL EQUITY		**53 555**	46 419
Liabilities			
Liabilities arising from insurance contracts	18	**109 200**	100 977
Liabilities arising from reinsurance contracts	19	**13 192**	12 525
Deferred tax liability	24	**9 335**	8 814
Contract liabilities to customers	9A	**944**	776
Financial liabilities			
– Borrowings at amortised cost	20	**20 584**	19 493
– Other payables	22	**15 123**	14 904
– Deposits from customers	23	**10 881**	8 985
– Investment contracts at fair value through profit or loss	21	**37 361**	32 291
– Derivative financial instruments at fair value through profit or loss	13	**202**	826
Employee benefits	25	**320**	315
Current tax liability		**527**	369
TOTAL LIABILITIES		**217 669**	200 275
TOTAL EQUITY AND LIABILITIES		**271 224**	246 694

GROUP INCOME STATEMENT

for the year ended 30 June 2022

R million	Notes	Group 2022	Group 2021
Insurance premium revenue		**58 782**	55 935
Reinsurance premiums		**(8 262)**	(7 729)
Accelerated reinsurance premiums	42	**–**	(823)
Net insurance premium revenue	26	**50 520**	47 383
Fee income from administration businesses	9B	**12 752**	11 700
Vitality income	9B	**3 495**	3 340
Net banking fee and commission income		**645**	480
Banking fee and commission income	9B	**853**	633
Banking fee and commission expense		**(208)**	(153)
Net bank interest and similar income		**318**	241
Bank interest and similar income using the effective interest rate		**811**	627
Bank interest and similar expense using the effective interest rate		**(493)**	(386)
Investment income using the effective interest rate method	27	**296**	280
Net fair value (losses)/gains on financial assets at fair value through profit or loss	28	**(1 825)**	11 891
Other income		**1 341**	1 372
Receipts arising from reinsurance contracts		**–**	500
Net income		**67 542**	77 187
Net claims and policyholders' benefits	29	**(30 900)**	(28 178)
Claims and policyholders' benefits		**(38 207)**	(33 972)
Insurance claims recovered from reinsurers		**7 218**	5 794
Recapture of reinsurance		**89**	–
Acquisition costs	30	**(4 774)**	(5 033)
Marketing and administration expenses	31	**(25 209)**	(22 679)
Amortisation of intangibles from business combinations		**(59)**	(66)
Expected credit losses		**(67)**	(271)
Recovery of expenses from reinsurers		**2 859**	2 773
Net transfer to/from assets and liabilities under insurance contracts		**(1 494)**	(14 795)
– change in assets arising from insurance contracts		**5 786**	545
– change in assets arising from reinsurance contracts		**63**	56
– change in liabilities arising from insurance contracts		**(6 935)**	(17 941)
– change in liabilities arising from reinsurance contracts		**(577)**	1 755
– economic assumption adjustments net of discretionary margins		**169**	790
Fair value adjustment to liabilities under investment contracts		**(40)**	(3 634)
Profit from operations		**7 858**	5 304
Finance costs	33	**(1 658)**	(1 648)
Foreign exchange gains/(losses)	34	**155**	(389)
Gain on dilution and disposal of equity-accounted investments		**33**	554
Reversal of impairment/(Impairment) of equity-accounted investments		**134**	(149)
Share of net profits from equity-accounted investments		**422**	523
Profit before tax		**6 944**	4 195
Income tax expense	35	**(1 465)**	(975)
Profit for the period		**5 479**	3 220
Profit attributable to:			
– ordinary shareholders		**5 422**	3 157
– preference shareholders		**56**	63
– non-controlling interest		**1**	*
		5 479	3 220
Earnings per share for profit attributable to ordinary shareholders of the company during the period (cents):	36		
– basic		**825.5**	480.7
– diluted		**817.8**	475.4

* *Amount is less than R500 000.*

GROUP STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2022

R million	**Group 2022**	Group 2021
Profit for the period	**5 479**	3 220
Items that are or may be reclassified subsequently to profit or loss:		
Currency translation differences	**467**	(1 576)
Cash flow hedges	**309**	260
– unrealised gains	**322**	360
– tax on unrealised gains	**(2)**	(25)
– losses recycled to profit or loss	**(10)**	(90)
– tax on recycled losses	**(1)**	15
Share of other comprehensive income from equity-accounted investments	**601**	(312)
– change in fair value of debt instruments at fair value through other comprehensive income	**17**	15
– currency translation differences	**584**	(327)
Other comprehensive income/(losses) for the period, net of tax	**1 377**	(1 628)
Total comprehensive income for the period	**6 856**	1 592
Attributable to:		
– ordinary shareholders	**6 799**	1 529
– preference shareholders	**56**	63
– non-controlling interest	**1**	*
Total comprehensive income for the period	**6 856**	1 592

** Amount is less than R500 000.*

GROUP STATEMENT OF CASH FLOWS

for the year ended 30 June 2022

R million	Notes	Group 2022	Group 2021
Cash flow from operating activities		**3 597**	10 407
Cash generated/(utilised) by operations	37.1	**20 943**	26 457
Purchase of investments held to back policyholder liabilities		**(56 588)**	(54 661)
Proceeds from disposal of investments held to back policyholder liabilities		**38 411**	38 709
Cash generated from operating activities		**2 766**	10 505
Dividends received		**600**	303
Interest received		**2 824**	2 513
Interest paid		**(1 412)**	(1 197)
Taxation paid	37.2	**(1 181)**	(1 717)
Cash flow from investing activities		**(4 704)**	(6 740)
Purchase of financial assets		**(32 878)**	(32 569)
Proceeds from disposal of financial assets		**31 482**	27 828
Purchase of property and equipment		**(275)**	(277)
Proceeds from disposal of property and equipment		**25**	21
Purchase of software and other intangible assets		**(1 567)**	(1 587)
Proceeds from disposal of software and other intangible assets		**2**	–
Acquistion of business net of cash		**–**	(25)
Additional investment in equity-accounted investments		**(1 593)**	(240)
Dividends from equity-accounted investments		**100**	109
Cash flow from financing activities		**518**	(590)
Dividends paid to preference shareholders		**(56)**	(63)
Proceeds from borrowings	37.3	**3 261**	1 839
Repayment of borrowings	37.3	**(2 687)**	(2 366)
Net (decrease)/ increase in cash and cash equivalents		**(589)**	3 077
Cash and cash equivalents at beginning of the year		**20 013**	17 909
Exchange gains/(losses) on cash and cash equivalents		**195**	(973)
Cash and cash equivalents including bank overdraft at end of the year	16	**19 619**	20 013
Reconciliation to Statement of Financial Position			
Cash and cash equivalents		**19 775**	20 013
Bank overdraft included in borrowings at amortised cost		**(156)**	–
Cash and cash equivalents including bank overdraft at end of the year	16	**19 619**	20 013

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2022

	Attributable to equity holders of the Company				Attributable to equity holders of the Company					
R million	Share capital and share premium	Preference share capital	Share-based payment reserve	Investment reserve[1]	Foreign currency translation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	**Total**
Year ended 30 June 2022										
At beginning of the period	**10 151**	**779**	**489**	**18**	**1 772**	**(344)**	**33 550**	**46 415**	**4**	**46 419**
Total comprehensive income for the period	**–**	**56**	**–**	**17**	**1 051**	**309**	**5 422**	**6 855**	**1**	**6 856**
Profit for the period	**–**	**56**	**–**	**–**	**–**	**–**	**5 422**	**5 478**	**1**	**5 479**
Other comprehensive income	**–**	**–**	**–**	**17**	**1 051**	**309**	**–**	**1 377**	**–**	**1 377**
Transactions with owners	**27**	**(56)**	**309**	**–**	**–**	**–**	**–**	**280**	**–**	**280**
Share issue	**443**	**–**	**–**	**–**	**–**	**–**	**–**	**443**	**–**	**443**
Increase in treasury shares	**(443)**	**–**	**–**	**–**	**–**	**–**	**–**	**(443)**	**–**	**(443)**
Delivery of treasury shares	**27**	**–**	**(17)**	**–**	**–**	**–**	**–**	**10**	**–**	**10**
Employee share option schemes:										
– Value of employee services	**–**	**–**	**326**	**–**	**–**	**–**	**–**	**326**	**–**	**326**
Dividends paid to preference shareholders	**–**	**(56)**	**–**	**–**	**–**	**–**	**–**	**(56)**	**–**	**(56)**
At end of the year	**10 178**	**779**	**798**	**35**	**2 823**	**(35)**	**38 972**	**53 550**	**5**	**53 555**
Year ended 30 June 2021										
At beginning of the period	10 148	779	195	3	3 675	(604)	30 353	44 549	4	44 553
Total comprehensive income for the period	–	63	–	15	(1 903)	260	3 157	1 592	*	1 592
Profit for the period	–	63	–	–	–	–	3 157	3 220	*	3 220
Other comprehensive income	–	–	–	15	(1 903)	260	–	(1 628)	–	(1 628)
Transactions with owners	3	(63)	294	–	–	–	40	274	–	274
Share issue	907	–	–	–	–	–	–	907	–	907
Increase in treasury shares	(907)	–	–	–	–	–	–	(907)	–	(907)
Delivery of treasury shares	3	–	(36)	–	–	–	40	7	–	7
Employee share option schemes:										
– Value of employee services	–	–	330	–	–	–	–	330	–	330
Dividends paid to preference shareholders	–	(63)	–	–	–	–	–	(63)	–	(63)
At end of the year	10 151	779	489	18	1 772	(344)	33 550	46 415	4	46 419

1 This relates to fair value adjustments on those equity instruments designated at fair value through other comprehensive income (FVOCI) and those debt instruments measured at FVOCI, in terms of IFRS 9 Financial Instruments.

** Amount is less than R500 000.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2022

1. SEGMENT INFORMATION

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

An operating segment is a component of an entity:

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

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

(c) For which discrete financial information is available.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

1. SEGMENT INFORMATION *continued*

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

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

(i) The VitalityLife results are reclassified to account for the contractual arrangement in respect of the business written on the Prudential Assurance Company license, as an insurance contract which Discovery issues under IFRS 4 *Insurance Contracts*;

(ii) Unit trusts which the Group controls in terms of IFRS 10 *Consolidated Financial Statements* are consolidated into Discovery's results for IFRS purposes. The IFRS reporting adjustments include the effects of consolidating the unit trusts into Discovery's results, effectively being the income and expenses relating to units held by third parties;

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

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

1. SEGMENT INFORMATION *continued*

R million	SA Health	SA Life	SA Invest	SA Insure[2]	SA Vitality	SA Bank	UK Health	UK Life	All other segments	Segment total	IFRS reporting adjustments	IFRS total
30 June 2022												
Income statement												
Insurance premium revenue	189	15 041	14 499	4 657	–	–	11 299	6 750	7 035	59 470	(688)	58 782
Reinsurance premiums	–	(3 523)	–	(103)	–	–	(1 556)	(3 600)	(168)	(8 950)	688	(8 262)
Net insurance premium revenue	189	11 518	14 499	4 554	–	–	9 743	3 150	6 867	50 520	–	50 520
Fee income from administration businesses	7 910	–	2 834	15	–	–	30	–	1 975	12 764	(12)	12 752
Vitality income	–	–	–	–	2 338	–	392	227	538	3 495	–	3 495
Net banking fee and commission income	–	–	–	–	–	633	–	–	12	645	–	645
Banking fee and commission income	–	–	–	–	–	853	–	–	–	853	–	853
Banking fee and commission expense	–	–	–	–	–	(220)	–	–	12	(208)	–	(208)
Net bank interest and similar income	–	–	–	–	–	318	–	–	–	318	–	318
Bank interest and similar income using the effective interest rate	–	–	–	–	–	811	–	–	–	811	–	811
Bank interest and similar expense using the effective interest rate	–	–	–	–	–	(493)	–	–	–	(493)	–	(493)
Investment income earned on assets backing policyholder liabilities	–	3	–	118	–	–	9	27	7	164	(164)	–
Net fair value gains/(losses) on financial assets at fair value through profit or loss	10	485	913	1	1	–	(52)	(1 390)	(1 195)	(1 227)	(598)	(1 825)
Other income	1 241	12	–	–	–	–	32	–	56	1 341	–	1 341
Finance charge on negative reserve funding	–	–	–	–	–	–	–	1 368	–	1 368	(1 368)	–
Inter-segment funding[1]	–	(628)	628	–	–	–	–	–	–	–	–	–
Net income	9 350	11 390	18 874	4 688	2 339	951	10 154	3 362	8 260	69 368	(2 142)	67 226
Net claims and policyholders' benefits	(49)	(9 222)	(12 260)	(3 029)	–	–	(4 331)	(877)	(1 132)	(30 900)	–	(30 900)
Claims and policyholders' benefits	(49)	(14 013)	(12 260)	(3 151)	–	–	(5 652)	(2 231)	(1 346)	(38 702)	495	(38 207)
Insurance claims recovered from reinsurers	–	4 791	–	122	–	–	1 321	1 265	214	7 713	(495)	7 218
Recapture of reinsurance	–	–	–	–	–	–	–	89	–	89	–	89
Acquisition costs	(27)	(1 605)	(1 144)	(702)	(111)	–	(963)	(1 884)	294	(6 142)	1 368	(4 774)
Expected credit losses	–	–	–	–	–	(67)	–	–	–	(67)	–	(67)
Marketing and administration expenses												
– depreciation and amortisation	(106)	(7)	(11)	(60)	(12)	(277)	(458)	(63)	(739)	(1 733)	(169)	(1 902)
– derecognition of intangible assets and property and equipment	–	–	–	(18)	–	–	(1)	(14)	(17)	(50)	–	(50)
– other expenses	(5 568)	(2 147)	(1 156)	(988)	(2 207)	(1 597)	(4 091)	(2 047)	(3 032)	(22 833)	(424)	(23 257)
Recovery of expenses from reinsurers	–	–	–	–	–	–	1 041	1 818	–	2 859	–	2 859
Transfer from assets/liabilities under insurance contracts												
– change in assets arising from insurance contracts	–	5 299	–	–	–	–	–	3 606	(101)	8 804	(3 018)	5 786
– change in assets arising from reinsurance contracts	–	11	–	1	–	–	40	11	1	64	(1)	63
– change in liabilities arising from insurance contracts	–	662	(3 247)	(41)	–	–	(65)	(17)	(4 488)	(7 196)	261	(6 935)
– change in liabilities arising from reinsurance contracts	–	(351)	–	–	–	–	–	(3 244)	–	(3 595)	3 018	(577)
Fair value adjustment to liabilities under investment contracts	–	(2)	148	–	–	–	–	–	42	188	(228)	(40)
Share of net profits from equity-accounted investments	–	–	–	(13)	–	–	2	–	474	463	(41)	422
Reversal of impairment of equity accounted investment	–	–	–	–	–	–	–	–	134	134	–	134
Normalised profit/(loss) from operations	3 600	4 028	1 204	(162)	9	(990)	1 328	671	(304)	9 384	(1 376)	8 008
Economic assumptions adjustments net of discretionary margins and interest rate derivative	–	(651)	–	–	–	–	–	567	–	84	253	169
Economic assumptions adjustments net of discretionary margins	–	(651)	–	–	–	–	–	820	–	169	–	169
Fair value losses on VitalityLife interest rate derivative	–	–	–	–	–	–	–	(253)	–	(253)	253	–
Investment income earned on shareholder investments and cash	37	11	38	–	28	–	–	8	18	140	156	296
Intercompany investment income	–	–	–	–	–	–	–	5	913	918	(918)	–
Net fair value gains/(losses) on financial assets at fair value through profit or loss	–	51	27	–	–	–	–	(454)	(1)	(377)	377	–
Gains from dilution of equity accounted investments	–	–	–	19	–	–	–	–	14	33	–	33
Expenses related to Prudential Book transfer	–	–	–	–	–	–	–	(182)	–	(182)	182	–
Covid-19 vaccination programme	–	–	–	–	–	–	–	–	(157)	(157)	157	–
Amortisation of intangibles from business combinations	–	–	–	(41)	–	–	–	–	(59)	(100)	41	(59)
Market rentals related to Head Office building adjusted for finance costs and depreciation	–	–	–	–	–	–	–	–	(158)	(158)	158	–
Finance costs[3]	(1)	25	–	–	–	–	(6)	(104)	(1 290)	(1 376)	(282)	(1 658)
Intercompany finance costs	(297)	–	–	–	–	–	(4)	(230)	(396)	(927)	927	–
Foreign exchange gains	4	25	37	–	–	–	–	–	89	155	–	155
Profit before tax	3 343	3 489	1 306	(184)	37	(990)	1 318	281	(1 331)	7 269	(325)	6 944
Income tax expense	(951)	(718)	(438)	43	(30)	218	(285)	224	147	(1 709)	325	(1 465)
Profit for the year	2 392	2 771	868	(141)	7	(772)	1 033	505	(1 184)	5 479	–	5 479

* *Amount is less than R500 000.*

1 *The inter-segment funding of R628 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 *This segment relates to SA Insure – Personal lines.*

3 *Finance costs in Discovery Life includes a reversal of interest payable to the South African Revenue Services provided for in the prior year.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

1. SEGMENT INFORMATION *continued*

R million	SA Health	SA Life	SA Invest	SA Insure[2]	SA Vitality	SA Bank	UK Health	UK Life	All other segments	Segment total	IFRS reporting adjustments	IFRS total
30 June 2021												
Income statement												
Insurance premium revenue	294	13 711	14 824	4 091	–	–	11 075	6 466	6 351	56 812	(877)	55 935
Reinsurance premiums	1	(3 262)	–	(66)	–	–	(1 839)	(3 354)	(86)	(8 606)	877	(7 729)
Accelerated reinsurance repayment	–	–	–	–	–	–	(823)	–	–	(823)	–	(823)
Net insurance premium revenue	295	10 449	14 824	4 025	–	–	8 413	3 112	6 351	47 383	–	47 383
Fee income from administration businesses	7 540	–	2 401	16	–	2	28	–	1 724	11 711	(11)	11 700
Vitality income	–	–	–	–	2 295	21	240	230	554	3 340	–	3 340
Net banking fee and commission income	–	–	–	–	–	464	–	–	16	480	–	480
Banking fee and commission income	–	–	–	–	–	633	–	–	–	633	–	633
Banking fee and commission expense	–	–	–	–	–	(169)	–	–	16	(153)	–	(153)
Net bank interest and similar income	–	–	–	–	–	214	–	–	–	214	27	241
Bank interest and similar income using the effective interest rate	–	–	–	–	–	627	–	–	–	627	–	627
Bank interest and similar expense using the effective interest rate	–	–	–	–	–	(413)	–	–	–	(413)	27	(386)
Investment income earned on assets backing policyholder liabilities	–	10	–	111	–	–	–	9	9	139	(139)	–
Net fair value gains/(losses) on financial assets at fair value through profit or loss	6	637	9 172	14	–	83	29	(792)	1 358	10 507	1 384	11 891
Other income	968	3	–	–	–	312	60	–	10	1 353	19	1 372
Finance charge on negative reserve funding	–	–	–	–	–	–	–	769	–	769	(769)	–
Inter-segment funding[1]	–	(714)	714	–	–	–	–	–	–	–	–	–
Receipts arising from reinsurance contracts	–	500	–	–	–	–	–	–	–	500	–	500
Net income	8 809	10 885	27 111	4 166	2 295	1 096	8 770	3 328	10 022	76 396	511	76 907
Net claims and policyholders' benefits	(129)	(8 113)	(12 252)	(2 270)	–	–	(3 894)	(837)	(683)	(28 178)	–	(28 178)
Claims and policyholders' benefits	(129)	(11 949)	(12 252)	(2 269)	–	–	(5 219)	(1 962)	(761)	(34 541)	569	(33 972)
Insurance claims recovered from reinsurers	–	3 836	–	(1)	–	–	1 325	1 125	78	6 363	(569)	5 794
Acquisition costs	(40)	(1 540)	(1 056)	(599)	(61)	–	(942)	(1 719)	174	(5 783)	750	(5 033)
Expected credit losses	–	–	–	–	–	(271)	–	–	–	(271)	–	(271)
Marketing and administration expenses												
– depreciation and amortisation	(118)	(7)	(11)	(70)	(13)	(246)	(447)	(57)	(669)	(1 638)	(210)	(1 848)
– derecognition of intangible assets and property and equipment	(26)	–	–	(6)	–	–	–	–	(18)	(50)	–	(50)
– impairment of intangible assets	(15)	–	–	–	(1)	–	(5)	–	(40)	(61)	–	(61)
– other expenses	(5 058)	(2 027)	(1 031)	(937)	(2 177)	(1 673)	(3 297)	(1 831)	(2 598)	(20 629)	(91)	(20 720)
Recovery of expenses from reinsurers	–	–	–	–	–	–	912	1 861	–	2 773	–	2 773
Transfer from assets/liabilities under insurance contracts												
– change in assets arising from insurance contracts	–	3 433	–	–	–	–	–	(6 143)	76	(2 634)	3 179	545
– change in assets arising from reinsurance contracts	–	33	–	–	–	–	13	10	–	56	–	56
– change in liabilities arising from insurance contracts	–	(206)	(11 054)	(47)	–	–	(155)	(17)	(6 436)	(17 915)	(26)	(17 941)
– change in liabilities arising from reinsurance contracts	–	(1 115)	–	–	–	–	–	6 049	–	4 934	(3 179)	1 755
Fair value adjustment to liabilities under investment contracts	–	(2)	(623)	–	–	–	–	–	(255)	(880)	(2 754)	(3 634)
Share of net profits from equity-accounted investments	–	–	–	13	–	–	(2)	–	512	523	–	523
Impairment of equity accounted investment	–	–	–	–	–	–	–	–	(149)	(149)	–	(149)
Normalised profit/(loss) from operations	3 423	1 341	1 084	250	43	(1 094)	953	644	(150)	6 494	(1 820)	4 674
Economic assumptions adjustments net of discretionary margins and interest rate derivative	–	(411)	–	–	–	–	–	(108)	–	(519)	1 309	790
Economic assumptions adjustments net of discretionary margins	–	(411)	–	–	–	–	–	1 201	–	790	–	790
Fair value losses on VitalityLife interest rate derivative	–	–	–	–	–	–	–	(1 309)	–	(1 309)	1 309	–
Investment income earned on shareholder investments and cash	39	14	40	–	39	–	–	3	14	149	131	280
Intercompany investment income	–	–	–	–	–	–	–	7	809	816	(816)	–
Net fair value gains/(losses) on financial assets at fair value through profit or loss	–	138	(28)	–	–	–	–	139	(471)	(222)	222	–
Restructuring costs	–	–	–	–	–	–	–	(33)	–	(33)	33	–
Gains from dilution of equity accounted investments	–	–	–	537	–	–	–	–	17	554	–	554
Expenses related to Prudential Book transfer	–	–	–	–	–	–	-	(187)	–	(187)	187	–
Transaction costs related to VitalityLife interest rate derivatives	–	–	–	–	–	–	–	(4)	–	(4)	4	–
Covid-19 vaccination programme	–	–	–	–	–	–	–	–	(42)	(42)	42	–
Amortisation of intangibles from business combinations	–	–	–	–	–	–	–	–	(66)	(66)	–	(66)
Market rentals related to Head Office building adjusted for finance costs and depreciation	–	–	–	–	–	–	–	–	(228)	(228)	228	–
Finance costs	(1)	(26)	–	–	–	–	(7)	(65)	(1 192)	(1 291)	(357)	(1 648)
Intercompany finance costs	(268)	–	–	–	–	–	(6)	(236)	(315)	(825)	825	–
Foreign exchange (losses)/gains	(6)	3	(25)	–	–	–	–	–	(361)	(389)	–	(389)
Profit before tax	3 187	1 059	1 071	787	82	(1 094)	940	160	(1 985)	4 207	(12)	4 195
Income tax expense	(894)	(364)	(331)	(207)	(24)	334	(149)	363	285	(987)	12	(975)
Profit for the year	2 293	695	740	580	58	(760)	791	523	(1 700)	3 220	–	3 220

1 The inter-segment funding of R714 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 This segment relates to SA Insure – Personal lines.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

2. MANAGEMENT OF INSURANCE RISK

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

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

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

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

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

Contracts which are long term in nature

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

Contracts which are short term in nature

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

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

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

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

2. MANAGEMENT OF INSURANCE RISK *continued*

Insurance risk	Description	How Discovery manages the risk
Lapse and surrender risk *continued*	*Contracts that are long term in nature* For individual life insurance products there is a risk: – of reduced profits arising from lower than expected withdrawals at later durations of certain policies in cases where the reserves have turned positive. This is since withdrawals on such policies allow the reserves to bereleased as profits in the absence of surrender values being offered; and – that withdrawals are selective from a claims experience point of view. For example, healthy lives may find it easier to obtain cover elsewhere compared to less healthy lives. Future earnings on individual life plans are dependent on the number of policies remaining in future years and thus future earnings are dependent on the lapse rate. The future expected earnings vary by the premium funding method chosen by the policyholder. In general, the higher the increases, the higher the withdrawal risk to future earnings. For investment products with insurance risk, there is a risk: – that the surrender value may exceed the policy value, net of expenses, at early durations; and – that withdrawals are higher than expected. Future earnings arising from Invest plans are dependent on the value of assets under management and thus future earnings are dependent on the withdrawal and surrender rate. *Contracts that are short term in nature* For Discovery Insure there is a risk of reduced profits arising from higher than expected withdrawals at early durations of policies, resulting in acquisition costs not being recovered.	For example, Discovery provides unique rewards and benefits as well as integration to members which has proven to be a credible risk differentiator. Premium discounts or cover increases are available to policyholders who actively engage in a healthier lifestyle and utilise the Vitality benefits. Better terms are thus offered to healthy lives compared to less healthy lives. No surrender benefit is offered on risk benefits and thus the loss on withdrawal is reduced. *Commission claw back* Discovery predominantly distributes via independent brokers, intermediaries and tied agents. Commissions are clawed back from intermediaries where a policy lapses within a specified timeframe since inception. The amount of commission clawback depends on the duration of the policy in months and gradually reduces from 100% to 0% and is over a specified period depending on product sold. *Experience monitoring* Lapse experience is monitored on a monthly basis and data is analysed to establish possible trends for which management action can be taken. Where there is insufficient historic data to provide credible results, for example within VitalityLife Whole of Life, reliance is placed on reinsurers' advice, industry experience as well as experience from Discovery Life. *Proactive conservation* Targeted conservation campaigns are run pro-actively. For example, financial advisors are notified of clients that do not have certain features on their policies that are correlated with good persistency. Financial advisors are thus encouraged to add such features.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

2. MANAGEMENT OF INSURANCE RISK *continued*

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

2. MANAGEMENT OF INSURANCE RISK *continued*

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

2. MANAGEMENT OF INSURANCE RISK *continued*

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

2. MANAGEMENT OF INSURANCE RISK *continued*

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

2. MANAGEMENT OF INSURANCE RISK *continued*

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

2. MANAGEMENT OF INSURANCE RISK *continued*

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

2. MANAGEMENT OF INSURANCE RISK *continued*

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

2. MANAGEMENT OF INSURANCE RISK *continued*

Insurance risk	Description	How Discovery manages the risk
Underwriting experience risk *continued*		*Discovery Insure* Discovery Insure aims to manage risk through diversifying the pool of insured risks by establishing a balanced portfolio of insurance risks over a wide geographical area. Short-term insurance risks are priced on an individual basis, therefore a minimal cross subsidy exists between risks. Premiums are calculated using statistical regression techniques. Insurance risk factors identified would typically include past insurance history, type and value of asset covered, measures taken to protect the asset, primary use of covered item and various other pertinent factors. Discovery Insure's quotation and administration system calculates risk on an individual basis based on information captured by brokers and agents for each risk. Individual risks are accepted automatically up to cut-off limits which vary by risk type. Insurance conditions and exclusions are also automatically set at an individual risk level. Individual risks greater than the limit are automatically referred and underwritten by the underwriting department. No risks are accepted which exceed the upper limits of the reinsurance contracts without the necessary facultative cover being arranged. Discovery Insure uses telematics to manage risk. The telemetry received in respect of vehicles in which the devices are installed, highlights speeding, harsh breaking, harsh cornering and other risk related incidents. By informing the driver of how they are driving and in turn rewarding them for driving well, the risk of an accident is reduced. The 'deep install' device is also equipped with a stolen vehicle recovery transponder that increases the probability of recovering a vehicle should it be stolen.
		Reinsurance – VitalityHealth VitalityHealth currently utilises reinsurance to better match the high upfront costs of acquisition with the profit emergence across the lifetime of the policies written. VitalityHealth currently has quota share agreements in place with two reinsurers with an outstanding balance of GBP 198.5 million (R3 971 million) at year end (2021: GBP 156 million (R3 079 million)).

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

2. MANAGEMENT OF INSURANCE RISK *continued*

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

2.1 Capital adequacy requirements and protection against adverse experience

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

2.1.1 DISCOVERY LIFE

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

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

2. MANAGEMENT OF INSURANCE RISK *continued*

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

2.1.1 DISCOVERY LIFE *continued*

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

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

2.1.2 VITALITYLIFE

The Vitality Life business comprises business underwritten directly by VitalityLife (from 1 January 2016) and business underwritten on behalf of VitalityLife on Prudential Assurance Company's (PAC's) life insurance license (up to 31 December 2015).

Through a number of contractual and loan arrangements, Discovery retains 100% of the insurance risk associated with the VitalityLife policies underwritten on the PAC life insurance license. All policies are administered by VitalityLife, and they are managed as a single portfolio. The arrangement with the PAC is accounted for in substance under IFRS as an insurance contract that Discovery issues.

Accordingly, all information for VitalityLife, other than the segment information, is presented on a combined basis comprising both the business underwritten by VitalityLife and underwritten on behalf of VitalityLife on the PAC life insurance license.

The business that was underwritten on PAC life insurance license will, as per contractual agreement with PAC, still be valued under the Solvency I or old capital requirement rules described below until it is transferred to the VLL license. After this date, this business would need to be fully Solvency II compliant. During the financial period ended 30 June 2022, Discovery and PAC have finalised a contractual agreement to a long-term deferral of the transfer to the Vitality Life Limited license (the Part VII transfer). The agreement is such that the Part VII transfer is now deferred for the long-term with options to extend further and for all intents and purposes should be viewed as an indefinite deferral.

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

SOLVENCY I

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

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

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

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

- Mortality risk;
- Expense risk;
- Market risk; and
- Health risk.

The amount of capital that ultimately needs to be held by a life insurance company in the UK is the larger of the Pillar1 and Pillar2 result. VitalityLife is required to provide capital to the Prudential Assurance Company (PAC) equal to one times the Pillar1 capital requirement, increasing to one and a half times from the Pillar 1 capital requirements from March 2024 onwards. The cover requirements were observed at all valuation dates.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

2. MANAGEMENT OF INSURANCE RISK *continued*
2.1 Capital adequacy requirements and protection against adverse experience *continued*
2.1.2 VITALITYLIFE *continued*

SOLVENCY II

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

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

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

2.1.3 VITALITYHEALTH

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

The objective of VitalityHealth's capital management policy is to define the principles and guiding philosophy for capital management that ensures 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 Rulebook) to meet the PRA capital requirements. The capital requirements were met at all valuation dates.

With effect from 1 January 2016 the insurance regulatory regime Solvency II was implemented in the UK. Refer to 2.1.2 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 publicly 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 2022 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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

2. MANAGEMENT OF INSURANCE RISK *continued*

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

2.1.4 DISCOVERY INSURE

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

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

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

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

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

2.2 Liquidity risk

2.2.1 CONTRACTS THAT ARE LONG-TERM IN NATURE

DISCOVERY LIFE AND DISCOVERY INVEST

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

Gross of reinsurance

R million	Total	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2022						
Discovery Life	**28 101**	**1 690**	**5 618**	**6 382**	**8 221**	**6 190**
Discovery Invest	**8 602**	**547**	**2 640**	**2 677**	**2 354**	**384**
VitalityLife	**12 830**	**2 436**	**6 194**	**4 597**	**1 581**	**(1 978)**
2021						
Discovery Life	23 560	(1 174)	6 721	6 584	6 784	4 645
Discovery Invest	8 337	688	2 318	2 673	2 218	440
VitalityLife[1]	11 079	2 203	9 861	2 833	45	(3 863)

Net of reinsurance

R million	Total	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2022						
Discovery Life	**23 473**	**1 298**	**4 003**	**4 994**	**7 367**	**5 811**
VitalityLife	**8 818**	**743**	**2 292**	**3 723**	**1 705**	**355**
2021						
Discovery Life	19 441	(721)	4 895	5 079	5 920	4 268
VitalityLife[1]	8 665	711	5 875	1 573	277	229

1 *The comparative numbers have been restated to include Vitality Life.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

2. MANAGEMENT OF INSURANCE RISK *continued*

2.2 Liquidity risk *continued*

2.2.1 CONTRACTS THAT ARE LONG-TERM IN NATURE *continued*

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

2.2.2 CONTRACTS THAT ARE SHORT-TERM IN NATURE

VITALITYHEALTH

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

DISCOVERY INSURE

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

2.3 Concentration risk

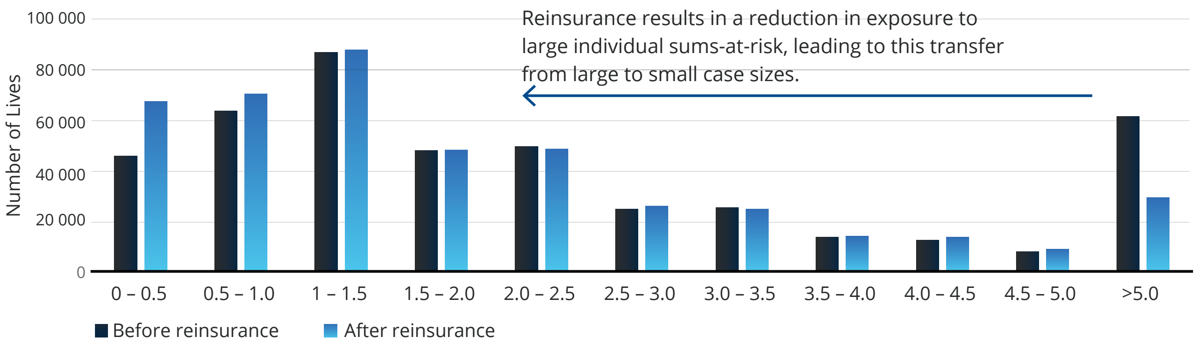
2.3.1 CLAIMS EXPERIENCE RISK

DISCOVERY LIFE

Discovery Life maintains a well-diversified portfolio of policies. Reinsurance is further used to protect against the concentration of risk. Catastrophe reinsurance protects against the accumulation of claims from a single event, for example an airplane crash. The catastrophe reinsurance for Discovery Life covers single event disasters for up to R870 million where the net of reinsurance impact is greater than R44 million. For its biggest four group schemes, a further layer of catastrophe reinsurance cover of R3 400 million in excess of R914 million is in place.

Reinsurance removes the exposure to large individual claims. The following graph demonstrates that the distribution of policies by sum assured is shifted towards lower sum assured due to the reinsurance cover.

2022 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 2022

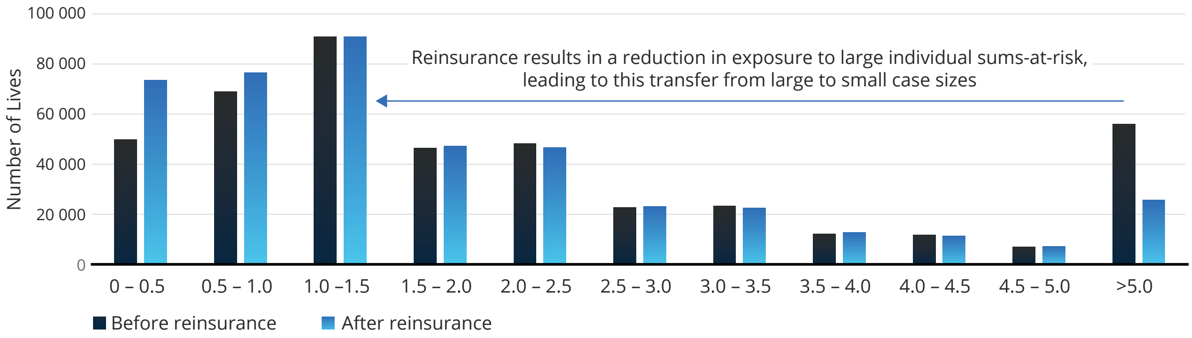
2. MANAGEMENT OF INSURANCE RISK *continued*

2.3 Concentration risk *continued*

2.3.1 CLAIMS EXPERIENCE RISK *continued*

DISCOVERY LIFE *continued*

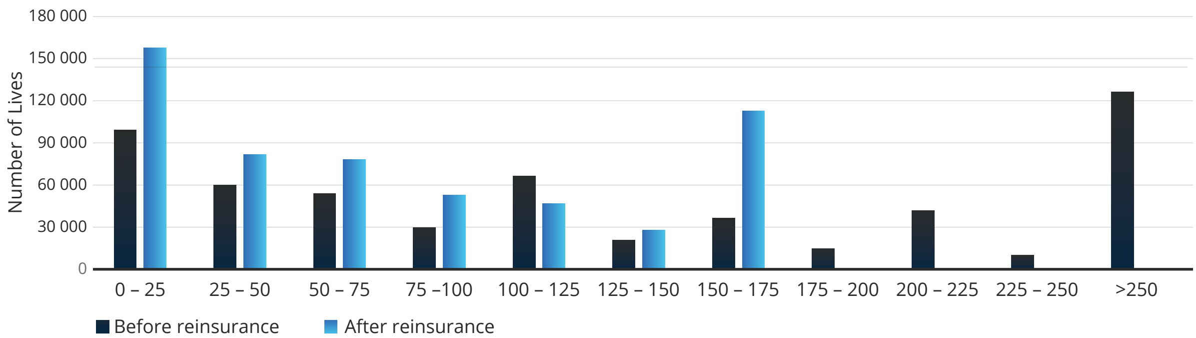
2021 Distribution of Sums Retained: before and after reinsurance (Sum retained – Rm)



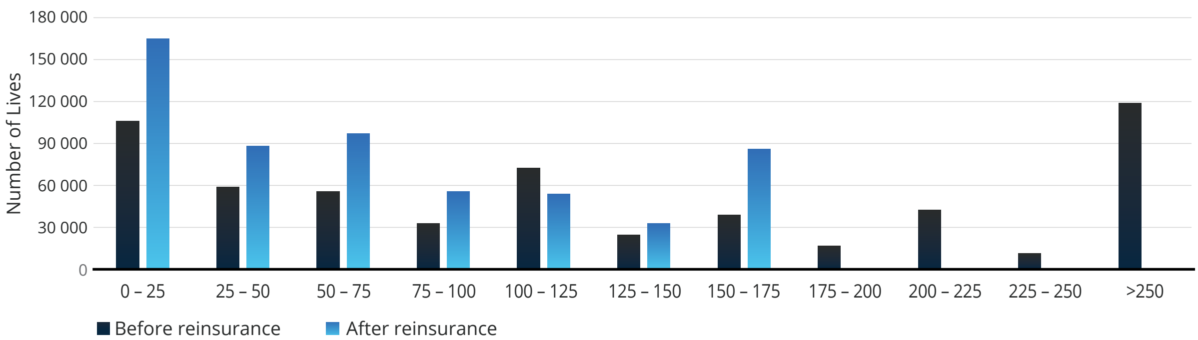
VITALITYLIFE

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

2022 Distribution of Sums Retained: before and after reinsurance (Sum retained – GBP'000)



2021 Distribution of Sums Retained: before and after reinsurance



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

2. MANAGEMENT OF INSURANCE RISK *continued*

2.3 Concentration risk *continued*

2.3.1 CLAIMS EXPERIENCE RISK *continued*

VITALITYHEALTH

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

DISCOVERY INSURE

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

Discovery Inure has concentration of policyholders in the main metropolitan areas such as Johannesburg, Pretoria, Cape Town and Durban. A catastrophic flood, hail, fire or earthquake would result in disproportionate losses in these areas given the accumulation of risk. Catastrophe reinsurance is used to limit the size of such losses and their impact on the underwriting result.

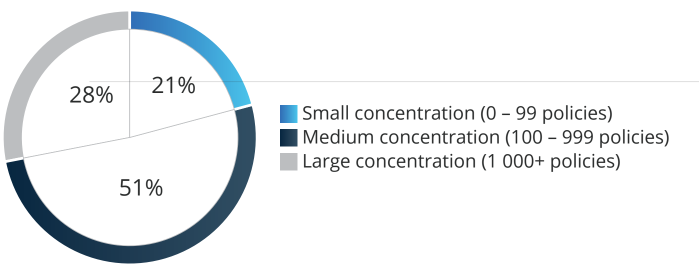
2.3.2 WITHDRAWAL CONCENTRATION RISK

DISCOVERY LIFE AND VITALITYLIFE

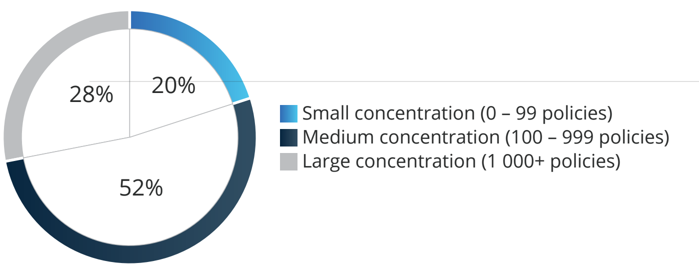
There is a financial risk of the withdrawal of a block of policies written by a single independent intermediary. In order to manage these risks, Discovery diversifies its book of business by source of new business and spread across its brokers and agents.

	Unaudited Brokers and agents		Maximum exposure to single intermediary % of total premium income	
	2022	2021	**2022**	2021
Long term insurance				
– Discovery Life	**7 500**	7 245	**1.2%**	1.4%
– VitalityLife	**30 199**	29 510	**2.9%**	2.9%

2022 API concentation by intermediary – Discovery Life



2021 API concentation by intermediary – Discovery Life



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

2. MANAGEMENT OF INSURANCE RISK *continued*
2.4 Mismatching and market risk
2.4.1 ASSETS ARISING FROM INSURANCE CONTRACTS

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

R million	2022	2021
Assets arising from insurance contracts relating to:		
– Discovery Life	**39 661**	35 014
– VitalityLife	**16 984**	15 371
– VItalityInvest	**–**	98
	56 645	50 483

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

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

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

R million	Total	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2022						
Discovery Life	**39 661**	**2 403**	**9 267**	**8 761**	**10 662**	**8 568**
VitalityLife	**16 984**	**3 746**	**10 523**	**7 587**	**7 012**	**(11 885)**
2021						
Discovery Life	35 014	589	10 102	9 319	8 926	6 078
VitalityLife	15 371	3 652	10 131	6 745	5 457	(10 614)

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

2. MANAGEMENT OF INSURANCE RISK *continued*

2.4 Mismatching risk *continued*

2.4.2 LIABILITIES ARISING FROM INSURANCE CONTRACTS *continued*

Refer to page 61 for a breakdown of the assets backing these liabilities. A reconciliation of the liabilities arising from insurance contracts disclosed in the cash flows below to the Statement of financial position (refer to note 18):

R million	2022	2021
Long-term insurance contract liabilities with fixed and guaranteed terms (Note 18)	**21 273**	21 764
Long-term insurance contract liabilities with fixed and guaranteed terms: VitalityInvest	**(5)**	–
Long-term insurance contract liabilities with fixed and guaranteed terms: Discovery Invest	**21 268**	21 764
Negative insurance liability included in unit-linked insurance contracts	**(5 684)**	(5 117)
Discovery Invest value of liabilities arising from insurance contracts	**15 584**	16 647

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

R million	Total	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2022						
Discovery Invest						
Long-term insurance contract liabilities with fixed and guarantee terms	**(21 268)**	**(4 460)**	**(15 450)**	**(540)**	**(554)**	**(264)**
Negative insurance liability included in unit-linked insurance contracts	**5 684**	**34**	**1 724**	**2 126**	**1 923**	**(123)**
2021						
Discovery Invest						
Long-term insurance contract liabilities with fixed and guarantee terms	(21 764)	(4 657)	(16 040)	(444)	(381)	(242)
Negative insurance liability included in unit-linked insurance contracts	5 117	170	1 380	1 860	1 742	(35)

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

2. MANAGEMENT OF INSURANCE RISK *continued*

2.4 MISMATCHING RISK *continued*

2.4.3 MARKET RISK – INTEREST RATE RISK

DISCOVERY LIFE

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

VITALITYLIFE

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

Interest rates in the UK have displayed significant volatility in recent years and after a period of decline have started to rise again. In recent years, VitalityLife has implemented an interest rate risk mitigation strategy to protect itself against volatility in interest rates by entering into derivative contracts. This strategy ensures that the VitalityLife business operates well within its pre-determined risk appetite.

The derivative instruments comprise of:

- Interest rate swaps, with a nominal value of GBP 89.5 million (R1 790 million). This interest rate swap derivative swaps exposure to variable interest rates in return for a fixed interest rate referenced to the 25-year UK SONIA swap rate (VitalityLife pays the fixed rate and receives the variable rate). The weighted average (by nominal value) fixed interest rate is 2.434%. The interest rate swap derivative is in place for an extended period of time; and
- Swaption, with a nominal value of GBP 170.0 million (R3 401 million) that was acquired in the year for GBP 14.2 million (R284 million) and expires June 2024. The swaption gives Discovery the participation in the benefit should interest rates rise above 2.668%.
- Interest rate swaps, with a nominal value of GBP 171.5 million (R3 431 million). This interest rate swap derivative swaps exposure to variable interest rates in return for a fixed Interest rate reference to the 50-year UK SONIA swap rate (Vitalitylife receives the fixed rate and pays the variable rate). The weighted average (by nominal value) fixed interest rate is 2.218%. The interest rate swap derivative is in place for an extended period of time.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

2. MANAGEMENT OF INSURANCE RISK *continued*

2.4 Mismatching risk *continued*

2.4.3 MARKET RISK – INTEREST RATE RISK *continued*

VITALITYLIFE *continued*

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

		GBP/Rand million			
		June 2022		June 2021	
	Line item in financial statements	**GBP**	**R**	GBP	R
Statement of Financial Position		**9.0**	**179**	(11.8)	(233)
Interest rate swap valuation	**(Financial liabilities)/Financial assets:** Derivative – financial instruments at fair value through profit or loss	**(3.9)**	**(79)**	(11.8)	(233)
Swaption valuation	**Financial assets:** Derivative – financial instruments at fair value through profit or loss	**10.8**	**216**	6.8	135
	Other Payables: VitatilityLife working capital funding[1]	**12.9**	**258**	6.8	135
Income Statement		**(34.9)**	**(707)**	(56.4)	(1 170)
Fair value remeasurement	Net fair value (losses)/gains on financial assets at fair value through profit or loss	**(47.8)**	**(968)**	(56.4)	(1 170)
	Marketing and administration expenses[1]	**12.9**	**261**	–	–
Transaction costs	Marketing and administration expenses	**–**	**–**	(0.2)	(4)

1 *The Vitalitylife results are reclassified to account for the contractual arrangement in respect of the business written on the Prudential Assurance Company license, as on insurance contract which Discovery issues under IFRS 4 Insurance Contracts.*

DISCOVERY LIFE AND DISCOVERY INVEST

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

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

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

2.4.4 MARKET RISK – CURRENCY RISK

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

The Dollar Life Plan, offered by Discovery Life provides a sum insured in US Dollars. Premiums are paid in Rands but linked to the Rand/Dollar exchange rate. Certain versions of the Dollar Life Plan provide guarantees on the Rand/Dollar exchange rate for a specified period, thereby exposing Discovery Life to currency risk.

Other insurance business lines do not have significant currency risk.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

2. MANAGEMENT OF INSURANCE RISK *continued*

2.5 Sensitivity analysis

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

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

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

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

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

2.5.1 DISCOVERY LIFE

	Gross exposure		Net of reinsurance	
	Assets under insurance contracts R million	Change from base assumption %	Assets under insurance contracts R million	Change from base assumption %
Base: June 2022 assumptions	**39 661**		**36 182**	
Lapses +10% (e.g. from x% to 1.1x%)	**34 937**	**(11.9)**	**31 602**	**(12.7)**
Lapses –10% (e.g. from x% to 0.9x%)	**45 366**	**14.4**	**41 735**	**15.3**
Investment return and inflation –1% (e.g. from 5% to 4%)	**40 928**	**3.2**	**37 388**	**3.3**
Investment return and inflation +1% (e.g. from 5% to 6%)	**38 434**	**(3.1)**	**35 006**	**(3.3)**
Expense assumption +10%	**39 094**	**(1.4)**	**35 614**	**(1.6)**
Expense assumption –10%	**40 230**	**1.4**	**36 750**	**1.6**
Mortality and morbidity +10%	**32 044**	**(19.2)**	**30 321**	**(16.2)**
Mortality and morbidity –10%	**47 459**	**19.7**	**42 212**	**16.7**
Real curve –1% and inflation +1%	**42 977**	**8.4**	**39 251**	**8.5**
Real curve +1% and inflaton –1%	**37 050**	**(6.6)**	**33 782**	**(6.6)**
Base: June 2021 assumptions	35 014		31 685	
Lapses +10% (e.g. from x% to 1.1x%)	31 065	(11.3)	27 875	(12.0)
Lapses –10% (e.g. from x% to 0.9x%)	39 746	13.5	36 272	14.5
Investment return and inflation –1% (e.g. from 5% to 4%)	35 989	2.8	32 583	2.8
Investment return and inflation +1% (e.g. from 5% to 6%)	34 032	(2.8)	30 769	(2.9)
Expense assumption +10%	34 498	(1.5)	31 166	(1.6)
Expense assumption –10%	35 529	1.5	32 203	1.6
Mortality and morbidity +10%	28 154	(19.6)	26 345	(16.9)
Mortality and morbidity –10%	41 939	19.8	37 092	17.1
Real curve –1% and inflation +1%	37 548	7.2	33 966	7.2
Real curve +1% and inflaton –1%	32 962	(5.9)	29 848	(5.8)

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

The above sensitivities reflect the impact on profit or loss if there are no discretionary margins.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

2. MANAGEMENT OF INSURANCE RISK *continued*
2.5 Sensitivity analysis *continued*
2.5.1 DISCOVERY LIFE *continued*

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

	Liabilities under insurance contracts R million	Change from base assumption %
Base: June 2022 assumptions	**15 584**	
Lapses +10% (e.g. from x% to 1.1x%)	**15 609**	**0.2**
Lapses –10% (e.g. from x% to 0.9x%)	**15 638**	**0.3**
Investment return and inflation –1% (e.g. from 5% to 4%)	**16 145**	**3.6**
Investment return and inflation +1% (e.g. from 5% to 6%)	**15 054**	**(3.4)**
Expense assumption +10%	**15 728**	**0.9**
Expense assumption –10%	**15 441**	**(0.9)**
Mortality and morbidity +10%	**15 593**	**0.1**
Mortality and morbidity –10%	**15 576**	**(0.1)**
Real curve –1% and inflation +1%	**15 383**	**(1.3)**
Real curve +1% and inflaton –1%	**15 781**	**1.3**
Base: June 2021 assumptions	16 647	
Lapses +10% (e.g. from x% to 1.1x%)	16 692	0.3
Lapses –10% (e.g. from x% to 0.9x%)	16 664	0.1
Investment return and inflation –1% (e.g. from 5% to 4%)	17 302	3.9
Investment return and inflation +1% (e.g. from 5% to 6%)	16 024	(3.7)
Expense assumption +10%	16 769	0.7
Expense assumption –10%	16 521	(0.8)
Mortality and morbidity +10%	16 660	0.1
Mortality and morbidity –10%	16 629	(0.1)
Real curve –1% and inflation +1%	16 820	(1.0)
Real curve +1% and inflaton –1%	16 499	(0.9)

2.5.2 VITALITYLIFE – ASSETS ARISING FROM INSURANCE CONTRACTS

	Gross exposure		Net of Reinsurance	
	Assets arising from insurance contracts R million	Change from base assumption %	Assets arising from insurance contracts R million	Change from base assumption %
Base: June 2022 assumptions	**16 984**		**9 853**	
Lapses +10% (e.g. from x% to 1.1x%)	**16 525**	**(2.7)**	**9 413**	**(4.5)**
Lapses –10% (e.g. from x% to 0.9x%)	**17 451**	**2.7**	**10 297**	**4.5**
Investment return and inflation –1% (e.g. from 5% to 4%)	**15 487**	**(8.8)**	**8 382**	**(14.9)**
Investment return and inflation +1% (e.g. from 5% to 6%)	**17 919**	**5.5**	**10 809**	**9.7**
Expense assumption +10%	**16 595**	**(2.3)**	**9 465**	**(3.9)**
Expense assumption –10%	**17 374**	**2.3**	**10 244**	**4.0**
Mortality and morbidity +10%	**13 646**	**(19.7)**	**8 397**	**(14.8)**
Mortality and morbidity –10%	**20 361**	**19.9**	**11 302**	**14.7**
Real curve -1% and inflation +1%	**17 790**	**4.7**	**10 713**	**8.7**
Real curve +1% and inflaton –1%	**15 466**	**(8.9)**	**8 348**	**(15.3)**
Base: June 2021 assumptions	15 371		8 557	
Lapses +10% (e.g. from x% to 1.1x%)	14 890	(3.1)	8 141	(4.9)
Lapses –10% (e.g. from x% to 0.9x%)	15 884	3.3	9 008	5.3
Investment return and inflation –1% (e.g. from 5% to 4%)	12 171	(20.8)	5 408	(36.8)
Investment return and inflation +1% (e.g. from 5% to 6%)	16 578	7.9	9 772	14.2
Expense assumption +10%	15 124	(1.6)	8 309	(2.9)
Expense assumption –10%	15 619	1.6	8 805	2.9
Mortality and morbidity +10%	13 080	(14.9)	7 517	(12.2)
Mortality and morbidity –10%	17 685	15.1	9 573	11.9
Real curve -1% and inflation +1%	16 449	7.0	9 664	12.9
Real curve +1% and inflaton –1%	13 446	(12.5)	6 696	(21.7)

The above sensitivities reflect the impact on profit or loss if there are no discretionary margins.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

2. MANAGEMENT OF INSURANCE RISK *continued*

2.5 Sensitivity analysis *continued*

2.5.3 VITALITYHEALTH – IBNR RESERVES

VitalityHealth's reserves are set based on the results of a frequency and severity model which looks at the expected cost of each claim which is authorised for treatment. Historical costs per type of claim and the expected shape of emergence of each claims costs are compared to the amounts already paid to help determine the appropriate reserve for the business. 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 43.0 million (R860 million) at 30 June 2022 (2021: GBP 35.2 million (R695 million)), which approximates 1.5 months' worth of claims – which is the expected delay in claims reporting discussed above. Claims provisions at 30 June 2022 include 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 2.9 million (R58 million) (2021: GBP 2.5 million (R49 million)).

VitalityHealth's IBNR reserves are sensitive to changes in the business's invoice processing speeds – which has seen significantly improved stability over the most recent two years. Currently the IBNR is set using the average expected cost of each claim (in the prior period the IBNR was 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	**2022 Rands**	2021 Rands	**2022 GBP**	2021 GBP
Base case	**846.5**	730.0	**42.3**	35.2
Lower bound	**775.4**	717.6	**38.8**	34.6
Upper bound	**933.1**	871.0	**46.6**	42.0

2.5.4 INSURE – IBNR RESERVES

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

The claims reserve for the personal lines business – made up of both the IBNR and OCR reserves – is R480 million at 30 June 2022 (2021: R332 million). Sensitivity tests were performed with the results on the outlined below (in the prior period the IBNR reserve was set at the 71st percentile level). Given the OCR is not probabilistic in nature, the sensitivity tests are performed purely on the IBNR reserve.

R million	**2022**	2021
Base case	**479.8**	331.8
50th percentile	**469.0**	322.1
95th percentile	**505.5**	348.0

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

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 or another financial asset being available to meet commitments as and when they become due.

Financial risks are managed by Discovery as follows:

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

3. MANAGEMENT OF FINANCIAL RISK *continued*

Discovery's approach in monitoring credit risk

Discovery's credit risk rating systems and processes differentiate and quantify credit risk across counterparties and asset classes. Discovery uses different credit rating approaches to monitor credit risk dependent on the financial assets. For financial assets with externally rated ratings, e.g. Moody's, the external rating is always used. For non-Moody's rated instruments, the following approaches will apply:

RATING SCALES FOR FUNDS

A credit rating, being a ranking of creditworthiness, is allocated to the obligor. Where external ratings are unavailable, internal rating assessments are conducted through analysis of the latest financial and other relevant information, in a consistent and systematic manner. Where external ratings are available, the standard rating classifications used by the external rating agencies have been applied. The internal rating scale is based on internal definitions and influenced by definitions published by the external ratings agency, Moody's. Where applicable, internal ratings are mapped to equivalent external Moody's rating scales.

The Group's Internal Rating Scale categories are defined below:

Grading and Group internal rating	Moody's Investors Service equivalent of internal rating
Investment grade	
Grades Aaa, Aa1, Aa2, Aa3	Aaa, Aa1, Aa2, Aa3
Grades A1, A2, A3	A1, A2, A3
Grades Baa, Baa1, Baa2, Baa3	Baa, Baa1, Baa2, Baa3
Sub-investment grade	
Grades Ba, Ba1, Ba2, Ba3, B, B1, B2, B3	Ba, Ba1, Ba2, Ba3, B B1, B2, B3
Grades Caa, Caa1, Caa2, Caa3, Ca, Ca1, Ca2, Ca3	Caa, Caa1, Caa2, Caa3 Ca, Ca1, Ca2, Ca3
Default	
Grades C	C

Moody's Investor Services define their respective ratings as follows:

Investment grade	Aaa	Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk
	Aa	Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk
	A	Obligations rated A are judged to be upper-medium grade and are subject to low credit risk
	Baa	Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics
Sub-investment grade	Ba	Obligations rated Ba are judged to be speculative and are subject to substantial credit risk
	B	Obligations rated B are considered speculative and are subject to high credit risk
	Caa	Obligations rated Caa are judged to be speculative of poor standing and are subject to very high credit risk
	Ca	Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest
Default	C	Obligations rated C are the lowest rated and are typically in default, with little prospect for recovery of principal or interest

A numerical modifier may be added to each generic rating classification. Each modifier indicates the following:

- the modifier 1 indicates that the obligation ranks in the higher end of its generic rating category.
- the modifier 2 indicates a mid-range ranking; and
- the modifier 3 indicates a ranking in the lower end of that generic rating category.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

3. MANAGEMENT OF FINANCIAL RISK *continued*

Discovery's approach in monitoring credit risk *continued*

POOLED FUNDS

The Group invests in funds through which it is also exposed to credit risk of the underlying assets in which the funds are invested. The Group's exposure to risk is classified at fund level and not at the underlying asset level. Although funds are not rated, fund managers are required to invest in credit assets within the defined parameters stipulated in the fund's mandate. These rules limit the extent to which fund managers can invest in unlisted and/or unrated credit assets and generally restrict funds to the acquisition of local currency investment grade assets.

DISCOVERY BANK

Loans and advances to customers are categorised with Discovery Bank's own internally developed credit models. The Discovery Bank model uses a 10-point Discovery Risk Grade classification, with each point being in two decrements to further distinguish risk. The following table summarises how Discovery Bank classifies its loans:

Discovery Risk Category	Discovery Risk Grades	Risk of default assessment
Exceptional low risk	DRG1 – DRG2	Less than 0.4%
Low risk	DRG3 – DRG5	Less than 1.5%
Medium risk	DRG5 – DRG8	Less than 6%
High risk	DRG8 – DRG9	Less than 24%
Very high risk	DRG 10	More than 24%

Categorisation of business in the analysis of financial risk

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.

- **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. Under IFRS, 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 2022

3. MANAGEMENT OF FINANCIAL RISK *continued*

Categorisation of financial assets *continued*

The financial assets in each of these categories are sub-categorised into a second tier of classification, namely:

- Equity portfolios
- Debt portfolios
- Money market portfolios
- Multi-asset portfolios

In applying the definitions below, reliance is placed on the classifications by asset managers.

EQUITY PORTFOLIOS

The following have been defined as equity portfolios:

- Portfolios that invest a minimum of circa 75% of the market value of the portfolio in equities and generally seek maximum capital appreciation as their primary goal. These portfolios invest in selected shares across the range of large, mid, and smaller cap shares. While the managers of these portfolios may subscribe to different investment styles or approaches, their intent is to produce a risk/return profile that is comparable with the risk/return profile of the overall equities market. The portfolios in this category offer medium to long-term capital growth as their primary investment objective.
- Investments or portfolios of equity linked notes.

DEBT (INTEREST-BEARING) PORTFOLIOS

Interest-bearing portfolios are portfolios that invest exclusively in bond, money market investments and other interest earning securities. These portfolios may not include equity securities, real estate securities or cumulative preference shares.

In addition to the above the inflation-linked bonds have been defined as Debt portfolios. Inflation-linked bonds are essentially loans where the principal and interest payments are contractually linked to an inflation measure.

MONEY MARKET PORTFOLIOS

Money market portfolios are portfolios that seek to maximise interest income, preserve the portfolio's capital, and provide immediate liquidity. This is achieved by investing in money market instruments with a maturity of less than thirteen months while the average duration of the underlying assets may not exceed 90 days and a weighted average legal maturity of 120 days. The portfolios are typically characterised as short-term, highly liquid vehicles.

MULTI-ASSET PORTFOLIOS

Multi-asset portfolios are portfolios that invest in a wide spread of investments in the equity, bond, money, and property markets to maximise total returns, comprising capital and income growth over the long term. These portfolios do not fall within the thresholds that have been determined for the Equity portfolios or the Debt portfolios.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

3. MANAGEMENT OF FINANCIAL RISK *continued*
Categorisation of financial assets *continued*

The following tables reconcile the Group Statement of financial position to the classes of risks and the categories listed on the previous pages.

Group R million	Total	Unit-linked investment contracts	Unit-linked insurance contracts	Insurance contracts	Shareholder Financial assets and liabilities	Other assets and liabilities
30 June 2022						
Assets arising from insurance contracts	**56 645**	–	–	56 645	–	–
Loans and advances to customers at amortised cost:	**3 944**	–	–	–	3 944	–
Investments at amortised cost:						
Unlisted:						
– Debt	**5 205**	–	–	–	5 205	–
– Fixed deposits	**1 956**	–	–	–	1 956	–
Financial instruments mandatorily at fair value through profit or loss:						
Listed:						
– Equity portfolios	**53 947**	15 511	38 024	252	160	–
– Debt portfolios	**47 012**	8 108	19 439	18 714	751	–
– Money market portfolios	**8 052**	415	830	327	6 480	–
– Multi-asset portfolios	**21 179**	11 330	9 689	93	67	–
Unlisted:						
– Equity portfolios	**4 001**	171	3 784	–	46	–
– Debt portfolios	**580**	80	485	–	15	–
– Money market portfolios	**6 628**	1 180	2 121	2 131	1 196	–
– Multi-asset portfolios	**95**	–	87	–	8	–
Derivative financial instruments at fair value:						
– used as cash flow hedges	**17**	–	–	–	17	–
– not designated as hedging instruments	**259**	9	12	–	238	–
Non-current asset held for sale	**171**	–	–	–	–	171
Receivables:						
– Insurance receivables	**7 887**	–	–	–	7 887	–
– Contract receivables	**1 209**	–	–	–	1 209	–
– Other receivables	**4 017**	361	899	13	1 369	1 375
Reinsurance contracts	**511**	–	–	511	–	–
Cash and cash equivalents	**19 775**	1 092	3 583	333	14 767	–
Other non-financial assets	**28 134**	–	834	–	–	27 300
Total assets	**271 224**	**38 257**	**79 787**	**79 019**	**45 315**	**28 846**
Liabilities arising from insurance contracts	**109 200**	–	72 002	37 198	–	–
Liabilities arising from reinsurance contracts	**13 192**	–	–	13 192	–	–
Deposits from customers	**10 881**	–	–	–	10 881	–
Borrowings at amortised cost	**20 584**	22	132	–	20 430	–
Other payables	**15 123**	874	1 135	438	12 264	412
Investment contracts at fair value through profit or loss	**37 361**	37 361	–	–	–	–
Derivative financial instruments at fair value:						
– used as cash flow hedges	**56**	–	–	–	56	–
– not designated as hedging instruments	**146**	–	–	–	146	–
Other non-financial liabilities	**11 126**	–	–	–	–	11 126
Total liabilities	**217 669**	**38 257**	**73 269**	**50 828**	**43 777**	**11 538**

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

3. MANAGEMENT OF FINANCIAL RISK *continued*

Group R million	Total	Unit-linked investment contracts	Unit-linked insurance contracts	Insurance contracts	Shareholder Financial assets and liabilities	Shareholder Other assets and liabilities
30 June 2021						
Assets arising from insurance contracts	50 483	–	–	50 483	–	–
Loans and advances to customers at amortised cost:	3 361	–	–	–	3 361	–
Investments at amortised cost:						
Unlisted:						
– Debt	4 109	–	–	–	4 109	–
– Fixed deposits	1 495	–	–	–	1 495	–
Financial instruments mandatorily at fair value through profit or loss:						
Listed:						
– Equity portfolios	40 508	13 010	27 114	236	148	–
– Debt portfolios	36 452	5 620	10 655	18 674	1 503	–
– Money market portfolios	10 892	1 004	1 894	1 102	6 892	–
– Multi-asset portfolios	33 205	10 954	22 083	114	54	–
Unlisted:						
– Equity portfolios	2 854	52	2 759	–	43	–
– Debt portfolios	33	2	–	–	31	–
– Money market portfolios	6 361	977	1 911	3 255	218	–
– Multi-asset portfolios	632	–	632	–	–	–
Derivative financial instruments at fair value:						
– used as cash flow hedges	28	–	–	–	28	–
– not designated as hedging instruments	221	3	4	–	214	–
Receivables:						
– Insurance receivables	6 158	–	–	–	6 158	–
– Contract receivables	1 217	–	–	–	1 217	–
– Other receivables	3 158	288	559	40	1 302	969
Reinsurance contracts	445	–	–	445	–	–
Cash and cash equivalents	20 013	952	3 111	8	15 942	–
Other non-financial assets	25 069	–	992	–	–	24 077
Total assets	246 694	32 862	71 714	74 357	42 715	25 046
Liabilities arising from insurance contracts	100 977	–	64 446	36 531	–	–
Liabilities arising from reinsurance contracts	12 525	–	–	12 525	–	–
Deposits from customers	8 985	–	–	–	8 985	–
Borrowings at amortised cost	19 493	–	–	–	19 493	–
Other payables at amortised cost	14 904	568	1 154	404	12 426	352
Investment contracts at fair value through profit or loss	32 291	32 291	–	–	–	–
Derivative financial instruments at fair value:						
– used as cash flow hedges	461	–	–	–	461	–
– not designated as hedging instruments	365	3	5	–	357	–
Other non-financial liabilities	10 274	–	–	–	–	10 274
Total liabilities	200 275	32 862	65 605	49 460	41 722	10 626

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

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.

	Investments held at risk of policyholders	
R million	**Group 2022**	Group 2021
30 June 2022		
Financial instruments mandatorily at fair value through profit or loss:		
Listed:		
– Equity portfolios	**15 511**	13 010
– Debt portfolios	**8 108**	5 620
– Money market portfolios	**415**	1 004
– Multi-asset portfolios	**11 330**	10 954
Unlisted:		
– Equity portfolios	**171**	52
– Debt portfolios	**80**	2
– Money market portfolios	**1 180**	977
Derivative financial instruments at fair value:		
– not designated as hedging instruments	**9**	3
Receivables:		
– Other receivables at amortised cost	**361**	288
Cash and cash equivalents	**1 092**	952
Total assets	**38 257**	32 862
Borrowings at amortised cost	**22**	–
Other payables	**874**	568
Investment contracts at fair value through profit or loss	**37 361**	32 291
Derivative financial instruments at fair value:		
– not designated as hedging instruments	**–**	3
Total liabilities	**38 257**	32 862

3.1.1 MARKET RISK

EQUITY AND INTEREST RATE 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 increase of 10% in the value of the assets would increase the asset management fees by R60 million per annum (2021: R55 million). A decrease of 10% in the value of the assets would reduce the asset management fees by R60 million per annum (2021: R55 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.

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 currency risk is borne by the policyholder.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

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. 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 R792 million (2021: R658 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% (2021: 100%) of the policyholder liabilities due within one year. The assets held to match these policyholder liabilities are realisable in the short-term.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

3. MANAGEMENT OF FINANCIAL RISK *continued*

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.

R million	Investments held at risk of policyholders **Group 2022**	 Group 2021
30 June 2022		
Financial instruments mandatorily at fair value through profit or loss:		
Listed:		
– Equity portfolios	**38 024**	27 114
– Debt portfolios	**19 439**	10 655
– Money market portfolios	**830**	1 894
– Multi-asset portfolios	**9 689**	22 083
Unlisted:		
– Equity portfolios	**3 784**	2 759
– Debt portfolios	**485**	–
– Money market portfolios	**2 121**	1 911
– Multi-asset portfolios	**87**	632
Derivative financial instruments at fair value:		
– not designated as hedging instruments	**12**	4
Receivables:		
– Other receivables	**899**	559
Cash and cash equivalents	**3 583**	3 111
Other assets	**834**	992
Total assets	**79 787**	71 714
Liabilities arising from insurance contracts	**72 002**	64 446
Borrowings at amortised cost	**132**	–
Other payables	**1 135**	1 154
Derivative financial instruments at fair value:		
– not designated as hedging instruments	**–**	5
Total liabilities	**73 269**	65 605

The assets are greater than the liabilities as a result of the Negative insurance liability of R5 684 milion (2021: R5 117 million) included in unit-linked insurance contracts (refer to note 18) and the deferred tax asset of R834 million (2021: R992 million) in relation to the Individual Policyholder Fund.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.2 Unit-linked insurance contracts *continued*

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. An increase of 10% in the value of the assets would increase the asset management fees by R147 million per annum (2021: R134 million). A decrease of 10% in the value of the assets would reduce the asset management fees by R148 million per annum (2021: R134 million).

3.2.2 CREDIT RISK

The credit risk for the unit-linked insurance contracts is similar to the credit risk for the unit-linked investment contracts. Refer to section 3.1.2 on the detail for the exposure to the credit risk.

3.2.3 LIQUIDITY RISK

All contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. This surrender value is equal to or less than the carrying amount of the contract liabilities. If all the contracts with this option were surrendered at the financial year-end, a loss of R5 948 million (2021: R5 491 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.

The assets held to match these policyholder liabilities are highly liquid and are realisable in the short term. A maturity analysis based on the earliest contractual repayment date is as follows:

Group R million	Total	< 1 Year	1 – 2 Years	3 – 5 Years
30 June 2022				
Unit-linked insurance contracts	**77 724**	**77 507**	**98**	**119**
30 June 2021				
Unit-linked insurance contracts	69 549	68 947	122	480

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.3 Insurance contracts

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

R million	**Group 2022**	Group 2021
30 June 2022		
Assets arising from insurance contracts	**56 645**	50 483
Financial instruments mandatorily at fair value through profit or loss:		
Listed:		
– Equity portfolios	**252**	236
– Debt portfolios	**18 714**	18 674
– Money market portfolios	**327**	1 102
– Multi-asset portfolios	**93**	114
Unlisted:		
– Money market portfolios	**2 131**	3 255
Receivables:		
– Other receivables	**13**	40
Reinsurance contracts	**511**	445
Cash and cash equivalents	**333**	8
Total assets	**79 019**	74 357
Liabilities arising from insurance contracts	**37 198**	36 531
Liabilities arising from reinsurance contracts	**13 192**	12 525
Other payables	**438**	404
Total liabilities	**50 828**	49 460

3.3.1 MARKET RISK

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

3.3.2 CREDIT RISK

Discovery is exposed to credit risk through financial investments comprising money market portfolios and debt portfolios entered into to match policyholders' insurance contract liabilities. Discovery is exposed to the issuer's credit standing on these instruments which is monitored by the CCIC by setting a minimum credit rating. Discovery has appointed reputable asset managers to manage these instruments.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.3 Insurance contracts *continued*

3.3.2 CREDIT RISK *continued*

Group R million	Total	Aaa	Aa1 Aa2 Aa3	A1 A2 A3	Ba1 Ba2 Ba3	Baa1 Baa2 Baa3	Govt[1]	Pooled funds
30 June 2022								
Financial instruments mandatorily at fair value through profit or loss:								
Listed:								
– Debt portfolios	**18 714**	**1**	**2**		**12 207**	**–**	**6 466**	**38**
– Money market portfolios	**327**	**–**	**–**	**–**	**325**	**–**	**–**	**2**
Unlisted:								
– Money market portfolios	**2 131**	**–**	**146**	**–**	**1 967**	**–**	**18**	**–**
Reinsurance contracts	**511**		**321**	**166**	**24**			
Cash and cash equivalents	**333**	**–**	**–**	**1**	**332**	**–**	**–**	**–**
	22 016	**1**	**469**	**167**	**14 855**	**–**	**6 484**	**40**
30 June 2021								
Financial instruments mandatorily at fair value through profit or loss:								
Listed:								
– Debt portfolios	18 674	64	51	5	167	–	18 383	4
– Money market portfolios	1 102	3	229	–	158	–	457	255
Unlisted:								
– Money market portfolios	3 255	–	850	1 841	564	–	–	–
Reinsurance contracts	445	48	216	159	22	–	–	–
Cash and cash equivalents	8	6	2	–	–	–	–	–
	23 484	121	1 348	2 005	911	–	18 840	259

1 *These instruments are issued by the South African government.*

3.3.3 LIQUIDITY RISK

The liquidity risk for assets and liabilities arising from insurance contracts are discussed in insurance risks in Note 2 *Management of Insurance Risk*. The financial investments held at fair value through profit or loss are realisable in the short term.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities

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

	Investments held at risk of shareholders	
R million	**Group 2022**	Group 2021
30 June 2022		
Loans and advances to customers at amortised cost	**3 944**	3 361
Investments at amortised cost:		
Unlisted:		
– Debt	**5 205**	4 109
– Fixed deposits	**1 956**	1 495
Financial instruments mandatorily at fair value through profit or loss:		
Listed:		
– Equity portfolios	**160**	148
– Debt portfolios	**751**	1 503
– Money market portfolios	**6 480**	6 892
– Multi-asset portfolios	**67**	54
Unlisted:		
– Equity portfolios	**46**	43
– Debt portfolios	**15**	31
– Money market portfolios	**1 196**	218
– Multi-asset portfolios	**8**	–
Derivative financial instruments at fair value:		
– used as cash flow hedges	**17**	28
– not designated as hedging instruments	**238**	214
Receivables:		
– Insurance receivables	**7 887**	6 158
– Contract receivables	**1 209**	1 217
– Other receivables at amortised cost	**1 369**	1 302
Cash and cash equivalents	**14 767**	15 942
Total assets	**45 315**	42 715
Deposits from customers	**10 881**	8 985
Borrowings at amortised cost	**20 430**	19 493
Other payables	**12 264**	12 426
Derivative financial instruments at fair value:		
– used as cash flow hedges	**56**	461
– not designated as hedging instruments	**146**	357
Total liabilities	**43 777**	41 722

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

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 through its equity investments held that have been classified as investments at fair value through profit or loss (FVTPL), on the Statement of financial position. To manage its equity risk arising from investments in Equity portfolios of R206 million (2021: R191 million), the Group diversifies its portfolio and uses experienced asset managers.

For shareholder investments, a reasonable increase of 10% in the equity markets would result in a profit of R40 million before tax (2021: R62 million). A reasonable decrease of in the equity markets would result in a loss of R40 million before tax (2021: R62 million). This impact would be recognised in profit or loss and equity. The sensitivity assumes that the equity markets had increased/decreased by 10% with all other variables held constant.

Discovery is also exposed to equity price risk through its cash-settled share incentive schemes, namely the Phantom share scheme and the Acquisition share scheme, the details of which are described in note 32. This liability has been included in 'Other payables at amortised cost' in the Statement of financial position. To manage this risk, Discovery has purchased a combination of total return equity swaps (TRS) and call options from Ba1 (2020: Ba2 – Baa3) South African banks to hedge a portion of its exposure to changes in the Discovery share price.

With effect from 1 July 2022 the hedges became ineffective. Accordingly, Discovery discontinued hedge accounting under IFRS on these TRSs and call options. Previously accumulated balances in the hedge reserve will be reclassified to profit or loss during the future service period.

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 2022				
Loans and advances to customers at amortised cost	3 944	–	3 944	–
Investments at amortised cost:				
Unlisted:				
– Debt	5 205	–	5 205	–
– Fixed deposits	1 956	1 610	346	–
Financial instruments mandatorily at fair value through profit or loss:				
Listed:				
– Debt portfolios	751	620	131	–
– Money market portfolios	6 480	2 470	3 993	17
– Multi-asset portfolios	67	1	–	66
Unlisted:				
– Debt portfolios	15	3	12	–
– Money market portfolios	1 196	26	1 170	–
– Multi-asset portfolios	8	–	–	8
Derivative financial instruments at fair value:				
– used as cash flow hedges	17	17	–	–
– not designated as hedging instruments	238	–	216	22
Receivables				
– Insurance receivables	7 887	–	–	7 887
– Contract receivables	1 209	–	–	1 209
– Other receivables at amortised cost	1 369	259	10	1 100
Cash and cash equivalents	14 767	122	14 580	65
Total financial assets	**45 109**	**5 128**	**29 607**	**10 374**
Deposits from customers	10 881	3 372	7 360	149
Borrowings at amortised cost	20 430	9 859	10 571	–
Other payables at amortised cost	12 264	7 381	26	4 857
Derivative financial instruments at fair value:				
– used as cash flow hedges	56	56	–	–
– not designated as hedging instruments	146	–	79	67
Total financial liabilities	**43 777**	**20 668**	**18 036**	**5 073**

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

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 2021				
Loans and advances to customers at amortised cost	3 361	–	3 361	–
Investments at amortised cost:				
Unlisted:				
– Debt	4 109	4 109	–	–
– Fixed deposits	1 495	1 221	274	–
Financial instruments mandatorily at fair value through profit or loss:				
Listed:				
– Debt portfolios	1 503	1 006	489	8
– Money market portfolios	6 892	2 953	3 872	67
– Multi-asset portfolios	54	–	–	54
Unlisted:				
– Debt portfolios	31	1	30	–
– Money market portfolios	218	25	193	–
Derivative financial instruments at fair value:				
– used as cash flow hedges	28	5	–	23
– not designated as hedging instruments	214	–	155	59
Receivables				
– Insurance receivables	6 158	–	–	6 158
– Contract receivables	1 217	–	42	1 175
– Other receivables at amortised cost	1 302	28	457	817
Cash and cash equivalents	15 942	894	14 641	407
Total financial assets	42 524	10 242	23 514	8 768
Deposits from customers	8 985	3 763	5 222	–
Borrowings at amortised cost	19 493	10 034	9 459	–
Other payables at amortised cost	12 426	6 608	2	5 816
Derivative financial instruments at fair value:				
– used as cash flow hedges	461	332	–	129
– not designated as hedging instruments	357	–	235	122
Total financial liabilities	41 722	20 737	14 918	6 067

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

INVESTMENTS

For shareholder investments, a 1% increase in the local interest rate would result in an increase of R67 million of investment income from these investments (2021: R9 million). A 1% decrease in the local interest rate would result in a decrease of R67 million of investment income from these investments (2021: R9 million). The sensitivity assumes 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. Refer to note 20 Borrowings at amortised costs for a breakdown of the borrowings, including details of fixed rate and floating rate facilities.

Group R million	Ref	**2022** **Carrying value**	**2022** **Facility value**	2021 Carrying value	2021 Facility value
Interest rate risk from borrowings from banks					
Fixed interest rate loan facilities		**5 737**	**5 850**	5 773	5 850
Floating interest rate facilities with floating-to-fixed interest rate swap	i	**5 038**	**5 000**	5 034	5 000
Floating interest rate facilities		**2 411**	**5 109**	659	500
Foreign floating interest rate facilities		**3 122**	**4 281**	3 764	4 224
Total bank borrowings (refer to note 20)		**16 308**	**20 240**	15 230	15 574

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

The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities, and notional amount. As all critical terms matched during the year, there is an economic relationship.

Under the Group's policy, the critical terms of the hedging instrument, such as the settlement dates, maturity dates and notional amount, are matched with the interest rate risk of the hedged item.

Hedge ineffectiveness for interest rate swaps can arise from:

– day one fair value of the swap,
– events leading to mismatch in terms; and
– the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan.

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

Group R million	**2022**	2021
Balance at beginning of the year	**335**	516
Unrealised (gains)/losses accumulated in equity	**(296)**	(189)
Tax on unrealised losses	**–**	–
Recycled to profit or loss during the current year[1]	**–**	8
Tax on recycled gains	**–**	–
Balance at end of the year	**39**	335
The cash flow hedge will be recycled to profit or loss as follows:		
Recycled to profit or loss within one year	**20**	–
Recycled to profit or loss within two to five years	**19**	232
Recycled to profit or loss within six to ten years	**–**	103
	39	335

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

3. MANAGEMENT OF FINANCIAL RISK *continued*
3.4 Shareholder financial assets and liabilities *continued*

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

Group R million	2022 Nominal value	2022 Fair value liability	2021 Nominal value	2021 Fair value liability
Maturity date:				
21 November 2022	**500**	**(7)**	500	(25)
21 November 2024	**800**	**1**	800	(74)
21 August 2026	**700**	**(16)**	700	(80)
02 March 2023	**1 000**	**(14)**	1 000	(55)
21 August 2023	**500**	**13**	500	5
21 November 2026	**300**	**3**	300	(22)
21 November 2024	**1 200**	**(19)**	1 200	(76)
	5 000	**(39)**	5 000	(327)

Group R million	2022 Carrying value	2021 Carrying value
Term deposits from customers – fixed rate	**3 372**	3 763
Term deposits from customers – variable rates	**1 807**	3 798
On demand deposits from customers – Non Rate sensitive	**149**	–
On demand deposits from customers – variable rate	**5 249**	615
Wholesale NCD's (Negotiable Certificate of Deposit) – variable rate	**304**	809
Total customer deposits Discovery Bank	**10 881**	8 985

NON-HEDGE DERIVATIVE FINANCIAL INSTRUMENTS
I. INTEREST RATE SWAP

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

In addition to the above, VitalityLife has an exposure to the 'FTSE Actuaries UK Conventional Gilts over 15 Year Index ("the index") because of products underwritten by The Prudential Assurance Company on behalf of VitalityLife. 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. By 30 June 2022 these derivatives had been exited in DHEL and the associated index risk is now managed directly on the balance sheet of The Prudential Assurance Company.

As at 30 June 2022 DHEL is party to nil (2021: two) open derivative contracts.

For the derivatives held during the year although these instruments reduce the exposure to the volatility of the index, they did not qualify for hedge accounting. Accordingly, these derivatives were classified as financial assets or liabilities carried at fair value through profit or loss.

Fair value adjustments of GBP 77.6 million (net loss) (R1 572 million) have been recognised in 'Net fair value gains on financial assets at fair value through profit or loss' (2021: GBP 38.1 million (net loss) (R792 million)).

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

3. MANAGEMENT OF FINANCIAL RISK *continued*
3.4 Shareholder financial assets and liabilities *continued*
II. DERIVATIVE INSTRUMENTS USED BY DISCOVERY'S ASSET MANAGERS

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 2022			
Interest rate contracts:			
– floating for fixed swaps	**5 000**	**17**	**(56)**
	5 000	**17**	**(56)**
June 2021			
Interest rate contracts:			
– floating for fixed swaps	5 000	5	(332)
	5 000	5	(332)

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

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 2022							
Loans and advances to customers at amortised cost	3 944	3 944	–	–	–	–	–
Investments at amortised cost:							
Unlisted:							
– Debt	5 205	5 205	–	–	–	–	–
– Fixed deposits	1 956	1 747	209	–	–	–	–
Financial instruments mandatorily at fair value through profit or loss:							
Listed:							
– Equity portfolios	160	66	12	1	–	65	16
– Debt portfolios	751	130	613	–	–	3	5
– Money market portfolios	6 480	2 665	3 815	–	–	–	–
– Multi-asset portfolios	67	15	1	–	–	51	–
Unlisted:							
– Equity portfolios	46	46	–	–	–	–	–
– Debt portfolios	15	15	–	–	–	–	–
– Money market portfolios	1 196	1 196	–	–	–	–	–
– Money market portfolios	8	–	8	–	–	–	–
Derivative financial instruments at fair value:							
– used as cash flow hedges	17	17	–	–	–	–	–
– not designated as hedging instruments	238	22	216	–	–	–	–
Receivables							
– Insurance receivables	7 887	3 095	4 755	–	3	34	–
– Contract receivables	1 209	886	–	–	322	–	1
– Other Receivables	1 369	936	320	–	58	53	2
Cash and cash equivalents	14 767	5 721	7 659	164	295	822	106
Total financial assets	45 315	25 706	17 608	165	678	1 028	130
Deposits from customers	10 881	10 732	–	32	–	72	45
Borrowings at amortised cost	20 430	17 027	3 272	–	131	–	–
Other payables	12 264	5 289	6 661	–	85	123	106
Derivative financial instruments at fair value:							
– used as cash flow hedges	56	56	–	–	–	–	–
– not designated as hedging instrument	146	68	78	–	–	–	–
Total financial liabilities	43 777	33 172	10 011	32	216	195	151

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

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 2021							
Loans and advances to customers at amortised cost	3 361	3 361	–	–	–	–	–
Investments at amortised cost:							
Unlisted:							
– Debt	4 109	4 109	–	–	–	–	–
– Fixed deposits	1 495	1 291	204	–	–	–	–
Financial instruments mandatorily at fair value through profit or loss:							
Listed:							
– Equity portfolios	148	48	16	–	–	70	14
– Debt portfolios	1 503	497	988	–	–	10	8
– Money market portfolios	6 892	2 817	4 075	–	–	–	–
– Multi-asset portfolios	54	13	2	–	–	39	–
Unlisted:							
– Equity portfolios	43	20	–	–	–	23	–
– Debt portfolios	31	31	–	–	–	–	–
– Money market portfolios	218	218	–	–	–	–	–
Derivative financial instruments at fair value:							
– used as cash flow hedges	28	28	–	–	–	–	–
– not designated as hedging instruments	214	59	155	–	–	–	–
Receivables							
– Insurance receivables	6 158	2 374	3 736	–	–	48	–
– Contract receivables	1 217	771	–	–	214	11	221
– Other financial receivables at amortised cost	1 302	962	122	163	17	34	4
Cash and cash equivalents	15 942	4 812	9 508	119	443	1 001	59
Total financial assets	42 715	21 411	18 806	282	674	1 236	306
Deposits from customers	8 985	8 985	–	–	–	–	–
Borrowings at amortised cost	19 493	15 368	4 066	–	59	–	–
Other financial payables at amortised cost	12 426	3 234	8 945	–	202	9	36
Derivative financial instruments at fair value:							
– used as cash flow hedges	461	461	–	–	–	–	–
– not designated as hedging instrument	357	125	232	–	–	–	–
Total financial liabilities	41 722	28 173	13 243	–	261	9	36

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 2022	**16.47**	**20.00**
30 June 2021	14.28	19.74

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

SENSITIVITY ANALYSIS

The Group determined that a 10% change is a reasonable expected strengthening/(weakening) of the US dollar and the UK Pound against all other currencies. The impact on profit or loss and equity at 30 June is shown below. For the purpose of the analysis, the foreign exchange impact of intergroup balances which eliminate on consolidation has been excluded. The effect of translation differences which are recognised separately in other comprehensive income has also been excluded. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

	Profit or loss		Equity	
R million	Strengthening	Weakening	Strengthening	Weakening
30 June 2022				
USD	**278**	**(278)**	**278**	**(278)**
GBP	**14**	**(14)**	**14**	**(14)**
30 June 2021				
USD	590	(590)	590	(590)
GBP	38	(38)	38	(38)

INVESTMENTS

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

CURRENCY DERIVATIVE CONTRACTS

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

Discovery entered into these contracts 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 or loss. The amount recognised in profit or loss for the current year was a gain of R78 million (2021: R298 million loss), with a corresponding derivative asset and liability of R2 million and R1 million respectively, (2021: Derivative asset R58 million and derivative liability R100 million). The notional value of these contracts are USD 5.3 million. (2021: GBP 119.3 million, USD 39.4 million and EUR 7.9 million).

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

BORROWINGS

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

DEPOSITS FROM CUSTOMERS

Discovery Bank offers its customers the option to hold deposits in foreign currency of GBP, USD and EUR. These risks are managed by aligning the currency exposure to the underlying assets. Discovery Bank does so by holding deposits in foreign currency of GBP, USD and EUR. The currency risk is therefore matched in a 1:1 ratio to not transfer foreign currency risk to the Group.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

3.4.2 CREDIT RISK

Key areas where Discovery is exposed to credit risk are:

- **Financial investments comprising money market and debt instruments entered into to invest surplus shareholder funds:** Discovery is exposed to the issuer's credit standing on these instruments which is monitored by the CCIC by setting a minimum credit rating and maximum exposures per issuer. Discovery has appointed reputable asset managers to manage these instruments. Information regarding the aggregated credit risk exposure for debt and money market instruments categorised by credit ratings is provided below.
- **Cash and cash equivalents:** This risk is managed by monitoring exposure to external financial institutions against approved limits per institution. Credit ratings are provided below.
- **Certain accounts within the Statement of financial position category of 'Insurance receivables, contract receivables and other non-financial receivables'.**
- **Reinsurance assets comprising receivables raised for expected recoveries on projected claims (Discovery's liability as primary insurer is not discharged) and amounts due from reinsurers in respect of claims already paid:** This risk is limited as risk premiums are paid monthly to reinsurers and claims can be offset against risk premiums. Further, it is expected that there will be little build-up of actuarial liability on the reinsurers' side. The risk thus mainly arises following a period of higher than expected claims. Credit ratings of reinsurers are considered 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.
- **Loans and advances to customers at amortised cost**, which arises from credit extended to Discovery Bank customers.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

3.4.2 CREDIT RISK *CONTINUED*

The following table details the aggregated credit risk exposure that the Group is exposed to, categorised by the rating scale noted in section 3 'Discovery's approach in monitoring credit risk'.

Group R million	Total	Aaa	Aa1 Aa2 Aa3	A1 A2 A3	Baa1 Baa2 Baa3	Ba1 Ba2 Ba3	Govt[1]	Inter- nally rated	Pooled funds
30 June 2022									
Loans and advances to customers at amortised cost	3 944	–	–	–	–	–	–	3 944	–
Investments at amortised cost:									
Unlisted:									
– Debt	5 205	–	–	–	–	–	5 205	–	–
– Fixed deposits	1 956	–	91	574	208	1 083	–	–	–
Financial instruments mandatorily at fair value through profit or loss:									
Listed:									
– Debt portfolios	751	2	42	224	366	116	1	–	–
– Money market portfolios	6 480	745	1 348	1 752	64	2 447	124	–	–
Unlisted:									
– Debt portfolios	15	–	–	–	–	13	2	–	–
– Money market portfolios	1 196	–		–	–	1 184	12	–	–
Derivative financial instruments at fair value:									
– used as cash flow hedges	17	–	–	–	17	–	–	–	–
– not designated as hedging instruments	238	–	–	216	2	20	–	–	–
Cash and cash equivalents	14 767	–	7 852	1 800	1 011	1 575	2 529	–	–
	34 569	747	9 333	4 566	1 668	6 438	7 873	3 944	

Group R million Restated	Total	Aaa	Restated Aa1 Aa2 Aa3	Restated A1 A2 A3	Baa1 Baa2 Baa3	Ba1 Ba2 Ba3	Govt[1]	Inter- nally rated	Pooled funds
30 June 2021									
Loans and advances to customers at amortised cost	3 361	–	–	–	–	–	–	3 361	–
Investments at amortised cost:									
Unlisted:									
– Debt	4 109	–	–	–	–	–	4 109	–	–
– Fixed deposits	1 495	–	–	203	1 292	–	–	–	–
Financial instruments mandatorily at fair value through profit or loss:									
Listed:									
– Debt portfolios	1 503	39	152	283	687	305	37	–	–
– Money market portfolios	6 892	1 044	1 070	163	2 928	1 683	4	–	–
Unlisted:									
– Debt portfolios	31	–	–	–	–	31	–	–	–
– Money market portfolios	218	–	14	21	3	180	–	–	–
Derivative financial instruments at fair value:									
– used as cash flow hedges	28	–	–	–	23	5	–	–	–
– not designated as hedging instruments	214	–	–	155	37	22	–	–	–
Cash and cash equivalents[2]	15 942	14	8 583	2 453	1 237	2 286	1 369	–	–
	33 793	1 097	9 819	3 278	6 207	4 512	5 519	3 361	–

1 *These instruments are issued by the South African government.*

2 *The note has been restated as some of the cash and cash equivalents was disclosed in the incorrect credit rating group.*

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

3. MANAGEMENT OF FINANCIAL RISK *continued*
3.4 Shareholder financial assets and liabilities *continued*
3.4.2 CREDIT RISK *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.

R million	Group 2022	Group 2021
Receivables arising from insurance and reinsurance contracts:		
– Premium debtors	**801**	668
– Less provision for impairment of premium debtors	**(81)**	(63)
– Reinsurance debtors	**7 167**	5 553
Contract receivables:		
– Closed scheme debtors	**107**	104
– Discovery Health Medical Scheme	**724**	662
– Other contract receivables	**382**	480
– Less allowance for expected credit losses	**(4)**	(29)
Other loans and receivables:		
– Agents and brokers	**439**	412
– BEE partners' rights-issue funding	**–**	1
– Cash-in-transit debtors	**7**	32
– Consolidated unit trust debtors	**2**	1
– FNB-DiscoveryCard receivable	**–**	–
– Loans to BEE initiatives	**256**	220
– Security deposit on derivatives[1]	**72**	289
– Vitality partner debtors	**148**	112
– Other financial receivables	**837**	696
– Less allowance for expected credit losses	**(392)**	(461)
	10 465	8 677

1 *Refer to note 3.7 for an explanation of the nature of the security deposit (cash collateral).*

Credit risk relating to receivables is managed as follows:

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

ii. VitalityHealth makes use of financial reinsurance as a financing tool for new business acquisition costs. The receipt from the reinsurer is recognised in profit or loss upfront in the year received. GBP 199 million (R3 981 million) (2021: GBP 156 million (R3 079 million)) is outstanding in respect of cashless reinsurance treaties. The credit ratings of these reinsurers are Aa3.

   Refer to note 3.4.2 for detail regarding the management of risk in respect of reinsurance receivables raised for expected recoveries on projected claims and amounts due from reinsurers in respect of claims already paid. Discovery's liability as primary insurer is not discharged.

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

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

3. MANAGEMENT OF FINANCIAL RISK *continued*
3.4 Shareholder financial assets and liabilities *continued*
3.4.2 CREDIT RISK *CONTINUED*

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

Group R million	**Gross 2022**	**Impairment 2022**	Gross 2021	Impairment 2021
Not past due (current)	**9 294**	**(111)**	7 901	(69)
30 days	**267**	**(38)**	201	(22)
60 days	**179**	**(23)**	170	(16)
90 days	**131**	**(10)**	149	(94)
120 days	**95**	**(20)**	169	(13)
150 days	**91**	**(10)**	42	(8)
>150 days	**885**	**(265)**	598	(331)
	10 942	**(477)**	9 230	(553)

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

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

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. For information on the liquidity risk management of contracts with insurance risk, refer to note 2.2 Liquidity risk.

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

3.4.3 LIQUIDITY RISK *continued*

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

Group R million	**Total**	**<1 year**	**1 – 2 year**	**3 – 5 years**	**6 – 10 years**	**> 10 years**
30 June 2022						
Loans and advances to customers at amortised cost	**3 944**	**2 367**	**1 577**	**–**	**–**	**–**
Investments at amortised cost	**7 161**	**6 927**	**234**	**–**	**–**	**–**
Investments at fair value through profit or loss	**8 723**	**7 651**	**149**	**393**	**114**	**416**
Derivative financial instruments at fair value	**238**	**14**	**224**	**–**	**–**	**–**
Receivables	**10 465**	**6 338**	**1 412**	**2 006**	**668**	**41**
Cash and cash equivalents	**14 767**	**14 767**	**–**	**–**	**–**	**–**
Total financial assets	**45 429**	**38 078**	**3 609**	**2 433**	**824**	**485**
Deposits from customers	**10 881**	**9 381**	**1 133**	**367**	**–**	**–**
Borrowings net of interest rate swap						
– Borrowings	**22 418**	**4 635**	**5 592**	**8 976**	**2 744**	**471**
– Interest rate swap	**311**	**117**	**90**	**104**	**–**	**–**
Other payables at amortised cost	**12 264**	**11 970**	**117**	**44**	**7**	**126**
Derivative financial instruments at fair value	**146**	**41**	**26**	**–**	**–**	**79**
Total financial liabilities	**46 020**	**26 144**	**6 958**	**9 491**	**2 751**	**676**

Group R million	Total	<1 year	1 – 2 year	3 – 5 years	6 – 10 years	> 10 years
30 June 2021						
Loans and advances to customers at amortised cost	3 361	2 017	1 344	–	–	–
Investments at amortised cost	5 604	5 604	–	–	–	–
Investments at fair value through profit or loss	8 889	7 279	656	279	375	300
Derivative financial instruments at fair value	242	86	148	8	–	–
Receivables	8 677	5 166	92	186	2 982	251
Cash and cash equivalents	15 942	15 942	–	–	–	–
Total financial assets	42 715	36 094	2 240	473	3 357	551
Deposits from customers	8 985	4 232	4 449	304	–	–
Borrowings net of interest rate swap						
– Borrowings	21 537	2 732	5 577	10 145	2 729	354
– Interest rate swap	639	193	171	260	15	–
Other payables at amortised cost	12 426	4 773	7 188	124	–	341
Derivative financial instruments at fair value	818	176	134	182	326	–
Total financial liabilities	44 405	12 106	17 519	11 015	3 070	695

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.5 Capital management

The Group's capital is defined as capital and reserves attributable to as presented on the consolidated statement of financial position. 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; refer to Capital section of the directors' report for the statutory capital requirements
- To maintain a capital buffer in excess of the statutory capital requirements in order to reduce the risk of breaching the statutory requirement in the event of deviations from the main assumptions affecting the Group's insurance businesses.
- To ensure that sufficient capital is available to fund the Group's working capital and strategic capital requirements.
- To achieve an optimal and efficient capital funding profile; and
- To consider capital management needs both in the short term and over a five-year planning horizon.

Discovery has a Finance and Capital Committee that ensures alignment in strategic financial management between the centre and subsidiaries within South Africa, UK and US. The committee is the governance body for all capital allocation activities across the Group.

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

FINANCIAL LEVERAGE RATIO

As part of the capital management process, the Group monitors its capital structure utilising the Financial Leverage Ratio (FLR). This ratio is calculated as total debt[1] divided by total debt plus total equity. The Group's strategy is to maintain a prudent FLR of 28% per the Group Risk Appetite statement. However, the 28% is merely a risk appetite indicator, and not a hard line to indicate any form of a breach in terms of regulatory or covenant restrictions. The table below summarises the FLR as at 30 June.

R million	**Group 2022**	Group 2021
– Borrowings at amortised cost (refer to note 20)[1]	**16 464**	15 230
– Guaranteed deposit facilities	**300**	800
Total debt and guarantees[1]	**16 764**	16 030
Total equity	**53 555**	46 419
Financial Leverage Ratio (%)	**23.8%**	25.7%

1. Excluding all IFRS 16 lease liabilities of R4 120 million (2021: R4 263 million).

The FLR at 30 June 2022 is in line with Discovery's risk appetite.

MINIMUM CAPITAL REQUIREMENTS

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

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.5 Capital management *continued*

DEBT COVENANTS

The following are the key debt covenant ratios and their proximity to breaching the covenant triggers:

Debt covenant and explanation	Minimum requirement	2022	2021
Group Debt to EBITDA Ratio: – Group debt is contractually defined and means the aggregate consolidated financial indebtedness of the Group and excludes items such as the 1 Discovery Place ('1 DP') lease and includes guarantees issued to third parties. – EBITDA is contractually defined and specifically includes items such as dividends from associates, rental paid on 1DP and excludes such items deemed extraordinary, such as economic assumption adjustments, and specified FinRe arrangements.	Less than 2.5 times	**1.83**	2.31
Group financial indebtedness to embedded value – Group financial indebtedness is as per Group Debt in the calculation.	Less than 30% of Group Embedded value	**20.3%**	22.6%
Discovery Life Statutory Capital Requirement (SCR) Cover	SCR cover must be more than 1.1	**1.74 times**	1.83 times
Group embedded value	Greater than R30billion	**R86 258 million**	R74 645 million
New business embedded value must not be negative	Positive value of new business for 3 consecutive 6-month periods	**June 2022: R1 124 million Dec 2021: R937 million June 2021: R946 million**	June 2021: R946 million Dec 2020: R945 million June 2020: R726 million

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.6 Fair value hierarchy of financial instruments

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:

(a) quoted prices for similar instruments or identical instruments in markets which are not considered to be active; or

(b) valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

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

R million	Level 1	Level 2	Level 3	Total
30 June 2022				
Financial assets				
Financial instruments mandatorily at fair value through profit or loss:				
– Equity portfolios	54 271	3 677	–	57 948
– Debt portfolios	46 672	920	–	47 592
– Money market portfolios	–	14 680	–	14 680
– Multi-asset portfolios	–	21 274	–	21 274
Derivative financial instruments at fair value:				
– used as cash flow hedges	–	17	–	17
– not designated as hedging instruments	–	259	–	259
Total financial assets	100 943	40 827	–	141 770
Non-Financial Assets	–	–	171	171
Non-current assets held of sale	–	–	171	171
Financial liabilities				
Investment contracts at fair value through profit or loss	–	37 361	–	37 361
Derivative financial instruments at fair value:				
– used as cash flow hedges	–	56	–	56
– not designated as hedging instruments	–	146	–	146
Total financial liabilities	–	37 563	–	37 563

NON-FINANCIAL ASSETS MEASURED AT FAIR VALUE

During the current financial period there was a non-recurring fair measurement for the investment in an associate that has been categorised as a level 3 fair value. Refer to note 11.2.1 for details on the fair value.

There where no transfers between level 1 and level 2 during the current financial period

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.6 Fair value estimation *continued*

Group R million Restated	Level 1	Level 2	Level 3	Total
30 June 2021				
Financial assets				
Financial instruments mandatorily at fair value through profit or loss:				
– Equity portfolios	40 530	2 832	–	43 362
– Debt portfolios	34 845	1 640	–	36 485
– Money market portfolios	–	17 253	–	17 253
– Multi-asset portfolios	–	33 837	–	33 837
Derivative financial instruments at fair value:				
– used as cash flow hedges	–	28	–	28
– not designated as hedging instruments	–	221	–	221
Total financial assets	75 375	55 811	–	131 186
Financial liabilities – not designated as hedging instruments				
Investment contracts at fair value through profit or loss	–	32 291	–	32 291
Derivative financial instruments at fair value:				
– used as cash flow hedges	–	461	–	461
– not designated as hedging instruments	–	365	–	365
Total financial liabilities	–	33 117	–	33 117

There were no transfers between level 1 and 2 during the current financial year. During the year under review, management reassessed the observability of significant inputs into fair value determination of money markets and multi-assets portfolios from level 1 to level 2. The prior period was restated accordingly.

SPECIFIC VALUATION TECHNIQUES USED TO VALUE FINANCIAL INSTRUMENTS IN LEVEL 2

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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.6 Fair value estimation *continued*

Valuation techniques used in determining the fair value of assets and liabilities

Instruments	Valuation technique	Main inputs and assumptions
Within equity portfolios, Equity-linked notes	The calculation of the daily value of the equity linked investments is made by the provider of the note. Discovery 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 in order to check if the price provided by the provider is correct.	For level 2 fair value hierarchy items: – discount rate – spot prices of the underlying
Multi-assets	The fair values of third-party financial liabilities arising on the consolidation of mutual funds are determined using the quoted put (exit) price provided by the fund manager and discounted for the applicable notice period. The fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.	For level 2 fair value hierarchy items: – discount rate
Money Market instruments	Money market instruments are valued by discounted the future cash flows using a risk-adjusted discount rate.	For level 2 fair value hierarchy items: – discount rate, credit spread
Investment contracts at fair value through profit or loss	Unit-linked policies: assets which are linked to the investment contract liabilities are owned by the Group. The investment contract obliges the Group to use these assets to settle these liabilities. Therefore, the fair value of investment contract liabilities is determined with reference to the fair value of the underlying assets (i.e., amount payable on surrender of the policies). Annuity certain: discounted cash flow models are used to determine the fair value of the stream of future payments.	For level 2 fair value hierarchy items: – discount rate – spot price of underlying
Derivatives	Standard derivative contracts are valued using market accepted models and quoted parameter inputs. More complex derivative contracts are modelled using more sophisticated modelling techniques applicable to the instrument. Techniques include: – Discounted cash flow model – Black-Scholes model – Combination technique models	For level 2 fair value hierarchy items: – discount rate – spot prices of the underlying – correlation factors – volatilities – earnings yield – valuation multiples.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

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 2022			
Cash and cash equivalents	**19 807**	**(32)**	**19 775**
30 June 2021			
Cash and cash equivalents	20 187	(174)	20 013

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 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 R72 million (2021: R289 million) cash collateral was being held by the various financial institutions and R245 million (2021: R2 million) was held by Discovery at 30 June 2022.

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 2022

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In preparing the annual financial statements, estimates, assumptions and judgements are made that could materially affect the reported amounts of assets and liabilities within the next financial year. Accounting estimates and judgements are regularly reviewed and are based on historical experience, current best estimates and expectations of future outcomes as well as anticipated changes in the environment. The following represents the most material key management assumptions applied by management in preparing these annual financial statements.

4.1 Policyholder liabilities assumptions and estimates, including assets arising from insurance contracts

DISCOVERY LIFE AND VITALITYLIFE

Discovery values its insurance policies issued by Discovery Life and VitalityLife using various methodologies and assumptions. Accounting policy 13.1 sets out the methodology used in its valuation of the policyholder liabilities, including the use of available discretionary margins in accounting policy 13.1.1.

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; and
- INSPRU of the Prudential Regulatory Authority (PRA), SAP 104 and Benchmarking information in the UK

Per the accounting policy, the best estimate assumptions and margins are reset at every valuation date to reflect the underlying profitability of the portfolio. The most recent valuation date is 30 June 2022.

MORTALITY AND MORBIDITY

Assumptions of future mortality and morbidity experience are derived from reinsurers and industry data 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 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 implementing significant new products for Discovery Life. An adjustment to the standard mortality and morbidity assumptions is made to reflect the expected impact of engagement in the Vitality programme. It has been observed that higher rates of engagement result in lower mortality and morbidity claims.

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

For Group Life 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.

The sensitivity of the policyholder liabilities due to changes in mortality and morbidity assumptions are set out in note 2.5.1 for Discovery Life and note 2.5.2 for VitalityLife.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

4.1 Policyholder liabilities assumptions and estimates, including assets arising from insurance contracts *continued*

DISCOVERY LIFE AND VITALITYLIFE *continued*

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 actual data, lapse rates are set based on expectations of future experience based on internal and external expert advice as well as available industry benchmarking. The lapse experience investigation covers at least the last two years of lapse experience to identify trends.

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. For Discovery Life, 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 result in lower lapses.

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

The sensitivity of the policyholder liabilities due to changes in lapse rate assumptions are set out in note 2.5.1 for Discovery Life and note 2.5.2 for VitalityLife.

ECONOMIC ASSUMPTIONS/INVESTMENT RETURNS

DISCOVERY LIFE

The discount rate for Discovery Life and Invest is based on the risk-free rates at 30 June 2022. The real rate assumption is based on the average of the real rate curves for the preceding twelve months. This real rate assumption will remain unchanged over time unless the equivalent single rate, derived based on the weighted duration of the cash flows, moves by more than 25 basis points since the preceding valuation. The inflation assumption is set as the differential between the assumed nominal and real interest rates.

For comparison purposes, it is noted that the single risk-free rate at 30 June 2022 would have increased to 12.3% (2021: decrease to 11.1%). The implied single real interest rate has also decreased to 4.2% in June 2022 (2021: 4.6%).

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%

The sensitivity of the policyholder liabilities due to changes in real curve assumptions are set out in note 2.5.1.

VITALITYLIFE

The nominal investment return is set as the active market rate on UK long-term swap rates plus a fixed adjustment (based on long-term averages) for liquidity premium, the gilt/swap spread and cash flow weighting. The best estimate inflation assumption is set in line with long-term UK inflation expectations and observed real yields consistent with the term of the liabilities. The risk-free rate at 30 June 2022 was set at 2.3% (2021: 0.64%).

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

The sensitivity of the policyholder liabilities due to changes in real curve assumptions are set out in note 2.5.2.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

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

4.1 Policyholder liabilities assumptions and estimates, including assets arising from insurance contracts *continued*

ECONOMIC ASSUMPTIONS/INVESTMENT RETURNS *continued*

EXPENSE ASSUMPTIONS

Renewal expense assumptions are based on the results of the latest expense and budget information. Expenses are considered 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 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 Discovery's 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.

The sensitivity of the policyholder liabilities due to changes in expense assumptions are set out in note 2.5.1 for Discovery Life and note 2.5.2 for VitalityLife.

POLICY ALTERATIONS AND AUTOMATIC PREMIUM INCREASES

In calculating policyholder liabilities, allowance is made for overall negative policy alterations over time.

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 the policyholder cannot cancel without altering the terms of the benefits provided under the policy. Contractual increases are included in the calculation of policyholder liabilities.

COVID-19 PROVISIONS FOR DISCOVERY LIFE AND VITALITYLIFE

COVID-19 is expected to transition into an endemic phase considering high immunity of the population in the Discovery client base. Given this transition, the on financial metrics is expected to be less material compared to the early waves of the COVID-19 pandemic. Allowance for the remaining short-term and long-term impacts has been incorporated into business as usual reserving for insurance contracts.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

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

4.1 Policyholder liabilities assumptions and estimates, including assets arising from insurance contracts *continued*

R million	June 2022
At beginning of the period	**2 800**
Movements:	
Unwinding, utilisation and release of provisions	**(2 800)**
Provisions made during the period, including in respect of new business	**–**
Other	**–**
At end of the period	**–**

CHANGES IN ASSUMPTIONS

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

Modelling and assumptions changes were made to the valuation at 30 June 2022 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 760 million (2021: R2 537 million decrease). For VitalityLife, the total effect of these changes was an decrease in the assets of R596 million (2021: R832 million increase).

In addition to this, for Discovery Life, discretionary margins were reset to reflect the underlying profitability of the overall portfolio. The reset of margins increased the assets on the Financial Soundness Valuation basis by R377 million (2021: R105 million increase). Refer to note 5 for an analysis of these changes.

TAXATION

Future tax is allowed 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% (2021: 28%) in South Africa. The South Africa's National Treasury announced that the corporate tax rate should reduce to 27% for tax years commencing ending on or after 31 March 2023. The rate is deemed substantively enacted, and deferred tax has been appropriately adjusted. The prevailing tax rate in the UK is 19% (2021: 19%). The UK has enacted an increase in the tax rate to 25% effective from 1 April 2023.

Tax amendments for Life Insurance companies introduced a Risk Policy Fund for all new risk business written after 1 July 2016. In terms of this legislation, Discovery Life elected to move existing risk business to this Fund. As a result of these changes, the assessed loss in the Individual Policyholder Fund is expected to stop increasing and be utilised over time. Therefore, in terms of IAS 12 *Income Taxes*, a value of R834 million (2021: R1 134 million), which was previously implicit in the valuation of insurance contract liabilities, was recognised explicitly as a deferred tax asset. The value is net of deferred capital gains tax liabilities.

To calculate this value, Discovery Life performed a probability-weighted cash flow forecast of the annual cash flows expected to arise from the utilisation of the assessed loss. The primary factors that management has considered 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% to calculate the deferred tax asset. The expected income on the debt portfolio held to match policyholder liabilities has been fully allowed for at current rates. For both the Linked and debt 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.

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 the current and historical costs of these assets.

FINANCIAL SOUNDNESS VALUATION

The sensitivity of the policyholder liabilities on the Financial Soundness Valuation basis is set out in note 2.5.1. The sensitivity of the policyholder liabilities on the INSPRU basis is set out in note 2.5.2.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

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

4.2 Annual assessment of goodwill impairment

Refer to note 10 Goodwill for a breakdown of business acquisitions resulting in goodwill.

Discovery annually assesses goodwill allocated to the respective businesses as set out in note 10.

Based on the work performed for the financial years ended 30 June 2022 and 30 June 2021, management considered that there is a very low risk of material adjustment to the carrying amount of goodwill allocated to VitalityHealth and VitalityLife within the next financial year. Accordingly, no further information is included within this note, as this no longer meets the requirement of significant estimation uncertainty under IAS 1 *Presentation of Financial Statements*.

DISCOVERY BANK

The Discovery Bank CGU comprise the various assets that collectively produce independent cash flows for Discovery Bank. Discovery Bank's income streams comprise interest earned on loans to customers, interest on excess cash invested, fees (e.g., banking fees, interchange fees and transaction fees) from banking. For the financial years ended 30 June 2021 and 30 June 2020, the recoverable amount of the Discovery Bank cash-generating unit (CGU) was determined based on fair value less costs to sell. Inherent in the determination of fair value less costs to sell is estimation uncertainty. The recoverable amount is the fair value less costs to sell using the income approach.

In determining the assets to attribute to the Discovery Bank CGU, Discovery considered the assets required to perform banking operations, including the banking license costs, the internally developed software in use, and the goodwill associated with the DiscoveryCard business acquisition and related assets and liabilities. Therefore, the valuation also supports the recoverability of goodwill, intangible assets and deferred tax.

Management has reviewed its business forecast, which comprises:

- A detailed 10-year business plan. The 10-year plan considers 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 generally applied in Discovery's impairment testing. The business is still in the start-up phase, resulting in a 5-year forecast not adequately reflecting the business plan. Management can project beyond the 5-years due to the insights from the DiscoveryCard business it acquired.
- The terminal value was calculated using an extended cash flow forecasting method until the growth in earnings has stabilised in year 20 and a final value considering perpetual terminal growth. This terminal value was discounted to year 10.
- As a reasonability check, Discovery Bank translates the value of the business at year 10 into a Price-Earnings (PE) multiple, which it benchmarks against Discovery's PE ratio and other emerging banks within the South African environment. The ratio was determined to be within range.
- In the near term, expected credit losses and customer spending patterns were stressed for the impact of COVID-19 and post COVID-19, also considering the expected impact of the inflationary environment.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

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

4.2 Annual assessment of goodwill impairment continued

The key assumptions used by Discovery in the estimation are as follows:

- Conservative customer growth, targeting an achievable level of customers in year 10. After that, the customer base is treated as stable. From the point of stability in year 20, the projected growth in profits is estimated at a conservative 5.55% (2021: 5.0%) considering long-term inflation and long-term nominal GDP estimations. The increase in growth projections is based on the growth over the past financial year.
- System-build costs and intangible assets acquired in the business combination have been amortised over 10 years (2021: 10 years). Useful lives range between 10 and 11 years (2021: between 10 and 11 years).
- The discount rate applied to the cashflows comprises the following:

	Group 2022	Group 2021
Risk-free rate based on 10-year SA bond curve	**10.60%**	8.90%
Beta factor: The beta factor is a weighted average of large SA banks and Discovery	**1.07**	1.09
Discount rate applied	**17.97%**	16.38%

For the year ended 30 June 2022, management has engaged independent external valuation experts to benchmark the key assumptions and ratios within the South African market. This exercise determined that the assumptions to be within acceptable ranges.

Management has further performed stress tests by increasing the discount rate to 19% while simultaneously decreasing the terminal growth rate to 5%. Again, no impairment was triggered with these stressed scenarios.

Based on management's assessment, Discovery did not identify any impairments in respect of the Discovery Bank CGU.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

5. ASSETS ARISING FROM INSURANCE CONTRACTS

R million	**Group 2022**	Group 2021
Long-term insurance contracts – gross	**56 645**	50 483
Less: ceded to reinsurers (refer to note 19)	**(10 610)**	(10 143)
Long-term insurance contracts – net	**46 035**	40 340
Current	**5 127**	2 754
Non-current	**40 908**	37 586
	46 035	40 340
Movement in assets arising from insurance contracts		
Balance at beginning of the year	**40 340**	36 999
Movement for the year:		
Expected movement in policyholder liabilities	**(1 362)**	(2 102)
Unwinding of discount rate	**3 108**	2 711
New business written	**3 370**	3 607
Experience variances	**1 350**	1 433
Economic	**185**	115
Operational	**1 165**	1 318
Modelling and method changes	**(179)**	(346)
Changes in assumptions	**(1 086)**	(1 359)
Economic	**169**	789
Operational	**(1 255)**	(2 148)
Changes in margins[1]	**377**	105
Translation differences	**117**	(708)
Balance at end of the year	**46 035**	40 340

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 2022

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 2022							
Opening carrying amount	**3 071**	**45**	**324**	**638**	**18**	**92**	**4 188**
Translation differences	**16**	**–**	**4**	**5**	**–**	**–**	**25**
Additions	**95**	**5**	**211**	**39**	**4**	**59**	**413**
Disposals							
– Cost	**(24)**	**–**	**–**	**(10)**	**(12)**	**(3)**	**(49)**
– Accumulated depreciation	**9**	**–**	**–**	**1**	**9**	**2**	**21**
Derecognition							
– Cost	**(12)**	**(10)**	**(302)**	**(38)**	**(11)**	**(60)**	**(433)**
– Accumulated depreciation	**10**	**10**	**302**	**37**	**11**	**51**	**421**
Impairment							
Depreciation charge	**(299)**	**(15)**	**(171)**	**(116)**	**(8)**	**(41)**	**(650)**
Lease modification	**(125)**	**–**	**–**	**–**	**–**	**–**	**(125)**
Closing carrying amount	**2 741**	**35**	**368**	**556**	**11**	**100**	**3 811**
At 30 June 2022							
Cost	**3 969**	**168**	**875**	**1 018**	**63**	**269**	**6 362**
Accumulated depreciation	**(1 228)**	**(133)**	**(507)**	**(462)**	**(52)**	**(169)**	**(2 551)**
Carrying amount	**2 741**	**35**	**368**	**556**	**11**	**100**	**3 811**
Year ended 30 June 2021							
Opening carrying amount	3 437	70	298	740	21	77	4 643
Translation differences	(46)	(2)	(7)	(9)	–	–	(64)
Additions	8	2	231	20	7	63	331
Disposals							
– Cost	(26)	–	(37)	–	–	(4)	(67)
– Accumulated depreciation	–	–	20	–	–	3	23
Derecognition							
– Cost	9	(117)	(262)	–	(1)	(34)	(405)
– Accumulated depreciation	(9)	115	259	–	1	28	394
Impairment							
– Cost	(6)	–	(3)	(133)	–	–	(142)
– Accumulated depreciation	1	–	1	123	–	–	125
Depreciation charge	(297)	(23)	(176)	(103)	(10)	(41)	(650)
Closing carrying amount	3 071	45	324	638	18	92	4 188
At 30 June 2021							
Cost	4 011	173	942	1 015	82	273	6 496
Accumulated depreciation	(940)	(128)	(618)	(377)	(64)	(181)	(2 308)
Carrying amount	3 071	45	324	638	18	92	4 188

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 2022

6. PROPERTY AND EQUIPMENT *continued*

LEASED ASSETS

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

R million	Group 2022	Group 2021
Land and buildings	**2 480**	2 891
Computer equipment and operating systems	**11**	70
Leasehold improvements	**23**	112
Motor vehicles	**2**	–
Total	**2 516**	3 073

7. INTANGIBLE ASSETS

Group R million	Software development	Business acquisitions: Identifiable Intangibles	Banking license	Total
Year ended 30 June 2022				
Opening carrying amount	**5 911**	**431**	**29**	**6 371**
Translation differences	**109**	**5**	**–**	**114**
Additions	**1 567**	**–**	**–**	**1 567**
Amortisation charge	**(1 252)**	**(59)**	**–**	**(1 311)**
Impairment				
– Cost	**(49)**	**–**	**–**	**(49)**
– Accumulated amortisation	**49**	**–**	**–**	**49**
Derecognition[1]				
– Cost	**(546)**	**–**	**–**	**(546)**
– Accumulated amortisation	**344**	**–**	**–**	**344**
Closing carrying amount	**6 133**	**377**	**29**	**6 539**
Year ended 30 June 2022				
Cost	**10 663**	**1 872**	**29**	**12 564**
Accumulated amortisation	**(4 530)**	**(1 495)**	**–**	**(6 025)**
Carrying amount	**6 133**	**377**	**29**	**6 539**

1 *Included in derecognition for the year is an amount of R164 million resulting from the IFRIC interpretation on capitalisation of costs associated with configuration or customisation costs in a cloud arrangement. R75 million has been recognised in profit and loss and presented in salaries, wages and allowances (refer to note 31) and R89 million was recognised in prepayments (refert to note 14) of which R45 million has been expensed at 30 June 2022. Accordingly, the headline earnings per share has not been adjusted to reflect the derecognition as a result of this interpretation.*

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 2022 is R277 million (2021: R316 million); and
- Client relationships and Core Deposit Funding Benefit acquired in the DiscoveryCard business combination. The carrying amounts as at 30 June 2022 are R87 million and R13 million respectively (2021: R100 million and R15 million).

BANKING LICENSE

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

7. INTANGIBLE ASSETS *continued*

Group R million	Software development	Business acquisitions: Identifiable Intangibles	Banking license	Total
Year ended 30 June 2021				
Opening carrying amount	5 825	527	29	6 381
Translation differences	(218)	(30)	–	(248)
Additions	1 587	–	–	1 587
Amortisation charge	(1 200)	(66)	–	(1 266)
Impairment				
– Cost	(56)	–	–	(56)
– Accumulated amortisation	12	–	–	12
Derecognition				
– Cost	(1 267)	–	–	(1 267)
– Accumulated amortisation	1 228	–	–	1 228
Closing carrying amount	5 911	431	29	6 371
Year ended 30 June 2021				
Cost	9 496	1 850	29	11 375
Accumulated amortisation	(3 585)	(1 419)	–	(5 004)
Carrying amount	5 911	431	29	6 371

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

8. DEFERRED ACQUISITION COSTS

R million	Group 2022	Group 2021
Balance at beginning of the year	**585**	632
Translation differences	**6**	(46)
Additions	**1 524**	1 667
Deferred acquisition costs amortised	**(1 475)**	(1 668)
Balance at the end of the year	**640**	585

9A. ASSETS ARISING FROM CONTRACTS WITH CUSTOMERS AND CONTRACT LIABILITIES

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

Group R million	Assets arising from contracts with customer[1]	Costs of obtaining contracts[1]	Contract liabilities	Contract receivables[2]
Year ended 30 June 2022				
Balance at beginning of the year	**162**	**1 086**	**(776)**	**1 217**
Accrued income recognised during the year	**111**	**–**	**–**	**–**
Payments received	**(45)**	**–**	**–**	**(12 100)**
Costs of obtaining new contracts	**–**	**456**	**–**	**–**
Amortised during the year	**–**	**(252)**	**–**	**–**
Contract liabilities recognised in the current year	**–**	**–**	**(534)**	**–**
Revenue recognised in the year	**–**	**–**	**404**	**12 016**
Provision of impairment of contract receivables	**–**	**–**	**–**	**24**
Foreign exchange revaluations	**–**	**–**	**–**	**7**
Translation differences	**28**	**3**	**(38)**	**45**
Balance at end of the year	**256**	**1 293**	**(944)**	**1 209**
Year ended 30 June 2021				
Balance at beginning of the year	108	846	(808)	1 413
Accrued income recognised during the year	112	–	–	–
Payments received	(35)	–	–	(11 287)
Costs of obtaining new contracts	–	488	–	–
Amortised during the year	–	(243)	–	–
Contract liabilities recognised in the current year	–	–	(413)	–
Revenue recognised in the year	–	–	391	11 182
Provision of impairment of contract receivables	–	–	–	11
Foreign exchange revaluations	–	(2)	–	(21)
Translation differences	(23)	(3)	54	(81)
Balance at end of the year	162	1 086	(776)	1 217

1 Presented as assets arising from contracts with customers.

2 Presented as part of insurance receivables, contract receivables and other receivables.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

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

The contract liability primarily relates to the advance consideration received from customers for the initial advisor fees, for which revenue will be recognised over the expected terms of the arrangement. It further includes the Discovery Miles liability on the Vitality Programme.

The transaction price is allocated to remaining performance obligations, which represents the fixed revenue in future for stand ready services, to provide Intellectual Property services for VitalityOne System.

Group R million	**Contract amount for future service**	**< 1 year**	**2 – 3 years**	**4 – 5 years**	**> 5 years**
Year ended 30 June 2022					
Provision of stand ready Intellectual Property services	**3 148**	**439**	**910**	**675**	**1 124**
Total	**3 148**	**439**	**910**	**675**	**1 124**

Group R million	Contract amount for future service	< 1 year	2 – 3 years	4 – 5 years	> 5 years
Year ended 30 June 2021					
Provision of stand ready Intellectual Property services	2 374	368	786	681	539
Total	2 374	368	786	681	539

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.

9B. REVENUE

Also refer to accounting policy 20 Revenue recognition. Discovery Group's Revenue includes 'Fee income from administration business', 'Vitality Income' and 'Banking fee and commission income'.

The split of revenue per geographical region and reportable segment can be viewed in Note 1, Segmental information.

The split of revenue according to the timing of satisfaction of performance obligation, i.e. 'over time' or a 'point-in-time' is as follows:

R million	**Group 2022**	Group 2021
Fee income from administration business	**10 971**	10 077
– Over time	**10 548**	9 630
– Point-in-time	**423**	447
Intellectual Property Fees: Fee income from administration business	**1 781**	1 623
– Over time	**1 781**	1 623
Vitality Income	**3 495**	3 340
– Over time	**2 348**	2 348
– Point-in-time	**1 147**	992
Banking fee and commission income	**853**	633
– Over time	**389**	272
– Point-in-time	**464**	361

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

10. GOODWILL

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

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

		R million	
Goodwil per cash generating unit	Value in functional currency on date of acquisition	**2022**	2021
Goodwill			
– Vitality Health[1, 2, 5, 6]	GBP 100.3 million	**2 007**	1 980
– VitalityLife[1, 5, 7]	GBP 23.4 million	**468**	462
– Discovery Bank[3]	R 2 417 million	**2 417**	2 417
– Discovery Administration Services[4]	R 20 million	**20**	20
Total		**4 912**	4 879

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

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

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

4 In October 2020, Discovery acquired Liberty Health Administration, a wholly owned subsidiary, which performs medical aid administration for specified medical aids. Liberty Health Administration has been renamed to Discovery Administration Services Proprietary Limited as of 11 August 2021.

5 As part of the annual assessment of impairment, Discovery has done significant stresses on the Goodwill of VitalityHealth and VitalityLIfe. The value-in-use considers the 'value-in-force' business as well as new business. 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 outcome of the working indicated that the recoverable amount significantly exceeds the carrying amount of the CGUs, with little risk of impairment.

6 Net exchange rate differences of R27 million (2021: R171 million) were recognised in the financial year ended 30 June 2022.

7 Net exchange rate differences of R6 million (2021: R40 million) were recognised in the financial year ended 30 June 2022.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

11. EQUITY-ACCOUNTED INVESTEES

R million	Group 2022	Group 2021
Carrying value of material interest in associates and joint ventures – Ping An Health	**4 499**	2 198
Carrying value of material interest in associated and joint ventures – CMT	**1 263**	1 127
Carrying value of individually immaterial interest in associates	**112**	134
Carrying value of individually immaterial interest in joint ventures	**134**	–
Investment in equity-accounted investees	**6 008**	3 459

11.1 Material interests in associates and joint ventures

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

PING AN HEALTH INSURANCE COMPANY OF CHINA, LIMITED (PING AN HEALTH OR PAH)

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

As announced in the 30 June 2021 and 31 December 2021 results announcements, during the year ended 30 June 2022, the group contributed R1.5 billion of additional capital to Ping An Health. This capital contribution represents the Group's proportionate 24.99% shareholding and the additional capital should support the business growth and regulatory requirements for the foreseeable future.

Given that the final regulatory approval by the Chinese Banking and Insurance Regulatory Commission was prolonged, the capital has been funded in the interim by way of a bridge facility and internal resources.

CAMBRIDGE MOBILE TELEMATICS INC. (CMT)

A United States of America based leading telematics technology provider. This partnership provides the group with expertise in the telematics environment that Discovery Insure harnesses to manage its insurance risk.

	Ping An Health	CMT
Ownership structure	Equity-accounted associate	Equity-accounted associate
Nature	Insurance	Telematics technology
Place of business	China	USA

R million	Ping An Health 2022	Ping An Health 2021	CMT 2022	CMT 2021
% of ownership interest at end of year	**24.99%**	24.99%	**8.85%**	8.96%
Summarised statement of comprehensive income				
Revenue	**29 540**	25 484	**2 285**	1 537
Net profit/(loss)	**1 637**	1 884	**(521)**	80
Other comprehensive income/(loss)	**69**	(8)	**–**	–
Total comprehensive income/(loss)	**1 706**	1 876	**(521)**	80
Summarised statement of financial position				
Current assets	**19 048**	16 482	**3 852**	3 292
Non-current assets	**39 144**	21 584	**11 686**	9 824
Current liabilities	**(6 526)**	(5 400)	**(1 054)**	(538)
Non-current liabilities	**(34 833)**	(24 941)	**(604)**	(308)
Net assets	**16 833**	7 725	**13 880**	12 270
Reconciliation to carrying amounts:				
Opening net assets	**7 725**	6 093	**12 270**	5 749
Profit/(loss) for the year	**1 637**	1 884	**(521)**	80
Other comprehensive income/(loss)	**69**	(8)	**–**	–
Increase in share capital and share premium	**5 950**	425	**267**	7 352
Foreign exchange gains/(losses)	**1 452**	(669)	**1 864**	(911)
Closing net assets	**16 833**	7 725	**13 880**	12 270
Group's share of net assets	**4 207**	1 931	**1 228**	1 099
Goodwill	**292**	267	**35**	28
Carrying value at 30 June	**4 499**	2 198	**1 263**	1 127

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

11. EQUITY-ACCOUNTED INVESTEES *continued*

11.2 Individually immaterial associates and joint ventures

11.2.1 INDIVIDUALLY MATERIAL TRANSACTIONS

REVERSAL OF IMPAIRMENT OF INVESTMENT IN AIA VITALITY (PTY) LTD AND CLASSIFICATION AS HELD FOR SALE

Discovery Vitality Australia (Pty) Limited (DVA), a wholly-owned subsidiary of Vitality Group International Inc. (VGI), has an associate investment in AIA Vitality (Pty) Limited (AIAV). The value of AIAV is directly influenced by AIA Health Australia (Pty) Limited (AIAH), an Australian health insurance joint venture between GMHBA Limited and VGI and AIA Australia via its indirect interest through AIAV.

Discovery was approached regarding a potential offer to buy Discovery Vitality's interest in AIAV. On 1 June 2022 Discovery Executive management confirmed the acceptance of an unconditional offer to purchase Discovery Vitality's interest in AIA Vitality. Accordingly, management committed to a plan to sell the investment in AIAV and the investment in AIAV was classified as a non-current asset held for sale as of 1 June 2022.

REVERSAL OF PREVIOUS IMPAIRMENT

During the previous financial reporting period, the Group recognised an impairment of AIAV in the amount of AUD12.5million (R149 million). During the current period, there were internal and external indicators that the impairment had reversed. The offer made confirmed that there was a reversal of the previous recognised impairment. Accordingly the Group reversed impairments to the value of AUD 12.5 million (R134 million). In order to determine the reversal, the recoverable amount was measured at fair value less cost to sell.

NON-CURRENT ASSETS HELD FOR SALE

The investment in AIAV was reclassified from equity-accounted investments to non-current assets held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. At date of reclassification, there were no additional impairment losses or reversals due to reclassifcation. At 30 June 2022, the disposal group was stated at fair value less costs to sell.

The disposal group comprises of:

– Investment in AIAV equity accounted investment AUD 15 million (R171 million)

MEASUREMENT OF FAIR VALUE

The non-recurring fair value measurement for the investment in AIAV of AUD 15 million (R171 million) has been categorized as a level 3 fair value due to the binding offer being subject to significant unobservable inputs. Discovery used the binding offer without adjustment as the fair value and therefore there are no quantitative unobservable inputs developed when measuring the fair value.

FORMATION OF AMPLIFY HEALTH

On 15 February 2022 Discovery announced its new venture with AIA Group Limited (AIA) to form Amplify Health. Amplify Health's vision is to be Asia's leading digital health technology and integrated solutions business, transforming how individuals, corporates, payors, and providers experience and manage health insurance and healthcare delivery, improving the health and wellness outcomes of patients and communities across Asia.

Discovery owns 25% of AmplifyHealth with AIA owning the balance of 75%. Discovery has classified the investment in AmplifyHealth as an associate which it equity-accounts for.

Discovery will continuously transfer its full health technology stack along as well as provide for transfer of skilled personnel. Discovery will assign, for the region, ownership of the Health IP and the Vitality IP (excluding China, Hong Kong, Macau and Japan, given its partnerships in those markets) to AmplifyHealth. This will ensure the AmplifyHealth has end-to-end capability.

Discovery will earn revenue for the technology it sells and will develop and sell in the future on this arrangement, in addition to its participation in AmplifyHealth.

11.2.2 SUMMARY OF FINANCIAL INFORMATION

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

Group R million	Associates		Joint ventures	
	2022	2021	**2022**	2021
Aggregate amount of the Group's share of profit/(loss)	**(21)**	40	**137**	1
Reversal of impairment/(impairment) of equity-accounted investments	**134**	(149)	**–**	–

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

12. FINANCIAL ASSETS

The Group's investment in financial assets are summarised by measurement category in the table below:

R million	Notes	**Group 2022**	Group 2021
Financial assets at fair value through profit or loss – mandatorily:		**141 494**	130 937
– Equity portfolios		**57 948**	43 362
– Debt portfolios		**47 592**	36 485
– Money market portfolios		**14 680**	17 253
– Multi-asset portfolios		**21 274**	33 837
Financial assets at amortised cost		**11 105**	8 965
Investments at amortised cost[1]		**7 161**	5 604
– South African Treasury Bills		**5 205**	4 109
– Deposits		**1 956**	1 495
Loans and advances to customers at amortised cost		**3 944**	3 361
Total investments		**152 599**	139 902
Listed		**130 192**	121 057
Unlisted		**22 407**	18 845
		152 599	139 902
Shareholder investments:		**19 828**	17 854
– Investments at amortised cost	3	**11 105**	8 965
– Investments at fair value through profit and loss – mandatorily		**8 723**	8 889
Policyholder investments:		**132 771**	122 048
– Investments at fair value through profit and loss – mandatorily		**132 771**	122 048
Total Investments		**152 599**	139 902

1 *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 2022

12. FINANCIAL ASSETS *continued*

12.1 Loans and advances to customers

Group R million	2022	2021
Loans and advances (gross) – unsecured	**4 308**	3 795
Accrued interest	**39**	31
Total Gross advances	**4 347**	3 826
Less: IFRS9 Expected credit losses (ECL)	**(403)**	(465)
Total net loans and advances	**3 944**	3 361

12.1.1 LOANS AND ADVANCES PER CREDIT RISK RATING

Group R million	DRG 1 – 4	DRG 5 – 7	DRG 8 – 10	Not rated	Total
As at 30 June 2022					
Stage 1	**2 166**	**1 272**	**309**	**–**	**3 747**
Stage 2: SICR[1]	**4**	**24**	**271**	**5**	**304**
Stage 2: Arrears	**–**	**1**	**2**	**62**	**65**
Stage 3	**2**	**4**	**10**	**176**	**192**
Total gross advances	**2 172**	**1 301**	**592**	**243**	**4 308**
As at 30 June 2021					
Stage 1	1 633	1 197	302	83	3 215
Stage 2: SICR[1]	1	6	259	4	270
Stage 2: Arrears	10	21	35	5	71
Stage 3	22	52	147	18	239
Total gross advances	1 666	1 276	743	110	3 795

1 *Significant increase in credit risk.*

The analysis above excludes accrued interest.

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

Loans and advances classified as 'not rated' pertain to loans and advances migrated from DiscoveryCard which have not been through Discovery Bank credit assessment, and have not been assigned a DRG. To determine the ECL on these customers, information from the DiscoveryCard back book is used.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

12. FINANCIAL ASSETS *continued*
12.1.2 RECONCILIATION OF THE EXPECTED CREDIT LOSS (ECL)

As at 30 June 2022

Group R million	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL, but no missed payments)	Stage 2 (Lifetime ECL, and missed payments)	Stage 3 (Lifetime ECL, and credit impaired, default)	Total
30 June 2022					
Balance at beginning of the year	**192**	**41**	**24**	**208**	**465**
Total changes in ECL due to changes in balances of advances	**(16)**	**2**	**10**	**(134)**	**(138)**
New loans originated and acquired	**3**	**1**	**–**	**–**	**4**
Repayments and other movements[2]	**(16)**	**2**	**10**	**30**	**26**
Change in ECL due to derecognition other than write-off	**(3)**	**(1)**	**–**	**(6)**	**(10)**
Change in ECL due to write-off[3]	**–**	**–**	**–**	**(158)**	**(158)**
	176	**43**	**34**	**74**	**327**
Transfers between stages[1]					
Transfer (to)/from stage 1	**–**	**(4)**	**11**	**51**	**58**
Transfer (to)/from stage 2: SICR	**(3)**	**–**	**1**	**10**	**8**
Transfer (to)/from stage 2: Arrears	**(2)**	**–**	**–**	**29**	**27**
Transfer (to)/from stage 3	**(4)**	**(2)**	**(11)**	**–**	**(17)**
Balance at end of the year	**167**	**37**	**35**	**164**	**403**
30 June 2021					
Balance at beginning of the year	81	52	26	23	182
Total changes in ECL due to changes in balances of advances	101	23	23	11	158
New loans originated and acquired[1]	64	25	24	4	117
Repayments and other movements[2]	41	–	–	8	49
Changes in ECL due to derecognition other than write-off	(4)	(2)	(1)	(1)	(8)
	182	75	49	34	340
Transfers between stages[3]					
Transfer (to)/from stage 1	14	(25)	2	59	50
Transfer (to)/from stage 2: SICR	–	–	(1)	46	45
Transfer (to)/from stage 2: Arrears	(4)	–	–	69	65
Transfer (to)/from stage 3	–	(9)	(26)	–	(35)
Balance at end of the year	192	41	24	208	465

1 *Discovery Bank's policy is to transfer accounts between stages based on the ECL stage at the end of the reporting period. Therefore, exposures can be transferred directly from stage 3 to stage 1 as the curing requirements would have been satisfied during the reporting period. The expected credit loss recognised on new exposures originated during the reporting period (which are not included in opening balances) are recognised in new loans originated and acquired based on the exposures ECL stage as at the end of the month the account comes on book. Any change in status will be reflected in the transfers between stages as described above.*

2 *During the year ending 30 June 2022, management has adjusted for the effects of COVID 19 in considering forward looking macroeconomic factors. The adjustment specifically associated with these factors resulted in an increase in ECL of R 28.6 Million (2021:R 24.1million).*

3 *The contractual amount outstanding on financial asset that were written off during the year ended 30 June 2022 and that are still subject to enforcement activity is R158 million (2021: R 8 million).*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

13. DERIVATIVE FINANCIAL INSTRUMENTS

R million	Group 2022 Assets	Group 2022 Liabilities	Group 2021 Assets	Group 2021 Liabilities
Derivatives used as cash flow hedges:				
Equity price risk derivatives	–	–	23	(129)
Interest rate swaps	17	(56)	5	(332)
Derivatives not designated as hedging instruments:				
Equity price risk derivatives	19	(66)	1	(22)
Interest rate swaps	–	(79)	27	(243)
Swaptions	216	–	135	–
Currency derivative contracts	24	(1)	58	(100)
	276	(202)	249	(826)
Current	36	(62)	93	(176)
Non-current	240	(140)	156	(650)
	276	(202)	249	(826)

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

Year ended 30 June 2022

Group R million	Notional amount of the hedging instrument	Carrying amount of the hedging instrument: Assets	Carrying amount of the hedging instrument: Liabilities	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 in profit or loss
Interest rate risk	5 000	17	(56)		(295)	–	
Interest rate swaps	5 000	17	(56)	Financial Asset-Derivative/ Financial Liability-Derivative	(295)	–	Net fair value gains on financial assets at fair value through profit or loss

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

Group R million	Changes in the value of the hedging instrument recognised in other comprehen-sive income	Amount reclassified from the cash flow hedge reserve to profit or loss	Line item in which the recycled amount is presented in profit or loss	Carrying amount of the hedged item: Assets	Carrying amount of the hedged item: Liabilities	Changes in fair value of hedged item used for calculating hedge ineffective-ness	Cash flow hedge reserve
Interest rate risk[1]	295	–	–	–	(5 038)	(185)	(40)
Interest rate swaps	295	–	–	–	(5 038)	(185)	(40)

1 The interest rate risk derivatives have been recycled to the 'Cash flow hedges – gains recycled to profit or loss' line item in the SOCI.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

13. DERIVATIVE FINANCIAL INSTRUMENTS *continued*

Year ended 30 June 2021

Group R million	Notional amount of the hedging instrument	Carrying amount of the hedging instrument Assets	 Liabilities	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 in profit or loss
Equity price risk	851	23	(129)		(171)	(8)	
Total return swaps	791	18	(129)	Financial Asset-Derivative/ Financial Liability-Derivative	(174)	(11)	Net fair value gains on financial assets at fair value through profit or loss
Call options	60	5	–	Financial Asset-Derivative	3	3	Net fair value gains on financial assets at fair value through profit or loss
Interest rate risk	5 000	5	(332)		(189)	–	
Interest rate swaps	5 000	5	(332)	Financial Asset-Derivative/ Financial Liability-Derivative	(189)	–	Net fair value gains on financial assets at fair value through profit or loss

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

Group R million	Changes in the value of the hedging instrument recognised in other comprehen-sive income	Amount reclassified from the cash flow hedge reserve to profit or loss	Line item in which the recycled amount is presented in profit or loss	Carrying amount of the hedged item Assets	 Liabilities	Changes in fair value of hedged item used for calculating hedge ineffective-ness	Cash flow hedge reserve
Equity price risk[1]	171	(82)		–	(364)	230	(10)
Total return swaps	174	(90)	Cash flow hedges-gains recycled to profit or loss	–	(360)	233	(8)
Call options	(3)	8	Cash flow hedges-gains recycled to profit or loss	–	(4)	(3)	(2)
Interest rate risk[2]	189	(8)		–	(5 034)	(202)	(335)
Interest rate swaps	189	(8)	Cash flow hedges-gains recycled to profit or loss	–	(5 034)	(202)	(335)

1 *The equity price risk derivatives have been recycled to the cash flow hedges – gains recycled to profit or loss line items in the SOCI.*

2 *The interest rate risk derivatives have been recycled to the cash flow hedges – gains recycled to profit or loss line item in the SOCI.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

14. INSURANCE RECEIVABLES, CONTRACT RECEIVABLES AND OTHER RECEIVABLES

R million		Group 2022	Group 2021
Receivables arising from insurance and reinsurance contracts:		**7 887**	6 158
– Premium debtors		**801**	668
– Less provision for impairment of premium debtors	14.1	**(81)**	(63)
– Reinsurance debtors		**7 167**	5 553
Contract receivables	9A	**1 209**	1 217
– Closed scheme debtors		**107**	104
– Discovery Health Medical Scheme		**724**	662
– Other contract receivables		**382**	480
– Less allowance for expected credit losses	14.2	**(4)**	(29)
Other non-financial receivables[1]		**1 375**	969
– Prepayments		**1 022**	851
– Value-added tax asset		**158**	53
– Other debtors		**195**	65
Other financial receivables:		**2 642**	2 189
– Agents and brokers		**439**	412
– BEE partners' rights-issue funding		**–**	1
– Cash-in-transit debtors		**443**	220
– Consolidated unit trust debtors		**770**	587
– Loans to BEE initiatives		**256**	220
– Security deposit on derivatives[2]		**72**	289
– Vitality partner debtors		**148**	112
– Other debtors		**906**	809
– Less allowance for expected credit losses	14.2	**(392)**	(461)
Total insurance receivables, contract receivables and other receivables		**13 113**	10 533
Current		**8 822**	7 110
Non-current		**4 291**	3 423
		13 113	10 533

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

2 *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. 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 carrying values approximate 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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

14. INSURANCE RECEIVABLES, CONTRACT RECEIVABLES AND OTHER RECEIVABLES *continued*

14.1 Provision for impairment of premium debtors

Group R million	<30 days	30 – 60 days	60 – 120 days	more than 120 days	Total
Year ended 30 June 2022					
Balance at beginning of the year	**26**	**16**	**16**	**6**	**64**
Increase in provision	**2**	**25**	**22**	**7**	**56**
Amount utilised during the period	**(3)**	**(19)**	**(11)**	**(6)**	**(39)**
Translation difference	*****	*****	*****	*****	*****
Balance at end of the year	**25**	**22**	**26**	**7**	**80**
Year ended 30 June 2021					
Balance at beginning of the year	46	33	7	7	93
Increase in provision	–	–	11	8	19
Amount utilised during the period	(20)	(17)	(6)	(6)	(49)
Translation difference	*	*	*	*	*
Balance at end of the year	26	16	12	9	63

* *Amount is less than R500 000.*

14.2 Reconciliation of expected credit losses (ECL)

	General model			Simplified model		
Group R million	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL/credit impaired)	Not Credit impaired	90 days past due/ credit impaired	Total
Year ended 30 June 2022						
Balance at beginning of the year	**11**	**8**	**230**	**98**	**143**	**490**
Increase in provision	**1**	**2**	**2**	**33**	**39**	**77**
Amount utilised during the period	**(4)**	**–**	**(4)**	**(26)**	**(140)**	**(174)**
Translation difference	*****	*****	*****	**2**	**1**	**3**
Balance at end of the year	**8**	**10**	**228**	**107**	**43**	**396**
Year ended 30 June 2021						
Balance at beginning of the year	48	8	249	123	57	485
Increase in provision	3	–	22	8	201	234
Amount utilised during the period	(40)	–	(41)	(33)	(101)	(215)
Translation difference	*	*	*	*	(14)	(14)
Balance at end of the year	11	8	230	98	143	490

* *Amount is less than R500 000.*

15. REINSURANCE CONTRACTS

R million	Group 2022	Group 2021
Reinsurers' share of insurance contract liabilities	**511**	445
Current	**511**	445

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 2022

16. CASH AND CASH EQUIVALENTS

R million	Group 2022	Group 2021
Cash at bank and in hand	**17 625**	17 984
Short-term deposits	**2 150**	2 029
	19 775	20 013

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

17. SHARE CAPITAL AND SHARE PREMIUM
17.1 Ordinary share capital and share premium

Group R million	Issued Share capital	Issued Share premium	Treasury shares Discovery Health	Treasury shares BEE share trust	Treasury shares LTIP	Total outstanding
At 1 July 2020	1	10 214	(14)	(53)	–	10 148
Share movements:						
– new issue	–	907	–	–	–	907
– treasury shares delivered	–	–	–	3	–	3
– treasury shares purchased	–	–	–	–	(907)	(907)
At 30 June 2021	**1**	**11 121**	**(14)**	**(50)**	**(907)**	**10 151**
Share movements:						
– new issue	**–**	**443**	**–**	**–**	**–**	**443**
– treasury shares delivered	**–**	**24**	**–**	**3**	**–**	**27**
– treasury shares purchased	**–**	**–**	**–**	**–**	**(443)**	**(443)**
At 30 June 2022	**1**	**11 588**	**(14)**	**(47)**	**(1 350)**	**10 178**

Number of shares	Company	Treasury shares Discovery Health	Treasury shares BEE share trust	Treasury shares LTIP	Total outstanding
At 1 July 2020	658 290 736	(680 268)	(966 460)	–	656 644 008
Share movements:					
– new issue	7 477 865	–	–	–	7 477 865
– treasury shares delivered	–	–	160 499	–	160 499
– treasury shares purchased	–	–	–	(7 477 865)	(7 477 865)
At 30 June 2021	**665 768 601**	**(680 268)**	**(805 961)**	**(7 477 865)**	**656 804 507**
Share movements:					
– new issue	**3 194 870**	**–**	**–**	**–**	**3 194 870**
– treasury shares delivered	**–**	**–**	**152 104**	**–**	**152 104**
– treasury shares purchased	**–**	**–**	**–**	**(3 194 870)**	**(3 194 870)**
At 30 June 2022	**668 963 471**	**(680 268)**	**(653 857)**	**(10 672 735)**	**656 956 611**

The total authorised number of ordinary shares is 1 billion (2021: 1 billion), with a par value of 0.1 cent per share.

SHARE ISSUE IN 2022 FINANCIAL REPORTING PERIOD

Discovery issued 3 194 870 shares for a cash consideration of R442 616 476. This was a specific issuance, to the Discovery Long-Term Incentive Plan Trust.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

17. SHARE CAPITAL AND SHARE PREMIUM *continued*

17.2 Preference share capital

R million	**Group 2022**	Group 2021
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 2022**	Group 2021
Gross		
– claims reported and loss adjustment expenses	**12 662**	11 234
– claims incurred but not reported	**2 118**	2 074
– IFA liability	**100**	82
– unearned premiums	**1 007**	1 091
– additional unexpired risk reserve	**–**	300
– unit-linked insurance contracts	**72 040**	64 432
– with fixed and guaranteed terms	**21 273**	21 764
Total liabilities arising from insurance contracts, gross	**109 200**	100 977
Recoverable from reinsurers		
– claims incurred but not reported	**(501)**	(439)
– unearned premiums	**(10)**	(6)
Total reinsurers' share of liabilities arising from insurance contracts (refer to note 15)	**(511)**	(445)
Net		
– claims reported and loss adjustment expenses	**12 662**	11 234
– claims incurred but not reported	**1 617**	1 635
– IFA liability	**100**	82
– unearned premiums	**997**	1 085
– additional unexpired risk reserve	**–**	300
– unit-linked insurance contracts	**72 040**	64 432
– with fixed and guaranteed terms	**21 273**	21 764
Total liabilities arising from insurance contracts, net	**108 689**	100 532
Current[1]	**92 917**	83 914
Non-current	**15 772**	16 618
	108 689	100 532

1 Includes R77 724 million (2021: R69 549 million) which is repayable to policyholders on demand. For contractual maturity refer to note 3.2.3.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

18. LIABILITIES ARISING FROM INSURANCE CONTRACTS *continued*

Movements in the liabilities are as follows:

Group R million	2022 Gross	 Reinsurance	 Net	2021 Gross	 Reinsurance	 Net
Claims reported and loss adjustment expenses and IBNR						
Notified claims	**11 234**	**–**	**11 234**	9 290	–	9 290
Incurred but not reported	**2 074**	**(439)**	**1 635**	1 754	(394)	1 360
Balance at beginning of the year	**13 308**	**(439)**	**12 869**	11 044	(394)	650
Cash paid for claims settled in the year	**(13 601)**	**73**	**(13 528)**	(11 636)	29	(11 607)
Increase/(decrease) in liabilities:						
– arising from current year claims	**16 545**	**(183)**	**16 362**	14 994	(171)	14 823
– arising from prior year claims	**(1 500)**	**50**	**(1 450)**	(908)	79	(829)
Translation differences	**28**	**(2)**	**26**	(186)	18	(168)
Balance at end of the year	**14 780**	**(501)**	**14 279**	13 308	(439)	12 869
Notified claims	**12 662**	**–**	**12 662**	11 234	–	11 234
Incurred but not reported	**2 118**	**(501)**	**1 617**	2 074	(439)	1 635
Balance at end of the year	**14 780**	**(501)**	**14 279**	13 308	(439)	12 869
IFA liability						
Balance at beginning of the year	**82**	**–**	**82**	69	–	69
Increase in the year	**42**	**–**	**42**	28	–	28
Cash paid	**(24)**	**–**	**(24)**	(15)	–	(15)
Balance at end of the year	**100**	**–**	**100**	82	–	82
Provisions for unearned premiums						
Balance at beginning of the year	**1 091**	**(6)**	**1 085**	1 548	(6)	1 542
Increase in the year	**1 625**	**(10)**	**1 615**	1 496	(6)	1 490
Release in the year	**(1 725)**	**6**	**(1 719)**	(1 857)	6	(1 851)
Translation differences	**16**	**–**	**16**	(96)	–	(96)
Balance at end of the year	**1 007**	**(10)**	**997**	1 091	(6)	1 085
Additional unexpired risk reserve						
Balance at beginning of the year	**300**	**–**	**300**	–	–	–
(Decrease)/increase in the year	**(300)**	**–**	**(300)**	300	–	300
Translation differences	**–**	**–**	**–**	–	–	–
Balance at end of the year	**–**	**–**	**–**	300	–	300

R million	Group 2022	Group 2021
Unit-linked insurance contracts		
Balance at beginning of the year	**64 432**	49 752
Premiums received	**17 726**	16 198
Fair value adjustment	**(608)**	8 338
Withdrawals	**(7 609)**	(7 747)
Fees	**(1 416)**	(1 234)
Movement in negative insurance liability	**(567)**	(223)
Translation differences	**82**	(652)
Balance at end of the year	**72 040**	64 432
Balance is made up as follows:		
Unit-linked liabilities	**77 724**	69 549
Negative insurance liability	**(5 684)**	(5 117)
	72 040	64 432
With fixed and guaranteed terms		
Balance at beginning of the year	**21 764**	19 998
Expected movement in policyholder liabilities	**(4 324)**	(4 201)
Unwinding of discount rate	**968**	888
New business written	**3 187**	4 396
Experience variances	**(322)**	683
Balance at end of the year	**21 273**	21 764

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

19. LIABILITIES ARISING FROM REINSURANCE CONTRACTS

R million	**Group 2022**	Group 2021
Financial reinsurance	**2 582**	2 382
Reinsurance recoveries relating to assets arising from insurance contracts (refer to note 5)	**10 610**	10 143
	13 192	12 525
Balance at beginning of the year	**12 525**	12 465
Increase in liability	**577**	664
– gross increase in liability	**(458)**	(266)
– receipt arising from reinsurance contracts[1]	**2 597**	2 926
– reinsurance premiums paid	**(1 562)**	(1 996)
Translation differences	**90**	(604)
Balance at end of the year	**13 192**	12 525
Current	**2 131**	919
Non-current	**11 061**	11 606
	13 192	12 525

1 *In the prior financial period, Discovery Life Limited entered into a financial reinsurance treaty, with risk transfer, resulting in a cash inflow of R500 million.*

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

20. BORROWINGS AT AMORTISED COST

R million	Ref	**Group 2022**	Group 2021
Borrowings from banks	(i)	**16 308**	15 230
Lease liabilities	(ii)	**4 120**	4 263
Bank overdraft		**156**	–
Balance at end of the year		**20 584**	19 493
Current		**3 940**	2 065
Non-current		**16 644**	17 428
Balance at end of the year		**20 584**	19 493

For variable rate loans, the carrying amount approximates the fair value because the variable rate is set on market related terms. For fixed rate loans, the fair value is R6 122 million relative to the carrying value of R5 737 million.

(i) Borrowings from banks

MOVEMENT ANALYSIS OF BORROWINGS

R million	**Group 2022**	Group 2021
Balance at beginning of the year	**15 230**	15 456
Loans raised	**3 261**	1 839
Loans repaid	**(2 087)**	(1 753)
Interest accrued	**1 037**	971
Interest paid	**(1 188)**	(941)
Raising fees capitalised	**(3)**	(39)
Translation differences	**58**	(303)
Balance at end of the year	**16 308**	15 230

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

20. BORROWINGS AT AMORTISED COST *continued*

(i) Borrowings from banks *continued*

SA BORROWING FACILITIES

DISCOVERY LIMITED

Facility amount R million	Variable rate	Interest per annum	Capital repayment and maturity date	Carrying value R million Group 2022	Carrying value R million Group 2021
Listed DMTN[4]					
500	3-month Jibar + 161bps	9.71%[1,3]	At maturity – 21 November 2022	**503**	503
500	3-month Jibar + 205bps	6.30%[1,3]	At maturity – 21 August 2023	**503**	503
200	–	10.46%[2]	At maturity – 21 November 2024	**202**	202
800	3-month Jibar + 191bps	10.31%[1,3]	At maturity – 21 November 2024	**805**	804
1 200	3-month Jibar + 191bps	9.21%[1,3]	At maturity – 21 November 2024	**1 217**	1 220
700	3-month Jibar + 180bps	10.29%[1,3]	At maturity – 21 August 2026	**704**	703
300	3-month Jibar + 180bps	9.40%[1,3]	At maturity – 21 November 2026	**303**	302
792	3-month Jibar +173bps	–	At maturity– 21 May 2027	**792**	–
226	3-month Jibar +180bps	–	At maturity– 21 May 2029	**226**	–
Unlisted DMTN[4,5]					
1 100	–	8.92%[3]	At maturity – 10 March 2023	**1 104**	1 103
2 500	–	9.62%[3]	At maturity – 22 February 2025	**2 520**	2 519
Other					
1 000	3-month Jibar + 245bps	10.28%[1,3]	At maturity – 02 March 2023	**1 003**	999
500	3-month Jibar + 86bps	5.85%[6]	At maturity – 30 June 2022	**–**	659
1 400	3-month Jibar + 125bps[3]	–	At maturity – 12 October 2022	**702**	–
11 718				**10 584**	9 517

1 *The interest rate has been fixed through interest rate swaps.*

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

3 *Interest payable quarterly in arrears.*

4 *DMTN refers to the R10 billion Discovery Domestic Medium Term Note (DMTN) program registered in 2017.*

5 *During the financial year ended 30 June 2020, Discovery Limited refinanced R3.6 billion bank syndicated loans through the issue of unlisted DMTN notes. The notes, although underwritten by a bank until maturity, are structured to enable short-term issuances into the commercial paper market on an ongoing basis..*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

20. BORROWINGS AT AMORTISED COST *continued*

(i) Borrowings from banks *continued*

SA BORROWING FACILITIES

DISCOVERY CENTRAL SERVICES

Facility amount R million	Interest rate per annum	Capital repayment and maturity date	Carrying value R million Group 2022	Carrying value R million Group 2021
1 400	10.60%[1]	At maturity – 20 December 2023	**1 417**	1 423
650	11.56%[2]	Instalments – 29 October 2027	**494**	526
691	3-month Jibar + 1.9%	At maturity – 30 June 2027	**691**	–
1 500	3-month Jibar + 1.45%	At maturity – 8 June 2024	**–**	–
4 241			**2 602**	1 949

1 *Interest payable quarterly in arrears.*

2 *Instalments of interest and capital is monthly.*

UK BORROWING FACILITIES

UK BORROWINGS

Facility amount GPB million	Variable rate	Capital repayment and maturity date	Carrying value GBP (Rand) million Group 2022		Carrying value GBP (Rand) million Group 2021	
80	SONIA + 2.73%[1]	Instalments – 31 July 2023	**GBP 42**	**(R847)**	GBP 73	(R1 435)
34	SONIA + 1.31%[1]	At maturity – 19 October 2022	**GBP 14**	**(R276)**	GBP 26	(R512)
100	SONIA + 2.38%[1]	At maturity – 31 July 2023	**GBP 100**	**(R1 999)**	GBP 89	(R1 817)
214			**GBP 156**	**(R3 122)**	GBP 188	(R3 764)

1 *Interest payable quarterly in arrears.*

(ii) Leases

R million	Group 2022	Group 2021
Balance at beginning of the year	**4 263**	4 380
New leases entered into	**138**	57
Interest payable	**426**	436
Repayments	**(600)**	(613)
Modifications	**(126)**	46
Translation difference	**19**	(43)
Balance at end of the year	**4 120**	4 263

Total payments for leases for the year is R825 million (2021: R815 million).

During the 2018 financial year Discovery took occupation of a new head office building under a finance lease. A lease liability and related asset (refer to note 6) of R3 155 million was raised. At year end, R3 373 million (2021: R3 388 million) remained outstanding. Finance charges of R366 million (2021: R366 million) have been recognised in profit or loss and repayments of R381 million (2021: R348 million) have been made.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

21. INVESTMENT CONTRACTS AT FAIR VALUE THROUGH PROFIT OR LOSS

R million	**Group 2022**	Group 2021
The movements during the year were as follows:		
Balance at beginning of the year	**32 291**	23 012
Deposits received	**11 769**	12 527
Account balances paid on withdrawal and other terminations in the year	**(6 739)**	(6 882)
Fair value adjustment	**40**	3 634
Balance at end of the year	**37 361**	32 291
Current[1]	**37 361**	32 291

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

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

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

22. OTHER PAYABLES

R million	**Group 2022**	Group 2021
Commissions payable	**251**	213
Consolidated unit trust payables	**512**	659
Digicore payable	**–**	9
Due to reinsurers	**651**	448
Expired hedge payables	**6**	21
Intermediary payables	**130**	99
Payables and accrued liabilities	**3 672**	3 146
Payroll creditors	**987**	929
Policyholder unallocated funds	**1 180**	961
Security deposits on derivatives	**245**	2
Unsettled trades	**580**	376
VitalityLife working capital funding[1]	**5 477**	6 809
Other financial payables	**1 020**	880
Other non-financial payables[2]	**412**	352
– Value-added tax liability	**258**	193
– Premiums and fees received in advance	**154**	159
Balance at end of the year	**15 123**	14 904
Current	**14 827**	7 238
Non-current	**296**	7 666
	15 123	14 904

1 Includes the 'deposit back' of GBP 236 million (R4 780 million) (2021: GBP 315 million (R6 210 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.

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

23. DEPOSITS FROM CUSTOMERS

R million	**Group 2022**	Group 2021
Term deposits from customers – fixed rate	**3 372**	3 763
Term deposits from customers – variable rates	**1 807**	3 798
On demand deposits from customers – non rate sensitive	**149**	–
On demand deposits from customers – variable rate	**5 249**	615
Wholesale NCD's (Negotiable Certificate of Deposit) – variable rate	**304**	809
Total customer deposits	**10 881**	8 985

24. DEFERRED TAX

R million	**Group 2022**	Group 2021
Deferred tax asset – non-current	**4 455**	3 948
Deferred tax liability – non-current	**(9 335)**	(8 814)
Total	**(4 880)**	(4 866)

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

24. DEFERRED TAX *continued*

Deferred taxation comprises:

Group R million	Balance at beginning of the year	Charge for the year Recognised in Profit or loss	Recognised in other comprehensive income	Recognised in Equity	Translation differences	Balance at end of the year
Year ended 30 June 2022						
Assessed loss in Company Policyholder's Fund	**185**	**(25)**	**–**	**–**	**–**	**160**
Assessed loss in Individual Policyholder's Fund	**1 134**	**(300)**	**–**	**–**	**–**	**834**
Assessed loss in subsidiaries	**2 439**	**158**	**–**	**–**	**103**	**2 700**
Financial Instruments and share based payments	**169**	**(181)**	**(3)**	**–**	**–**	**(15)**
Deferred acquisition costs	**(227)**	**19**	**–**	**–**	**2**	**(206)**
Contract liability	**70**	**10**	**–**	**–**	**9**	**89**
Difference between wear and tear and depreciation and leases	**(276)**	**(11)**	**–**	**–**	**(12)**	**(299)**
Intangible asset recognised on acquisition of business	**(57)**	**53**	**–**	**–**	**2**	**(2)**
Prepayments	**(14)**	**11**	**–**	**–**		**(3)**
Provisions	**340**	**26**	**–**	**17**	**3**	**386**
Difference between accounting and tax balances arising from insurance contracts	**(8 929)**	**449**	**–**	**–**	**–**	**(8 480)**
Other	**300**	**(141)**	**–**	**–**	**(203)**	**(44)**
	(4 866)	**68**	**(3)**	**17**	**(96)**	**(4 880)**

Group R million	Balance at beginning of the year	Charge for the year Recognised in Profit or loss	Recognised in OCI	Recognised in business combinations	Translation differences	Balance at end of the year
Year ended 30 June 2021						
Assessed loss in Company Policyholder's Fund	203	(18)	–	–	–	185
Assessed loss in Individual Policyholder's Fund	854	280	–	–	–	1 134
Assessed loss in subsidiaries	2 373	242	–	6	(182)	2 439
Financial instruments and share based payments	96	91	(16)	–	(2)	169
Deferred acquisition costs	(166)	(60)	–	–	(1)	(227)
Contract liability	18	64	–	–	(12)	70
Difference between wear and tear and depreciation and leases	(171)	(112)	–	–	7	(276)
Intangible asset recognised on acquisition of business	(74)	12	–	–	5	(57)
Prepayments	(40)	26	–	–	–	(14)
Provisions	225	119	–	–	(4)	340
Difference between accounting and tax balances arising from insurance contracts	(8 681)	(248)	–	–	–	(8 929)
Other	360	(97)	–	–	37	300
	(5 003)	299	(16)	6	(152)	(4 866)

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

24. DEFERRED TAX *continued*

Assessed losses

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

R million	Group 2022	Group 2021
Better Health Insurance Advice Ltd	**37**	33
Cogence (Pty) Ltd	**2**	–
Discovery Central Services (Pty) Ltd	**4 062**	2 854
Discovery Group Europe Limited	**52**	46
Discovery Life – Individual Policyholder's Fund	**7 907**	7 992
Discovery Partner Markets Service PTE Ltd	**33**	46
Discovery Vitality Australia (Pty) Ltd	**47**	28
Grove Nursing Services (Pty) Ltd	**43**	39
Medical Services Organisation International (Pty) Ltd	**3**	–
Southern Rx (Pty) Ltd	**109**	93
Vitality Healty Workplace Ltd	**17**	16
	12 312	11 147

A deferred tax asset has been partly recognised on assessed losses in the Discovery Life Individual Policyholder Fund. Refer to note 4.1.

The Group recognises deferred tax assets on carried forward losses to the extent that there are sufficient estimated future taxable profits and/or taxable temporary differences against which the tax losses can be utilised.

25. EMPLOYEE BENEFITS

R million	Group 2022	Group 2021
Leave pay		
Balance at beginning of the year	**315**	284
Additional provisions raised	**299**	312
Used during the year	**(262)**	(253)
Paid to terminated employees	**(32)**	(27)
Translation differences	**–**	(1)
Balance at end of the year	**320**	315
Current	**269**	262
Non-current	**51**	53
	320	315

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

26. NET INSURANCE PREMIUM REVENUE

R million	**Group 2022**	Group 2021
Health	**9 744**	8 599
Recurring premiums	**11 299**	11 262
Reinsurance premiums	**(1 555)**	(1 840)
Accelerated reinsurance premiums[1]	**–**	(823)
Individual life and invest	**33 195**	32 364
Recurring premiums	**30 302**	28 023
Single premiums	**9 335**	10 016
Reinsurance premiums	**(6 442)**	(5 675)
Group life	**2 411**	2 062
Recurring premiums	**2 634**	2 249
Reinsurance premiums	**(223)**	(187)
Short-term insurance	**5 170**	4 358
Recurring premiums	**5 212**	4 385
Reinsurance premiums	**(42)**	(27)
	50 520	47 383
Insurance premium revenue	**58 782**	55 935
Outward reinsurance premiums	**(8 262)**	(7 729)
Accelerated reinsurance premiums	**–**	(823)
	50 520	47 383

1 *Refer to note 42 Accelerated reinsurance premiums.*

27. INVESTMENT INCOME

R million	**Group 2022**	Group 2021
At amortised cost interest income using the effective interest rate method	**17**	17
Cash and cash equivalents interest income using the effective interest rate method	**279**	263
	296	280
Attributable to:		
– shareholders	**164**	141
– policyholders	**132**	139
	296	280

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

28. NET FAIR VALUE (LOSSES)/GAINS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

R million	**Group 2022**	Group 2021
Investment income	**3 128**	2 535
– Interest	**2 528**	2 233
– Dividends	**600**	302
Mutual fund distributions	**1 371**	1 228
Hedge ineffectiveness	**–**	8
Net fair value (losses)/gains[1]	**(6 324)**	8 120
	(1 825)	11 891

1 The comparative period has been restated to combine the line items Net realised (losses)/gains and Net fair value (losses)/gains into a single line item.

29. NET CLAIMS AND POLICYHOLDERS' BENEFITS

R million	**Group 2022**	Group 2021
Health insurance claims	**4 322**	3 991
Gross claims	**5 644**	5 315
Less: Reinsurance recoveries	**(1 322)**	(1 324)
Individual life insurance claims	**7 502**	6 380
Death	**6 499**	5 076
Disability	**4 484**	3 801
Payback benefits	**1 930**	1 588
Less: Recapture of reinsurance	**(89)**	–
Less: Reinsurance recoveries	**(5 322)**	(4 085)
Group life insurance claims	**2 594**	2 569
Death	**1 747**	1 606
Disability	**1 076**	1 262
Payback benefits	**10**	8
Less: Reinsurance recoveries	**(239)**	(307)
Individual investment benefits	**13 284**	12 913
Surrenders	**12 590**	12 232
Guaranteed payments	**65**	56
Annuity payments	**629**	625
Short-term insurance claims	**3 198**	2 325
Gross claims	**3 533**	2 403
Less: Reinsurance recoveries	**(335)**	(78)
	30 900	28 178
Claims and policyholders' benefits	**38 207**	33 972
Insurance claims recovered from reinsurers	**(7 218)**	(5 794)
Recapture of reinsurance	**(89)**	–
Net claims and policyholders' benefits	**30 900**	28 178

30. ACQUISITION COSTS

R million	**Group 2022**	Group 2021
Commission and other costs of obtaining contracts	**4 823**	5 032
Movement in deferred acquisition costs (refer to note 8)	**(49)**	1
	4 774	5 033

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

31. MARKETING AND ADMINISTRATION EXPENSES

R million	Group 2022	Group 2021
Auditors remuneration		
Audit fees	**113**	90
Fees for other services	**1**	2
Prior year	**(8)**	–
	106	92
Lease charges		
Short-term leases	**69**	59
Low value item leases	**156**	143
	225	202
Staff costs including executive directors[1]		
Salaries, wages and allowances[2]	**8 456**	7 516
Medical aid fund contributions	**482**	451
Defined contribution provident fund contributions	**401**	366
Social security levies	**304**	263
Share-based payment expenses		
– equity-settled	**326**	330
– cash-settled	**93**	195
– loss/(gain) on cash flow hedge	**22**	(6)
Staff training	**69**	36
Recruitment fees	**51**	29
Temporary staff	**537**	382
Provision for leave pay	**37**	59
Other	**168**	114
	10 946	9 735
Other operating costs		
Amortisation of software (note 7)[3]	**1 252**	1 200
Building related and office costs	**518**	508
Depreciation of property and equipment (note 6)	**650**	650
Loss on derecognition of property and equipment and intangible assets	**50**	51
Losses/(gains) on disposal of property and equipment	**3**	(3)
Gains on disposal of intangible assets	**(131)**	–
Impairment of property and equipment and intangible assets	**–**	61
Allowance for expected credit losses on receivables	**(79)**	(11)
Insurance	**51**	44
IT systems and consumables	**2 183**	2 123
Marketing and distribution costs	**1 743**	1 344
Non-executive directors fees	**37**	30
Professional fees	**895**	774
Vitality benefit expenses	**3 694**	3 259
Other operating expenses	**3 066**	2 620
	13 932	12 650
Total marketing and administration expenses	**25 209**	22 679

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

2 *Included in salaries, wages and allowance, is an amount of R75 million related to the derecognition of Software development, resulting from the IFRIC interpretation on capitalisation of costs associated with configuration or customisation costs in a cloud arrangement. Refer to note 7..*

3 *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 2022

32. SHARE-BASED PAYMENTS AND LONG TERM INCENTIVES

Incentive schemes

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

1. BEE STAFF SHARE TRUST

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

Allocation scheme

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

Option scheme

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

2. DISCOVERY'S PHANTOM SCHEME

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

The 2017 – 2018 allocations were pre-determined combinations of units that replicate the economics of a Discovery Limited share and units that replicate the economics of a call option over a Discovery Limited share.

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

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

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

4. ACQUISITION SCHEMES

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

5. DISCOVERY BANK SCHEME

Participants will receive Discovery Limited shares subject to the 'Value Created', which references the growth in the value of Discovery Bank business after capital invested and interest. These awards vests from between the 3rd and 7th anniversary of the market launch date of Discovery Bank, and each vesting is settled in three equal instalments over three years, if the participant is employed on each vesting date.

OTHER LONG TERM INCENTIVE SCHEMES

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

6. THE VITALITYHEALTH AND VITALITYLIFE PHANTOM SHARE SCHEME

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

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

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.

The share/option schemes mentioned in bullet 1, 3 and 5 have been classified as equity-settled schemes and therefore a share-based payment reserve has been recognised. The schemes mentioned in bullets 2 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, 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							
01/07/2015 – 30/06/2016	R0.00	30/09/2021	415	–	(415)	–	–
01/07/2016 – 30/06/2017	R0.00	31/03/2022	31 351	–	(31 064)	–	**287**
01/07/2016 – 30/06/2017	R113	30/09/2021	1 062	–	(1 062)	–	–
01/07/2016 – 30/06/2017	R122.5	30/09/2021	72 556	–	(70 834)	–	**1 722**
01/07/2017 – 30/06/2018	R0.00	22/05/2023	32 412	–	(16 952)	(10 805)	**4 655**
01/07/2018 – 30/06/2019	R0.00	30/04/2024	17 520	–	(5 901)	(5 665)	**5 954**
01/07/2019 – 30/06/2020	R0.00	30/09/2025	74 095	–	(25 824)	(1 077)	**47 194**
01/07/2020 – 30/06/2021	R0.00	31/03/2026	29 935	–	(3 473)	(4 866)	**21 596**
01/07/2021 – 30/06/2022	R0.00	30/09/2027	–	131 344	–	(15 716)	**115 628**
2. The Discovery Limited phantom scheme							
01/07/2016 – 30/06/2017	R0.00	30/09/2022	498 544	–	(371 909)	(67 738)	**58 897**
01/07/2016 – 30/06/2017	R115	30/09/2022	93 785	–	(93 524)	(261)	–
01/07/2017 – 30/06/2018	R0.00	30/09/2023	1 100 973	–	(356 175)	(103 980)	**640 818**
01/07/2017 – 30/06/2018	R141.65	30/09/2023	339 799	–	(169 264)	(6 977)	**163 558**
01/07/2018 – 30/06/2019	R0.00	31/03/2024	1 369 206	–	(346 395)	(135 495)	**887 316**
3. Discovery LTIP (equity settled)							
01/07/2019 – 30/06/2020	R0.00	30/09/2024	3 457 020	–	–	(407 180)	**3 049 840**
01/07/2020 – 30/06/2021	R0.00	30/09/2025	3 870 645	–	–	(214 500)	**3 656 145**
01/07/2021 – 30/06/2022	R0.00	30/09/2025	–	3 478 348	–	(126 113)	**3 352 235**
4. Acquisition schemes							
01/07/2016 – 30/06/2017	R0.00	30/06/2022	34 788	–	(31 511)	(3 277)	–
01/07/2017 – 30/06/2018	R0.00	30/06/2023	64 955	–	(32 212)	(7 840)	**24 903**
01/07/2018 – 30/06/2019	R0.00	30/06/2024	576 583	–	(494 905)	(17 950)	**63 728**
01/07/2019 – 30/06/2020	R0.00	30/06/2025	742 543	–	(48 815)	(35 660)	**658 068**
01/07/2020 – 30/06/2021	R0.00	30/06/2026	803 027	–	(7 734)	(27 879)	**767 414**
01/07/2021 – 30/06/2022	R0.00	30/06/2027	–	717 351	–	–	**717 351**

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

32. 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 interest rate	Exercise price	Option term	Volatility	Dividend yield
Phantom scheme						
01/07/2017 – 30/06/2018	R128.10	4.98%	R141.65	0.25 years	29.1%	0%

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 Discovery Limited phantom scheme, and Acquisition schemes are cash-settled and are thus repriced at each reporting date.

The Discovery LTIP is equity-settled, and accordingly Discovery determines the grant date fair value at the date of allocating the grant to the employee. The grant date fair value is then recognised over the vesting period. The significant assumptions in determining the grant date fair value were as follows:

	Spot price	Risk free interest rate	Volatility[1]	Vesting period	Dividend yield
Discovery LTIP					
01/07/2019 – 30/06/2020	R113.81	6.68% – 7.01%	30.89%	3 – 5 years	2.21% – 2.52%
01/07/2020 – 30/06/2021	R125.52 – R153.54	3.9% – 5.02%	37.02% – 42.21%	3 – 5 years	2.26% – 2.57%
01/07/2021 – 30/06/2022	R135.94	5.76%-6.57%	36.77%	3 – 5 years	2.29% – 2.46%

1 The expected volatility is based on both the historical average share price and implied volatility derived from traded options over the groups ordinary shares of maturity similar to those of the employee share options.

33. FINANCE COSTS

R million	**Group 2022**	Group 2021
Interest expense on:		
– Borrowings measured at amortised cost using the effective interest method	**1 037**	973
– Release from other comprehensive income	**–**	(8)
– Lease liabilities (IFRS 16)	**426**	436
– Interest on other payables using the effective interest method	**195**	247
	1 658	1 648

34. FOREIGN EXCHANGE GAINS/(LOSSES)

R million	**Group 2022**	Group 2021
Net foreign exchange gains/(losses)	**155**	(389)

The net foreign exchange gains and losses arised primarily from foreign denomintated loans, some of which are internal.

The total amount of foreign exchange gains/ (losses) recognised in profit or loss is a gain of R221 million (2021: R396 million losses) presented with various lines associated with the underlying transaction.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

35. TAXATION

R million	**Group 2022**	Restated[1] Group 2021
Charge for the year:		
Current taxation	**1 533**	1 274
Normal taxation		
– prior year (over)/ under provision	**(22)**	–
– current year charge	**1 550**	1 236
Capital gains taxation	**5**	38
Deferred taxation	**(68)**	(299)
Total income tax expense recognised in profit or loss	**1 465**	975

	%	%
Taxation rate reconciliation		
Statutory rate	**28.0**	28.0
Non-taxable income: Equity-accounted profit or loss and dividend income	**(2.7)**	(3.1)
Non-taxable income: Other individually immaterial	**(0.3)**	(1.4)
Non-deductible expenditure: Including items of a capital nature and non-deductible provisions	**4.0**	4.5
Non-deductible expenditure: Other individually immaterial	*	*
Subsidiary current period losses for which no deferred tax asset was recognised, net of of deferred tax assets on losses recognires for prior period losses	**3.1**	4.2
PAC arrangement	**(7.4)**	(5.3)
Insurance policyholder funds I-E taxes and related DTA recognitions	**2.0**	(1.7)
Accounting gains and losses taxable at CGT rates	**0.1**	1.3
CFC imputations and WHT not recovered	**0.7**	1.4
Additional tax allowances	**(0.3)**	(0.6)
Prior year under provision	**0.1**	0.9
Tax rate changes	**(4.6)**	(2.2)
Tax rate differences	**(1.6)**	(2.8)
Effective taxation rate	**21.1**	23.2

** Amount is less than 0.1%*

1 As part of the enhancement in tax transparency reporting, Discovery has enhanced the reporting categories. The prior period has been restated to align with the current year approach.

For South African entities that are in a tax paying position, tax has been provided at 28% (2021: 28%). Discovery uses the South African tax rate in respect of its tax rate reconciliation as Discovery Limited (holding company listed on the JSE) is domiciled in South African and the most significant operations are in South Africa. The South Africa's National Treasury announced that the corporate tax rate should reduce to 27% for tax years commencing ending on or after 31 March 2023. The rate is deemed substantively enacted, and deferred tax has been appropriately adjusted.

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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

36. EARNINGS PER SHARE

CHANGE IN PRESENTATION OF RECONCILIATION OF HEADLINE EARNINGS AND NORMALISED HEADLINE EARNINGS

For the year ended 30 June 2022, the headline earnings and normalised headline earnings reconciliations have been amended to enhance the presentation thereof. The presentation of prior periods have been restated accordingly to enable comparability.

R million	**Group 2022**	Group 2021
Earnings per share (cents):		
– basic	825.5	480.7
– diluted	817.8	475.4
Headline earnings per share (cents):		
– basic	792.4	454.7
– diluted	785.0	449.7
Normalised headline earnings per share (cents):		
– basic	885.5	518.7
– diluted	877.3	512.9
Number of shares used in calculation		
Weighted number of shares in issue ('000)	656 901	656 710
Diluted weighted number of shares ('000)	663 082	664 073

HEADLINE EARNINGS RECONCILIATION

Headline earnings per share is disclosed per the JSE Listing Requirements and is calculated in accordance with the circular titled Headline Earnings issued by SAICA, as amended from time to time. 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.

	Group 2022			Group 2021		
R million	**Gross**	**Tax**	**Net**	Gross	Tax	Net
Profit attributable to the ordinary shareholders			**5 422**			3 157
Adjusted for:						
– gain on disposal of intangible assets	**(131)**	**29**	**(102)**	–	–	–
– loss on derecognition of intangible assets	**37**	**(5)**	**32**	39	(8)	31
– loss on derecognition of property and equipment	**13**	**(1)**	**12**	11	(2)	9
– loss/ (gain) on disposal of property and equipment	**3**	**–**	**3**	(3)	1	(2)
– impairment of intangible assets	**–**	**–**	**–**	44	(3)	41
– impairment of property and equipment	**–**	**–**	**–**	17	(2)	15
Adjustments attributable to equity-accounted investments:						
– gain on dilution and disposal of equity-accounted investments	**(33)**	**4**	**(29)**	(554)	140	(414)
– (reversal of impairment)/impairment of equity-accounted investments[1]	**(134)**	**–**	**(134)**	149	–	149
Headline earnings			**5 204**			2 986

1 *Impairment reversal was supported by a firm offer to purchase the equity accounted investment.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

36. EARNINGS PER SHARE *continued*

EARNINGS, HEADLINE EARNINGS AND NORMALISED HEADLINE EARNINGS

NORMALISED HEADLINE EARNINGS RECONCILIATION

Normalised headline earnings is calculated per Discovery's policy as set out in the Accounting Policy 28.

	Group 2022			Group 2021		
R million	**Gross**	**Tax**	**Net**	Gross	Tax	Net
Headline earnings			**5 204**			2 986
Adjusted for:						
– Economic assumption adjustments net of discretionary margins and interest rate derivatives	**84**	**(74)**	**10**	519	(136)	383
– gain on economic assumption adjustments net of discretionary margins	**(169)**	**(26)**	**(195)**	(790)	112	(678)
– loss on fair value changes on VitalityLife interest rate derivative	**253**	**(48)**	**205**	1309	(248)	1061
– Loss/(gain) on fair value changes in the time value of swaption contract in VitalityLife	**454**	**(87)**	**367**	(139)	248	(113)
– other	**233**	**2**	**235**	407	(257)	150
– amortisation of intangible assets arising from business combinations	**59**	**(13)**	**46**	66	(13)	53
– gain on disposal of intangible assets1	**131**	**(29)**	**102**	–	–	–
– recognition of deferred tax assets on assessed losses not recognised in previous periods	**–**	**-14**	**(14)**	–	(152)	(152)
– loss/ (gain) on fair value changes on foreogn exchange contracts not designated as hedges	**2**	**(1)**	**1**	304	(85)	219
– restructuring costs	**–**	**–**	**–**	33	(6)	27
– transaction costs related to the Vitality Life interest rate derivative	**–**	**–**	**–**	4	(1)	3
– increase or decrease in deferred tax balances resulting from use of different tax rates on items that were excluded from normalised headline earnings	**–**	**59**	**59**	–	–	–
– increase or decrease in deferred tax balances resulting from use of different tax rates on items that were excluded from normalised headline earnings	**–**	**59**	**59**	–	–	–
Adjustments attributable to equity-accounted investments:						
– amortisation of intangible assets arising from business combinations	**41**	**–**	**41**	–	–	–
Normalised headline earnings			**5 816**			3 406

* *Amount is less than R500 000*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

37. CASH FLOW INFORMATION

37.1 Cash generated by operations

R million	Group 2022	Group 2021
Cash generated by operations		
Profit before taxation	**6 944**	4 195
Adjusted for:		
Investment income	**(4 795)**	(4 043)
Realised loss/(gain) on financial assets	**3 574**	216
Finance costs	**1 658**	1 648
Premiums, claims and investment charges for liabilities under investment contracts	**5 030**	5 645
Non-cash items:		
Allowance for expected credit losses	**(79)**	(11)
Amortisation of intangibles from business combinations	**59**	66
Amortisation of software	**1 252**	1 200
Assets arising from contracts with customers	**141**	131
Contract liabilities movement	**130**	22
Deferred acquisition costs	**(49)**	1
Derecognition and impairment of property and equipment	**12**	29
Derecognition and impairment of intangible assets	**170**	83
Depreciation	**650**	650
Fair value adjustment to liabilities under investment contracts	**40**	3 634
(Gain)/loss from derivatives	**(89)**	(136)
Gain on dilution and disposal of equity-accounted investments	**(33)**	(554)
Hedge ineffectiveness	**–**	8
(Reversal of impairment)/impairment of equity-accounted investment	**(134)**	149
Gain on disposal of intangible assets	**(131)**	–
Loss/(gain) on disposal of property and equipment	**3**	(3)
Provision for employee benefits	**37**	59
Share-based payment expenses – cash settled	**93**	330
Share-based payment expenses – equity settled	**326**	195
Share of profits from equity-accounted investments	**(422)**	(523)
Transfer to assets under insurance contracts	**(5 786)**	(545)
Transfer to assets under reinsurance contracts	**(63)**	(56)
Transfer to liabilities under insurance contracts	**6 935**	17 941
Transfer to liabilities under reinsurance contracts	**577**	(1 755)
Economic assumption differences net of discretionary margins	**(169)**	(790)
Translation differences	**(166)**	395
Unearned premiums	**(100)**	(360)
Unrealised losses/(gains) on investments at fair value through profit or loss	**2 860**	(8 336)
Working capital changes:		
Deposits from customers	**1 897**	6 558
Loans and advances to customers	**(679)**	(1 513)
Loans and receivables including insurance receivables	**(2 361)**	(205)
Trade and other payables	**3 611**	2 132
Cash generated by operations	**20 943**	26 457

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

37. CASH FLOW INFORMATION *continued*

37.2 Taxation paid

R million	Group 2022	Group 2021
Balance at beginning of the year	**22**	(611)
Taxation charged for the year in the income statement	**(1 465)**	(975)
Adjustment for movement in deferred taxation	**(68)**	(299)
Reallocation to separately disclosable items	**20**	195
Translation differences	**3**	(5)
Balance at end of the year	**307**	(22)
Taxation paid	**(1 181)**	(1 717)

37.3 Movement in borrowings

R million	Group 2022	Group 2021
Balance at beginning of the year excluding bank overdraft	**19 493**	19 836
Leased assets acquired and IFRS 16 transition	**138**	56
Increase in borrowings	**3 261**	1 839
Raising fees capitalised	**(3)**	(39)
Interest accrued on borrowings	**1 463**	1 407
Interest paid on borrowings	**(1 188)**	(941)
Repayment of borrowings	**(2 687)**	(2 366)
Modification to lease assets	**(126)**	46
Translation differences	**77**	(345)
Balance at end of the year excluding overdrafts with banks	**20 428**	19 493

38. COMMITMENTS

Capital commitments

R million	Group 2022	Group 2021
Capital expenditure approved but not contracted for at the reporting date as follows:		
– Property and Equipment	**41**	–
– Intangible assets	**120**	140
– Developments costs for Discovery Bank	**394**	325
	555	464

Also refer to Capital section of Directors' report.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

39. DIVIDENDS PER SHARE

39.1 Dividends per ordinary share

Due to the uncertain and potentially volatile environment caused by the COVID-19 pandemic, Discovery did not pay out any ordinary dividends for the year ended 30 June 2022.

39.2 Dividends per preference share

The dividends paid in 2022 totalled R56 million and comprised a final dividend of 347.12329 (277.69863 net of withholding tax) cents per share paid on 27 September 2021 and an interim dividend of 355.75342 (284.60274 net of withholding tax) cents per share paid on 14 March 2022.

The dividends paid in 2021 totalled R63 million and comprised a final dividend of 433.21918 (346.57534 net of withholding tax) cents per share paid on 28 September 2020 and an interim dividend of 354.52055 (283.61644 net of withholding tax) cents per share paid on 15 March 2021.

40. CONTINGENCIES

The Group is not exposed to material contingencies at 30 June 2022.

41. RELATED PARTIES

41.1 List of related parties as defined

SUBSIDIARIES

Details of subsidiaries directly and indirectly owned by Discovery Limited are contained in Company note 2. In addition, Annexure A sets out all subsidiary and other investments held within Discovery Group.

ASSOCIATES AND JOINT VENTURES

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

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. Also refer to Annexure C for Directorate remuneration.

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 *Related Party Disclosures*) 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 2022

41. RELATED PARTIES *continued*

41.2 Transactions with related parties

CAMBRIDGE MOBILE TELEMATICS INC. (CMT)

Discovery Insure paid fees monthly to CMT for the collation and interpretation of data and the translating of driving behavior into scorable events. Fees paid for the year totaled R16 million (2021: R11 million).

KEY MANAGEMENT PERSONNEL OF DISCOVERY LIMITED, FAMILIES OF KEY MANAGEMENT (AS DEFINED IN IAS 24) AND ENTITIES SIGNIFICANTLY INFLUENCED OR CONTROLLED BY KEY MANAGEMENT

INSURANCE CONTRACTS

	Aggregated insured cover		Premiums received		Claims paid	
R'000	**2022**	2021	**2022**	2021	**2022**	2021
Life insurance	**1 098 794**	1 016 334	**8 419**	6 347	**–**	–
Short-term insurance	**882 273**	630 404	**3 327**	2 723	**1 300**	1 622
Short-term health insurance	**–**	–	**12**	79	**7**	27

INVESTMENT CONTRACTS

	Investment values		Premiums received		Withdrawal benefits		Investment returns	
R'000	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Investment contracts	**86 526**	116 523	**13 461**	56 328	**11 902**	19 216	6 778	6 522

VITALITY LOYALTY PROGRAMME

	Premiums received		Amounts paid	
R'000	**2022**	2021	**2022**	2021
Vitality benefits	**272**	79	**4 460**	571

During the 2021 financial year, the DiscoveryCard benefits were migrated to Discovery Vitality. There are, therefore, no transaction for 2022.

DISCOVERY BANK

	Loans		Savings		Fees	
R'000	**2022**	2021	**2022**	2021	**2022**	2021
Discovery Bank	**2 259**	1 345	**26 399**	32 141	**287**	244

During the 2021 financial year DiscoveryCard migrated to Discovery Bank.

Key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management accrued 444 903 Discovery miles as part of the Vitality Reward Programme (previously DiscoveryCard loyalty programme) for the year ended 30 June 2022 (2021: 149 388).

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 2022 was 78 169 727ordinary shares (2021: 78 620 184 ordinary shares).

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

- Sponsorship and enterprise development grants to the value of R0.7 million (2021: R1.9 million) were made to organisations where members of key management personnel have significant influence.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

41. RELATED PARTIES *continued*

41.3 Major customers and other Discovery entities not part of Discovery Group

DISCOVERY HEALTH MEDICAL SCHEME (DHMS)

Discovery 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 totaled R6 804 million (2021: R6 403 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 totaled R28 million (2021: R12 million).

Discovery Third Party Recovery Services (DTPRS) paid DHMS R14.5 million (2021: R10 million) to purchase all the risks and rewards of ownership to the claims due from the Road Accident Fund up to 14 January 2022 (2021: 15 January 2021). DTPRS also provides a service to DHMS to recover all claims that are due from the Compensation for Occupational Injuries and Diseases. DTPRS received R19.5 million (2021: R22 million) for this service. DTPRS owes DHMS R5.7 million (2021: R3 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 totaled R1 686 million for the year ended 30 June 2022 (2021: R1 660 million).

DHMS owes the Discovery Group R679 million (2021: R650 million) at year-end.

Discovery Central Services receives monthly rent from DHMS for office space at 1 Discovery Place which totalled R9 million for the year ended 30 June 2022, (2021: R 7 million).

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 Society
- Engen Medical Benefit Fund
- Glencore Medical Scheme
- LA Health Medical Scheme
- Libcare Medical Scheme
- Lonmin Medical Scheme
- Malcor Medical Scheme
- Multichoice Medical Aid Scheme (previously known as Naspers Medical Fund)
- Netcare Medical Scheme
- Remedi Medical Scheme
- Retail Medical Scheme
- SAB Medical Aid Scheme
- TFG Medical Scheme
- Tsogo Sun Group Medical Scheme
- UKZN Medical Scheme

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 totaled R1 212 million (2021: R1 174 million).

DTPRS paid Bankmed R2 million (2021: R3 million) to purchase all the risks and rewards of ownership for the claims due from the Road Accident Fund up to 31 December 2021 (2021: 20 October 2020). DTPRS also provides a service to Bankmed to recover all claims that are due from the Compensation for Occupational Injuries and Diseases. DTPRS received R0.5 million (2021: R0.4 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 totaled R86 million (2021: R91 million). Amounts due to the Discovery Group at year-end totaled R101 million (2021: R104 million).

DISCOVERY FRANCHISES

Discovery has established a network of 27 franchises in order to establish a national footprint for its products. Discovery has paid R229 million (2021: R251 million) in fees to the franchises.

The franchises participate in the Acquisition Scheme (refer to note 31 for further details). During the year, R15 million (2021: R17 million) was accrued for in terms of this scheme.

THE DISCOVERY FOUNDATION

The Discovery Foundation, which is an independent shareholder of Discovery, received contributions of R3 million from Discovery in the current year, no contributions or fees were received during the prior year.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

41. RELATED PARTIES *continued*
41.3 Major customers & other Discovery entities not part of Discovery Group *continued*
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 R24 million during the year (2021: R24 million). Discovery also paid a management fee of R2 million (2021: R4 million).

DISCOVERY RETIREMENT FUNDS

In February 2020 the Discovery Limited Board appointed the Discovery Retirement Funds comprising funds underwritten by Discovery Life and registered as the Discovery Life Pension Umbrella Fund and the Discovery Life Provident Umbrella Fund, as retirement fund provider to the Discovery Staff.

At 30 June 2021 the Discovery Staff Pension Fund and Discovery Staff Provident Fund, the two standalone Funds previously providing retirement benefits to Discovery Staff, were in the process of moving their members' assets across to the Discovery Retirement Funds (Umbrella Pension and Provident Funds underwritten and administered by Discovery Life) through a Section 14 transfer. At that stage assets of the Discovery Staff Pension Fund amounting to R1 787 million were transferred across to the Discovery Retirement Funds. The movement of the assets of the Discovery Staff Provident Fund amounting to R1 773 million was transferred in October 2021. The Boards of the Discovery Staff Pension and Provident Funds have now resolved to close these Funds and this process is now underway.

Contributions to the Discovery Retirement Funds by Discovery Staff during the year amounted to R520 million (2021: R497 million). The Discovery Retirement Funds have R4 334 million of assets under administration on behalf of Discovery Staff, R4 159 million is invested in unit linked insurance policies with Discovery Life (2021: R2 288 million). R3 732 million (2021: R1 969 million) of the unit linked insurance policies are in turn linked to unit trusts managed by Discovery Life Collective Investments.

42. ACCELERATED REINSURANCE PREMIUMS – VITALITYHEALTH

VitalityHealth uses quota share reinsurance treaties as one of the mechanisms to manage initial acquisition cost strain and underwriting experience risk. During the prior financial year, VitalityHealth modified certain of its existing quota share reinsurance treaties to adjust the repayment profile thereof. The modification resulted in VitalityHealth making additional repayments of GBP 39.7 million (R823 million) in the prior financial year, with GBP19.8 million of reduced repayments in the financial year ended 30 June 2022 and 2023 respectively. The net impact in profit or loss over the three-year period to 30 June 2023, is nil.

43. DIVIDENDS PAID DURING THE CURRENT AND PRIOR FINANCIAL YEAR
B preference shares

Payment date	Nature and financial period	Dividend declared per share
14 March 2022	Interim dividend Financial year 2022	355.75342 (284.60274 cents net of dividend withholding tax)
27 September 2021	Final dividend Financial year 2021	347.12329 cents (277.69863 cents net of dividend withholding tax)
15 March 2021	Interim dividend Financial year 2021	354.52055 cents (283.61644 cents net of dividend withholding tax)

Ordinary shares
While the Group's capital position remains robust, in light of the uncertain future impact of COVID-19 and the volatile global macro-economic environment, the Discovery Board has decided to retain its prior stated position and has decided not to declare an ordinary final dividend for the year ended 30 June 2022. The reintroduction of an ordinary dividend will be considered on an ongoing basis.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

44. EVENTS AFTER REPORTING DATE

B preference share cash dividend declaration

On 1 September 2022, the directors declared a final gross cash preference share dividend of 382.26027 cents (305.80822 cents net of dividend withholding tax) per B preference share for the period 1 January 2022 to 30 June 2022, 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, 20 September 2022
Shares commence trading “ex” dividend	Wednesday, 21 September 2022
Record date	Friday, 23 September 2022
Payment date	Monday, 26 September 2022

B Preference share certificates may not be dematerialised or rematerialised between Wednesday, 21 September 2022 and Friday, 23 September 2022, both days inclusive.

Ordinary share cash dividend declaration:

While the Group’s capital position remains robust, in light of the uncertain future impact of COVID-19 and the volatile global macro-economic environment, the Discovery Board has decided to retain its prior stated position and has decided not to declare an ordinary final dividend for the year ended 30 June 2022. The reintroduction of an ordinary dividend will be considered on an ongoing basis.

Competition Commission investigation

As reported in the media, the Competition Commission launched a search and seizure exercise at multiple life insurance company premises on 25 August 2022. The purpose of this was to collect information as part of an investigation covering Sanlam, Old Mutual, Hollard, Bidvest Life (FMI), BrightRock, Momentum, the Professional Provident Society, Liberty, and Discovery. While Discovery is yet to receive detailed insight into the Competition Commission’s complaint, the investigation appears to be in respect of alleged price fixing in the life insurance industry, including group risk cover and retirement fund investments.

The process will evolve, but upfront it is important that Discovery states it’s position on this matter:

- Discovery is an organisation built on purpose and values, and it places the utmost importance on our compliance with the laws and regulations that govern it.
- Discovery is a fiercely competitive organisation - Discovery innovates and disrupt markets in which it operate, striving to offer its customers products that are more efficient, better value for money and more sustainable. The strength of its competitive force is evidenced by the scale of market share Discovery has taken across every market it has entered.
- Discovery does not collude with competitors, and never will.
- Discovery strongly respect and support the country’s regulatory bodies, and Discovery will comply fully with the Commission’s requests and processes.

DISCOVERY

COMPANY ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE

2022

COMPANY STATEMENT OF FINANCIAL POSITION

at 30 June 2022

R million	Notes	Company 2022	Company 2021
Assets			
Deferred tax asset	13	**82**	113
Investments in subsidiaries	2	**29 027**	27 458
Investment in associate	3	**2 584**	1 097
Financial assets			
– Loans to subsidiaries	5	**8 397**	8 758
– Loans to BEE partners	6	**186**	149
– Other receivables	7	**185**	112
– Derivatives at fair value through profit or loss	4	**18**	27
Cash and cash equivalents	20.5	**607**	93
Total assets		**41 086**	37 807
Equity			
Capital and reserves			
Ordinary share capital and share premium	8.1	**10 293**	10 281
Perpetual preference share capital	8.2	**779**	779
Other reserves		**1 129**	510
Retained earnings		**8 003**	7 926
Total equity		**20 204**	19 496
Liabilities			
Financial liabilities			
– Borrowings at amortised cost	9	**10 584**	8 858
– Financial guarantee contracts	21	**25**	27
– Trade and other payables	11	**10 216**	8 147
– Loans from subsidiaries	12	**–**	853
– Derivatives at fair value through profit or loss	10	**56**	426
Current tax liability		**1**	*
Total liabilities		**20 882**	18 311
Total liabilities and equity		**41 086**	37 807

* *Amount is less than R500 000.*

COMPANY INCOME STATEMENT

for the year ended 30 June 2022

R million	Notes	**Company 2022**	Company 2021
Investment income[1]	14	**1 049**	3 845
At amortised cost interest income, using the effective interest rate		**688**	574
Dividends received from subsidiaries and equity-acccounted investments		**361**	3 271
Other income	15	**57**	61
Net fair value losses on financial instruments at fair value through profit or loss	16	**(2)**	(307)
Marketing and administration expenses	17	**(19)**	(14)
Movement in allowance for expected credit losses	18	*****	18
Profit from operations		**1 085**	3 603
Finance costs		**(937)**	(867)
Foreign exchange gains/(losses)		**16**	(169)
Profit before tax		**164**	2 567
Taxation	19	**(31)**	112
Profit for the year		**133**	2 679
Attributable to:			
– ordinary shareholders		**77**	2 616
– preference shareholders		**56**	63
		133	2 679

** Amount is less than R500 000.*

1 *During the current period, in line with the requirements of IAS 1, interest income using the effective interest rate method has been disclosed separately on the face of the Income Statement. Investment income has therefore been disaggregated with Dividend income and Interest income calculated using the effective interest rate method now disclosed separately. The comparative numbers have been restated accordingly.*

COMPANY STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2022

R million	**Company 2022**	Company 2021
Profit for the year	**133**	2 679
Items that are or may be reclassified subsequently to profit or loss:		
Cash flow hedges	**295**	182
– unrealised gains	**295**	189
– gains reclassified to profit or loss	**–**	(7)
Other comprehensive income for the year, net of tax	**295**	182
Total comprehensive income for the year	**428**	2 861
Attributable to:		
– ordinary shareholders	**372**	2 798
– preference shareholders	**56**	63
	428	2 861

COMPANY STATEMENT OF CASH FLOWS

for the year ended 30 June 2022

R million	Notes	Company 2022	Company 2021
Cash flow from operating activities		**492**	1 029
Cash generated/(utilised) by operations	20.1	**1 067**	(1 420)
Dividends received		**237**	3 271
Interest received		**102**	96
Interest paid		**(914)**	(829)
Taxation paid	20.2	*****	(89)
Cash flow from investing activities		**(2 078)**	(1 569)
Increase investment in subsidiary	20.3	**(1 559)**	(884)
Increase investment in associate		**(1 487)**	(106)
Increase in loans granted to subsidiaries	5	**(1 789)**	(2 274)
Proceeds from settlement of subsidiary loans	5	**2 757**	1 695
Cash flow from financing activities		**2 106**	445
Proceeds from treasury shares		**9**	10
Proceeds from issuance of ordinary shares		**443**	–
Proceeds from long-term borrowings	20.4	**2 410**	498
Repayment of long-term borrowings	20.4	**(700)**	–
Dividends paid to preference shareholders		**(56)**	(63)
Net increase/(decrease) in cash and cash equivalents		**520**	(95)
Cash and cash equivalents at beginning of the year		**93**	188
Exchange losses on cash and cash equivalents		**(6)**	–
Cash and cash equivalents at end of the year	20.5	**607**	93

** Amount is less than R500 000*

COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2022

Company R million	Share capital and share premium	Preference share capital	Hedging reserve	Share-based payment reserve	Retained earnings	Total
Year ended 30 June 2021						
At beginning of the year	10 331	779	(516)	520	5 085	16 199
Total comprehensive income for the year	–	63	182	–	2 616	2 861
Profit for the year	–	63	–	–	2 616	2 679
Other comprehensive income	–	–	182	–	–	182
Transactions with owners	(50)	(63)	–	324	225	436
Issue of shares	907	–	–	–	–	907
Increase in treasury shares	(957)	–	–	(5)	67	(895)
Gain on common control transaction	–	–	–	–	158	158
Employee share option schemes:						
– Value of employee services	–	–	–	329	–	329
Dividends paid to preference shareholders	–	(63)	–	–	–	(63)
Balance at 30 June 2021	10 281	779	(334)	844	7 926	19 496
Year ended 30 June 2022						
At beginning of the year	**10 281**	**779**	**(334)**	**844**	**7 926**	**19 496**
Total comprehensive income for the year	**–**	**56**	**295**	**–**	**77**	**428**
Profit for the year	**–**	**56**	**–**	**–**	**77**	**133**
Other comprehensive income	**–**	**–**	**295**	**–**	**–**	**295**
Transactions with owners	**12**	**(56)**	**–**	**324**	**–**	**280**
Issue of shares	**443**	**–**	**–**	**–**	**–**	**443**
Increase in treasury shares	**(443)**	**–**	**–**	**–**	**–**	**(443)**
Delivery of treasury shares	**3**	**–**	**–**	**(3)**	**–**	**–**
Proceeds from treasury shares	**9**	**–**	**–**	**–**	**–**	**9**
Employee share option schemes:						
– Value of employee services	**–**	**–**	**–**	**327**	**–**	**327**
Dividends paid to preference shareholders	**–**	**(56)**	**–**	**–**	**–**	**(56)**
Balance at 30 June 2022	**10 293**	**779**	**(39)**	**1 168**	**8 003**	**20 204**

COMPANY ACCOUNTING POLICIES
for the year ended 30 June 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Investment in subsidiaries and associates

The company is directly and indirectly the holding company of subsidiaries and investments as set out in Annexure A. Investments in subsidiaries and associates are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes directly attributable cost of the investment.

Discovery assesses at each reporting date whether there is objective evidence that the investment in subsidiaries and associates are 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.

1.1 COMMON CONTROL TRANSACTIONS

Common control transactions refer to business combinations in which all the combining entities or businesses are ultimately controlled by the same party (or parties) before and after the combination. This includes businesses which are associates and joint ventures. Discovery Limited applies book value accounting to account for common control transactions. Discovery Limited will dispose of its investment at the carrying amount. Any difference between the consideration received and the carrying amount of the investment disposed of is recognised as an equity transaction with shareholders in equity. No gain or loss is recognised in profit or loss on disposal.

2. Financial guarantee contracts

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

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

The Company measures the FGC:

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

2.1 INITIAL RECOGNITION

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

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

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

COMPANY ACCOUNTING POLICIES *continued*

for the year ended 30 June 2022

2. Financial guarantee contracts *continued*

2.2 SUBSEQUENT MEASUREMENT

The Company recognises financial guarantee fee income as follows:

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

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

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

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

2.3 DERECOGNITION

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

At the date of derecognition:

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

3. Share based payments

Also refer to Accounting Policies 17 'Employee benefits' set out in Annexure B and Group note 32 'Share-based payments and long-term incentives'.

Two of the schemes that Discovery operates, namely the BEE staff share trust and Discovery long-term incentive plan (equity settled), are both equity-settled share-based payment arrangements in accordance with the requirements of IFRS 2 *Share-based Payment*. In these schemes, Discovery Limited grants the awards to the employees within the Discovery Group of entities. Discovery classifies the share-based payment transaction according to whether the entity has the obligation to settle. As it is Discovery Limited’s shares being awarded to employees, Discovery classifies the transaction as equity-settled.

Under IFRS, Discovery does not consider any repayment or recharge arrangements in determining the classification of these group share-based payment. Any recharge payments Discovery receives from its subsidiaries is treated as a return on capital from the subsidiary. Any excess of recharge above the carrying amount of investment in subsidiary is recognised immediately as dividend income.

Discovery manages two share trusts. Discovery treats the share trusts set up to facilitate the share-based payment arrangements as an agent, i.e., an extension of Discovery. In other words, shares held by the trust is treated as treasury shares of Discovery Limited.

- BEE Staff Share Trust: Shares and option to acquire shares have been allocated to senior black employees based on level of seniority and length of past service. The trust will hold shares until the date of vesting of the shares to the employee or exercise date of the option.
- Discovery LTIP Trust: Participants will receive Discovery Limited shares subject to performance criteria and if the participant is employed on each vesting date. The trust will hold shares until the date of vesting of the shares to the employee. Per the LTIP Trust deed, the LTIP Trust recharges the costs of the shares acquired for the employees to the relevant subsidiary whose employees are awarded the shares. The recharge is upfront.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2022

1. MANAGEMENT OF FINANCIAL RISK

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

1.1 Interest rate risk

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

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

Company R million	Carrying amount	Fixed	Floating	Non-interest bearing
At 30 June 2022				
Derivative financial instruments at fair value:				
– Not designated as hedging instruments	**1**	**–**	**–**	**1**
– Used as cash flow hedges[1]	**17**	**17**	**–**	**–**
Loan to subsidiaries	**8 397**	**2 216**	**6 181**	**–**
Loans to BEE partners	**186**	**–**	**184**	**2**
Other receivables	**176**	**–**	**–**	**176**
Cash and cash equivalents	**607**	**–**	**607**	**–**
Total financial assets	**9 384**	**2 233**	**6 972**	**179**
Borrowings at amortised cost	**10 584**	**3 826**	**6 758**	**–**
Derivative financial instruments at fair value:				
– Used as cash flow hedges[1]	**56**	**56**	**–**	**–**
Financial guarantee contracts	**25**	**–**	**–**	**25**
Trade and other payables	**10 216**	**–**	**–**	**10 216**
Total financial liabilities	**20 881**	**3 882**	**6 758**	**10 241**
At 30 June 2021				
Derivative financial instruments at fair value:				
– Not designated as hedging instruments	22	–	–	22
– Used as cash flow hedges[1]	5	5	–	–
Loan to subsidiaries	8 758	2 001	6 428	329
Loans to BEE partners	149	–	149	–
Other receivables	112	–	–	112
Cash and cash equivalents	93	7	86	–
Total financial assets	9 139	2 013	6 663	463
Borrowings at amortised cost	8 858	3 824	5 034	–
Derivative financial instruments at fair value:				
– Not designated as hedging instruments	94	–	–	94
– Used as cash flow hedges	332	332	–	–
Financial guarantee contracts	27	–	–	27
Trade and other payables	8 147	–	–	8 147
Loans from subsidiaries	853	–	723	130
Total financial liabilities	18 311	4 156	5 757	8 398

1 *For further information on the use of interest rate swaps to manage the interest rate risk of Discovery Limited, refer to the following notes in the Group financials, which equally apply to Discovery Limited:*

– Note 3.4 Shareholder financial assets and liabilities, "Borrowings at amortised cost and related hedges", page 72 – 73.

For those finanical assets at amortised cost, a change of 1% in the interest rate would result in an increase/decrease of R69 million (2021: R19 million) in interest income and R56 million (2021: R58 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 2022

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 2022				
Derivative financial instruments at fair value:				
– Not designated as hedging instruments	**1**	**1**	**–**	**–**
– Used as cash flow hedges	**17**	**17**	**–**	**–**
Loans to subsidiaries	**8 397**	**6 621**	**1 776**	**–**
Loans to BEE partners	**186**	**186**	**–**	**–**
Other receivables	**176**	**143**	**33**	**–**
Cash and cash equivalents	**607**	**526**	**59**	**22**
Total financial assets	**9 384**	**7 494**	**1 868**	**22**
Borrowings at amortised cost	**10 584**	**10 584**	**–**	**–**
Derivative financial instruments at fair value:				
– Used as cash flow hedges	**56**	**56**	**–**	**–**
Financial guarantee contracts	**25**	**17**	**8**	**–**
Other payables	**10 216**	**10 216**	*****	**–**
Total financial liabilities	**20 881**	**20 873**	**8**	**–**
At 30 June 2021				
Derivative financial instruments at fair value:				
– Not designated as hedging instruments	22	22	–	–
– Used as cash flow hedges	5	5	–	–
Loans to subsidiaries	8 758	7 020	1 738	–
Loans to BEE partners	149	149	–	–
Other receivables	112	66	46	–
Cash and cash equivalents	93	22	52	19
Total financial assets	9 139	7 284	1 836	19
Borrowings at amortised cost	8 858	8 858	–	–
Derivative financial instruments at fair value:				
– Not designated as hedging instruments	94	94	–	–
– Used as cash flow hedges	332	332	–	–
Financial guarantee contracts	27	19	8	–
Other payables	8 147	8 147	–	–
Loans from subsidiaries	853	853	–	–
Total financial liabilities	18 311	18 303	8	–

* *Amount is less than R500 000.*

A 10% increase or decrease in the respective foreign exchange rates of GBP: ZAR would result in additional gains of R186 million (2021: R196 million), or in the case of decrease, a loss of R186 million (2021:R196 million, recognised in profit or loss.

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. The credit risk associated with Cash and cash equivalents 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 2022

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 assets are all in stage 1 for purposes of determining expected credit losses.

Company R million	Total	Aaa	Aa1-3	A1-3	Baa1-3	Ba1-3	Internally rated/ assessed
At 30 June 2022							
Derivative financial instruments at fair value:							
– Not designated as hedging instruments	**1**	**–**	**–**	**–**	**–**	**1**	**–**
– Used as cash flow hedges	**17**	**–**	**–**	**–**	**–**	**17**	**–**
Loans to subsidiaries	**8 397**	**–**	**–**	**–**	**–**	**–**	**8 397**
Loans to BEE partners	**186**	**–**	**–**	**–**	**–**	**–**	**186**
Other receivables	**176**	**–**	**–**	**–**	**–**	**–**	**176**
Cash and cash equivalents	**607**	**–**	**–**	**–**	**–**	**607**	**–**
	9 384	**–**	**–**	**–**	**–**	**625**	**8 759**
At 30 June 2021							
Derivative financial instruments at fair value:							
– Not designated as hedging instruments	22	–	–	–	–	22	–
– Used as cash flow hedges	5	–	–	–	–	5	–
Loans to subsidiaries	8 758	–	–	–	–	–	8 758
Loans to BEE partners	149	–	–	–	–	–	149
Other receivables	110	–	–	–	–	–	110
Cash and cash equivalents	93	3	6	1	–	83	–
	9 137	3	6	1	–	110	9 017

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

Discovery Limited has issued financial guarantees as security of loans incurred by subsidiaries in the group. The maximum credit risk that Discovery Limited is exposed to on these contracts is the carrying amount, which amounted to R6 917 million (2021: R6 522 million). For majority of the issued financial guarantees, Discovery Limited is co-guarantor with Discovery Health (Pty) Ltd and Discovery Vitality (Pty) Ltd.

Loans to subsidiaries and financial guarantees do not have external credit ratings. Credit ratings are internally assigned to subsidiaries and the financial guarantees relative to the Discovery Group ratings. Loans to BEE partners are not assigned formal credit ratings externally or internally. These loans are structured considering creditworthiness of the individual partners, and the purpose of the BEE relationship. These loans are managed and monitored on an individual basis, and ECL is accordingly recognised on an individual basis using management's best estimate.

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.

Liquidity is managed through the Group Treasury Management function, which considers the liquidity position at the respective Company level as well as the overall Group position. As part of this assessment, the liquidity position in each entity is optimised and takes account of available credit facilities to the Group within the Board approved maximum financial leverage ratio. The Company is in the process of refinancing short term borrowings as part of its ongoing debt capital management activities. The group structure is conducive for the Company to receive dividends and other forms of funding from underlying subsidiaries to enable it to meet its short-term obligations.

Cash flow forecasting is performed by the Company and liquidity requirements are monitored to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Company's debt financing plans and covenant compliance.

Cash held by the Company is invested in interest-bearing accounts, term deposits and money market deposits with appropriate maturities or sufficient liquidity to provide headroom as determined by the above-mentioned forecasts. At the reporting date, the Company had money market funds and cash and cash equivalents of R607 million (2021: R93 million).

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

1. MANAGEMENT OF FINANCIAL RISK *continued*

1.4 Liquidity risk *continued*

The table below analyses Discovery Limited's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. These amounts do not agree to the Statement of financial position as these are the undiscounted contractual payments.

Company R million	Total	<1 year	1 – 2 years	3 – 5 years	6 – 10 years
At 30 June 2022					
Borrowings	**12 416**	**4 013**	**1 036**	**7 110**	**257**
Derivative financial instruments:					
– used as cash flow hedges	**311**	**117**	**90**	**104**	**–**
Trade and other payables	**10 216**	**10 216**	**–**	**–**	**–**
	22 943	**14 346**	**1 126**	**7 214**	**257**
Financial guarantees	**6 917**	**6 917**	**–**	**–**	**–**
	29 860	**21 263**	**1 126**	**7 214**	**257**
At 30 June 2021					
Borrowings	10 842	643	3 186	5 995	1 018
Derivative financial instruments:					
– used as cash flow hedges	635	193	171	260	11
– not designated as hedging instruments	94	94	–	–	–
Trade and other payables	8 147	8 147	–	–	–
Loans from subsidiaries:					
– interest free loans	130	–	–	130	–
– interest-bearing loans	766	766	–	–	–
	20 614	9 843	3 357	6 385	1 029
Financial guarantees	6 522	6 522	–	–	–
	27 136	16 365	3 357	6 385	1 029

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. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide information on an ongoing basis. Quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

(a) Quoted prices for similar instruments or identical instruments in markets which are not considered to be active; or

(b) Valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

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

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

1. MANAGEMENT OF FINANCIAL RISK *continued*

1.5 Fair value estimation *continued*

Company R million	Total	Level 1	Level 2	Level 3
At 30 June 2022				
Derivative financial instruments at fair value:				
– Not designated as hedging instruments	**1**	**–**	**1**	**–**
– Used as cash flow hedges	**17**	**–**	**17**	**–**
Total financial assets	**18**	**–**	**18**	**–**
Derivative financial instruments at fair value:				
– Used as cash flow hedges	**56**	**–**	**56**	**–**
Total financial liabilities	**56**	**–**	**56**	**–**
At 30 June 2021				
Derivative financial instruments at fair value:				
– Not designated as hedging instruments	22	–	22	–
– Used as cash flow hedges	5	–	5	–
Total financial assets	27	–	27	–
Derivative financial instruments at fair value:				
– Not designated as hedging instruments	94	–	94	–
– Used as cash flow hedges	332	–	332	–
Total financial liabilities	426	–	426	–

2. INVESTMENTS IN SUBSIDIARIES

	Issued ordinary capital R million		Effective percentage holding %		Investment in subsidiaries[3] R million	
	2022	2021	**2022**	2021	**2022**	2021
Cogence	*****	–	**100**	100	*****	–
Discovery Bank Holdings Company	**8 771**	7 689	**100**	100	**8 996**	7 896
Discovery Connect Distribution Services	**555**	555	**100**	100	**551**	554
Discovery Central Services	*****	*	**100**	100	**34**	42
Discovery Finance Company Europe Limited[1]	**393**	393	**100**	100	**394**	394
Discovery Group Europe Limited[1]	**14 080**	13 802	**100**	100	**14 063**	13 790
Discovery Health	**271**	271	**100**	100	**216**	243
Discovery Insure	**2 402**	2 402	**100**	100	**1 442**	1 463
Discovery Life	**1 416**	1 416	**100**	100	**1 486**	1 510
Discovery Life Collective Investments	**15**	15	**100**	100	**15**	15
Discovery Life Investment Services	**203**	3	**100**	100	**203**	3
Discovery Mauritius Asset Management	**1**	1	**100**	100	**1**	1
Discovery Vitality	*****	*	**100**	100	**–**	–
Discovery Partner Markets Asia Private Limited[2]	**211**	211	**100**	100	**113**	113
Vitality Group International Inc[4]	**3 319**	3 319	**100**	100	**1 513**	1 434
Balance at the end of the year					**29 027**	27 458

* *Amount is less than R500 000.*

1 *Incorporated in England and Wales.*

2 *Incorporated in Singapore.*

3 *Investments in subsidiaries include cost less impairments plus the value of share options issued to subsidiary staff.*

4 *Incorporated in the United States of America.*

Refer to Company note 20.3 for a detailed movement analysis.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

3. INVESTMENT IN ASSOCIATE

R million	% ownership interest 2022	% ownership interest 2021	Company 2022	Company 2021
Investment at cost:				
– Ping An Health Insurance Company in China, Limited	**25%**	25%	**2 584**	1097

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

4. DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS

R million	Company 2022	Company 2021
Interest rate swap – used as cash flow hedge	**17**	5
Derivatives not designated as hedging instrument	**1**	22
Total	**18**	27
Current	**1**	22
Non-current	**17**	5
Total	**18**	27

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

5. LOANS TO SUBSIDIARIES[1]

R million	Company 2022	Company 2021
Balance at beginning of the year	**8 758**	7 856
Additional loan granted	**1 789**	2 274
Repayment of loans		
– capital portion	**(2 757)**	(1 695)
– interest portion	**(93)**	–
Interest receivable	**676**	475
Movement in allowance for expected credit losses	**1**	–
Exchange differences	**23**	(152)
Balance at end of the year	**8 397**	8 758
Discovery Group Europe Ltd	**2 265**	2 200
Discovery Health (Pty) Ltd	**3 408**	3 120
Discovery Central Services (Pty) Ltd	**2 724**	3 109
Discovery Life Investment Services (Pty) Ltd	**–**	329
Balance at end of the year	**8 397**	8 758
Current	**3 214**	3 109
Non-current	**5 183**	5 649
	8 397	8 758

1 All loans to subsidiaries are measured at amortised cost, which approximates to fair value, as the loans bear interest at market related terms.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

5. LOANS TO SUBSIDIARIES *continued*

GBP denominated

Discovery Limited has granted GBP denominated loans to subsidiaries, the terms are as follows:

				Carrying value GBP/ Rand million			
				Company 2022		Company 2021	
Subsidiary the loan was granted to	Original loan value GBP million	Variable rate	Capital repayment and maturity date	**Rand**	**GBP**	Rand	GBP
DGEL	11.9	3-month Libor + 400bps	At maturity – 31 July 2025	**319**	**16.0**	301	15.3
DGEL	24.7	3-month Libor + 600bps	At maturity – 1 April 2027	**491**	**24.6**	485	24.6
DGEL	6.0	3-month Libor + 600bps	At maturity – 1 November 2027	**120**	**6.0**	118	6.0
DGEL	10.5	3-month Libor + 600bps	At maturity – 1 June 2028	**209**	**10.5**	207	10.5
DGEL	9.0	3-month Libor + 600bps	At maturity – 21 August 2028	**179**	**9.0**	177	9.0
DGEL	6.5	3-month Libor + 600bps	At maturity – 24 November 2028	**130**	**6.5**	128	6.5
DGEL	2.8	Bank of England base rate + 615bps	At maturity – 1 March 2029	**56**	**2.8**	55	2.8
DGEL	7.1	Bank of England base rate + 615bps	At maturity – 1 June 2029	**142**	**7.1**	140	7.1
DGEL	6.5	Bank of England base rate + 615bps	At maturity – 31 July 2029	**130**	**6.5**	128	6.5
				1 776	**89.0**	1 739	88.3

DGEL – Discovery Group Europe Limited

ZAR denominated

Discovery Limited has granted ZAR denominated loans to subsidiaries, the terms are as follows:

				Carrying value Rand million	
Subsidiary the loan was granted to	Original loan value GBP million	Variable rate	Capital repayment and maturity date	**Company 2022**	Company 2021
Discovery Group Europe Limited	268	3-month Jibar + 200bps	At maturity – 11 November 2022	**489**	461
Discovery Health[1]	727	3-month Jibar + 240bps	At maturity – 30 June 2026	**1 192**	1 119
Discovery Health[1]	92		At maturity – 9 September 2027	**167**	151
Discovery Health[1]	282		At maturity – 9 September 2027	**507**	458
Discovery Health[1]	235		At maturity – 15 December 2027	**413**	373
Discovery Health[1]	173		At maturity – 28 March 2027	**296**	267
Discovery Health[1]	288		At maturity – 30 June 2027	**480**	433
Discovery Health[1]	212		At maturity – 3 July 2027	**353**	319
Discovery Central Services	2 932	South African prime lending rate	On demand	**2 724**	3 109
Discovery Life Investment Services	330		On demand	**–**	329
				6 621	7 019

1 Interest payable quarterly in arrears, with the option available for Discovery Health to capitalise the interest to the value of the loan.

For the loans to Discovery Group Europe Limited, interest of R136 million was earned in respect of these loans in the current financial year (2021: R130 million) and R23 million foreign exchange gains was recognised in profit and loss (2021: R152 million gain).

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

6. LOANS TO BEE PARTNERS[1]

R million	Company 2022	Company 2021
Balance at the beginning of the year	**149**	116
Interest receivable	**9**	4
Additional loan granted	**35**	48
Repayment of loans	**(7)**	(19)
Balance at the end of the year	**186**	149
Current	**186**	149
Balance at the end of the year	**186**	149

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

R186 million (2021: R148 million) is a bridge loan due from Mohau Equity Partners. The loan accrues interest at prime rate less 2% and there is no fixed term to this loan.

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 accrued at a rate of prime less 0.5%. The outstanding balance of R1 million was fully repaid in the current financial year.

7. OTHER RECEIVABLES

R million	Company 2022	Company 2021
Intercompany receivables	**176**	110
Prepayments	**9**	2
Balance at the end of the year	**185**	112
Intercompany receivables include:		
Congence	**4**	–
Discovery Bank	**29**	–
Discovery Connect Distribution Services	**6**	–
Discovery Finance Company Europe	**14**	39
Discovery Group Europe	**3**	–
Discovery Holdings Europe	**19**	7
Discovery Insure	**43**	64
Discovery Vitality	**58**	–
Balance at the end of the year	**176**	110

8. SHARE CAPITAL AND SHARE PREMIUM

8.1 Ordinary share capital and share premium

	Issued		Treasury Shares		
R million	Share capital	Share premium	BEE Share Trust	Long-term incentive plan	Total Outstanding
Issued					
At 1 July 2020	1	10 331	(54)	–	10 278
Share movements:					
– shares issued	*	906	–	–	906
– treasury shares delivered	–	–	3	–	3
– Ttreasury shares purchased	–	–	–	(906)	(906)
At 30 June 2021	1	11 237	(51)	(906)	10 281
Share movements:					
– shares issued	*****	**443**	**–**	**–**	**443**
– treasury shares delivered	**–**	**8**	**4**	**–**	**12**
– treasury shares purchased	**–**	**–**	**–**	**(443)**	**(443)**
At 30 June 2022	**1**	**11 688**	**(47)**	**(1 349)**	**10 293**

** Amount is less than R500 000.*

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

8. SHARE CAPITAL AND SHARE PREMIUM *continued*

8.1 Ordinary share capital and share premium *continued*

		Treasury Shares		
R million	Company	BEE Share Trust	Long-term incentive plan	Total Outstanding
Issued				
At 1 July 2020	658 290 736	(966 460)	–	657 324 276
Share movements:				
– shares issued	7 477 865	–	–	7 477 865
– treasury shares delivered	–	160 499	–	160 499
– Ttreasury shares purchased	–	–	(7 477 865)	(7 477 865)
At 30 June 2021	665 768 601	(805 961)	(7 477 865)	657 484 775
Share movements:				
– shares issued	**3 194 870**	**–**	**–**	**3 194 870**
– treasury shares delivered	**–**	**152 104**	**–**	**152 104**
– treasury shares purchased	**–**	**–**	**(3 194 870)**	**(3 194 870)**
At 30 June 2022	**668 963 471**	**(653 857)**	**(10 672 735)**	**657 636 879**

The total authorised number of ordinary shares is 1 billion (2020: 1 billion), with a par value of 0.1 cent per share.

8.2 Preference share capital

R million	**Company 2022**	Company 2021
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 2022	**779**	779

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

9. BORROWINGS AT AMORTISED COST

R million	**Company 2022**	Company 2021
Borrowings from banks[1]	**10 584**	8 858
Current	**3 312**	54
Non-current	**7 272**	8 804
Balance at the end of the year	**10 584**	8 858

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

The borrowings were acquired for general corporate purposes in order to fund the various growth initiatives within the Group.

CREDIT RATING

In April 2022 Moody's Investors Service ("Moody's") reaffirmed Discovery Limited's Global scale long-term issuer rating of Ba3 and the national scale long- term issuer rating at A1.za. The outlook changed to stable from negative, aligned to the outlook of the country.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

9. BORROWINGS AT AMORTISED COST *continued*

Facility amount R million	Variable rate	Interest per annum	Capital repayment and maturity date	Carrying value R million Company 2022	Carrying value R million Company 2021
Listed DMTN[4,6]					
500	3-month Jibar + 161bps	9.71%[1,3]	At maturity – 21 November 2022	**503**	503
500	3-month Jibar + 205bps	6.30%[1,3]	At maturity – 21 August 2023	**503**	503
200	–	10.46%[2]	At maturity – 21 November 2024	**202**	202
800	3-month Jibar + 191bps	10.31%[1,3]	At maturity – 21 November 2024	**805**	804
1 200	3-month Jibar + 191bps	9.21%[1,3]	At maturity – 21 November 2024	**1 217**	1 220
700	3-month Jibar + 180bps	10.29%[1,3]	At maturity – 21 August 2026	**704**	703
300	3-month Jibar + 180bps	9.40%[1,3]	At maturity – 21 November 2026	**303**	302
792	3-month Jibar + 173bps		At maturity – 21 May 2027	**792**	–
226	3-month Jibar + 180bps		At maturity – 21 May 2029	**226**	–
Unlisted DMTN[4,5]					
1 100	–	8.92%[3]	At maturity – 10 March 2023	**1 104**	1 103
2 500	–	9.62%[3]	At maturity – 22 February 2025	**2 520**	2 519
Other					
1 400	3-month Jibar + 125bps		At maturity – 12 October 2022	**702**	–
1 000	3-month Jibar + 245bps	10.28%[1,3]	At maturity – 2 March 2023	**1 003**	999
11 218				**10 584**	8 858

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

2 Interest is payable semi-annually in arrears.

3 Interest payable quarterly in arrears.

4 DMTN refers to the R10 billion Discovery Domestic Medium Term Note (DMTN) program registered in 2017.

5 During the financial year ended 30 June 2020, Discovery Limited refinanced R3.6 billion bank syndicated loans through the issue of unlisted DMTN notes. The notes, although underwritten by a bank until maturity, are structured to enable short-term issuances into the commercial paper market on an ongoing basis.

The borrowings are unsecured senior debt and are not callable or convertible. Interest is payable quarterly in arrears other than footnote 2 in the table above. Refer to company note 20.4 for movement analysis and Group Note 20.

10. DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS

R million	Company 2022	Company 2021
Interest rate swap – used as cash flow hedges[1]	**56**	332
Derivatives not designated as hedging instruments	**–**	94
Balance at the end of the year	**56**	426
Current	**21**	94
Non-current	**35**	332
Balance at the end of the year	**56**	426

1 For further information, refer to Group Note 13, which sets out information on the 'Interest Rate Swaps' which equally apply to the Company.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

11. TRADE AND OTHER PAYABLES

R million		**Company 2022**	Company 2021
Accrued expenditure		**11**	10
Dividends due to shareholders		**10**	9
Intercompany payables		**10 195**	8 128
		10 216	8 147
Intercompany payables include:			
– Discovery Health (Pty) Ltd	i	**5 430**	3 078
– Discovery Life Limited	ii	**4 765**	4 839
– Discovery Vitality (Pty) Ltd		**–**	211
		10 195	8 128

i. Discovery Limited receives funds from Discovery Health (Pty) Ltd through a loan account, based on operational requirements. The loan is interest free and is settled as and when sufficient cash becomes available.

ii. Discovery Limited received funds from Discovery Life Limited in 2020 to assist with operational requirements. The loan is interest-free and is settled as and when sufficient cash becomes available.

The amortised cost of the trade and other payables approximate the fair value due to the short-term nature of these payables.

12. LOANS FROM SUBSIDIARIES

R million	**Company 2022**	Company 2021
Discovery Life Limited	**–**	853
	–	853

13. DEFERRED TAX ASSET

R million	**Company 2022**	Company 2021
Deferred tax asset – non-current	**82**	113
Movement summary:		
Balance at beginning of the year	**113**	(1)
Income statement charge	**(31)**	112
Increase in treasury shares	**–**	2
Balance at end of the year	**82**	113
Deferred taxation comprises:		
Assessed losses	**67**	106
Section 6 quat credits	**15**	6
Unrealised gains on financial instruments	**(1)**	(1)
Realised capital losses	**1**	2
	82	113

* *Amount is less than R500 000.*

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

14. INVESTMENT INCOME[1]

R million	Company 2022	Company 2021
At amortised cost interest income, using the effective interest rate	**688**	574
Dividends received from subsidiaries and equity-accounted investments	**361**	3 271
	1 049	3 845
Dividends received from subsidiaries and equity-accounted investments:		
– AIA Vitality (Hong Kong)	**–**	34
– Discovery Central Services	**117**	–
– Discovery Health	**–**	3 000
– Discovery Insure	**30**	–
– Discovery Life Collective Investments	**–**	200
– Discovery Mauritius Asset Management	**7**	–
– Discovery Partner Markets Services	**–**	16
– Discovery Vitality	**207**	21
	361	3 271

1 *Investment income for Discovery Limited is seen as Revenue.*

15. OTHER INCOME

R million		Company 2022	Company 2021
Guarantee fees	i	**53**	54
Amortisation of financial guarantee contract	ii	**3**	7
Other income		**1**	–
		57	61

i. Discovery Limited issued guarantees in respect of Discovery Finance Company Europe Limited and Discovery Holdings Europe Limited obligations. A guarantee fee is charged by Discovery Limited to Discovery Finance Company Europe Limited of R25 million and Discovery Holdings Europe Limited of R28 million.

ii. Amortisation of initial financial guarantee contracts over the term of the loan. Refer to Company note 21 for a list of all the guarantees that Discovery Limited has issued.

16. NET FAIR VALUE LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

R million	Company 2022	Company 2021
Fair value losses on non-hedge derivatives	**2**	307
	2	307

17. MARKETING AND ADMINISTRATION EXPENSES

R million	Company 2022	Company 2021
Marketing and administration expenses comprises:		
– Audit fees	**6**	7
– Professional fees	**11**	4
– Other	**2**	3
	19	14

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

18. MOVEMENT IN ALLOWANCE FOR EXPECTED CREDIT LOSSES[1]

R million	**Company 2022**	Company 2021
Financial guarantee contracts:		
– Discovery Bank	*	*
– Discovery Central Services	*	25
– Discovery Finance Company Europe	*	(7)
	*	18

** Amount is less than R500 000.*

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

	12 month credit losses	**Lifetime credit losses**	**Total**
30 June 2022			
Balance at beginning of the year	**16**	**–**	**16**
Increase in allowance	*****	**–**	*****
Balance at end of the year	**16**	**–**	**16**
30 June 2021			
Balance at beginning of the year	34	–	34
Increase in allowance	(18)	–	(18)
Balance at end of the year	16	–	16

** Amount is less than R500 000.*

19. TAXATION

R million	**Company 2022**	Company 2021
Charge for the year:		
Current taxation	*	–
Normal taxation		
– prior year under/ (over) provision	*	–
– current year charge	*	–
Deferred taxation	**(31)**	112
– prior year under/(over) provision	*	–
– current year charge	**(31)**	112
Total income tax (expense)/credit recognised in profit or loss	**(31)**	112

** Amount is less than R500 000.*

	%	%
Taxation rate reconciliation		
Effective taxation rate	**18.8**	4.4
Capital profits and dividend income	**61.0**	(35.7)
Exempt income	**–**	(0.1)
Disallowed expenditure: Capital in nature	**(44.1)**	3.1
Prior year under provision	**0.5**	–
Taxable Income: International tax adjustments	**(6.5)**	0.3
Change in tax rate	**(1.5)**	–
Difference in tax rate	**(0.2)**	–
Standard rate of taxation	**28.0**	(28.0)

Tax has been provided at 28% (2021: 28%) for Company Income Tax and at 40% (2021: 40%) for the respective Trust Tax. The Company uses the South African tax rate in respect of its tax rate reconciliation as Discovery Limited (holding company listed on the JSE) is domiciled in South African and the most significant operations are in South Africa. On 23 February 2022, the Minister of Finance announced that the Corporate Income Tax rate would reduce from 28% to 27% with effect from years of assessment ending on or after 31 March 2023. These rates are substantively enacted.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

20. CASH FLOW INFORMATION

20.1 Cash generated/(utilised) by operations

R million	Company 2022	Company 2021
Profit before taxation	**164**	2 567
Adjusted for:		
Interest received	**(688)**	(574)
Dividends received	**(361)**	(3 271)
Finance costs	**937**	867
Non-cash items:		
Movement in expected credit losses	*****	(18)
Amortisation of financial guarantee contracts	**(3)**	(7)
Fair value (gains)/losses on derivatives not designated as hedging instruments	**(73)**	307
Unrealised foreign exchange (gains)/losses	**(16)**	169
Working capital changes:		
Loans and receivables	**1 105**	197
Trade and other payables and loans from subsidiaries	**2**	(1 657)
	1 067	(1 420)

* *Amount is less than R500 000.*

20.2 Taxation paid

R million	Company 2022	Company 2021
Balance at beginning of the year	*****	(89)
Current taxation charged for the year in the income statement	*****	–
Balance at end of the year	**1**	*
	*****	(89)

* *Amount is less than R500 000.*

20.3 Increase investment in subsidiary

R million	Company 2022	Company 2021
Balance at beginning of the year	**27 458**	25 658
Value of share options issued to subsidiary staff	**327**	330
Financial guarantee contracts raised	**1**	1
Deemed dividends	**125**	–
Long-term incentive plan share recharges	**(443)**	–
Non-cash restructure of investment in subsidiary	**–**	427
Common control transaction (asset for share)	**–**	158
Balance at end of the year	**(29 027)**	(27 458)
Increase in investment in subsidiary	**(1 559)**	(884)

20.4 Long-term borrowings

R million	Company 2022	Company 2021
Balance at beginning of the year	**8 858**	8 356
Interest accrued	**686**	640
Interest paid	**(683)**	(636)
Increase in borrowings	**2 418**	500
Raising fees capitalised	**(8)**	(2)
Raising fees amortised	**13**	–
Repayment of borrowings	**(700)**	–
Balance at end of the year	**10 584**	8 858

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

20.5 Cash and cash equivalents

R million	Company 2022	Company 2021
Cash at bank and in hand	**93**	78
Short-term deposits	**514**	15
	607	93

21. FINANCIAL GUARANTEE CONTRACTS

R million		Company 2022	Company 2021
Discovery Limited has provided guarantees for the following subsidiaries:			
Discovery Finance Co Europe Limited	i	**3**	3
Discovery Central Services	ii	**16**	18
Discovery Holdings Europe Limited	iii	**5**	5
Discovery Bank	iv	**1**	1
Balance at the end of the year		**25**	27

i Discovery Limited has issued a guarantee for 2 facilities in respect of the obligations of Discovery Finance Company Europe Limited for the amount of GBP 80 million and GBP 34 million. As at 30 June 2022, Discovery Finance Company Europe Limited owed GBP 56 million (2021: GBP 99 million) in respect of these borrowing facilities.

ii 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 2022 is R494 million (2021: R526 million). 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 amount has been drawn down and the balance outstanding at 30 June 2022 is R1 417 million (2021: R1 423 million). During the current year, a new facility of R691 million was entered into and the full amount has been drawn down and the balance outstanding at 30 June 2022 is R691 million.

iii During 2020, Discovery Holdings Europe Limited entered into borrowing facilities for an amount of GBP 55 million, which was increased to GBP 100 million in 2021 to fund its operations. This facility has been guaranteed by Discovery Limited.

iv Discovery Limited issued a guarantee for a facility in respect of the obligations of Discovery Bank for the amount of R300 million (2021: R800 million).

22. EVENTS AFTER REPORTING DATE

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

DISCOVERY

ANNEXURES

ANNEXURE A – GROUP STRUCTURE

for the year ended 30 June 2022

Discovery is directly and indirectly the holding company of:

Audited information	Classification	Pecentage Holding at 30 June 2022	Country
Discovery Limited which holds the interest in:			
Cogence Proprietary Limited	*Subsidiary*	100%	South Africa
Discovery Bank Holdings Limited which holds the interest in:	*Subsidiary*	100%	South Africa
– Discovery Bank Limited	*Subsidiary*	100%	South Africa
Discovery Central Services Proprietary Limited which holds the interest in:	*Subsidiary*	100%	South Africa
– Glucode (Pty) Limited	*Associate*	25%	South Africa
Discovery Connect Distribution Services Proprietary Limited	*Subsidiary*	100%	South Africa
Discovery Finance Company Europe Limited	*Subsidiary*	100%	United Kingdom
Discovery Group Europe Limited which holds the interest in:	*Subsidiary*	100%	United Kingdom
– Discovery Holdings Europe Limited which holds the interest in:	*Subsidiary*	100%	United Kingdom
◦ Better Health Insurance Advice Limited	*Subsidiary*	100%	United Kingdom
◦ Healthcode Limited	*Associate*	20%	United Kingdom
◦ Vitality Corporate Services Limited	*Subsidiary*	100%	United Kingdom
◦ Vitality Invest Trustee Company Limited	*Subsidiary*	100%	United Kingdom
◦ Vitality Life Limited which holds the interest in:	*Subsidiary*	100%	United Kingdom
– Vitality Health Insurance Limited which holds the interest in:	*Subsidiary*	100%	United Kingdom
◦ Vitality Health Limited	*Subsidiary*	100%	United Kingdom
– Discovery Offshore Holdings No.2 Limited	*Subsidiary*	100%	United Kingdom
Discovery Health, which holds the interest in:	*Subsidiary*	100%	South Africa
– Discovery Administration Services Proprietary Limited	*Subsidiary*	100%	South Africa
– Discovery Third Party Recovery Services Proprietary Limited	*Subsidiary*	100%	South Africa
– Discovery Healthcare Service Proprietary Limited which holds the interest in:	*Subsidiary*	100%	South Africa
◦ Discovery Medical suppliers Proprietary Limited	*Subsidiary*	100%	South Africa
◦ Grove Nursing Services Proprietary Limited	*Subsidiary*	100%	South Africa
◦ Southern Rx Distributors Proprietary Limited	*Subsidiary*	100%	South Africa
– Medical Services Organisation International Proprietary Limited which holds an interest in:	*Subsidiary*	70%	South Africa
◦ Mediguide Africa Proprietary Limited	*Associate*	25%	South Africa
◦ Medical Services Organisation Proprietary Limited	*Subsidiary*	51%	Swaziland
– Medical Services Organisation International Limited which holds an interest in:	*Subsidiary*	70%	Isle of Man
◦ Global Access Health Network SARL	*Subsidiary*	80%	Democratic Republic of Congo
◦ MSOI Health Risk Managers Limited	*Subsidiary*	85%	Nigeria
– Quantium Health SA Proprietary Limited	*Joint venture*	50%	South Africa
Discovery Insure Limited which holds an interest in:	*Subsidiary*	100%	South Africa
– Bi-Me Proprietary Limited	*Associate*	33%	South Africa
– Discovery Telematics Services Proprietary Limited which holds an interest in:	*Subsidiary*	100%	South Africa
◦ Advinne Technologies Proprietary Limited	*Associate*	25%	South Africa
Discovery Life Limited	*Subsidiary*	100%	South Africa
Discovery Life Collective Investments Proprietary Limited	*Subsidiary*	100%	South Africa
Discovery Life Investment Services Proprietary Limited which holds an interest in:	*Subsidiary*	100%	South Africa
– Discovery Life Nominees Proprietary Limited	*Subsidiary*	100%	South Africa
Discovery Mauritius Asset Management which holds an interest in:	*Subsidiary*	100%	Mauritius
– Discovery International Collective Investments PLC	*Subsidiary*	100%	Mauritius
Discovery Partner Markets Asia Private Limited which holds an interest in:	*Subsidiary*	100%	Singapore
– Discovery Partner Market Services Private Limited which holds an interest in:	*Subsidiary*	100%	Singapore
◦ Vitality (Shangai) Business Consulting Services Company Limited	*Subsidiary*	100%	China
Discovery Vitality Proprietary Limited	*Subsidiary*	100%	South Africa
Ping An Health Insurance Company of China Limited	*Associate*	25%	China
Vitality Group International Incorporated which holds an interest in:	*Subsidiary*	100%	United States
– AIA Vitality (Hong Kong) Limited	*Joint venture*	44%	Hong Kong
– Amplify Health Asia Private Limited	*Associate*	25%	Singapore
– Cambridge Mobile Telematics Incorporated	*Associate*	9%	United States
– Discovery Vitality Australia Proprietary Limited which holds an interest in:	*Subsidiary*	100%	Australia
◦ Quantium Health Proprietary Limited which holds an interest in:	*Joint venture*	50%	Australia
– Health Outcomes Australia Proprietary Limited	*Joint venture*	100%	Australia
– Quantium Health Hong Kong Proprietary Limited	*Joint venture*	100%	Hong Kong
◦ AIA Vitality Proprietary Limited which holds an interest in:	*Associate*	27%	Australia
– My Own Support Proprietary Limited which holds the interest in:	*Associate*	100%	Australia
◦ AIA Health Insurance Proprietary Limited	*Associate*	100%	Australia
– The Vitality Group Incorporated	*Subsidiary*	100%	United States
– Vitality International Health Insurance Company Limited	*Subsidiary*	100%	Isle of Man
– Vitality Management Company Limited Liability Company	*Subsidiary*	100%	United States

ANNEXURE A – GROUP STRUCTURE *continued*

for the year ended 30 June 2022

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

Discovery Aggressive Dynamic Asset Optimiser Fund of Funds	Discovery Target Retirement 2025 Fund
Discovery Balanced Fund	Discovery Target Retirement 2030 Fund
Discovery Cautious Balanced Fund	Discovery Target Retirement 2035 Fund
Discovery Conservative Dynamic Asset Optimiser Fund of Funds	Discovery Target Retirement 2040 Fund
Discovery Diversified Income Fund	Discovery Target Retirement 2045 Fund
Discovery Equity Fund	Discovery Target Retirement 2050 Fund
Discovery Flexible Property Fund	Discovery Target Retirement 2055 Fund
Discovery Global Equity Feeder Fund	Discovery Target Retirement 2060 Fund
Discovery Global Real Estate Securities Feeder Fund	Discovery Global Multi Asset Fund (previously named
Discovery Global Value Equity Feeder Fund	Discovery Worldwide Best Ideas Fund)
Discovery Moderate Balanced Fund	Discovery Strategic Bond Fund
Discovery Moderate Dynamic Asset Optimiser Fund of Funds	Discovery Global Conservative Fund (Mauritius)
Discovery Money Market Fund	Discovery Global Moderate Fund (Mauritius)
Discovery Target Retirement 2015 Fund	Discovery Global Growth Portfolio Fund (Mauritius)
Discovery Target Retirement 2020 Fund	

ANNEXURE B – GROUP ACCOUNTING POLICIES
for the year ended 30 June 2022

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. Other interpretations, amendments and annual improvements effective for the first time in the current year have been considered and have no impact on the current reporting period.

1. Basis of presentation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Discovery's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are outlined in Group note 4 to the Annual Financial Statements.

All monetary information and figures presented in these financial statements are stated in millions of Rand (R million), unless otherwise indicated.

NEW STANDARDS AND AMENDMENTS WHICH BECAME EFFECTIVE DURING THE FINANCIAL YEAR

The following new standards, amendments and interpretations became effective during the periods which had a significant impact on recognised amounts:

Title and Effective date	Scope	Potential impact
Interpretation: Cloud-based arrangements	The IFRS Interpretations Committee clarified that in a cloud service contract, the customer needs to assess whether the implementation service is distinct from the service of receiving access to the software. Based on the committee's decision, implementation costs will need to be expensed as incurred or capitalised.	Discovery has identified specific implementation costs capitalised in previous financial years as intangible assets. Under the new interpretation, these costs will be expensed. Due to the impact being immaterial, the full cumulative costs were expensed in the current financial reporting period.

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.
- For discussion on IFRS 17, please refer to accounting policy note 29.

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.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

2. Consolidation *continued*

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.

Discovery controls these unit trusts as it has right to the variable returns in the form of fund management fees that it receives from its involvement with the funds. Furthermore, Discovery exercises control over these unit trust through the setting of the mandates as well as the appointment of the independent trustees. Discovery can, within the regulatory framework, also amend the mandates and change the independent trustee.

Of the 27 (2021: 27) Discovery Unit Trusts consolidated at 30 June 2022 Discovery holds less than a 50% economic interest in 1 (2021: 1) of these funds. Refer to page 25 for a list of consolidated unit trusts.

2.3 SUBSIDIARIES

Subsidiaries are all entities (including structured entities) over which Discovery has control. Discovery controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to Discovery. Consolidation is discontinued from the date on which control ceases.

Intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated. Unrealised gains or losses are also eliminated. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by Discovery. Intra-group foreign exchange gains or losses arising on intra-group balances do not eliminate.

2.4 ASSOCIATES AND JOINT ARRANGEMENTS

ASSOCIATES AND JOINT VENTURE

Associates are entities over which Discovery has the ability to exercise significant influence but not control over the financial and operational policies. Significant influence is determined based primarily on percentage voting rights, generally between 20% and 50%, together with other factors such as board participation and participation in the policy-making process. In certain instances, Discovery holds less than 20% equity interests, but holds rights that still give it significant influence. These are equity accounted.

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

Discovery recognises its interest in an associate or a joint venture as an investment and accounts for that investment using the equity method. Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost. The carrying amount is adjusted to recognise Discovery's share of the post-acquisition profit or loss of the investee and is recognised in profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Dividends received from the investee are presented as part of investing activities in the Statement of cash flows. 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.

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).

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

2. Consolidation *continued*

2.4 ASSOCIATES AND JOINT ARRANGEMENTS *continued*

ASSOCIATES AND JOINT VENTURE *continued*

A decrease in interest while an investment continues to be classified as an associate can also result from a dilution. The gain or loss on the dilution of in an equity-accounted investee is calculated as the difference between:

- the entity's ownership interest in the new assets received by the investee for the subscription of the new shares (e.g. the cash paid by the other party); and
- the reduction in ownership interest in the previous carrying amount.

JOINT OPERATIONS

A joint operation is a joint arrangement whereby the parties have joint control of an arrangement and rights to the assets and obligations for the liabilities relating to the arrangement.

Discovery recognises its share of those assets, liabilities, revenues and expenses that the operators incur jointly.

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 presentation currency of Discovery Limited.

3.2 TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from:

- The settlement of trading transactions is included in the results of operating activities in profit or loss;
- The settlement of financing transactions and from the translation at year-end exchange rates of assets and liabilities denominated in foreign currencies are recognised in profit or loss as foreign exchange gains and losses; and
- Qualifying cash flow hedges are deferred in the statement of other comprehensive income and are recycled to profit or loss in the periods in which the hedged item affects profit or loss.

3.3 GROUP COMPANIES

The results and financial position of all Discovery entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each Statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each Income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at rates at the date of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity, namely the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognised in the foreign currency translation reserve in the Statement of other comprehensive income. When a foreign operation is partially disposed of or sold, such exchange differences are recognised in profit or loss as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

4. Property and equipment

Items of property, and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses.

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.

If significant parts of an item of property, and equipment have different useful lives, then they are accounted for as separate items (major components) of property, and equipment. 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

Items of computer software development costs are measured at cost, less accumulated and any accumulated impairment losses.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable software products controlled by Discovery are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product, include the software development employee costs and an appropriate portion of directly attributable overheads. For cloud computing arrangements, implementation costs that do not meet the requirements to be capitalised as an asset is expensed as incurred.

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.

If significant parts of computer software development costs have different useful lives, then they are accounted for as separate items (major components) of computer software development costs. Computer software development costs recognised as assets are amortised over their useful lives.

Software applications	3 – 7 years
Core Systems	15 years (2021: 11 years)

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

5. Intangible assets *continued*

5.2 OTHER INTANGIBLE ASSETS

Discovery does not recognise costs incurred to internally developed trademarks, patents and similar rights and assets, including franchises and management contracts. These costs are recognised in profit or loss in the period in which they are incurred.

Purchased intangible assets which represent rights to receive future profits are capitalised at their fair values, represented by the estimated net present value of future cash flows relating to existing business, or at a value as determined by an independent valuer. These intangible assets are amortised into profit or loss as profits are expected to emerge and only tested for impairment if an indication of impairment arises.

Intangible assets acquired as part of business combinations were capitalised at their fair value, represented by the estimated net present value of future cash flows relating to existing business, or at a value as determined by an independent valuer. These intangible assets are amortised over their useful lives and only tested for impairment if an indication of impairment arises.

6. Deferred acquisition costs

The direct costs of acquiring new business, which are expected to be recovered out of future revenue margins, are deferred over the period in which the related performance obligations are satisfied and recognised as an asset in the Statement of financial position. The accounting policies relating specifically to deferred acquisition costs for insurance are detailed in accounting policies 13.

7. Goodwill

Goodwill arises on the acquisition of businesses and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the cash generating unit (CGU) containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

8. Impairment of non-financial assets

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that goodwill may be impaired.

Other assets, including equity accounted investments, intangible assets and costs of obtaining contracts, other than those relating to insurance contracts (see accounting policy 13), are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Such indicators include continued losses, changes in technology, market, economic, legal and operating environments.

An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is measured using the higher of the fair value less costs to sell and the value-in-use. Value-in-use is the present value of projected cash flows covering the remaining useful life of the asset. An impairment loss is recognised in profit or loss immediately.

Other assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

9. Financial instruments

Discovery initially recognises financial instruments when it becomes party to the contract.

Financial instruments are measured at initial recognition at fair value net of directly attributable transaction costs, unless the financial instrument is classified as fair value through profit or loss. For instruments classified at fair value through profit or loss attributable transaction costs are immediately expensed.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

9. Financial instruments *continued*

9.1 FINANCIAL ASSETS

9.1.1 RECOGNITION, CLASSIFICATION, MEASUREMENT AND DERECOGNITION

At initial recognition, the Group considers the appropriate classification as at Amortised cost (AC); Fair value through profit or loss (FVTPL) or Fair value through other comprehensive income (FVOCI) for debt instruments. Discovery considers:

- Whether the contractual cash flows of the financial asset are solely payments of principal and interest (SPPI). Such contractual cash flows are consistent with a basic lending arrangement, and compensate Discovery for the elements of time value of money, credit risk and other basic lending risks and a profit margin. Examples of such instruments include Treasury Bills, Government Bonds, cash and fixed term deposits. It excludes instruments such as equity-linked financial assets or puttable investments in unit trusts; and
- The business model for holding the financial assets.

Based on the criteria above, Discovery will classify a debt instrument as at:

- Amortised cost, if the financial asset meets the SPPI criterion and is held for the purpose to collect the contractual cash flows. Examples of this include loans and advances to customers (e.g. credit card advances) and fixed term deposits;
- Fair value with changes in other comprehensive income (debt instruments), if the financial asset kie
- kmeets the SPPI criterion and is held either to collect contractual cash flows or for sale. Discovery currently does not hold financial assets in this category. However, specified associates do have certain of their debt instruments in the category.
- Fair value through profit or loss, for all other financial assets that do not meet the criteria above (mandatorily). In addition, Discovery can designate financial assets into this category if this will reduce measurement inconsistencies (i.e. 'accounting mismatch') (designated). Discovery's business includes, amongst others, providing unit-linked insurance, unit-linked investment and non-linked insurance products to customers. Financial assets and liabilities in these portfolios are managed to achieve the objectives of the portfolio and to ensure that liabilities are appropriately matched with assets. In considering whether the objective of a portfolio is to collect contractual cash flows or to trade in financial instruments, Discovery considers the purpose for which instruments are held, the methods of risk management in a portfolio, the manner of performance reporting on a portfolio and the basis for determining compensation to managers for asset performance. For those financial assets backing insurance contracts, Discovery measures these financial assets at fair value through profit or loss. Unit-linked investment contracts are also mandatorily classified at fair value through profit or loss.

For equity instruments Discovery is permitted to make the irrevocable election to present changes in fair value in other comprehensive income, however cumulative gains or losses recognised cannot be reclassified to profit or loss on disposal. This election is available on an instrument-by-instrument basis. This election has only been made in the accounting records of specified associates. All other equity instruments are measured at FVTPL.

	Subsequent measurement
Amortised cost (AC)	These instruments are measured at amortised cost using the effective interest method. Movements in the balance of the instrument relate to expected credit losses, interest income and foreign exchange gains and losses which are recognised on profit or loss.
Fair value through profit or loss (FVTPL)	These instruments are measured at fair value with gains and losses recognised in other comprehensive income and are never reclassified to profit or loss. Dividends are recognised in profit or loss.
Fair value through other comprehensive income (FVOCI) – equity	These instruments are measured at fair value with gains and losses recognised in other comprehensive income. Dividends are recognised in profit or loss.
Fair value through other comprehensive income (FVOCI) – debt	These instruments are measured at fair value with changes in fair value recognised in other comprehensive income. Discovery recognises interest using effective interest method, movements in the balance related to expected credit losses, interest income and foreign exchange gains and losses in profit or loss. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss

There are no financial assets that have been designated at fair value through profit or loss.

The business model for managing a group of financial instruments is expected to remain stable, in rare instances where the business model changes there can be a reclassification of the business model. Any reclassifications are applied prospectively from the first day of the first reporting period after the change in business model, with no restatement of any previously recognised gains, losses or interest. Discovery has not had any changes in business models in the current reporting period and consequently there have been no reclassifications.

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and Discovery has also transferred substantially all risks and rewards of ownership.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

9. Financial instruments *continued*

9.1 FINANCIAL ASSETS *continued*

9.1.2 EXPECTED CREDIT LOSSES

Expected credit losses are recognised on the following items:

- Debt instrument at amortised cost, which includes treasury bills, banking loans and advances and fixed deposits. This also includes loan commitment for undrawn credit facilities;
- Lease receivables;
- Financial guarantee contracts;
- Other receivables which are financial assets at amortised cost; and
- Contract receivables and contracts assets with non-insurance customers and cash and cash equivalents.

Discovery has a multitude of different debtors and loans included in other receivables which are financial assets, which do not represent a homogeneous group of assets. The approach to determining credit losses varies according to the asset type, past bad debt experience and the potential to incorporate forward looking information. In certain instances, financial assets have been grouped based on shared characteristics (i.e. debt payment pattern similarities, financial instruments with collateral, debtor type), and expected credit losses determined on a collective basis.

The general expected credit loss approach requires that Discovery assess the credit risk of the instrument and determine whether there has been a significant increase in credit risk since initial recognition.

- Where there has not been a significant increase in credit risk since initial recognition expected credit losses are measured as the 12-month expected credit losses.
- Where there has been a significant increase in credit risk, expected credit losses are recognised as the life-time credit losses.

Discovery measures expected credit losses on:

- financial assets that are not credit-impaired at the reporting date as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that Discovery expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to Discovery if the commitment is drawn down and the cash flows that Discovery expects to receive (adjusted using a credit conversion factor).

Discovery does not recognise expected credit losses on Treasury Bills issued by the South African Reserve Bank as well as cash and cash equivalents receivable on demand due to the assessment that it is immaterial

SIGNIFICANT INCREASE IN CREDIT RISK

At each reporting date, Discovery assesses whether the credit risk on a financial asset has increased significantly since initial recognition. When making the assessment, an entity shall use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses.

Qualitative	Quantitative
▪ when contractual payments are more than 30 days past due the presumption is applied in conjunction with Discovery Risk Grade (DRG). ▪ the eligibility rules used in the credit underwriting and account management strategies are considered as triggers of significant increase in credit risk, since they provide a view in terms of how the client performs on their other credit facilities outside Discovery Bank. The rules comprise of a list of statuses at the bureau such as: judgements; adverse; deceased; and debt counselling statuses. ▪ performing (up-to-date and current) accounts that have shown deterioration with respect to Discovery Bank risk grades will also be regarded as a significant increase in credit risk.	Currently the Discovery Bank is not considering the quantitative triggers of significant increase in credit risk due to lack of origination data on the back book (ie DiscoveryCard joint venture data). As the book in Discovery Bank matures it will be in a position to perform the assessment.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

9. Financial instruments *continued*

9.1 FINANCIAL ASSETS *continued*

9.1.2 EXPECTED CREDIT LOSSES *continued*

CREDIT IMPAIRED AND DEFAULT

Discovery considers a financial instrument to be credit-impaired where current circumstances and economic conditions indicate that the expected future cash flows from a financial instrument may not be recoverable. These circumstances include but are not limited to evidence of financial or operational challenges for the debtor and missed contractual payments.

Default is defined on a facility level and considers both quantitative and qualitative factors as provided in the Basel capital framework. The qualitative criterion requires banks to identify credit deterioration before the exposure becomes delinquent "unlikeliness to pay" events, while the quantitative criterion requires banks to look at the material delinquency status.

The following factors are what constitutes default from a qualitative and quantitative perspective, and it is in line with the South African Reserve Bank definition.

Qualitative	Quantitative
▪ The borrower is placed in debt counselling/debt review; ▪ The borrower is deceased; ▪ The facility has undergone a distressed restructure/special arrangement; ▪ The facility has been transferred to charge off/legal status; or ▪ The client is under debt review; ▪ The client is insolvent; or ▪ The facility is written off	A material amount on the facility is 90 days or more in arrears, whereby material is set to avoid technical defaults.

WRITE-OFF

Discovery Bank will reduce the gross carrying amount of a financial asset when it has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. Currently the write-off point is based on time in default and is set as 12 months in default. To ensure the appropriateness of the write-off point, the proposed write-off point will be assessed on an annual basis and both time in default and recency of repayments will be considered.

Where Discovery has no reasonable expectation of recovery of a debt the amount is written off, this is considered to occur when all avenues of legal recourse to recover the debt have been unsuccessful.

9.2 FINANCIAL LIABILITIES

At initial recognition, the Group considers the appropriate classification as at Amortised costs (AC) or Fair value through profit or loss (FVTPL).

Financial liabilities are measured at FVTPL if:

- is it is held for trading; or
- if the financial liabilities are part of a group of financial assets and financial liabilities which are managed and performance evaluated on a fair value basis. These include financial liabilities held within the portfolios of unit-linked insurance and unit-linked investments.

All other financial liabilities in Discovery, which are in scope of IFRS 9, are measured at amortised cost.

Qualitative	Subsequent measurement
Amortised cost (AC)	These instruments are measured at amortised cost using the effective interest method. Interest income and foreign exchange gains and losses are recognised in profit or loss.
Fair value through profit or loss (FVTPL)	These instruments are measured at fair value with gains and losses and any interest recognised in profit or loss.

Discovery has investment contracts which have financial risk, and are consequently recognised and measured in terms of IFRS 9 rather than IFRS 4 *Insurance Contracts*. These contracts are classified at fair value through profit or loss. The policies are linked to the return on underlying financial assets and are directly matched. The movement on Discovery's own credit risk is considered immaterial. The remaining financial liabilities are carried at amortised cost.

Financial liabilities are derecognised when the obligation is extinguished.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

9. Financial instruments *continued*

9.3 OFFSET

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of Discovery or the counterparty.

9.4 MODIFICATIONS

Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability at fair value, including calculating a new effective interest rate, with the difference in the respective carrying amounts being recognised in other gains and losses on financial instruments within non-interest revenue. The date of recognition of a new asset is consequently considered to be the date of initial recognition for impairment calculation purposes.

If the terms are not substantially different for financial assets or financial liabilities, the group recalculates the new gross carrying amount by discounting the modified cash flows of the financial asset or financial liability using the original effective interest rate. The difference between the new gross carrying amount and the original gross carrying amount is recognised as a modification gain or loss within credit impairments (for distressed financial asset modifications) or in other gains and losses on financial instruments within non-interest revenue (for all other modifications).

In assessing whether a financial asset was substantially modified, Discovery performs a qualitative assessment to determine if the terms were substantially modified. In assessing whether a financial liability has been substantially modified, Discovery performs both a qualitative and quantitative (10% threshold) assessment to determine if the terms were substantially modified. For discussion on modifications as a result of the interbank offered rates (IBOR) reforms, refer to accounting policy 10.4.

10. Derivative financial instruments

Derivative financial instruments are classified as held for trading unless they are designated as effective hedging instruments.

Discovery initially recognises derivative financial instruments in the Statement of financial position at fair value on the date which a derivative contract is entered into (the best evidence of fair value on day one is the transaction price) and subsequently re-measures these instruments to fair value. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Fair values are obtained from quoted prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Discovery is permitted to designate certain derivatives as either:

- Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges); or
- Hedges of highly probable forecast transactions (cash flow hedges).

Discovery documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. Discovery also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are expected to be and have been highly effective in offsetting changes in fair values or cash flows of hedged items. Discovery continues to apply hedge accounting, as permitted in IFRS, consistent with IAS 39 *Financial Instruments: Recognition and Measurement*.

10.1 CASH FLOW HEDGE

Discovery recognises the effective portion of fair value changes of derivatives that are designated as cash flow hedges in the cash flow hedging reserve in the Statement of other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within net fair value gains on financial assets at fair value through profit or loss in the income statement.

Amounts accumulated in the Statement of other comprehensive income are recycled to profit or loss in the period in which the hedged item will affect profit or loss. Where the forecast transaction or a foreign currency firm commitment results in the recognition of a non-financial asset or liability, the gains and losses previously deferred are transferred from the Statement of other comprehensive income and included in the initial measurement of the cost of the non-financial asset or liability. Where the forecast transaction subsequently results in the recognition of a financial asset or liability, gains or losses deferred in equity are transferred from the statement of other comprehensive income when the financial asset or liability is sold or impaired.

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.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

10. Derivative financial instruments *continued*

10.2 DERIVATIVES THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of all such derivative instruments are recognised immediately in profit or loss, within net fair value gains on financial assets at fair value through profit or loss in the income statement.

10.3 HEDGING RESERVE

The hedging reserve includes the cash flow hedge reserve. The cash flow hedge reserve is used to recognise the effective portion of gains or losses on derivatives that are designated and qualify as cash flow hedges. Amounts are subsequently recycled to profit or loss as follows:

- For the effective portion recycled for hedges relating to share-based payments, as part of marketing and administration expenses (staff costs); and
- For the effective portion recycled for hedges relating to interest rate risk, as part of finance costs.

10.4 INTERBANK OFFERED RATES (IBOR) REFORMS

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some IBORs with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group has exposures to IBORs on its financial instruments which has been or will be replaced or reformed as part of these market-wide initiatives, such as Libor and Jibar.

The United Kingdom has seen a change from the GBP Libor to the Reformed Sterling Overnight Index Average (SONIA). The South African Reserve Bank has indicated its intention to move away from Jibar and to create an alternative reference rate for South Africa. However, there is currently no indication when the designated successor rate will be made available.

The IBOR reforms will generally result in changes in the basis for determining the contractual cash flows of financial assets and financial liabilities, including derivatives.

For financial assets and liabilities measured at amortised cost, an entity will update the effective interest rate only if:

- The change is necessary as a direct consequence of reform; and
- The new basis for determining the contractual cash flows is economically equivalent to previous basis.

For the purpose of cash flow hedges (see accounting policy 10.1), in determining whether a forecast transaction is highly probably, an entity will assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of IBOR reforms. The Group anticipates that IBOR reform will impact some of its Jibar risk management and hedge accounting relationships in the longer term. However, as noted, there is no indication of a designated successor rate for Jibar.

11. Cash and cash equivalents

Cash and cash equivalents comprise:

- Cash in hand;
- Deposits held at call and short notice; and
- Balances with banks.

Cash and cash equivalents only include items held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. Cash and cash equivalents have a maturity of less than three months from the date of acquisition. Cash and cash equivalents are carried at amortised cost (or in specified instances at fair value through profit or loss) which due to their short-term nature approximates fair value.

Due to Discovery's sweeping arrangements in force with various financial institutions, positive and negative cash balances are presented on a net basis for the purpose of presenting cash and cash equivalents in the statement of cash flows.

12. Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets to the holder. Incremental costs directly related to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

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

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

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;
- Where insurance contracts are backed by assets, other than negative reserves, changes in economic assumptions are recognized directly in profit or losses;
- Discovery has established a procedure to utilise the available discretionary margin in a specified order. First, Discovery will utilise available discretionary margins to absorb all experience items on in-force policies. This is after in period experience variances which are recognised immediately in profit or loss as noted above. Secondly, Discovery utilises available discretionary margins to offset non-economic assumption variances, model, and benefit changes. Lastly, the discretionary margins are utilised to offset economic assumption changes. In subsequent periods;
- Where there are insufficient discretionary margins to offset losses arising from negative changes in non-economic assumptions, models and benefit and or negative changes in economic assumptions, those losses in excess of the discretionary margin are recognised immediately in profit or loss; and
- In subsequent periods, positive changes in economic assumptions and positive variance in non-economic assumptions, models and benefits are first recognised separately in profit or loss to extent that it reverses related losses previously recognised in profit or loss. This is in the reversed sequence in which the negative variances were utilised against discretionary margin and any excess previously recognised in profit or loss.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

13. Insurance contracts *continued*

13.1 RECOGNITION AND MEASUREMENT *continued*

13.1.1 INDIVIDUAL LIFE INSURANCE *continued*

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, premiums provided for as bad debts and before the deduction of commission. Premiums exclude taxes and levies.

INSURANCE BENEFITS AND CLAIMS

Insurance benefits and claims relating to individual life insurance contracts are recognised in profit or loss based on the estimated liability for benefits owed to the contract holder. Death, disability and severe illness and surrender claims are accounted for when notified. These claims include claims reported but not yet validated. The estimate is determined taking into account the likelihood of the claim being valid and the expected severity of the claim given that the claim is valid. The proportion to be included is estimated separately for each benefit type. An estimate of the expected claim amount is charged to profit or loss and included in liabilities under insurance contracts. Maturity and income disability are recorded as incurred. Liabilities are held to reflect incurred but not yet reported (IBNR) claims. The IBNR liabilities are modified to reflect actual current operating conditions. The liabilities are calculated gross of reinsurance. An asset is then raised to allow for the expected recoveries from reinsurers.

ACQUISITION COSTS

Acquisition costs for these contracts represent commission and other costs that relate to the securing of new contracts and the renewing of existing contracts. The valuation basis for valuing insurance contracts makes implicit allowance for the deferral of acquisition costs and hence no explicit deferred acquisition cost asset is recognised in the Statement of financial position. These are expensed in profit or loss.

13.1.2 GROUP LIFE INSURANCE

These contracts insure against a comprehensive spectrum of protection benefits on a group basis. Life cover, severe illness, disability and income continuation benefits are offered. These contracts are short-term in nature.

PREMIUM REVENUE

For group life insurance contracts, premiums are recognised as revenue when due. Premiums are shown net of premiums provided for as bad debts, before the deduction of commission and exclude taxes and levies.

INSURANCE BENEFITS AND CLAIMS

Insurance benefits and claims relating to group life insurance contracts are recognised in profit or loss based on the estimated liability for benefits owed to the contract holder. Death, disability and severe illness and surrender claims are accounted for when notified. These claims include claims reported but not yet validated. The estimate is determined taking into account the likelihood of the claim being valid and the expected severity of the claim given that the claim is valid. The proportion to be included is estimated separately for each benefit type. An estimate of the expected claim amount is charged to profit or loss and included in liabilities under insurance contracts. Maturity and income disability are recorded as incurred. Liabilities are held to reflect IBNR claims. The IBNR is modified to reflect actual current operating conditions. The liabilities are calculated gross of reinsurance. An asset is then raised to allow for the expected recoveries from reinsurers.

ACQUISITION COSTS

Acquisition costs for group life insurance contracts comprise all direct costs arising from the sale of insurance contracts. Commissions are expensed as incurred.

13.1.3 HEALTH INSURANCE

These contracts insure policyholders against healthcare-related claims.

PREMIUM REVENUE

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

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

13. Insurance contracts *continued*

13.1 RECOGNITION AND MEASUREMENT *continued*

13.1.3 HEALTH INSURANCE *continued*

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.

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.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

13. Insurance contracts *continued*

13.1 RECOGNITION AND MEASUREMENT *continued*

13.1.4 SHORT-TERM INSURANCE *continued*

INSURE FUNDER ACCOUNT (IFA)

This relates to a benefit on a short-term insurance product. A fuel cash back can be used to either reduce the premium that the policyholder is required to pay for the month in question or can be doubled and paid into an IFA.

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

If the policyholder has elected to double the fuel cash back and paid it into an IFA, an IFA liability is raised. The IFA 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 IFA to pay for his excess or other costs, the excess is paid by Discovery and an expense is included in claims in the income statement.

Where the member withdraws the funds after three years, the member is paid out in cash and an expense is disclosed against insurance premium revenue in the income statement.

13.2 EMBEDDED DERIVATIVES ARISING FROM INSURANCE CONTRACTS

A unit-linked insurance contract is an insurance contract with an embedded derivative linking payments on the contract to units of an investment fund purchased with the consideration received from the contract holders. This embedded derivative meets the definition of an insurance contract and is therefore not accounted for separately from the host insurance contract. The liability for such contracts is adjusted for all changes in the fair value of the underlying assets.

Discovery does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or amount based on a fixed amount and an interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host insurance contract and meet the definition of a derivative. Embedded derivatives that are separated from the host contract are fair valued through profit or loss.

13.3 LIABILITY ADEQUACY TEST

At the reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to profit or loss initially by writing off deferred acquisition costs and by subsequently establishing a provision for losses arising from the liability adequacy test.

13.4 REINSURANCE CONTRACTS

Contracts entered into by Discovery with reinsurers under which Discovery is compensated for insured events on one or more contracts that meet the classification requirements for insurance contracts are classified as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial assets.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

The amounts Discovery is required to pay under its reinsurance contracts held are recognised as reinsurance liabilities (liabilities arising from reinsurance contracts).

Outward reinsurance premiums are recognised as an expense and are accounted for when due under the reinsurance contract. The amounts due to Discovery under its reinsurance contracts are recognised as reinsurance assets (classified within insurance receivables). Discovery assesses its reinsurance assets for impairment on an annual basis.

In certain cases there is a net gain or loss at inception of a reinsurance contract:

- Where these amounts relate directly to a reimbursement of expenses the gain is disclosed as a recovery of expenses from reinsurers; or
- Other gains or losses are amortised over the life of the reinsurance contract on a consistent basis as the profit is expected to emerge on the underlying policies but considering the contractual terms and intent of the specific reinsurance contract.

In certain cases there is a net gain or loss upon early termination of a reinsurance contract. Where these amounts result directly from the termination, they are recognised as at the termination date and disclosed as recapture of reinsurance in profit or loss.

13.5 RECEIVABLES AND PAYABLES RELATED TO INSURANCE CONTRACTS

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. Amounts due are measured consistently and where applicable, provisions for impairments are recognised.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

14. Investment contracts

Investment contracts are those contracts that transfer financial risk without significant insurance risk. Financial risk refers to the risk of a possible future change in the value of an asset or financial instrument due to a change in interest rate, commodity price, index of prices, foreign exchange rate or other measurable variables.

Discovery issues investment contracts without fixed benefits (e.g. unit-linked and structured products) and investment contracts with fixed and guaranteed benefits (e.g. term certain annuity).

VALUATION OF POLICYHOLDER LIABILITIES

Investment contracts without fixed benefits are financial liabilities whose fair value is dependent on the fair value of the underlying financial assets and derivatives (unit-linked) which are classified at fair value through profit or loss. Discovery designates these investment contracts to be measured at fair value through profit or loss because it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. See accounting policy 7 for the financial assets backing these liabilities.

Discovery's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. The fair value of a unit-linked financial liability is determined using the current unit price that reflects the fair values of the financial assets contained within Discovery's unitised investment funds linked to the financial liability. The fair value of the financial liabilities is obtained by multiplying the number of units attributed to each policyholder at the reporting date by the unit price for the same date.

For investment contracts with fixed and guaranteed terms, valuation techniques are used to establish the fair value at inception and at each reporting date. Valuation techniques include discounted cash flow analysis using current market rates of interest and reference to other instruments that are substantially the same.

PREMIUM REVENUE

All premiums received under investment contracts are recorded as deposits to investment contract liabilities and claims incurred on investment contracts are recorded as deductions from investment contract liabilities.

FEES ON INVESTMENT CONTRACTS

Service fee income on investment management contracts is recognised over time as and when the related performance obligation is satisfied. Refer accounting policy note 20. Fees on investment contracts are included in fee income from administrative business.

A deferred revenue liability (DRL) is recognised as a contract liability to contracts with customers in respect of upfront fees for financial advice, investment management and other services which are directly attributable to a contract that are charged for securing the investment management service contract. The DRL is then released to revenue when the performance obligations are satisfied, which corresponds to the underlying expected profit signature of the contract.

Regular fees are charged to the customer monthly either directly or by making a deduction from invested funds.

COSTS OF OBTAINING CONTRACTS

Deferred acquisition costs on investment contracts represent the contractual customer relationship and the right to receive future investment management fees. Incremental costs directly attributable to securing rights to receive policy fees for services sold with investment contracts, are recognised as an asset where they can be identified separately and measured reliably and it is probable that they will be recovered. An incremental cost is one that would not have been incurred if the Group had not secured the investment contract.

The asset represents the Group's contractual right to benefit from providing asset management services and is amortised over the expected life of the contract as the entity recognises the related revenue.

15. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest 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 method.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

16. Deferred income tax

Discovery calculates deferred income tax on all temporary differences using the Statement of financial position approach. Deferred tax liabilities or assets are calculated by applying corporate tax rates that have been substantively enacted to the temporary differences between the tax values of assets and liabilities and their carrying amount, where such temporary differences are expected to result in taxable or deductible amounts in determining taxable income for future periods when the carrying amount of the assets or liabilities are recovered or settled.

Discovery recognises deferred tax assets if the directors of Discovery consider it probable that future taxable income will be available against which the tax losses can be utilised.

Temporary differences arise primarily from the difference between accounting and tax balances arising from insurance contracts, depreciation of property and equipment, effect of accounting for leases, revaluation of certain financial assets and liabilities, provisions for leave pay, provisions for share-based payments and tax losses carried forward. For leases, Discovery assesses the lease asset and lease liability together as a single transaction and assesses the temporary difference on a net basis.

Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income.

Deferred tax related to cash flow hedges, which are charged or credited directly to the statement of other comprehensive income, is also credited or charged directly to the statement of other comprehensive income and is subsequently recognised in profit or loss when the gain or loss is realised.

Deferred income tax assets and liabilities are offset when:

- There is a legally enforceable right to offset current tax assets against current tax liabilities; and
- When the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

If offsetting does not apply, Discovery separately discloses the deferred tax asset and deferred tax liability.

17. Employee benefits

17.1 SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if Discovery has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

17.2 POST-EMPLOYMENT BENEFITS

Discovery operates defined contribution schemes, the assets of which are held in separate private trustee-administered funds. Discovery pays contributions to these funds on a mandatory basis. These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Discovery employees. Qualified actuaries perform annual valuations. Discovery has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

17.3 SHARE-BASED COMPENSATION

Discovery operates equity-settled and cash-settled share-based compensation plans.

EQUITY-SETTLED SHARE-BASED COMPENSATION PLANS

Discovery expenses the fair value of the employee services received in exchange for the grant of the options, over the vesting period of the awards, as employee costs, with a corresponding credit to a share-based payment reserve in the Statement of changes in equity. The total value of the services received is calculated with reference to the fair value of the options on grant date.

The fair values of the options are determined excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each reporting date, Discovery revises its estimate of the number of options expected to vest. Any changes to the estimated number of options are recognised in profit or loss immediately.

CASH-SETTLED SHARE-BASED COMPENSATION PLANS

Discovery recognises employee services received in exchange for cash-settled share-based payments at the fair value of the liability incurred and expenses these services over the vesting period of the benefits, as employee costs.

The liability is re-measured at each reporting period to its fair value, with all changes recognised immediately in profit or loss.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

17. Employee benefits *continued*

17.4 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.

17.5 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 method.

19. Contingent liabilities

Discovery discloses a contingent liability when:

- It has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- It has a present obligation that arises from past events but not recognised because:
  - It is not probable that an outflow of resources will be required to settle an obligation; or
  - The amount of the obligation cannot be measured with sufficient reliability.

20. Revenue recognition

The Group's primary source of revenue arises on the sale of insurance contracts which are accounted for under IFRS 4 *Insurance Contracts* and are excluded from the scope of IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 is applicable to the Group's revenue from administration business, Vitality income and banking fee and commission income.

IFRS 15 requires that once contracts have been identified, the entity identifies the performance obligations in the contract. This is determined on the basis of whether the customer can benefit from the promised good or service individually or together with other readily available resources and whether the performance obligation is distinct in the context of the contract. For the Group, most contracts contained a single performance obligation.

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

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

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

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

For certain contracts with customers, Discovery receives income in advance of discharging the related performance obligation. In these instances, the amount is recognised as a contract liability incurred in the acquisition or fulfilment of a contract. Discovery considers whether there are costs incurred for the acquisition or fulfilment of a contract. These costs are recognised as an asset and amortised over the expected period over which performance obligations under the contract are satisfied. Contract costs incurred that are considered to be of a general and administrative nature, that are not explicitly recovered from the customer, are expensed as incurred.

Where the transaction price included in a contract is payable less than 12 months from the date of satisfying the related performance obligation the practical expedient is applied in that a significant financing component is not recognised. Similarly, where costs of obtaining a contract would be amortised over 1 year or less, the costs are not recognised as a separate asset.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

20. Revenue recognition *continued*

	Fee income from administration business	Vitality Income	Banking fee and commission 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 and fees earned on use of intellectual property. In the respective business these are considered revenue and are seen as single performance obligations in the respective legal entities. These are separated by underlying reported entity in the segmental report shown in note 1.	Vitality income includes the fee income that members of corporations pay to access the Vitality benefit, as well as various activation fees for activating additional benefits. The performance obligation relates to access to the Vitality rewards programme and partner benefits provided to members.	Banking fee and commission income includes banking service fees for banking services. The performance obligation relates to the access to banking and banking services rendered. Commission income relates to the interchange fees which Discovery Bank earns on transactions using debit or credit cards. The performance obligation relates to settlement of transactions via the card network.
When does control pass – Point in time (PIT) vs over time	Performance obligation to provide administration services are considered stand ready services, the customer obtains control over the service as the entity makes its services available on an "as and when" basis. As a result, revenue is recognised over time, as the respective entity makes the services available, based on the passage of time.	Performance obligations to provide access to benefits are considered stand ready services as the customers obtains benefits over the duration of the contract and when required by the customers. As a result revenue is recognised over time based on the passage of time.	The performance obligation associated with the banking fee and commission income passes over time because the client obtains substantially all of the remaining benefits from the service over the period of the month for which the banking fee was charged.
When are amounts payable	Amounts are billed on health administration and managed care business at the end of the respective month with amounts paid within 30 days. For fees on asset administration business, amounts are disinvested for the units held at the end of the related month. Certain fees for example advisor fees are received upfront but are deferred as a contract liability over the expected term of the entity's performance.	Amounts are billed either monthly, payable within 30 days, or billed on activation of the benefit, payable immediately.	Banking fees are charged monthly and payment is immediate. Interchange income is charged at a point of payment and settled daily in batch format.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

20. Revenue recognition *continued*

	Fee income from administration business	Vitality Income	Banking fee and commission income
Variable consideration and estimates	There is no potential for amounts of revenue to vary relating to discounts or rebates on the health administration business. For the asset administration business, fees are determined with reference to assets under management at a point in time. There are no benchmark performance based fees. The nature of the integrated products that Discovery sells related to the invest business allows for fee discounts and rebates to be determined based on client behaviour. Revenue is estimated and recognised in line with the constraint on variable consideration, only to the extent that it is highly probable that there will not be a significant reversal of revenue already recognised once the uncertainty is resolved. The fee discounts and rebates are determined according to a fixed methodology incorporating policyholder specific information including Vitality status. Discovery has experience in estimating these amounts, which are based on a limited number of outcomes. There is no financing component.	There are no adjustments to the transaction price as a result of any variable consideration. There is no significant financing component.	There are no adjustments to the transaction price as a result of any variable consideration. There is no significant financing component.
Costs to capitalise	Where costs are incurred directly to secure a new health administration customer, and the contract is expected to exceed 12 months, the costs are capitalised and amortised over the expected term of the contract. Costs are routinely incurred on the asset administration business related to commission and other incremental costs of entering into the contract. These are capitalised and recognised over the expected duration of the customer relationship. These assets are tested for impairment to the extent that the carrying amount of the asset exceeds the expected remaining net cash inflows from the customer contract.	In respect of the Apple watch benefit, Discovery incurs costs upfront to purchase the device and provide it to the customer. These costs are deferred and recognised over the two year term of the benefit.	None.

INSURANCE PREMIUM REVENUE

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

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

21. Other non-revenue income

21.1 INVESTMENT INCOME

Investment income comprises dividends and 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 method.

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

Net fair value gains on financial assets at fair value through profit or loss include gains arising from interest, dividends and net realised and unrealised gains on financial assets held at fair value through profit or loss.

22. Leases

IDENTIFICATION OF A LEASE

At inception of a contract, Discovery assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, Discovery uses the definition of a lease in IFRS 16.

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

22.1 AS A LESSEE

At commencement or on modification of a contract that contains a lease component, Discovery allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property Discovery has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Discovery recognises a right-of-use asset and a lease liability at the lease commencement date. Discovery presents right-of-use assets in 'Property and equipment' and lease liabilities in 'Borrowings at amortised cost' in the Statement of financial position.

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

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

MEASUREMENT

LEASE LIABILITY

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. Generally, Discovery uses its incremental borrowing rate as the discount rate.

Discovery determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased. The incremental borrowing rates were calculated for each legal entity within Discovery that entered into lease arrangements. The incremental borrowing rate considers a base interest rate reflective of the jurisdiction in which the legal entity operates (South Africa, United Kingdom and United States of America), the term of the lease arrangement and the nature of the assets.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

22. Leases *continued*

22.1 AS A LESSEE *continued*

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that Discovery is reasonably certain to exercise, lease payments in an optional renewal period if Discovery is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless Discovery is reasonably certain not to terminate early.

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

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in Discovery's estimate of the amount expected to be payable under a residual value guarantee, if Discovery changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

RIGHT-OF-USE ASSET

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, less any lease incentives received. Discovery receives incentives such as reimbursements for installations or rent-free periods.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to Discovery by the end of the lease term or the cost of the right-of-use asset reflects that Discovery will exercise a purchase option.

In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

SHORT-TERM LEASES AND LOW VALUE ITEMS

Discovery has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. Discovery recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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

Short-term leases are those leases with a lease term of less than 12 months.

22.2 AS A LESSOR

At inception or on modification of a contract that contains a lease component, Discovery allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

CLASSIFICATION

To classify the lease, Discovery makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

As part of this assessment, Discovery considers indicators such as whether the lease is for the major part of the economic life of the asset, the specialised nature of the asset and the present value of lease payments.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

22. Leases *continued*

22.2 AS A LESSOR *continued*

Discovery leases out portions of its leased property in the form of subleases. Discovery has classified these leases as operating leases.

MEASUREMENT

As Discovery is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying leased asset.

If an arrangement contains lease and non-lease components, Discovery applies IFRS 15 Revenue from Contracts with Customers to allocate the consideration in the contract.

Discovery recognises lease payments received under operating leases as income on a straightline basis over the lease term as part of 'other income'.

23. Marketing and administration expenses

Marketing and administration expenses include marketing and development expenditure, all other non-acquisition related expenditure and benefits paid under the Vitality programme. These costs are expensed in profit or loss as incurred.

24. Finance costs

Finance costs (net of investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets) directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other finance costs are recognised as an expense in profit or loss on an accrual basis using the effective interest method.

In addition, finance costs include any recycled gains or losses from other comprehensive income arising from cash flow hedges of interest rates, amortisation of financing related fees such as loan commitment fees and letter of credit fees as well as modification gains and losses on borrowings.

25. Direct and indirect taxes

Direct taxes include South African and foreign jurisdiction corporate tax payable and are disclosed as taxation in profit or loss.

Indirect taxes include various other taxes paid to central and local governments, including value-added tax and skills development levies. Indirect taxes are included as part of marketing and administration expenses in profit or loss.

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed. It is calculated using taxation rates that have been enacted or substantively enacted by the reporting date, in each particular jurisdiction within which the Discovery entities operate.

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

26. Dividend distribution

Dividend distribution to Discovery Limited's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

27. Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held-for-sale, intangible assets and property and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets and liabilities classified as held for sale are presented separately from the other assets and liabilities in the balance sheet.

28. Normalised headline earnings

Discovery assesses its performance using Normalised Headline Earnings, an alternative non-IFRS profit measure, alongside its IFRS profit. Management considers that Normalised Headline Earnings Per Share (NHEPS) is an appropriate alternative performance measure to enhance the comparability and understanding of the financial performance of Discovery.

Non-IFRS measures are not uniformly defined or used by all entities and may not be comparable with similarly labelled measures and disclosures provided by other entities. Discovery has set out its policy to calculate NHEPS below.

Discovery calculates headline earnings in accordance with the latest SAICA Circular 'Headline Earnings'. NHEPS is calculated by starting with headline earnings and adjusted to exclude material items that are not considered to be part of Discovery's normal operations as follows:

- Once-off transactions, for example, debt restructuring costs resulting from the DiscoveryCard business transaction, restructuring costs and transaction costs related to interest rate derivatives.
- Unusual items – Discovery considers items to be unusual when they have limited predictive value and it is reasonable that items of similar nature would not necessarily arise for several future annual reporting periods. These adjustments include those gains or losses associated with changes in economic assumptions recognised in profit or loss, net of any gains or losses on derivatives to offset such changes in economic assumptions. Adjustments are shown net of tax; or
- Income or expenses not considered to be part of Discovery's normal operations, for example, amortisation of intangibles from business combinations, fair value (gains)/losses certain foreign exchange contracts not designated as hedges and specified foreign exchange gains or losses.

In addition, specified items may be included in NHEPS that may otherwise be included if the income is considered part of Discovery's normal operations, for example 'gains on disposal of intellectual property', if the sale arises from the monetisation of intellectual property rights. Management is responsible for the calculation of NHEPS and determining the inclusions and exclusions in accordance with the policy. The Discovery Limited Audit Committee (DLAC) reviews the normalised headline earnings for transparency and consistency.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

28. Normalised headline earnings *continued*

During the financial period, Discovery has made the following adjustments in the determination of NHEPS:

Adjustment	Explanation
Changes in economic assumptions in excess of available discretionary margin (in future, this will also include the reversals of economic assumptions recognised in profit or loss)	Economic assumptions include changes associated with interest rates as well as currency exchange rates. The adjustment reflects changes in economic assumptions for the time value of money and forex rates and the effect on insurance contracts resulting from changes in the long-term interest rates as well as forex rates. Under IFRS, where there are insufficient discretionary margins to offset losses arising from negative changes in economic assumptions, those losses in excess of the discretionary margin are recognised immediately in profit or loss. In subsequent periods, positive changes in economic assumptions are first recognised separately in profit or loss to the extent that it reverses related losses previously recognised in profit or loss before it increases discretionary margins. The effect of these economic assumptions is unusual and provides little predictive value for future periods. This is because the value is dependent on available discretionary margins at a given point in time and the long-term interest rates which could vary period to period – thereby introducing volatility and inability to be predictive on results during future periods. These adjustments are therefore excluded in assessing the normal business operations of Discovery.
Intrinsic fair value changes on specified derivatives to offset changes in economic assumptions	Long-term insurance business lines, for example VitalityLife enters into interest rate derivative instruments to offset the impact of changes in economic assumptions on insurance contracts. The adjustment reflects the intrinsic value of fair value gains or losses on these derivative instruments. The intrinsic value of fair value gains or losses on these derivative instruments are excluded from NHEPS to be consistent with the treatment of the changes in economic assumptions recognised in profit or loss.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

28. Normalised headline earnings *continued*

Adjustment	Explanation
Fair value (gains)/losses on foreign exchange contracts not designated as a hedge	The adjustment reflects fair value gains or losses on foreign exchange contracts entered in anticipation of future capital injections in foreign operations, such as UK Composite or Ping An Transfer. These derivative instruments are not designated as a hedge and as a result, the fair value adjustments are recognised in profit or loss. The fair value adjustments of these derivative instruments can result in volatility in profit or loss and is therefore excluded in assessing the normal business operations of Discovery as it relates specifically to a future once-off transaction.
Amortisation of intangibles from business combinations	The adjustment reflects the amortisation of intangible assets which arose from the purchase of various subsidiaries within Discovery and recognised in accordance with IFRS 3 Business Combinations. Intangible assets recognised from business combinations provide little predictive value of the earnings from the business, as these assets will not be reacquired, renewed, or replaced once depleted. Discovery also infrequently acquires businesses. The amortisation of these assets is therefore excluded in assessing the normal business operations of Discovery.
Deferred tax assets raised on assessed losses	The adjustment reflects the initial recognition of deferred tax assets in respect of assessed losses in prior financial periods, after evaluating that there is future taxable income that will arise in the respective business. The initial recognition of this deferred tax asset results in a once-off income recognised in profit or loss. It provides no predictive value in assessing the normal business operations of Discovery.
Initial expenses related to the Prudential Book Transfer	The adjustment reflects professional fees and legal fees of the book transfer incurred in anticipation of the Prudential Book Transfer. As these expenses relate to a future once-off transaction it provides no predictive value in assessing the normal business operations of Discovery and has therefore been excluded from earnings.
Restructuring Costs	The adjustment reflects restructuring costs which are once-off costs incurred to restructure specified business areas. These transaction costs are infrequent and therefore excluded in assessing the normal business operations of Discovery.
Transaction costs related to interest rate derivatives	Transaction costs paid to acquire specified derivative instruments to offset changes in economic assumptions excluded from NHEPS. These transaction costs are infrequent and therefore excluded in assessing the normal business operations of Discovery.
Changes in tax balances as a result of use of different tax rates	The adjustments reflects the changes in current and deferred tax balances resulting from the use of different tax rates that related to items that were excluded from normalized headlines earnings in the current or prior periods.
Gain on disposal of intangible assets - Vitality Group International	The adjustments include those gains on disposal of intangible assets, e.g. in the AmplifyHealth deal, where Vitality Group International monetised a specified regional right to an initial component of its intellectual property rights via sale as opposed to a licensing arrangement. These gains are part of normal operations for Discovery.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

29. IFRS 17 Insurance Contracts (standard issued not yet effective)

IFRS 17 INSURANCE CONTRACTS

The Effective date of IFRS 17 is for reporting periods beginning on or after 1 January 2023, with comparative restatement for 2022. For the Discovery Group, IFRS 17 is therefore mandatory effective from 1 July 2023. IFRS 17 provides comprehensive guidance on accounting for insurance contracts issued, reinsurance contracts held, and investment contracts with discretionary participation features.

IFRS 17 requires the standard to be applied either retrospectively (full or modified retrospective) or using the fair value approach. Given the availability of reliable and accurate data and actuarial models Discovery has elected to apply IFRS 17 retrospectively. The retrospective approach will require Discovery to identify, recognise and measure groups of insurance contracts as if IFRS 17 had always applied. The retrospective approach has provided Discovery with the benefit of hindsight in how the results will be impacted by model assumption changes, changes in the discount rates and unexpected stresses such as the financial crisis in 2009 and the COVID-19 pandemic. Based on the work completed the impact of retrospective restatement in terms of impact is limited for short-term business, and more pronounced for long-term insurers

IFRS 17 IMPLEMENTATION PROGRESS

The group has progressed well with the conceptual design decisions and the system and model build required to implement IFRS 17. Management has undertaken a financial impact assessment to better understand the transitional balance sheet to be presented as the opening balance adjustment as at 1 July 2022. This was a high-level exercise to estimate and evaluate of the impact of IFRS 17 on the 30 June 2021 balances sheet, as well as other statement impacts for 2021. The transitional impact, taking into account the financial year ended 30 June 2022, will be undertaken following the finalisation of the results for the year-end 30 June 2022. The exercise included the entities within Discovery Group impacted by IFRS 17 and the insurance contracts throughout the Group. The assessment was based on the current working assumptions, however this was not a complete exercise as there remain several interpretation items across the auditing and industry communities relating to the standard that have not been resolved.

In South Africa National Treasury has released draft tax legislation to cater for the transition to IFRS 17 which indicates the intention to retain an 'adjusted IFRS' tax basis, and phase-in the transitional tax impact over 6 years for long-term insurers and 3 years for short-term insurers. In the United Kingdom the indication is that government intends to spread the transitional impact for Life Insurers over a 10 year period.

Accordingly, Discovery will delay the publishing of the quantative impact until a more accurate and reliable estimate can be provided, which is expected in the latter part of the 2023 financial year.

It is anticipated that the impact of IFRS 17 will only be fully quantified with reasonable certainty during the financial year ending 30 June 2023 (being a combination of transition values as well as revenue recognition patterns). The group expects to be fully prepared to start a parallel run during 2022, during which the new IFRS 17 processes will be run and embedded, and the working assumptions refined and signed-off. Ongoing training initiatives are ensuring that various relevant stakeholders are familiar with the implications and requirements of this new standard.

At this stage, the impact of IFRS 17 on regulatory capital is expected to be minimal given that the group has fully adopted the SAM basis and, other than possible second order taxation implications, IFRS 17 should not impact regulatory capital assessment.

29. IFRS 17 Insurance Contracts (standard issued not yet effective)

IFRS 17 IMPLEMENTATION PROGRESS *continued*

PROJECT GOVERNANCE

The Group CFO heads up the IFRS 17 Executive Working Committee which comprises of the respective Insurance business CFOs, Chief Actuaries, and IT specialist. The IFRS 17 Executive Working Committee is supported by a Technical Advisory Group comprising of IFRS Specialists, Actuaries, Financial Managers, and Tax.

The Executive Working Committee is responsible for providing overall strategic direction to the project and monitor progress and interdependencies with other group initiatives. The committee is also providing policy guidance and technical support for the implementation in its subsidiaries.

The Executive Working Committee report into the Group Finance and Capital Committee (FCC) in its capacity as a sub-committee of the Group Executive Committee and recommends and suggest its final proposal to the IFRS 17 Governance Committee.

KPMG Inc, as current joint auditor, and Deloitte and Touche as proposed joint auditor following the mandatory audit firm rotation for PricewaterhouseCoopers, have been engaged to provide the external audit assurance for IFRS 17 in their capacity as the external auditors for the financial year ending 30 June 2024, the first year that Discovery will apply IFRS 17. A combined assurance approach is being followed whereby group internal audit and external audit are incrementally testing the new IFRS 17 landscape, and control improvements have already been identified for implementation.

Finance and Capital Committee

The FCC will ensure robust management of the Operating Model across the Group to ensure delivery of the Group strategy. Those policies, methodology and judgements which have a significant impact on IFRS 17 or contentious issues should be presented for decision making to the FCC. The FCC will also receive feedback on progress of IFRS 17 project and the key risks for delivering on the project.

Governance committee

The IFRS 17 Governance Committee comprises members of the Discovery Limited Audit Committee, Discovery Limited Actuarial Committee, UK Composite Audit Committee and UK Composite Actuarial Committee. It may also include other non-executive directors on the Discovery Limited or UK Composite boards.

The IFRS 17 Governance Committee is a subset of the Discovery and UK Composite Audit and Actuarial Committees, that allows more efficient decision making and enables the representatives of these committees to ensure appropriate rigour and debate into the more complex matters, consistency in application, decisions and progress of the project and to assist the respective committees to discharge their obligations on the IFRS 17 project.

Project focus:

The IFRS 17 project team will focus on the following key areas during the next financial reporting period:

- Complete the system development and key controls for implementation of IFRS 17
- Produce and request business sign-off
- External audit of transition balances
- Commence with the IFRS 4/ IFRS 17 parallel runs
- Finalise and produce as part of parallel run IFRS 17 compliant financial statements
- Finanalise management reporting, and where applicable, key performance measures
- Continue engaging with the executive with training initiatives to ensure robust implementation of IFRS 17,
- Finalise business-as-usual future financial and data governance processes and financial reporting controls.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

29. IFRS 17 Insurance Contracts (standard issued not yet effective) *continued*

IFRS 17 OVERVIEW

INSURANCE CONTRACT DEFINITION

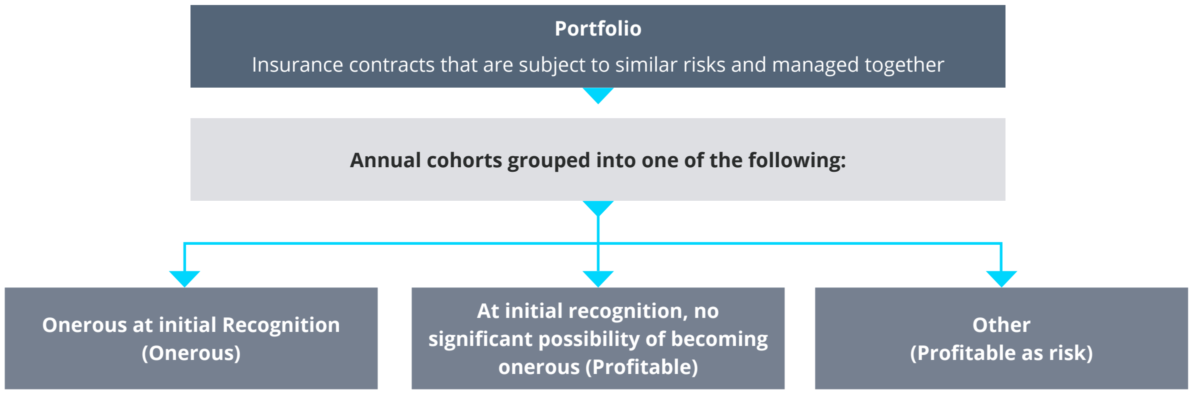
The definition for an insurance contract has remained largely the same between IFRS 4 and IFRS 17 and thus there has not been a significant change in contracts identified as insurance contracts under IFRS 4 vs IFRS 17 within Discovery. An insurance contract is defined as a contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. IFRS 17 requires the significant insurance risk to be determined on a present value (discounted) basis, unlike IFRS 4. The significance of insurance risk is also assessed on a contract-by-contract basis.

Discovery is ensuring that in the transition to IFRS 17 it appropriately reassesses its products to define more clearly when significant insurance risk is transferred or not by introducing a threshold to better differentiate between insurance and investment contract, consistent with IFRS 17. Within industry, several entities apply a 10% threshold to establish significant insurance risk and the Discovery threshold will most likely fall within this range. This may result in some products with a small amount of insurance risk not being in the scope of insurance contracts.

UNIT OF ACCOUNT

In terms of IFRS 17 the unit of account is a group of insurance contracts. The manner contracts are grouped affects the timing of recognition of profit for insurance services but does not affect the measurement of the cash flows to fulfil the insurance contracts.

Applying IFRS 17 the unit of account is split at the 'portfolio' level, profitability level as well as at the inception date (refer to the image below.)



MEASUREMENT OF INSURANCE CONTRACTS

IFRS 17 introduces a default measurement model referred to as the General Measurement Model (GMM). The GMM does not distinguish insurance contracts between short-term or long-term insurance products. Rather, IFRS 17 introduces modifications to the general model (i.e., the Variable Fee Approach (VFA)) and simplifications to the general model (the Premium Allocation Approach (PAA)).

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

29. IFRS 17 Insurance Contracts (standard issued not yet effective) *continued*

IFRS 17 OVERVIEW *continued*

GENERAL MEASUREMENT MODEL

The main measurement principles under the GMM are as follows:

1. The total liability/asset of a group of insurance contracts comprises the Liability for Remaining Coverage (LRC) and Liability for incurred claims (LIC). The LRC and LIC are measured as a sum of the following components:

   i. Fulfillment cash flows which comprise:

      a. Estimates of expected future cash flows (inflows and outflows) over the life of the contract. The cashflows include insurance acquisition cashflows

      b. An adjustment to reflect the time value of money – i.e. discounting – and the financial risks related to the expected cash flows

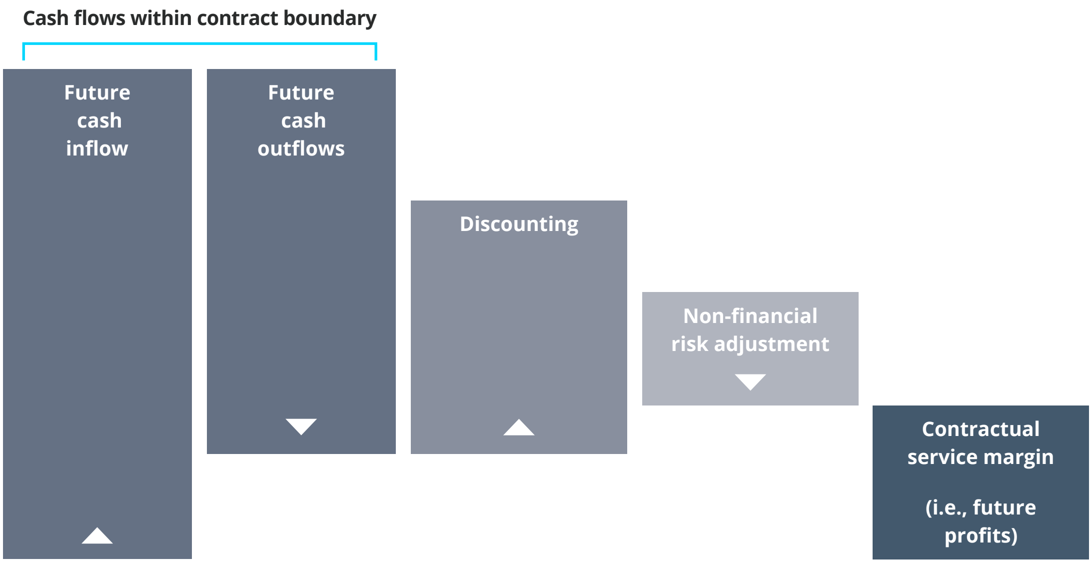
      c. An explicit risk adjustment for non-financial risk: to reflect the compensation that the entity requires for bearing the uncertainty about the amount and timing of cash flows that arise from non-financial risk, also referred to as risk adjustment

   ii. A contractual service margin (CSM) representing unearned profit an entity will recognise as it provides service under the insurance contracts in the group. The CSM is a component that is applicable only to the LRC and not the LIC.

2. The basic revenue recognition principle under IFRS 17 is that no profit is recognised on initial recognition of a group of insurance contracts. This is achieved by setting up the CSM on initial recognition of the group of insurance contract equal to the expected profit on initial recognition. However, a loss must be recognised for a group of contracts that is onerous upon initial recognition, which is consistent with the principles of other IFRS on onerous contracts.

3. The revenue and profit are recognised as insurance contract services are performed under the contract. In broad terms, insurance contract services related to the provision of risk cover to the policy holder.

The diagram below provides a view of the liability/(asset) for a group of insurance contracts at initial measurement:



Subsequent to initial recognition, the liability of a group of insurance contracts comprises the LRC (fulfilment cash flows and CSM) as well as the LIC (claims and expenses already incurred but not yet paid).

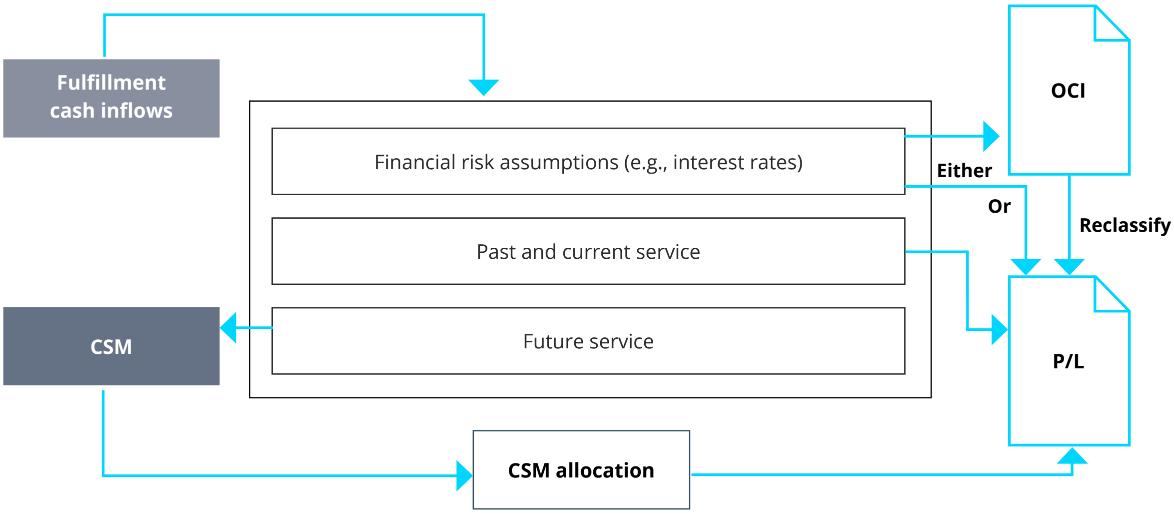
The diagram below reflects how changes in the LRC and LIC are recognised in profit or loss, and the accounting policy election available for the treatment of changes in financial risk.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

29. IFRS 17 Insurance Contracts (standard issued not yet effective) *continued*

IFRS 17 OVERVIEW *continued*

GENERAL MEASUREMENT MODEL *continued*



Within the Discovery Group the following entities will have portfolios that apply the GMM:

- Discovery Life – Discovery Life Plan polices (whole of life insurance products) are considered to be a single portfolio
- Discovery Invest – the general endowment products are considered to be a single portfolio
- VitalityLife – Vitality Life whole of life and term products are considered to be separate portfolios and the PAC Book will be treated as a separate portfolio

Similarities with current Discovery policy

- Discovery values the policyholder liabilities using a prospective discounted cash flow valuation basis. The best estimate non-economic assumptions under IFRS 17 and IFRS 4 are unchanged.
- Discovery applies compulsory and discretionary margins to the best estimate assumptions to avoid the recognition of future profits at initial recognition. In broad terms, this is similar to the risk adjustment and contract service margin respectively that is required in IFRS 17
- The present value of the best estimate cash flows are calculated using market-consistent economic assumptions with reference to a yield curve. Under IFRS 4 Discovery discounts at a nominal discount rate equal to the JSE nominal bond curve. Under IFRS 17 Discovery is considering to discount using current risk-free discount rates. The likely source of SA risk-free curves is the JSE nominal bond curve, similar to IFRS 4 today. The likely source of the UK risk-free curves are those aligned to in the Solvency II reporting.

Differences with current Discovery policy

- Discovery currently applies the definition of portfolio in a broader sense while IFRS 17 will apply in a more granular fashion, particularly the cohorting. This will reduce the extent of cross subsidisation within a portfolio.
- The risk adjustment is conceptually similar to the compulsory margin under IFRS 4. However the confidence level and method of calculation for the risk adjustment is not prescribed in IFRS 17.
- The CSM is conceptually similar to the discretionary margin but is released over time in each reporting period with reference to coverage units. The number of coverage units in a group is the quantity of insurance contract services provided by the contracts in the group, determined by considering, for each contract, the quantity of benefits provided and its expected coverage period.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

29. IFRS 17 Insurance Contracts (standard issued not yet effective) *continued*

DISCOUNT RATE

Discounting adjusts the estimates of expected cash flows to reflect the time value of money and the financial risks associated with those cash flows, to the extent that the financial risks are not already included in the cash flow estimates.

The following table shows which discount rate to is apply throughout the measurement of a group of insurance contracts, and the general objective of how to determine that discount rate.

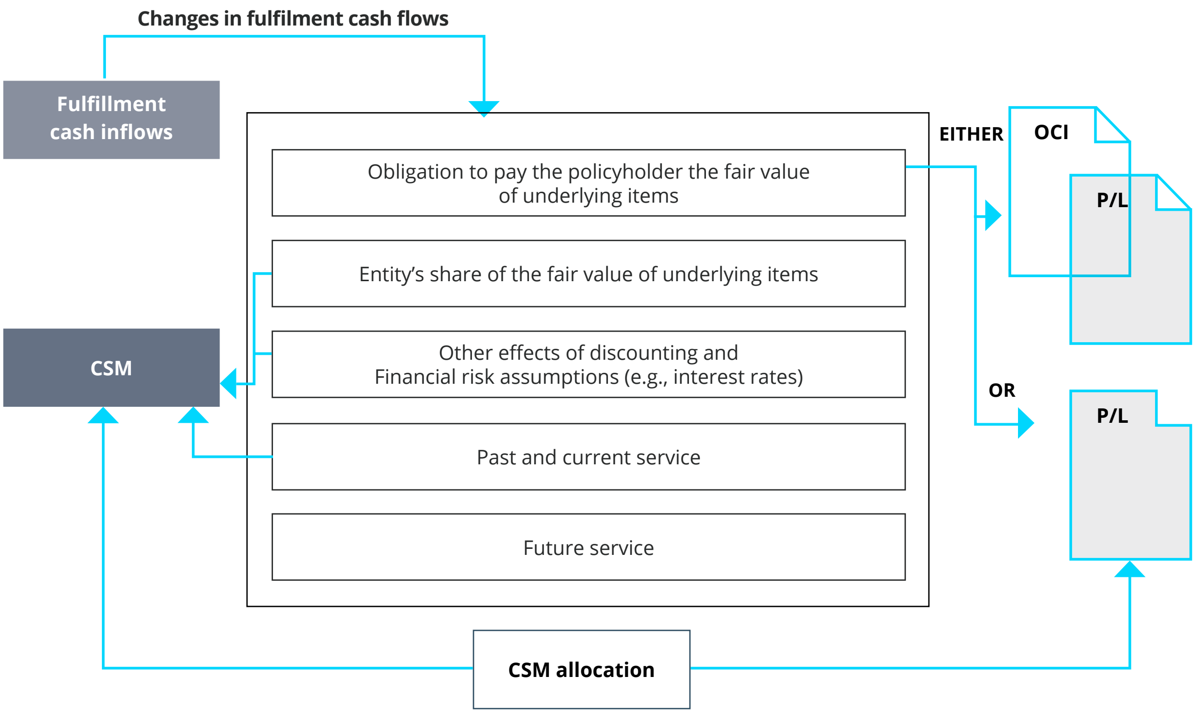
Point in time cost incurred	Accounting implication
Fulfilment cash flows	Current discount rates
CSM interest accretion for contracts without direct participation features	Discount rates determined on initial recognition of the group, i.e. locked-in at inception
Adjustments to the CSM for changes in the fulfilment cash flows for contracts without direct participation features	Discount rates determined on initial recognition of the group, i.e. locked-in at inception
Adjustments to the CSM for changes in the fulfilment cash flows for direct participating contracts that do not vary based on the returns on underlying items, excluding the change in the effect of the time value of money and financial risks	Current discount rates
For groups applying the PAA, liability for remaining coverage adjustment for the time value of money	Discount rates determined on initial recognition of the group. However, discounting is not required where there is no significant finance component.

VARIABLE FEE APPROACH (MODIFIED MODEL)

For insurance contracts with direct participation features, the Variable Fee Approach(VFA) applies. The variable fee approach modifies the treatment of the contractual service margin to accommodate direct participating contracts.

When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.

The initial measurement of the VFA is the same as per the GMM measurement model, the differences in the measurement will occur on the subsequent treatment. Refer to the diagram below that provides an overview of the subsequent measurement.



Within the Discovery Group the unit linked products and the Discovery Retirement OptImiser products offered by Discovery Life will apply the VFA measurement model.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

29. IFRS 17 Insurance Contracts (standard issued not yet effective) *continued*

VARIABLE FEE APPROACH (MODIFIED MODEL) *continued*

SIMILARITIES AND DIFFERENCES WITH CURRENT DISCOVERY POLICY

The initial measurement of the portfolios measured based on the VFA is the same as the GMM and the similarities and differnces to the Discovery policy have been identified above under the GMM section.

PREMIUM ALLOCATION APPROACH (SIMPLIFIED MODEL)

Under the Premium Allocation Approach (PAA) the general measurement model may be simplified for certain contracts to measure the Liability for Remaining Coverage (LRC). The LRC under the PAA is not based on the components as identified under the GMM, rather based on the LRC is measured as:

- Premiums received
- Minus insurance acquisition cash flows (applicable only if the entity has elected to defer the insurance acquisition cash flows)
- Plus/Minus any assets or liabilities previously recognised.

In addition to the simplification on the measurement of the LRC, the PAA provides the following simplifications:

a) An entity may elect not to adjust the LRC, LIC and onerous contracts for the time value of money (i.e., no discounting)

b) An entity may elect to expense insurance acquisition cash flows when incurred. If entity elects to defer the insurance acquisition cash flows, the insurance acquisition cash flows are amortised over the expected duration of the insurance contract, which includes expected renewal periods.

This simplified approach is permitted at inception of the group of insurance contracts if one of the following criteria has been met:

- The insurance contract has a coverage period of one year or less, or
- The entity reasonably expects that the PAA would produce a measurement of the liability for remaining coverage for a group of insurance contracts that would not differ materially from the measurement that would be achieved by applying the general measurement requirements.

Based on the criteria above the PAA, products that have a short-term coverage period are best suited to elect the PAA. Within the Discovery Group the following entities will have insurance and reinsurance portfolios that are measured using the PAA:

- Discovery Group Life contracts
- Discovery Insure – Discovery Insure issues the following insurance, Personal lines for motor and household, Business insurance, Medical gap and trauma cover, and travel insurance.
- Vitality Health Private medical insurance contracts

SIMILARITIES AND DIFFERENCES WITH CURRENT DISCOVERY POLICY

- The LRC for the PAA is similar to the unearned premium reserve profile.
- The PAA allows an entity to elect not to take the impact of discounting into the measurement of the liabilities/assets arising from insurance contract. The principle of not discounting is consistent with Discovery's current treatment under IFRS 4
- Under the PAA an entity is allowed to recognise an asset for insurance acquisition cash flows, similar to the deferred acquisition cost (DAC) asset recognised under IFRS 4. However, the period over which insurance acquisition cashflows is amortised is different. IFRS 17 allows an entity to consider renewal periods beyond the contract boundary of the insurance contract.
- Unlike IFRS 4, the measurement of the LIC in IFRS 17 requires the calculation of a risk adjustment.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

29. IFRS 17 Insurance Contracts (standard issued not yet effective) *continued*

INSURANCE ACQUISITION CASH FLOWS

IFRS 17 has defined acquisition costs as the costs incurred in selling, underwriting, and starting a group of insurance contracts that are directly attributable to the portfolio of insurance contract. The insurance acquisition cashflows also includes the allocation of insurance cash flows directly attributable to the portfolio to which the insurance contract belongs.

There are various accounting implications of the requirements under the GMM for insurance acquisition cash flows based on the point in time at which the acquisition cash flow has been incurred. The table below provides an overview of the accounting implications:

Point in time cost incurred	Accounting implication
Costs incurred before the group of insurance contract is recognised	Step 1: entity recognises as an asset any insurance acquisition cash flows relating to a group of existing or future insurance contracts that it incurs. Step 2: These assets and liabilities are derecognised when the group of insurance contracts to which the cash flows are allocated is recognised, as part of determining the CSM on initial recognition.
Costs expected to be paid after the related group of insurance contract is recognised	The insurance acquisition cash flows are included as part of the fulfilment cash flows of that group.
Cost is paid or the liability to pay them is incurred at the date of initial recognition	The insurance acquisition cash flows are in effect deducted from the CSM at that date.

The requirements to recognise an asset for insurance acquisition cash flows are relevant when the PAA is applied, unless the entity has elected to expense the insurance acquisition cash flows as they are incurred. This accounting policy election is allowed at the portfolio level.

For portfolios measured the PAA model, if an entity has elected not to immediately expense the acquisition cash flows, a portion of the acquisition costs can be deferred and recognised in anticipated future renewal periods.

SIMILARITIES WITH CURRENT DISCOVERY POLICY

Under the Discovery Group's IFRS 4 accounting policy, profits are recognised at initial recognition to the extent of the actual acquisition costs incurred but considering the premium loadings available on the total portfolio to recoup acquisition costs –the interpretation of the policy is to add compulsory and discretionary margins to achieve a broadly zero IFRS profit on new business at initial recognition at a portfolio level (i.e., allowing for offsets between individual policies).

IFRS 17 classifies acquisition expenses as either directly or not directly attributable. While sufficient margin is released on profitable policies to cover directly attributable acquisition expenses (and ensure a zero profit at initial recognition in line with current policy), expenses which are not directly attributable must be immediately expensed through profit and loss –the extent of these expenses is likely to differ to the value allowed for under IFRS 4.

Based on the above the Discovery policy closely aligns with the requirements of IFRS 17 for the initial recognition of the expenses, i.e., no initial profit recognised for business that is profitable at initial recognition. The application of the policy was done at a total level under IFRS 4, while it will be applied at a policy level under IFRS 17. The Discovery policy therefore aligns with requirements for business that is profitable at initial recognition, however the losses incurred on policies at initial recognition will be immediately reflected in the profit or loss under IFRS 17.

DIFFERENCES WITH CURRENT DISCOVERY POLICY

The expenses allocated under IFRS 4 has been an area of significant judgement with no IFRS standard definition. While IFRS 17 introduces requirements regarding the expenses which can be allocated to a portfolio of business, there remains diversity in practice over the types of costs and the amounts identified as insurance acquisition cash flows, depending on the type of contract or the jurisdiction.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

29. IFRS 17 Insurance Contracts (standard issued not yet effective) *continued*

REINSURANCE CONTRACTS

IFRS 17 represents a significant change from IFRS 4 in the accounting for the reinsurance contract. Common existing practice under IFRS 4 is to account for reinsurance contracts held using a 'mirroring approach', essentially matching reinsurance contract revenue, costs, assets, and liabilities to the underlying insurance contracts. Under IFRS 17, a reinsurance contract held is accounted for as a standalone contract, independent of the accounting for the underlying insurance contracts.

IFRS 17 OVERVIEW

REINSURANCE CONTRACT DEFINITION

The definition for an insurance contract has remained largely the same between IFRS 4 and IFRS 17 and thus there has not been a significant change in contracts identified as reinsurance contracts under IFRS 4 vs IFRS 17 within Discovery. A reinsurance contract is defined as a type of insurance contract that is issued by an entity (the reinsurer) to compensate another entity (the cedant) for claims arising from insurance contract(s) issued by the cedant.

REINSURANCE CONTRACT UNIT OF ACCOUNT

An entity should divide portfolios of reinsurance contracts held by applying the same criteria as for insurance contracts issued discussed in the insurance contracts section above, i.e. the unit of account is the group of reinsurance contracts.

MEASURMENT OF INSURANCE CONTRACT

For reinsurance contracts issued the requirements of the GMM will apply similar to the requirements of the insurance contracts, while for reinsurance contracts held the requirements of the GMM will apply with certain modifications. An entity has the option to apply the PAA if the eligibility criteria are met at initial recognition, while the VFA modeL cannot be applied to reinsurance contracts.

PRESENTATION AND DISCLOSURE

IFRS 17 introduces the following presentation and disclosure principles and line items:

- Insurance revenue, derived from change in LRC
- Insurance services expenses is a new line item that comprises:
  - The incurred claims and other incurred insurance service expenses,
  - Amortisation of the insurance acquisition cash flows,
  - Changes in fulfilment cash flows that relate to past services, i.e., relating to the LIC
  - Changes in fulfilment cash flows that relate to future service, but which do not adjust the CSM
- Investment components are excluded from insurance revenue and insurance services expenses
- Insurance finance income and expenses is presented separately from insurance revenue; and
- Entities can choose to disaggregate the presentation of insurance finance income or expenses between profit or loss and other comprehensive income (OCI).

SIMILARITIES WITH CURRENT DISCOVERY POLICY

The presentation on the Statement of Financial Position is not expected to differ significantly for the portfolios measured using the GMM/VFA. The difference will arise from a change to the components of the assets and liabilities arising from insurance and reinsurance contracts.

Portfolios of insurance contracts issued that are either assets or liabilities, and portfolios of reinsurance contracts held that are either assets or liabilities, are presented separately in the statement of financial position as currently presented.

DIFFERENCES WITH CURRENT DISCOVERY POLICY

The level of aggregation is relevant not only for measurement purposes but also for presentation purposes. Entities must be able to identify the position – i.e., asset or liability – of each portfolio of contracts, in order to ensure the appropriate presentation, by aggregating all of the groups of contracts within each portfolio.

IFRS 17 requires separate presentation of amounts relating to insurance contracts issued and reinsurance contracts held in the primary statements.

ANNEXURE B – GROUP ACCOUNTING POLICIES *continued*

29. IFRS 17 Insurance Contracts (standard issued not yet effective) *continued*

STATEMENT OF FINANCIAL POSITION

The portfolios measured using the PAA will no longer present the premiums receivable and unearned premiums reserve will separately. The balances will be included in the measurement of the liabilities/(assets) arising from insurance contracts.

For the portfolios measured using the GMM/VFA IFRS 17 allows and entity to elect to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income (OCI).

STATEMENT OF PROFIT OR LOSS

For the GMM/VFA measurement models the revenue under IFRS 4 is premiums. This will change as under IFRS 17, as revenue is a derived number for the amount the company has earned over the period to cover the expected claims and expenses, the acquisition cash flows, an amount for the underlying risk and an amount to reflect the profit recognised on the services provided in the period.

- Under IFRS 4 disclosure includes Premiums, Claims and Transfer of reserves (this is the release of the profit margin).
- Whereas under IFRS 17 the requirement will be to disclose Revenue, less Claims. The transfer of reserves is encapsulated in the revenue components under IFRS 17 and will not be disclosed separately.

IFRS 17 introduces a new insurance metric with the Insurance service result line item in the Statement of profit or loss. The Insurance service result introduces the concept of a margin for insurance entities.

NOTES TO THE FINANCIAL STATEMENTS

IFRS 4 provides for similar disclosures to those required by IFRS 17, however many of these disclosures for example reconciliations of changes in the insurance and reinsurance liabilities or assets are typically presented at a very high level only with little or no disaggregation.

IFRS 17 requires an entity to disclose reconciliations in the notes to the financial statements that show how the amounts disclosed on the face of the statement of financial position (i.e., the net carrying amount of contracts within the scope of IFRS 17) changed during the reporting period because of cash flows and income and expenses recognised in the statement of financial performance. Separate reconciliations are required for insurance contracts issued and reinsurance contracts held.4

Separate reconciliations are required for different portfolio of contracts. For example, those portfolios subject to the general model and the premium allocation approach, or portfolios in different geographical regions with different risk management.

PRESENTATION OF INSURANCE FINANCE INCOME OR EXPENSE

The effect of, and changes in, the time value of money and financial risk (including that arising from the passage of time) are presented as insurance finance income or expense within the income statement. Except for insurance finance income or expenses arising from insurance contracts under the variable fee approach when risk mitigation is applied, an entity can choose as an accounting policy to present the insurance finance income or expense:

- in profit or loss; or
- disaggregated between profit or loss and OCI (the OCI option).

Once elected, the accounting policy will need to be applied consistently at the level of a portfolio of insurance contracts.

When determining whether to apply the OCI option, entities will consider the expected accounting mismatches that may arise and the potential ways to mitigate them. Entities that deem it more appropriate not to reflect the volatility in profit or loss that arises from the insurance liability and the assets that manage it are likely to consider options that allow this volatility to be presented in OCI.

Discovery Life is considering to make use of the election to disaggregate Insurance Finance Income and Expenses between profit and loss and other comprehensive income (OCI) when such presentation better reflects the underlying economic substance of the contract. Under IFRS 4, where inputs of economic assumptions changes are impacting porfit or loss, these impacts are excluded in the presentation of "Normalised" performance measures. The election to reflect such changes in OCI will similarly provide a more reliable measure in profit or loss and therfore likely to be applied for certain portfolios or groups of insurance contracts by Discovery.

ANNEXURE C – DIRECTORATE

REMUNERATION AND FEES

Payment to directors for the year ended 30 June 2022 for services rendered are set out in the table below. It should be noted that these payments reflect cash payments made to directors during the financial year and therefore all variable pay components are reflective of performance measurements relating to previous periods. The variable pay components relating to the current year under review are physically paid in the following financial year and are analysed in detail in the Group's annual remuneration report and are more reflective of the performance of the period under review.

Payments to directors for the year ended 30 June 2022 for services rendered are as follows:

R'000	Services as directors[1]	Basic salary	Performance bonus	Phantom scheme payments	Provident fund contributions	Other benefits[1]	Total
Executive							
A Gore	–	7 611	8 172	–	1 107	387	17 277
HD Kallner	–	5 650	6 891	–	282	174	12 997
NS Koopowitz[2]	–	19 428	21 286	8 664	81	552	50 011
Dr A Ntsaluba	–	4 749	5 216	–	356	290	10 611
A Pollard[3]	–	7 343	6 684	2 057	122	336	16 542
B Swartzberg	–	5 314	5 933	2 532	555	237	14 571
DM Viljoen	–	5 019	5 381	2 995	780	183	14 358
Sub-total	–	55 114	59 563	16 248	3 283	2 159	136 367
Non-executive							
ME Tucker[4]	6 539	–	–	–	–	–	6 539
HL Bosman[6]	1 743	–	–	–	–	–	1 743
Dr BA Brink	614	–	–	–	–	–	614
SE De Bruyn	591	–	–	–	–	–	591
R Farber[5]	3 219	–	–	–	–	3 633	6 852
WM Hlala	1 102	–	–	–	–	–	1 102
FN Khanyile	1 500	–	–	–	–	–	1 500
D Macready	1 851	–	–	–	–	–	1 851
DR TV Maphai	1 797	–	–	–	–	–	1 797
T Mboweni	209	–	–	–	–	–	209
M Schreuder	1 621	–	–	–	–	–	1 621
B Van Kralingen[7]	348				–	–	348
SV Zilwa[8]	2 176	–	–	–	–	–	2 176
Sub-total	23 310	–	–	–	–	3 633	26 943
Total	23 310	55 114	59 563	16 248	3 283	5 792	163 310
Less: paid by subsidiaries	23 310	55 114	59 563	16 248	3 283	5 792	163 310
Paid by holding company	–	–	–	–	–	–	–

1 *"Other benefits" comprise medical aid contributions, travel, other allowances and fees from group subsidiaries.*

2 *Salary and incentive are paid in GBP*

3 *Salary and incentive are paid in USD.*

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

5 *Director's fees for services rendered by R Farber were paid in AUD components.*

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

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

8 *Participated in Discovery Limited 2015 BEE transaction, which loan outstanding to the Company was fully settled during the financial year.*

ANNEXURE C – DIRECTORATE *continued*

REMUNERATION AND FEES *continued*

Payment to directors for the year ended 30 June 2021 for services rendered are set out in the table below. It should be noted that these payments reflect cash payments made to directors during the financial year and therefore all variable pay components are reflective of performance measurements relating to previous periods. The variable pay components relating to the current year under review are physically paid in the following financial year and are analysed in detail in the Group's annual remuneration report and are more reflective of the performance of the period under review.

Payments to directors for the year ended 30 June 2021 for services rendered are as follows:

R'000	Services as directors[1]	Basic salary[1]	Performance bonus	Phantom scheme payments	Provident fund contributions	Other benefits[2, 7]	Total
Executive							
A Gore	–	7 052	7 112	1 547	1 094	365	17 170
HD Kallner	–	5 273	9 539	4 871	272	164	20 119
NS Koopowitz[3]	–	18 340	9 917	5 726	49	528	34 560
Dr A Ntsaluba	–	4 425	4 371	987	343	274	10 400
A Pollard[4]	–	6 524	4 373	3 119	221	303	14 540
B Swartzberg	–	4 993	4 649	2 808	534	182	13 166
DM Viljoen	–	4 581	4 843	3 033	722	82	13 261
Sub-total	–	51 188	44 804	22 091	3 235	1 898	123 216
Non-executive							
ME Tucker[5]	5 975	–	–	–	–	–	5 975
HL Bosman[6]	1 822	–	–	–	–	–	1 822
Dr BA Brink	1 416	–	–	–	–	–	1 416
SE De Bruyn	1 364	–	–	–	–	–	1 364
R Farber[7]	2 281	–	–	–	–	3 295	5 576
FN Khanyile[8]	1 104	–	–	–	–	–	1 104
D Macready	1 663	–	–	–	–	–	1 663
DR TV Maphai	1 728	–	–	–	–	–	1 728
H Mayers	315	–	–	–	–	–	315
M Schreuder	679	–	–	–	–	–	679
SV Zilwa[9]	1 832	–	–	–	–	–	1 832
Sub-total	20 179	–	–	–	–	3 295	23 474
Total	20 179	51 188	44 804	22 091	3 235	5 193	146 690
Less: paid by subsidiaries	(20 179)	(51 188)	(44 804)	(22 091)	(3 235)	(5 193)	(146 690)
Paid by holding company	–	–	–	–	–	–	–

1 *Responding to the challenges of COVID-19 and in response to the call by the President of South Africa, all South African executive directors, and certain non-executive directors and foreign-based executive directors, committed one third of their gross salaries and Board fees for three months to add to Discovery's contributions towards the Solidarity Fund and other COVID-19-related causes. Executive directors committed R0.9 million in the current year (2020: Executive directors forfeited R1.7 million and non-executive directors forfeited R1.4 million).*

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

3 *Salary and incentive are paid in GBP.*

4 *Salary and incentive are paid in USD.*

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

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

7 *Director's fees for services and fees for other consulting services rendered by R Farber were paid in AUD. Director's fees for consulting services are included as part of other benefits.*

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

9 *Black non-executive directors participated in the Discovery Limited BEE transaction. SV Zilwa had a loan outstanding to the Company of R1 million as at 30 June 2021.*

ANNEXURE C – DIRECTORATE *continued*

DIRECTORS' PARTICIPATION IN LONG-TERM INCENTIVE SCHEMES

Discovery's directors and prescribed officers participate in the various long-term incentive schemes offered by the Group and their participation is disclosed below. Refer to Group note 31 for a detailed description of the various schemes offered.

Discovery Limited phantom share scheme

Directors and prescribed officers participation as at 30 June 2022:

Directors and prescribed officers	Outstanding shares	Date granted	Strike price R	Final vesting date	**Value at 30 June 2022 R**
A Gore	8 106	30/09/2016	–	30/09/2022	**1 038 379**
	27 894	30/09/2017	–	30/09/2022	**3 573 221**
	36 021	30/09/2018	–	30/09/2023	**4 614 290**
HD Kallner	18 980	30/09/2016	–	30/09/2022	**2 431 274**
	18 708	30/09/2017	–	30/09/2022	**2 396 495**
	146 628	01/04/2018	–	31/03/2023	**18 782 983**
	24 159	30/09/2018	–	30/09/2023	**3 094 768**
A Ntsaluba	9 557	30/09/2016	–	30/09/2022	**1 224 284**
	19 733	30/09/2017	141.65	30/09/2022	**–**
	9 866	30/09/2017	–	30/09/2022	**1 263 835**
	21 234	30/09/2018	–	30/09/2023	**2 720 075**
A Pollard	1 897	30/09/2016	–	30/09/2022	**242 974**
	3 796	30/09/2017	–	30/09/2022	**486 204**
	7 591	30/09/2017	141.65	30/09/2022	**–**
	4 920	30/09/2018	–	30/09/2023	**630 252**
B Swartzberg	10 873	30/09/2016	–	30/09/2022	**1 392 863**
	3 929	30/09/2017	–	30/09/2022	**503 305**
	7 858	30/09/2017	141.65	30/09/2022	**–**
	8 456	30/09/2018	–	30/09/2023	**1 083 214**
DM Viljoen	11 225	30/09/2017	–	30/09/2022	**1 437 923**
	22 450	30/09/2017	141.65	30/09/2022	**–**
	22 791	30/09/2018	–	30/09/2023	**2 919 527**

ANNEXURE C – DIRECTORATE *continued*

DIRECTORS' PARTICIPATION IN LONG-TERM INCENTIVE SCHEMES *continued*

Discovery Limited long-term incentive plan

Directors and prescribed officers participation as at 30 June 2022:

Directors and prescribed officers	Outstanding shares	Date granted	Strike price R	Final vesting date	Value at 30 June 2022 R
A Gore	76 399	30/09/2019	–	30/09/2024	**9 786 712**
	30 434	30/09/2020	–	30/09/2023	**3 898 595**
	69 707	30/09/2020	–	30/09/2025	**8 929 467**
	68 786	30/09/2021	–	30/09/2026	**8 811 487**
HD Kallner	51 240	30/09/2019	–	30/09/2024	**6 563 844**
	98 985	30/09/2020	–	30/09/2023	**12 679 979**
	46 752	30/09/2020	–	30/09/2025	**5 988 931**
	46 135	30/09/2021	–	30/09/2026	**5 909 894**
A Ntsaluba	45 253	30/09/2019	–	30/09/2024	**5 796 909**
	17 846	30/09/2020	–	30/09/2023	**2 286 073**
	41 289	30/09/2020	–	30/09/2025	**5 289 121**
	40 744	30/09/2021	–	30/09/2026	**5 219 306**
A Pollard	14 662	30/09/2019	–	30/09/2024	**1 878 202**
	3 145	30/09/2020	–	30/09/2023	**402 875**
	22 362	30/09/2020	–	30/09/2025	**2 864 572**
	22 276	30/09/2021	–	30/09/2026	**2 853 556**
B Swartzberg	15 372	30/09/2019	–	30/09/2024	**1 969 153**
	11 501	30/09/2020	–	30/09/2023	**1 473 278**
	23 376	30/09/2020	–	30/09/2025	**2 994 466**
	23 068	30/09/2021	–	30/09/2026	**2 955 011**
DM Viljoen	48 340	30/09/2019	–	30/09/2024	**6 192 354**
	24 797	30/09/2020	–	30/09/2023	**3 176 496**
	44 105	30/09/2020	–	30/09/2025	**5 649 851**
	45 197	30/09/2021	–	30/09/2026	**5 789 736**

The Vitality Group Cash-settled plan

Directors and prescribed officers

Directors and prescribed officers	Outstanding units	Date granted	Exercise price US$	Final vesting date	Value at 30 June 2022 US$
A Pollard	61 403	30/09/2017	–	30/09/2022	**82 729**
	72 931	30/09/2018	–	30/09/2023	**98 261**
	278 536	30/09/2019	–	30/09/2024	**342 599**
	153 330	30/09/2020	–	30/09/2025	**188 596**
	167 813	30/09/2021	–	30/09/2026	**206 410**
B Swartzberg	63 561	30/09/2017	–	30/09/2022	**85 637**
	125 328	30/09/2018	–	30/09/2023	**168 857**
	287 542	30/09/2019	–	30/09/2024	**353 677**
	160 279	30/09/2020	–	30/09/2025	**197 145**
	173 772	30/09/2021	–	30/09/2026	**213 740**

The VitalityHealth and VitalityLife phantom share schemes

Directors and prescribed officers participation as at 30 June 2022:

Directors and prescribed officers	Outstanding shares	Date granted	Exercise price GBP	Final vesting date	Value at 30 June 2022 GBP
NS Koopowitz	4 680	05/11/2018	–	2022	**241 160**
	8 672	01/03/2020	–	2023	**355 639**
	27 430	05/01/2022	–	2024	**918 905**

ANNEXURE C – DIRECTORATE *continued*

DIRECTORS' PARTICIPATION IN LONG-TERM INCENTIVE SCHEMES *continued*

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 2022:

Directors and prescribed officers	**Direct beneficial**	**Indirect beneficial**	**Total 2022**	Direct beneficial	Indirect beneficial	Total 2021
A Gore	–	**49 046 559[1]**	**49 046 559**	–	49 396 559[1]	49 396 559
H Bosman	–	**164 370**	**164 370**	–	77 027	77 027
SE de Bruyn[2]	–	–	–	1 800	–	1 800
R Farber	**55 076**	–	**55 076**	55 076	–	55 076
HD Kallner	**100 398**	–	**100 398**	100 398	–	100 398
F Khanyile	**1 300**	–	**1 300**	1 300	–	1 300
NS Koopowitz	–	**852 004**	**852 004**	–	962 004	962 004
Dr TV Maphai	**1 919**	**196 505**	**198 424**	1 919	196 505	198 424
A Ntsaluba	**80 164**	–	**80 164**	90 164	–	90 164
A Pollard	**1 193 099**	–	**1 193 099**	1 193 099	–	1 193 099
B Swartzberg	**3 202 227**	**22 635 115[3]**	**25 837 342**	3 202 227	22 635 115[3]	25 837 342
DM Viljoen	**10 000**	–	**10 000**	10 000	–	10 000
SV Zilwa	–	**680**	**680**	–	6 680	6 680
	4 644 183	**72 895 233**	**77 539 416**	4 655 983	73 273 890	77 929 873

1 Includes 39 300 000 (2021: 42 400 000) ordinary shares which are subject to security.

2 On 24 November 2021, when SE de Bruyn retired. Her direct beneficial holding was 1 800 shares

3 Includes 11 500 000 (2021: 10 200 000) ordinary shares which are subject to security.

There has been no change in the directors' interests in Discovery Limited's shares between 30 June 2022 and the date of publication of this annual report.

ANNEXURE D – ANALYSIS OF SHAREHOLDERS

at 30 June 2022

ORDINARY SHAREHOLDERS

	Number of shareholders	% of total shareholders	Number of shares	% of issued capital
Shareholder spread				
1 – 1 000 shares	41 061	86.61	6 752 122	1.01
1 001 – 10 000 shares	5 100	10.76	13 988 003	2.09
10 001 – 100 000 shares	935	1.97	28 733 889	4.30
100 001 – 1 000 000 shares	230	0.49	75 349 460	11.26
1 000 001 shares and over	83	0.18	544 139.997	81.34
	47 409	**100**	**668 963 471**	**100**
Public/non-public shareholders				
Non-public shareholders (more than 5%)	21	0.04	172 036 768	25.72
– Directors of the Company, including their associates	12	0.03	77 539 416	11.59
– Employee share trusts	2	0.00	11 327 631	1.70
– Own holdings	1	0.00	680 268	0.10
– Key management personnel and trustees of pension funds	5	0.01	630 311	0.09
– Strategic holdings (more than 10%)	1	0.00	81 859 142	12.24
Public shareholders	**47 388**	**99.96**	**496 926 703**	**74.28**
	47 409	**100**	**668 963 471**	**100**

	Number of shares	%
Beneficial shareholders' holding of 5% or more		
Adrian Gore	49 046 559	7.33
Government Employees Pension Fund (including shares managed by Public Investment Corporation)	81 859 142	12.24
Baillie Gifford & Co Ltd	51 257 686	7.66
Remgro Limited	51 254 365	7.66
Capital Group Companies Inc	34 919 920	5.22

B PREFERENCE SHAREHOLDERS

	Number of shareholders	% of total shareholders	Number of shares	% of issued capital
Shareholder spread				
1 – 1 000 shares	2 097	71.04	306 025	3.83
1 001 – 10 000 shares	735	24.90	2 255 176	28.19
10 001 – 100 000 shares	107	3.62	2 895 145	36.19
100 001 – 1 000 000 shares	13	0.44	2 543 654	31.80
	2 952	**100**	**8 000 000**	**100**
Public/non-public shareholders				
Public shareholders	2 952	100	8 000 000	100

	Number of shares	%
Beneficial shareholders' holding of 5% or more		
Outsurance Insurance Company Ltd	500 000	6.25

ANNEXURE E – EMBEDDED VALUE
REPORT ON THE REVIEW OF THE EMBEDDED VALUE STATEMENT

OF DISCOVERY LIMITED AND ITS SUBSIDIARIES TO THE DIRECTORS OF DISCOVERY LIMITED

INTRODUCTION

We have reviewed the Embedded Value Statement of Discovery Limited and its subsidiaries (together the Discovery Limited Group) for the year ended 30 June 2022, as set out on pages 205 to 215 of the Discovery Limited Annual Financial Statements for the year ended 30 June 2022 (the Report). The Report is prepared for the purpose of determining the value and performance of Discovery Limited Group. The directors of Discovery Limited are responsible for the preparation and presentation of the Report in accordance with the embedded value basis set out in the Basis of Preparation section of the Report, and for determining that the basis of preparation is acceptable in the circumstances. Our responsibility is to express a conclusion on this Report based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope 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 Discovery Limited 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 2022, provided it is clearly understood by the recipients of the Discovery Limited Annual Financial Statements for the year ended 30 June 2022 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: Andrew Graham Taylor
Registered Auditor
Johannesburg
7 September 2022

KPMG Inc.
Director: Mark Danckwerts
Registered Auditor
Johanneburg
7 September 2022

ANNEXURE E – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2022

The embedded value of Discovery consists of the following components:

- the adjusted net worth attributed to the business at the valuation date;
- plus: the present value of expected future shareholder cash flows from the in-force covered business;
- less: the cost of required capital.

The present value of future shareholder cash flows from the in-force covered business is calculated as the value of projected future after-tax shareholder cash flows of the business in-force at the valuation date, discounted at the risk discount rate.

The required capital are the assets attributed to the covered business above the amount required to back covered business liabilities, whose distribution to shareholders is restricted as they are allocated to cover regulatory and internal capital requirements.

The value of new business is the present value, at the point of sale, of the projected future after-tax shareholder cash flows of the new business written by Discovery, discounted at the risk discount rate, less an allowance for the reserving strain, initial expenses and cost of required capital. The value of new business is calculated using the current reporting date assumptions.

The embedded value includes the insurance and administration profits of the covered business in the Discovery Limited Group. Covered business includes business written in South Africa through Discovery Life (“Life”), Discovery Invest (“Invest”), Discovery Health (“Health”) and Discovery Vitality (“Vitality”), and in the United Kingdom through VitalityLife and VitalityHealth. For Vitality Group, Ping An Health, Discovery Insure, Discovery Bank, VitalityInvest and Umbrella Funds, 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 VitalityLife embedded value has been adjusted to allow for the agreement with Prudential in May 2022 to defer the transfer of the VitalityLife business on the Prudential licence to the Vitality Life Limited licence ("the Part VII transfer").

The 30 June 2022 embedded value results and disclosures were subjected to an external review.

ANNEXURE E – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2022

TABLE 1: GROUP EMBEDDED VALUE

R million	**30 June 2022**	30 June 2021	% change
Shareholders' funds	**53 555**	46 419	15
Adjustment to shareholders' funds from published basis[1]	**(39 764)**	(34 184)	16
Adjusted net worth[2]	**13 791**	12 235	13
Value of in-force covered business before cost of required capital	**76 077**	67 175	13
Cost of required capital	**(3 610)**	(4 765)	24
Discovery Limited embedded value	**86 258**	74 645	16
Number of shares (millions)	**657.0**	656.8	
Embedded value per share	**R131.29**	R113.65	16
Diluted number of shares (millions)	**668.3**	665.1	
Diluted embedded value per share[3]	**R129.07**	R112.23	15

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 R20.00/GBP (June 2021: R19.74/GBP).*

R million	**30 June 2022**	30 June 2021
Life net assets under insurance contracts	**(24 793)**	(20 675)
Vitality Life Limited net assets under insurance contracts	**(8 608)**	(7 703)
VitalityHealth financial reinsurance asset	**(3 021)**	(2 353)
VitalityHealth and Vitality Health Insurance Limited deferred acquisition costs (net of deferred tax)	**(450)**	(407)
VitalityLife receivable relating to the Unemployment Cover benefit (net of deferred tax)	**(11)**	(12)
Goodwill relating to the acquisition of Standard Life Healthcare and the Prudential joint venture	**(2 475)**	(2 442)
Intangible assets (net of deferred tax) in covered businesses	**(864)**	(830)
Net preference share capital	**(779)**	(779)
Reversal of 1 Discovery Place IAS 17 financial lease accounting	**1 170**	975
Equity settled share based payment provision adjustment	**67**	42
	(39 764)	(34 184)

For the prior period, the "Vitality Life Limited net assets under insurance contracts" included an adjustment for the Discovery funded VitalityLife business on the Prudential licence net assets under insurance contracts. From 30 June 2022, the Discovery funded VitalityLife business on the Prudential licence net assets under insurance contracts are no longer eliminated in the embedded value because the Discovery funding was settled as part of the agreement to delay the Part VII transfer in the period, aligning the financial operation of all VitalityLife business on the Prudential licence.

The "equity settled share based payment provision adjustment" reflects the difference between the provision in the IFRS equity and the mark-to-market value of the equity settled share based payments.

ANNEXURE E – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2022

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 2022**	30 June 2021
Shareholders' funds	**53 555**	46 419
Adjustment to shareholders' funds	**(39 764)**	(34 184)
Adjusted net worth	**13 791**	12 235
Excess of available capital over adjusted net worth	**35 342**	30 718
Available capital	**49 133**	42 953
Required capital	**39 318**	32 699
Excess available capital	**9 815**	10 254

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. For the prior period, this also adds back the negative reserves eliminated on the Discovery funded VitalityLife business on the Prudential licence.*
- *The difference between Life's Pillar 1 Own Funds and its adjusted net worth.*

The following table sets out the required capital for each of the covered businesses:

R million	**30 June 2022**	30 June 2021
Health and Vitality	**1 000**	973
Life and Invest	**25 403**	22 059
VitalityHealth	**3 164**	2 847
VitalityLife	**9 751**	6 820
Total required capital	**39 318**	32 699

- *For Health and Vitality, the required capital was set equal to two times the monthly renewal expense and Vitality benefit cost.*
- *For Life and Invest, the required capital was set equal to 1.25 times the SAM Pillar 1 Solvency Capital Requirement.*
- *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 1.5 times the UK Solvency I long-term insurance capital requirement as per the agreement with Prudential following the long-term delay of the Part VII transfer. For the business sold on the Vitality Life Limited licence, the required capital was set equal to 1.4 times the Solvency II Pillar 1 Solvency Capital Requirement.*

3 *The diluted embedded value per share adjusts for treasury shares held in the Discovery BEE Share Trust and as part of Discovery's Long-term Incentive Plan where the impact is dilutive.*

ANNEXURE E – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2022

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 2022			
Health and Vitality	**24 528**	**(479)**	**24 049**
Life and Invest[1]	**32 073**	**(1 509)**	**30 564**
VitalityHealth[2]	**10 658**	**(583)**	**10 075**
VitalityLife[2]	**8 818**	**(1 039)**	**7 779**
Total	**76 077**	**(3 610)**	**72 467**
at 30 June 2021			
Health and Vitality	22 503	(422)	22 081
Life and Invest[1]	27 777	(1 183)	26 594
VitalityHealth[2]	8 230	(462)	7 768
VitalityLife[2]	8 665	(2 698)	5 967
Total	67 175	(4 765)	62 410

1 *Included in the Life and Invest value of in-force covered business is R1 734 million (June 2021: R1 675 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 R20.00/GBP (June 2021: R19.74/GBP).*

TABLE 3: GROUP EMBEDDED VALUE EARNINGS

R million	30 June 2022	30 June 2021
Embedded value at end of period	**86 258**	74 645
Less: embedded value at beginning of period	**(74 645)**	(70 834)
Increase in embedded value	**11 613**	3 811
Net change in capital[1]	**(10)**	(7)
Dividends paid	**56**	63
Transfer to hedging reserve	**(309)**	(260)
Employee share option schemes	**(326)**	(330)
Embedded value earnings	**11 024**	3 277
Annualised return on opening embedded value	**14.8%**	4.6%

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

ANNEXURE E – EMBEDDED VALUE STATEMENT *continued*
for the year ended 30 June 2022

TABLE 4: COMPONENTS OF GROUP EMBEDDED VALUE EARNINGS

R million	Net worth	Cost of required capital	Value of in-force covered business	**Year ended 30 June 2022 Embedded value**	Year ended 30 June 2021 Embedded value
Total profit from new business (at point of sale)	(4 657)	(309)	7 027	**2 061**	1 891
Profit from existing business					
▪ Expected return	4 317	148	2 334	**6 799**	6 421
▪ Change in methodology and assumptions[1]	3 093	1 480	(3 706)	**867**	(5 556)
▪ Experience variances	202	(102)	3 024	**3 124**	4 917
Impairment, amortisation and fair value adjustment[2]	(52)	–	–	**(52)**	(14)
Increase in goodwill and intangibles	(418)	–	–	**(418)**	(336)
Other initiative costs[3]	(860)	–	24	**(836)**	(288)
Non-recurring expenses	(130)	–	–	**(130)**	(85)
Acquisition costs[4]	(41)	–	–	**(41)**	(40)
Finance costs	(2 318)	–	–	**(2 318)**	(2 104)
Foreign exchange rate movements[5]	1 034	(62)	199	**1 171**	(2 316)
Other[6]	(16)	–	–	**(16)**	(8)
Return on shareholders' funds[7]	813	–	–	**813**	795
Embedded value earnings	967	1 155	8 902	**11 024**	3 277

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, Cambridge Mobile Telematics system spend and capital expenditure in VitalityInvest and Discovery Group Europe Limited. The prior period comparatives include the amortisation of the intangible asset raised under the PrimeMed acquisition, which has since been dissolved.*

3 *This item includes the profits of non-covered businesses (including Discovery Insure, Vitality Group and Ping An Health) and costs of start-up businesses (including Discovery Bank, VitalityInvest, a commercial offering in Discovery Insure, and an Umbrella Fund offering in Invest). Head office costs which relate to non-covered business are also included in this item.*

4 *Acquisition costs relate to commission paid on the Life and Invest business and expenses incurred in writing Health and Vitality business that has been written over the period but will only be activated and on risk after the valuation date. These policies are not included in the embedded value or the value of new business and therefore the costs are not deducted from the value of new business.*

5 *This item includes foreign exchange gains / (losses) emerging through the income statement, in addition to translation impacts on the cost of required capital and value of in-force.*

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.*

ANNEXURE E – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2022

TABLE 5: EXPERIENCE VARIANCES

	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		
R million	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	**Total**
Renewal expenses	218	–	(3)	2	(239)	–	(22)	–	**(44)**
Lapses and surrenders[1]	18	235	(123)	770	–	486	(218)	433	**1 601**
Mortality and morbidity[2]	–	–	(401)	49	563	–	(26)	–	**185**
Policy alterations[1]	–	64	(437)	426	–	–	8	(2)	**59**
Backdated cancellations	–	–	–	–	–	–	–	–	**–**
Premium and fee income	152	–	115	121	398	–	(14)	156	**928**
Economic[3]	–	–	(19)	(150)	–	–	(6)	–	**(175)**
Commission	–	–	–	–	(43)	–	–	–	**(43)**
Tax[4]	47	–	353	(282)	(16)	–	183	–	**285**
Reinsurance	–	–	–	–	65	–	(195)	74	**(56)**
Maintain modelling term[5]	–	298	–	98	–	76	–	–	**472**
Vitality benefits	11	–	–	–	–	–	6	–	**17**
Other[6]	(21)	(1)	(4)	(26)	89	–	(237)	95	**(105)**
Total	425	596	(519)	1 008	817	562	(521)	756	**3 124**

1 *For Life and Invest, the combined lapse and surrender experience and policy alterations experience is relative to assumptions which include an allowance for a short-term stress previously set in response to deteriorating experience from COVID-19 related impacts. For VitalityLife, large favourable variances from lower lapses were partially offset by lower in-period commission clawbacks.*

2 *The mortality and morbidity experience for Life and Invest reflects a strain mainly due to increased morbidity experience. All confirmed COVID-19 claims were offset against the provision previously set and have been in line with expectation. For VitalityHealth, while claim incidence was at normal levels, claims severity was lower than assumed for the period under review due predominantly to clinical risk management interventions. There continue to be material uncertainties about future claims severity, with potential increases resulting from delayed treatments or undiagnosed disease during the pandemic.*

3 *The experience for Life and Invest arises largely due to a significant fall in asset values in the Invest business close to the end of the financial period, partially offset by higher than expected inflation related increases on premium and benefit increases in Life.*

4 *The tax variance arises due to the timing difference between the expected tax payments and actual payments.*

5 *For Health and Vitality, Life and Invest and VitalityHealth, the projection term is rebased at each year-end. Therefore, an experience variance arises because the total term of the in-force covered business is effectively increased by twelve months.*

6 *The key Other experience relates to cash flow timing variances in Life and Invest, profits and losses from companies within the VitalityHealth and VitalityLife segments which are not part of covered business, including the net impact of the VitalityLife swaption program, excluding gains or losses from the hedge which are included in the economic assumption changes item.*

ANNEXURE E – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2022

TABLE 6: METHODOLOGY AND ASSUMPTION CHANGES

	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		
R million	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	**Total**
Modelling changes[1]	–	–	(26)	(320)	–	149	589	351	**743**
Expenses[2]	–	(808)	(49)	(173)	–	–	(189)	(19)	**(1 238)**
Lapses[3]	–	57	–	(142)	–	1 642	(254)	270	**1 573**
Mortality and morbidity[4]	–	–	–	(2 192)	–	(254)	10	(414)	**(2 850)**
Benefit changes	–	83	–	–	–	–	–	–	**83**
Vitality	–	–	–	–	–	–	–	–	**–**
Tax[5]	–	274	(354)	594	–	–	–	112	**626**
Economic assumptions[6]	–	527	(31)	(252)	–	(634)	922	(154)	**378**
Premium and fee income[4,7]	–	(314)	–	1 966	–	–	–	–	**1 652**
Reinsurance and financing[8]	–	–	2 452	(2 423)	–	(30)	22	14	**35**
Other	–	–	1	(136)	–	–	–	–	**(135)**
Total	–	(181)	1 993	(3 078)	–	873	1100	160	**867**

1 *For Life and Invest, certain corrections were made to the modelled long-term projection of fee income and interest income. For VitalityHealth, the item includes a correction to the in-force data. For VitalityLife, the item reflects the deferral of the Part VII transfer of policies from the Prudential, which predominately includes a reduced cost of capital.*

2 *For Health and Vitality and Life and Invest, the renewal expenses assumption was updated to reflect an increase in budgeted expenses.*

3 *For Life, a provision was raised for the expected continued pressure on policy alterations experience over the short-term. For VitalityHealth, the lapse item reflects the increase in the annuity factor assumption. For VitalityLife, the lapse item includes a reduction in the term policy book's lapse assumptions.*

4 *For Life and Invest, the combined impact of the mortality and morbidity assumption change and the premium and fee income assumption change reflects the impact of a basis strengthening for endemic COVID-19 impacts as well as other short- and long-term experience components, partially offset by higher future expected premiums. For VitalityHealth, this item reflects an update to the valuation assumptions for the gross margin, as well as a release of a COVID-19 related stress provision. For VitalityLife, this item includes an increase in the term policy book's mortality assumptions.*

5 *This item largely reflects the reduction of the South African corporate tax rate from 28% to 27%. For Life and Invest, this item also reflects the impact of allocation changes between tax funds, resulting in a change in current and deferred tax items.*

6 *For Life and Invest and Health and Vitality, the economic assumptions item relates to the impact of updating the assumptions relative to the Johannesburg Stock Exchange ("JSE") nominal and real yield risk-free curves at 30 June 2022. For Life and Invest this item also includes the impact of updating exchange rate assumptions. For VitalityLife the item includes the impact of updating the assumptions relative to the Solvency II yield curves and the IFRS interest rates, offset by the net change in the interest rate hedge.*

7 *For Health and Vitality, the premium and fee income item relates to discounts offered to in-house schemes.*

8 *For Life and Invest, the reinsurance and financing item primarily relates to the impact of financing arrangements, where the future expected cash flows arising from part of the negative reserves are monetised to match other positive policy liabilities.*

ANNEXURE E – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2022

TABLE 7: EMBEDDED VALUE OF NEW BUSINESS

R million	30 June 2022	30 June 2021	% Change
Health and Vitality			
Present value of future profits from new business (at point of sale)	**958**	789	
Cost of required capital	**(30)**	(24)	
Present value of future profits from new business (at point of sale) after cost of required capital	**928**	765	12
New business annualised premium income[1]	**4 185**	3 704	13
Life and Invest			
Present value of future profits from new business (at point of sale)[2]	**795**	825	
Cost of required capital	**(90)**	(82)	
Present value of future profits from new business (at point of sale) after cost of required capital	**705**	743	(5)
New business annualised premium income[3]	**2 995**	2 947	2
Annualised profit margin[4]	**3.0%**	3.0%	
Annualised profit margin excluding Invest business	**5.3%**	5.7%	
VitalityHealth[5]			
Present value of future profits from new business (at point of sale)	**398**	143	
Cost of required capital	**(81)**	(61)	
Present value of future profits from new business (at point of sale) after cost of required capital	**317**	82	287
New business annualised premium income[6]	**1 648**	1 263	30
Annualised profit margin[4]	**2.6%**	0.9%	
VitalityLife[7]			
Present value of future profits from new business (at point of sale)	**219**	396	
Cost of required capital	**(108)**	(95)	
Present value of future profits from new business (at point of sale) after cost of required capital	**111**	301	(63)
New business annualised premium income	**882**	871	1
Annualised profit margin[4]	**1.4%**	4.1%	

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 2022.*

The total Health and Vitality new business annualised premium income written over the period was R7 548 million (June 2021: R6 103 million).

2 *Included in the Life and Invest embedded value of new business is R55 million (June 2021: R53 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 995 million (June 2021: R2 947 million) (single premium APE: R1 421 million (June 2021: R1 490 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 801 million (June 2021: R1 414 million) and servicing increases of R668 million (June 2021: R640 million), was R5 464 million (June 2021: R5 001 million) (single premium APE: R1 492 million (June 2021: R1 569 million)). Single premium business is included at 10% of the value of the single premium.

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

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

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

6 *VitalityHealth new business is defined as individuals and employer groups which incepted during the reporting period. The new business annualised premium income shown above has been adjusted to exclude premiums in respect of members who join an existing employer group after the first month, as well as premiums in respect of new business written during the period but only activated after 30 June 2022.*

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.*

ANNEXURE E – EMBEDDED VALUE STATEMENT *continued*
for the year ended 30 June 2022

BASIS OF PREPARATION
TABLE 8: EMBEDDED VALUE ECONOMIC ASSUMPTIONS

		30 June 2022	30 June 2021
Beta coefficient		**0.75**	0.75
Equity risk premium (%)		**3.5**	3.5
Risk discount rate (%)			
	– Health and Vitality[1]	**14.375**	13.125
	– Life and Invest[1]	**14.875**	13.625
	– VitalityHealth	**5.016**	3.462
	– VitalityLife	**4.997**	3.263
Rand / GBP exchange rate			
Closing		**20.00**	19.74
Average		**20.25**	20.74
Margin over Expense inflation to derive Medical inflation (%)			
South Africa		**3.00**	3.00
Expense inflation (%)[2]			
South Africa	– Health and Vitality	**7.85**	6.14
	– Life and Invest	**7.74**	6.23
United Kingdom		**3.50**	2.50
Pre-tax investment return (%)			
South Africa	– Cash[1]	**10.75**	9.50
	– Life and Invest bonds[3]	**12.25**	11.00
	– Health and Vitality bonds[3]	**11.75**	10.50
	– Equity[1]	**15.75**	14.50
United Kingdom	– VitalityHealth risk-free rate	**2.39**	0.84
	– VitalityLife risk–free rate	**2.37**	0.64
	– VitalityLife IFRS interest rate	**2.92**	1.80
	– VitalityLife investment return	**2.00**	1.44
Long-term corporation tax rate (%)			
South Africa		**27**	28
United Kingdom		**25**	25
VitalityHealth Assumptions			
– Margin (net of tax and cost of capital) (%)[4]		**12.00**	12.00
– Annuity Factor		**7.00**	6.18
Projection term			
– Health and Vitality		**20 years**	20 years
– Discovery Life – VIF		**40 years**	40 years
– Group Life		**20 years**	20 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. For the United Kingdom, the expense inflation assumption is aligned with the long-term market view of inflation.*
3 *As indications, the cash flow weighted averages derived from the relevant yield curve(s) are shown.*
4 *The VitalityHealth margin (net of tax and cost of capital) remains unchanged at 12.00%. The assumption change noted in Table 6 to reduce the gross margin assumption at 30 June 2022 has been largely offset by the release of the stress provision present in the gross margin assumption at 30 June 2021.*
5 *The VitalityHealth projection term of 20 years is used in the derivation of the Annuity Factor.*

ANNEXURE E – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2022

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.

The South African investment return assumptions for Life, Invest, Health and Vitality were set relative to the publicly available JSE risk-free nominal yield curve.

The current and projected tax position of the policyholder funds within the Life company has been taken into account in determining the net investment return assumption.

The risk-free rate assumption for VitalityHealth and VitalityLife was based on the single interest rate derived from the Prudential Regulatory Authority yield curve. The inflation rate is consistent with the long-term market view of inflation.

From 30 June 2018, VitalityHealth calculate the value of 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.

The cost of required capital is calculated using the difference between the risk discount rate and the net of tax asset return on tangible assets. The Vitality Life Limited and the VitalityLife business on the Prudential licence required capital amount is assumed to earn the investment return assumption, which is set based on the return on a portfolio of government and corporate bonds assumed to back the required capital. The Life and Invest cost of required capital is calculated assuming shareholder cash flow is limited to the cash flow available after having met both the required capital amount and an internally defined liquidity target capital requirement of tangible assets.

The embedded value has been calculated in accordance with the Actuarial Society of South Africa's Advisory Practice Note ("APN") 107: Embedded Value Reporting, except the recommended disclosure of Free Surplus and Required Capital has been adjusted to take into account the nature of the capital requirements in the covered businesses, as can be seen in Table 1 note 2.

ANNEXURE E – EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2022

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 2022 to changes in the risk discount rate is included in the tables below.

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

TABLE 9: EMBEDDED VALUE SENSITIVITY

	Health and Vitality			Life and Invest		VitalityHealth		VitalityLife			
R million	Adjusted net worth[2]	Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	**Embedded value**	% change
Base	13 791	24 528	(479)	32 073	(1 509)	10 658	(583)	8 818	(1 039)	**86 258**	
Impact of:											
Risk discount rate +1%	13 791	23 170	(518)	28 971	(1 590)	10 075	(552)	8 216	(902)	**80 661**	(6)
Risk discount rate – 1%	13 791	26 029	(436)	35 768	(1 412)	11 303	(619)	9 501	(1 209)	**92 716**	7
Lapses – 10%	13 519	25 328	(502)	35 174	(1 596)	11 899	(651)	9 462	(1 203)	**91 430**	6
Interest rates – 1%[1]	12 588	24 451	(463)	32 584	(1 473)	11 303	(619)	8 875	(1 378)	**85 868**	–
Equity and property market value – 10%	13 797	24 528	(479)	31 466	(1 529)	10 658	(583)	8 818	(1 039)	**85 637**	(1)
Equity and property return +1%	13 791	24 528	(479)	32 487	(1 501)	10 658	(583)	8 818	(1 039)	**86 680**	–
Renewal expenses – 10%	13 905	27 047	(443)	32 722	(1 469)	11 435	(583)	9 024	(1 038)	**90 600**	5
Mortality and morbidity – 5%	14 039	24 528	(479)	34 309	(1 376)	12 331	(583)	9 187	(1 161)	**90 795**	5
Projection term +1 year	13 791	24 833	(484)	32 181	(1 512)	10 757	(589)	8 818	(1 039)	**86 756**	1

1 All economic assumptions were reduced by 1%.
2 The sensitivity impact on the VitalityLife net of tax change in negative reserves is included in the adjusted net worth column.

The following table shows the effect of using different assumptions on the embedded value of new business.

TABLE 10: VALUE OF NEW BUSINESS SENSITIVITY

	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife			
R million	Value of new business	Cost of required capital	Value of new business	Cost of required capital	Value of new business	Cost of required capital	Value of new business	Cost of required capital	**Value of new business**	% change
Base	958	(30)	795	(90)	398	(81)	219	(108)	**2 061**	
Impact of:										
Risk discount rate +1%	881	(33)	601	(95)	293	(76)	119	(91)	**1 599**	(22)
Risk discount rate – 1%	1 042	(28)	1 023	(84)	514	(88)	333	(131)	**2 581**	25
Lapses – 10%	1 017	(33)	1 013	(95)	555	(91)	328	(141)	**2 553**	24
Interest rates – 1%[1]	966	(30)	801	(88)	514	(88)	241	(174)	**2 142**	4
Equity and property return +1%	958	(30)	824	(89)	398	(81)	219	(108)	**2 091**	1
Renewal expense – 10%	1 097	(29)	846	(87)	500	(81)	258	(103)	**2 401**	16
Mortality and morbidity – 5%	958	(30)	899	(82)	617	(81)	257	(101)	**2 437**	18
Projection term +1 year	975	(31)	802	(90)	415	(81)	219	(108)	**2 101**	2
Acquisition costs – 10%	986	(30)	949	(90)	435	(81)	360	(108)	**2 421**	17

1 All economic assumptions were reduced by 1%.

ANNEXURE F – FIVE-YEAR REVIEW

for the year ended 30 June 2022

	Group 2018	Group 2019	Group 2020	Group 2021	**Group 2022**	Compound growth %
Income statement extracts (R million)						
Profit from operations	8 260	7 536	1 532	5 304	**7 858**	(1)
Headline earnings	5 803	5 147	296	2 986	**5 204**	(3)
Abnormal expenses/(income)	(402)	(112)	3 451	420	**612**	
Normalised headline earnings	5 401	5 035	3 747	3 406	**5 816**	2
Diluted normalised headline earnings per share (cents)	836.9	771.6	566.7	512.9	**877.3**	1
Statement of financial position extracts (R million)						
Total assets	157 982	180 233	210 328	246 694	**271 224**	14
Shareholders' funds	37 594	43 083	44 549	46 415	**53 550**	9
Embedded value						
Embedded value (R million)	65 624	71 217	70 834	74 645	**86 258**	7
Diluted embedded value per share (R)	101.56	108.30	107.71	112.23	**129.07**	6
Key ratios						
Return on average equity (%)	16	16	0.4	7.1	**11.0**	
Return on average assets (%)	4	4	0.1	1.4	**2.1**	
Exchange rates						
Rand/US$						
– Closing	13.81	14.15	17.41	14.28	**16.47**	
– Average	12.86	14.17	15.70	15.42	**15.22**	
Rand/GBP						
– Closing	18.16	17.98	21.44	19.74	**20.00**	
– Average	17.33	18.32	19.75	20.74	**20.25**	
Share statistics						
Number of ordinary shares in issue						
– Weighted average (000's)	645 014	652 295	656 648	656 710	**656 901**	
– Diluted weighted average (000's)	645 408	652 568	661 242	664 073	**663 082**	
– End of period (000's)	646 845	658 291	658 291	665 769	**668 963**	
Price/diluted headline earnings (times)	17.6	19.3	18.3	24.7	**14.6**	
Share price (cents per share):						
– High	19 000	17 830	15 163	15 738	**18 280**	
– Low	12 719	13 287	5 815	10 047	**11 760**	
– Closing	14 750	14 911	10 455	12 667	**12 810**	
Market capitalisation (R million)	95 410	98 158	68 824	84 333	**85 694**	

GLOSSARY OF TERMS

Abbreviation	Meaning
CAE	Chief Audit Executive
CCIC	Capital, Currency and Investment Committee (CCIC)
CEO	Chief Executive Officer
CFC	Controlled Foreign Company
CFO	Chief Financial Officer
CGU	Cash generating unit
CIPC	Companies and Intellectual Property Commission
Companies Act	South African Companies Act, 71 of 2008
CRO	Chief Risk Officer
CSM	Contractual Service Margin (unearned profit)
Discovery	Discovery Limited Group
DLAC	Discovery Limited Audit Committee
DRG	Discovery Risk Grades
ECL	Expected credit losses
FCC	Finance and Capital Committee
FinRe	Financial Reinsurance - with risk transfer
FRC	United Kingdom Financial Reporting Council
GIA	Group Internal Audit
GMM	General Measurement Model
HAF	Head of Actuarial Function
IFA	Insurance Fund Account
IFRS	International Financial Reporting Standards
IRBA	South African Independent Regulatory Board of Auditors
JSE	Johannesburg Stock Exchange
LIC	Liability for Incurred Claims
LRC	Liability for Remaining Coverage
MAFR	Mandatory audit firm rotation
Morbidity	Morbidity claims are claims which arise as a result of an impairment of life due to an illness or disability event insured by the policyholder
Mortality	Mortality claims are claims which arise from the death of an insured life
NCD	Negotiable certificates of deposits
OCI	Other Comprehensive Income
OCR	Oustanding Claims Reserve
PAA	Premium Allocation Approach
PAH	Ping An Health Insurance Company of China Ltd
SAICA	South African Institute of Chartered Accountants
SAM	Solvency Assessment and Management
TCFD	Task Forced on Climate-Related Financial Disclosures
VFA	Variable Fee Approach
WHT	Withholding Tax

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