



DISCOVERY  
INTEGRATED ANNUAL  
REPORT 2019

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## INTEGRATED ANNUAL REPORT 2019

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Indicates where further information can be found in this report



Indicates where further information can be found on our website, [www.discovery.co.za](http://www.discovery.co.za)



Discovery is a **global, integrated financial services organisation** that uses a pioneering **Shared-Value business model** across businesses to achieve **our core purpose of making people healthier and enhancing and protecting their lives.**

# ABOUT THIS REPORT

Our Integrated Annual Report is aimed at our shareholders, providers of capital and other stakeholders, and presents our financial, economic and social performance in relation to our business strategy.

Furthermore, it presents readers with a holistic view of our business, its strategy and material matters, as well as how we create value through our Shared-Value business model, which is integrated across the Group and is the foundation of our business.

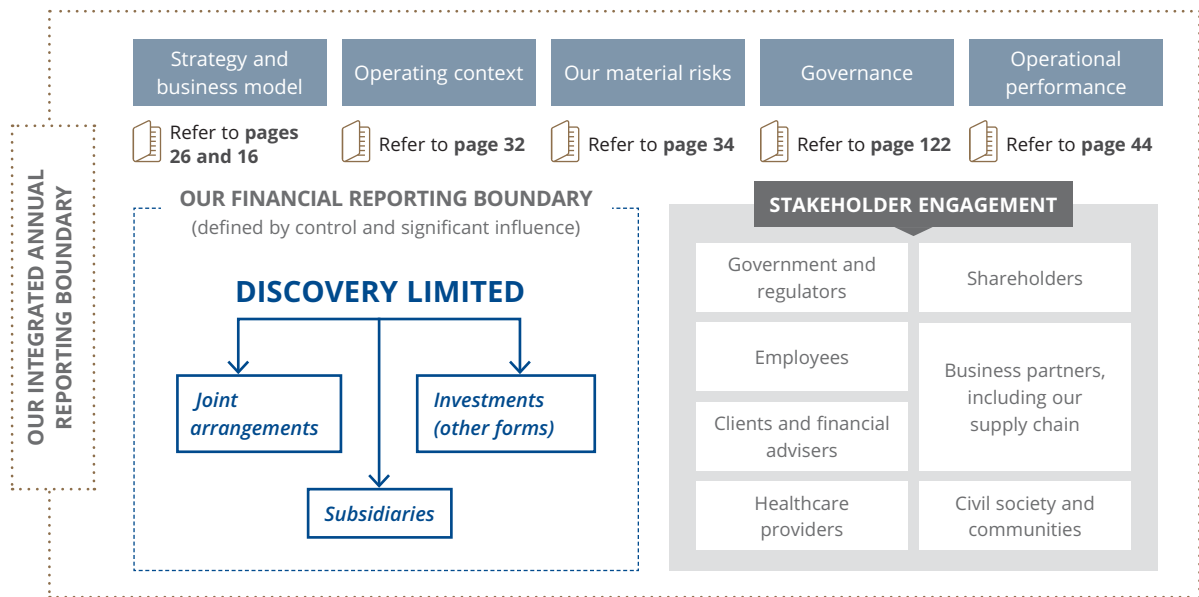
## Scope and boundary

This Integrated Annual Report covers the period 1 July 2018 to 30 June 2019, referred to as FY2019 throughout this report, and includes both financial and non-financial reporting. Discovery operates in 20 countries and we identify where non-financial data applies only to our South African-based businesses.

This report focuses on the performance of Discovery Limited, including:

- Discovery Health
- Discovery Vitality
- Discovery Life
- Discovery Invest
- Discovery Insure
- Our start-up businesses, including Discovery Bank in South Africa

- VitalityHealth, VitalityLife and VitalityInvest in the United Kingdom
- Our international operations under Vitality Group



## Reporting frameworks

In the preparation of this report we were guided by the principles of the International Integrated Reporting Council’s (IIRC) Integrated Reporting Framework (<IR> Framework). We adhere to the mandatory principles of governance, as contained in the JSE Limited Listings Requirements, the principles of the King IV report on Corporate Governance for South Africa, 2016 (King IV™), the Companies Act, No 71 of 2008, as amended (Companies Act) and International Financial Reporting Standards (IFRS).

## Determining materiality

We aim to report only on those matters that could materially impact our ability to create value for our stakeholders in the short, medium and long term. Our material matters are identified by our executive management, based on a review of key risks identified in our governance structures and from engagement with our external stakeholders. We discuss our most pertinent material matters that represent some of the key challenges for our business throughout our report.

## STATEMENT FROM DISCOVERY GROUP INTERNAL AUDIT

Discovery is committed to providing information that is accurate and supports the decision-making of our stakeholders. As such, Discovery Group Internal Audit conducted a review of the quantitative data included in our 2019 Integrated Annual Report, with the exception of the Annual Financial Statements (which have been audited by the external auditors). Set out below is a summary of the procedures performed to verify the financial and non-financial information in this report, as well as the key performance indicators (KPIs) and Global Reporting Initiative (GRI) indicators included in our Sustainable Development Report and related website, for the year ending 30 June 2019.

Discovery Group Internal Audit obtained an understanding of:

- The stakeholder engagement process
- The selection and application of reporting policies
- The factors considered by management in preparing the Integrated Annual Report and the Sustainable Development Report (web-based report).

Discovery Group Internal Audit:

- Made enquiries of management, employees and those responsible for preparing the Integrated Annual Report and the Sustainable Development Report (web-based report)
- Inspected relevant supporting documents, as well as internal sources (as confirmed by management), and obtained external confirmation and management representation, where necessary, for the purpose of the audit engagement
- Conducted analytical procedures and limited tests of detail responsive to the risk assessment and the level of assurance required. This included a comparison of judgementally selected information to the underlying source documents from which the information in these reports has been derived.

Based on the evidence obtained in completing this limited assurance engagement, Discovery Group Internal Audit believes the quantitative information in the Integrated Annual Report and the Sustainable Development Report reflects the Group's performance for the year ended 30 June 2019.

## Forward-looking statements

This Integrated Annual Report may contain certain forward-looking statements regarding Discovery's future performance and prospects. These statements cannot be considered guarantees of future outcomes as they are subject to emerging risks, future events, changing circumstances and other important factors that are out of our control and cannot be predicted. These events may cause actual results to differ materially from our current expectations.

## How we report to our stakeholders

Our total reporting suite comprises five reports, which our stakeholders can refer to for detailed information on Discovery and its prospects, as well as our financial, operational and social performance.

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



Our 2019 Annual Financial Results Presentation can be accessed at [www.discovery.co.za/info/2019presentation](http://www.discovery.co.za/info/2019presentation)

Our **INTEGRATED ANNUAL REPORT** details our financial, economic, and social performance in relation to our business strategy going forward.

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



Our 2019 Annual Financial Statements can be accessed at [www.discovery.co.za/info/2019financials](http://www.discovery.co.za/info/2019financials)

Our **SUSTAINABLE DEVELOPMENT REPORT**, along with our detailed website, charts our relationship with broader society. It describes how we work with partners to achieve common sustainable development goals, our progress against global and local sustainable development objectives, and how we create value.



Our 2019 report can be accessed at [www.discovery.co.za/info/2019sreport](http://www.discovery.co.za/info/2019sreport)

Our **GOVERNANCE REPORT** includes information on our risks, compliance and King IV™ compliance.



Our 2019 report can be accessed at [www.discovery.co.za/info/2019governance](http://www.discovery.co.za/info/2019governance)

Our Sustainable Development Report is compiled in line with the G4 guidelines of the Global Reporting Initiative (GRI) at a core level. It also outlines our progress against the United Nations Global Compact (UNGC), of which we became a signatory in 2015.

Discovery's Consolidated Annual Financial Statements were prepared by L van Jaarsveldt CA(SA) and A Nel CA(SA), and supervised by D Viljoen CA(SA). The embedded value statement was prepared by M Curtis (FASSA, FIA), and P Bolink (FASSA), and supervised by A Rayner (FASSA, FIA).

### WE VALUE FEEDBACK ON OUR REPORTING.

Please send your comments to [askthecfo@discovery.co.za](mailto:askthecfo@discovery.co.za), or contact Mr Deon Viljoen, Discovery's Group Chief Financial Officer, on +27 11 529 1855

## Approval of the Discovery Integrated Annual Report

The Discovery Limited Board of Directors, supported by Group Internal Audit and the Discovery Audit Committee, is responsible for the integrity of this report. The Board applied its collective mind in the preparation and presentation of the Report, and believes it to be in line with the <IR> Framework.

After reviewing the content of this report, the Board is satisfied that it accurately presents those material matters that will impact our ability to create value for our stakeholders in the short, medium and long term.

The Discovery Limited Board of Directors unanimously approved the 2019 Integrated Annual Report on 7 October 2019.

**Mark Tucker**  
Chairperson of the Discovery Limited Board of Directors

**Adrian Gore**  
Group Chief Executive



“The year ahead is an important one for Discovery as it builds on the leadership of its established and emerging businesses and guides the new initiatives through their start-up phase. It is a very exciting time to join the Discovery Board.

Mark Tucker

# CHAIRPERSON'S REVIEW



Discovery's core purpose of making people healthier and enhancing and protecting their lives, and its Vitality Shared-Value business model which incentivises behaviour change, are changing the way consumers worldwide experience insurance.

While this may be my first Chairperson's Review, my relationship with Discovery is long standing. It began in 2004, when as Executive Director of Prudential plc in the UK, we built our joint venture PruHealth and PruProtect, which later became Vitality UK. It continued when I was CEO of AIA, where we launched the Vitality Group partnership in Singapore in 2013. During these years I continued to learn more about Discovery's potential.

In my experience, few organisations have both sound commercial business models with an unequivocal social purpose, and the potential to change an industry. Discovery's core purpose of making people healthier and enhancing and protecting their lives, and its Vitality Shared-Value business model which incentivises behaviour change, are changing the way consumers worldwide experience insurance.

Discovery's relevance and credibility is well recognised. Earlier this year, Discovery emerged as a new entrant in Brand Finance's Insurance 100 rating for 2019 as the world's second strongest insurance brand.

I take on the role of Chair at a critical time in Discovery's journey. Discovery's 2018 Ambition was a significant catalyst for growth. The Group came very close to achieving stretch goals set around financial and social impact, brilliant businesses and a unique foundation. It led to disciplined models for organic growth and resulted in the Vitality Shared-Value business model being scalable, repeatable and globally relevant.

This paved the way for the next vision, Ambition 2023, which aims to transform financial services through the Shared-Value approach. This involves establishing powerful composites in each market by extending the Shared-Value business model across business lines, as well as building the largest InsureTech platform globally. There is a great deal of work to be done.

I have every confidence in Discovery's strategy to extend the Shared-Value business model. Discovery's ambition is underpinned by the strength of its existing and established businesses, as demonstrated in the full-year results.

There has also been significant investment into new initiatives, most notably Discovery Bank, which is key to the Group's 2023 Ambition.

The Board and I see our role as providing sound corporate governance and robust challenge to encourage and protect Discovery's unique entrepreneurial spirit. This support will be particularly important given the growing diversification and internationalisation of the Group, and an increasingly challenging global environment. This means that the Executive must be uncompromising in their focus on adherence to the Group's ethics and its operating model. The Board must provide rigorous governance and oversight as it leads the Group for the greater good of all stakeholders.

Discovery's values foster innovation alongside prudence. I would especially like to thank Monty Hilkwitz for creating a Board culture and discipline that ensures that balance. Indeed, I would like to thank all Discovery employees who make the Group so special.

The year ahead is an important one for Discovery as it builds on the leadership of its established and emerging businesses and guides the new initiatives through their start-up phase. It is a very exciting time to join the Discovery Board.

Discovery and I share a deep connection with, and commitment to, South Africa; and I look forward to supporting Adrian and the Executive as we generate greater visibility and materiality on the global stage.

**MARK TUCKER**

# SNAPSHOT OF OUR PERFORMANCE

Business model results in **WORLD'S LARGEST PLATFORM** for behaviour change

Normalised operating profit of **R7 747 million**

Operational in **20** countries with more in the pipeline

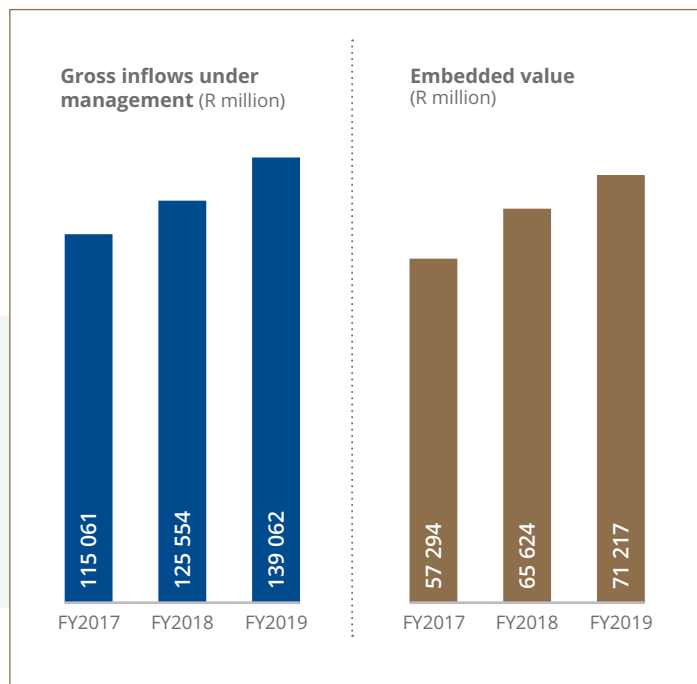
Core new business **up 13% to R18 299 million**  
(2018: R16 137 million)

Normalised headline earnings **down 7% to R5 035 million**  
(2018: R5 401 million)

Normalised headline earnings per share (diluted) **down 8% to 771.6 cents**  
(2018: 836.9 cents)

Investment into new initiatives (including associated financing costs) **21%** of Group earnings

We impact **25.7 million lives** globally





**VITALITY UK** became a signatory to the Women in Finance Charter

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**1.5 million** client mark achieved with Vitality online platform, Vitality1, globally

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**JOHN HANCOCK** in the US selling only Vitality-linked life insurance products


**TOP 3 PLACEMENT** for Discovery in the LinkedIn Best Employer Brand in South Africa

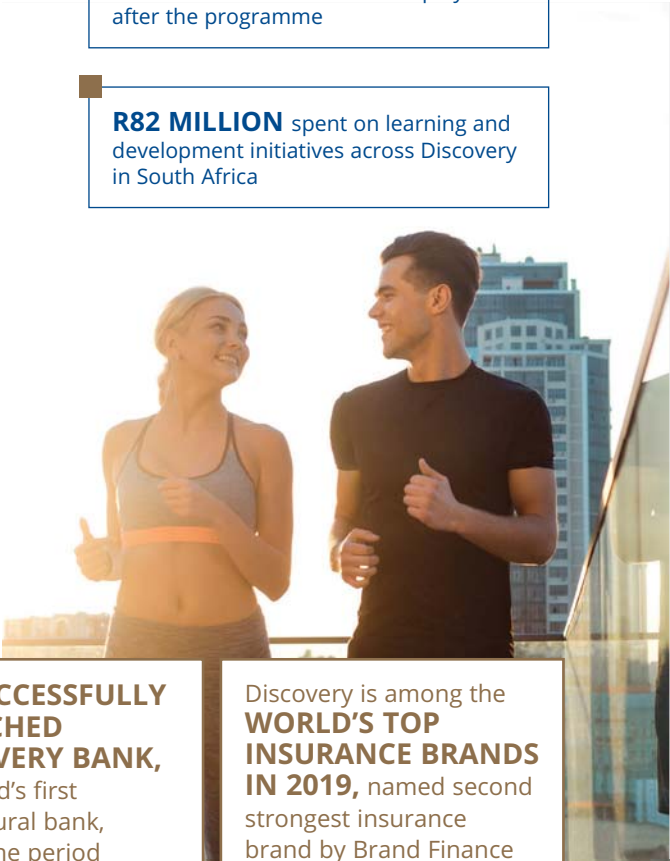
**517 WORK OPPORTUNITIES** created in response to the Presidential YES programme in South Africa

**LEARNERSHIP PROGRAMME** in its 14th year, with over 1 000 learners to date and >80% in formal employment after the programme

**R82 MILLION** spent on learning and development initiatives across Discovery in South Africa

 For more information on our business-specific performance, refer to our business reviews from **page 64**

 For more information on our financial performance, refer to our Group Chief Financial Officer's review on **page 44**



Discovery Foundation committed **R27 MILLION IN 2019** to **42 MEDICAL SPECIALISTS AND INSTITUTIONS** for research and training that strengthens public healthcare in South Africa

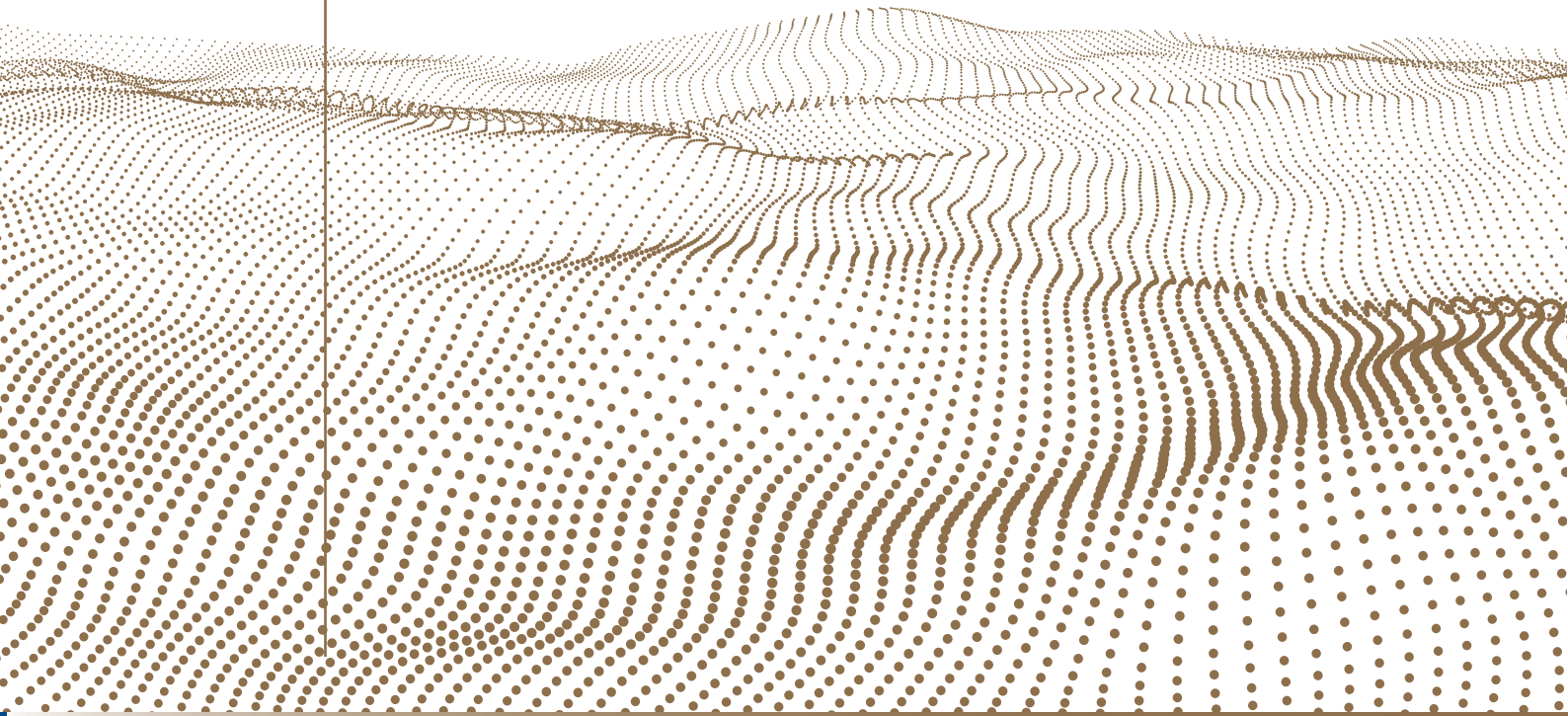
**WE SUCCESSFULLY LAUNCHED DISCOVERY BANK,** the world's first behavioural bank, during the period

Discovery is among the **WORLD'S TOP INSURANCE BRANDS IN 2019**, named second strongest insurance brand by Brand Finance

Since 2006, the Discovery Foundation has invested more than **R230 MILLION** in research grants and scholarships that boost the development of human resources to strengthen **SOUTH AFRICA'S HEALTHCARE SYSTEM**

**36 COMMUNITY HEALTH PROJECTS** in South Africa received support worth **R20.2 MILLION** from the Discovery Fund in FY2019

In South Africa, our employees volunteered more than **19 400 HOURS** of their time, creating over **R30 MILLION** in value for beneficiary organisations in FY2019



# 01

# OUR BUSINESS

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# WHERE WE OPERATE

We impact **25.7** million lives globally

Operational in **20** countries with more in the pipeline



## CANADA

Shared-Value insurance offering with Manulife



## SOUTH AMERICA

Shared-Value insurance offering with Equivida and Saludsa in Ecuador



## UNITED STATES

- Stand-alone corporate wellness initiatives



- Shared-Value insurance offering with John Hancock



## UNITED KINGDOM

- Private Medical insurance (PMI)
- Protection products
- Savings and investment products



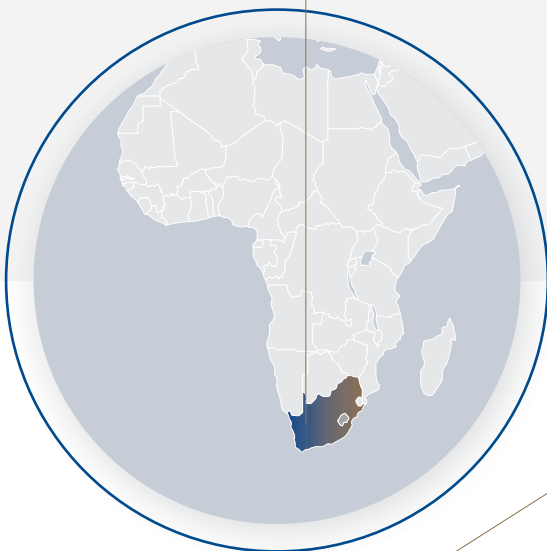
## EUROPE

- Shared-Value insurance offering in Germany, France and Austria with Generali



### SOUTH AFRICA

- Health insurance
- Life insurance
- Long-term savings and investments
- Short-term and business insurance
- Banking
- Behaviour-change programmes



### ASIA-PACIFIC

- 25% equity partnership with the Ping An Group of China through Ping An Health in China
- Online Vitality programme linked to insurance products of Ping An Group in China



- Shared-Value insurance offering with AIA in Singapore, Australia, Hong Kong, Macau, Philippines, Thailand, Malaysia, Sri Lanka, Vietnam, South Korea, New Zealand



- Health insurance with myOwn (joint venture between Discovery, AIA Australia, and GMHBA Ltd)



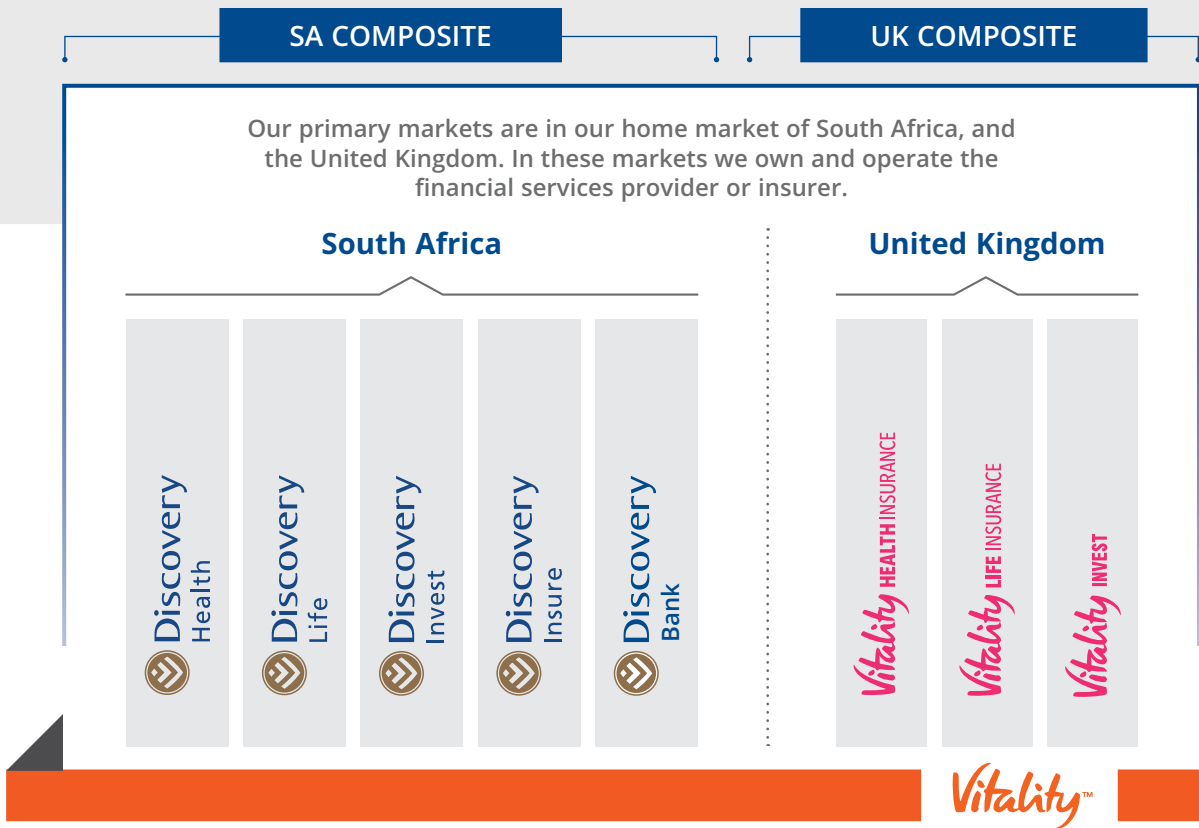
- Shared-Value insurance offering with Sumitomo Life in Japan



- Shared-Value insurance offering with IGI Life in Pakistan



# OUR GROUP STRUCTURE

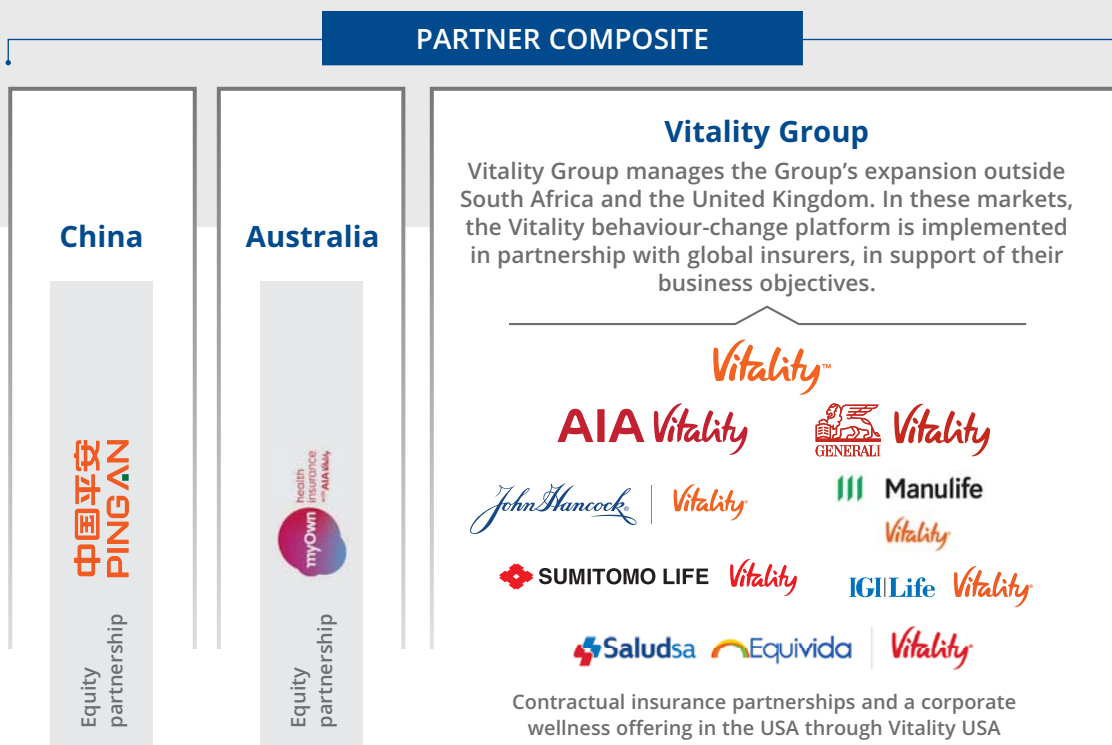


EXPANSION INTO ADJACENT INDUSTRIES

Growth strategy

GLOBAL VITALITY NETWORK

We are a financial services organisation that operates a Shared-Value business model in our primary markets of South Africa and the UK, and in partner markets globally through contractual insurance partnerships, and a corporate wellness offering in the USA. With the Shared-Value business model as the foundation of our business, we are building composites for financial services in our various markets. The composite strategy consists of different businesses, where each industry silo (health, life and short-term insurance, savings and investments, and banking) leverages the Vitality behaviour-change platform to create value and competitive differentiation.



EXPANSION INTO NEW MARKETS AND ADJACENCIES,  
AND FORMING NEW PARTNERSHIPS

**Growth strategy**

All our businesses and partnerships apply the Shared-Value business model. The assets developed through the model, including reward partnerships, health-promotion programmes, data and other product and brand assets, have been centralised in the Global Vitality Network (GVN).

The GVN supports Discovery's broader business strategy by increasing opportunities for integration, brand awareness and advocacy, research, and growth.



Read more about our growth strategy going forward on **page 26**

# OUR LEADERSHIP

## EXECUTIVE DIRECTORS



**ADRIAN GORE**  
 Founder and  
 Group Chief Executive



**ALAN POLLARD**  
 Executive Director  
 President of Product  
 and Innovation:  
**Vitality Group**



**HYLTON KALLNER**  
 Executive Director  
 Chief Executive Officer:  
**Discovery Life**



**BARRY SWARTZBERG**  
 Executive Director  
 Chief Executive Officer:  
**Vitality Group**



**NEVILLE KOOWITZ**  
 Executive Director  
 Chief Executive Officer:  
**VitalityHealth**



**DEON VILJOEN**  
 Executive Director  
 Group Chief  
 Financial Officer



**HERSCHEL MAYERS**  
 Executive Director  
 Chief Executive Officer:  
**VitalityLife and  
 VitalityInvest**



**DR AYANDA  
 NTSALUBA**  
 Executive Director

## CHAIRPERSON OF THE BOARD



**MARK TUCKER**  
 Independent  
 Non-executive Director  
 (appointed with effect  
 from 1 March 2019)

## NON-EXECUTIVE DIRECTORS



**HERMAN BOSMAN**  
 Non-executive Director



**DR VINCENT  
 MAPHAI**  
 Independent  
 Non-executive Director



**DR BRIAN BRINK**  
 Independent  
 Non-executive Director



**LES OWEN**  
 Independent  
 Non-executive Director



**RICHARD FARBER**  
 Non-executive Director



**SINDI ZILWA**  
 Independent  
 Non-executive Director



**SONJA DE BRUYN**  
 Independent  
 Non-executive Director

**MI HILKOWITZ**  
*retired effective 28 February 2019*

**R ENSLIN**  
*resigned effective 9 June 2019*

**TT MBOWENI**  
*resigned effective 11 October 2018*

**JM ROBERTSON**  
*retired effective 31 August 2018*



## GROUP EXECUTIVE



ANTON OSSIP

Chief Executive Officer:  
**Discovery Insure**



DINESH GOVENDER

Chief Executive Officer:  
**Discovery Vitality**



BARRY HORE

Chief Executive Officer:  
**Discovery Bank**



FIROZE BHORAT

Chief Marketing Officer



DEREK WILCOCKS

Group Chief  
Information Officer



TSWELO KODISANG

Chief People Officer



ANDREW RAYNER

Chief Risk Officer and  
Chief Actuary (Group)

## PRESCRIBED OFFICERS



KENNY RABSON

Chief Executive Officer:  
**Discovery Invest and  
Employee Benefits**



DR JONATHAN  
BROOMBERG

Chief Executive Officer:  
**Discovery Health**

We see governance as a critical component of value creation, promoting strategic decision-making that balances short-, medium- and long-term outcomes to reconcile the interests of the Group, stakeholders and society.




For more information on our governance structures please see **pages 122 to 128** of this report



The detailed curricula vitae of our leadership team can be found from **page 06** in the online **Governance Report**

# OUR SHARED-VALUE BUSINESS MODEL

We build brilliant businesses that have the potential to transform the industries in which we operate. Our shared-value approach forms the foundation of each business, creating a compelling value proposition for clients, competitive advantage, a powerful client platform, and strong behaviour change.

 For more information on how Vitality creates shared value, please see **page 18**

**OUR KEY RESOURCES**



**HUMAN CAPITAL**

- Over **12 950 employees**
- **R82 million invested** in training and development



**FINANCIAL CAPITAL**

- Equity/Capital **R43 083 million**
- Debt **R13 121 million\***
- **Doubling of investment in new businesses and initiatives to 21%** (of earnings, including associated financing costs)

\* Refer debt per FLR calculation on page 48



**INTELLECTUAL CAPITAL**

- Discovery is the world's **second strongest insurance brand** worldwide
- **Large and sophisticated behaviour-change platform** linked to financial services
- Vitality IP driving strategic partnerships



**SOCIAL AND RELATIONSHIP CAPITAL**

- **25.7 million** lives impacted
- **Leader** in financial services linked to shared value
- **Maintaining relationships** with key stakeholders
- Supporting **enterprise and entrepreneurial development**



**MANUFACTURED CAPITAL**

- Operations located in **20 countries** around the world
- Vitality1 platform, data science platform and apps developed to support clients and services



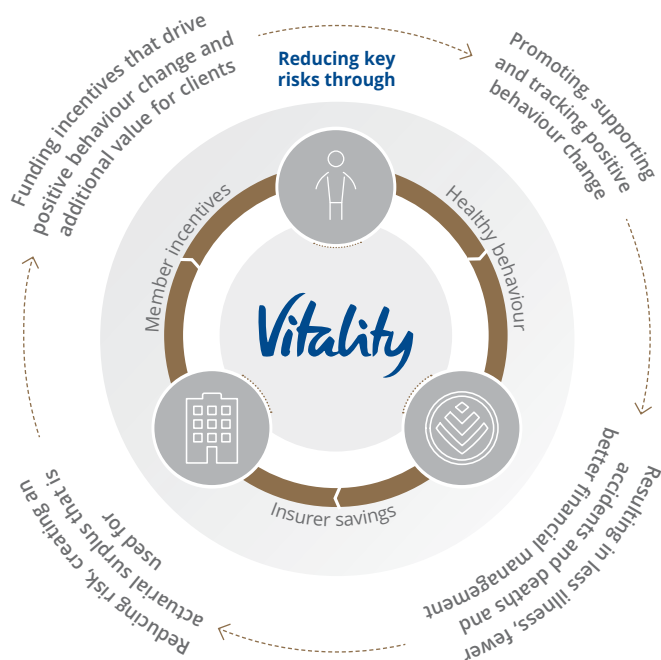
**NATURAL CAPITAL**

- 1 Discovery Place, Discovery's headquarters in South Africa is **five-star rated** by the Green Building Council of South Africa

**WHAT WE DO: BUILDING A NEW CATEGORY OF FINANCIAL SERVICES, BASED ON OUR DISRUPTIVE SHARED-VALUE BUSINESS MODEL**

The engine for enabling our core purpose is the Vitality Shared-Value business model that guides and incentivises people to better health, driving and financial behaviour. The model provides clients with pathways and incentives to improve behaviour in three programmes (Health, Drive and Money). Through the model, we measure engagement in these pathways and activities, and enable the dynamic pricing of risk accordingly.

Independent research has validated the model for its positive impact on reducing healthcare costs, resulting in improved profitability, a portion of which is channelled back into funding the incentives that drive positive behaviour change. In this way, insurance and financial risk are no longer a function of an individual's circumstances at the time of taking up the product, but rather how they manage their behaviour across health, driving and financial management. Each behaviour change is codified in terms of improved risk, while benefits and products are continually enhanced to maximise value.



## WHAT WE PRODUCE: OUR OUTPUTS (PRODUCTS AND SERVICES)

We build a number of different businesses, where each industry (health, life and short-term insurance, savings, investments and banking), leverages the same behaviour-change platform, Vitality.

Today, Discovery is a global, integrated financial services organisation that operates and innovates, offering:

- Health insurance
- Life insurance
- Short-term and commercial insurance
- Long-term savings and investments
- Banking
- Corporate wellness offering.



For more information about the composite strategy, see **page 26**

## OUR OUTCOMES: DELIVERING ON OUR CORE PURPOSE

	CLIENT	INSURER		SOCIETY
	Behavioural benefits	Selection	Lapses	Broader benefits
<p>Life insurance</p>	<p><b>&gt;35%</b> lower mortality on highly engaged</p> <p><i>FY2019 rebased A/E</i></p>	<p><b>20%+</b> better claims experience compared to non-Vitality</p> <p><i>2015 Hannover study</i></p>	<p><b>&gt;15%</b> lower lapse rate</p> <p><i>FY2019 A/E</i></p>	<ul style="list-style-type: none"> <li>■ Healthier society</li> <li>■ Improved productivity</li> <li>■ Reduced healthcare burden</li> </ul>
<p>Health insurance</p>	<p>Members who exercise at least</p> <p><b>twice</b> a week save</p> <p><b>15%</b> on healthcare costs</p> <p><i>DHMS Jan 2017 – Jun 2017</i></p>	<p>Initial engagers have:</p> <p><b>28%</b> lower hospital costs</p> <p><b>8%</b> lower chronic conditions compared to non-Vitality</p> <p><i>DHMS trend 2008 – 2018</i></p>	<p><b>3.9x</b> lower lapse rate</p> <p><i>FY2019 A/E</i></p>	<ul style="list-style-type: none"> <li>■ Healthier society</li> <li>■ Improved productivity</li> <li>■ Reduced healthcare burden</li> </ul>
<p>Motor insurance</p>	<p><b>12%</b> improvement in driving behaviour</p> <p><i>Vitality Open Data – Nov 2018</i></p>	<p><b>8%</b> better driving score compared to population</p> <p><i>Vitality Open Data – Nov 2018</i></p>	<p><b>66%</b> lower lapse rates</p> <p><i>Between shortest and longest duration clients</i></p>	<ul style="list-style-type: none"> <li>■ Nation of better drivers</li> <li>■ Fewer road deaths and injuries</li> <li>■ Fewer RAF claims</li> </ul>
<p>Long-term savings</p>	<p><b>12.5%</b> lower income drawdowns</p> <p><i>FY June 2015 – FY June 2019</i></p>	<p><b>78.8%</b> invested into preferred funds</p> <p><i>FY2019</i></p>	<p><b>32.4%</b> lower withdrawals</p> <p><i>FY June 2015 – FY June 2019</i></p>	<ul style="list-style-type: none"> <li>■ Stronger savings culture</li> <li>■ Lower pension reliance on state</li> <li>■ Better client outcomes</li> </ul>
<p>Banking*</p>	<p>Dynamic interest rates and discounts</p>	<p>Lower defaults</p>	<p>Reduced lapses</p>	<ul style="list-style-type: none"> <li>■ Reduced reliance on state</li> <li>■ Greater national investment</li> </ul>

\* Still in information-gathering phase

# HOW THE VITALITY BEHAVIOUR-CHANGE PLATFORM CREATES SHARED VALUE

The Vitality behaviour-change platform forms the foundation of Discovery's Shared-Value business model. Vitality guides, incentivises and provides clients with access to a broad range of personal pathways to lessen personal risk – creating a loop of value that is shared between clients, the insurer and society. It measures engagement and behaviour change actuarially, enabling the dynamic pricing of insurance products based on a more accurate risk assessment.

## The cost of financial and insurance risk is increasingly driven by lifestyle behaviours such as health, driving and financial behaviour.

By understanding the correlations between behaviour, cost and outcomes, and by leveraging behavioural economics to design a behaviour-change model that plugs into insurance and other financial services products, we are able to impact behaviour positively and measure price-related risk dynamically on an ongoing basis.

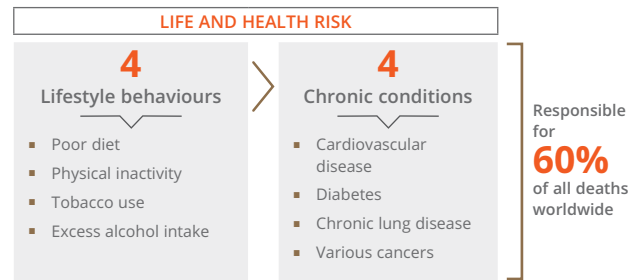


Vitality, as a behaviour-change platform, combines behavioural economics insights with clinical science, driving, as well as personal financial management insights. It has been designed to address those areas that have the biggest potential to change risk outcomes over the long term.

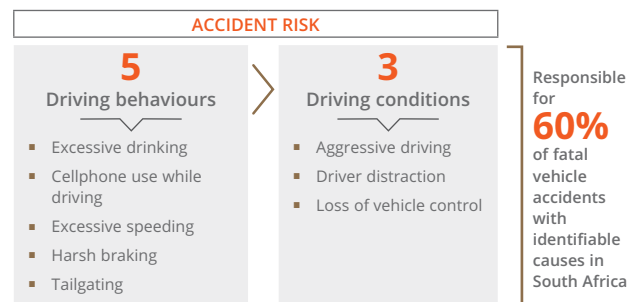
Vitality addresses these risks by providing clients with access to activities and incentives to improve behaviour, and rewarding them based on their level of engagement with Vitality.

This approach delivers demonstrable and sustainable behaviour change in clients, reducing risk and therefore lowering related costs, while enabling higher margins and supporting positive selection and lower lapses for the insurer. This in turn results in an actuarial surplus, which is used to fund rewards and incentives.

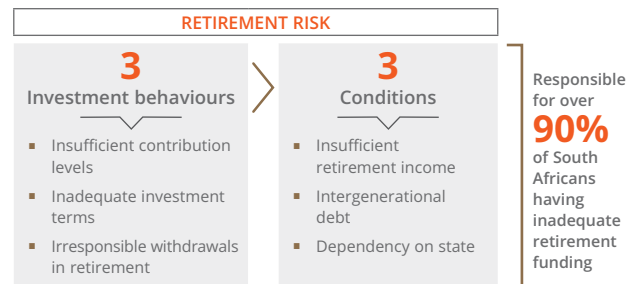
## BEHAVIOURS THAT CONTRIBUTE TO RISK



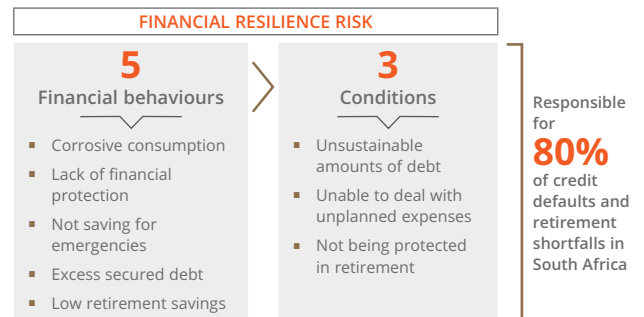
World Health Organisation and Global Burden of Disease.



Road Traffic Management Corporation and US Department of Transportation.

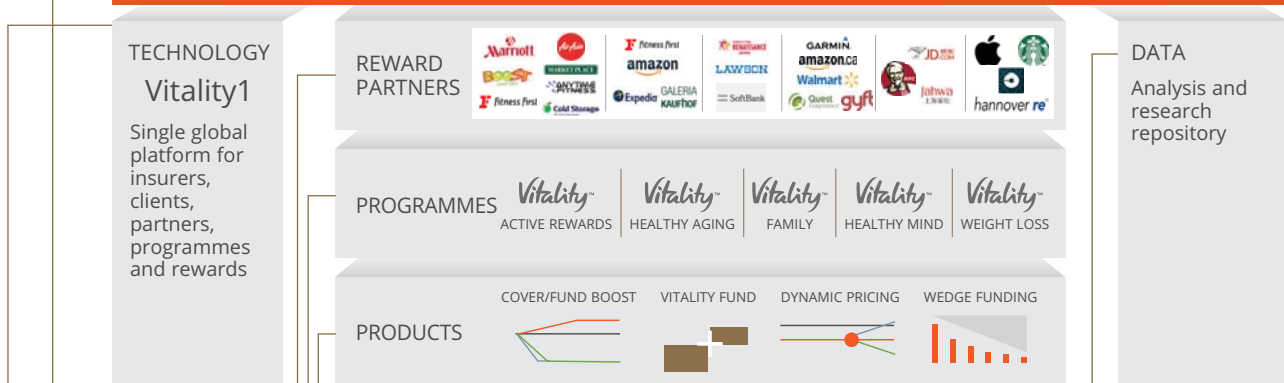


National Treasury.



Journal of Economics and Finance and other sources.

The virtuous cycle produced by the Shared-Value business model is enabled through a sophisticated platform that has evolved over time and will continue to do so in response to our rapidly changing operating context. The platform forms the foundation of our business and is made up of various components, including products, technology, partners, programmes, brand and assets.



**Brand**  
Global Vitality brand synonymous with shared value at a thought leadership level; and insurance that rewards healthy living at a consumer level. Propels insurers, partners and members to join the network.

**Technology**  
A dynamic and agile operating system that partners and insurers can plug into and from which products and programmes can be launched and operated. This central technology backbone affords the annual launch cycle with speed, flexibility and cost advantages.

**Products**  
Line up of powerful proprietary insurance mechanisms that smartly share the value created by healthy behaviour. These mechanisms are tailored to the product dynamics of each market and differentiate and elevate the proposition of our network partners.

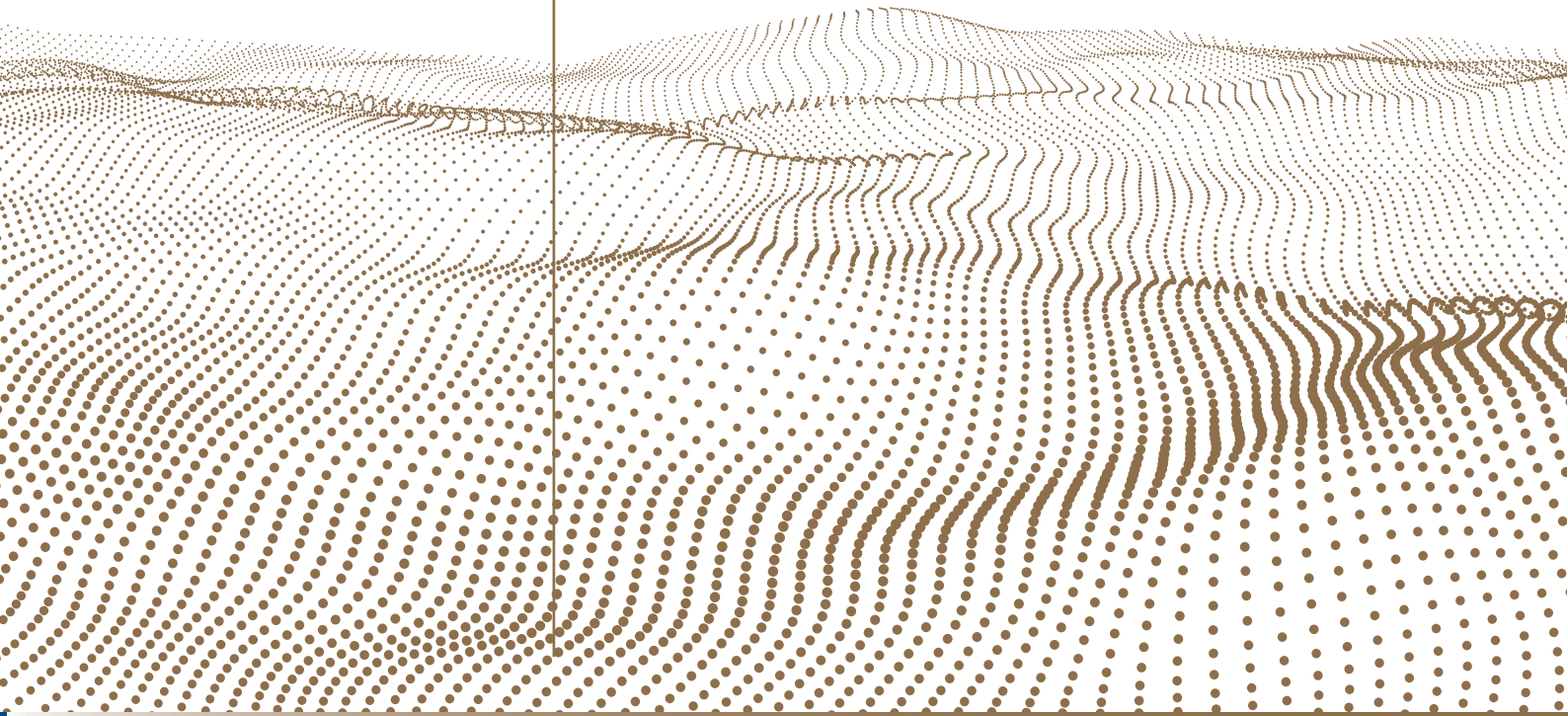
**Programmes**  
Our powerful behaviour-change programmes target unaddressed or emerging categories of risk – and compel partners to buy them given how they differentiate and elevate the proposition of network insurers.

**Partners**  
A universe of the most prestigious global partners in both rewards and access to wellness. These partnerships – housed under Global Network agreements – offer platform participants better terms, and deeper collaboration and integration than what is possible through regional deals brokered independently. The partnership asset draws in additional partners and insurers given its aspirational and competitive benefits.

**Data**  
A centralised data architecture, populated by partners, generating insights in the areas of rewards utilisation, engagement, and insurance experience, which informs the shared-value product design of global and market-specific products.

**Global Vitality Network**  
a network of partners using Vitality through integration towards achieving their business objectives.

Vitality underpins all of Discovery's businesses and further supports them by enabling product integration and cross-selling opportunities across the Group. In this way, the platform is used as the foundation of our primary market composites that enables Discovery to leverage the intellectual property of our behaviour-change platform to enter into new partnerships and new markets with limited capital expenditure.



# 02

# OUR STRATEGY AND OPERATING CONTEXT

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# DISCOVERY

## GROUP CHIEF EXECUTIVE'S REPORT



The Group's performance is contextualised by our core purpose of making people healthier and enhancing and protecting their lives. This has manifested in a globally-relevant Shared-Value business model, underpinned by our robust and disciplined operating model.

The past year has been one of considerable complexity and our business and operating model ensured a resilient performance in this context. Notably, the period under review coincided with the closeout of our 2018 Ambition at the end of the 2018 calendar year, and the setting of the 2023 Ambition, both key strategic drivers for the Group.

### Closeout of Ambition 2018

Ambition 2018 was a powerful catalysing vision and has been instrumental in driving performance and growth since we set it in 2013. This Ambition was measured against the metrics of financial and social impact, brilliant businesses and a unique foundation. The Group has made great progress against these metrics, achieving many of them, despite them being a considerable stretch. From a financial impact perspective, we achieved an operating profit of approximately R8.2 billion (compared to the target of R10 billion) for the 2018 calendar year, notwithstanding the substantial investment in new initiatives. Over the five-year period from the inception to the sunset of the Ambition, operating profit grew by CPI + 8.4% (target CPI +10%) and a return on capital of risk-free plus 7.7% (target of RF +10%) was earned. From a social impact perspective, the Group impacted 21.6 million lives, exceeding the 10 million lives target. The Shared-Value business model is globally relevant and establishes us as a leader in behavioural insurance becoming a global benchmark; and the Ambition created discipline around our operating model, enabling us to scale successfully while maintaining our financial performance and staying true to our core purpose.

### ENHANCING OUR FINANCIAL AND SOCIAL IMPACT

For the 2019 financial year, we planned to increase investment into strategic initiatives significantly, most notably the build and launch of Discovery Bank, creating an expected reduction in Group earnings. An unexpected spike in large mortality claims within Discovery Life in the first half of the year resulted in a further reduction in normalised operating profit. Discovery Life has addressed this through

various actions, including reinsurance structures that reduce the exposure to large-claims volatility going forward (as evidenced in the second half of the year). New business grew strongly while the return on Embedded Value was pleasing.

We have a disciplined operating model that dictates growth through each business phase, while ensuring that cash reserves are robust and that the Group is well capitalised. Guided by this model, we focused on organic growth and prudence over the period. The organic growth engine has been a successful mechanism for growth – established businesses delivered a robust performance, emerging businesses are scaling satisfactorily and performed excellently over the period, while new businesses operated largely within budget, and are gaining traction. In addition, our focus on growth was evidenced by the significant investment in new initiatives – 21% of Group earnings (including 3% of associated financing costs). Alongside this, our financial leverage ratio improved to 23.3% and the cash buffer increased to R4.4 billion. We also strengthened the operating model over the period to include additional prudent constraints to manage the quality and diversity of cash flow.

All our markets experienced growth, increasing our global footprint. We are now active in 20 countries, with 12 insurance partners and over 25.7 million lives impacted.

### BUILDING BRILLIANT BUSINESSES

#### South Africa:

Discovery Health continued to deliver with operating profit growth of 10% to R3 044 million. Supporting its strategy to become the lowest-cost administrator in the market, the business continued its investment in digital technologies and process automation, with a considerable



focus on using these assets to extract operational efficiencies and drive down costs. We are supportive of the aims of the recently published National Health Insurance (NHI) Bill in South Africa, and we will work closely with the relevant policy makers and stakeholders to ensure an optimal outcome to the legislative process. The Bill is not expected to have a material long-term impact on the Discovery Health business and may in fact present new opportunities for growth and product innovation.

Discovery Life experienced a challenging period, with its earnings being adversely impacted by high-value mortality claims volatility in the first half of the year, which improved significantly in the second half. As a result of this claims volatility, normalised operating profit reduced by 9% for the full year to R3 230 million. The business continued to build on its market leadership position in the retail protection market, and grew new business annualised premium income (API) by 6% to R2 312 million. Over the period, there was a considerable focus on strengthening and refining the model, as well as the assumptions to better align with observed long-term experience. The business is well-positioned to capitalise on any improvement in economic operating conditions and to deliver against its long-term actuarial assumptions.

Discovery Invest's performance was robust amid weak financial markets, and grew its operating profit by 9% to R966 million. The Invest business continued to demonstrate the efficacy of the Shared-Value business

**“ We have a disciplined operating model that dictates growth through each business phase, while ensuring that cash reserves are robust and that the Group is well capitalised.**”

model in the context of long-term savings with term to retirement increasing by 3.6 years; savings rates up 1.4 times; and income drawdowns decreasing by 13% over a four-year period.

Lastly, Discovery Insure showed pleasing growth, achieving a full-year profit (excluding Discovery Business Insurance) of R155 million – 128% higher than the prior period. Over the period, the global relevance of the model was validated by the SoftBank Vision Fund investing US\$500 million in Cambridge Mobile Telematics (CMT), an associate investment of Discovery and strategic partner to Discovery Insure since 2014.

A key development over the period was the launch of Discovery Bank in November 2018 for beta testing, followed by the public rollout in June 2019. The costs incurred in the build, test and run phases of the Bank have largely been in line with expectation. Furthermore, the Bank has gained traction since the public rollout, making considerable progress in a period of two months with over 50 000 accounts on-boarded, and total approved credit limits exceeding R900 million. A total of 1.5 million hours have been spent building 120 interconnected systems and infrastructure to ensure we create the first behavioural bank. We have focused on ensuring that the client

journeys are excellent and intuitive and we have designed what we believe is a compelling rewards structure. This rewards structure coalesces dynamic interest rates, dynamic discounts and a new Group-wide rewards currency, Discovery Miles. It has resulted in a powerful and differentiating functionality, one of many being rolled out. The Bank has considerable potential and we are excited about its potential to contribute to our overall growth.

**United Kingdom:**

The UK business continued its strategic focus on the quality of new business. It produced excellent results despite considerable economic uncertainty due to Brexit, resulting in a low-interest rate environment. The business is gaining scale; and now has a combined operating profit of £73 million (R1 336 million) and over 1.25 million clients.

VitalityHealth continued to deliver outstanding results with operating profit growth of 22% to £41.4 million (R758 million) while VitalityLife delivered a resilient performance with operating profit growth of 7% to £31.6 million (R578 million).

The business is well-positioned for growth through a composite strategy and significant cross-sell opportunity to be unlocked – only 1.5% of the inforce

membership have both VitalityHealth and VitalityLife products. Considerable work was done over the period to understand the dynamics of this approach, and the accompanying impact on distribution, servicing and the member experience.

**Vitality Group:**

Vitality Group continued its growth trajectory and increased its profits by 71% to R161 million while growing its membership to 3.6 million. Over the period, Vitality Group marked its entry into South America by introducing the Shared-Value business model in Ecuador through its partnership with Saludsa and Equivida. Notably, over the period, Vitality USA launched the white label “earn your Apple Watch” offering with Attain by Aetna and a business-to-business offering with Walgreens.

**Ping An Health:**

Ping An Health had a remarkable year, with total revenue growing by 74% to RMB8.6 billion and new business premium growth of over 67% to RMB4.9 billion (R10.1 billion). The business continued to focus on expanding its offline branch sales distribution footprint, and opened a branch in Chongqing, one of China's largest municipal districts. The business invested in scaling online operations and capabilities to support its

Group Chief Executive's Report *continued*

**“ Together with our insurance partners, we have collectively pledged to make 100 million people 20% more active by 2025.**

**It is an ambitious target – based on the global success of Vitality Active Rewards, which aims to incentivise tens of millions to be part of a movement of people determined to live healthier lives.**

vision of becoming China's leading tech-driven health insurer. The Ping An Health app demonstrated incredible growth of 185% over the past year, and now has 12 million registered users, with a current growth rate of roughly one million new users each month.

#### STRENGTHENING OUR STRATEGIC ENABLERS

Work has been done to strengthen our foundation through strategic enablers and unique assets. Our global relevance and credibility is increasingly recognised and validated.

From a science and data perspective, in November 2018, Vitality in partnership with Apple and RAND Europe, released the results of the largest behaviour change study into physical activity. The results demonstrated that the Active Rewards with Apple Watch benefit resulted in significant behaviour change with a 34% increase in physical activity. Together with our insurance partners, we have

collectively pledged to make 100 million people 20% more active by 2025. It is an ambitious target – based on the global success of Vitality Active Rewards, which aims to incentivise tens of millions to be part of a movement of people determined to live healthier lives. We are doing considerable work to ensure that this goal is met.

From a technology perspective, significant progress was achieved in developing Vitality1, a globally unified, scalable, cloud-based platform which enables rapid and economical rollout in new territories. The platform is currently live in six markets with over 1.5 million members. Additional markets will launch in the coming months and a roadmap for the migration of established markets is in place.

From a people perspective, our core purpose and values-based culture are foundational in everything we do. High Group-wide engagement levels serve as proof of our purpose and value-based culture – 94% of staff who participated in our Group employee survey said they are proud to be associated with Discovery. The more exceptional our people are, the greater the impact we will have. We are therefore committed to ensuring that we have the best person for every role. Over the past year, we have conducted an enterprise-wide talent review in order to identify and invest in key talent pools. Emerging from that has been focused action plans to ensure that retention and development plans lead to a pipeline of diverse talent. Alongside this,

there has been a focus on enhancing our employer value proposition and leveraging existing assets such as our flagship Fellowship Award for actuarial students, ensuring that we are an employer of choice for critical skills.

#### BEING A FORCE FOR SOCIAL GOOD

Being a force for social good continues to be a priority and we are committed to building the country through projects such as the SME Fund which aims to invest in and help scale over 200 black small and medium enterprises. As a subset of the SME Fund, we have launched the CEO Circle, an initiative aimed at accelerating the growth of high potential black businesses within the Fund's shareholders' supply chains.

We are also collaborating with the public sector in our participation in the Youth Employment Service (Y.E.S.) initiative. This initiative has allowed us to create in excess of 500 job opportunities in the past 12 months, using strategic partnerships with SMEs and QSEs in our supply chain.

In addition to this, the Discovery Foundation has since 2006 continued to invest in strengthening the South African healthcare ecosystem and has invested more than R230 million in research grants and scholarships that boost the development of human resources. Alongside this, the Discovery Fund has focused on improving access to primary care, supporting 36 community health projects this year, worth R20.2 million.

## Strategy going forward: Ambition 2023

We are in a unique position as we look ahead to the 2020 financial year, and we are determined to act on and realise opportunities to amplify our scale and impact. The Group is well positioned for growth, through robust established businesses, emerging businesses that are scaling and expected to grow strongly going forward, and significant new initiatives which are being built. We have developed unique assets and capabilities, including our disruptive behavioural model and a disciplined operating model, however we lack scale. We need to focus on ensuring that our earnings have greater diversity and scale, get increased traction from our partners and deliver on key new initiatives.

Over the past year, we have done substantial work to understand the science underpinning behavioural composites. A few behaviours explain the majority of the underlying risk across financial services and these behaviours are correlated. Informed by this science, the composite



Refer to **page 26** for more information on our composite strategy

model consists of a number of different businesses, where each industry silo (health, life and motor insurance, savings and more recently banking), leverages the same behavioural platform, Vitality. The result is a compelling value proposition for customers, competitive advantage, a powerful customer platform, and strong behaviour change.

We have set a bold new strategy for 2023 of leading a global transformation of financial services, impacting 100 million lives, with 10 million directly insured, and being a powerful source for social good. This strategy involves being more deliberate in pursuing composites which manifests in the specific focus areas in each market (see page 26).

The combined impact of Ambition 2023 is substantial and we are excited about its potential and the year ahead. Our intent is to leverage our scale in pursuit of our core purpose, while not sacrificing on the urgency and ownership inherent to our entrepreneurial culture.

I want to thank and congratulate Discovery People for the incredible work they have done across all our businesses – this performance is the result of our combined work. We could not have achieved this without our partners and clients; thank you for helping us pursue good, profitably. We look forward to continuing to achieve great things with you in the year ahead.

**ADRIAN GORE**



**“The combined impact of Ambition 2023 is substantial and we are excited about its potential and the year ahead.”**

# OUR STRATEGY

## OUR 2023 AMBITION

WE HAVE SET A NEW AMBITION FOR 2023 IN WHICH WE SEEK TO PIONEER AND LEAD A GLOBAL TRANSFORMATION OF FINANCIAL SERVICES, IMPACTING **100 MILLION LIVES**, WITH **10 MILLION DIRECTLY INSURED**, AND **BEING A POWERFUL FORCE FOR SOCIAL GOOD**.

## HOW WE WILL **ACHIEVE THIS**

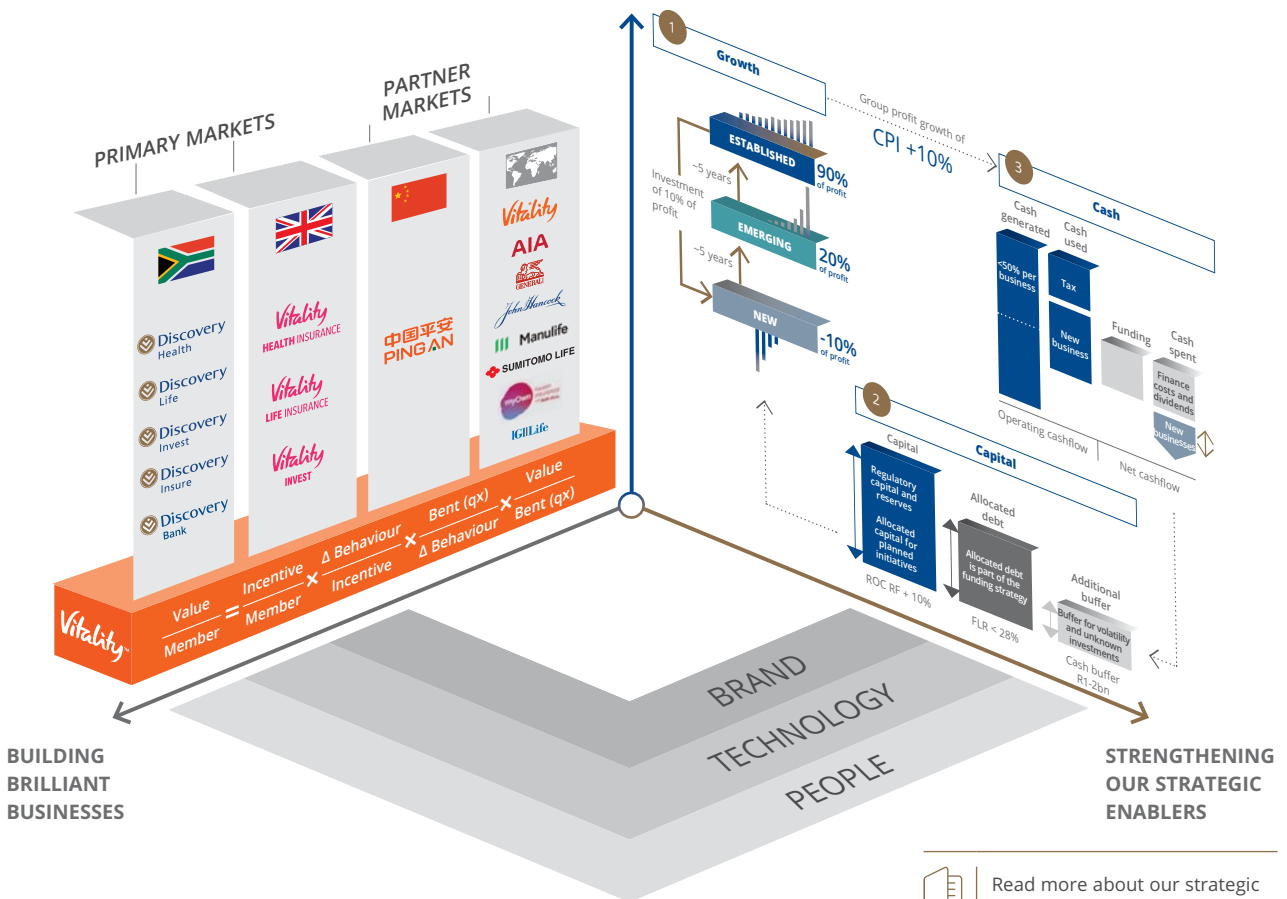
To achieve this ambition, we will be more deliberate about pursuing adjacencies and composites in building the world's largest and most sophisticated behaviour-change platform linked to financial services.

This requires that we significantly intensify our focus on the following three dimensions:

- 1 Building brilliant businesses
- 2 Enhancing our financial and social impact
- 3 Strengthening our strategic enablers

Read more about our capital management approach in the Group Chief Financial Officer's Review on **page 44**

### ENHANCING OUR FINANCIAL AND SOCIAL IMPACT

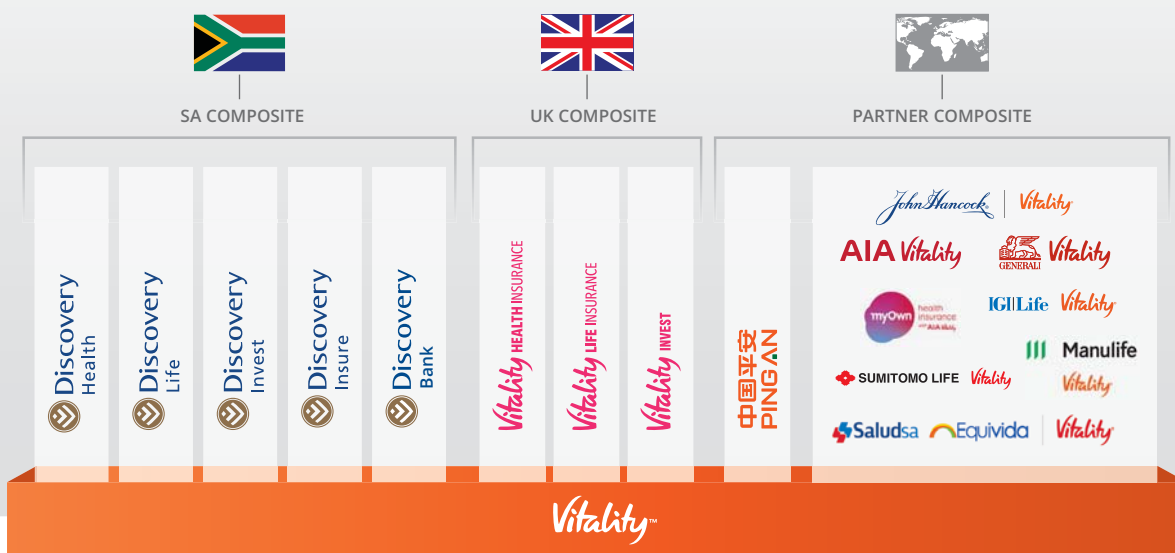
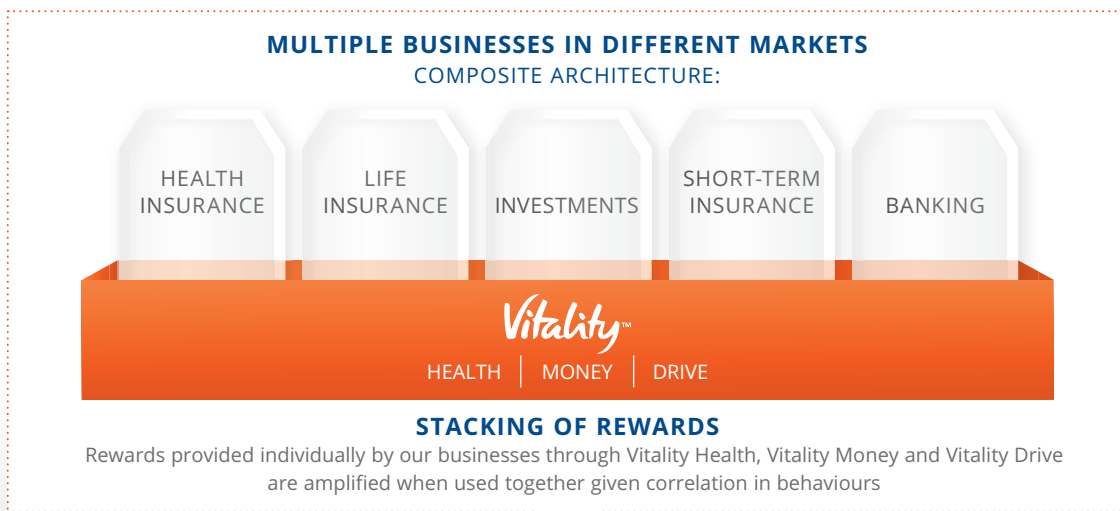


Read more about our strategic enablers from **page 54**

## OUR BUSINESS STRATEGY:

### Using our Shared-Value business model to build composite businesses

The composite strategy offers a compelling value proposition and competitive differentiation for Discovery. Given that a few behaviours explain the majority of the underlying risk across financial services and that these behaviours are correlated, additive risk improvements – which lead to greater funding for rewards, can be unlocked. Based on the strength of our collected data, Discovery has pioneered a composite for financial services. This composite strategy challenges the traditional corporate composite which is structural in nature, through a consumer-driven behavioural composite. The architecture of the composite therefore enables enhanced value for clients through stacked rewards, improved behaviour and an omni-channel distribution.



#### OUR FOUR STRATEGIC STRANDS TO ACHIEVE OUR 2023 AMBITION

- 1 A disruptive **composite model**, with businesses that are market leaders, and a laboratory for Shared-Value in financial services, as well as a successful entry into banking.
- 2 A differentiated offering through a **composite Vitality Shared-Value Insurance model**.
- 3 Ping An Health, the **leading health insurer in China** with over 50 million clients.
- 4 Vitality Group, a sophisticated global **behavioural platform** linked to financial services.

Our strategy *continued*

# DELIVERING ON OUR STRATEGY

1

## BUILDING BRILLIANT BUSINESSES

### OUR 2023 TARGET

Strengthen the Discovery composite, with businesses that are market leaders, and developing the Shared-Value business model further. Ensure a successful entry into banking

### SA composite

A disruptive composite, with businesses that are market leaders, and a laboratory for Shared-Value in financial services, as well as a successful entry into banking.

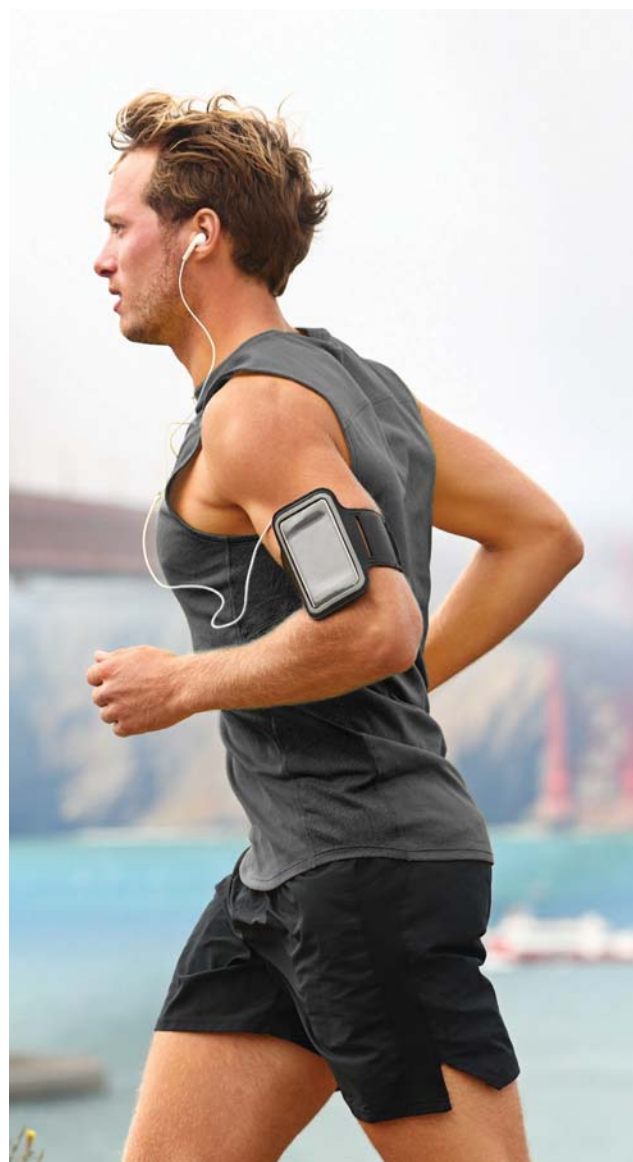
#### How we performed during the year

	Normalised operating profit	Core new business	
DISCOVERY HEALTH	↑10% <b>R3 044m</b>	↑1% <b>R6 640m</b>	For more information see <b>page 64</b>
DISCOVERY LIFE	↓9% <b>R3 230m</b>	↑6% <b>R2 312m</b>	For more information see <b>page 69</b>
DISCOVERY INVEST	↑9% <b>R966m</b>	↑6% <b>R2 604m</b>	For more information see <b>page 72</b>
DISCOVERY INSURE	↑128% <b>R155m</b>	↓1% <b>R1 041m</b>	For more information see <b>page 76</b>
DISCOVERY BANK*	Number of clients <b>22 000</b>	Retail deposits <b>R193m</b>	For more information see <b>page 79</b>
	Number of accounts <b>50 000</b>	Total credit facilities <b>R900m</b>	

\* Data extracted as at 3 September 2019.

#### Our focus areas for 2019 and beyond

Further improve the quality of the South African composite through an emphasis on the enhanced growth of the established businesses, supporting the growth of the emerging Discovery Insure business, and utilising Discovery Bank as a growth factor and as central to the composite strategy.



## UK composite

A differentiated offering through a composite Vitality Shared-Value Insurance model.

### How we performed during the year

	Normalised operating profit	Core new business	
VITALITY HEALTH	↑22% <b>£41.4m</b>	↑15% <b>£73.5m</b>	For more information see <a href="#">page 82</a>
VITALITY LIFE	↑7% <b>£31.6m</b>	↑5% <b>£70.5m</b>	For more information see <a href="#">page 85</a>

VITALITY INVEST	<b>277</b> advisers have written a VitalityInvest investment case	For more information see <a href="#">page 87</a>
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### Our focus areas for 2019 and beyond

Continue leveraging the strength of the businesses, the success of the Vitality model, and the disruptive opportunity to create a composite that is attractive to clients and financial advisers.



## Partner composite

Vitality Group's sophisticated global behavioural platform linked to financial services.

Ping An Health delivers on its plan to become the leading health insurer in China, with over 50 million clients.

### How we performed during the year

	Normalised operating profit	Core new business	
VITALITY GROUP	↑55% <b>\$11.4m</b>	↑30% <b>\$65m</b>	For more information see <a href="#">page 90</a>
PING AN HEALTH	↑72%* <b>\$7.5m</b>	↑67% <b>RMB4.9bn</b>	For more information see <a href="#">page 96</a>

\* Discovery profit from Ping An Health (after tax).

### Our focus areas for 2019 and beyond

- Continue to leverage Discovery's IP in Ping An Health and myOwn to build quality health insurance businesses.
- Develop products in Ping An Health that meet the needs of the rapidly developing market, and build distribution capabilities.
- Deepen the penetration of Vitality-integrated products.

Our strategy / Delivering on our strategy *continued*



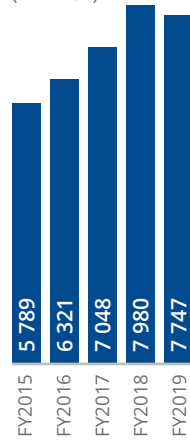
**2**  
**ENHANCING OUR FINANCIAL AND SOCIAL IMPACT**

**OUR 2023 TARGET**  
Group profit growth of CPI + 10%  
Return on capital risk-free +10%

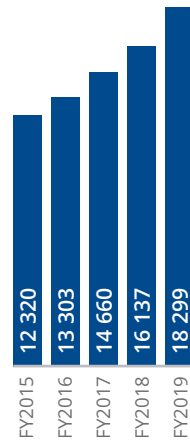
**Financial**

How we performed during the year

**Normalised operating profit**  
(R million)



**Core new business**  
(R million)



For more information see our Group Chief Financial Officer's Review on **page 44**

**Our focus areas for 2019 and beyond**

- Focusing on growth and prudence through a disciplined operating model that dictates growth through each business phase.
- Ensuring that capital reserves are robust and that the Group is well capitalised.
- Continue following an organic growth strategy through methodical and substantial investment in new initiatives, that will evolve into emerging businesses, and ultimately scale into established businesses.

**Financial leverage ratio**

Improved to **23.3%**

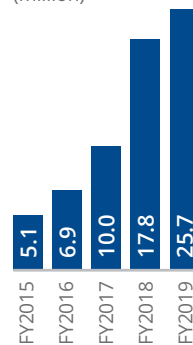
**Cash buffer**

Increased to **R4.4 billion**

**Social**

How we performed during the year

**Total number of lives impacted**  
(million)



**OUR 2023 TARGET**  
Impacting 100 million lives, 10 million directly insured, and act as a powerful force for social good

**Our focus areas for 2019 and beyond**

Deliver on our bold new strategy for 2023 by being more deliberate in pursuing composites, manifesting in focus areas identified in each market in South Africa, the UK and global partner markets.



3

**STRENGTHENING OUR STRATEGIC ENABLERS**

**Our brand**

**OUR 2023 TARGET**  
 Remain one of the world's top insurance brands

How we performed during the year

**NAMED WORLD'S SECOND STRONGEST** insurance brand

**Our focus areas for 2019 and beyond**

- Build the Discovery brand as the best insurance brand, and the Vitality brand as the leading behaviour-change platform, globally.
- Use the latest marketing platforms to deliver integrated campaigns.

For more information see **page 54**

**Our people**

**OUR 2023 TARGET**  
 Attract and retain the best person for every role

How we performed during the year

**LEVEL 3 B-BBEE OBTAINED**

**Our focus areas for 2019 and beyond**

- Introduce programmes in further critical talent segments.
- Deepen HR business partnering, build center of expertise and leverage shared services teams.
- Enhance our employer brand through employee value propositions (EVPs).
- Standardise and implement talent and performance frameworks and processes.
- Strengthen leadership capabilities at every level.
- Continue towards meeting transformation targets.

For more information see **page 57**

**Technology**

**OUR 2023 TARGET**  
 Maintain a single, cutting-edge, global technology platform

How we performed during the year

Achieved **1.5 MILLION CLIENT** mark with Vitality<sup>1</sup>

**LAUNCHED DISCOVERY BANK** – providing a world-class digital banking experience

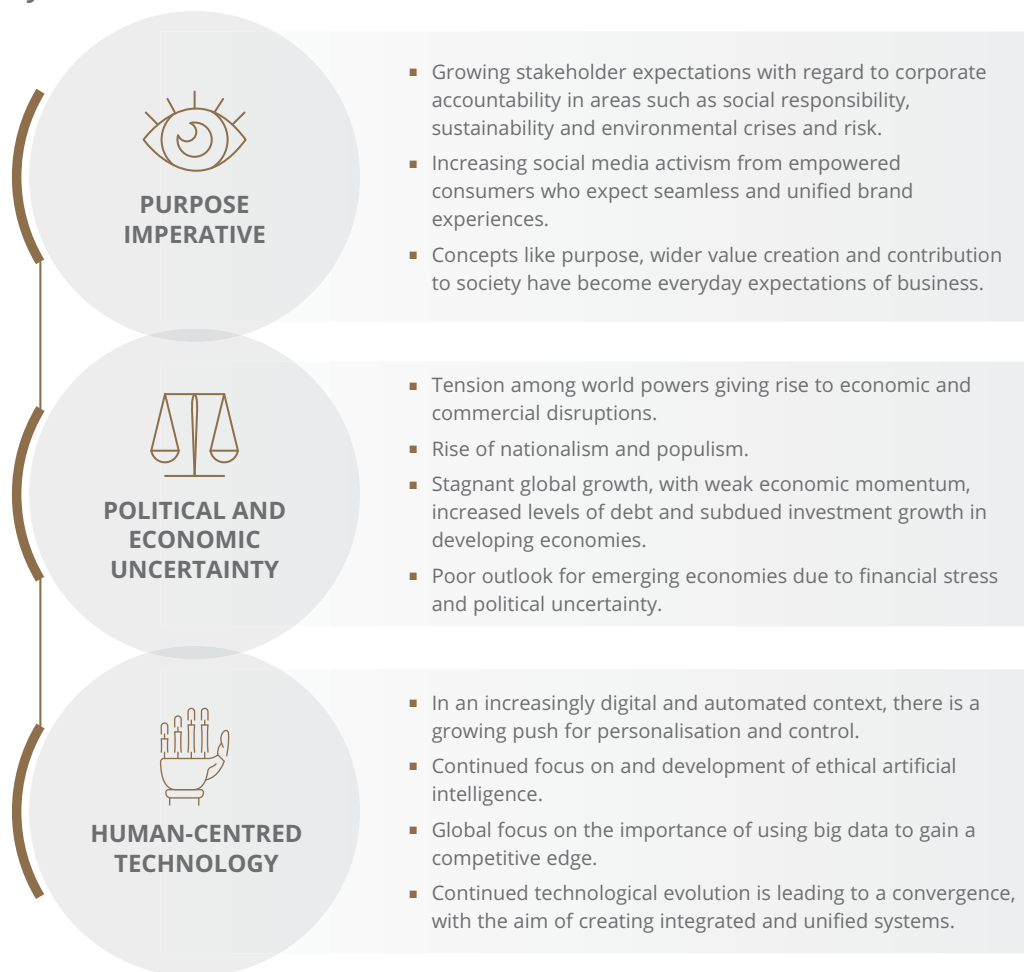
**Our focus areas for 2019 and beyond**

- Leverage our expertise in data science.
- Further integrate data science expertise into our business in a real-time manner.
- Increase artificial intelligence (AI) to improve our client experiences.
- Become the global technical platform of choice for the development of behavioural change capabilities.

For more information see **page 61**

# OUR OPERATING ENVIRONMENT

*Certain global trends have made the Vitality Shared-Value business model even more relevant today.*



## HOW DISCOVERY IS RESPONDING

Given these trends, Discovery has applied the Shared-Value business model in our respective markets.

Our model has proven to be even more globally relevant than before and, together with our intensified focus on our foundation, businesses and impact, will enable us to successfully execute our strategy.



For more information on how our partner markets performed, refer to **pages 90 to 97**

## OUR PRIMARY MARKETS

### SOUTH AFRICA

#### Trends shaping the South African context

- Poor economic outlook for the country influenced by low levels of economic growth and a rising debt ratio.
- High levels of inequality.
- High unemployment rate, particularly among the youth.
- Challenging economic environment, leading to less disposable income for consumers.
- Declining investor, ratings agency and business confidence.
- Volatile stock markets and exchange rates.
- Increased awareness of governance non-compliance in the public and private sector.
- Challenging public service delivery.
- Increasingly complex regulatory environment.

#### Our response

- Entrenching and evolving our Shared-Value business model to continually create value for business, clients and society.
- Focusing on pricing risk appropriately and rewarding behaviour that reduces risks that are being managed better.
- Encouraging increased Vitality engagement to enhance benefits and pricing and support wellness.
- Consistent innovation and expansion of our product offering to grow our market share.
- Investing in cutting-edge technologies, digital innovation, data science and artificial intelligence capabilities and systems to enhance our offerings and optimise operations.
- Submissions to the relevant regulatory bodies and participation in stakeholder engagement forums.
- Government engagement supporting the healthcare ecosystem through the Discovery Foundation and focusing on job creation in response to the Presidential YES programme.



For more information on how our South African businesses performed, refer to **pages 64 to 80**

### UNITED KINGDOM

#### Trends shaping the UK context

- Political and economic uncertainty resulting from Brexit.
- Muted investment returns as a result of a low interest rate environment.
- Increased focus on clear and fair charging structures by regulators.

#### Our response

- Prioritising capital efficiency to enhance return on capital through managing costs and optimising business mix.
- Recalibrating products to ensure we are addressing trends experienced in the current environment.
- Continuing to promote Vitality and its benefits through the introduction of non-insurance opportunities.
- Ongoing product innovation to offer holistic health and wellbeing solutions.



For more information on how our UK businesses performed, refer to **pages 81 to 89**

# OUR MATERIAL RISK THEMES FOR 2019

## Our approach to risk management

Discovery recognises that risk management is a key component to the achievement of our objectives and is committed to embedding a risk culture in which strategy, performance management and risk management are inseparable elements of value creation and dynamically contribute to driving business performance, innovation and growth.



The Board is ultimately responsible for risk governance within the Group, and is assisted by the Risk and Compliance Committee in implementing processes aimed at ensuring risks are identified and managed within the

Board-approved risk appetite and limits.

We operate within a strong foundation of our core purpose, eight key values and a proactive risk culture that is driven by a top-down approach of factoring risk into decision-making and a bottom-up approach as part of the day-to-day processes and projects. We have a clearly defined risk management framework within a set risk taxonomy. We apply the three-lines-of-defence model in identifying and managing material risks. Our risk appetite and limits are set at business entity and Group level, with clear accountability and reporting requirements. Furthermore, Discovery has developed and implemented a


Combined Assurance Model throughout the Group – designed to address all the significant strategic, financial, operational and compliance-related risks. The model ensures that all assurance activities provided by internal and external assurance providers, adequately address material risks facing the Group. Our Combined Assurance Model also seeks to ensure that suitable controls exist to manage these material risks within approved risk limits. The effectiveness of our robust risk management system is reflected annually in the Own Risk and Solvency Assessment (ORSA) and provides an assessment of our risks, overall solvency needs and own funds.

KEY:

-  Increase in severity of risk
-  Risk severity unchanged
-  Decrease in severity of risk

During the year, we identified the following material risk themes:

## 1 BUSINESS AND ECONOMIC ENVIRONMENT

	
<b>ECONOMIC UNCERTAINTY</b>	
<b>Value impact</b>	<b>Key actions and opportunities</b>
<p>The overall low global economic growth rate and negative sentiment presents a challenging environment for business growth and sustainability. This impacts our two key markets: South Africa and United Kingdom, in addition to the other markets within which we operate.</p> <p>The low growth environment in South Africa, ongoing threat of sovereign ratings downgrades, and the volatility of financial markets have an adverse impact on new business growth, as well as lapse, credit default and claims rates.</p> <p>In the United Kingdom, ongoing uncertainty around the form and impact of Brexit has placed pressure on the economy, impacting interest rates and, therefore, our new product pricing and valuation of existing book of business.</p>	<p>We continue with key initiatives to innovate and improve our products, pricing and services to ensure we attract and retain clients in low-growth environments. We diversify businesses both locally and globally to take advantage of adjacencies through our composite strategy and to reduce concentration risk while remaining focused on our core purpose.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><b>OUTLOOK</b></p> <p>We anticipate that both the South African and United Kingdom markets will remain under pressure in the year ahead.</p> </div>

## COMPETITION

### Value impact

The highly competitive environment in which we operate results in continuous pressure for innovative products and to provide the best quality services possible. Furthermore, we recognise the risk of competitors leveraging off of our intellectual property to enhance their product offerings.

### Key actions and opportunities

We continue to explore innovative opportunities both locally and with our partners to leverage our Shared-Value business model and further advance our brand and business. Furthermore, the recent ranking of Discovery as the second strongest insurance brand globally by marketing research firm Brand Finance, is expected to support growth and increased revenue over the longer term.

**OUTLOOK**  
In an environment where there is limited growth in the two primary economies, we anticipate that competition will become increasingly fierce. However, we believe that our Shared-Value business model, along with our strong brand and culture that supports continuous innovation, will entrench our position as a market leader in the financial services sector.

## DISRUPTIVE TECHNOLOGY

### Value impact

The rate of technological change, especially disruptive technologies, and the accelerated rate at which it is being adopted, impact our competitive landscape.

### Key actions and opportunities

We seek to be swift adopters of disruptive technologies that support our business model, thereby enriching our products. This increases the appeal of our offerings to a younger generation, simplifying while enhancing the client experience and growing our market share.

**OUTLOOK**  
The exponential pace of change in technologies across all industries is reshaping the business environment and the resultant client experience and behaviour. We expect this trend to continue.

## 2 STRATEGY EXECUTION AND GROWTH

### DELIVERY RISK

Value impact	Key actions and opportunities
<p>The launch of a number of key strategic initiatives, while promising strong long-term returns, also pose the following risks:</p> <ul style="list-style-type: none"> <li>▪ Business risk, should these new businesses not achieve their projected volume targets to cover the capital and ongoing operating expenses</li> <li>▪ Operational risk relating to new systems, people and processes</li> <li>▪ Ability to fund growth.</li> </ul>	<p>Governance structures across the Group oversee the development of strategies and implementation of key initiatives.</p> <p>We deploy and employ the best people to maximise our chance of success with new initiatives.</p> <p>Over the year, we have spread our product launches over defined periods to reduce concentration risk of multiple changes within tight timelines. This allows for market readiness, product take-on and adaptability of products to suit market needs.</p> <p>We use various funding mechanisms for strategic initiatives including retained earnings, bank debt, medium-term note debt funding, financial reinsurance and other financial vehicles.</p>

**OUTLOOK**  
Growth, and therefore continuous change, is a constant factor for Discovery. We will continue to ensure that risk is carefully weighed and managed to ensure the best outcomes for all our stakeholders.




Our material risk themes for 2019 *continued*

**COST PRESSURES IN OUR OPERATING MODEL** 

Value impact	Key actions and opportunities
Pressures in the economic environment result in cost pressures in our operating model.	Discovery remains focused on developing world-class businesses that can compete regardless of economic circumstances. During the year, we focused on infrastructure initiatives and operational efficiencies to ensure that we remain competitive in a low-growth environment.

**OUTLOOK**  
 We expect continued cost pressures in the year ahead. We will focus on enhancing efficiencies across the Group through various initiatives such as the deployment of robotic process automation and artificial intelligence applications.

KEY:

-  Increase in severity of risk
-  Risk severity unchanged
-  Decrease in severity of risk

**3 ATTRACTING AND RETAINING TOP TALENT AND MEETING TRANSFORMATION TARGETS**

**ATTRACTING, RETAINING AND GROWING TOP TALENT** 

**Value impact**


At Discovery, we recognise the importance of our people as an essential resource to our Shared-Value business model. Talented employees, liberated to do their best and achieve their potential, contribute to the success of our business.

In the context of Discovery's expanding global footprint, as well as our goal to become the world's best insurance organisation, continued innovation is essential. To achieve sustained innovation, it is necessary to attract and retain the best talent in all identified critical talent segments, including those in the technological, clinical, data science and actuarial spaces. Growing talent is also a fundamental objective to fill critical skills gaps.

**Key actions and opportunities**

We seek to create a work experience that positions Discovery as a preferred employer, and aim to entrench a compelling employer talent brand that attracts and retains the best talent in critical segments. We use competitive total rewards, such as base pay and life stage relevant benefits, to support attraction and retention of talent.

To attract talent, we have dedicated initiatives and recruitment drives in critical talent segments.

 For more information on how we attract, retain and grow top talent, please see **page 58**

**OUTLOOK**  
 In the year ahead, we will focus on growing talent further through the development of globally competitive programmes unique to market and critical skills requirements, while continuing to bolster our employer brand to attract and retain talent.


**MEETING DIVERSITY AND TRANSFORMATION TARGETS** 

**Value impact**

Ensuring a diverse and transformed talent pipeline is a critical priority across all our businesses. Discovery faces the risk that levels of diversity and transformation at senior management are not occurring at a fast enough pace, and of not attracting, developing and retaining black South African staff at all levels, which would result in reputational risk and impact our rating on the new Financial Sector Codes (FSC) scorecard.

**Key actions and opportunities**

Discovery has a compelling vision for its transformation agenda and a robust plan focusing on management control, employment equity, enterprise supplier development, access to financial services and empowerment financing.

 For more information on our approach to diversity and transformation, please see **page 60**

**OUTLOOK**  
 Meeting our transformation objectives remains a critical priority across all our businesses. We are currently developing a new employment equity calculator and setting ambitious targets, with progress measured monthly through our people dashboard, and linked directly to our executive scorecards.

## 4 ORGANISATIONAL RESILIENCE

### DATA AND CYBER SECURITY

#### Value impact

The global prevalence and sophistication of cyber-crime is increasing. A cyber-attack could burden Discovery with substantial operational costs and reputational damage, for example through cyber-attacks aimed at accessing confidential information or disrupting business operations.

Vitality uses a plethora of data to provide services and develop products that meet client needs. The responsible collection, use and security of personal data are paramount to operating ethically and to preserve the trust of our clients.

Furthermore, if our data is not maintained correctly, it could lead to inappropriate decisions and losses due to incorrect claims, payments and collections as well as the risk of regulatory action.

#### Key actions and opportunities

Our Group Risk and Compliance Committee (supported by the Chief Information Officer, CIO Forum) is responsible for technology and information governance, and ensures that the Group implements appropriate system security, data integrity, business resilience processes, and employee cyber awareness programmes to ensure appropriate management of cyber and data risks.

Data and cybersecurity actions taken during the year include:

- A review of the Group's cyber resilience capability with the assistance of external experts. The review covered all South African businesses and central services areas and followed the National Institute of Standards and Technology framework
- Increased investment in cyber protection capabilities
- Appropriate data security mechanisms to ensure the security of client data
- Data and process quality assurance measures to monitor the integrity of data and systems
- Regular penetration testing, using both internal and external resources
- Regular staff awareness and training programmes to ensure staff are well equipped to secure our data.

#### OUTLOOK

We will continue to enhance our cyber capabilities to embed and improve our overall cyber resilience while ensuring responsible management of data. Looking to the future, we also see opportunity in this area – with technological advancements possibly leading to new types of insurable events, driving the need for products such as cyber insurance to protect companies against security breaches.

## SYSTEMS AVAILABILITY

#### Value impact

Discovery's businesses are supported by the extensive use of technology, including the Vitality1 system and other essential platforms. Pervasive instability in these systems would, therefore, significantly impact our business model.

#### Key actions and opportunities

IT stability actions include:

- Continuous improvement and enhancement to business-continuity and systems performance management processes
- Enforcing strong technical and risk focus to all aspects of systems and technology
- Implementing structured projects to monitor, manage and report on technical debt
- Replace legacy technology with robust technology designed to future proof our business.

#### OUTLOOK

We see this as a continuous risk to our business given the high dependence on systems and automation to offer our services.

## 5 REGULATORY ENVIRONMENT

### REGULATORY CHANGES

#### Value impact

The regulatory environment, both locally and internationally, continues to evolve and presents challenges and risks to the current and future operating model.

Key legislative changes include the adoption of the new Insurance Act in South Africa, including group supervision; developments in the healthcare sector including the National Health Insurance Bill; and other important Group-wide legislation related to Protection of Personal Information and Anti-Money Laundering.

#### Key actions and opportunities

Discovery's business leaders, supported by the respective compliance functions and other technical specialists, are engaged with regulators, lawmakers and thought leaders, both directly and indirectly through Discovery's participation in industry and professional bodies. Discovery's aim through these engagements is to influence and stay apprised of key regulatory developments. Significant developments are addressed proactively through dedicated multi-disciplinary project teams.

#### OUTLOOK

We will continue to stay apprised of developments and engage with regulators where necessary and adapt our businesses accordingly.

# ENGAGING WITH OUR STAKEHOLDERS

Discovery is intrinsically connected to the broader environment in which we operate and the communities we impact. Our continued success and ability to create shared value is therefore dependent on our key stakeholder relationships.

We continuously engage with all stakeholder groups to ensure we consistently address their changing needs, concerns and priorities.



## GOVERNMENT AND REGULATORS

Discovery operates in a complex regulatory environment where our regulators are tasked to ensure the viability of our sectors. These include: Government, JSE, self-regulatory bodies, South African and other revenue services, the South African Reserve Bank, Prudential Authority, the Financial Sector Conduct Authority and the Council for Medical Schemes, among others.

### THE NEEDS AND EXPECTATIONS OF OUR STAKEHOLDERS

- Compliance with regulatory and legal requirements.
- Payment of taxes.
- Protection of consumer, environment, labour and human rights.
- Employment equity (EE), Broad-Based Black Economic Empowerment (B-BBEE) and transformation (SA).
- Adherence to occupational health and safety standards.

### HOW WE CREATE VALUE FOR OUR STAKEHOLDERS

- A zero tolerance culture for regulatory non-compliance.
- Continuous engagement on key issues impacting our industries.



## HEALTHCARE PROVIDERS

Healthcare providers are a key stakeholder in the healthcare sector. As an important provider of services to our clients, this stakeholder group ensures the viability of both public and private healthcare sectors.

### THE NEEDS AND EXPECTATIONS OF OUR STAKEHOLDERS

- Fair remuneration for services provided.
- Sector sustainability.
- Quality of care initiatives.
- Resource management.
- Training and development.

### HOW WE CREATE VALUE FOR OUR STAKEHOLDERS

- Contracting with providers on the basis of increased value and quality of care, rather than on price.
- Electronic health records (HealthID) improve patient care and reduce the administrative burden for doctors (SA).
- Identifying healthcare providers delivering exceptional care; rewarding them with positive recognition – Patient Survey Score (PaSS), (SA).
- Investing in medical education of specialists in SA's public health sector.



## BUSINESS PARTNERS INCLUDING OUR SUPPLY CHAIN

- Suppliers of goods and services to enable Discovery's business operations.
- Global insurance and reward partners.

### THE NEEDS AND EXPECTATIONS OF OUR STAKEHOLDERS

- Beneficial relationships.
- Preferential procurement as per B-BBEE codes (SA).
- Financial and non-financial support.
- Increased revenues.
- Volume growth.

### HOW WE CREATE VALUE FOR OUR STAKEHOLDERS

- Robust supply chain processes that ensure suppliers are paid on time.
- Building our supply chain through financial and non-financial support to selected enterprise and supplier development beneficiaries (SA).
- Support the development of black-owned businesses in South Africa.
- Through the Business Leadership South Africa Connect initiative, support government's small business fund (SA).
- Integration with our digital platforms and leveraging off Vitality IP.
- Brand association and higher client volumes.
- Investment in the Vitality1 platform for insurance partners.
- Unique reward partner offerings, contract negotiation and servicing.





## EMPLOYEES

- Discovery's employees are critical to our continued success.
- Employees in South Africa, the UK and in partner markets, and includes contractors and tied agents.

### THE NEEDS AND EXPECTATIONS OF OUR STAKEHOLDERS

- Competitive remuneration.
- Effective performance management.
- Investment in training and career development.
- Ethical and inclusive work environment.
- Opportunities for innovation.
- Protection of labour and human rights.
- Career advancement.

### HOW WE CREATE VALUE FOR OUR STAKEHOLDERS

- Attracting critical skills through talent pipeline programmes.
- Providing competitive total rewards to attract and retain talent.
- Offering continuous performance engagement.
- Encouraging professional development, self-driven by employees, including digital and traditional learning programmes, immersive experiences, conferences, and other development engagements.
- Leadership development (annual Leadership Summit, Management Conference, Values Masterclasses and Peak Performance Programmes).
- Focusing on employee wellbeing.



## CLIENTS AND FINANCIAL ADVISERS

Our clients span the financial and insurance product spectrum. Financial advisers include tied and independent and distribute our products in the various industries.

### THE NEEDS AND EXPECTATIONS OF OUR STAKEHOLDERS

- Market-leading and innovative products and services.
- Convenience in doing business with Discovery.
- Exceptional client service.
- Responsible insurance services and solutions.
- Value-for-money premiums.
- Protection of clients rights, health and safety.
- Safeguarding of client privacy.
- Sales remuneration.
- Ease of market roll-out.
- Beneficial contractual agreements.

### HOW WE CREATE VALUE FOR OUR STAKEHOLDERS

- Client servicing and journeys to simplify client experience.
- Continued product innovation to meet clients' needs, and an annual product launch cycle.
- Ongoing investment in digital innovation to enhance client experience.
- Data privacy and protection of personal information policy including related training for employees.
- Sales and training support for financial advisers.



## SHAREHOLDERS

Investors, providers of capital, investment analysts and potential investors.

### THE NEEDS AND EXPECTATIONS OF OUR STAKEHOLDERS

- Sustainable returns on investment.
- Effective growth strategy.
- Strong balance sheet.
- Experienced leadership teams.
- Good corporate governance.
- Transparency and accountability.
- Long-term sustainability of the business.

### HOW WE CREATE VALUE FOR OUR STAKEHOLDERS

- Continuous strengthening and evaluation of governance structures.
- Dividends to shareholders.
- Focusing on our deliberate strategy to grow organically, providing a greater return on shareholder capital.
- Aligning of Long-term Incentive Plan with long-term shareholder interests.
- Continuous engagement with analyst and investor community.



## CIVIL SOCIETY AND COMMUNITIES

Broader society, non-governmental organisations, advocacy groups, and communities impacted by Discovery's business operations.

### THE NEEDS AND EXPECTATIONS OF OUR STAKEHOLDERS

- Positive social impact driven by investment and upliftment.
- Creating employment opportunities.
- Supporting education through sustainable interventions.
- B-BBEE and transformation.
- Protection of human rights.

### HOW WE CREATE VALUE FOR OUR STAKEHOLDERS

- Supporting national objectives to enhance market and industry sustainability.
- Reducing the cost of healthcare and the burden on public healthcare infrastructure.
- Engaging with healthcare partners to develop a sustainable healthcare ecosystem.
- Incentivising safer driving and supporting financial wellbeing.
- Linking healthy behaviour with philanthropy to raise funds for various charities, enabled by Active Rewards.
- Supporting transformation by developing a roadmap to improve our B-BBEE scorecard (SA).
- Funding programmes to improve the lives of vulnerable communities through the Discovery Fund.

# KEY STAKEHOLDER MATTERS

While we regularly engage with our various stakeholders throughout the year, there are at times instances where specific stakeholder matters emerge. We provide an outline of some of these matters and our response to them.

## ANNOUNCEMENT OF DISCOVERY BANK B-BBEE SCHEME

### *Concern over exclusion of certain segments of client base*

We launched Discovery Bank in November 2018 and as part of the launch, we announced a Broad-Based Black Economic Empowerment (B-BBEE) scheme in which 10% of the Bank would be allocated to its black customers. At the time, we had considerable feedback from various stakeholders, including clients, financial advisers and advocacy groups, as well as the media. Certain stakeholders provided feedback that they viewed the Scheme as exclusionary.

#### OUR RESPONSE:

We engaged with stakeholders to clarify our view on the Bank's B-BBEE scheme. In our view, Discovery is deeply patriotic, optimistic about, and committed to, South Africa. We will be investing significantly in South Africa over the next five years, and the Bank is central to this. In terms of economic and social development, inclusion and transformation are fundamental to a successful South Africa.

#### For the Bank:

- Discovery Bank incorporates a B-BBEE Scheme in which a 10% share of Discovery Bank will be allocated to qualifying participants through an equivalent value of Discovery Limited shares. The Scheme has been structured to achieve inclusive transformation in line with the legislative requirement, as well as a commitment as part of the licensing process with the South African Reserve Bank, for black economic participation in the Bank. The approach is consistent with many other models in the financial services and banking sectors.
- Our view is that a B-BBEE Scheme with broad reach through directly linking to individual clients, is equitable and more beneficial than the alternative model through which only a few people or narrow groups would benefit. The Scheme will enable clients of the Bank, who qualify to participate in the Scheme, to pay for shares (and the interest on them) in Discovery Limited through vendor financing. There will be conditional requirements that these participants will need to meet over the term of the Scheme. At the end of the vesting period, participants will receive their value in Discovery Limited shares.

At the time of writing the report, we made important progress in developing the offering of the B-BBEE Scheme, which will be announced to the market in due course.

## MEDICAL SCHEME PROCESSES FOR IDENTIFYING FRAUD IN DISCOVERY HEALTH MEDICAL SCHEME

### *Allegations from certain healthcare professionals about racial profiling of doctors by medical schemes*

A group of healthcare professionals, who are part of the NHCPA, brought an application in the High Court against numerous medical schemes and their administrators, requesting that forensic processes be declared unlawful and unconstitutional, following several of their members having been identified as perpetrators of medical aid fraud. The case was dismissed, and they were further denied leave to appeal.

#### OUR RESPONSE:

There is absolutely no truth to the allegations that Discovery Health or Discovery Health Medical Scheme discriminate against healthcare professionals on any basis, including race. It is the responsibility of all schemes and their administrators to deal strictly with fraud and corruption, and to ensure that any funds misappropriated in this way, are returned to the medical scheme for the benefit of members.

Discovery Health's approach to investigating and dealing with fraud adheres to the very strictest standards of fairness and transparency, and meets the requirements of the Medical Schemes Act, and broader principles of legality. We have over the years invested considerable time, energy and resources to ensure that this is the case, and the principles applied have been tested and approved in prior litigation.

It is important to stress that only a small minority of the over 35,000 health professionals commit fraud and billing abuse, and we have a responsibility to deal with this actively and effectively, to protect the sustainability of medical schemes for their members and for the rest of the honest, hard-working health professionals.



## ACCOUNTING POLICY FOR DISCOVERY LIFE

### *Concerns from certain analysts and the media around valuation of the Discovery Life business*

There has been media coverage of Discovery Life's accounting policy and valuations following certain sell-side analyst reports.

#### OUR RESPONSE:

We recognise that Discovery is a unique business, and we work hard to explain both the unique risks and how carefully we manage them, by listening and engaging with our investor community. Several technical investor papers have been published and are available on Discovery's Investor Relations website, which comprehensively address all of the issues raised. In addition, technical investor sessions were held after the publication of the results for the year ended 30 June 2019. These addressed any further technical accounting and actuarial queries and misperceptions.

It is important to note that Discovery Life is unique as it is a monoline, whole-of-life protection business that has grown rapidly and is still relatively young by life insurance standards. When it comes to long-term cash flows, we recognise that it is important to take a prudent approach and provide maximum disclosure. Our assumptions are based on the experience of our data from the last 20 years with additional margins for prudence, and we continuously update and refine them. For example, while Discovery Life writes predominantly whole-of-life policies and while some clients will remain with us for long periods, we've built into our models that 85% of our clients will lapse by the time they are 65. We therefore believe our assumptions are conservative and prudent.



During the year, the National Health Insurance Bill was published. For more information on our response to this key stakeholder matter, refer to **page 66**

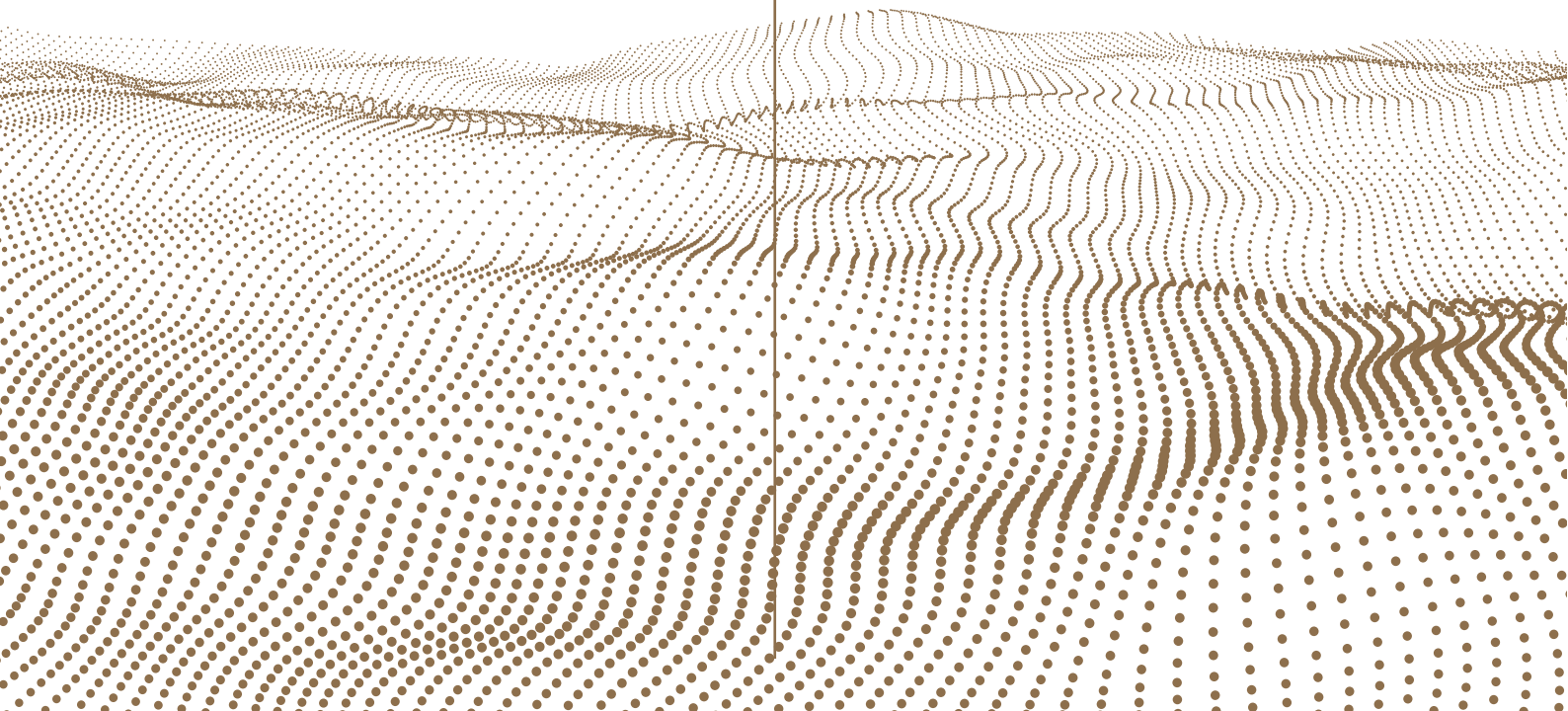
## EMBEDDED VALUE OF DISCOVERY LIFE

### *Concerns around negative experience variances and methodology and assumption changes*

Certain analysts are concerned about negative non-economic experience variances and that these are not reflected adequately in our assumptions.

#### OUR RESPONSE:

Discovery Life has a robust and strongly governed risk monitoring framework. Positive and negative experience variances (in-period actual versus expected experience) are continually monitored, with the assumptions being adjusted only where it is clear that a variance represents a systemic shift in the long-term estimate and not short-term volatility. Further, it should be noted that where experience variances are (to an extent) within management's control, short-term management interventions will be applied to manage experience back to the future long-term estimates or to achieve an optimal overall position. An assumption change would only be made after these interventions if a negative variance persists or is expected to persist. Refer to the section "Ongoing monitoring and mitigation of inherent risks and key assumption changes" (slides 21-40) of the Discovery Life Technical Directory FY2019 available on our website for practical illustrations of this decision-making process and further technical details.



# 03

# OUR PERFORMANCE

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# GROUP CHIEF FINANCIAL OFFICER'S REVIEW



I am pleased to present our financial results for the year ended 30 June 2019. The period was demanding and complex but rewarding given the strategic evolution of the Group as contained in the report of our Group Chief Executive, Adrian Gore, on page 22.

From a financial and technical accounting perspective, the period was particularly challenging given the following:

- Introduction of new insurance regulatory regime in South Africa
- Implementation of legislative amendments to SA Life insurance tax basis
- DiscoveryCard and Discovery Bank transaction with FirstRand
- Implementation of IFRS 9: *Financial instruments*
- Implementation of IFRS 15: *Revenue from contracts with customers*
- Cambridge Mobile Telematics (CMT) transaction.

The full audited annual financial statements, our results announcement as well as various unaudited discussion documents, are available on our website to assist further in the understanding of the application of our accounting policies and financial disclosures.



For more information visit [www.discovery.co.za/corporate/investor-relations](http://www.discovery.co.za/corporate/investor-relations)



Our detailed business reviews are available from **page 64**

## Overview

For the 2019 financial year, Discovery planned to significantly increase investment into strategic initiatives, most notably the build and launch of Discovery Bank, creating an expected reduction in Group earnings<sup>1</sup>.

For the first six months to 31 December 2018, this planned increased investment, together with an unexpected spike in large mortality claims within Discovery Life, resulted in a substantial reduction in normalised headline earnings per share. Various actions were taken to address the large-claims volatility, which ameliorated in the second half of the year.

For the full financial year ended 30 June 2019, Discovery's normalised profit from operations decreased by 3% to R7 747 million, headline earnings decreased by 11% to R5 147 million and normalised headline earnings decreased by 7% to R5 035 million. Income Statement impact of spend on new initiatives increased by 114% to R1 311 million over the period (excluding associated finance costs) – in line with budget and fully provided for in the capital plan. New business annualised premium income (API)<sup>2</sup> increased by 13% to R18 299 million, while embedded value grew by 9% on an annualised basis to R71 217 million.

<sup>1</sup> Normalised profit from operations.

<sup>2</sup> Excludes Discovery Health's take-on of new closed medical schemes and gross revenue for Vitality Group.

<sup>3</sup> The percentage change in the current period is the same for both undiluted and diluted earnings per share.

Normalised headline earnings per share (undiluted)<sup>3</sup> decreased by 8% to 771.9 cents and headline earnings per share (undiluted)<sup>3</sup> decreased by 12% to 789.0 cents.

The Group's operating model, comprising the organic growth model, cash and capital management framework, has proven to be a robust mechanism for growth.



Normalised profit from operations decreased by 3% to **R7 747** million



Normalised headline earnings decreased by 7% to **R5 035** million



Embedded value up 9% to **R71 217** million

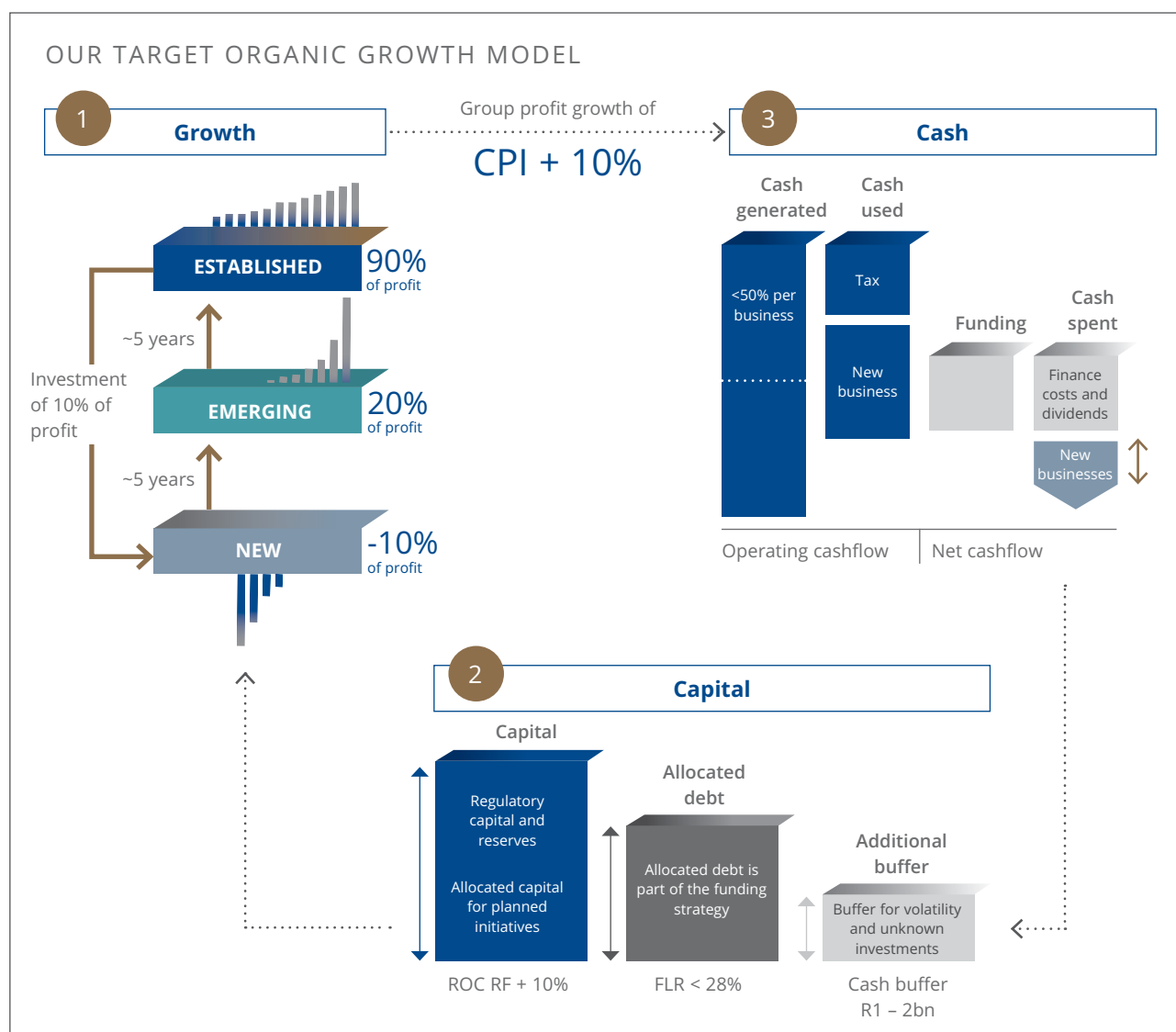
Return on equity **12.7%** despite considerable investment in new business



New business annualised premium income (API) up 13% to **R18 299** million

## Understanding our operating model for investing in organic growth

The organic growth model, which guides our growth and expansion into adjacent geographies and sectors, has been consistently communicated and continues to be applied in the Group. It frames our growth strategy and forms the basis for financial discipline. The model is continuously being refined but in essence remains unchanged.



### 1 THE ORGANIC GROWTH MODEL

Discovery is unique given our organic growth strategy and the extent to which we invest in new initiatives. The organic growth model provides readers with a useful framework for interpreting our income statement and for understanding the management and governance around our various businesses.

#### ESTABLISHED BUSINESSES

**Established businesses are defined as:** Businesses that have a proven track record of profitability of at least three years and are cash flow positive before investment in new business.

**For established businesses we target:** Normalised operating profit growth of CPI + 5%.

#### NEW INITIATIVES

We make substantive investments of approximately 10% of earnings in new initiatives.

#### EMERGING BUSINESSES

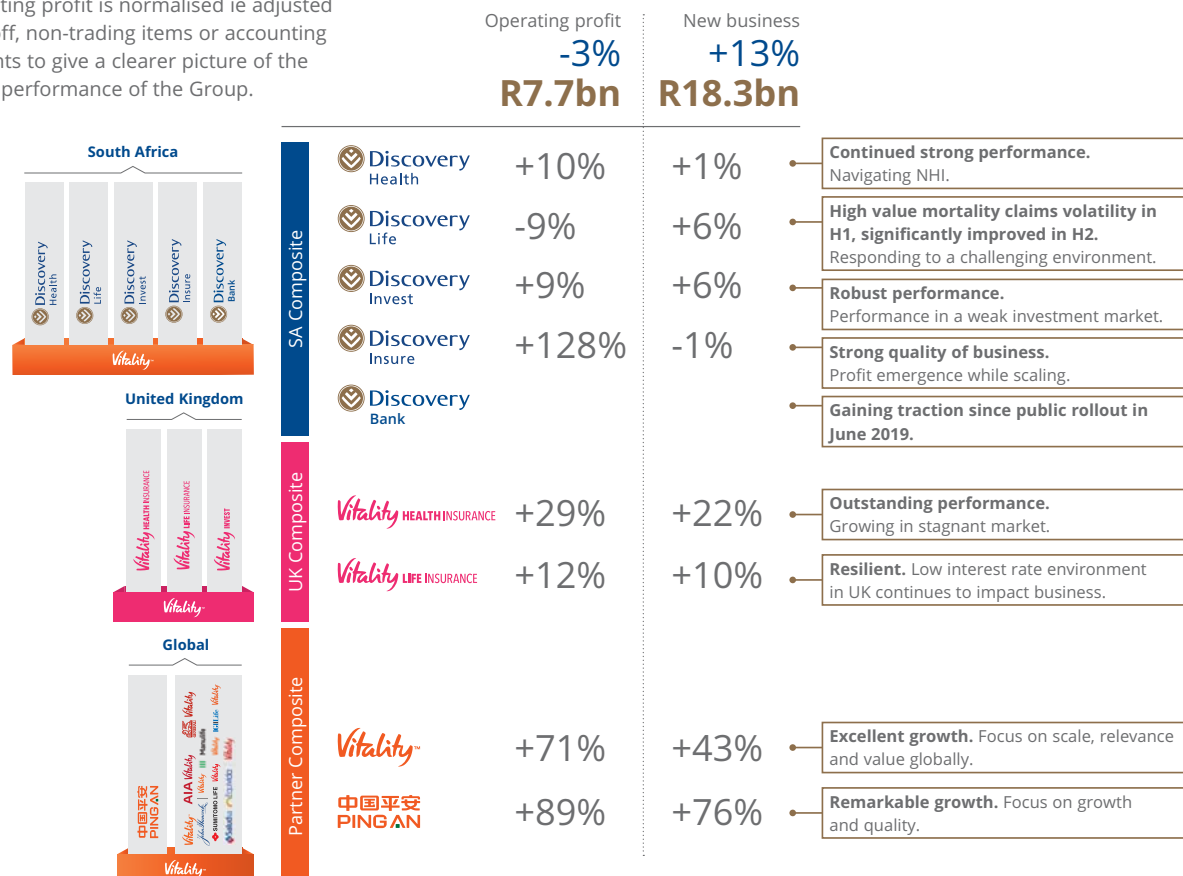
**Emerging businesses are defined as:** Businesses that have achieved sufficient scale to be profitable currently, or in the near future, but are not yet cash flow positive or material in terms of cash generation for the Group.

**For emerging businesses we target:** Normalised operating profit growth of CPI + 30%.

Group Chief Financial Officer's Review *continued*

### How we performed against our growth methodology

The operating profit is normalised ie adjusted for once-off, non-trading items or accounting adjustments to give a clearer picture of the operating performance of the Group.



Our **established businesses** delivered aggregate growth in operating profit of 3% to R8 636 million (2018: R8 375<sup>1</sup> million), short of the target of CPI + 5%.

With the exception of Discovery Life, our established businesses delivered robust results considering the difficult trading conditions in both our primary markets of South Africa and the United Kingdom, while continuing to demonstrate strong business fundamentals.

Discovery Life recovered from a challenging first half with normalised operating profit reducing by 9% for the year to R3 230 million, impacted by

high-value mortality claims volatility in the first half of the year. Based on this, and similar volatility in previous periods, the business altered its reinsurance structures to ameliorate this volatility going forward. The changes to the reinsurance treaties combined with a significant improvement in mortality claims experience, resulted in reduced claims volatility in the second half of the year.

The **emerging businesses** achieved aggregate growth in operating profit of 94% to R422 million (CPI + 91%), exceeding the target of CPI + 30% and are building up significant value.

Seventeen percent of Group earnings, R1 311 million, was invested in **new initiatives**, an increase of 114% from the prior period and, with the associated finance costs, the spend amounted to 21% of Group earnings. The most notable of these investments was Discovery Bank and VitalityInvest. Discovery Bank launched in November 2018 for beta testing with a public rollout in June 2019. There has been a deliberate phased rollout to ensure that the Bank scales seamlessly. The costs incurred in the build, test and run phases of the Bank have largely been in line with expectation and the migration of existing DiscoveryCard

clients from FirstRand Bank to Discovery Bank, is now gaining momentum and planned to be completed over the course of the next financial year. As at 3 September 2019, the Bank has over 22 000 clients, with over 50 000 accounts and continues to build its retail deposit book alongside the migration of the existing Card book.

To facilitate analysis of the results, we have provided reconciliations between profit from operations and profit attributable to equity holders and also from profit attributable to equity holders to headline earnings and normalised headline earnings.

<sup>1</sup> With the implementation in South Africa of the Insurance Act 18 of 2017, and the related Prudential Standards with effect from 1 July 2018, the risk reserve is no longer required to be fully backed by tangible financial assets and hence some assets that previously backed positive risk reserves were released into shareholder funds. Investment income on these investments have therefore not been included in operating profit for FY2019 and the comparative has been restated to afford better comparability.



For ease of reference, the main reconciling items are highlighted in the below reconciliations:

↑ Reported profit for the year  
**+16%**  
**to R6 533**  
million

R million	12 months ended June 2019	12 months ended June 2018	% change	
<b>Normalised profit from operations</b>	<b>7 747</b>	<b>7 980</b>	-3%	After 17% investment in new initiatives.
Investment income	448	495		Profit of US\$ 55.7m on dilution and disposal of interest in CMT following an investment of US\$ 500m in CMT by <b>Softbank Vision Fund</b> . Discovery's effective shareholding in CMT is now 10%.
Dilution gains from equity accounted investments	808	-		
IFRS gain on previously held interest in DiscoveryCard business	761	-		Accounting gain recognised on previously held interest in <b>DiscoveryCard</b> business.
Finance charges excl. 1DP finance lease	(1 036)	(766)		Includes R291m <b>deferred tax asset</b> recognised on assessed losses in <b>Vitality Group</b> .
Impact of replacing market related rentals with finance costs and depreciation	(281)	(208)		
Fair value losses on financial instruments	(185)	110		
Other	(130)	(156)		
<b>Profit before tax</b>	<b>8 132</b>	<b>7 455</b>	+9%	
Tax	(1 518)	(1 720)		
Profit attributable to preference shareholders	(81)	(83)		
<b>Profit attributable to ordinary shareholders</b>	<b>6 533</b>	<b>5 652</b>	+16%	

The reconciliation between earnings and headline earnings is shown below:

R million	June 2019	June 2018	% change
<b>Profit attributable to ordinary shareholders</b>	<b>6 533</b>	5 652	16%
Adjusted for:			
- gain on dilution and disposal of equity-accounted investments, net of tax	(666)	-	
- gain on previously held interests in DiscoveryCard business	(761)	-	
- Impairment of goodwill	17	-	
- Impairment of intangible assets, net of tax	23	162	
- losses/(gains) on disposal of property and equipment, net of capital gains tax	1	(3)	
- realised gains on available-for-sale financial assets, net of capital gains tax	-	(8)	
<b>Headline earnings</b>	<b>5 147</b>	5 803	(11%)
- accrual of dividends payable to preference shareholders	-	1	
- amortisation of intangibles from business combinations, net of deferred tax	84	109	
- costs relating to disposal of equity-accounted investments, net of tax	15	-	
- debt restructuring costs resulting from DiscoveryCard business transaction	33	-	
- deferred tax asset raised on assessed losses	(326)	(352)	
- deferred tax related to Discovery Life 'new adjusted IFRS basis' and Corporate Policyholder Fund assessed loss	(38)	(119)	
- duplicate building rental costs	-	37	
- unrealised losses/(gains) on foreign exchange contracts not designated as a hedge	97	(77)	
- initial expenses related to Prudential Book transfer	23	(1)	
<b>Normalised headline earnings</b>	<b>5 035</b>	5 401	(7%)

Normalised headline earnings per share (undiluted)<sup>1</sup> decreased by 8% to 771.9 cents and headline earnings per share (undiluted)<sup>1</sup> decreased by 12% to 789.0 cents. The per share numbers are impacted by the issuance of shares following the FirstRand transaction (described in more detail on page 50).

<sup>1</sup> The percentage change in the current period is the same for both undiluted and diluted earnings per share.

Group Chief Financial Officer's Review *continued*

## 2 OUR CAPITAL MANAGEMENT APPROACH

Our capital management framework has three components:

### Statutory or required capital

Regulated entities are capitalised in line with regulatory solvency requirements calibrated to withstand a one-in-200-year adverse event. We apply an additional buffer to ensure that after a one-in-25-year adverse event we still remain compliant with the regulatory requirements.

For Group subsidiaries that operate in the insurance and financial services sectors, the relevant 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. VitalityHealth and VitalityLife are regulated under the European Solvency II regulatory regime, which was implemented from 1 January 2016.

With effect from 1 July 2018, the Insurance Act 18 of 2017, and the related Prudential Standards, were implemented in South Africa with Discovery Life and Discovery Insure now being regulated under this new regulatory regime. It is important to note that the solvency capital requirement (SCR) coverage ratio under the Insurance Act 2017 is in no way comparable to the coverage ratio under the previous regime, nor is it comparable from one entity to another.

For instance, Discovery Life's major risk to value and profitability is lapse risk. Should a mass lapse event occur within Discovery Life, this would reduce the capital required to be held and hence increase the SCR coverage ratio.

### Allocated capital





Based on our five-year business plans, allocated capital is the amount of liquid and tangible assets across the Group that is required to fund all known strategic initiatives, over and above statutory or required capital held by regulated entities. This includes funding for all growth initiatives including new business strain and development costs, with explicit buffers for prudence and a general margin for uncertainty.

In capital allocation decisions, reference is made to the Group's required hurdle rate of risk-free + 10%. The return on capital (ROC) for the year ended 30 June 2019 was 12.7% (2018: 16.5%) despite considerable investment in new businesses over the past few years.

### Cash buffer

It is our policy to have an additional cash buffer of at least R1 billion to R2 billion held at the centre.

The Group has an established framework for managing its expected cash flow. The framework allows for the maturity of the relevant businesses and any possible regulatory constraints. The framework also makes provision for regulated businesses to build capital resources and for all businesses to continually invest in new business.

	Statutory capital requirements	Cover
 <b>Discovery Life</b>	<b>R17 396m</b>	<b>1.6x</b>
 <b>Discovery Insure</b>	<b>R789m</b>	<b>1.7x</b>
 <b>Vitality HEALTH INSURANCE</b>	<b>R1 777m</b>	<b>1.4x</b>
 <b>Vitality LIFE INSURANCE</b>	<b>R3 810m</b>	<b>1.5x</b>

Performance of cash and capital metrics was largely in line with our model: cash generated from in-force business, was mostly invested in new business with favourable returns and new initiatives. The capital model is intact, and the Group maintained a cash buffer of R4.4 billion, higher than the guidance of R1 billion to R2 billion.

### Funding approach

The funding of the above capital plan and buffer are sourced internally from retained earnings and externally from Financial Reinsurance (FinRe) and borrowings.

As part of the capital management process, the Group monitors its capital structure in line with a Financial Leverage Ratio (FLR) policy.

FLR is calculated as: total debt ÷ (total debt + total equity). Non-recourse Financial Reinsurance is not included in total debt.

The Group's strategy is to maintain a prudent FLR in line with Discovery's risk appetite statement, with an objective of maintaining an FLR of less than 28%. This was achieved during the year, with an FLR of 23.3% at 30 June 2019.

The table below summarises the FLR at 30 June:

R million	2019	2018
– Borrowings at amortised cost <sup>1</sup>	<b>11 361</b>	10 842
– Amount owed to Prudential Assurance Company Limited	<b>1 760</b>	2 189
– Guarantees issued for reinsurance contracts	–	50
<b>Total debt and guarantees</b>	<b>13 121</b>	13 081
Total equity	<b>43 083</b>	37 594
FLR (%)	<b>23.3</b>	25.8

<sup>1</sup> For the FLR calculation this is reduced by the head office lease liability of R3 321 million (2018: R3 237 million).



See **page 50** for a detailed breakdown of the Group's borrowings

### 3 OUR CASH MANAGEMENT PHILOSOPHY

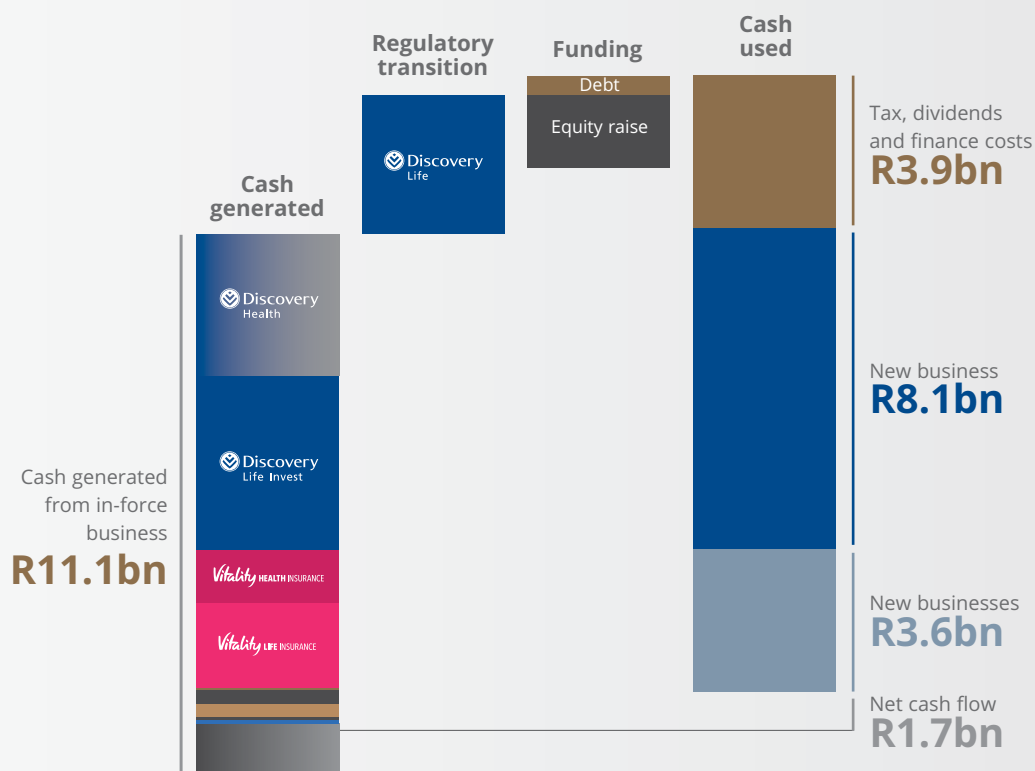
The Group has an established framework for its expected cash flow. The framework allows for the maturity of the relevant businesses and any possible regulatory constraints. The framework also makes provision for regulated businesses to build capital resources and for all businesses to continually invest in new business.

The IFRS Statement of Cash Flows includes cash flows relating to policyholders as well as those arising from the consolidation of Discovery Unit Trusts. To assist users in understanding cash flows not distorted by policyholder flows, we have included a Group Shareholder Free Cash movement in our Additional Analyst Information on our website at [www.discovery.co.za/corporate/investor-relations](http://www.discovery.co.za/corporate/investor-relations).

## Cash management supports growth methodology

# R1 698 million

Net cash flow



## Understanding our statement of financial position

In the commentary below, we have explained significant items in our Statement of Financial Position.



Refer to the detailed Statement of Financial Position in our **Annual Financial Statements** available online

### ASSETS ARISING FROM INSURANCE CONTRACTS

Assets arising from insurance contracts at 30 June 2019 totalled R48 781 million (2018: R43 625 million). The current accounting standard for insurance contracts, IFRS 4, does not prescribe any measurement rules for insurance contracts. However,

it does require consistent application of an insurer's policy to recognise profit on insurance contracts. In line with this, and given the unique nature of Discovery Life writing only monoline, whole-of-life protection business, which has grown rapidly with the average age of the book only six years, Discovery has consistently adopted the policy of setting up assets arising from insurance contracts often referred to as the negative rand reserve (NRR) at the point of sale that are approximately equal to the acquisition costs incurred in writing these long-term policies. Please refer to the Group accounting policy 13.1.1 for recognition and measurement of individual life insurance.

It is important to note that the underlying accounting

principles prescribed by IFRS 17: Insurance Contracts are not fundamentally dissimilar to those currently applied by Discovery under IFRS 4. IFRS 17 is effective for the Group from 1 July 2021 (1 July 2022 after due process followed by IASB). Discovery has established governance structures relating to the IFRS 17 project and is in the process of performing an impact assessment of applying the requirements of IFRS 17.

The complexity of IFRS 17, the accounting policy decisions required, the impact of transitional arrangements and the judgement required in certain aspects of its implementation makes it very difficult to give guidance as to the potential impact on earnings at this stage. Only high-level comparisons

between Discovery Life's current accounting policy principles and IFRS 17 principles can be drawn.



Refer slide 19 of the Discovery Life Technical Directory FY2019 available at [www.discovery.co.za/corporate/investor-relations](http://www.discovery.co.za/corporate/investor-relations)

Given the complexity of life insurance accounting, Discovery has engaged with shareholders and analysts to explain the difference between assets arising from insurance contracts and the Embedded Value basis and how these assets arising from insurance contracts differ from the unwind of a DAC asset. For more information on these issues, please refer to the Discovery Life Technical Directory FY2019.

Group Chief Financial Officer's Review *continued***PROPERTY AND EQUIPMENT**

As previously discussed in detail in our 2018 results, Discovery has classified the lease agreement for its new head office as a finance lease in terms of IFRS. This accounting treatment has resulted in the recognition of an asset (carrying value of R2 832 million at 30 June 2019) which was disclosed in Property and equipment and a corresponding lease liability that has been disclosed in Borrowings.

The treatment under *IFRS 16: Leases*, effective for annual periods beginning on or after 1 January 2019, would result in a similar treatment with the lease capitalised, and as a result the accounting treatment in respect of this particular lease is aligned with future changes.

Normalised operating profit per the segmental information, reflects the cash rental costs separately from the IFRS finance lease treatment, as individual business expenses and margins are managed on underlying cash rental costs incurred by each business. This treatment is applied for normalised operating profit only, with the IFRS results reflecting finance costs and depreciation as required by IAS 17.

**INTANGIBLE ASSETS**

Intangible assets include a R1.9 billion increase due to software development investments largely attributable to Bank build spend and spend on Vitality1. Included within the movement of intangible assets for the period is the reclassification of R1.1 billion pertaining to the previously held economic interest of 54.99% in the DiscoveryCard business.

The previously held interest was reclassified to form part of the consideration transferred to acquire the DiscoveryCard business. Refer to the below note on Goodwill.

**GOODWILL**

During the current financial year, Discovery obtained control over the DiscoveryCard business as well as full ownership of Discovery Bank. The total combined acquisition price payable by Discovery to the FirstRand Bank Limited Group (FirstRand) was R1.8 billion. The concluded transaction included:

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

The acquisition of all rights to the DiscoveryCard book and related assets, together with the acquisition of the remaining 25.01% economic interest in the DiscoveryCard business, resulted in a business combination in accordance with IFRS. The acquisition of the DiscoveryCard business resulted in R2.4 billion goodwill.

For a detailed understanding of this transaction, as well as details of implications on other assets, liabilities and changes in equity, please refer to note 10 in our **Annual Financial Statements** available online

**Borrowings****Borrowings at amortised cost**

R million	Reference	June 2019	June 2018
Borrowings from banks		<b>11 034</b>	9 050
- United Kingdom borrowings	i	<b>1 612</b>	1 810
- South African borrowings	ii	<b>9 422</b>	7 240
Redeemable preference shares	iii	-	1 402
Finance lease liability		<b>3 648</b>	3 621
- New building		<b>3 321</b>	3 237
- Other finance lease liabilities		<b>327</b>	384
Overdrafts with banks		-	6
<b>Total borrowings at amortised cost</b>		<b>14 682</b>	14 079

**i. United Kingdom borrowings**

Discovery previously entered into term facilities totalling GBP150 million. These borrowings have been used to partly fund the new business acquisition costs incurred by VitalityLife, which were previously funded by The Prudential Assurance Company Limited (Prudential).

Discovery repaid GBP50 million of this facility in previous financial periods and a further voluntary prepayment of GBP10 million of this facility on 30 November 2018. Included in the outstanding balance of GBP90 million (R1 612 million) at 30 June 2019 is an amount of GBP39.5 million (R710 million), which matures on 23 June 2020.

**ii. South African borrowings**

R million	Reference	June 2019	June 2018
Balance at beginning of the period		<b>7 240</b>	4 600
Issuance of listed debt	a	<b>700</b>	1 500
Draw down on existing and new bank facilities	b	<b>1 447</b>	1 154
Repayment of borrowings	b	<b>(30)</b>	(80)
Accrued interest		<b>68</b>	77
Finance costs capitalised to intangible assets		<b>47</b>	64
Finance costs accrued to profit or loss		<b>787</b>	492
Finance costs paid		<b>(766)</b>	(479)
Raising fees capitalised		<b>(4)</b>	(11)
Net foreign exchange differences		<b>1</b>	-
<b>Balance at end of the period</b>		<b>9 422</b>	7 240

Moody's reaffirmed a Aa3.za issuer rating to Discovery Limited on 29 January 2019.

a. During the previous financial year, Discovery registered an unsecured R10 billion Domestic Medium-Term Note (DMTN) programme. In terms of this programme, Discovery issued R1.5 billion JSE Listed Notes in its inaugural issuance on 21 November 2017. Discovery issued further Floating Rate Notes of R700 million, on 29 August 2018.

b. Discovery Central Services, a subsidiary of the Discovery Group, entered into a new unsecured R1.4 billion five-year loan facility in December 2018, as part of a broader debt refinancing programme (refer iii below).

### iii. Redeemable preference shares

In 2016, Discovery Pref Holding Company (RF) Limited, a subsidiary of the Discovery Group, issued 1 400 A preference shares at an issue price of R1 million each, as part of a debt syndication programme. As part of a broader debt refinancing

programme, these preference shares were voluntarily redeemed on 20 December 2018, at nominal value. A breakage fee of R33 million was payable and has been accounted for in finance costs.

### Embedded value (EV)

The EV of Discovery includes the insurance and administration businesses in the Group. Covered business includes business written in South Africa through Discovery Life, Discovery Invest, Discovery Health and Vitality, and in the United Kingdom through VitalityLife and VitalityHealth.

No published values have been placed on the current in-force business of other businesses in the Group as these have not reached suitable scale with reliable trends to forecast future experience.

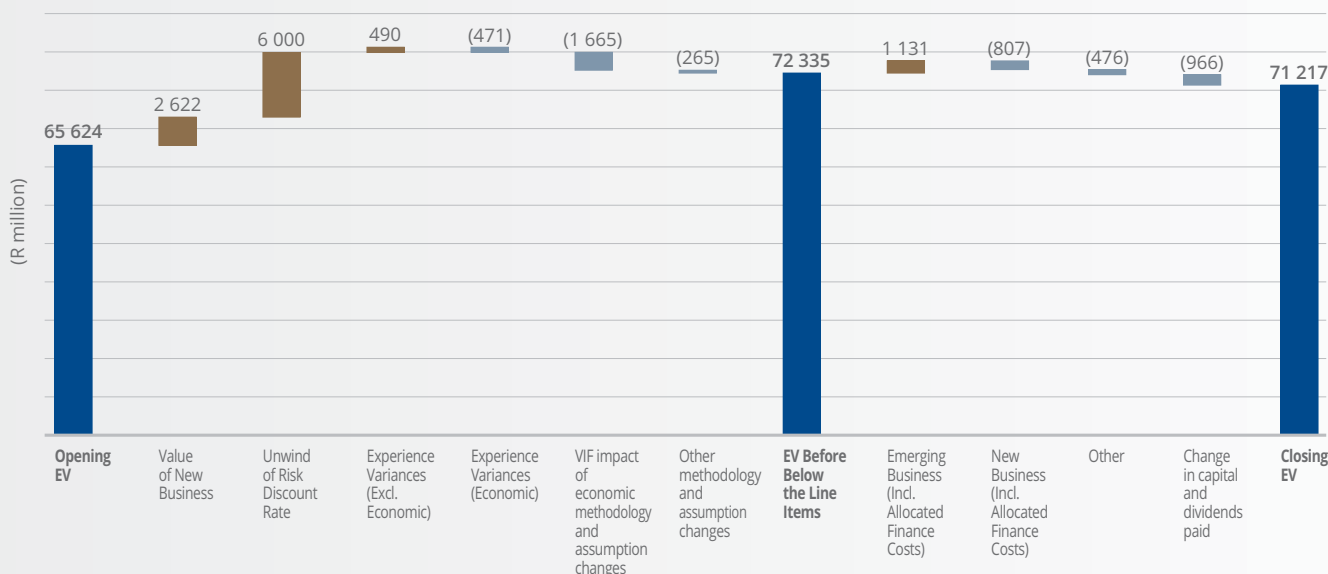
The EV grew by 9% to R71 217 million (2018: R65 624 million) and annualised return on opening EV decreased to 10% (2018: 16.9%).

The EV statement is included from page 169 in the **Annual Financial Statements** available online



## Group EV 10%

RoEV, 13.5% excluding forex and economic changes



Group Chief Financial Officer's review *continued***Other notable items**

Other notable items include key technical or accounting related items that impacted our results, included:

- Tax and deferred tax
- Our dividend policy
- The impact of IFRS 9 and 15
- The translation impact of the rand exchange on income from operations outside South Africa

**TAX AND DEFERRED TAX**

With the promulgation of the South African Insurance Act 18 of 2017, in January 2018, the new adjusted IFRS tax basis is effective 1 July 2018. Deferred tax has been provided for on the difference between the IFRS and tax liabilities to the extent that timing differences arise.

A deferred tax liability of R8 854 million is attributable to assets/liabilities arising from insurance contracts. In June 2018 an amount of R119 million, relating to timing differences on transition, was recognised as a reduction in deferred tax liabilities for Discovery Life. As the new tax basis is now in effect, this item has been derecognised in the current period.

During the current year a deferred tax asset of R291 million has been recognised on the assessed loss in Vitality Group International. Further amounts were raised during the current year in respect of the Discovery Life Company Policyholder Fund and

VitalityHealth's assessed losses (R157 million and R35 million respectively), which have now been recognised in full. These items have been adjusted for in the calculation of normalised headline earnings.

In respect of the Discovery Life Individual Policyholder Fund, the net deferred tax asset, which is implicit in the valuation of insurance contract liabilities and explicitly reclassified in terms of IFRS, has increased to R728 million this period (2018: R579 million). The impact on the income statement for the current financial year is an increase in 'Net transfer to/from liabilities arising from insurance contracts' of R147 million and a corresponding decrease in income tax expense (2018: R16 million decrease in income tax expense). The net effect, after tax, for both the current and prior year is therefore zero.

**DIVIDEND POLICY**

Discovery's dividend framework considers that although established businesses are expected to pay a dividend similar to other established companies in our sector (equating to 1.5x to 3x cover), the emerging businesses do not pay dividends to the Group, and new businesses are funded from the dividends from established businesses. This framework is a general guideline before considering any other factors.

Taking into account the significant investment in new initiatives, the Board has declared a final gross cash dividend of 114 cents per share, unchanged from the prior period.

**NEW ACCOUNTING STANDARDS**

The following two standards became effective for the first time during the current financial year. The impact of the first-time adoption of these standards is discussed in detail in Note 43 of the Annual Financial Statements.

**IFRS 9: Financial instruments****Classification**

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

**Impairment**

IFRS 9 introduces a new impairment model, namely the expected credit loss model, which will result in earlier recognition of credit losses by requiring allowances to cover both already-incurred losses and losses expected in the future.

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

**IFRS 15: Revenue from contracts with customers**

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

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

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

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

### Translation impact of the rand exchange on income from operations outside South Africa

The Group's net income from operations outside South Africa is translated into rand at the weighted average exchange rates for consolidation purposes.

Average exchange rate	2019	2018	% change
Rand/GBP	18.32	17.33	5.7%
Rand/USD	14.17	12.86	10.2%
Rand/RMB	2.07	1.98	4.5%

During the period under review, the weaker rand had a positive impact on the translation of earnings from the UK and our emerging businesses.

### Looking forward

Our focus remains on leveraging our growth methodology, capital management philosophy and cash framework, which are proven and robust mechanisms for managing our growth and investment. As we look ahead, I believe this approach will position us well as we continue to build new businesses and grow our established businesses.

Economic uncertainty and regulatory developments in each of the markets where we operate remain focus areas and we continue to apply stringent processes and procedures to ensure we adhere to all requirements and respond to changes in the environment. The lower interest rate environment in the UK is one such dynamic that could have a material negative impact on profitability should interest rates remain at current low levels. The impact on earnings could reverse should interest rates return to historic levels.

Our structures and the targets we have set to maintain growth and sustainability, supported by our Shared-Value business model, bode well for future performance. Our risk management and other processes will continue to play an important role as we launch new businesses, and continue to expand the reach of our existing businesses, as outlined in our strategy and detailed throughout this report.

From a financial management perspective, we will continue to focus on the following key aspects:

- Managing and closely monitoring the capital plan and ensuring robustness through continuous refinement and stress testing
- Managing our funding plan in line with the above as well as our debt profile
- Meeting all the requirements of new and emerging IFRS
- Monitoring the effects of regulatory changes across our insurance businesses
- Implementing targeted operational and risk management interventions as well as product changes to create sustainable and positive experience variances
- Ensuring that our application of reporting and disclosure remains comprehensive, transparent and that we continue to proactively engage with stakeholders to increase our understanding of their needs.

### DEON VILJOEN

“Our structures and the targets we have set to maintain growth and sustainability, supported by our Shared-Value business model, bode well for future performance.”



# OUR ENABLER REVIEWS

## OUR BRAND



### THE DISCOVERY BRAND AS A STRATEGIC DRIVER OF GROWTH

Discovery's brand has developed over the past 27 years as one of the leading brands in South Africa and globally, well known for innovation, positive disruption and intellectual leadership. The brand has recently been recognised as the second strongest insurance brand globally. Vitality, as one of Discovery's key innovations, has become an important brand asset in its own right, enabling us to export our Shared-Value business model globally through the Vitality behaviour-change platform.

### Highlights



Discovery named the **second strongest insurance brand** in the world by Brand Finance, an independent brand valuation and strategy consultancy



#### Winners of the Sunday Times Top Brands 2018 Survey (SA)

Grand Prix Business award for Discovery Health Medical Scheme

Business Overall Favourite Brand for Discovery Health Medical Scheme

Short-term insurance Consumer category to Discovery Insure

The equity built up in the Discovery brand allows us to follow a two-pronged brand strategy: building the Discovery brand as the best insurance brand globally and leveraging the Vitality brand internationally as the leading platform for behaviour change linked to financial services.

Through this brand strategy, we enable further growth opportunities for Discovery, both in our primary markets of South Africa and the UK, and our international partner markets. The Discovery brand not only enables greater awareness, credibility and consideration of current product offerings among consumers, but also creates positive brand association as we expand into adjacent markets. Over the past two decades of consistently investing in building strong brand equity and credibility, the Discovery and Vitality brands have earned considerable trust from consumers, as reflected through various brand accolades over the years. This brand trust drives consideration, client retention and ensures distribution support from financial advisers, resulting in the new business growth that makes the Vitality brand an attractive partner for global insurers.



## Our brand focus: build significant brand value in support of Discovery's ambition

In South Africa, our brand focus is to continuously build brand value for Discovery, as we expand our composite strategy with our entry into the banking market. At the same time, we continue to entrench the Vitality brand as the leading platform for behaviour change globally.

In the UK, we aim to build a strong composite through VitalityHealth, VitalityLife and recently-launched VitalityInvest, with a strong, differentiated Vitality brand that has a 50% prompted brand awareness in the UK market.

In line with our growth strategy of using the Vitality behaviour-change platform to create competitive differentiation for global insurance partners, we are now exporting the Vitality model and building the Vitality brand internationally through partnerships with strong, credible insurance brands that include the likes of Ping An, Generali, AIA, John Hancock, Manulife, Hannover Re, and Sumitomo Life.

## Our key focus areas during the year

### LAUNCHING AND MARKETING SIGNIFICANT NEW BUSINESSES AND PRODUCT INNOVATIONS

Discovery upholds a strict product innovation cycle and culture across its various businesses and markets. These product innovations are rolled out in the respective markets, through marketing campaigns and client and adviser communication plans, that contribute positively to Discovery's reputation as an innovative business and brand.

Our focus has been on marketing the launch of significant businesses in some of our markets. At the end of 2018, we launched Discovery Bank and continued supporting a new umbrella fund offering aimed at corporate employers in the South African market.

We supported these new business objectives with marketing and communications initiatives to increase awareness and consideration of these new offerings. This marketing activity assists in driving greater brand awareness and consideration.

In the UK, following the launch of VitalityInvest in June 2018, our focus has been on creating awareness of the VitalityInvest brand in the market, and supporting new business and product rollout.

An additional example of product innovation during the reporting period, is the Vitality Open, an innovative 10-week campaign that extended Vitality to the South African public. It was launched during September 2018 and used the Vitality Active Rewards platform to encourage participants to exercise more and to improve their driving behaviour. Over the period, we saw a significant impact on the lives of participants as a result of their involvement in the campaign, with greater awareness of both the Discovery and Vitality brands, as well as above average lead conversion and sales volumes.

#### Vitality Open

**550 000 PEOPLE ACCEPTED THE CHALLENGE**

**NEW PARTICIPANTS INCREASED THEIR PHYSICAL ACTIVITY BY 34%**

**APPROXIMATELY ONE-THIRD OF NEW PARTICIPANTS IMPROVED THEIR DRIVING HABITS**

## BUILDING THE DISCOVERY AND VITALITY BRANDS IN SOUTH AFRICA, THE UK AND OUR PARTNER MARKETS

We continue to invest in brand and marketing initiatives in our primary markets of South Africa and the UK, and with our international partner markets, to strengthen the Discovery and Vitality brands. These initiatives include sponsorships that create mass awareness, brand ambassador programmes that build brand affinity, thought leadership initiatives, and digital and content marketing assets that reach broader audiences with defined messages.

In South Africa, one of our key sponsorship properties and brand assets is the Discovery Leadership Summit. A manifestation of Discovery's commitment to leadership development in South Africa, the Summit positions Discovery as a significant thought leader in society. The Summit seeks to gather influential leaders from around the world to stimulate and inform debate on globally relevant issues within a local context. The 2018 event, which was hosted in Sandton, South Africa in November 2018, was one of our most successful and biggest events with high attendance, prominent speakers (including South African president, Cyril Ramaphosa, former US President, Bill Clinton, US Secretary of State, Hillary Clinton and former UK Prime Minister, David Cameron); and significant public relations and brand value achieved.

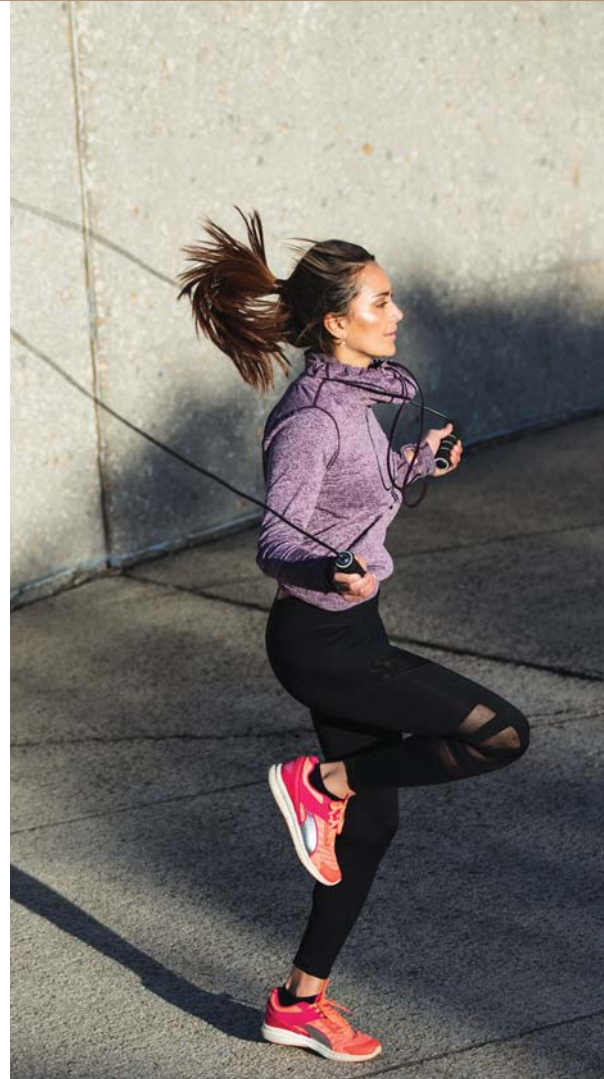
Our enabler reviews / Our brand *continued*

In its various markets, Discovery and Vitality leverage brand ambassadors who align with the core purpose, values and personality of our brand, to build brand affinity, and convey our brand message to a broader market and audience. In South Africa, we announced a brand ambassador partnership with iconic athlete and Olympian, Caster Semenya, while in the UK, Vitality continued to leverage its brand ambassador programme with the participation of well-known British sporting personalities such as Jessica Ennis-Hill, Joe Root, Maro Itoje and Ellie Simmonds. During the year, Vitality UK further entrenched the Vitality brand through various sponsorship campaigns and partnerships with ISA and Sky News, parkrun and the announcement of the sponsorship of the Netball World Cup in 2019.

The Vitality Apple Watch Study, a research collaboration between Vitality Group, Apple Watch and Rand Corporation, was published in November 2018. This study contains results of the largest behaviour-change study on physical activity globally. The study and its findings, which were based on verified data, shows Vitality incentives combined with Apple Watch lead to significant and sustained increases in activity levels. During the launch of the report, Discovery and the Global Vitality Network, an alliance of insurance partners that use

the Vitality behaviour-change platform, made a global commitment to help make 100 million people 20% more active by 2025. Various marketing and communications campaigns and initiatives to help encourage higher levels of physical activity in Vitality's partner markets, are being planned and implemented.

A key focus across our markets was the continued investment in developing digital capabilities that assist us in delivering our messages to more targeted audiences. We invest in developing the required digital capability, analytics skills, and tools to better understand and leverage the evolving digital landscape and how consumers interact with brands and content. On a daily basis, we manage an extensive digital and social media presence, and we use fully integrated advertising campaigns to create brand awareness, reach and convert potential leads to clients. We also consistently strive to develop content that is relevant and topical, speaking to the issues most significant to our stakeholders and responding to matters raised on social media.



**WHERE WE'RE HEADED**

*Looking ahead, we will continue to strengthen the Discovery brand as the best insurance brand globally, and the Vitality brand as the world's leading brand for positive behaviour change.*

Furthermore, our objective is to use the evolving digital landscape, tools and marketing tactics, to tap into new audiences and markets; and to use digital technology such as AI and machine learning to improve the client experience. We will also focus on making use of the latest marketing platforms to deliver integrated campaigns, and leverage data analytics to inform our approach to developing communication, messaging and advertising relevant to our audiences. Additionally, we will continue to drive awareness with the aim of achieving growth and retention for the Discovery brand in the corporate market.

# OUR ENABLER REVIEWS

## OUR PEOPLE

### OUR PEOPLE AS A CRITICAL STRATEGIC ENABLER

Our business relies on continuous innovation combined with client-centric service. Our people, as a vital resource and strategic differentiator, leverage their knowledge, skills and passion to drive constant innovation and deliver on our Shared-Value business model to the benefit of all our stakeholders. We believe that great ideas, driven by quality people, result in market-leading products, contributing to our competitive advantage.



### Highlights



Top 3 placement for LinkedIn **Best Employer Brand** in South Africa



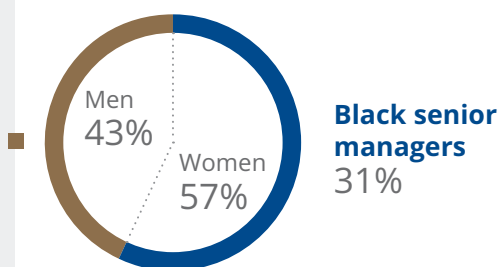
Created **517** work opportunities within Discovery and our partners in response to the Presidential YES programme, exceeding our target of **450**



Learnership programme in its 14th year, with over **1 000 learners to date** and more than **80%** of learners in formal employment after the programme

### Our key performance indicators

**Headcount has increased** in the past year to over **12 950**



**Attrition - 14%**

Our enabler reviews / Our people *continued*


During the year, we embarked on an enterprise-wide review of talent across 16 business units and functional areas. The following three key themes arose from these reviews:



## Attracting and retaining talent, especially in critical segments

In a fiercely competitive market for top talent, communicating our strong employer brand is critical to our business success. For Discovery, 'talent' refers to more than the skills or experience of an individual – talent extends to their passion for furthering the reach of our Shared-Value business model.

Our culture and values therefore, play a critical role in attracting and retaining the right talent, as well as the manner in which we engage with our employees and the value we add to their lives through rewards and benefits. We also seek to attract the best person for every role, as well as top talent through targeted initiatives such as the Adrian Gore Fellowship Award.

 Described in more detail under the heading Attracting top talent on **page 59**

## CULTURE AND VALUES

At Discovery, we have a unique culture that is deliberately built and purpose driven.

Our company core purpose of 'making people healthier and protecting and enhancing their lives' guides our business operations alongside a framework of organisational values and leadership principles.

Our values are entrenched in our people practices including recruitment, induction, and performance management – encompassing the full employee lifecycle.

## EMPLOYEE ENGAGEMENT

Employee engagement is driven at a business unit level, with the top leadership teams in each area accountable for the actions they believe will have the most impact.

Our Group employee engagement survey is a critical part of understanding our employees' level of engagement. Our most recent survey indicated that levels of employee engagement remain high and in line with the global high-performing norm, with participation increasing to 78%. Encouragingly, at a macro level, we have seen statistically significant positive movement (2%) in employee perception of diversity and inclusion in the organisation.

The survey also assists us in identifying opportunities to improve our employee experience and in the year ahead, we will focus on leadership development, career development and working relationships. Moreover, our primary focus will be on ensuring all employees are enrolled and committed to our 2023 Ambition across all locations, globally.

## PERFORMANCE, REWARDS AND BENEFITS

The Board and executive leadership set Group strategic priorities, which are then cascaded down to the various divisions and business functions throughout the Group. Continuous performance engagement is carried out based on these strategic priorities.

Our rewards and benefits are aspirational and holistic – seeking to go beyond one dimensional financial rewards and offering unique value to our employees through ongoing development and exposure. Remuneration is monitored and reviewed on an ongoing basis to ensure that our package offerings (guaranteed and variable) are competitive in the segments we operate in, and are aligned with the strategic objectives of the Group to create sustainable value for all stakeholders.

## EMPLOYEE WELLNESS

Our employees' health and wellbeing is critical to their performance and, therefore, a vital part of our success. Our focus on employee wellbeing also sets us apart in the quest to attract and retain top talent. Beyond this, we believe that by being role models in health and wellness, we can contribute to healthier and happier families and communities beyond our office.

Our focus for 2020 is to have a clearly defined employee wellness journey that begins with a single entry point that enables holistic access to all wellness services. Vitality take-up for our employees across the Group is currently 75%, and we aim to increase this to 80% over the next 12 months. To achieve this, and to promote the general wellness of our employees, we intend to leverage our existing product assets such as Healthy Company, which is a digitally-driven, science-based employee assistance programme, as well as our Vitality programme.

We will also seek to support our employees through our FinAssist initiative, which aims to use the negotiating power of Discovery, as used in our Vitality programme, to offer our employees financial support and assistance in the spheres of education, transport, insurance and home-loans, among other benefits.

Furthermore, in 2020, our objective is to make significant progress towards equalising Vitality Age with their actual age. Our staff are currently four years older than the actual average age of 34. We also aim to increase gym membership by 25% and increase activation of the Healthy Company benefit by 25%.

## ATTRACTING TOP TALENT

We proactively seek to attract top talent in critical segments through targeted initiatives such as the Adrian Gore Fellowship Award, which is part of our actuarial recruitment programme. The fellowship involves the nomination of the top 27 actuarial graduates from the top four universities in South Africa. These candidates complete an intensive evaluation programme at Discovery, after which we offer permanent roles to the best performers. A Fellowship Award is also made to the Top Actuarial Graduate, and the Fellowship winner subsequently gets personalised mentorship and fast-tracked development at Discovery. The programme started in 2013, and in the process Discovery has attracted (and retained) talented actuaries, making a significant difference to the business despite their relative youth.

On the IT skills front, Gradhack invites third-year and honours IT students from across the country to submit ideas and then develop innovative solutions in small teams, through the application and use of our existing resources. Students are hosted in Johannesburg over four days, with a final hackathon taking place over 48 consecutive hours. In July 2018, we hosted a total of 37 students from five universities – and offered 33 students positions, with 24 joining Discovery in 2019.

To further support the attraction and retention of our actuarial and analytical talent, we host an annual Actuarial Conference that is attended by more than 450 actuaries and data scientists from across the Group. This exclusive event provides a platform for a select

group of actuaries and data scientists to present and showcase research projects involving powerful business solutions to their peers. The conference is run as a competition and the actuaries and data scientists presenting the best original ideas with real business impact get awarded major prizes, and are recognised in front of their peers and the executive as true intellectual leaders.



For more information on initiatives to attract top talent, please see our online **Sustainable Development Report**

## Employee development

We aim to create an environment for optimal performance, where our employees can thrive and are fully liberated through digital enablement, challenging work and learning experiences that build their skills and capabilities. We encourage self-driven development in our employees who are, together with their manager, jointly accountable for their career development.

Our integrated human capital technology provides a platform for employees to collaborate on work projects, and to learn together through learning communities. In addition, we are increasingly providing opportunities for our people to learn anytime and anywhere through digital learning platforms.

Critical skills, along with a focus on developing key capabilities, continue to drive enhanced business performance and consistent innovations to our business model. Investment in the development of our people creates value by aligning

employees to the Group strategy, thereby equipping them with the skills and capabilities that they need to drive execution in their roles. Through digital and traditional learning programmes, immersive experiences, conferences, and other development engagements, the quality of individuals and teams are lifted to better deliver on the organisation's ambition. For example, the #5YearsForward campaign, launched during the year, will become the platform for engaging employees on their own growth, business growth and our commitment to being a powerful force for social good.

### Initiatives undertaken during the year to ensure employee development included:

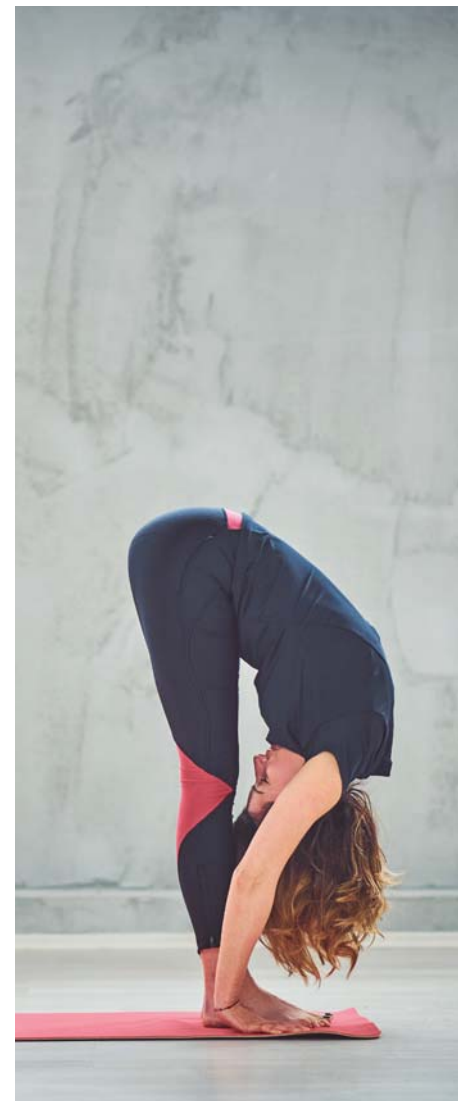
**882 MILLION** spent on learning and development initiatives across the Group

**REACHED 3 061 EMPLOYEES** in 263 business skills sessions

**DEVELOPED 186 LEARNERS AND 63 INTERNS** with 91% of the learners and 87% of the interns finding permanent employment

**2 624 ENROLMENTS** in online learning programmes

Looking ahead, we want to establish a consistent development experience for all employees through a capability curriculum across leadership, functional and critical skills segments. We also aim to provide all employees with accessible, world-class resources (enabled by a digital platform) to develop their capabilities, effectiveness and potential for current roles and for the future.



Our enabler reviews / Our people *continued*

**LEADERSHIP DEVELOPMENT**

We recognise the unique opportunity and critical business need to develop our leaders in line with our 2023 Ambition and our aspiration to be a powerful force for social good. Our leadership development programmes have a focus on enabling leaders to navigate the natural tensions that emerge across values and the context in which they operate. In this way, we seek to develop leaders who are values-led and who have a deep sense of purpose, as reflected in Discovery's Leadership Charter.

In the past year, leaders have been supported through initiatives such as our annual Leadership Summit (1 695), Leadership Masterclasses (320), Lead the Discovery Way Programme (480), Senior Management Development programme (29), New Manager Programme (169) and the Peak Performance programmes (119). Furthermore, throughout the Group, new leaders, as well as those transitioning into new roles, attend a Leadership Induction programme with the specific intent of connecting leaders to our company's legacy and Discovery's culture, values and core purpose through dialogue and conversations. All our programmes are leader-led by our executive team.

Going forward, we will focus on building line management capability through the 'Lead the Discovery Way' programme, which is targeted at 3 000 leaders to equip them with the skills and mindsets required to lead effectively. We also aim to provide identified high-potential talent with structured development and support, effectively preparing

them for senior executive roles and complementing the broader transformation agenda.

**Diversity and transformation**

We are deeply committed to creating an exceptional employee experience that is consistent across race, gender and disability throughout the Discovery Group. Equally, we believe that a culture based on inclusivity will create a conducive environment for crafting innovative solutions that will benefit our customers and broader society.

Each area of our business is, through its top leadership, held accountable for the shape of equity in their business. Furthermore, performance in this area has a direct impact on leaders' short-term performance incentives.

Each business unit has specific development actions to be implemented in relation to its diverse talent. The identified

talent should be considered when there are opportunities to transition into suitable roles or opportunities for promotion.

In the current period, the diversity and inclusion measure in our annual employee experience survey indicated a 2% improvement from last year, which is statistically significant.

Over the next year, we will continue to create awareness and implement practices to moderate unconscious bias relating to diversity and inclusion. We also endeavour to facilitate more dialogue and debate on the opportunities and challenges faced by diverse groups in the workplace. In addition to this, we have invested in greater analytic capability, which we will use as input to these sometimes difficult conversations. Diverse talent pipeline development is critically important, and further sensitivity training will also be a priority in the year ahead.

**FOCUSING ON ENCOURAGING POSITIVE GROWTH**

Between October 2018 and June 2019, 517 jobs were created in support of the Presidential YES campaign, with 12 jobs created within Discovery and 505 with our partners.

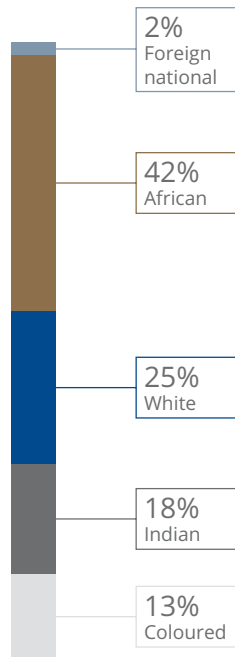
**Presidential YES campaign data on jobs created**

■ **69% FEMALES AND 31% MALES**

■ **87% AFRICAN, 13% COLOURED**

■ **61% PLACED IN JOHANNESBURG, 31% IN CAPE TOWN AND 8% IN KWAZULU-NATAL**

**Demographics of employees**



**WHERE WE'RE HEADED**

*In future, we will continue to enhance Discovery's employer brand through a distinctive Employee Value Proposition, as well as partnerships with LinkedIn and the Top Employers Institute.*

We will use the insights gathered from data and science for predictive analytics to empower, influence and shape our people decisions for better business impact. This will be supported by the standardisation and implementation of talent and performance frameworks and processes throughout the Group.

Furthermore, we will focus on creating a collective commitment to our 2023 Ambition at an organisational, team and individual level. We believe that strengthening leadership capabilities will allow us to navigate an increasingly complex and ambiguous world.

# OUR ENABLER REVIEWS

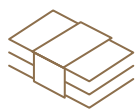
## TECHNOLOGY

### TECHNOLOGY AS A STRATEGIC ENABLER

Technology is a critical strategic enabler for the Discovery Group in that it supports our innovative Shared-Value business model and allows us to create an integrated experience for our clients across all platforms.



### Highlights



Launch of Discovery Bank – providing a **world-class digital banking experience**



Achieved **1.5 million** client mark with Vitality1



Launch of the new **Discovery Data Science platform**

### Our key performance indicators

We use a range of metrics to monitor and measure the following internal key performance indicators to ensure technology supports the strategic ambitions of the Group:

- **Successful contribution to business and product launches**

- **Efficiency in service operations**


- **Management of cyber and business continuity risks**

Our enabler reviews / Technology *continued*

## Driving a strategic approach

Our technology strategy is focused on six strategic outcomes, namely: seamless data collection; direct integration with partners; engagement and behaviour change; frictionless onboarding and underwriting; dynamic incentives and advice; and excellent service and retention.

Our approach seeks to consistently drive synergies between the data we collect, the processes we embark on and our employee, client and intermediary experiences. This elevates the delivery of technology beyond superficial interfaces to facilitate deep integration into operational systems, processes and data in support of our composite strategy.

 For more information on our composite strategy, please see page 26

## Leveraging technology across the Group

Discovery leverages information generated from Machine Learning (ML), Artificial Intelligence (AI) and the Internet of Things (IoT) to innovate, create new products, and enable insights into the nature of risk and behavioural change.

Recently, we have seen an increasing transition to the era of the Quantified Self – the cultural phenomenon of self-knowledge through self-tracking, which is made possible through, among others, the widespread adoption and use of wearable fitness trackers such as Fitbit and Apple Watch. With an established track record in

digital innovation, Discovery is well-positioned to embrace this new era. We aim to enhance the safety, health and wellbeing of our clients through the trust they place in us to use their data responsibly and efficiently – facilitating the best outcomes for every individual.


We use ML in our Data Science Lab where indices covering fraud, service experience, product innovation and marketing have been developed to position the Group at the cutting edge of global innovation in insurance and behavioural change. In our partner markets, we make use of cloud computing to enable the rapid deployment of new technologies, which has helped to secure our growth in these regions.


During the year, we launched the new Discovery Data Science platform, which we use to inform critical member sentiment analysis, fraud detection, next best action and a variety of other data science indexes, further establishing Discovery's credentials as a global leader in the use of data to enhance health and health insurance outcomes, multi-dimensional member wellness and driving, investment and life assurance behaviour change.

AI is the foundation for innovation in facial recognition technology used for onboarding clients to Discovery Bank, operational innovations through natural language processing, as well as optical character recognition. We also launched the Discovery Virtual Agent, a self-service tool for clients that interprets and responds to product and Vitality-related questions, and Robotic Process Automation, a form of business process automation.

The IoT underpins our approach to improving the health of our members through wearable devices and increasingly sophisticated Vitality Health Checks, as well as improving driving behaviour through Vitality Drive.


### During the reporting year, we have made significant technology investments to improve our operations in the following areas of our business:

 **Discovery Health**  
We are currently rewriting our core systems to continue to drive down the costs of administering health insurance.

 **Discovery Bank**  
We deployed systems to launch the bank and enable future management of risk and growth.

 **Discovery Invest**  
We implemented a new system to enter the employee benefits market.

 **Discovery Insure**  
We significantly enhanced our systems to support entering the commercial insurance market.

 **Discovery**  
We made investments in our major technology channels for the benefit of our existing clients and intermediaries across the Group to streamline costs and enhance experiences.

## Governing technology and related risks

Technology is governed in accordance with the Discovery Information Technology Governance Charter, which guides the structure and mandate of technology within the Group and is aligned to the requirements of the Board Sub-committees, King IV™, assurance providers and regulators. Specific focus areas of the Charter include cybersecurity, data governance, business continuity, financial management, technology architecture and operations. In addition, we have introduced executive and board oversight to monitor our compliance with the standards of the European General Data Protection Regulation (GDPR) and Protection of Personal Information (POPI) Act in South Africa.

Discovery makes use of the NIST Cybersecurity Framework and the ISO27001 Information Security Standard to classify technology risks. Our primary risks relate to the security of data, cyberthreats and cybersecurity, as well as the increasing digitisation of our business.

Moreover, we run the risk of overruns on project timing and costs due to the launch of our integrated and dynamic products and businesses, and we risk technology and skills becoming obsolete as new paradigms open novel ways of designing and implementing technology solutions.

Key challenges also include managing the complexities associated with the composite strategy, including the launch of the Vitality Open (please see page 55 for more information) and Vitality Money (please see



page 80 for more information) and keeping up with the scale and performance demands resulting from the growth in Vitality Group and Vitality1 (please see page 95 for more information).

In response to these risks and challenges, Discovery has allocated substantial resources in the areas of business continuity, cybersecurity and data governance. During the year, we made significant investments into systems and practices that enable robust assurance around data quality, consent, data lineage, data classification and anonymisation. We also increased oversight through the use of external technology experts and our Risk and Compliance Committee of the Board.

We conduct regular internal and external benchmarking and use independent testing and remediation to secure our technology platforms. As new technologies disrupt and challenge the operating landscape, our supplier and talent landscape also continues to evolve and mature. We invest heavily in developing skills to stay ahead of the rapidly changing environment, and we work closely with universities and partners to develop the required skills.

Discovery has a publicly available privacy statement, which sets out how we collect, use, share and otherwise process personal information.



This policy can be accessed at [www.discovery.co.za/corporate/legal](http://www.discovery.co.za/corporate/legal)

**During FY2019 Discovery took the following actions to further strengthen privacy and data security:**

- Appointed external parties to conduct two formal assessments of our privacy and data security environment. One of these assessments was aimed at ethical hacking, while the second conducted a complete policy framework review.

- In August 2018, we instituted compulsory online information security and cyber awareness training for all employees, which includes topics such as data security and privacy-related risks and procedures. We formally track adherence to the required training.

- Reviewed and took out additional cybersecurity insurance cover, including cover for required remedial work by an insurer approved team of experts in the event of a sub-security incident.



**WHERE WE'RE HEADED**

*Looking ahead, we will focus on our core strength of leveraging our expertise in data science. We recently commissioned a second-generation data science platform that will support our continued focus on both the performance and management of data privacy and governance, as well as cybersecurity. We will also focus on the integration of our data science expertise into the operations of our business in a real-time manner, while increasing AI to improve our client experiences.*

# OUR BUSINESS REVIEWS

## DISCOVERY HEALTH



Discovery Health is South Africa’s leading medical scheme administrator and managed care provider, providing services to over 3.5 million lives.

Our mandate remains clear: to provide medical scheme members with access to quality, affordable healthcare on a sustainable basis, while assisting in enhancing the healthcare system for all South Africans.

Discovery Health manages 39% of the total membership of medical schemes in South Africa, including Discovery Health Medical Scheme (DHMS) – South Africa’s largest open medical scheme, which has a 57% share of the open medical scheme market. Despite a challenging economic environment, Discovery Health continued to grow the membership base of DHMS (41 450 net new lives added in CY2018). DHMS also maintained high cover ratios for members and a 27.3% solvency ratio, which is 10% more than the combined reserves of the rest of the open medical scheme market. Discovery Health is active in the management of restricted medical schemes, managing 18 closed medical schemes on behalf of corporate clients, with a combined membership of 700 000 lives, and a 16.5% market share of the restricted scheme market.

### OUR KEY PERFORMANCE INDICATORS

Lives under management exceeded

**3.5** million

Normalised operating profit **increased** by



**10**%

to R3 044 million

New business annualised premium income **increased** by



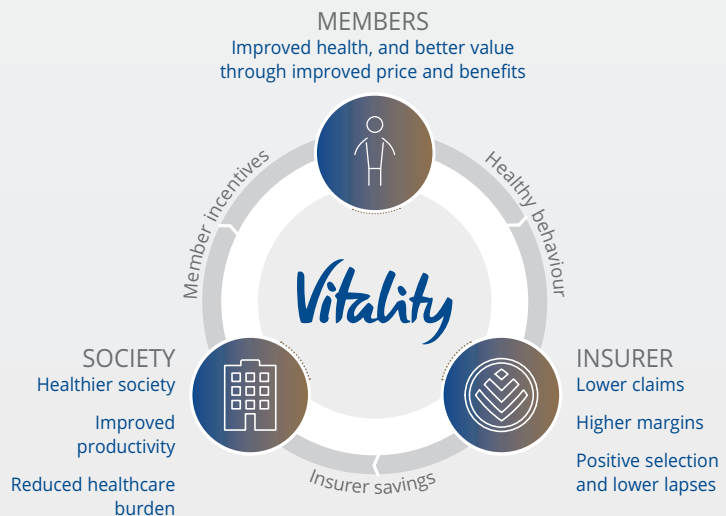
**1**%

to R6 640 million

(excluding take-on of new closed Schemes)

### HOW WE CREATE SHARED VALUE IN DISCOVERY HEALTH

*Make people healthier and live longer*





## OUR STRATEGY

Our strategy is to deliver an integrated, value-driven healthcare system that is centred on meeting members' needs and delivering access to the best quality care at outstanding value for each of our stakeholders and our client medical schemes. We achieve this through a world-leading and pioneering Shared-Value business model that drives best quality of care for patients through encouraging an integrated and multi-disciplinary approach to delivering care; enabling care coordination programmes for better measurement of outcomes and collaboration; setting value-based reimbursement models that reward healthcare professionals for improving patient outcomes; harnessing mobile and digital technology to improve health outcomes; and encouraging people to improve their health through lifestyle interventions.

The model results in Discovery Health delivering continued value to our medical scheme clients and their members: DHMS delivers lower contributions compared with those of competitors (average contributions of DHMS are 16.5% lower than that of competitors on a plan-by-plan basis), and measurable improvements in the quality of care. The success of the model is also demonstrated by high persistency and the sustained strong performance of the schemes under our management. Our investment in advanced technologies is a critical differentiator, driving internal efficiencies and productivity and providing seamless interaction with our key stakeholders, including members and healthcare providers. Moreover, we continue to focus on product innovation to meet diverse and evolving member needs, including extending our product platform into adjacent markets.

## THE KEY MATTERS THAT IMPACTED OUR BUSINESS THIS YEAR

### 01 Claims pressure and managing the impact of medical inflation

High medical inflation remains endemic and poses significant challenges for all stakeholders in the private healthcare sector. Medical inflation (11.1%) far outstripped Consumer Price Inflation (CPI) in the past financial year, and was driven by a combination of factors that include CPI, the increase in VAT, provider tariff increases, and demand- and supply-side factors. Supply-side utilisation (including growth in and use of new hospital facilities, as well as high-cost medicines and devices) increased by 2.2%, while demand-side utilisation (including ongoing adverse selection trends, the increasing burden of chronic diseases and cancer, and the gradual ageing of medical scheme members), increased by 3.7%.

To reduce the impact of high medical inflation on DHMS and our other client schemes, we continue to implement robust risk management, managed care interventions, and provider contracting aimed at reducing waste and improving efficiencies in the system. An example of this is our sophisticated processes for fraud detection and recovery that rely both on tip-offs from the public and medical profession, as well as data analytics models and tools. These interventions resulted in a R469 million saving in 2018 for the Scheme that is channelled back to members through lower annual premium increases. We estimate that, in the absence of these fraud detection and recovery processes over the past 10 years, DHMS premiums would be 13.5% higher than they currently are.

### 02 Ensure superior quality of care for members

Over a number of years, Discovery Health has implemented various initiatives aimed at facilitating care coordination for patients and better flow of information between health professionals throughout the healthcare system. This is done through care coordination programmes that encourage greater collaboration and sharing of knowledge as well as better measurement, all of which will assist in improving quality of care and reducing healthcare costs over the long term.

One of our most recent programmes is the Hip and Knee Arthroplasty Network that provides members with access to centres of excellence for hip and knee arthroplasties. Through the network, members have full cover when the procedure is done in the network, and more importantly, defined care pathways ensure pre- and post-surgery education for members and clinical outcomes that are measured on an ongoing basis. To date, the network has 92 centres of excellence with 121 surgeons participating.

Our business reviews / Discovery Health *continued*

### 03 Manage a complex regulatory environment

We operate in an increasingly complex regulatory environment in terms of the healthcare industry in South Africa. Key regulatory areas include the Health Market Inquiry and the National Health Insurance Bill which was published in August 2019 and is now in the Parliamentary process.

We are committed to building a better healthcare system in South Africa by collaborating with all industry stakeholders, including various regulators and industry bodies. As such, during 2019, we continued to proactively engage with all relevant parties. This entailed making detailed submissions to the respective regulatory bodies and participating in stakeholder engagement forums regarding their implications.

Discovery Health recognises the deep inequalities in our current healthcare system, and for this reason, we support the drive towards ensuring that all South Africans have access to quality health services based on need rather than affordability. We therefore support an NHI that assists in strengthening and improving the healthcare system for all South Africans.

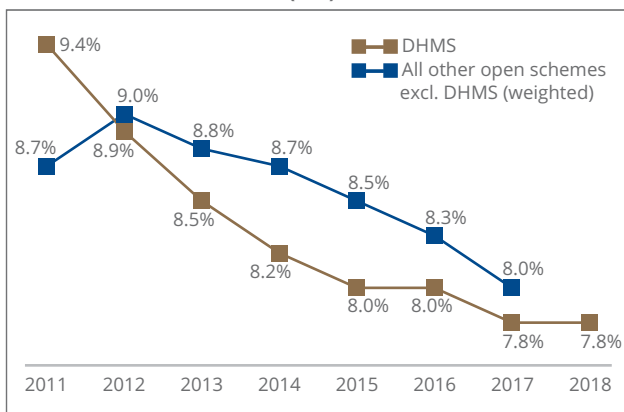
We also believe that the publication of the NHI Bill creates a very important opportunity for active collaboration between the Department of Health and the private healthcare sector, to ensure that the assets, skills and experience available in the private healthcare system are maximally leveraged to ensure the success of the NHI roll-out.

We do not envisage any material impact on the medical scheme administration business of Discovery Health for the foreseeable future. The roll out of the NHI is expected to take place over an extended period, and will be constrained by the current fiscal position. In addition, the Bill remains open to interpretation regarding its impact on medical schemes, and we expect medical schemes to continue operating alongside the NHI. In our view, once fully emerged, the NHI will create additional opportunities for medical schemes to innovate in their products and for the development of new health insurance products outside of the medical scheme environment.



## 04 Become the lowest cost medical scheme administrator in South Africa

Decreasing real administration fees as % of Gross Contribution Income (GCI) over time



To achieve our strategic objective of becoming the lowest-cost administrator, we continue to invest substantially in cutting-edge technologies, digital innovation, data science and artificial intelligence capabilities and systems, which will improve operational efficiency and service levels. This year alone, we have invested R156 million in new technologies aimed at improving customer service and operational efficiencies.

An example of this is our Affinity Matching algorithm, which has been proven to positively influence the service experience of members by matching them with the best agent based on a number of factors. Since launching this technology, we have seen our member satisfaction score improve by 8.9% to 8.94% and first call resolution increase from 80% to 82%.

A second example is our Email Sentiment Scoring algorithm, which reads all incoming emails from members (over 35 000 per day of which 23 000 relate to Discovery Health) and detects those members who are frustrated or upset with Discovery Health. These emails are then immediately routed to a dedicated team of specialised agents who are able to resolve the issues impacting these members within a few hours. The feedback from these members has been excellent, with an average feedback score of 9/10.

We also aim to build a world-class claims and administration platform. Since 2015, we have spent over R224 million on our Discovery Health platform, which processes more than 200 000 claims every day – of which 98% are auto-adjudicated.



Our business reviews / Discovery Health *continued*

## 05 Broadening of our product offering by growing adjacent markets

We operate beyond traditional administration and managed-care services, providing ongoing product innovation to meet real needs. In this endeavour, we use our sophisticated data analytics capabilities to support a

data-driven approach to innovation, enabling seamless client journeys within a personalised and integrated healthcare system. Key product innovations that contribute to broadening our product set to meet wider needs include:

### PRIMARYCARE

It is our social mandate to ensure that quality healthcare cover is affordable for as many people as possible. Discovery PrimaryCare is a product offering aimed at supporting universal health coverage within a sustainable healthcare system, by tapping into the potential for employers to extend quality healthcare to their lower-income employees.

### GAP COVER

As part of our strategic objective to strengthen our product offering and distribution, Discovery combined its insurance and healthcare expertise to create an innovative and cost-effective product that provides additional financial protection against unforeseen medical costs.

### CORPORATE HEALTH SOLUTIONS

We aim to be the provider of integrated healthcare solutions to corporate clients to assist them in increasing access to healthcare and supporting the overall wellbeing of their employees. Our HealthyCompany offering provides employers with a proactive corporate wellness programme that supports employees on their wellness journey. With a strong emphasis on preventive measures, early health screenings and giving employees access to information on their health status, HealthyCompany supports the health of employees while giving employers valuable information on the overall health and wellbeing of their workforce.



For more detailed information on Discovery Health's efforts to broaden access to healthcare, please see our online **Sustainable Development Report**

### WHERE WE'RE HEADED

*Despite a challenging operating context, Discovery Health and our client medical schemes are in a robust position. This is largely as a result of our Shared-Value business model that continues to deliver effective, value-based healthcare innovations, as well as services and products of a consistently high standard while managing costs. It is also a result of the strong, independent Boards of Trustees of all of our client schemes, and the robust governance structures and processes in place at each scheme.*

In the year ahead we will continue to focus on improving service quality and efficiency through optimised member journeys, and the deployment of robotic process automation and artificial intelligence applications, to further develop the integrated digital platform to enhance interaction and engagement.

We will also continue to engage with all regulators on critical developments in the healthcare system to support the development of an integrated system that focuses on value and quality of care.

# OUR BUSINESS REVIEWS DISCOVERY LIFE

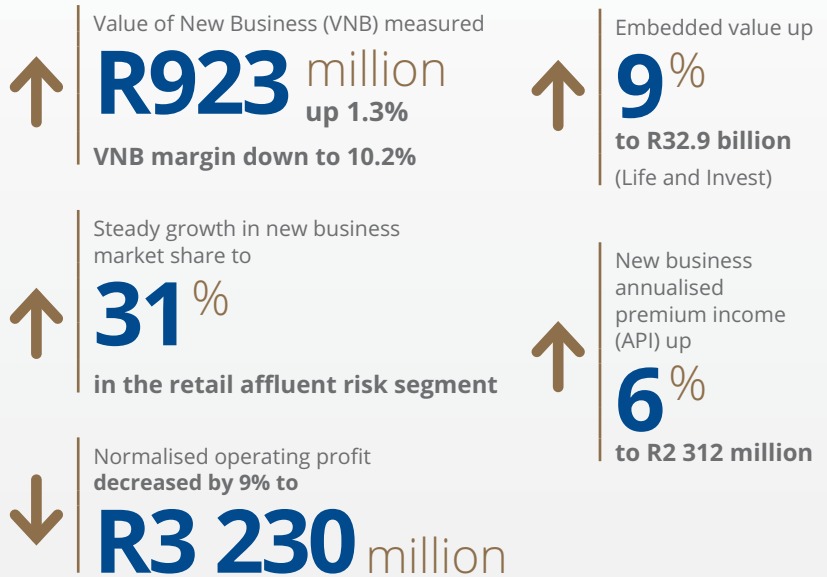


Discovery Life provides individual and business clients with comprehensive life, capital disability, income protection, severe illness, funeral and other risk protection cover.

The South African life insurance industry is highly penetrated and in this context, Discovery has used its Shared-Value business model and product innovation to increase its new business market share of the South African intermediated retail affluent protection market, to 31%. The business has more than 400 000 individual policyholders and over 530 000 group life lives.

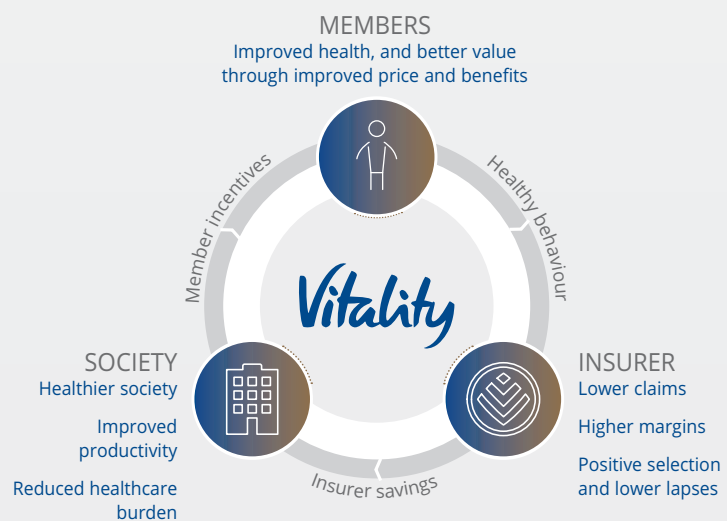
Over the years, Discovery Life has introduced many industry-leading innovations. We were the first insurer in South Africa to separate risk from investment products, and the first insurer to implement dynamic underwriting to more accurately price life insurance in line with the fluctuating nature of risk. Another key innovation is Discovery Life's Payback benefit, which returns to clients a percentage of their premium based on their Vitality engagement (over R5 billion cumulatively as at the end of June 2019).

## OUR KEY PERFORMANCE INDICATORS



## HOW WE CREATE SHARED VALUE IN DISCOVERY LIFE

*Make people healthier and live longer*



Our business reviews / Discovery Life *continued*

**OUR STRATEGY**

Discovery Life has a deep focus on innovation and adheres to a six-monthly launch cycle to ensure continuous product development. Our Bank integrator product was launched in September 2018, and gives clients up to 15% upfront discount on their Life premiums based on their Discovery Bank account and Vitality Money status.

We enhanced the LifeTime Capital Disability benefit which boosts disability pay-outs to provide access to expensive, cutting-edge medical technology such as prostheses, wheelchairs and exoskeletons. A Child Protector Benefit was also introduced, which covers children for a wide range of events, including severe illnesses (with Global Treatment Benefit), disabilities, sports injuries and traumas.

A cornerstone of our strategy is to attract high-calibre financial advisers in all channels. This is evidenced by the fact that Discovery Life's advisers are on average 3.8 times more productive than the market average as measured by the average monthly production per adviser.



Refer to **page 41** for further discussion of the embedded value of Discovery Life under our Key Stakeholder Matters

**THE KEY MATTERS THAT IMPACTED OUR BUSINESS THIS YEAR**

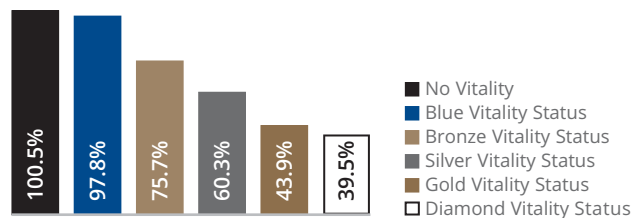
**01 Addressing a tough economic environment through product innovation and integration with Vitality**

Disability claims tend to increase when the economy is under strain. This trend is as a result of financial stress due to job losses and an increase in the cost of living which leads to mental and physical illness. In addition, lapse rates trend upwards in tough economic climates due to affordability constraints.

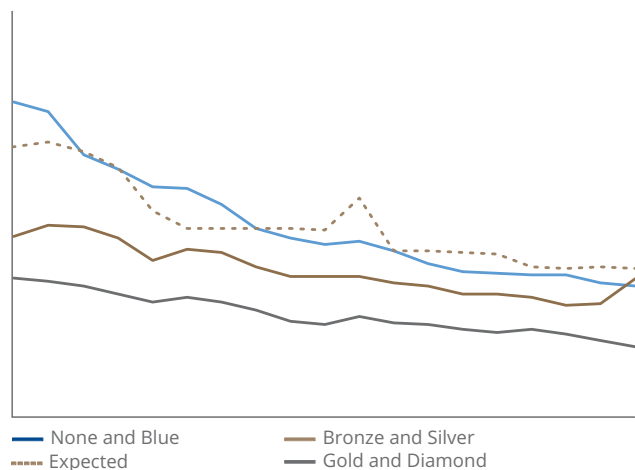
Despite the tough macroeconomic environment, Discovery Life's product innovation and engagement with Vitality has translated into relatively strong new business growth for individual life products, as well as better than expected lapse experience on a policy count basis.

**Vitality engagement results in lower lapse rates**

A/E Lapse rate % by Vitality status



**Lapse experience by Vitality status and across various durations**

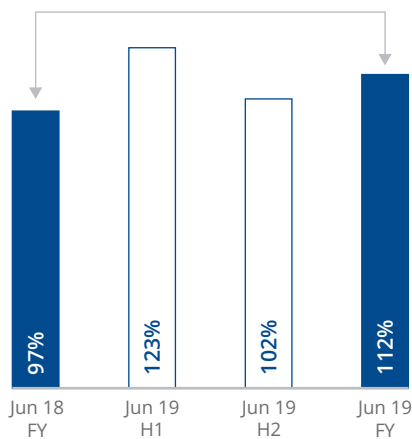




## 02 Mortality claims volatility due to large claims

Discovery Life experienced a spike in high-value mortality claims during the first half of 2019. The claims experience, however, did not exhibit any material trends. In order to reduce the impact of volatility going forward, we altered our reinsurance structures and agreements to ameliorate large mortality claims volatility. In the second half of 2019, mortality claims reduced to 102% of expected, net of reinsurance.

Spike in mortality experience (A/E)



## 03 Using technology to advance our business model

Advanced analytics and artificial intelligence are essential enablers of our Shared-Value business model, not only enhancing our offering to our clients, but also improving internal efficiencies and lowering costs. For example, a proprietary fraud identification system has been developed that uses a combination of internal and external data to identify potentially fraudulent claims.

### WHERE WE'RE HEADED

*Looking ahead, we anticipate market pressures to continue due to stagnant GDP growth. However, we remain focused on increasing our market share by focusing on expanding our distribution force through the agency and independent financial adviser channels.*

Our focus for the year ahead will be to create sustainable and positive experience variances through product changes and the strengthening of our actuarial basis assumptions at 30 June 2019, as well as implementing targeted operational and risk management interventions. We anticipate that product leadership will drive new business while also refining the implementation of our Shared-Value business model. The integration of Discovery Life with all business units within the Group is expected to unlock growth opportunities and improve outcomes.



# OUR BUSINESS REVIEWS DISCOVERY INVEST



Discovery's approach to retirement income provision is unique in today's investment market.

Looking at the retirement landscape, less than 6% of South Africans can retire comfortably, leaving over 90% with a significant retirement funding shortfall. This results in individuals being unable to maintain their levels of living in retirement or, in many cases, leads to over-reliance on family or dependence on the state.

Exacerbating this shortfall is the rise in average life expectancies as a result of continuous advancements in medical technology, as well as increased access to healthcare. People are therefore spending a larger portion of their lives in retirement. Furthermore, as people get older, they often become sick more frequently and for longer periods of time, necessitating higher levels of retirement provision.

Given this context, it is clear that an innovative model is needed to address the issues inherent to retirement planning – one that takes into account the trends in longevity, as well as the level of health and wellness specific to the individual.

We believe that rewarding people for saving more, earlier and for longer, as well as withdrawing income wisely, is key to enhancing their retirement outcomes. Furthermore, the actuarial dynamics that result from this behavioural approach manifest in above-market long-term outcomes for clients and sustainable profitability for Discovery Invest, as well as having a positive impact in closing the retirement savings gap at hand.

## OUR KEY PERFORMANCE INDICATORS

Net inflows amounted to

**R8.4**  
billion

Assets under administration

↑ **+12% to**  
**R91.6**  
billion

New business API

↑ **+6% to**  
**R2 604**  
million

Normalised operating profit

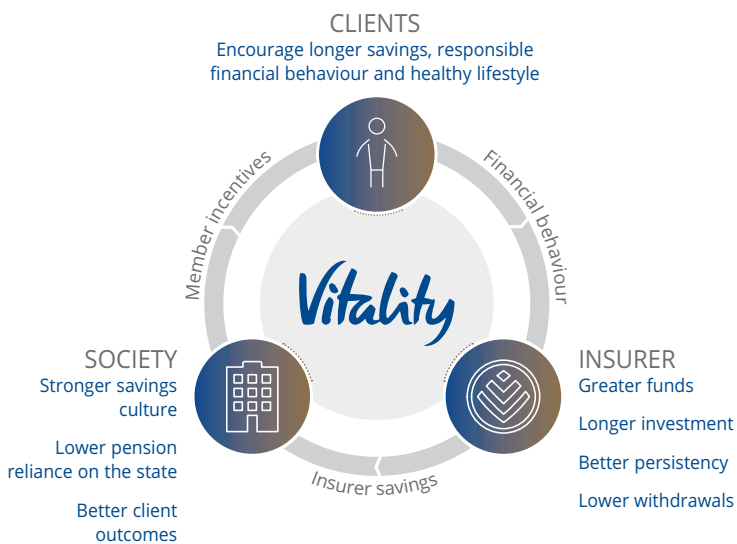
↑ **+9% to**  
**R966**  
million

Discovery Life Collective Investment Scheme in the

**TOP 5**  
retail flow takers

HOW WE CREATE SHARED VALUE IN **DISCOVERY INVEST**

*Make people better prepared for retirement*



**OUR STRATEGY**

With our Shared-Value business model as our foundation, our strategic focus rests on closing the retirement funding gap. To support this, Discovery Invest focuses on ongoing product innovation and design that results in improved client value, which is underpinned by strong asset management.

Discovery Invest remains competitive in an ever-evolving digital context by continually expanding the range of tools and systems we use for the convenience of our financial advisers and clients. Moreover, we focus on ensuring exceptional service with fully-automated functionality, with the understanding that this increases client-centricity while lowering operating costs.



Our business reviews / Discovery Invest *continued*

## THE KEY MATTERS THAT IMPACTED OUR BUSINESS THIS YEAR

### 01 Innovative solutions, underpinned by strong asset management, that meet client needs in a constrained market

Despite local and global headwinds, Discovery Invest saw reduced lapse rates, driven by innovative offerings linked to positive behaviour change, as well as strong asset management, which produced much-needed value offerings for our clients in a difficult economy.

In the year to June 2019, the Association for Savings and Investment South Africa (ASISA) ranked Discovery Invest's unit trusts as the fourth highest net retail flow taker in the collective investment scheme (CIS) industry, evidencing our robust asset growth. The ranking was mainly supported by the Discovery Balanced Fund, which attracted the second highest net flows in the South African multi-asset, high-equity sector and was the twelfth highest flow taker of all CIS funds (excluding money markets).

The Discovery Balanced Fund range, which also represents the largest percentage of assets under management, has performed particularly well, ranking in the top quartile of the high, medium and low equity retail fund sectors respectively.

**DISCOVERY BALANCED FUND** was in the **top quartile performers** for three, five, and 10 years

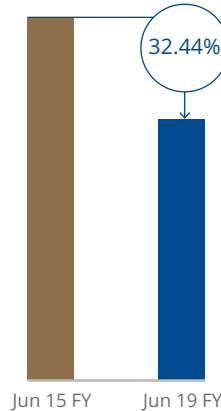
**DISCOVERY MODERATE BALANCED FUND** was in the **top quartile performers** for three and five years

**DISCOVERY CAUTIOUS BALANCED FUND** was in the **top quartile performers** for one, three and five years

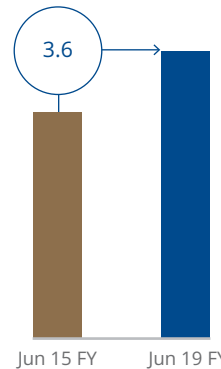
In addition, Discovery Invest ranked as one of the top five unit trust managers in the country as rated by the PlexCrown Survey – a well-recognised retail unit trust fund rating agency.

These, along with other key metrics such as 78.8% of linked funds in Discovery funds, continue to confirm the success of the Shared-Value business model.

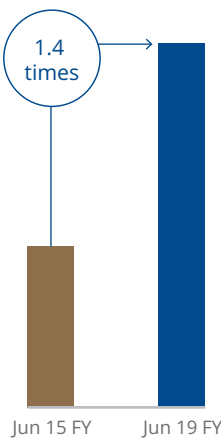
Reduced lapses



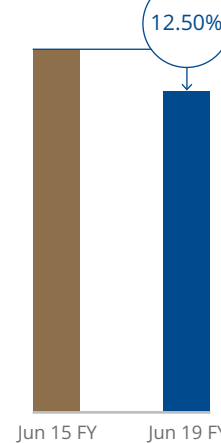
Longer terms to retirement (years)



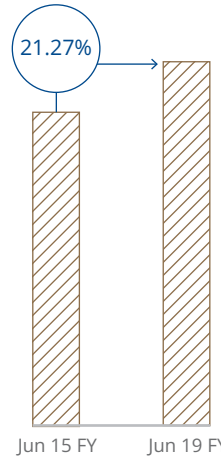
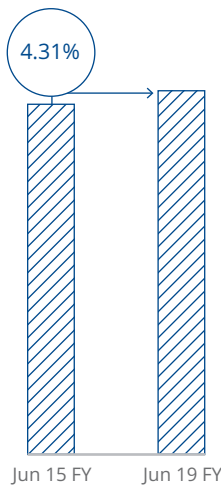
Higher savings rates



Lower income drawdowns



Healthier clients



■ Bronze and Silver  
 □ Gold and Diamond



## 02 Delivering on our Umbrella Funds business

Recognising the opportunity to extend our offerings to employers who currently make use of our Group Risk products, and following the success of our Shared-Value approach with our individual investment products, we extended this offering to corporates in the form of our Umbrella Fund business.

To date, the Umbrella Funds have been well received with a pleasing pipeline of new

business. To support the business, we acquired state-of-the-art technology and, given the inherent complexity of this, have taken the necessary time to ensure that it supports sustainable scalability going forward. With this initial phase of the business now complete, our Umbrella Funds are positioned for significant growth in future.



## 03 Leveraging technology to gain a competitive advantage

We have taken significant leaps forward in line with our digital automation strategy, for our clients and financial advisers experience in terms of new business and ongoing servicing. This has included providing the advice tools required by our financial advisers to guide clients through our product offering.

Examples of technological innovations include our risk profiling tools that help map and manage client risks.

Our retirement modeller provides a personalised view of an investor's savings requirement by taking into account their personal wellness to maximise their retirement outcome. While digital enhancements continue, we will focus on increasing usability and updating views in each of our applications to enhance the user experience.

### WHERE WE'RE HEADED

*Discovery Invest is well positioned going forward. We believe that the investments made in digital capabilities will bear fruit in reducing operational costs and improving customer satisfaction. Furthermore, we anticipate that the synergies between the Umbrella Funds and other Discovery Invest products will increase over time, unlocking significant value for the business and our clients.*

In the year ahead, we will continue exploring ways to add value to our clients through innovative products and services while continuing to share value and benefit across broader society.

# OUR BUSINESS REVIEWS DISCOVERY INSURE



Discovery Insure provides personal (motor, building, household content and portable possession) and commercial short-term insurance using innovative technology to cover our clients against modern and emerging insurance risks.

South Africa's road death toll has been confirmed a 'national crisis' with almost 135 000 people killed in road crashes over the past decade. Research shows that more than 90% of accidents are as a result of driver error. Discovery Insure introduced our driver behaviour programme, Vitality Drive, to address this challenge on South African roads and create a nation of safe drivers.

## OUR KEY PERFORMANCE INDICATORS

Gross written premium earned  
**+18% to R3 211** million  
(excl. Commercial)

Gross new business annualised premium income  
**-1% to R1 041** million  
(excl. Commercial)

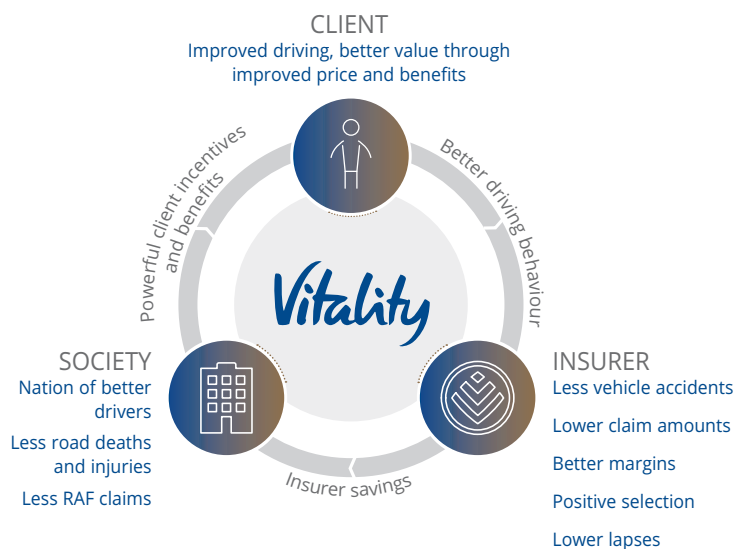
**95%**  
Combined ratio is favourable and within budget and **trending towards our long-term target**

Normalised operating profit increased by  
**+128% to R155** million  
(excl. Commercial)



## HOW WE CREATE SHARED VALUE IN **DISCOVERY INSURE**

*Make people better drivers and have fewer road accidents*



### OUR STRATEGY

Discovery Insure's strategy is to increase our scale as a top personal lines insurer in terms of market share and profitability and grow our commercial insurance operation (Discovery Business Insurance, launched in May 2018). This is underpinned by a diverse distribution strategy and effective use of technology and digital innovation, and supported by a brand position that reflects the innovative culture of the business.

Another key focus area is to expand into adjacencies such as the car rental business through AVIS SafeDrive as well as globally through insurance partnerships.

## THE **KEY MATTERS** THAT IMPACTED OUR BUSINESS THIS YEAR

### 01 **Challenging economic context**

The 2019 financial year saw many short-term insurers making aggressive moves to grow or retain clients as economic pressures continued to force clients to buy-down or relinquish their insurance policies altogether. Reduced growth in premium income was experienced as a result of the value of assets insured not increasing, clients not purchasing new assets or not replacing existing assets. This is evident from the increase in the average age of vehicles insured.

Given this context, Discovery Insure continues to focus on innovation to create more value. By leveraging our technology capabilities, along with a high-touch service and market-leading benefits, we aim to enhance client experience and improve efficiencies. The business continues to invest in operational efficiencies in both our personal lines (consumer) and commercial business lines, thereby enhancing the client experience and entrenching customer loyalty while reducing the cost to service our clients.

### 02 **Promoting client engagement to mitigate lapse risk**

Increasingly, Vitality Drive engagement is a significant lever to reduce lapse risk. At the same time, these engaged clients have a significantly lower loss ratio. Therefore, during the year, we focused on increasing Vitality Drive engagement to mitigate lapse risk. For existing clients, call centre agents contacted unengaged clients to

encourage engagement by ensuring that they clearly understood the benefits available to them and how to access them. Furthermore, as part of the onboarding process, new clients receive focused and enhanced communications to encourage them to "install, link and swipe" – a campaign to encourage benefit take-up and usage.

Our business reviews / Discovery Insure *continued*

## 03 Growing new business

The short-term insurance environment is characterised by a delicate balancing act between growth and profitability. Our energy is focused on increasing new business sales for both personal and commercial lines while ensuring a sustainable and profitable business. Through the use of our technology, we are able to gather data and analyse it in a manner that allows us to identify targeted sales opportunities, linked to specific market segments, which are likely to increase embedded value per lead.

For personal lines, new business growth (even though off a high base) was impacted by the removal of discretionary discounts allowed to select advisers. This was in cases where these discounts were excessively applied with risk-placement decisions being made solely on price rather than the value and benefits offered to clients. Relationships with advisers operating through price-comparison platforms, where decisions are based solely on pricing, were also curtailed.

In response, we reinforced the value of our product offering to clients and advisers beyond that offered by most competitors. We focused on promoting our unique offerings, such as Vitality Drive, comprehensive policy cover, as well as technology-driven claims and servicing channels.

We are also introducing Drive Your Discount, where drivers are able to measure their driving behaviour using our unique technology. Through this trial, good drivers are able to receive an upfront discount on their quoted car insurance premium, based on how well they drive.

During the first six months of our commercial insurance business, we experienced a major influx of quotes requested from the market, testing the robustness of Discovery Business Insurance's offering. This affected the quote turnaround times (TAT) resulting in higher than anticipated temporary staff costs being incurred to manage the influx. As a result, we are continuously optimising our IT systems to reduce our quote TAT.

## 04 Technology and digital innovation

We enhanced our collaboration with Cambridge Mobile Telematics (CMT) to continue innovating on the smartphone telematics platform. In addition, key features and processes were added to support Discovery Insure's CrowdSearch stolen vehicle recovery rollout.



### WHERE WE'RE HEADED

*Going forward, Discovery Insure will continue to encourage the creation of a nation of good drivers and build better businesses by helping our clients better manage their risks.*

Discovery Insure is optimally geared for a successful 2020, where we expect to continue growing our inforce book, revenue and profitability while demonstrating financial prudence in the management of capital. Furthermore, through innovation, we will provide our clients with market-leading benefits. We also expect to increase client engagement on Vitality Drive, thereby reducing lapses.

Our commercial insurance operations will focus on growing the number of supporting financial advisers as they get more familiar with the unique and key differentiating features of our offering. We will also focus on further improving our quote turnaround time.

Finally, we will continue to explore the opportunity to extend our model into international markets as an extension of the Discovery composite strategy.



# OUR BUSINESS REVIEWS DISCOVERY BANK



The launch of Discovery Bank comes at a critical time for South Africa. South Africans continue to be big borrowers and poor savers, and as a result, a large number of South Africans are significantly exposed to both short- and long-term financial risk.

Reducing indebtedness and creating a savings culture in South Africa are significant socio-economic challenges facing both individuals and society as a whole.

To address this societal challenge, we aim to apply our Shared-Value business model to banking to introduce the category of behavioural banking to the market. The behavioural banking model incentivises and guides clients to manage their money better because as they do, they present a lower risk to the banking system, with lower chances of financial default. This creates economic value for the Bank, which is used to give clients better rates of interest on savings, lower rates of interest on debt, and greater rewards for managing their money better. This creates a virtuous cycle that aligns the interest of the Bank with those of its clients. Through this behavioural banking model, Discovery Bank is able to offer clients significantly better interest rates and more valuable rewards.

## OUR KEY PERFORMANCE INDICATORS\*

Over  
**22 000**  
clients

Over  
**50 000**  
accounts

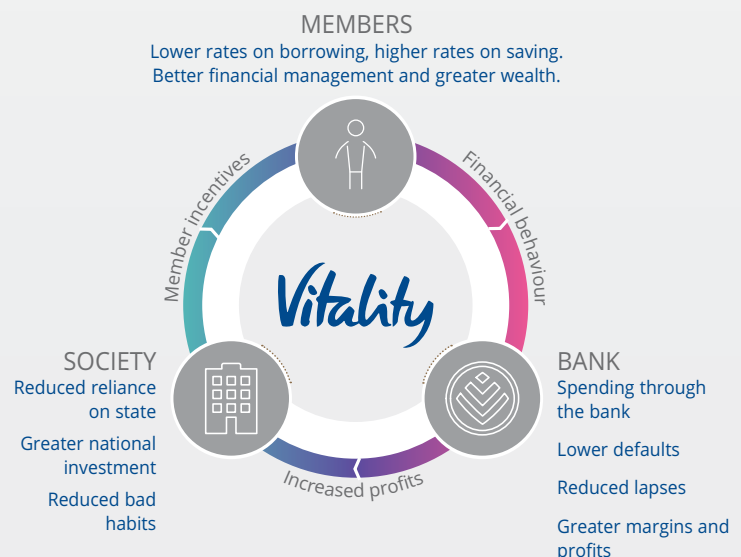
Retail deposits of  
**R193**  
million

Total credit facilities  
**R900**  
million

\* Data extracted as at 3 September 2019.

## HOW WE CREATE SHARED VALUE IN DISCOVERY BANK

*Behavioural banking helps people manage their finances better*



Discovery Bank encourages people to objectively assess their financial situation and make the necessary changes using financial tools. Our model also reinforces these healthier banking behaviours through Vitality Money, using dynamic interest rates and attractive rewards from a network of partners. Discovery Bank can be integrated with other Discovery products, resulting in more affordable life insurance, faster growing investments, smarter insurance and convenient health payments.

Our business reviews / Discovery Bank *continued*

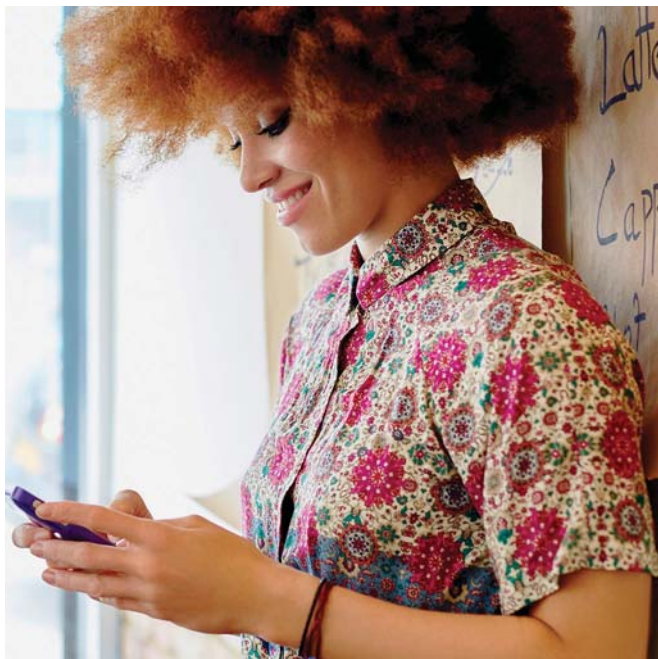
## OUR STRATEGY

Our strategic ambition is to create a deposit-led, mobile-first bank that provides clients with sophisticated banking capabilities from the get-go through a branchless structure. In this way, we create a consumer experience that is intuitive and entirely mobile.

## THE KEY MATTERS THAT IMPACTED OUR BUSINESS THIS YEAR

### 01 Launching the world's first behavioural bank

While Discovery Bank's launch was successfully completed during the year, the early onboarding phase – limited to 1 000 clients – was longer than planned. The costs incurred in the build, test and run phases of the Bank have largely been in line with expectation. This was as a result of the complexity involved in the systems build, bringing together traditional bank and digital system capabilities with Vitality incentive and Discovery Health systems. Given these factors, as well as our commitment to delivering an excellent offering, we ensured that the necessary time was taken to deliver a seamless and world-class digital banking experience – which we believe we have achieved. During the year, emphasis was placed on ensuring efficient card migration and optimal retail funding strategies, as well as the prudent management of client take-on volumes to mitigate risks.



### 02 Developing a fit-for-purpose behavioural banking architecture

Vitality Money is Discovery Bank's industry-first behavioural banking chassis, whereby interest rates on savings and borrowings are directly linked to clients' financial behaviour. As clients engage, they can improve their Vitality Money status. The higher their status, the better their rewards. Rewards include dynamic interest rates, boosted Vitality Rewards from Vitality partners and Active Rewards.

A critical development to the behavioural banking architecture is the transition of Discovery Miles to a universal rewards currency. Prior to the transition, Discovery Miles existed on the old DiscoveryCard structure. A key learning from the early onboarding phase was the importance of integrating Discovery Miles as a rewards currency into Discovery Bank's Rewards offering.

New products are being added and existing ones enhanced while operations and services are continually streamlined to enhance our clients' experience. Products such as Discovery Pay have been added to process payments to contacts, clients who have an Apple Watch can integrate the app, among ongoing additions to the Discovery Bank offering. Our aim is to ensure ongoing innovation and enhanced client experiences.

#### WHERE WE'RE HEADED

*The insights gained from our rigorous early onboarding phase have put us in a strong position to deliver a uniquely disruptive behavioural bank, off a robust banking platform.*

During the year ahead, we will focus on scaling up client volumes and successfully completing the DiscoveryCard migration. Our mid-term goal is for the onboarding of between 500 000 to 600 000 clients in order for the Bank to achieve our break-even target. Our vision for Discovery Bank, the world's first behavioural bank, is to be South Africa's preferred digital retail bank, delivering mobile-first personalised solutions, while enhancing financial wellness and protection through Discovery's Shared-Value business model.

# OUR BUSINESS REVIEWS

## VITALITY UK



Vitality UK consists of VitalityHealth, VitalityLife and VitalityInvest. Across these businesses, we build on the Vitality behaviour-change platform to enable our Shared-Value business model.

In this way, we aim to strategically develop our composite strategy, where each business silo (Health, Life, Invest) uses the Vitality behaviour-change platform to generate more value for clients. This is achieved through integrating products and client journeys, giving clients more value from their healthcare, life insurance and long-term savings and investment products.



For more information on our Group composite strategy, please see **page 26**

VitalityHealth and VitalityLife are in the  
**TOP 5**  
market leaders  
in the UK

**50%**  
prompted brand  
awareness for  
Vitality UK

New business  
**+10%**  
to **£144 million**  
(**R2 637 million**)

Operating profit  
**+15%**  
to **£73 million**  
(**R1 336 million**)

Lives covered  
**+21%**  
to **1.25 million**

Signatory to **Women  
in Finance Charter**

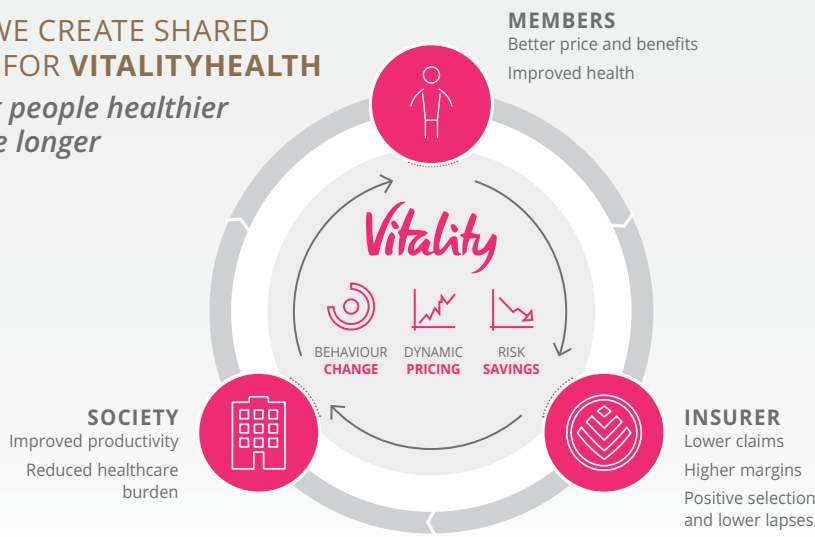
## Vitality HEALTH INSURANCE

VitalityHealth integrates private medical insurance cover with the Vitality behaviour-change platform to offer a unique, comprehensive health and wellbeing solution that focuses on keeping our members healthy and treating them when they are sick. We service individuals, both direct and intermediated, and small- and medium-sized organisations.

VitalityHealth has a 10.5% share of the Private Medical Insurance (PMI) market in the UK. The PMI market is large but static, and the Shared-Value business model is an important differentiator for us to grow in the profitable segments of the market. The benefit of the model is demonstrated by our increased share of both new-to-market individual business and the small SME market.

### HOW WE CREATE SHARED VALUE FOR VITALITYHEALTH

*Making people healthier and live longer*



## OUR STRATEGY

VitalityHealth aims to be the best and most trusted Health InsureTech company in the UK, contributing to a million additional years of life for our members by 2023 through our Shared-Value business model.

We will achieve this by shifting the boundaries of traditional insurance, bringing together the complex areas of healthcare, wellness, behavioural economics and technology.

We have a considered approach to our brand positioning, how members experience both Vitality and delivery of care in our system, and how we engage with our members throughout their policy year. The combined effect of these strategies will assist us in delivering on our 2023 ambition.

### BRAND

#### Brand ambition

Develop an insurance brand that cuts through a low-interest category and that consumers will love.

### ENGAGEMENT

#### Engagement ambition

By having the leading product, incentives and behavioural science model, support members to make positive, lasting changes to their lifestyles.

### EXPERIENCE

#### Experience ambition

Provide our clients with frictionless and intuitive service, delivered through a combination of integrated technologies, seamless processes, and highly-skilled experts.

### CARE PATHWAYS

#### Care ambition

Provide members with high-quality, efficient, doctor-led care that ensures the appropriateness of clinical pathways.

## OUR KEY PERFORMANCE INDICATORS

The VitalityHealth back book generated cash of

**£84 million**  
(R1 539 million)

After new business acquisition costs and investment in developing the business,

**£14.6 million**  
(R267 million)  
of cash surplus was generated.

New business annualised premium income (API) increased by

**15% to**  
**£73.5 million**  
(R1 346 million)

Return on capital increased to

**13%**

Operating profit increased by

**22% to**  
**£41.4 million**  
(R758 million)

reflecting continued strong performance across all business metrics

## THE KEY MATTERS THAT IMPACTED OUR BUSINESS THIS YEAR

### 01 Operating in an uncertain macroeconomic environment

Political uncertainty remained a key theme for the year as the ongoing Brexit debate continued to unfold. The uncertainty has resulted in a slowdown in business investment, but this has yet to manifest in discernible reductions in spend on private medical insurance by either business or consumers. In the SME market, employers are taking a more cautious approach to employee benefits in the current environment,

meaning that fewer SME schemes are switching insurers on renewal. This resulted in slower growth in our SME new business over the year compared to our other markets.

Despite these challenges, the Vitality product and message continued to resonate strongly with consumers, resulting in VitalityHealth achieving record levels of new business during the 2019 financial year.



Our business reviews / VitalityHealth Insurance *continued*

## 02 Technological innovation

The consolidation of our systems and platforms continues to reduce the complexity of our service environment – leading to a number of awards for the quality of our service.

Vitality GP is VitalityHealth's proprietary health-tech primary care asset. It is available to

VitalityHealth members and is the fast, simple entry point to health plans. In a few taps, the app allows members to set up private GP video or telephone consultations; arrange physical and psychological therapy sessions; and find a wide range of trusted health information.

## 03 Leading the way in product offering

There exists a paradox in the UK where higher-earning employees with fewer health risk factors are offered PMI as an employee benefit, while lower-earning employees with elevated levels of risk are not. This creates a disconnect between where the risk lies in an employee population and where health and wellbeing benefits are offered. To address this paradox VitalityHealth introduced two market-first products that provide Vitality to the entire workforce of our clients – Vitality Healthy Workplace in the large group market, and Vitality Health Essentials for SMEs.

Vitality Essentials is a new company-wide health and wellbeing solution that provides employees of our SME clients, who are not covered by PMI, with access to selected benefits of the Vitality Programme and primary care services offered by Vitality GP. This is a market-first innovation that provides a wellness programme to lower-earning employees who are not traditionally offered PMI by their employer. For the employer, it is a way to promote better health and wellbeing across their entire

employee population, driving higher employee engagement, enhanced productivity, and better business performance – therefore delivering shared value for their business and their employees.

Vitality Healthy Workplace is a proposition that provides large employers with a stand-alone health and engagement solution for their entire workforce. This offering takes a holistic approach to employee health, providing a range of tools to help employers understand the physical and mental wellbeing needs of their employees. Vitality Healthy Workplace supports equitable access by providing Vitality benefits to all employees in companies with 1 000 or more employees, even in organisations where VitalityHealth does not provide any medical insurance cover.

Furthermore, the growing awareness around mental health and wellbeing has allowed VitalityHealth to elevate its prevention agenda in the mental health space with the most complete and comprehensive mental health cover in the market.

### WHERE WE'RE HEADED

*We will continue to capture opportunities in our operating environment and expect continued steady financial performance in the year ahead. However, we anticipate that investment returns will remain muted as a result of the low-interest rate environment. This has a negative effect on VitalityHealth's return on statutory capital. Looking ahead, we will prioritise capital efficiency to enhance our return on capital.*

Our focus remains on client retention and claims management, both of which are, to an extent, a function of engagement in Vitality. As such, we will continue to encourage our members to increase their Vitality engagement beyond the record levels achieved during the 2019 financial year. We will also continue to enhance our technical assets and capabilities, particularly those within the digital space, to further streamline and improve our service operations and provide members with flexibility in how they interact with Vitality. Furthermore, we will continue to focus on increasing our traction with new standalone products such as our Vitality Essentials offering (our company-wide health and wellbeing solution).

## Vitality LIFE INSURANCE

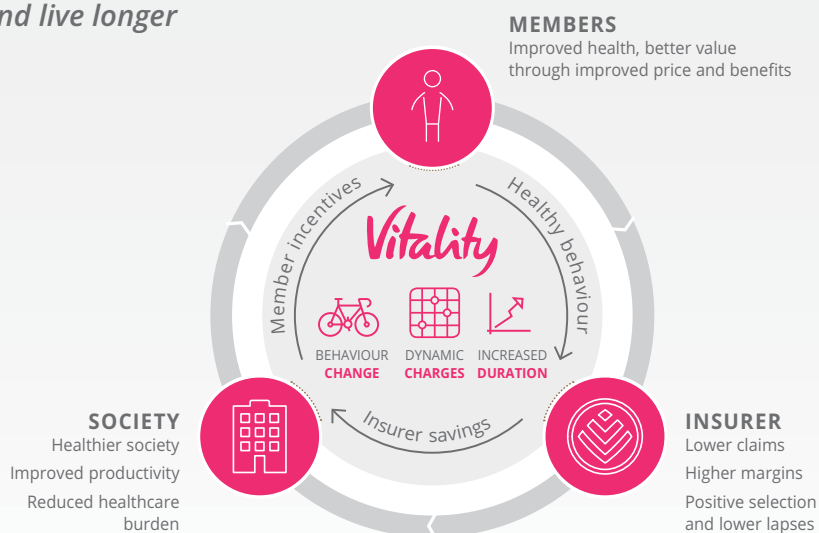
VitalityLife provides individual and business clients with life, capital disability, severe illness and income protection cover.

The majority of life insurance cover in the UK protection market relates to term and critical illness. The environment is becoming

increasingly price competitive and a lack of innovation has led to a commoditised market. Our VitalityLife product and service offerings have evolved based on customer learnings and adaptability to changing market needs.

### HOW WE CREATE SHARED VALUE FOR VITALITYLIFE

*To make people healthier and live longer*



### OUR KEY PERFORMANCE INDICATORS

Operating profit **increased** by **7% to £31.6 million** (R578 million)

New business margin remained at **39%** compared to the previous year

Indexed premium new business mix **increased** from **24% in 2014 to 41%** in 2019

Term assurance new business mix **increased** from **67% in 2014 to 96%** in 2019

### OUR STRATEGY

VitalityLife is differentiated in the UK market through the Vitality behaviour-change platform that integrates wellness seamlessly with our product and service offering, and encourages positive lifestyle changes and healthy behaviours. VitalityLife launched the Dementia and Frailcare Cover, a world-first solution that aims to protect clients against the rising costs of later life care, including those related to degenerative conditions such as Alzheimer's disease and dementia. Current solutions to the ageing population are falling short of the growing need for clients to prepare for the costs of

living with these conditions in later life. Take-up to date has been encouraging.

Our multi-channel distribution force is an area of focus with the majority of sales still being done through financial advisers. The direct-to-consumer channel is, however, becoming increasingly more important.

VitalityLife continues to reconfigure and price its business for a low-interest rate environment with emphasis being placed on ensuring the optimal new business mix (more term and optimised products), given our margin and capital requirements.

## THE KEY MATTERS THAT IMPACTED OUR BUSINESS THIS YEAR

### 01 Operating in a volatile interest rate environment

Sustained political uncertainty around Brexit, contributed to the lowering of interest rates, resulting in short-term margin pressure – with margin levels struggling to reach previous levels (>10% annualised). In the current environment, there are many challenges faced in pricing products appropriately, especially across the “whole-of-life” lines. The VitalityLife portfolio, prior to 2015, was heavily weighted towards “whole-of-life” policies where the policyholder premium rate is fixed and not subject to annual increases in line with inflation. Business depends largely on investment returns as well as policyholder premiums to ensure that adequate reserves are in place for policies.

Lower interest rates therefore negatively impact on the return on investment and result in margin and capital strain.

To mitigate interest rate risk, VitalityLife has focused on

optimising business mix with indexed and optimised products.

Optimised products integrate VitalityLife products with Vitality, enabling clients to benefit from Vitality rewards, including upfront premium discounts, and dynamic pricing according to their Vitality engagement and health. To manage costs in our constrained environment, the business has undertaken an efficiency drive. Several cost efficiencies have been identified by managing the cost base closely.

Another key theme for the business was addressing negative lapse experience variances. To this end, several initiatives have been implemented including distribution and conservation initiatives and a strengthening of the lapse assumptions.

### 02 Finalising the Part VII transfer

In 2004, Discovery and Prudential plc entered into a joint venture and launched PruHealth in the UK and PruProtect in 2007. In 2014, Discovery took full ownership of PruHealth and PruProtect, which were rebranded to VitalityHealth and VitalityLife respectively. The insurance policies that were

written on Prudential's licence are to be transferred to VitalityLife via the Part VII process, which is a court-approved transfer of all or portions of an insurer's portfolio to another company, in compliance with relevant legislation. The transfer is yet to be completed.



### WHERE WE'RE HEADED

*Looking ahead, we remain committed to providing efficient and world-class operational service to our clients, and will continue to integrate Vitality between the businesses in the UK, taking advantage of cross-selling opportunities.*

With this in mind, VitalityLife will focus on improved quality of business by reducing lapses, while increasing top-line growth. We will focus on optimal new business mix, given margins and capital requirements. As with VitalityHealth, we aim to enhance our technical assets and capabilities in the digital space.



## Vitality INVEST

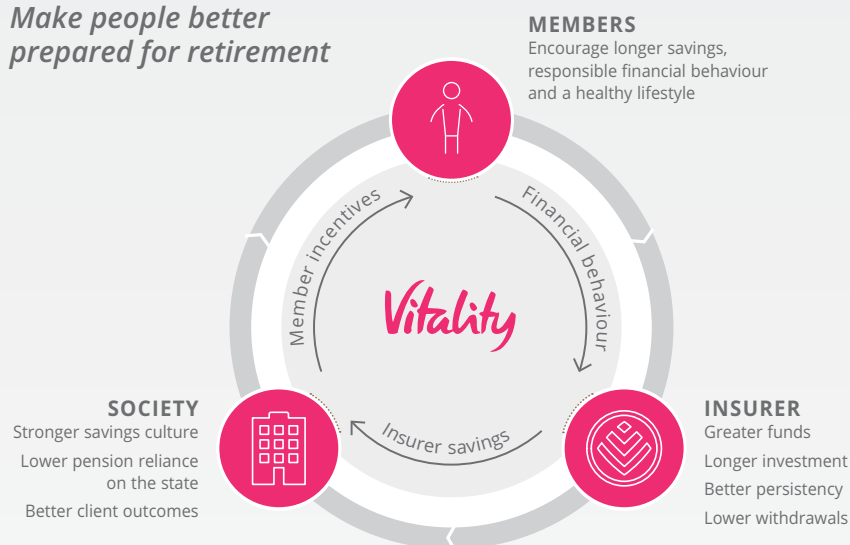
According to the World Health Organization, people are today living longer than before. This significantly impacts the investment market, with current retirement savings not accommodating potentially longer retirement years. The challenge is how to fund a longer retirement, while life

expectancy is increasing due to medical advances and healthier lifestyles.

VitalityInvest offers long-term savings and investment products that combine behavioural economics, savings and wellness, through a more holistic investment offering.

### HOW WE CREATE SHARED VALUE FOR VITALITYINVEST

*Make people better prepared for retirement*



### OUR KEY PERFORMANCE INDICATORS

**277**  
advisers  
have written a VitalityInvest investment case

Increased Vitality UK brand awareness

### OUR STRATEGY

The launch of VitalityInvest represents the next step in our evolution in the UK, and sees the extension of the Shared-Value business model into the long-term savings market, providing a unique competitive advantage. Discounted product charges are offered to clients for maintaining a healthy lifestyle through Vitality engagement. Similarly, clients are rewarded through our Retirement Booster, which boosts retirement savings when they manage their income withdrawals responsibly and engage in healthier lifestyles.

VitalityInvest combines behavioural economics, savings and wellness to incentivise people to save sooner, invest for longer, manage their income drawdown and take steps to look after their health.

Our business reviews / VitalityInvest *continued*

## THE KEY MATTERS THAT IMPACTED OUR BUSINESS THIS YEAR

### 01 Growing our distribution network

We remain exposed to the adviser market, and gaining traction while developing a distribution network to encompass wealth-focused advisers is challenging, given that our differentiated proposition is taking longer than expected to embed in adviser mindsets and processes. This is largely as a result of being a new entrant

in a competitive market with a lack of historic fund performance, and advisers who are part of large wealth broker firms requiring internal compliance sign off which takes time. However, adviser dissatisfaction with incumbents due to a legacy system and performance issues, creates opportunities for VitalityInvest.

### 02 Continued product innovation

We operate in a transactional environment with limited product innovation. The market is ripe for disruption, and we continue to evolve our product offering to adapt to the sales processes of advisers.

Furthermore, we continue to leverage the brand investment from VitalityHealth and VitalityLife to take advantage of integration opportunities with existing customers in the business.



#### WHERE WE'RE HEADED

*We firmly believe in the opportunity to make an impact in the UK retail savings market through our Shared-Value business model. Our main priorities for the next financial year will be increasing adviser engagement and the number of supporting adviser firms, attracting and increasing new business volumes, and positioning our operational processes to deal with higher volumes and product evolution.*

While we are operating in a stable environment, the political and economic outlook remains uncertain with the UK scheduled to depart the European Union on 31 October 2019. Competitive pressures continue to mount, and an increased focus on charges by the Regulator has led to margin compression. We do, however, remain convinced that our unique product proposition will resonate well with UK consumers.



# OUR BUSINESS REVIEWS

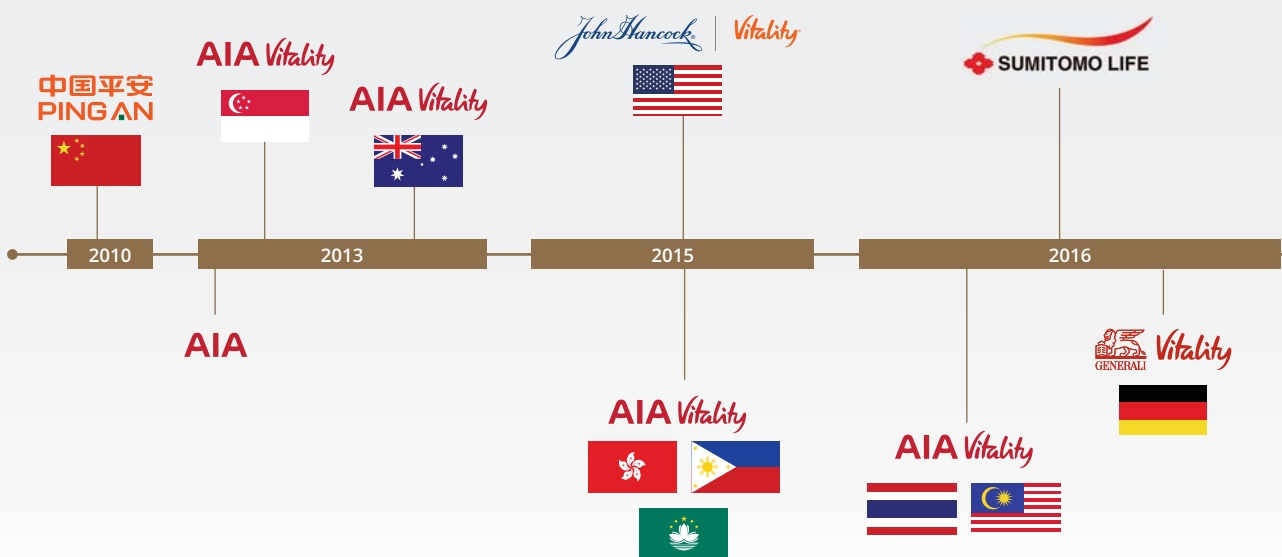
## VITALITY GROUP



Vitality Group is responsible for the expansion of our Shared-Value business model beyond South Africa and the United Kingdom.

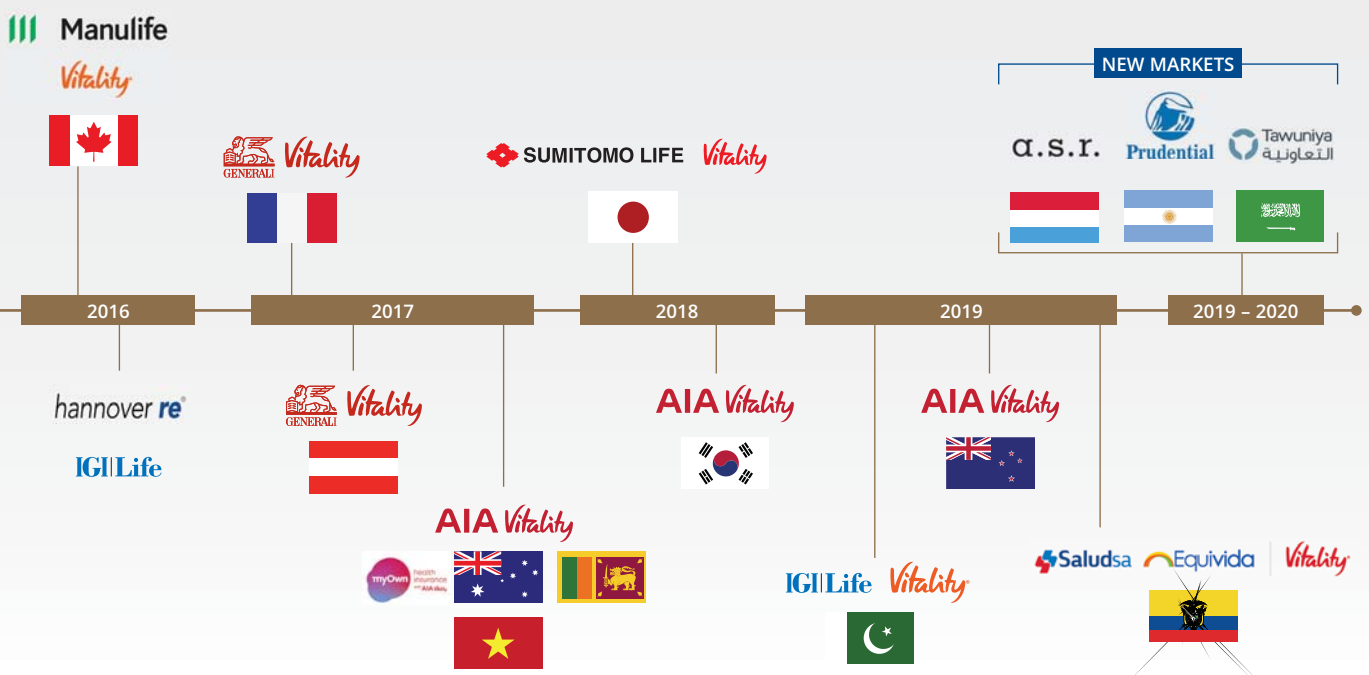
To achieve this, Vitality Group forms partnerships and joint ventures to implement the Shared-Value business model and to lead innovation in the financial services and insurance sectors. Vitality Group also provides wellness solutions to corporate clients and other industries in the USA.

### GROWTH OF VITALITY GROUP FROM 2010 – 2020





Vitality Group currently operates in 20 markets, and is organised into the following three primary profit centres:



Our business reviews / Vitality Group *continued***EQUITY INSURANCE PARTNERSHIPS****PING AN HEALTH****中国平安**  
**PING AN**

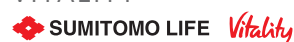
Discovery has a 25% equity stake in Ping An Health. The remaining 75% is held by Chinese insurance group Ping An Group. Discovery equity accounts for its share in Ping An Health and separate commentary is therefore provided.



For more information, please refer to our business review on **page 96**

**MYOWN**

myOwn launched in 2017, and is a joint venture between Discovery, AIA Australia, and GMHBA Ltd (a non-profit Australian private health insurance company). While this business is still in its start-up phase, we are pleased with the progress made to date. Vitality Group is currently testing the model and market, and will use the learnings gathered in this phase of development to scale growth, once the business is more established.

**CONTRACTUAL INSURANCE PARTNERSHIPS****SUMITOMO LIFE VITALITY**

In its inaugural year, the Sumitomo Life Vitality programme has produced pleasing results. Sumitomo Life Vitality sales are far greater than historical sales witnessed in any other market at the same stage of operation – a testament to Vitality's widely successful value proposition and the progress made by Vitality Group in entering new markets.

**AIA VITALITY**

AIA Vitality continues to generate impressive sales of Vitality-integrated products with strong growth in Annualised New Premium and Vitality membership. Most recently, AIA launched Vitality in New Zealand. Initially offered to employees and sales agents, the public launch took place in August 2019. We have continued to deepen and expand our partnership with AIA, with a strong focus on growing the Vitality penetration in existing markets and rolling out Vitality to new high-growth AIA markets. AIA Vitality now operates in eleven markets across Asia-Pacific.

**JOHN HANCOCK AND MANULIFE VITALITY**

John Hancock delivered strong financial performance, writing a significant amount of new business (an increase of 213% from the previous year), while Manulife introduced the first instance of Vitality1 in North America. This progress has established a strong foundation for future growth as the businesses scale.

The launch of Vitality GO, a free, lighter Vitality offering to all of John Hancock's new policyholders (with a buy-up option to full Vitality) is a strong endorsement of John Hancock's commitment to Vitality and its position in the market as a leader of shared-value insurance.

The Manulife Group Benefits Vitality programme was launched to staff, with the public launch in September 2019.

**GENERALI VITALITY**

Generali Vitality operates in three markets, Germany, France and Austria. Expanding the distribution channels remains a priority for the Generali Vitality programme, following the sale of Generali Leben which had been the primary distribution channel and introduction of Generali Vitality-linked insurance products to the Deutsche Vermögensberatung (DVAG) broker channel. Encouragingly, there was a 35% increase in membership from the previous year. Generali continues to explore opportunities to roll-out Vitality in more markets across Europe.

**VITALITY ACTIVE**

Vitality Group has partnered with Hannover Re to expand Shared-Value products into next tier markets through offering a lighter, less operationally complex version of Vitality. To date, six insurance partners have been signed up, with more in the pipeline. Vitality Active requires less bandwidth and resources as it leverages a single, consistent system across all partners, namely Vitality1.



## VITALITY USA



Vitality USA offers wellness solutions to corporate clients and other industries in the USA. In its effort to build a broader behaviour-change platform, Vitality Group through Vitality USA joined forces with Aetna, Apple and CVS Health to introduce Attain, Aetna's new rewards programme. Attain is built off the Vitality model and is administered by Vitality USA. Vitality USA achieved excellent results, increasing its profits to US\$3 million, a significant increase of 35% from the previous year. Membership grew 19%, with the launch of the white label *Earn your Apple Watch* offering with Aetna and Walgreens employer offering.

The corporate employer market is highly competitive, and we continue to differentiate our offering through high engagement in our products, excellent client service and developing our Gateway offering – a holistic wellness platform that extends Vitality USA's offering by granting wellness vendors access to our members for a fee. Two corporate employer clients have been awarded the C. Everett Koop National Health Award, which recognises outstanding worksite health promotion and improvement programmes.



## CREATING SHARED VALUE

Vitality Group aims to grow the reach of the Shared-Value business model globally by integrating tailored Vitality programmes with partner insurance products to drive additional value, which is shared with the insurance policyholders, thereby improving the value proposition offered.

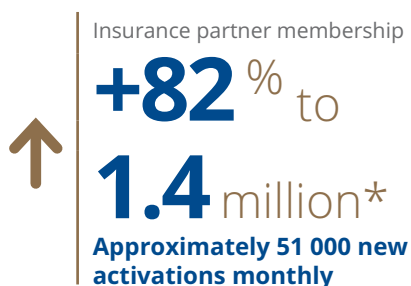
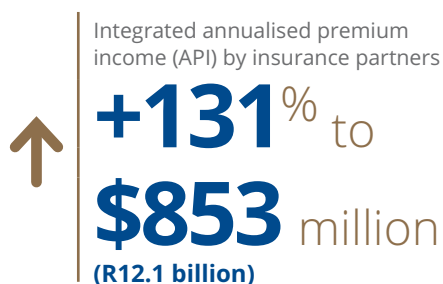
Vitality Group is supported by the Global Vitality Network to create an ecosystem where the assets are available to all markets and the value generated from positive selection and behaviour change is shared among the participants.

## OUR STRATEGY

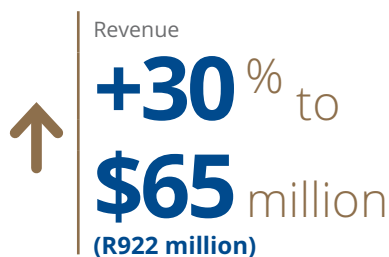
Vitality Group's growth strategy has centred on steadily increasing our contractual insurance partnerships and geographical footprint over the last few years. In this way, we bring the intellectual property and assets of Discovery to leading global insurers across the world, thereby creating a comprehensive partner ecosystem where we are experiencing continued membership growth.

Another key strategic focus area has been Vitality1 – a globally unified software platform that is centrally managed and used to administer and manage the Vitality programme for our insurance partners.

## OUR KEY PERFORMANCE INDICATORS (EXCLUDING PING AN HEALTH)



\* Membership represents full Vitality members only.







## THE KEY MATTERS THAT IMPACTED OUR BUSINESS THIS YEAR

### 01 Rollout of Vitality1

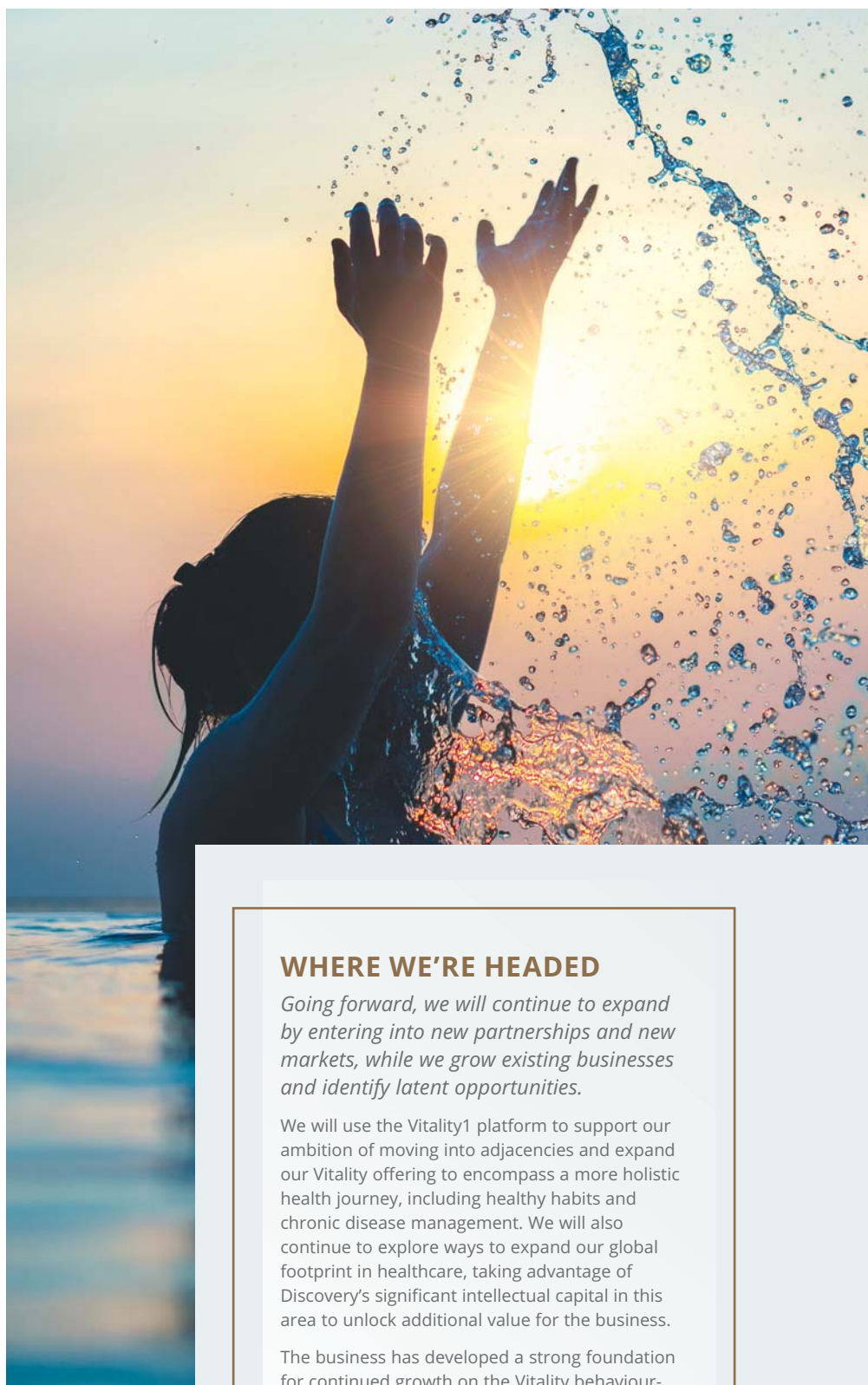
Vitality1 was launched in July 2018. While we experienced initial challenges in launching the platform, the stability of the platform to date has been carefully managed and we are pleased with the progress made in rolling it out. Currently, the platform is used to manage Vitality in life and health insurance markets and is live in six markets. As at 30 June 2019, we have invested R653 million in the development of the Vitality1 platform.

### 02 Increasing competition

The rapid rate of technological development across the globe continues to drive competition in and from the InsureTech market. Despite these pressures, our Shared-Value business model continues to create a competitive advantage across markets due to the value delivered, as well as a growing awareness of shared value and an increasing consumer expectation that it forms part of product offerings. As leaders in this space, we continue to innovate to remain ahead of the competition.



For more information on our Chinese market, please see **page 96**



#### WHERE WE'RE HEADED

*Going forward, we will continue to expand by entering into new partnerships and new markets, while we grow existing businesses and identify latent opportunities.*

We will use the Vitality1 platform to support our ambition of moving into adjacencies and expand our Vitality offering to encompass a more holistic health journey, including healthy habits and chronic disease management. We will also continue to explore ways to expand our global footprint in healthcare, taking advantage of Discovery's significant intellectual capital in this area to unlock additional value for the business.

The business has developed a strong foundation for continued growth on the Vitality behaviour-change platform, with more national champions being developed for launch over the coming year.

# OUR BUSINESS REVIEWS

## PING AN HEALTH



### OUR KEY PERFORMANCE INDICATORS

↑ Ping An Health revenue  
**+74% to RMB 8.6 billion**  
 (R17.7 billion)

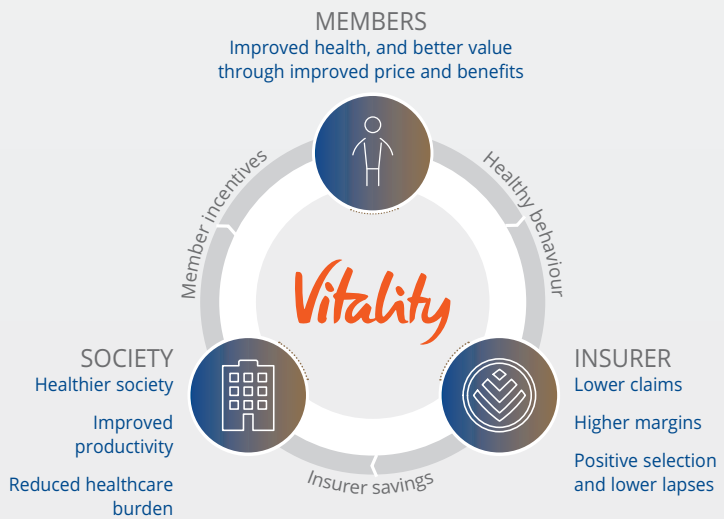
Discovery profit from Ping An Health (after tax)  
**R106 million**  
 (72% increase to \$7.5 million)

↑ **+67%** increase in new business premium  
 RMB 4.9 billion  
 (R10.1 billion)

**185%** increase in number of online registered users to 12 million

### GOAL TO CREATE SHARED VALUE IN PING AN HEALTH

*Making people healthier through focused tech-driven health insurance.*



Ping An Health, in which Discovery has a 25% equity stake, is one of the three largest specialised health insurers in China.

The business seeks to meet the growing demand for private healthcare by leveraging Discovery's expertise in health product development, systems, data and risk management assets, as well as Ping An Group's distribution network, business scale and technological sophistication. This strategic partnership has enabled Ping An Health to play a key role in capturing the opportunity inherent in the emerging Chinese private health insurance market.



## OUR STRATEGY

Ping An Health's vision is to be China's leading tech-driven health insurer, seeking to meet the need for private healthcare while enhancing wellness through the integration of the Vitality programme. A strategic focus, therefore, is growing the business to meet the significant demand in the market.

To achieve this, Ping An Health continues to invest considerably in building future capability by scaling and automating operations, digitising consumer engagement and growing sales capabilities and reach.

## THE KEY MATTERS THAT IMPACTED OUR BUSINESS THIS YEAR

Working off of a strong foundation as a reputable insurer (with an A- credit rating from AMBest, an 81.8 SARMRA score in 2018, and a regulatory rating of A by the Chinese insurance regulator) we focused on achieving our growth ambitions for Ping An Health through:

### 01 Investing in building future capability

China leads the world in fintech adoption, which has accelerated the rise of healthcare products distributed through the internet. This increasing competition has necessitated significant investment in creating a world-class user experience through digitisation and automation.

During the year, we increased our investment into the Ping An Health App, which supports the distribution of health insurance products and member servicing. The app demonstrated incredible growth of 185% over the past year, and now has 12 million registered users, with a current growth rate of roughly one million new users each month. Ping An Health has been building up the number of features within the app, such as a Health Wallet, which enables payment of premiums, quick claims processing and the receipt of claims compensation. In this way, the functionality within the Ping An Health App allows clients to complete the full customer journey online, providing a fully integrated direct-to-consumer channel.

The app supports the provision of a user-friendly ecosystem – an interconnected set of services that allows users to meet their healthcare needs in one integrated experience – essentially pulling together parts of the healthcare system through the use of a technology platform. Ping An Health continues to build functions within its app to enhance health service capabilities such as mapping tools for hospital navigation.

The HelloRun Club programme, which is an online Vitality programme, is another area of continual development through additional wellness functions, such as the run tracking capability. HelloRun Club currently has 3.65 million members, 1.68 million of whom have joined the programme in 2019. HelloRun Club is not only available to insurance policyholders, but to all online clients, encouraging high user traffic on the Ping An Health App. In this way, all users' health and wellness are enhanced while enjoying tailored benefits.

### 02 Expanding Ping An Health's distribution channels

Ping An Health's distribution strategy has been the leading driver of the significant revenue growth experienced in the past three years. In addition to the online distribution channel, Ping An Health has been focusing on leveraging the agency force within Ping An Life (over 1.5 million direct agents) to drive the growth of health insurance. The dramatic rise in individual business has been led by the cross sales agency model with Ping An Life, where separate sales targets were created for agents to sell health insurance products.

Ping An Health also focused on increasing their presence across the country through the rapid opening of branches in large cities. Highlights for the year included the opening of a branch in Chongqing – one of China's largest municipal districts, with a population of approximately 30 million people, as well as the opening of a branch in the Hebei province.

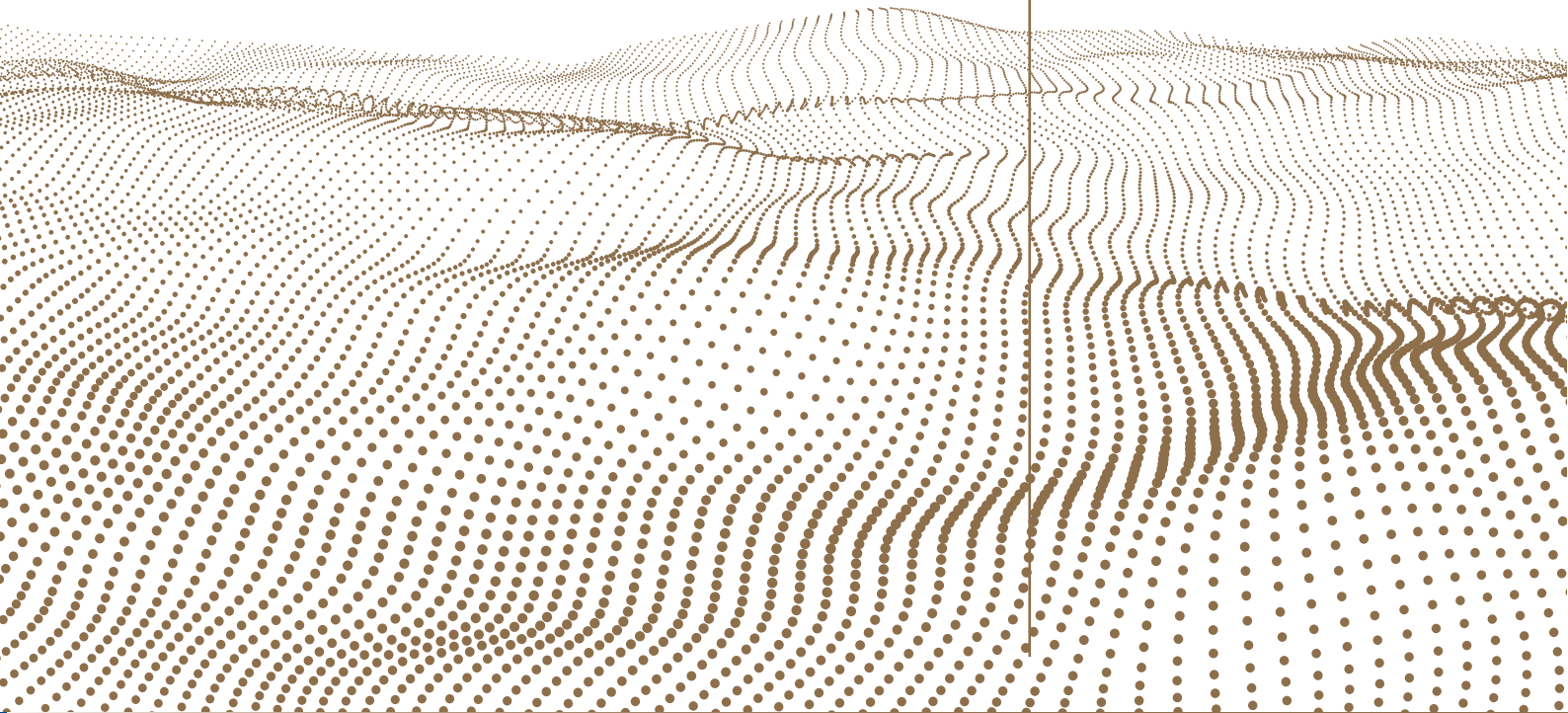
### WHERE WE'RE HEADED

*Looking ahead, Ping An Health will continue to pursue significant growth in top line revenue and we will remain focused on expanding our online distribution channel, with our app positioned as the foundation for a technology-driven strategy.*

To support this ambition, Ping An Health will continue to invest heavily in developing fintech capabilities to remain relevant and differentiated against a backdrop of increasing competition from online platforms.

Additionally, Ping An Health will continue to leverage the large distribution network offered through the broader Ping An Group. This will include opening further branches and enhancing the collaboration opportunities with other Ping An Group subsidiaries.

With regard to the outlook for the broader market, Ping An Health anticipates that the Chinese market will continue to mature in terms of regulation, with increased oversight and governance. Additionally, the government has made a concerted effort towards delivering its vision of Healthy China 2030, showing broad support for the role of private health insurers in this endeavour. As a result, Ping An Health anticipates positive impacts within the industry going forward.



# 04

# REMUNERATION AND GOVERNANCE

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# REMUNERATION REPORT

## Report by the Chairperson:

### REMUNERATION COMMITTEE

On behalf of the remuneration committee (RemCo), I am pleased to present our remuneration report, which is structured as follows:

**PART 1:** Background statement of the factors influencing the remuneration strategy and remuneration outcomes for the financial year

**PART 2:** Our remuneration policy

**PART 3:** Implementation of the policy

### PART 1:

## BACKGROUND STATEMENT

### Focus areas for FY2019

During the year, we consulted with our shareholders regarding certain concerns raised about our remuneration policy and its implementation report as set out in last year's remuneration report. As a result of the consultations, together with advice obtained from our independent advisors regarding best practice, we have made some changes to our remuneration policy which are described in this background statement, and included in the remuneration policy section.

The changes adopted will reflect the expectations of our shareholders, while ensuring that we continue to liberate the best in our people as we strive towards Ambition 2023.



## Shareholder engagement and feedback

The supporting advisory votes from the proportion of shareholders represented at the last annual general meeting, regarding our remuneration policy, increased from the prior period is well above the required 75%. However, the dissenting votes regarding the implementation report increased by close to 9%, to 31.6%.

	Advisory votes in favour			Dissenting advisory votes		
	2016	2017	2018	2016	2017	2018
Remuneration policy	86.1%	76.7%	84.5%	13.9%	23.3%	15.5%
Implementation report	86.1%	77.3%	68.4%	13.9%	22.7%	31.6%
Non-executive Director fees	99.9%	84.9%	89.6%	0.1%	15.1%	10.4%

As the dissenting advisory votes in respect of the implementation report exceeded the consultation threshold of 25%, we invited the dissenting shareholders to engage with us on their reasons for voting against the implementation report as well as to obtain further inputs on how we could still improve our policy.

The feedback obtained from the consultations, as well as the actions taken in response are described below:

## SHAREHOLDER FEEDBACK/BEST PRACTICE ADVICE

**A tranche of the phantom share scheme awards which did not meet the performance hurdle for the measurement period up to FY2017 was delayed and retested for payment in FY2018. This was thought by some shareholders to represent a change to the conditions of that particular tranche and therefore needed clarification of the transitional measures applied.**

### ACTIONS TAKEN/EXPLANATIONS OFFERED

In the 2018 financial year, we migrated from the single waterfall normalised HEPS growth measure for vesting of phantom shares to the growth methodology approach which is described in our policy section. Under the previous approach, if a vesting tranche failed the performance measure for vesting in any given year, it would automatically be rolled forward for retesting in the following year but then for the extended measurement period and commensurate compound growth hurdle. Under the previous performance measures, this ensured that investment in organic growth was not discouraged as the impact on HEPS in one period can then be recovered through accelerated growth in the next. Tranches that didn't meet the performance hurdle by the end of the five year period of the particular scheme, then lapsed in full.

As explained in last year's report, it was recognised that a single HEPS growth measure is not suitable for a group embarking on a strategy of substantial investments impacting the income statement in order to achieve long-term organic growth. Under the new approach, which better aligns with the growth methodology of the group, this measurement methodology is being replaced.

As a transitional measure, awards made prior to 2018 will still first be measured for vesting in terms of normalised HEPS growth as the awards were originally made under those performance conditions. Where vesting conditions are not met, the awards will no longer roll over but will be tested against the new growth methodology and proportionately vest (or not as the case may be). To the extent that the vesting condition is still not met in terms of the growth model, the unvested portion of the tranche will lapse in that year. This transitional approach on pre-2018 awards will end with the last vesting of the 2017 awards in 2022, where after, only the growth methodology will apply. This transitional measure was considered fair and reasonable given the various awards already in issue; each with its own measurement dynamics.

**There is no *malus* and clawback policy in place.**

### ACTIONS TAKEN/EXPLANATIONS OFFERED

RemCo has approved the adoption of a *malus* and clawback policy which is further described in the remuneration policy section. Refer to page 112.

These rules will apply to all future allocations and awards.

**There is no minimum shareholding requirement.**

### ACTIONS TAKEN/EXPLANATIONS OFFERED

RemCo has approved the adoption of a minimum shareholding requirement policy for senior executives which is further described in the remuneration policy section. Refer to page 112.

**Phantom share awards were deemed by certain shareholders to have a short performance period given the fact that the first 25% tranche of each award vests after two years. The view was expressed that this should not be less than three years from date of award.**

### ACTIONS TAKEN/EXPLANATIONS OFFERED

Previously, phantom share awards started vesting after two years from date of award up to year 5 in tranches of 25% each. Vesting conditions were measured, on a compound basis, from the second to the fifth year after which unvested awards lapsed.

In response to shareholder input provided, RemCo has approved changes to the vesting profile starting with the 2019 South African phantom share awards. Future awards will now start vesting three years from date of award and will vest in three equal tranches from the third to the fifth year. Vesting conditions will be measured, on a compound basis, from the third to the fifth year as applicable and unvested awards now lapse in each year.

**Certain shareholders requested that detail be provided regarding exceptional awards granted to Executive Directors or Prescribed Officers.**

### ACTIONS TAKEN/EXPLANATIONS OFFERED

When the Group re-organises management structures, as happened with the establishment of the South African Executive Committee, and where such re-organisation results in an expansion for certain roles such as with the appointment of chairperson of the SA Executive in the prior year, the Group conducts a peer and market competitiveness review of the total remuneration for affected managers as well as a review of the sufficiency levels of the retention elements in their remuneration, considering the larger role. Where additional remuneration allocations are implied, these will be proposed for approval by RemCo.

Any such allocations and the rationale behind such allocation will in future be fully explained in the relevant sections of the implementation report.

**Long-term incentives are largely phantom scheme awards that are cash-settled.**

### ACTIONS TAKEN/EXPLANATIONS OFFERED

RemCo and the Board are proposing to shareholders the introduction of an equity-settled scheme which will not only better enable minimum shareholding but also provide better alignment with shareholders and eliminate the need for costly hedging structures. This proposal will be tabled at the upcoming AGM of shareholders.

**Remuneration report** *continued*

Significant amendments in the disclosure of our policy were made last year and apart from the policy amendments highlighted above, our remuneration policy remains largely unchanged.

Discovery will once again put the remuneration policy and implementation report to two separate, non-binding votes at the AGM, to be held on 28 November 2019. In the event that 25% or more of the shareholders vote against either or both the remuneration policy or the implementation report, Discovery will include a note in its SENS announcement for the AGM, inviting dissenting shareholders to engage with the Group on their reasons for voting against either or both of these resolutions. The precise method of shareholder engagement will be decided by RemCo, but may include:

- Email and teleconference
- Investor roadshows (where feasible)
- One-on-one meetings with shareholders
- Combined meeting of shareholders where deemed appropriate.

The results of the next shareholder engagement, and RemCo's response to shareholder concerns will be published in the remuneration report for the next financial year.

**Focus areas for FY2020**

RemCo will be focusing on a number of areas in FY2020 to:

- Ensure that our remuneration practices continue to be competitive and leading in order to attract and retain the best talent in the markets where we operate
- Ensure that our pay practices reflect societal sentiment regarding fair and responsible pay
- Drive a culture of ownership and increased alignment with shareholders.

**FOCUS AREAS****FAIR AND RESPONSIBLE PAY****What it means**

RemCo will continue to monitor our remuneration practices to ensure that any potential for unfair bias is eliminated, and that remuneration practices reflect Discovery's commitment to fairness and the attraction and retention of top talent.

**REVIEW INCENTIVE TARGET LEVELS****What it means**

Due to continuing challenges in attracting and retaining key talent for our business, RemCo will monitor and review competitiveness of our total rewards, with an emphasis on the on-target incentive payment levels.

**EQUITY-SETTLED SCHEME****What it means**

RemCo has proposed an equity-settled long-term incentive scheme to replace the current cash-settled Phantom Share Scheme.

**Remuneration governance**

RemCo met five times during the past financial year with near-full attendance by members.

	Aug 2018	Sep 2018	Oct 2018	Mar 2019	Jun 2019
SE De Bruyn (Chairperson)	✓	✓	✓	✓	✓
H Bosman	✓	X	✓	✓	✓
MI Hilkwitz*	✓	✓	✓	-	-

\* M. Hilkwitz retired from the Board with effect from 28 February 2019. A suitable replacement has been identified and is in the process of being ratified by the Board.

All RemCo members have the relevant skills and experience to perform their duties. RemCo members are also members of key committees that enable them to monitor risk trends across the Group. Members of executive management and Mr B Olivier (independent remuneration expert) attend RemCo meetings by invitation.



Executive directors are not allowed to participate in discussions about their own remuneration and they are not able to vote at the meetings.

In conducting its work over the period, and in addition to the retained independent remuneration expert, RemCo considered advice and input from the following sources:

- PricewaterhouseCoopers (PwC) for remuneration trends
- PwC REMChannel and Deloitte for salary and incentive benchmarking information
- Vasdex for adoption of good remuneration governance practices.

RemCo is satisfied that the input from these sources is credible, independent and objective.

Our UK subsidiary companies are directly regulated in the UK and are required to be effectively supervised in the UK. The Discovery Holdings Europe Limited Remuneration Committee under the chairmanship of Sir Andrew Foster (independent non-executive director of various UK subsidiaries), oversees the remuneration of these subsidiaries. Similarly, Discovery Bank has appointed a Directors Affairs Committee under the chairmanship of Nolitha Fakude (independent non-executive director of Discovery Bank). RemCo fulfils a high-level oversight role of these committees.

## Remuneration outcomes

RemCo approved bonus payments of R383.9 million for the Executive Directors' and Management Incentive schemes, including the individual and profit pool portions. This represents a 4.7% increase in bonus payments over FY2018, but includes a headcount increase of participants in the order of 14% which meant that in some cases, bonuses per individual participant reduced year-on-year. The moderate increase in the incentive payments was driven by two main considerations:

1. The profit pool portion of the incentive paid out at 83% of target in FY2019, versus 98% of target in FY2018, and declined by 12.5%, while participants in the pool increased.
2. The Executive Directors' incentives declined by 9.9% from the previous year, as it was adjusted to exclude John Robertson from FY2018, who retired as Executive Director in August 2018.

The decline in profit pool and Executive Directors' incentives takes into account the decline in profits that were impacted by considerable investment in new initiatives (Discovery Bank, VitalityInvest, Vitality1, Umbrella Funds and Discovery for Business) as well as the large claims volatility in Discovery Life. However, the period was still one of exceptional strategic development.

We will continue to work towards ensuring that our remuneration philosophy is aligned to our business strategy and shareholder expectations, while still delivering competitive and fair outcomes for our employees.

RemCo and the executive team continually challenge themselves to apply creativity and innovation to our human resources and remuneration practices, without breaching risk tolerances, governance and the compact with our shareholders.

We remain comfortable that the application of the remuneration policy over the past year was in alignment with the stated objectives.

We again invite you to engage with us on your views, comments and contributions on our policy and its implementation and appreciate the input we received during the year that has helped us to align our policy with the interests of our stakeholders.

## SE DE BRUYN

CHAIRPERSON: REMUNERATION COMMITTEE



**PART 2:****REMUNERATION POLICY****Remuneration philosophy**

At Discovery, we believe that great people are the foundation of our success. We offer an environment that provides challenging and meaningful work, where our people are liberated to grow and take advantage of opportunities. It is through liberating the best in our people that we will be able to achieve our ambition of being the best insurance company in the world. We are committed to providing total remuneration packages that ensure we are able to:

- attract, retain and motivate **high-calibre employees**;
- **encourage performance** and appropriately **reward employees** who meet and exceed business objectives;
- align the financial **wellbeing of employees** with the economic interest of shareholders;
- provide an environment that encourages **innovative thinking and extraordinary performance**;
- bring **consistency, transparency and equity** to pay principles which will increase trust and employee engagement; and
- foster Discovery's **owner-manager culture**.

We **balance a flexible approach** that recognises differences in individual performance, value and contribution to the Group, **with a consistent framework** that ensures fair and responsible pay principles.

**Remuneration principles**

- To succeed, we must have the right people in the right positions, and strive to offer pay packages that are **competitive in the market**.
- **Pay for performance** is at the heart of our remuneration philosophy and we encourage all employees to set and achieve ambitious goals which are aligned with the objectives of the Group. Exceptional performance is recognised and rewarded.
- **We believe in pay that is right and fair** and we conduct regular salary surveys both internally and externally to ensure fairness and consistency across the business.
- We recognise that **remuneration is not the only reason** why our employees join and stay at Discovery, but it is of significant concern if it is not right or equitable.
- We are a **non-discriminatory** organisation and all remuneration policies and practices are free from unfair discrimination based on race, gender, age, religion, marital status and ethnic or social origin.
- We employ a **total cost to company** approach to remuneration.
- Our **short-term incentive schemes** encourage, recognise and reward performance and are based on rigorous objective setting and measurement, while allowing sufficient flexibility to respond to different business needs.
- Our **long-term incentive schemes** create a sense of ownership in the company and specific schemes are designed for start-ups to encourage an entrepreneurial mind-set and retention.
- Our remuneration policy **empowers managers** to make educated and defensible pay decisions.
- Remuneration policies and practices are governed by the **Remuneration Committee**, a sub-committee of the Board, with support from the **Internal Remuneration Committee**, an executive management body with delegated responsibilities for remuneration governance.

## Remuneration structure

We adopt a total rewards approach, which encompasses both financial and non-financial elements of reward. The different elements of reward are summarised below:

TOTAL REWARDS					
	Guaranteed pay	Variable pay			Non-financial
	Cost to company	Monthly performance-based salary	Short-term incentive scheme	Long-term incentive plans	Employee experience
DESCRIPTION	<ul style="list-style-type: none"> <li>Basic salary</li> <li>Compulsory benefits (retirement and medical) and optional benefits (gap cover)</li> </ul>	<ul style="list-style-type: none"> <li>Productivity and sales-based performance pay for operations and sales areas</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly, bi-annual or annual incentive schemes measured against agreed targets which may be at individual, team and business unit level</li> </ul>	<ul style="list-style-type: none"> <li>Performance-linked Phantom Share Scheme</li> <li>Business unit-specific long-term incentive schemes</li> </ul>	<ul style="list-style-type: none"> <li>Challenging and meaningful work</li> <li>Development and training</li> <li>Discovery culture and environment</li> <li>Opportunity to work with great people</li> <li>Career opportunities</li> <li>Recognition</li> </ul>
OBJECTIVE	<ul style="list-style-type: none"> <li>To attract and retain talent through competitive base pay and life stage relevant benefits</li> </ul>	<ul style="list-style-type: none"> <li>Align individual performance to company goals and continuously drive improvement</li> </ul>	<ul style="list-style-type: none"> <li>To reward employees for superior performance over the financial year</li> </ul>	<ul style="list-style-type: none"> <li>To align the interests of management and shareholders over the long term</li> </ul>	<ul style="list-style-type: none"> <li>To create a work experience that positions Discovery as a preferred employer</li> </ul>
ELIGIBILITY	<ul style="list-style-type: none"> <li>All</li> </ul>	<ul style="list-style-type: none"> <li>Generally, employees up to team leader level, as well as some management and executive level employees in sales environments</li> </ul>	<ul style="list-style-type: none"> <li>All (excluding participants of monthly incentives)</li> </ul>	<ul style="list-style-type: none"> <li>Management and executive level employees</li> </ul>	<ul style="list-style-type: none"> <li>All</li> </ul>



Remuneration report *continued***REMUNERATION ELEMENTS**

Our financial rewards include four remuneration elements, although not all employees participate in all of the elements:

- Guaranteed monthly salary
- Monthly performance-based pay
- Short-term incentive (within one year)
- Long-term incentive (usually applicable only to Deputy General Manager level and above, and selected Manager and Divisional Manager level employees). New awards from 2019 will vest in three equal tranches over three to five years instead of two to five.

**Guaranteed monthly salary**

Our **total cost to company** approach provides employees with flexibility and choice when it comes to compulsory benefits. All permanent non-sales employees, irrespective of level, receive a guaranteed component of remuneration, consisting of:

- A basic salary
- Compulsory benefits (medical aid, provident and pension funds, group life cover).

Employees select:

- The Discovery Health Medical Scheme plan that best suits them (Discovery membership is compulsory for all employees unless they are a dependent on their spouse's scheme).
- Their contribution level to the provident fund, ranging from 7.5% to 20.0% of guaranteed package or base pay.
- The structure of their provident fund portfolio, with a choice of conservative, moderate and aggressive funds.

The compulsory contribution to the pension fund is set at 5% of an employee's salary.

Employees who work in sales environments typically receive a variable monthly remuneration linked directly to their sales productivity, relative to targets. The expected monthly salary, or "deemed salary" is used as the basis to calculate benefits.

We target the market median guaranteed pay level for each role. However, guaranteed pay can be:

- above the median to attract and retain top talent, particularly in scarce and critical skill areas; or
- below the median, in rare instances, for people who display high potential but are new to their role and still need to grow fully into the role.

We use independent providers to ensure we pay employees competitively. Salary benchmarking against other financial services companies are completed at least annually to keep track of market movements. These reviews take factors such as company size (revenue, profit, number of employees) and availability of skills into account.

As many of our roles at Discovery are unique, the market data is used to assist in making remuneration decisions, but it is not the only reason for our remuneration structures. We do not differentiate pay on arbitrary grounds and strive to ensure that our employment processes do not result in unfair pay differentials.

**Annual salary review process**

The annual salary review process provides an opportunity to adjust salaries in line with the market, and takes place between April and June each year, with increases effective from 1 July. RemCo determines the overall percentage increase to the salary bill while considering benchmarking to understand market trends, particularly for scarce and critical skills, changes to the national cost of living, and business performance and affordability. Performance is primarily rewarded through the incentive structures, not through the salary increase process. Typically, an employee has to be employed for a minimum of three months to be part of the review process, and any increase may be moderated for length of service and time in role.

Interim increases may be awarded during the year at the discretion of senior management under the following circumstances:

- Successful internal recruitment into a higher paying role.
- Achieving a higher qualification, for certain skills.
- Promotion to a higher level.

**Monthly performance-based pay**

**Pay for performance** is at the heart of our pay philosophy and as a result, most permanent employees also have an opportunity to earn performance-based pay.

We offer competitive guaranteed rewards (at the market median), with opportunities in many roles to earn additional variable pay-for-performance incentives, that lead to above market median total rewards for top performers.

In many of the operational areas of the business where performance is highly measurable, monthly pay is made up of:

- A guaranteed monthly salary
- Performance-based pay ("on-par").

The on-par portion of pay may apply from staff up to Deputy General Manager level. A target amount is established by role and performance against agreed monthly targets and may result in the on-par portion being flexed up or down from the target amount to reflect the operational outcomes against the targets.

The performance element ensures alignment between company goals and individual performance, and allows top performers to significantly enhance their earnings. Targets are reviewed and adjusted as required and at the discretion of management to drive continuous improvement.

**Short-term incentive schemes (STIs)**

STIs encourage and reward performance at every level. Within an overall framework, different business units have incentive schemes based on business priorities, and therefore scheme structures (payout percentages, pay periods and calculations) can vary.

The sales team participate in production-related incentives applicable to their roles. Generally, short-term schemes span three to 12 months. To receive payment, an employee must

have been employed for a minimum of three months in the period, and must still be employed at the time of the payment.

All schemes are performance-based and reward delivery against pre-agreed stretch targets which may be at an individual, team or business unit level. RemCo or management determines both the targets and the final payout amounts for all incentive schemes, within scheme guidelines. Final approval is at the discretion of RemCo.

### Employee incentive schemes

- At staff and team leader levels, payments may be made quarterly, bi-annually, or annually, dependent on the scheme. Measures are set by management and aligned with business goals and continuous improvement.

### Management incentive schemes

- At manager and divisional manager levels, employees participate in a bi-annual management incentive scheme which takes performance against both personal and business objectives into account.
- The short-term incentive scheme for Deputy General Managers, General Managers, sub-Directors and Executive Directors comprises two elements, namely, the individual management incentive portion and the profit pool portion.
  - The individual management incentive portion takes into account performance against personal and business objectives, as contained in each individual's scorecard.

- The profit pool portion awards management for the achievement of profit pool growth above a predetermined target.
- The individual management and profit pool portions for General Managers and above are subject to *malus* and clawback provisions with effect from 1 July 2019.
- The on-target split, applied to each employee's cost to company salary, between the individual management incentive and profit pool components for different levels of management, is:

Employee category	% of total cost to company		
	Individual management incentive portion	Profit pool portion	Total % of cost to company
Executive Director	50%	50%	100%
Sub-Directors	35%	50%	85%
General Manager	25%	15% – 25%	40% – 50%
Deputy General Manager	20% – 30%	10%	30% – 40%
Manager/Divisional Manager	15% – 30%	–	15% – 30%

\* Sub-Director: a General Manager who sits on one of the Discovery Boards, but is not an Executive Director

### Individual management incentive portion

Measures are linked to business unit performance and individual roles. For Executive Directors, and Prescribed Officers, measures will generally include the following:

Standard business objective	Measure	Weight	Minimum	Target	Stretch
Insurgency and market leadership in new business	<ul style="list-style-type: none"> <li>New business annualised premium income (API)</li> </ul>	10% – 20%	50%		200%
Products that meet complex consumer needs and are sustainable in the long term	<ul style="list-style-type: none"> <li>Innovation</li> </ul>	10% – 15%	50%		150%
Superior actuarial dynamics and engagement	<ul style="list-style-type: none"> <li>Loss ratios</li> <li>Lapse rates</li> <li>Value of new business (VNB)</li> <li>Engagement in Vitality</li> </ul>	10% – 30%	50%	If achieved, 100% of weighting counted towards score	150%
Exceptional service ecosystem	<ul style="list-style-type: none"> <li>Financial adviser or franchise perception scores</li> <li>Member-based research scores</li> </ul>	10% – 20%	50%		150%
Financial excellence and superior returns	<ul style="list-style-type: none"> <li>Growth in normalised profit from operations</li> </ul>	10% – 35%	50%		200%
Diverse workforce	<ul style="list-style-type: none"> <li>Employment equity</li> </ul>	15%	–	100%	–

**Remuneration report** *continued*

Each measure has a weighting which is applied to the score. The sum of the weighted scores results in the overall modifier that is applied to the cost to company salary and multiplied by the on-target percentage for the individual management incentive portion. However, if a score of below 50% is achieved for any individual measure, then the weighted outcome for the indicator will be zero.

Each individual measure has a maximum score of 150%, except for profit and new business, which have a maximum of 200%. Accordingly, the maximum modifier may exceed 100%, but would never reach 200%.

**Profit pool portion**

The Discovery Group Profit Pool Scheme shares a portion of profits above an agreed threshold growth level with executive management. This ensures ongoing alignment and focus on operating profit across the Group. The scheme is based on a single measure – growth in normalised operating profit, excluding certain start-ups – and runs on an annual basis based on audited financial results. The following approach is used to determine the profit pool portion of each member of executive management's short-term incentive:

**STEP 1:**

The value of the required pool is determined at the beginning of the financial year based on the number of participants, their employee level and their salaries. The pool is determined so that, at target operating profit growth as agreed by the Board, the actual value of the pool is equal to the required value. Target operating profit growth is considered to be commercially sensitive; however, disclosure of overall performance and achievement against target will be made in the implementation report.

**STEP 2:**

The pool starts to accumulate once operating profit growth exceeds an agreed hurdle value (for 2019, this was set at CPI x 1.5 adjusted for certain investments in new initiatives). Below this threshold, the value of the pool is zero and no payment is made. From this point, the payout curve is linearly related to the operating profit growth.

Normalised operating profit	Payout	Pool as % of operating profit
Below hurdle	0%	N/A
From hurdle to target operating profit growth	0% – 100%, linearly	
Above target operating profit growth	Subject to RemCo discretion and reviewed as % of operating profit consistent with the target ratio	0% – 1.4%

**STEP 3:**

The total value of the pool is determined at year end, based on audited financial results. Individuals participate in the final pool in the proportion of their individual on-target profit pool as a percentage of the total on-target profit pool.

$$\text{Individual CTC x on-target \%} \times \frac{\text{Actual pool}}{\text{Total on-target pool}}$$

Payments are split, and made in March and September. The March payment is deemed to be a draw down, and the balance is paid in September, based on audited results. Executive Directors and Prescribed Officers are not paid a draw-down and receive their full profit pool award based on full year audited results.

**Long-term incentive plans (LTIP)**

LTIPs encourage alignment with long-term shareholder interests and are used to drive longer-term performance, retain key people and create opportunities for individuals to share in the success of the Group. These schemes are restricted to executive managers, with awards offered in certain circumstances to individuals at lower levels performing critical roles, and aligning their interests with the longer-term strategic goals of the Group.

The Group Phantom Share Scheme is subject to *malus* and clawback provisions as recently approved and described in the background statement.

**Phantom Share Scheme**

Discovery currently operates a phantom share and option scheme referenced to the Discovery share price performance for the purposes of calculating incentives payable. RemCo approves the total allocation value annually and the individual Director allocations. Allocations below Director level vary by role, level and individual performance. Guidelines are provided by role and level, and each business unit CEO recommends the participants and the associated allocations. RemCo reviews and approves the participants, the allocations as well as the performance measures set for each allocation to vest. For previous awards, subject to vesting conditions, payments are made in cash on the second, third, fourth and fifth anniversaries of allocation. Future awards will, subject to performance conditions, vest in three equal tranches from year three of the award to year five and settlement is intended to be by way of equity, subject to approval by shareholders of an equity-settled scheme. Performance, where applicable, is measured from the year of award on a compound basis for each vesting period.

Historically, the compound annual growth rate (CAGR) in normalised HEPS had to exceed a target level for payment to be made in any year. From 2018, RemCo approved a vesting condition linked to the Group's organic growth methodology described on page 101 in the background statement. This new performance assessment applies to all new awards from 2018 as well as unvested portions of the 2015, 2016 and 2017 awards, with a transitional arrangement agreed by RemCo.

## Phantom Share Scheme performance conditions

The Phantom Share Scheme performance conditions have been aligned to the organic growth methodology:

Performance measure	Weighting	CAGR over measurement period (two, three, four and five years)		
		Minimum	On target	Outperformance
Established businesses operating profit	70%	CPI	CPI + 5%	CPI + 7%
Emerging businesses operating profit	12.5%	CPI + 5%	CPI + 20%	CPI + 25%
New business investment and development	7.5%	Majority of objectives underperformed	All objectives materially met	All objectives significantly exceeded
Return on equity (ROE)	10%	Risk-free rate	Risk-free rate + 10%	Risk-free rate + 13%
	100%			

For all new awards from 2018, overall vesting remains capped at 100%. Where the performance criteria are not fully met, vesting of the percentage not achieved will lapse in the respective years. As the overall vesting is capped at 100%, outperformance in one measure may only contribute towards mitigating underperformance in another measurement category but subject to the relative weighting of the over- and under-performance and to a maximum of an additional 25% (pre-weighting) in the outperforming category. In all instances, such outperformance “subsidy” is subject to approval of RemCo.

### Phantom share awards before 2018

For unvested portions of pre-2018 awards, the transitional arrangement is that the overarching performance condition of normalised HEPS growth of CPI + 1.5% compounded over the measurement period remains in place. If the overarching HEPS growth measure is met on a compound basis over the vesting period, the tranches will continue to vest as originally agreed at the time of the historical award. If the overarching HEPS growth measure is not met on a compound basis over the vesting period, the tranche will be tested in terms of the new growth methodology to determine to what extent, if any, vesting is achieved. To the extent that the tranche fails, or partly fails, the growth methodology test, the unvested awards will lapse. This is a transitional measure for awards made prior to 2018 only and will therefore expire by 2022.

### Phantom Share Scheme vesting

A portion of the phantom share awards to General Managers, Deputy General Managers, Divisional Managers and Managers is not subject to specific performance, but largely aimed at retention and remaining aligned with the market from a total pay perspective. These awards remain subject to share price increases and decreases. Awards to Directors and sub-Directors are fully subjected to the performance measures for vesting and share price movement for value.

### Phantom shares vesting proportion

Employee level	Retention awards	Performance awards
Executive Directors	–	100%
Sub-Directors	–	100%
General Managers	60%	40%
Deputy General Managers	85%	15%
Managers/Divisional Managers	85%	15%

Vesting is measured over a five-year period as illustrated on page 110.

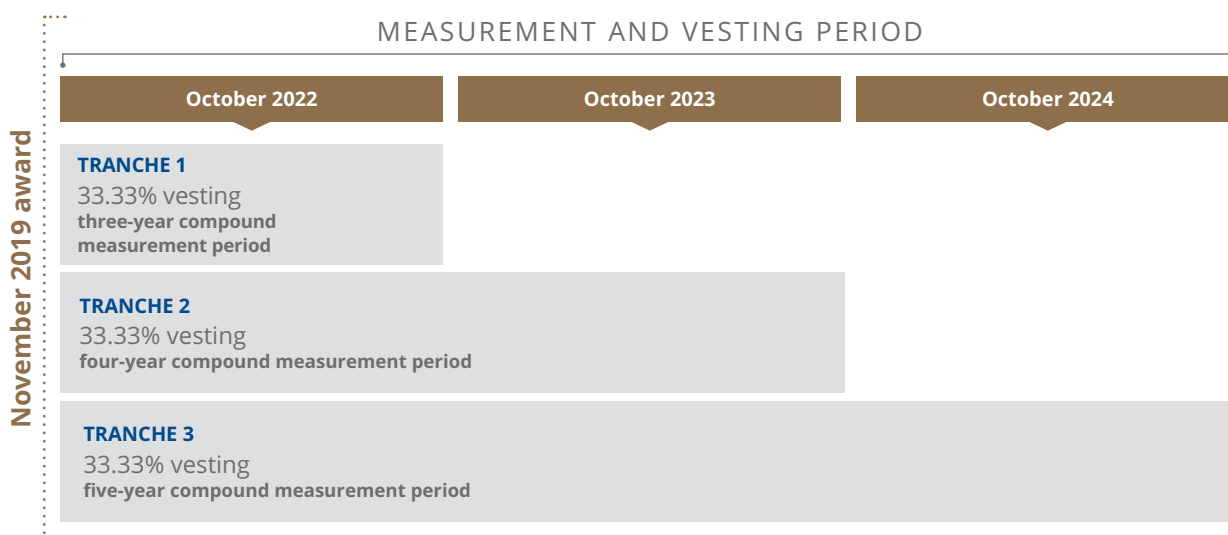
### International businesses’ Phantom Share Schemes

Vitality UK and Vitality Group operate Phantom Share Schemes with vesting criteria linked to the performance of those businesses.

- Vitality Group Cash-Settled Share Plan subjects a portion of the phantom share award to vesting based on valuation of the Vitality Group instead of applying the Discovery share price. The Plan vests over the same period as the Phantom Share Scheme. Recipients are senior executives within Vitality Group.
- The VitalityHealth and VitalityLife Long-term Incentive Programme vests in thirds, starting from the second to the fourth anniversaries from date of award. Vesting is subject to attainment of embedded value (EV) and profit targets, measured for each tranche over the vesting period.

Remuneration report *continued*

## Targeted long-term incentive schemes



From time to time, RemCo may decide to implement a specific long-term incentive scheme to drive a particular business result. For example, this may be associated with the start-up of a new venture or the delivery of strategic stretch business targets.

Participation is at the discretion of RemCo and is limited to key influencers. Payout under start-up schemes is typically linked to value creation and profitability.

All schemes are non-contractual and RemCo retains discretionary override where deemed necessary. We have disclosed schemes under which awards will be made in the next financial year and all those that impact Executive Directors and Prescribed Officers. However, there are outstanding awards in terms of a number of previously operated schemes that are currently in run-off (refer to pages 119 to 120 in the implementation report).

### Illustration of the earning potential for Executive Directors for minimum, on-target and maximum performance outcomes

The potential FY2020 remuneration outcomes for Executive Directors and Prescribed Officers at minimum, on-target and stretch remuneration levels are disclosed below. These are hypothetical values, and we have made the following assumptions for the illustrations:

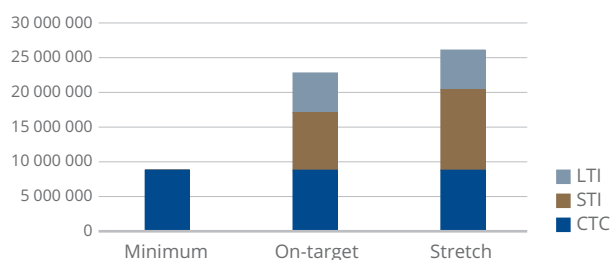
1. Minimum remuneration level assumes that the performance conditions for minimum payment of the management incentive scheme, profit pool and Phantom Share Scheme have not been met and that only the fixed remuneration is payable. The 1 July 2019 salaries have been used for the illustrations.
2. The on-target remuneration level assumes that in addition to the minimum assumptions, the individual portion of the management incentive pays at 100%, the profit pool portion pays at 90% (based on historic assessment) and that all vesting tranches for LTIPs do so at 100% and at the ruling share price as at 30 June 2019.
3. The stretch remuneration level assumes that, in addition to the on-target assumptions (including 100% vesting for deferred awards), the individual portion of the management incentive pays at 140% and the profit pool pays out at 125%, based on historical assessment.



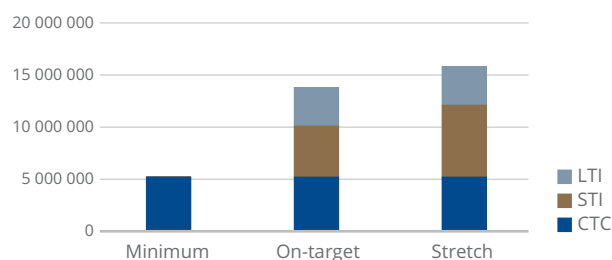
The scenarios are illustrated below for the current Executive Directors and Prescribed Officers on the basis of cash payable during the period. Unvested awards are valued at fair value as at 30 June.

### SOUTH AFRICA

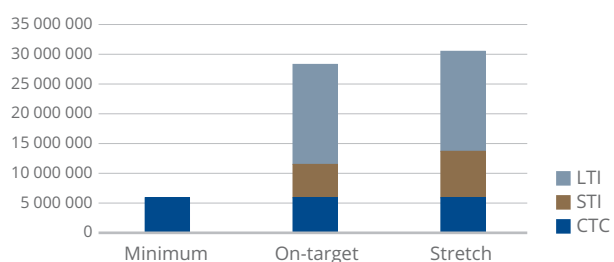
**Adrian Gore (ZAR)**



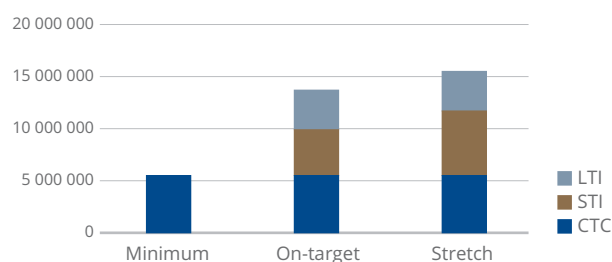
**Ayanda Ntsaluba (ZAR)**



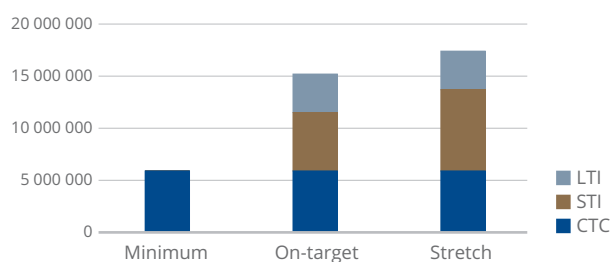
**Hylton Kallner (ZAR)**



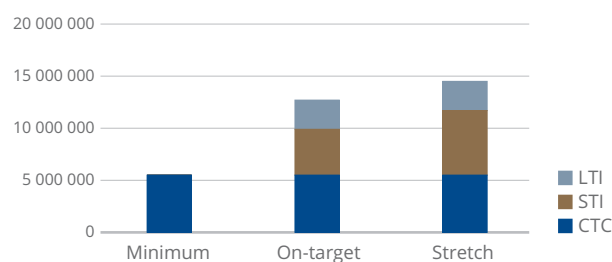
**Kenny Rabson (ZAR)**



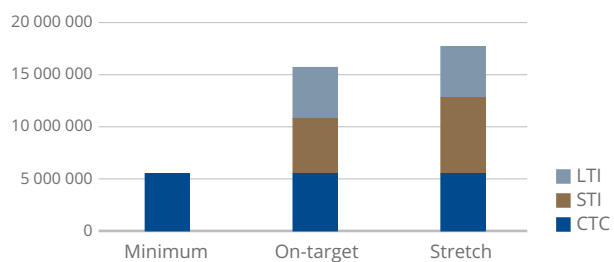
**Barry Swartzberg (ZAR)**



**Jonathan Broomberg (ZAR)**



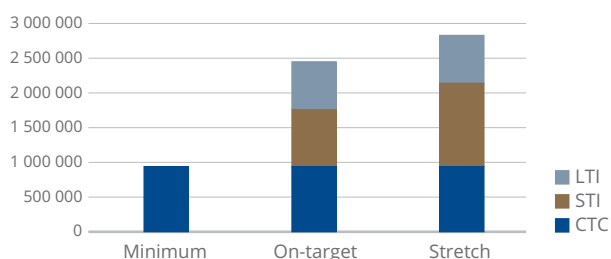
**Deon Viljoen (ZAR)**



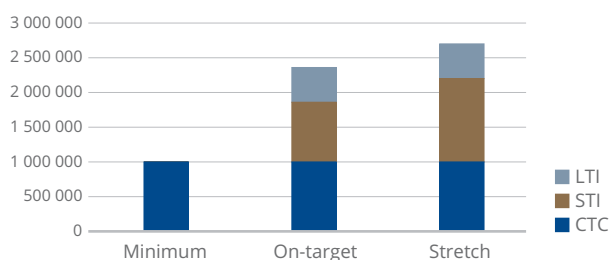
Remuneration report *continued*

**UNITED KINGDOM**

**Neville Koopowitz (GBP)**

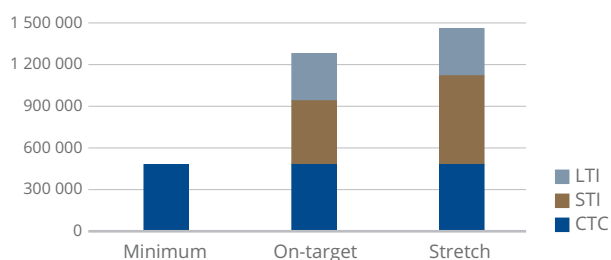


**Herschel Mayers (GBP)**



**UNITED STATES**

**Alan Pollard (US\$)**



**Malus and clawback**

Following shareholder feedback and in line with best practice, the RemCo has the discretion, where defined trigger events have taken place, to invoke *malus* (pre-vesting forfeiture) or clawback (post-vesting forfeiture). The *malus* and clawback provisions and its application, are governed by the Discovery *malus* and clawback policy, which is a related policy to the Discovery Remuneration Policy. The provisions will be incorporated in the relevant variable pay documents and rules.

Trigger events include the following:

- Material misstatement of financial results
- Fraud, dishonesty or gross misconduct
- Events or behaviour that have caused reputational damage to Discovery.

**Minimum shareholding requirement (MSR) policy**

Executives will be required to build personal holdings in Discovery shares to a minimum threshold level. They will have five years from date of introduction of the policy or appointment to Discovery to achieve the required holdings. The effective date of this policy will be finalised at the October 2019 RemCo meeting.

We have set out below the required holdings based on the level of the participant:

Role/Level	Number of Discovery shares
CEO	150 000
CFO and Executive Directors	87 500
Prescribed Officers	50 000

**Contract terms for Executive Directors and Prescribed Officers**

All Executive Directors are employed on employment contracts that can be cancelled by between one month and three months' notice by either the Executive or the company.

On voluntary termination of employment, all unvested awards are forfeited.

**Payments on termination of office**

Our policy provides for no ex-gratia payments on termination of office of Executive Directors and Prescribed Officers other than payments that are due under existing short- and long-term schemes.

## Guaranteed bonuses, sign-ons, buy-outs, retention and restraint of trade payments

Such payments are made when deemed necessary to attract and retain critical employees. These are approved by RemCo and disclosed appropriately.

## Fair and responsible pay

RemCo is interested in ensuring that remuneration is externally competitive and internally fair and free of any prejudice by race, gender or any other basis.

Management processes, including job grading, an annual salary benchmarking exercise and an annual income differential analysis exercise ensure that remuneration is primarily determined by market relatedness for the role size, and administered internally on an equitable basis.

RemCo has revised its workplan to include a review of the income differential analysis. RemCo also considers the inflationary pressures that burden the low-income earners. From 2014, RemCo established a minimum pay threshold, below which employees are awarded annual salary increases substantively higher than inflation. In 2019, this threshold was set at a cost to company remuneration of R140 000 per annum, and employees earning below this threshold were awarded increases of no less than 10%. RemCo also reviews the minimum cost to company remuneration level annually.

To ensure that pay is administered responsibly, RemCo has mandated a committee of executive management to assist RemCo in its role, and with day-to-day management of remuneration. This committee holds itself to the same standards as RemCo and reports to RemCo at every meeting.

Remuneration awards for Executive Directors and Prescribed Officers are approved by RemCo. RemCo tries to ensure that performance-linked pay is directly attributable to the efforts of management, and in reviewing incentive designs, RemCo strives to avoid remunerating for a "rising tide" effect. When reviewing proposals for new schemes or amendments to existing schemes, RemCo ensures that incentive payouts are capped, to avoid management benefiting from any windfall gains.

RemCo has mandated that management investigates suitable tools for the tracking, monitoring and appropriate reporting of the fairness of our pay practices. Discovery is currently undertaking this investigation in collaboration with PwC. Extensive consultations have already been held with key individuals in order to formulate a fair and ethical pay framework setting out various principles, which will guide the RemCo, in determining and setting remuneration. The framework will also set out the appropriate measurement tools to be used in order to monitor remuneration practices.

## Advisory vote on remuneration policy

The Board will table the remuneration policy for a non-binding advisory vote by shareholders at the AGM on a yearly basis.

In the event that the remuneration policy is voted against by 25% or more of the votes exercised, Discovery, in its voting results announcement following the AGM, will invite dissenting shareholders to engage with us.

## Non-executive Directors

Non-executive Directors receive a combination of fixed and meeting attendance fees for their participation on the Board and Board Committees. Non-executive Directors do not receive annual incentive awards. RemCo reviews the fees paid to Non-executive Directors annually taking into consideration the individuals' responsibilities and Board Committee membership.

The Board and RemCo Chairpersons are not present when their remuneration is reviewed.

From time to time, the fees are benchmarked to other local and international financial services companies and companies with similar market capitalisations to ensure the fees remain competitive. Recommendations are made to the Board for consideration and taken to the AGM for shareholder approval.

The Chairperson of the Board receives an all-inclusive retainer and does not receive any other fees or a retainer for attendance at Board or Committee meetings.

Non-executive Director fees are benchmarked every second year against a peer group. The latest benchmark exercise was conducted in 2019. The peer group review included Absa, Capitec, FirstRand, Nedbank, Standard Bank, Alexander Forbes, Liberty, Momentum Metropolitan Holdings, Old Mutual and Sanlam. As a result of this benchmarking exercise and in consultation with the Group external remuneration advisor, it is proposed for FY2020 that the fee structure be simplified to a fixed retainer basis only.

There is no limitation on the number of times a Non-executive Director may stand for re-election. Proposals for re-election are based on individual performance and contribution, which is reviewed by the Board.

Remuneration report *continued***PART 3:**

## IMPLEMENTATION REPORT

**Total incentive outcomes**

## FIXED REMUNERATION INCREASES

We award salary increases around CPI and have established a cost-to-company threshold, below which increases awarded are notably higher than CPI. The threshold is currently R140 000 per annum and is reviewed annually. Employees below the threshold (as reviewed annually) have received increases of around 10% per annum for the past few years.

	2018	2019
CPI (July headline)	5.1%	<b>4.0%</b>
Executive Directors	5.5%	<b>5.0 – 5.5%</b>
Management and Executives	5.5%	<b>5.5%</b>
Staff	5.5%	<b>5.5%</b>
Minimum salary	10%	<b>10%</b>

## SUMMARY OF 2019 TOTAL INCENTIVE OUTCOMES

	2018	2019	YoY change %
Director incentive (SA) <sup>5</sup>	15 854 686	<b>12 162 732</b>	(23.3%)
Participants	7 <sup>1</sup>	6 <sup>2</sup>	(14.3%)
Management incentives	265 575 285	<b>291 418 431<sup>3</sup></b>	9.7%
Participants	1 134	<b>1 297</b>	14%
Profit Pool	85 184 359	<b>74 503 140</b>	(12.5%)
Participants	203	<b>234</b>	15.3%
Discovery Bank incentive	–	<b>5 802 831<sup>4</sup></b>	–
Participants	–	<b>13</b>	–
<b>Annual bonus pool</b>	<b>366 614 330</b>	<b>383 887 134</b>	4.7%

**Notes:**

- 1 Reduced to six following Ricky Farber's resignation as an Executive Director in March 2018
- 2 Reduced to six following John Robertson's resignation as an Executive Director in August 2018
- 3 John Robertson reported under the management incentives and not the director incentives for 2019
- 4 New incentive scheme approved for selected Manager level and up employees within Discovery Bank
- 5 US and UK Executive Directors received increases in line with local inflation and are not included in the table above.

**FY2019 Executive Directors' and Prescribed Officers' remuneration**

The remuneration earned by the Executive Directors and Prescribed Officers during the year is shown below in single figure format. It reflects earnings received and due to each, based on performance over the period under review, in accordance with the guidance in King IV™ principles. All remuneration components are summed into a single total figure, which is representative of the quantum of remuneration most closely linked to performance during the year. Actual remuneration paid to Executive Directors and Prescribed Officers during FY2019 is reflected in the Directorate from page 163 in the Annual Financial Statements.

Specific notes follow after each table. The following generic notes apply to the single figure tables below:

- Other benefits include medical aid or insurance contributions and premiums, travel and other allowances.
- The performance bonus is made up of individual and profit pool portions of the STI scheme as well as payments from an outperformance scheme for the Directors in the United Kingdom.
- The LTIP is made up of the vesting tranches of prior year phantom awards that are measured up to FY2019, shown at closing fair value as at 30 June. Where applicable, the following schemes are also included: the Insure LTIP Scheme, the Vitality Group Cash-Settled Plan, the US TVG Stock Plan, and the UK Vitality Phantom Share Scheme. On vesting, the schemes pay out at a price linked to the vesting date.



**FY2019 EXECUTIVE DIRECTORS' AND PRESCRIBED OFFICERS' SINGLE FIGURE REMUNERATION**

	Base salary	Retirement fund	Other benefits	Performance <sup>1</sup> bonus	LTIP <sup>3</sup> reflected	Total
<b>SA Executive Directors (ZAR)</b>						
Adrian Gore	6 909 999	1 036 455	390 774	6 020 233	5 036 315	<b>19 393 776</b>
Deon Viljoen	4 509 995	688 044	77 262	4 390 734	893 509	<b>10 559 544</b>
Hylton Kallner	5 175 945	258 782	157 074	4 303 312	8 014 799	<b>17 909 912</b>
Ayanda Ntsaluba	4 337 529	325 292	252 210	4 386 786	3 384 060	<b>12 685 877</b>
John Robertson <sup>2</sup>	109 997	22 579	2 899	645 579	661 274	<b>1 442 328</b>
Barry Swartzberg	5 165 137	266 262	160 398	4 785 590	3 693 804	<b>14 071 191</b>
<b>Prescribed Officers (ZAR)</b>						
Jonathan Broomberg	4 863 411	243 156	149 744	4 043 405	2 596 134	<b>11 895 850</b>
Kenny Rabson	4 638 690	231 919	385 701	3 954 506	3 555 512	<b>12 766 328</b>
<b>UK Executive Directors (GBP)</b>						
Neville Koopowitz	908 949	10 000	23 859	963 855	694 279	<b>2 600 942</b>
Herschel Mayers	879 979	92 152	21 365	310 694	504 443	<b>1 808 633</b>
<b>US Executive Director (US\$)</b>						
Alan Pollard	454 760	9 097	17 683	338 046	340 538	<b>1 160 124</b>

**Notes:**

- <sup>1</sup> A portion of the profit pool payment (50%) has been deferred until 31 December 2020, however, the full award values are shown in the table.
- <sup>2</sup> John Robertson resigned as a Director on 31 August 2018. Values shown are two-month actuals for salary and benefits. The performance bonus and LTIP are pro-rated.
- <sup>3</sup> Refer to generic notes listed on page 114 for LTIP definition in addition to explanatory note on share price movement subsequent to year end on page 117.

**FY2018 EXECUTIVE DIRECTORS' AND PRESCRIBED OFFICERS' SINGLE FIGURE REMUNERATION**

	Base salary	Retirement fund	Other benefits	Performance bonus	LTIP reflected	Total
<b>SA Executive Directors (ZAR)</b>						
Adrian Gore	6 599 908	989 938	312 780	7 775 267	4 137 244	19 815 137
Deon Viljoen	4 276 751	652 174	71 400	5 189 623	- <sup>1</sup>	10 189 948
Hylton Kallner	4 913 396	245 654	141 276	6 401 534	17 566 662 <sup>2</sup>	29 268 522
Ayanda Ntsaluba	4 126 865	309 491	222 482	4 977 268	3 369 536	13 005 642
John Robertson	3 759 625	770 475	93 072	4 534 662	3 358 754	12 516 588
Barry Swartzberg	4 906 224	252 382	141 721	5 885 250	7 484 879 <sup>3</sup>	18 670 456
Richard Farber <sup>4</sup>	4 351 440	413 385	-	870 290	- <sup>1</sup>	5 635 115
<b>Prescribed Officers (ZAR)</b>						
Jonathan Broomberg	4 614 327	230 700	137 299	4 776 265	2 363 953	12 122 544
Kenny Rabson	4 404 152	220 191	357 983	4 599 255	4 136 244	13 717 825
Penny Moumakwa <sup>5</sup>	1 902 808	204 441	57 113	1 470 051	- <sup>1</sup>	3 634 413
<b>UK Executive Directors (GBP)</b>						
Neville Koopowitz	883 325	10 000	24 179	1 015 221	437 960	2 370 685
Herschel Mayers	886 437	95 318	21 773	828 724	329 467	2 161 719
<b>US Executive Director (US\$)</b>						
Alan Pollard	441 515	17 691	20 988	175 744	327 824 <sup>3</sup>	983 762

**Notes:**

- <sup>1</sup> No vesting awards for the period for Deon Viljoen and awards for Richard Farber and Penny Moumakwa forfeited upon resignation as Executive Director and Prescribed Officer, respectively.
- <sup>2</sup> Includes payment from Insure LTIP Scheme. This is a three-year scheme which ran from 2015 to 2017 and pays out a percentage of net value created to the management team, subject to profitability hurdles. Two thirds of individual payments are deferred and indexed to the Discovery share price. The first payment was delayed to 2017 and final payment will be made in 2021.
- <sup>3</sup> Includes portion of the Vitality Group Cash-Settled Share Plan. The Plan vests over the same period as the Phantom Share Scheme, because the awards do not have a performance condition, the full value is shown on award.
- <sup>4</sup> Executive Director until March 2018, and received a cost of living adjustment on relocation to Australia. Converted from Australian dollar.
- <sup>5</sup> Prescribed Officer until February 2018.

Remuneration report *continued*

## FY2019 remuneration outcomes for Executive Directors and Prescribed Officers

The explanation of the FY2019 total single figure remuneration outcomes for current Executive Directors and Prescribed Officers is provided below, with general comments on the cost-to-company cost increase, the profit pool payout and the phantom share payout. Specific context is provided for the individual portion of the short-term incentive for the Group Chief Executive and the Group Chief Financial Officer.

### GENERAL COMMENTARY

#### CTC

CTC increases are effective 1 July and is a total amount inclusive of the employee's contribution to retirement funding and other benefits. RemCo approved increases in CTC ranging from 5% to 5.5% for the Executive Directors and Prescribed Officers for financial year FY2019.

For international Executive Directors, inflation-related increases were awarded.

#### Short-term incentives

The Executive Directors and Prescribed Officers participate in an annual incentive scheme that consists of two portions:

1. The individual management incentive portion; and
2. The profit pool portion.

For the FY2019 awards, 50% of the profit pool for Executive Directors and Prescribed Officers has been deferred by 18 months and will pay in December 2020.

Both portions of the short-term incentive scheme are subject to *malus* and clawback provisions.

#### Profit pool portion

In determining the target growth and performance in normalised operating profit for funding the profit pool, consideration was given to the following factors:

1. The re-allocation of investment income in Discovery Life from insurance activities to shareholder income related to the implementation of Solvency Assessment and Management ("SAM") on 1 July 2018;
2. The significant investments in new initiatives including Discovery Bank; and
3. The realised profit on the partial sale of the Cambridge Mobile Telematics business.

The final determination resulted in a profit pool payout of **83.06%** of target. For Executive Directors and Prescribed Officers, 50% of this profit pool payment is deferred for 18 months to December 2020 as a retention mechanism and in recognition of the nature of certain of the above items. However, in terms of the rules applied for single figure determination, the full award is reflected in the single figure table on page 115.

#### Individual management incentive portion

The individual management incentive portion is based on a balanced scorecard of individual performance metrics.

The individual portions for the South African Executive Directors paid out from 65% to 99% of on-target, with some of the notable achievements and challenges being:

1. In the first half of the FY2019 year, an unexpected spike in large mortality claims within Discovery Life resulted in a marked reduction in normalised operating profit. However, new business was up impressively and other key business metrics performed well. Discovery Life also maintained its focus on growth through product innovation.
2. Discovery Health grew normalised operating profit and new business in spite of the challenging economic conditions. Discovery Health also continued to invest in digital technology, automation and data science as it pushes to become the lowest cost administrator in the market. Discovery Health also made advances on its objective of becoming the country's leading provider of integrated healthcare solutions to corporate clients.
3. Discovery Invest grew assets under administration by 12% resulting in a corresponding healthy growth in operating profit. Invest continued to introduce innovative products that leverage the Shared-Value business model. The Discovery Balanced Fund also performed particularly well, placing in the first quartile of its sector for three, five and ten years.
4. Discovery Insure's profits grew strongly over the period, driven by the growing quality of the in-force book and new business as a result of the efficacy of the Shared-Value business model. Discovery Business Insurance is gaining traction with a strong pipeline of new business.
5. Vitality Group's growth continues to impress. Financial performance was exceptional and membership is now at 3.6 million. Vitality Group also launched the Vitality1 platform that is being enabled rapidly and economically into new territories. During the period, Vitality Group also entered the South American market through partnerships with Ecuador's Saludsa and Equivida.

### Short-term incentives continued

6. The UK business produced strong results for the period. VitalityHealth's performance was exceptional and VitalityLife still produced positive results in a difficult economic environment. VitalityInvest showed slower than expected growth, but is starting to gain traction.
7. Although Vitality USA grew profits and membership impressively in a highly competitive employer market, the business also trailed behind in delivering against other strategic plans.

### Long-term incentive

The portions that vested based on performance measurements up to FY2019, included awards from 2014, 2015, 2016 and 2017. On testing the performance conditions for vesting, RemCo applied discretionary adjustments which took into account the following:

1. Significant investments in new initiatives; and
2. Recognition of the realised profits on the partial sale of the Cambridge Mobile Telematics business.

On these bases, all vesting tranches passed the performance test for vesting. However, given the share price deterioration subsequent to year-end following the publication of the NHI Bill in SA, a significant portion of share options due to vest is likely to have reduced or have no value at vesting on 30 September 2019, while the phantom share values and therefore the actual LTIP values that will pay out, are expected to be significantly lower than those reflected on the single figure table on page 115. For sake of consistency, the single figure table is compiled using a 30 June 2019 share price (R147.50) while vesting price is determined as the five-day volume weighted average price (VWAP) as at 30 September 2019, which the preliminary calculated VWAP at the end of September 2019 was approximately R114.58.



Remuneration report *continued***ADRIAN GORE**  
Group Chief Executive

	2018	2019	2019 pay mix	On-target pay mix
CTC	7 902 626	<b>8 337 228</b>	43%	39%
Individual incentive	3 315 014	<b>2 730 343</b>	14%	19%
Profit pool	4 460 253	<b>3 289 890</b>	17%	19%
LTI	4 137 244	<b>5 036 315</b>	26%	23%
<b>Total Remuneration</b>	19 815 137	<b>19 393 776</b>	100%	100%

**Variable remuneration**

Although FY2019 was a year of considerable complexity, the Group business and operating model ensured a resilient performance in this context.

As Adrian's scorecard was significantly weighted towards the Group's key financial metrics, the individual portion of his incentive paid out at 65,5%, which was largely driven by the FY2019 decline in earnings as a result of the unexpected spike in large mortality claims in Discovery Life in H1 and the closing out of Ambition 2018 at the end of the 2018 calendar year. Despite great progress being made against many of its metrics (a number of them being stretch targets), Adrian's score was impacted by operating profit of R8,2 billion being below the ambition target of R10 billion set 5 years ago.

Adrian's scorecard also had significant exposure to the public launch of Discovery Bank. Although the public launch of the Bank was slightly delayed, this allowed for refinement in its digital capabilities which will ensure an intuitive and excellent customer experience.

**DEON VILJOEN**  
Group Chief Financial Officer

	2018	2019	2019 pay mix	On-target pay mix
CTC	5 000 325	<b>5 275 301</b>	50%	46%
Individual incentive	2 367 500	<b>2 309 131</b>	22%	23%
Profit pool	2 822 123	<b>2 081 603</b>	20%	23%
LTI	-	<b>893 509</b>	8%	8%
<b>Total Remuneration</b>	10 189 948	<b>10 559 544</b>	100%	100%

**Variable remuneration**

Deon's scorecard included the successful execution of a number of initiatives that resulted in the individual portion of his incentive paying out at 87.6%.

*IFRS 9: Financial Instruments* and *IFRS 15: Revenue*, were successfully adopted and implemented, in addition to continuing work on IFRS 17 readiness.

Successful vendor consideration placement of equity was completed to fund the FirstRand buy-out for the Discovery Bank and DiscoveryCard business.

The group capital plan was maintained, and related funding requirements including syndicated loans and Domestic Medium-Term Note (DMTN) program were managed. The Financial Leverage Ratio was also maintained below the limit of 28%.

Deon's scorecard also reflected improved governance and control over operating expenses and capital expense budgets.



## Executive Directors' and Prescribed Officers' participation in the share incentive schemes

Executive Directors and Prescribed Officers participate in the following long-term incentive schemes that have not yet vested.

Name	2018	2019					
	Opening Number on 1 July 2018	Granted during 2019	Forfeited/lapsed during 2019	Exercised/settled during 2019	Closing number on 30 June 2019	Cash value received during the year	Closing Fair Value at 30 June 2019
	Number of awards	Number of awards	Number of awards	Number of awards	Number of awards	ZAR	ZAR
<b>Adrian Gore</b>							
Discovery Phantom Share Scheme	117 165	48 027		25 131	140 061	4 362 525	21 062 403
Discovery Phantom Options Scheme	50 680			26 823	23 857	1 896 516	716 665
<b>Barry Swartzberg</b>							
Discovery Phantom Share Scheme	70 654	11 274		22 224	59 704	3 857 812	8 978 318
Discovery Phantom Options Scheme	49 501			17 881	31 620		614 975
Vitality Group Cash-Settled Plan	254 244	250 644			504 888		5 713 945
<b>Ayanda Ntsaluba</b>							
Discovery Phantom Share Scheme	77 264	28 312		20 908	84 668	3 629 368	12 732 404
Discovery Phantom Options Scheme	73 251			17 881	55 370	1 264 354	822 312
<b>John Robertson</b>							
Discovery Phantom Share Scheme	89 875			20 835	69 040	3 616 652	10 382 303
Discovery Phantom Options Scheme	33 786			17 881	15 905	1 264 354	477 783
<b>Deon Viljoen</b>							
Discovery Phantom Share Scheme	98 235	30 388		18 946	109 677	2 748 335	16 493 190
Discovery Phantom Options Scheme	44 899				44 899		391 968
<b>Hylton Kallner</b>							
Discovery Phantom Share Scheme	447 346	32 211		41 057	438 500	7 127 033	65 941 585
Discovery Phantom Options Scheme	76 693			39 335	37 358	2 888 507	1 603 963
<b>Alan Pollard</b>							
Discovery Phantom Share Scheme	21 627	6 560		5 695	22 492	988 500	3 382 377
Discovery Phantom Options Scheme	41 647			9 783	31 864	646 398	694 915
Vitality Group Cash-Settled Plan	245 609	145 859			391 468		4 430 253
TVG Stock Plan	743 041			390 428	352 613		5 878 396
<b>Herschel Mayers</b>							
Discovery Phantom Share Scheme	19 303			11 351	7 952	1 970 325	1 195 889
Discovery Phantom Options Scheme	33 786			17 881	15 905	1 264 354	477 783
Vitality Phantom Share Scheme	34 117	14 041		6 498	41 660	3 815 893	29 198 171
Vitality Phantom Options Scheme	19 978				19 978		23 223 181
<b>Jonathan Broomberg</b>							
Discovery Phantom Share Scheme	59 080	22 709		14 324	67 465	2 486 494	10 145 342
Discovery Phantom Options Scheme	29 563			15 646	13 917	1 106 304	418 056

Remuneration report *continued*

Name	2018	2019					
	Opening Number on 1 July 2018	Granted during 2019	Forfeited/lapsed during 2019	Exercised/settled during 2019	Closing number on 30 June 2019	Cash value received during the year	Closing Fair Value at 30 June 2019
	Number of awards	Number of awards	Number of awards	Number of awards	Number of awards	ZAR	ZAR
<b>Kenny Rabson</b>							
Discovery Phantom Share Scheme	81 312	<b>22 709</b>		<b>25 440</b>	<b>78 581</b>	<b>4 416 121</b>	<b>11 816 966</b>
Discovery Phantom Options Scheme	62 911			<b>26 762</b>	<b>36 149</b>	<b>1 535 899</b>	<b>761 318</b>
<b>Neville Koopowitz</b>							
Discovery Phantom Share Scheme	47 365	<b>14 041</b>		<b>13 122</b>	<b>48 284</b>	<b>7 922 756</b>	<b>33 801 717</b>
Discovery Phantom Options Scheme	19 978				<b>19 978</b>		<b>23 223 181</b>

**Notes:**

The fair value of shares granted under the Discovery Limited Phantom Share scheme has been calculated using the closing share price of R150.38 at 30 June 2019 (2018: R147.50), adjusted for expected future dividends that will be declared by Discovery during the vesting period. The Black-Scholes model was used to calculate the fair value of the options.

**Termination of office payment**

There were no termination of office payments to Executive Directors or Prescribed Officers during the period.

**FY2019 Non-executive Director fees**

Payments to Non-executive Directors for the year ended 30 June 2019 for services rendered are as follows:

R'000	Services as directors	Other benefits	Total
R Enslin <sup>2</sup>	970	-	970
AL Owen <sup>3</sup>	2 755	194 <sup>1</sup>	2 949
MI Hilkwitz <sup>3</sup>	4 213	-	4 213
R Farber <sup>4</sup>	3 074	3 072 <sup>7</sup>	6 146
ME Tucker	1 477	-	1 477
SV Zilwa	1 741	-	1 741
Dr TV Maphai	1 011	-	1 011
SE De Bruyn	1 247	-	1 247
Dr BA Brink	1 306	-	1 306
HL Bosman <sup>5</sup>	1 448	-	1 448
FN Khanyile <sup>6</sup>	631	-	631
TT Mboweni	317	-	317
<b>Total</b>	<b>20 190</b>	<b>3 266</b>	<b>23 456</b>

<sup>1</sup> "Other benefits" comprise medical aid contributions, travel and other allowances.

<sup>2</sup> Directors fees for services rendered are paid in USD.

<sup>3</sup> Director's fees for services rendered are paid in GBP.

<sup>4</sup> Director's fees for services rendered by R Farber were paid in AUD and Rand components.

<sup>5</sup> Director's fees for services rendered by HL Bosman were paid to Rand Merchant Insurance Holdings Limited.

<sup>6</sup> Director's fees for services rendered by F Khanyile were paid to WDB Investment Holdings Proprietary Limited.

<sup>7</sup> Director's fees for services rendered to certain associate and subsidiary companies.

## Directors' and Prescribed Officers' 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:

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

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

## Non-executive Directors fee proposal for FY2020

The proposed FY2020 fees will be tabled at the AGM for approval as a special resolution. The FY2020 proposed fee structure has been simplified to a fixed retainer basis only, whereas the FY2019 fee structure was based on a retainer plus attendance fee structure. This proposal was done in consultation with the Group external remuneration advisor, including benchmarking against financial services industry practice.

	FY2019		Proposed FY2020 Excl VAT (if applicable) Retainer only
	Retainer	Excl VAT (if applicable) Per meeting attendance	
<b>Board</b>			
Chairperson	R 4 431 000		<b>GBP 300 000</b>
Member – SA based	R 211 000	R 35 350	<b>R 480 000</b>
Member – UK based	GBP 31 060	GBP 5 220	<b>GBP 66 000</b>
Member – AUS based	AUD 54 350	AUD 9 130	<b>AUD 120 000</b>
Member – USA and other non-SA based	USD 40 800	USD 6 760	<b>USD 82 000</b>
<b>Audit, Risk and Actuarial committees</b>			
Chairperson – SA based	R 237 590	R 27 500	<b>R 455 000</b>
Member – SA based	R 137 550	R 17 510	<b>R 260 000</b>
Chairperson – UK based	GBP 29 390	GBP 2 890	<b>GBP 48 000</b>
Member – UK based	GBP 8 870	GBP 1 225	<b>GBP 16 200</b>
Chairperson – AUS based			<b>AUD 54 600</b>
Member – AUS based	AUD 15 520	AUD 2 145	<b>AUD 31 200</b>
Chairperson – USA and other non-SA based			<b>USD 37 600</b>
Member – USA and other non-SA based			<b>USD 21 500</b>
<b>Remuneration, Social &amp; Ethics and any other committees</b>			
Chairperson – SA based	R 237 590	R 27 500	<b>R 364 000</b>
Member – SA based	R 137 550	R 17 510	<b>R 208 000</b>
Chairperson – UK based	GBP 29 390	GBP 2 890	<b>GBP 24 200</b>
Member – UK based	GBP 8 870	GBP 1 225	<b>GBP 13 800</b>
Chairperson – AUS based			<b>AUD 43 600</b>
Member – AUS based	AUD 15 520	AUD 2 145	<b>AUD 25 000</b>
Chairperson – USA and other non-SA based			<b>USD 30 100</b>
Member – USA and other non-SA based			<b>USD 17 200</b>
Non-resident director travel allowance		USD 2 700 per return leg	<b>USD 2 795 per return leg</b>

## Statement regarding compliance with the remuneration policy

The RemCo is satisfied that the remuneration policy as detailed in the 2019 Remuneration Report was complied with, with no substantial deviations from the policy during the year.

## Advisory vote on the implementation report

The Board will table the implementation report for a non-binding advisory vote by shareholders at the AGM on an annual basis. Discovery will announce the voting results following the AGM.

# GOVERNANCE AND ACCOUNTABILITY

## GOVERNANCE OVERVIEW

### Preserving our unique entrepreneurial spirit while ensuring good governance

We see governance as a critical component of value creation, promoting strategic decision-making that balances short-, medium- and long-term outcomes to reconcile the interests of the Group, stakeholders and society.

King IV™ forms the cornerstone of our approach to governance. As such, we support the overarching outcomes of King IV™, being the creation of:



ETHICAL CULTURE



GOOD PERFORMANCE



EFFECTIVE CONTROL



LEGITIMACY



Refer to our full online **Governance Report** for more information on how we go about achieving the four governance outcomes



## MAINTAINING AN ETHICAL CULTURE

The principles and recommendations contained in King IV™ are entrenched in our governance and risk management structures, policies and procedures. This informs the way we do business and forms the foundation from which we build an ethical culture throughout the Group. Above all, the Board leads ethically and effectively, thereby ensuring the sustainability of our business.

The Group's Ethics Office supports the Board, executives, management, and employees in cultivating an ethical culture throughout the organisation. Through the Social and Ethics Committee, the Ethics Office is also mandated to implement the Group's Ethics Strategy, which prioritises the integration of ethics across all areas of the business, including ethical leadership, our core values, promoting 'ethics talk' at all levels, and ongoing communication, training and awareness on these matters.

Our employees are required to confirm their understanding of the Group's ethical standards through an internal learning platform - thereby ensuring that a values-based culture is maintained throughout the Group. Furthermore, employees are encouraged to report any unethical behaviour through our anonymous whistle-blowing hotline, or report such behaviour directly to the Ethics Office, which oversees investigations that relate to reported unethical conduct and reports material breaches and trends to the Social and Ethics Committee.



## DELIVERING GOOD PERFORMANCE

The integration of our core purpose, strategy, Shared-Value business model, performance, sustainable development, as well as risks and opportunities, are crucial to creating value for our stakeholders. Our Board meets at least annually with the executive team and heads of control functions to develop and review a clear Group strategy. The Board ultimately approves this strategy, along with key performance measures and targets for all executives, and assisted by the Risk and Compliance Committee, oversees its implementation. The Group's strategy, business model, performance and sustainable development are assessed annually to ensure these areas are driven by and aligned with Discovery's core purpose. Furthermore, regular reports are provided to the Board on the sustainability of Discovery's business and its impact on the environment, communities and other stakeholders.

The Board Charter sets out the roles and responsibilities of the Board and the Charter is reviewed periodically to ensure it is aligned with King IV™. The Board, in turn, holds its Directors accountable based on integrity, competence, responsibility, fairness and transparency.

During the year, subsequent to a rigorous review process, a new Chairperson was appointed with effect from 1 March 2019. Ordinarily, the Board assesses and evaluates its own performance on an annual basis, as well as that of its Chairperson, the Board Committees and individual

Committee members. However, given the recent appointment of the new Chairperson, no Board effectiveness assessments were conducted during 2019. In the year ahead, regular assessments will resume, led by the Chairperson.

The Board is required to declare any conflicts of interest and recuse themselves from any such Committee meeting discussions. The independence of the Non-executive Directors and the Chairperson was assessed and found to be in accordance with the provisions of King IV™ and the Companies Act.



## ENSURING EFFECTIVE CONTROL

The Board is the focal point and custodian of corporate governance within Discovery. To this end, the Board ensures that corporate governance and good practice are inherent in the fulfilment of its responsibilities.

Our Company Secretary is responsible for ensuring that sound governance procedures are followed and maintained.

To ensure effective exercise of responsibilities, delegations of authority to the Board Committees and management are clearly defined, and indicates those matters reserved for the consideration of the Board and Group Chief Executive. The Board is satisfied that the delegation of authority framework allows for effective discharge of responsibilities. Our Board Chairperson and Group Chief Executive operate independently, and their roles are clearly defined in the Board Charter to ensure no individual has unrestricted decision-making power.

The Board Charter provides a formal and transparent appointment process for Board members. While the Board is ultimately responsible for the appointment of new Directors, it is assisted by an ad hoc Nominations Committee in the search for and vetting of candidates. Members of the Audit Committee are identified by the Board and recommended to the shareholders at the Group's Annual General Meeting. Non-executive Directors are appointed for a period not exceeding three years and are subject to re-election on a rotational basis. The re-appointment of Non-executive Directors is not automatic, and depends on the knowledge and skills required by the Board, the Director's fit, and the diversity targets determined by the Board.

Our remuneration philosophy, reviewed annually to ensure employees and the Board are remunerated fairly, responsibly and transparently, is aligned with our strategy and linked to individual performance. Assisted by the Remuneration Committee, the Board ensures all Directors, Executives and employees are remunerated in line with industry standards.

The governance of technology and information has been delegated to the Group Risk and Compliance Committee and is governed by our Information Technology Governance Charter, which guides the structure and mandate of technology within the Group, and is aligned to the requirements of the Board Committees, King IV™, assurance providers and regulators.



## MAINTAINING LEGITIMACY

Given our geographic footprint and the requirement to adhere to various local and international laws, rules, codes and standards, compliance is built into our corporate governance structures and frameworks. The Board is committed to developing and maintaining strong compliance management capabilities and culture, while providing appropriate protection to policyholders, clients and stakeholders by, among others, fostering an environment where regulatory compliance is embedded in the Group's culture, business planning, decision making and business activities. Furthermore, compliance with the applicable legislation, rules, standards and codes is monitored by an independent Group compliance function, established to support the Board, executives, management and employees to embed compliance into the culture, business principles, operational and management processes of the Group.

Stakeholder relationships are an important element of Discovery's business, and balancing the best interest of the Company with the interests and expectations of our stakeholders is paramount to the Board. We pride ourselves on our measurable corporate programmes that reflect both the importance of stakeholders' interest and the Group's core purpose. The Board's Social and Ethics Committee is responsible for implementing an inclusive approach to stakeholder engagement, and assists the Board with monitoring our relationships with stakeholders as a standing agenda item. Reports issued by Discovery are aimed at enabling stakeholders to make informed decisions of the Group's performance, as well as its short-, medium- and long-term prospects.

The Social and Ethics Committee is also tasked with ensuring that the Group is a responsible and active corporate citizen.

Governance and accountability *continued*

### Our leadership

The Discovery Board currently comprises 17 Directors with diverse industry knowledge, academic qualifications, skills and experience considering the size of the Group.

The majority of the Board are Non-executive Directors, most of whom are also independent. The Group Chief Executive and Group Chief Financial Officer (CFO) are members of the Board. The Chairperson of the Board is an Independent Non-executive Director and is not a Chairperson of any Board Committees.

The Board has oversight of the Board Committees, Group Executive Committee, Management Board Committees and Constituted Boards. Vitality UK, Vitality Group, Discovery Insure, Discovery Invest and Discovery Bank have a Board and governance structure that operate independently from the Group. Strong focus is given to ensuring the strength of our Management and Constituted Boards to entrench a focus on strong governance throughout the Group. The Board is satisfied with the composition of these structures.

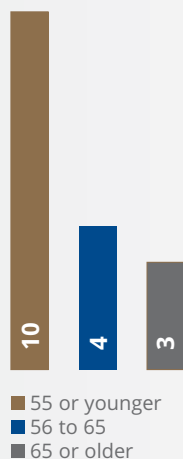
#### DIVERSITY

The diversity of our Board allows for enhanced decision making and the effective discharge of the Board’s governance responsibilities. The Directors have diverse industry knowledge, technical and academic qualifications, skills and experience, all of which are essential and necessary given the complexity of the Group’s businesses, both locally and abroad. The Board currently has eight Executive Directors, many of whom act as representatives from our subsidiaries. Given the Group’s diverse operations, we believe this representation allows for enhanced discussion and ultimately more informed decision-making. The Board periodically considers its composition in terms of its mix of knowledge, skills, experience, diversity and independence to discharge its role and responsibilities objectively and effectively.

Furthermore, diversity in race and gender forms an integral part of the way Discovery conducts its business. Discovery is committed to maintaining a working environment that is fair and non-discriminatory. The Board recognises that diversity encourages constructive debate and ensures it considers all its stakeholders.



**AGE**  
Number of Directors



**GENDER DIVERSITY**  
Number of Directors



**RACIAL DIVERSITY**  
Number of Directors



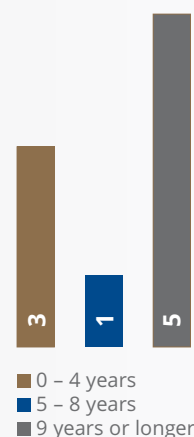
## BOARD TENURE

The composition and succession planning of the Board is reviewed regularly and, where necessary, recommendations are made. The members of the Board are evaluated to ensure the appropriate balance of knowledge, skills, experience, diversity and independence.

For those Directors who have served on the Board for more than nine years, the Board assesses each Director and is satisfied that there are no relationships or conflicts of interest that could affect their judgement. Furthermore, the Board is satisfied that the length of service will not adversely affect their decision-making capabilities.

While the Board is comfortable with the independence of the Directors, the Board is also aware that stakeholders require a focus on increasing independence through the review of, and potential addition of new members. The Board continues to review its composition and is committed to appointing new Directors in a mindful and considered manner, in order to protect stakeholder value through continuity to deliver robust governance and leadership.

**TENURE:**  
Number of Non-executive Directors



## Our Board

The Board formally meets six times a year to discuss and review a formal schedule of matters. At these meetings, the Directors discuss the development and implementation of the long-, medium- and short-term strategies of the Group, and engage with executive management on its implementation.

The table below reflects the Board attendance at meetings during 2019:

Board member	Board meetings
<b>Non-executive Directors</b>	
M Hilkwitz*	4/4
M Tucker**	2/2
HL Bosman	5/6
Dr B Brink	6/6
SE De Bruyn	5/6
R Enslin (resigned with effect from 19 June 2019)	4/6
R Farber	6/6
F Khanyile	6/6
Dr TV Maphai	6/6
TT Mboweni (resigned with effect from 1 October 2018)	1/1
AL Owen	5/6
SV Zilwa	6/6
<b>Executive Directors</b>	
A Gore	6/6
HD Kallner	6/6
NS Koopowitz	6/6
HP Mayers	6/6
Dr A Ntsaluba	6/6
A Pollard	5/6
JM Robertson (retired with effect from 31 August 2018)	1/1
B Swartzberg	6/6
D Viljoen	6/6
<b>Prescribed Officers</b>	
Dr J Broomberg	4/6
KS Rabson	6/6

\* Chairperson of the Board until 28 February 2019 when he retired

\*\* Chairperson of the Board with effect from 1 March 2019



Governance and accountability *continued***Our Board of Directors****Chairperson**

**MARK TUCKER (61)**  
**Discovery Limited Independent**  
**Non-executive Chairperson**

**QUALIFICATIONS:** BA (Hons), University of Leeds, ACA, ICAEW  
**APPOINTED:** 1 March 2019

**Non-executive Directors**

**HERMAN BOSMAN (50)**

**QUALIFICATIONS:** BCom LLB, LLM (cum laude), CFA  
**APPOINTED:** 14 April 2014

**RICHARD FARBER (48)**

**QUALIFICATIONS:** BCom (Hons), CA(SA), FCMA, CA ANZ,  
 MAICD  
**APPOINTED:** 1 July 2009

**Independent Non-executive Directors**

**DR BRIAN BRINK (67)**

**QUALIFICATIONS:** BSc (Med), MBBCh, DMed (Hon)  
**APPOINTED:** 19 February 2004

**SONJA DE BRUYN (47)**

**QUALIFICATIONS:** LLB (Hons), MA, SFA, Harvard Executive  
 Programme  
**APPOINTED:** 8 December 2005

**FAITH KHANYILE (52)**

**QUALIFICATIONS:** BA Econ, MBA (Finance), HDIP Tax,  
 Executive Leadership Programme  
**APPOINTED:** 1 October 2015

**DR VINCENT MAPHAI (67)**

**QUALIFICATIONS:** BA, BA (Hons), MPhil, DPhil, Advanced  
 Management Programme (Harvard)  
**APPOINTED:** 8 December 2005

**LES OWEN (70)**

**QUALIFICATIONS:** BSc (Hons), FPMI, FIA  
**APPOINTED:** 6 December 2007

**SINDI ZILWA (52)**

**QUALIFICATIONS:** BCompt (Hons), CTA, CA (SA), Advanced  
 Taxation Certificate (SA), Advanced Diploma in Financial  
 Planning (UOFS), Advanced Diploma in Banking (RAU)  
**APPOINTED:** 20 February 2003



Refer to **pages 6 to 13** of our full online **Governance Report** for more information on our Board of Directors

**Executive Directors**

**ADRIAN GORE (55)**  
**Founder and Group Chief Executive**

**QUALIFICATIONS:** BSc (Hons), FFA, ASA, MAAA, FASSA,  
 Honorary Doctorate Faculty of Commerce 2017 (Wits)  
**APPOINTED:** Founder

**HYLTON KALLNER (44)**

**QUALIFICATIONS:** BEconSc, FFA, FASSA  
**APPOINTED:** 3 June 2010

**NEVILLE KOPOWITZ (55)**

**QUALIFICATIONS:** BCom  
**APPOINTED:** 19 September 1999

**HERSCHEL MAYERS (59)**

**QUALIFICATIONS:** BSc (Hons), FIA, FASSA  
**APPOINTED:** 11 March 2000

**DR AYANDA NTSALUBA (59)**

**QUALIFICATIONS:** MBChB, MSc (London), FCOG (SA),  
 Executive MBA (SA)  
**APPOINTED:** 1 July 2011

**ALAN POLLARD (50)**

**QUALIFICATIONS:** BSc (Hons), FASSA  
**APPOINTED:** 30 August 2007

**BARRY SWARTZBERG (54)**

**QUALIFICATIONS:** BSc, FFA, ASA, FASSA, CFP  
**APPOINTED:** 3 August 1999

**DEON VILJOEN (54)**

**Group CFO**  
**QUALIFICATIONS:** BCom Accountancy (cum laude), BCom  
 (Hons), CA(SA)  
**APPOINTED:** 1 May 2017

**Prescribed officers of the Board**

**KENNY RABSON (51)**  
**CEO Discovery Invest and Employee Benefits**

**QUALIFICATIONS:** BSc FIA, FASSA

**DR JONATHAN BROOMBERG (58)**  
**CEO Discovery Health**

**QUALIFICATIONS:** MBBCh, BA (Hons), MSc, PhD

During the year, the following resignations and retirements were noted:

- Monty Hilkowitz retired as Chairperson with effect from 28 February 2019
- John Robertson retired with effect from 31 August 2018.
- Tito Mboweni resigned with effect from 1 October 2018.
- Robert Enslin resigned with effect from 19 June 2019.



## Our Board Committees

Discovery's Board of Directors acknowledges its responsibility to effectively discharge its duties, ensuring that the delegation of powers within our structures promote independent judgement. The Board is ultimately responsible and accountable for the governance, performance and strategy of the Group. To this end, the Board has delegated some of its responsibilities to appropriately constituted Board Committees. Five Board Committees have been established in line with the requirements

of the Companies Act and King IV™ to assist the Board in the fulfilment of its responsibilities. There is a clear balance of power to ensure that no individual, directly or indirectly, has undue decision-making powers.



Refer from **page 29** of our full online **Governance Report** for more information on our Board Committees

### AUDIT COMMITTEE

#### PURPOSE

The Audit Committee provides independent oversight of the integrity of the Annual Financial Statements and the effectiveness of the Group's internal audit, external audit and finance function.

The Audit Committee met seven times during the year and comprised the following members as at 30 June 2019:

Name	Board status	Appointment to committee	Number of meetings attended
SE De Bruyn	Discovery Independent Non-executive Director	November 2005	6/7
AL Owen (Chairperson)	Discovery Independent Non-executive Director	August 2008	7/7
SV Zilwa	Discovery Independent Non-executive Director	August 2003	6/7

### REMUNERATION COMMITTEE

#### PURPOSE

The Remuneration Committee assists the Board in ensuring the organisation remunerates fairly, responsibly and transparently. Furthermore, it oversees the implementation of the remuneration philosophy for Directors and makes recommendations to the Board regarding the remuneration structure and base fees for Non-executive Directors.

The Remuneration Committee met five times during the year and comprised the following members:

Name	Board status	Appointment to committee	Number of meetings attended
HL Bosman	Discovery Non-executive Director	July 2014	4/5
SE De Bruyn (Chairperson)	Discovery Independent Non-executive Director	August 2016	5/5
MI Hilkowitz*	Discovery Independent Non-executive Director	June 2009	3/3

\* Resigned as Board member with effect from 28 February 2019. A suitable replacement has been identified and is in the process of being ratified by the Board.

Governance and accountability *continued***RISK AND COMPLIANCE COMMITTEE****PURPOSE**

The Risk and Compliance Committee is tasked with, and responsible for ensuring that the material risks that could affect the Group are identified, evaluated and effectively managed and reported. In addition, the Committee is tasked with ensuring the Group's policies and processes are adequate to ensure compliance with the required legislative and regulatory requirements.

The Risk and Compliance Committee met six times during the year and comprised the following members as at 30 June 2019:

Name	Board status	Appointment to committee	Number of meetings attended
<b>HL Bosman (Chairperson)</b>	Discovery Non-executive Director	April 2015	6/6
<b>Dr Brian Brink</b>	Discovery Independent Non-executive Director	April 2015	6/6
<b>R Farber</b>	Discovery Non-executive Director	April 2015	5/6
<b>HD Kallner</b>	Discovery Executive Director	December 2015	6/6*
<b>AL Owen</b>	Discovery Independent Non-executive Director	April 2015	5/6
<b>D Viljoen</b>	Discovery Executive Director	May 2017	6/6
<b>A Rayner</b>	Group Executive	April 2015	6/6
<b>SV Zilwa</b>	Discovery Independent Non-executive Director	April 2015	6/6

\* Attended in person or by proxy.

**ACTUARIAL COMMITTEE****PURPOSE**

The Actuarial Committee provides assurance to the Board on all matters of an actuarial nature, including the identification, review and management of actuarial risks and the appropriateness of the assumptions underlying the product terms, liabilities and capital of the Group.

The Actuarial Committee, which is a non-statutory committee of the Board, met nine times during the year and comprised the following members as at 30 June 2019:

Name	Board status	Number of meetings attended
<b>R Farber</b>	Discovery Non-executive Director	8/9
<b>HD Kallner</b>	Discovery Executive Director	9/9*
<b>HP Mayers</b>	Discovery Executive Director	6/9
<b>AL Owen</b>	Discovery Independent Non-executive Director	8/9
<b>KS Rabson</b>	Group Executive and Prescribed Officer	7/9
<b>A Rayner</b>	Group Executive	9/9
<b>P Tripe (Chairperson)</b>	Independent Expert Actuary	9/9
<b>D Viljoen</b>	Discovery Executive Director	7/9

\* Attended in person or by proxy.

**SOCIAL AND ETHICS COMMITTEE****PURPOSE**

The Social and Ethics Committee is tasked with assisting the Board with the implementation and monitoring of strategies that facilitate social and economic development, as well as the integration of ethics and transformation within the Group.

The Social and Ethics Committee met five times during the year and comprised the following members as at 30 June 2019:

Name	Board status	Appointment to committee	Number of meetings attended
<b>Dr B Brink</b>	Discovery Independent Non-executive Director	May 2018	5/5
<b>HD Kallner</b>	Discovery Executive Director	May 2018	4/5
<b>F Khanyile</b>	Discovery Independent Non-executive Director	May 2018	5/5
<b>D Viljoen</b>	Discovery Executive Director	May 2018	5/5
<b>SV Zilwa (Chairperson)</b>	Discovery Independent Non-executive Director	May 2018	5/5

