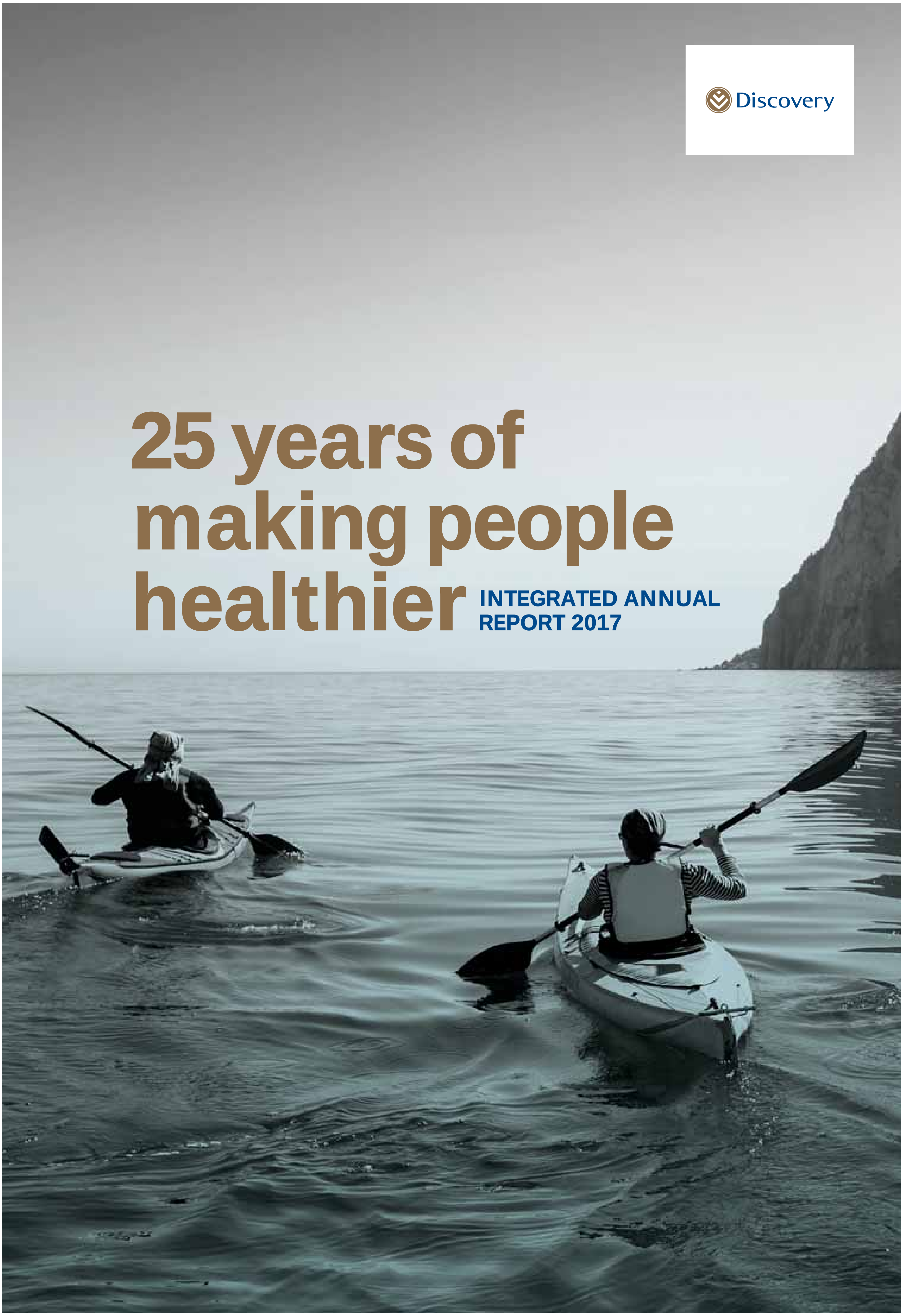


Discovery

25 years of making people healthier

INTEGRATED ANNUAL REPORT 2017

Contents

Indicates where further information can be found in this report

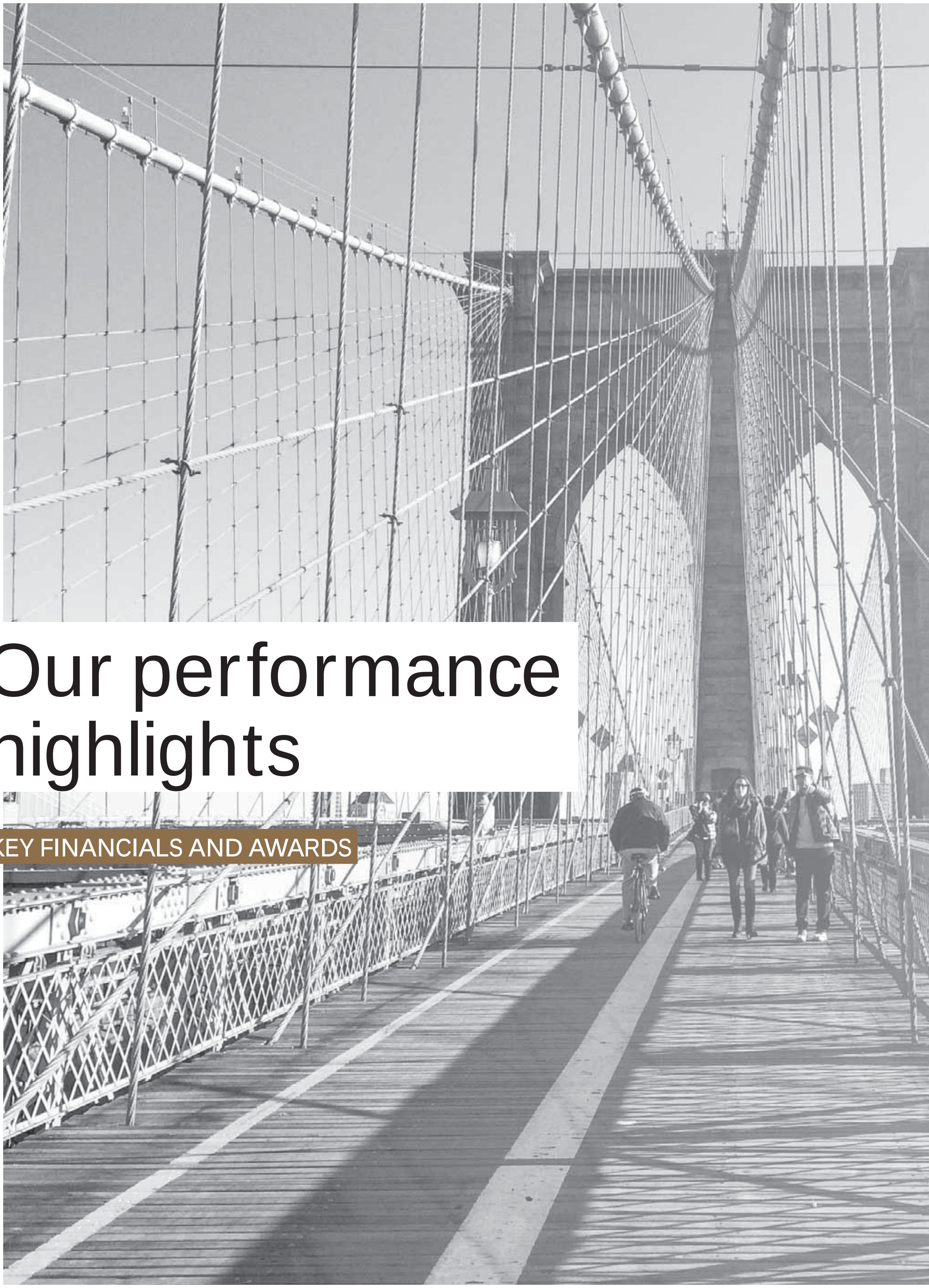
Indicates where further information can be found on our website, **www.discovery.co.za**

In 2017, Discovery marked **25 years of making people healthier and enhancing and protecting their lives. This core purpose was set at Discovery's inception,** when we started out as a specialist health insurer in 1992.

Our core purpose formed the basis on which Vitality, our scientifically validated health-promotion programme that draws on behavioural economics, was founded.

Operating in the healthcare, life assurance, short-term insurance, savings and investment products and wellness markets, Discovery is, today, **a global, integrated financial services organisation** that uses our pioneering Vitality Shared-Value Insurance model across businesses. With more than **12 000 permanent employees** and close to **10 million clients in 16 countries**, our model and emphasis on innovation deliver superior financial services products. These products offer better health and value for clients, and superior actuarial dynamics for partner insurers, thereby enabling a healthier society.

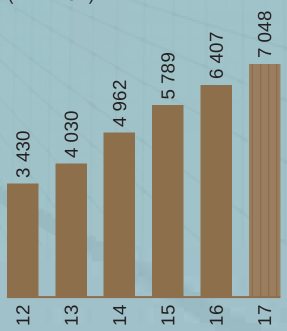
Looking to the future, **our ambition is to be the best insurance organisation in the world**, one known for our values, innovation and financial strength through our core business activities, **and a powerful force for social good.**



Our performance highlights

KEY FINANCIALS AND AWARDS

Normalised operating profit
(R million)



NORMALISED OPERATING PROFIT
△ 10% TO
R7 048 MILLION

ALL AFRICA BUSINESS LEADERS AWARDS 2016:

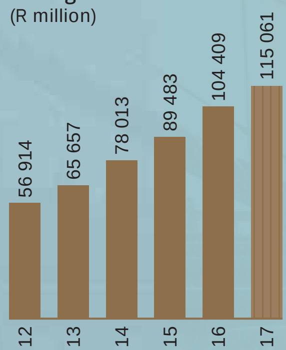
Discovery was recognised as

the Company of the Year – Southern Africa

Top Company of the Year across the African continent

GROSS INFLOWS UNDER MANAGEMENT
△10% TO
R115 061 MILLION

Gross inflows under management
(R million)



IN JANUARY 2017, **VITALITY GROUP WAS NAMED A LEADING HEALTH INNOVATOR** IN A REPORT RELEASED AT THE WORLD ECONOMIC FORUM IN DAVOS.

NORMALISED HEADLINE EARNINGS
△ 8% TO
R4 656 MILLION

NEW BUSINESS API
△ 16% TO
R16 993 MILLION

(Excludes take-on of closed medical schemes and gross revenue from Vitality Group.)

Our emerging businesses have made significant progress towards profitability, and we have managed the performance of our business well in the current economic climate, specifically in the United Kingdom.

Read more about the performance of each business in the Business Review section from **page 34**.

REVIEW FROM

ADRIAN GORE

Group Chief Executive

Our core purpose of making people healthier and enhancing and protecting their lives, rather than becoming diluted over time, has grown in relevance and applicability.

25 YEARS OF MAKING PEOPLE HEALTHIER

This year marks Discovery's 25th anniversary – a milestone in many respects. Yet, the business still feels remarkably young, with much to build and do. When we started Discovery, it was not with a clearly defined business plan or specific growth targets. We were inspired by the positive impact a large institution could have on society, by finding innovative solutions to societal needs. Thus, even though the business has grown remarkably in the past two decades, it retains its founding focus.

OUR BUSINESS MODEL IS EVEN MORE RELEVANT THAN BEFORE, AS WE HAVE THE ABILITY TO OFFER HEALTH, PROTECTION AND SAVINGS PRODUCTS THAT CREATE AND SHARE VALUE, AND ARE DYNAMIC. PEOPLE CAN MANAGE THEIR EVOLVING HEALTH AND WELLNESS NEEDS THROUGHOUT THEIR LIVES AND BE REWARDED FOR IMPROVEMENTS.

Our core purpose of making people healthier and enhancing and protecting their lives, rather than becoming diluted over time, has grown in relevance and applicability. This, along with our Vitality Shared-Value Insurance model, speaks directly to current trends:

1. Social expectations of business have increased, with a new generation of consumers demanding that organisations act not only as profitable entities, but purpose-driven ones too.
2. The global disease burden is now overwhelmingly lifestyle-based, with four risk factors (poor diet, physical inactivity, tobacco use, and excess alcohol intake) leading to four chronic diseases (cardiovascular disease, diabetes, chronic lung disease, and various cancers) that contribute to 60% of deaths and 80% of the disease burden.
3. Technology is playing an increasing role in healthcare, with one example being the proliferation of wearables devices and smartwatches in the market.

Our purpose and model address these trends directly, coming together in our Ambition 2018 of being the best insurer in the world, and a powerful force for social good.

To measure ourselves against this ambition, we have set three criteria delineating its components.
These are:

1. Social and financial impact
2. A unique foundation
3. Brilliant businesses

We have made significant progress across these criteria over the period – as you will see throughout the Integrated Annual Report. In addition, we have seen continued impact through our socio-economic development efforts and initiatives, and ongoing investment in our people.

1 SOCIAL AND FINANCIAL IMPACT

In terms of the financial impact pillar of our ambition, the nature of the Vitality Shared-Value Insurance model means that businesses are grown organically, guided by an earnings growth methodology that targets growth in normalised profit from operations of CPI +10% with a substantive investment in new initiatives (set at 10% of earnings). The emerging businesses that evolve from these new initiatives have a targeted profit growth of CPI +30%, and ultimately develop into established businesses, which are set a targeted profit growth of CPI +5%. The established group comprises the businesses of Discovery Health, Discovery Life, Discovery Invest, VitalityLife, and VitalityHealth. The emerging group consists of growing businesses with generally lower capital requirements than newer initiatives, namely Discovery Insure, Ping An Health, and Vitality Group. Finally, the new businesses include promising new initiatives that require significant investment, such as the intention to enter banking, and the UK investment business.

In terms of our earnings growth target of CPI +10%, earnings grew by 12% in constant currency terms during the period. The established businesses achieved the target of CPI +5% in constant currency terms, while the emerging businesses tracked above target showing a decrease in operating losses of 61%, although not yet significantly contributing to earnings. Further, 8% of earnings was invested in new initiatives.

This organic growth engine is supported by a three-tiered capital structure, which allows for regulated entities to be well capitalised, and for funding of all planned initiatives, while maintaining an additional liquidity buffer of between R1 billion and R2 billion. This was both true at the end of the financial year and throughout the five-year planning period. The required return of risk-free +10% continues to serve as a guide for the organisation's strategic decision-making and capital allocation. On an aggregate basis, the Group exceeded this target, both cumulatively to date, and for the expected return on current new business and approved initiatives. This gives us confidence that we have a robust framework within which to manage risk and capital, and deliver on our ambition.

In terms of social impact, the Group is now operating in 16 countries through seven insurers, serving close to 10 million clients, with over 150 000 new members added each month. Engagement levels over the period were excellent, with most markets experiencing Vitality take-up in excess of 40%. Engaged Vitality members continue to exhibit better health outcomes, and better driving and savings behaviour, while the launch of Vitality Active Rewards has seen a dramatic increase in physical activity levels globally.

2 A UNIQUE FOUNDATION

The engine for enabling our core purpose is the Vitality Shared-Value Insurance model, and the period saw important progress in developing the assets supporting it. The model guides and incentivises people to better health and driving behaviour, then measures engagement in these activities, and enables the dynamic pricing of risk accordingly. Independent research has shown that those engaging with the Vitality Shared-Value Insurance model live longer and have lower healthcare costs, resulting in improved profitability, a portion of which is channelled back into funding the incentives that drive positive behaviour change, thereby creating a virtuous cycle.

Over the past year, the Vitality Shared-Value Insurance model has seen continued expansion into new markets through partnerships with leading insurers, benefiting millions of clients and positively impacting the drivers of insurance profitability. In addition to Discovery's wholly-owned South African and UK businesses, Vitality Shared-Value Insurance partners include John Hancock in the United States, Manulife in Canada, Generali in Europe, AIA in Australia and South-East Asia, Ping An in China, and Sumitomo Life in Japan. Over the past year, the model expanded into Canada, Germany, Austria and France, with standalone Vitality Active Rewards in Hong Kong, Malaysia, the Philippines, Singapore, Sri Lanka and Vietnam. We also saw the launch of specialist Australian health insurer myOwn, a joint venture between Discovery, AIA Australia, and GMHBA Ltd.

Another important development over the year has been the effort invested in the Global Vitality Network (GVN). The mandate of the GVN is to bolster the global Vitality Shared-Value Insurance proposition and deliver ongoing value to insurance partners through data-driven innovation in health improvement. The network is supported by a centralised R&D function that focusses on partnership, programme, data, product, and brand assets to generate value for partners, and drive global recognition. The programme workstream, for example, is experiencing enhancements in the areas of healthy ageing, Vitality family, weight management, nutrition, and mental wellbeing, while in the brand stream, work was done to advance Discovery's leadership in owning the category of shared-value insurance. Earlier this year, the Shared Value Initiative and FSG (a leading social change consulting firm) released a white paper defining shared-value insurance as a subset of shared value, and featuring Discovery and its insurance partners as pioneers of shared-value insurance. This serves as an important independent endorsement of the model's uniqueness and impact.

The period also saw a growing sophistication in the technology assets employed by Discovery, the aggregate of which form the basis of Vitality Shared-Value Insurance. For example, within the Global Vitality Network, the initiation of a Continuous Mortality, Morbidity, Lapse and Engagement study, based on 40 million life years of behaviour-linked mortality and morbidity data, aims to create a centralised data architecture to support best practice shared-value product design and pricing, for optimal value and health outcomes. In addition, Vitality Active Rewards – our platform for tracking and rewarding physical activity – has seen phenomenal uptake and engagement globally. Ping An Life has reached 2.4 million members in only 12 months, with high member engagement levels. This has resulted in a significant increase in physical activity among members, and strong lapse and claims correlations. The organisation is therefore building a powerful *insurtech* asset, to be rounded out by the fintech approach being taken in our intent to enter banking.

3 BRILLIANT BUSINESSES

This criterion of our ambition sets out requirements for our businesses to:

1. Be insurgent in their markets
2. Offer sustainable products that meet complex consumer needs
3. Generate excellent member engagement
4. Deliver superior actuarial dynamics
5. Offer an exceptional service ecosystem

Over the period, all our businesses achieved at least four out of the five requirements, manifesting in a strong performance for the financial year. The core new business annualised premium income of the Group increased by 16% to R16 993 million[1] and normalised profit from operations increased by 10% to R7 048 million. All businesses performed strongly, with the emerging businesses making significant progress towards profitability, and the Group managing headwinds in the United Kingdom as a result of low-interest and unfavourable exchange rate movements.

THE ENGINE FOR ENABLING OUR CORE PURPOSE IS THE VITALITY SHARED-VALUE INSURANCE MODEL, AND THE PERIOD SAW IMPORTANT PROGRESS IN DEVELOPING THE ASSETS SUPPORTING IT. THE MODEL GUIDES AND INCENTIVISES PEOPLE TO BETTER HEALTH AND DRIVING BEHAVIOUR, THEN MEASURES ENGAGEMENT IN THESE ACTIVITIES, AND ENABLES THE DYNAMIC PRICING OF RISK ACCORDINGLY.

Over the period, Discovery Health increased normalised operating profit by 11% to R2 505 million, and new business by 18% to R6 109 million (excluding new restricted schemes). Discovery Health was also awarded the contract to administer the SAB, Glencore and Netcare Medical Aid Schemes, bringing its closed medical scheme client base to 18, with more than 635 000 lives under management, and total lives under management of 3.39 million. Discovery Health Medical Scheme (DHMS) performed strongly, ending the 2016 calendar year with a total surplus in excess of R1.3 billion, and net membership growing to a base of 2.76 million lives.

Discovery Health continued its significant innovation and investment in the healthcare system and digital healthcare assets over the period. This included further expansion in the homecare, pharmacy distribution and wellness operations; and enhanced value-based contracting with health professionals and hospital centres of excellence. Discovery Health continues to invest in technology and expertise to address the significant problem of medical scheme fraud, leading to recoveries of over R405 million for its client schemes during the 2016 calendar year.

Discovery Life also delivered a strong performance, with new business annualised premium income increasing by 17% to R2 175 million, with individual life new business annualised premium income (API) increasing by 12% to R1 970 million. Earnings increased by 10% to R3 588 million under challenging economic conditions.

Discovery Life's shared-value approach saw R986 million in PayBack being paid to policyholders in the 2016/2017 financial year.

Discovery Invest delivered a solid performance during the period under review, with operating profit growing 12% to R744 million, and performing well relative to competitors in a challenging market.

The Discovery Insure business continued its strong performance, with a cumulative profit for the second half of the financial year. New business API increased to R895 million (19% year-on-year growth) driven by particularly strong growth from all intermediated channels. This has brought the in-force premium to just short of R3 billion, indicative of the rapid scaling of the business and increased support for adoption of telematics insurance by the market.

During the period, the Vitality Shared-Value Insurance model was extended to the car rental industry through a partnership with Avis (Avis SafeDrive), giving its clients access to Discovery Insure's sensor and app technology, and rewards for good driving. This solution aims to curb the high accident rate in the rental industry, which is twice as high as the rate for private vehicles.

In terms of the intent to enter banking, significant progress has been made in developing the system infrastructure, operating processes, regulatory engagement and the customer value proposition, with a number of key milestones reached. Subject to the granting of a banking licence, Discovery anticipates being in a position to launch its proposed banking offering during the course of 2018.

1 *Core new business API excludes Discovery Health's take-on of new closed schemes and gross revenue in respect of the Vitality Group.*

Discovery's UK business, comprising VitalityHealth and VitalityLife, delivered a robust performance despite the complex economic landscape. For the combined business, new business increased by 1% to £118 million, insured lives approached the one million mark, and operating profit grew by 10% to £44.4 million.

The Vitality product enhancements launched at the end of 2016 have resonated strongly with the market, and we have seen significant behaviour change in the areas of physical activity and nutrition. The HealthyFood benefit with Ocado, which provides members with a discount of up to 25% on healthy food items, has resulted in a 19% increase in the healthy food share of members' baskets during the first six months of the benefit. Similarly, the inclusion of Apple Watch in the Active Rewards benefit has driven a 42% increase in the amount of physical activity points earned by members taking up the Apple Watch benefit in the six months from December 2016 to June 2017.

Vitality also plans to launch a suite of investment products in the first quarter of 2018, subject to regulatory approval.

Vitality Group's operating result improved by 39% (excluding Ping An Health), with the expectation that the business will reach profitability within the next financial year. Vitality membership grew 20% to 1.25 million, with Vitality-integrated insurance in-force premiums increasing by 226% to R2.7 billion year-on-year.

Vitality Group is pursuing a long-term strategy of investing heavily in a global systems platform, called Vitality One. This new technology platform will be faster, more cost-effective and fully configurable to the local realities of different international life and health insurance markets, which will enable Vitality Shared-Value Insurance to be rolled out to even more markets.

The period also saw in-market recognition of partner insurers: AIA Australia won the Customer Innovation award for Vitality at the Financial Services Life Insurance Awards, and AIA Hong Kong received five gold awards at Marketing Magazine's Mob-Ex Awards 2017 for the Active Rewards campaign. The French insurance magazine L'Argus de l'Assurance presented Generali Vitality with the Innovation of the Year Award for the Corporate Life Business segment.

Ping An Health performed excellently over the period, with membership growing by 428% to 3.7 million. Its annualised new business net premium increased 103% to RMB 1.6 billion year-on-year, driven largely by the success of an Internet product, with operating profit in rand terms increasing by 66%.

Vitality continues to gain traction throughout Ping An. Following its launch, Vitality Active Rewards with Ping An Life reached 2.4 million members in 12 months, with significant levels of engagement. Ping An Health also expanded its reach over the period, with the opening of a branch in Chengdu, the fifth most populous region in China.

A FORCE FOR SOCIAL GOOD

Our main means to improve society is through the value created and shared by our business model, which improves the health and wellbeing of clients around the world. In addition to this, Discovery has over the years systematically invested in improving the healthcare ecosystem in South Africa, through the Discovery Foundation. The Foundation has conducted a rigorous 10-year review, concluding that tremendous work has been done to retain medical specialists in the public sector. To date, the Foundation has invested almost R190 million towards 353 individual and institutional grants.

Furthermore, the Discovery Fund provides ongoing support to over 40 organisations in South Africa, with a focus on strengthening and improving health systems by developing human capital and skills. Two Discovery Fund flagship programmes are particularly worth mentioning. The first is the Safe Travel to School Programme, a partnership between Discovery Insure and Childsafe, which aims to make roads safer for school children travelling to and from school by reducing the number of school transport vehicles involved in road accidents. During the past year the programme increased the number of transport drivers involved to 492, with plans to expand its reach in 2018. Secondly, the Discovery Fund has partnered with the Department of Health in the Western Cape on a project that applies the principles of impact investing to improving public health outcomes. The project aims to improve health indicators for pregnant women and children up to five years of age.

VITALITY CONTINUES TO GAIN TRACTION THROUGHOUT PING AN. FOLLOWING ITS LAUNCH, VITALITY ACTIVE REWARDS WITH PING AN LIFE REACHED 2.4 MILLION MEMBERS IN 12 MONTHS, WITH SIGNIFICANT LEVELS OF ENGAGEMENT.

In addition, we have initiated initiatives that extend our mandate to be a force for social good. For example, the Discovery employee volunteer programme is an active force in the Gauteng community of Orange Farm, through a partnership with the City of Johannesburg. Our people are working closely with the community to address issues of unemployment, youth at risk, and health and wellness. This unique model of volunteering received global attention at the International Association for Volunteer Effort conference in Mexico City in October last year.

In terms of enterprise development, in 2016 we embarked on the Discovery Entrepreneurs Medtech Silicon Valley Programme, which provides local entrepreneurs with high-impact potential a unique opportunity to network and learn in a global market. Some 17 promising med-tech entrepreneurs, the majority of them representing black-owned businesses, were selected to participate in the programme in 2016. The programme culminated in a trip to Silicon Valley in November 2016, where they connected with med-tech experts working in a wide range of fields.

During the year, Discovery established a bursary scheme for relatives of employees, allocating R2.5 million annually, and a total of R25 million over a period of 10 years.

INVESTMENT IN OUR PEOPLE

Building the most brilliant team possible has been a key focus area for us, and we have invested significantly in strengthening recruitment processes to ensure we hire the best person for every role. Investments over the year include the adoption of a best-in-class recruitment system, refining Discovery culture fit traits, and an ongoing Quality of Hire retrospective study. Currently more than 1 500 candidates are screened on average per role – enabling us to truly select the best of the best.

We are also focussed on building and developing specialist skills through programmes such as the Adrian Gore Fellowship Award, which attracts the brightest and most promising Actuarial Science graduates to the business.

In terms of developing our leaders, work is underway on a Leadership Index to enable measurement of the quality of leaders at individual and organisational levels, to support an excellent and sustainable leadership pipeline. This Index will be rolled out across the organisation over the next 12 months. Additional initiatives include the development of transition programmes for new and senior managers, and accelerated development programmes for top leadership.

Finally, we continue to work on achieving an inclusive and transformed workforce. Recruiting, developing and retaining black South Africans in senior positions remains a key priority. Some initiatives undertaken to support transformation and inclusion include oversight of the transformation strategy and initiatives implementation by the Group Employment Equity Talent Committee; sourcing black talent through partnerships with black professionals' associations, for example, the Black Management Forum; putting in place high-quality individual development and retention plans for black top talent; and formal mentoring of black top talent by senior Discovery leaders who model exemplary values-based leadership.

LOOKING AHEAD

We continue to work towards achieving our ambition and, after 25 years, we have today built a robust business.

Accordingly, we have more responsibility – to our customers, partners and society. This 25-year milestone serves as a key motivation to focus on the future – and the considerable impact we can have in the years to come.

REVIEW FROM

DEON VILJOEN

Discovery Financial Director

The 2017 financial year showed a robust performance by the Group. We believe our unique Vitality Shared-Value Insurance model, together with a well-diversified business, by industry and geography, and a strong focus on innovative product design will enable us to continue to perform well relative to the wider industry.

The 2017 financial year showed a robust performance by the Group, despite it being a year characterised by global sociopolitical and economic uncertainty. We believe our unique Vitality Shared-Value Insurance model together with a well-diversified business, by industry and geography, and strong focus on innovative product design will enable us to continue to perform well relative to the wider industry.

CORE NEW BUSINESS ANNUALISED PREMIUM INCOME INCREASED 16% TO R16 993 MILLION AND NORMALISED PROFIT FROM OPERATIONS INCREASED TO R7 048 MILLION (+10%).

Core new business annualised premium income (excluding the volatility caused by on-boarding of new closed schemes and gross revenues from the Vitality Group) increased 16% to R16 993 million and normalised profit from operations increased to R7 048 million (+10%). These results were negatively impacted by the strengthening of the rand against sterling and in constant currency terms, core new business annualised premium income grew by 22% to R17 871 million and normalised profit from operations grew by 12% to R7 190 million. This demonstrates an acceleration in new business growth with strong operating profit gains, notwithstanding our continuing spend on new strategic initiatives. Normalised headline earnings increased to R4 656 million (+8%). In order to facilitate analysis of the results, the Group traditionally provides "Normalised" results which adjust for once-off, non-trading items or accounting adjustments to better reflect the economic substance of transactions.

The below table shows the reconciliation of profit from operations according to the Income Statement to normalised profit from operations.

R million	Group 2017	Group 2016	% change
Profit from operations	**6 245**	5 803	8%
Investment income earned on shareholder investments	**(150)**	(265)	
Net realised gains on available-for-sale (AFS) financial assets	**(8)**	(5)	
Rebranding and business acquisition expenses	**99**	365	
Amortisation of intangibles from business combinations	**171**	275	
Share of net profits/(losses) from equity-accounted investments	**26**	(66)	
Additional 54.99% share of Discovery Card after tax profit		86	
IFRS reporting adjustments			
– UK Life[1]	**103**	214	
– Deferred tax asset (Discovery Life)[2]	**562**		
Normalised profit from operations	**7 048**	6 407	10%

1 *The VitalityLife results, for business written on the PAC license, are reclassified to account for the contractual arrangement as a reinsurance contract under IFRS 4.*

2 *The accounting impact on operating profit in respect of the recognition of a deferred tax asset arising from the Discovery Life Individual Policyholder Fund (IPF) has been excluded from normalised profit from operations for segmental purposes (See the financial highlights section for more detail on this item).*

Detailed business reviews can be found on **page 34** to **93**.

The table below shows the reconciliation between earnings, headline earnings and normalised headline earnings:

R million	Group 2017	Group 2016	% change
NET PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS	**4 411**	3 655	21%
Gains from business combinations		(8)	
Gains on disposal of property & equipment	**(1)**	(2)	
Realised gains on AFS financial assets net of CGT	**(6)**	(4)	
HEADLINE EARNINGS AS REPORTED	**4 404**	3 641	21%
Accrual of dividends payable to preference shareholders	**(1)**	(4)	
Additional 54.99% share of Discovery Card profits		86	
Amortisation of intangibles from business combinations net of deferred tax	**154**	224	
Rebranding and business acquisition expenses	**99**	365	
NORMALISED HEADLINE EARNINGS	**4 656**	4 312	8%

Embedded value grew to R57 294 million (+8%) from R53 080 million in the prior year despite the negative translation impact from the appreciation of the rand and investment in new and developing businesses. Return on embedded value increased to 10.2% pa, a considerable increase over the prior year's return of 2.6% pa (prior year supressed by increase in the beta assumption). Experience variances were marginally positive, driven by strong positive experience variances in Health and Vitality in South Africa, offset against negative variances in Life and Invest. Almost half of the negative variances in Life and Invest are attributable to economic variances (volatile with deviations expected to average out over time) and management is in the process of implementing specific action to mitigate the balance of variances observed.

Financial highlights 2017

PROGRESS AGAINST DISCOVERY'S ORGANIC GROWTH METHODOLOGY

- In terms of financial impact, the nature of the Vitality Shared-Value Insurance model means that businesses are grown largely organically, guided by an earnings growth methodology that targets operating profit growth of CPI +10% with a substantive investment in new initiatives (set at approximately 10% of earnings). The emerging businesses that evolve from these new initiatives have a targeted profit growth of CPI +30%, and ultimately develop into established businesses, which are set a targeted profit growth of CPI +5% overall. In terms of our earnings growth target of CPI +10%, earnings grew by 12% in constant currency terms during the period. The established businesses marginally exceeded the target of CPI +5% in constant currency terms, while the emerging businesses tracked above target showing a decrease in operating losses of 61%, although not yet significantly contributing to earnings. Further, 8% of earnings was invested in new initiatives, which include Discovery's intent to enter banking, the planned UK investment business, a commercial offering in Discovery Insure, and Discovery Invest's Umbrella Fund offering.

* *CPI of 4.8% (weighted average of CPI at 30 June 2017 in South Africa, United Kingdom, United States of America and China, weighted by the proportion of group earnings from those regions).*

Investment income reduced from R265 million in FY 2016 to R150 million in FY 2017. This is a result of proceeds from the rights offer in April 2015 only being fully deployed towards the end of H1 2016.

Borrowings were increased in H2 2016, which, together with additional borrowings raised in the current financial year in line with funding plans, contribute to the year-on-year increase in finance charges to R478 million (2016: R293 million).

Read more about borrowings on **page 14**.

Recent tax amendments for South African Life companies introduced a fifth fund known as the "Risk Policy Fund" for all new risk business written effective 1 July 2016. In terms of the legislation, Discovery Life has elected to move existing risk business to this fund. As a result, a portion of the assessed loss of R16.5 billion in the Individual Policyholder Fund is now expected to be utilised over time. No deferred tax asset was previously recognised in respect of this assessed loss. A value of R562 million, implicit in the valuation of insurance contract liabilities has therefore been reclassified and recognised as an explicit deferred tax asset in terms of IAS 12: Income Taxes. The impact of this recognition on the Statement of financial position is an increase in the "Deferred tax asset" of R562 million and a corresponding increase in "Liabilities arising from insurance contracts". The impact on the Income statement is an increase in "Transfer from liabilities under insurance contracts" of R562 million and a corresponding decrease in "Income tax expense". Although this impacts the Group's operating profit and tax expense, there is no impact on profit after tax.

CHALLENGES EXPERIENCED IN 2017

The economic uncertainty surrounding the UK's decision to leave the European Union has had a number of implications for VitalityLife. The most significant being low and volatile long-term interest rates, which have negatively impacted profitability (prior period second tier margin releases led to a reduction of approximately 25% in the current period earnings). Management responded with a drive towards more capital efficient products and a focus on business mix resulting in an improvement in Value of New Business (VNB) margin to 36% for the financial year. The new structure is robust in the current environment with potential upside should interest rates increase, which is the expectation considering the current negative real yield environment.

CAPITAL, CASH MANAGEMENT AND THE USE OF FINANCIAL REINSURANCE

Our capital management philosophy served us well during the year with the cash buffer increasing to R1.6 billion and our Financial Leverage Ratio well within the 28% risk appetite at 26.7% as at 30 June 2017.

Discovery's capital management framework comprises three components:

1 **Statutory/required capital:** Regulated entities are capitalised in line with regulatory solvency requirements at a 1-in-200-year level, but with an additional buffer to ensure that after a 1-in-25-year event we remain compliant with the regulatory 1-in-200 level.

2 **Allocated capital:** Based on robust, prudent 5-year business plans, this is the amount of liquid and tangible assets across the Group (in excess of what is required to meet the entities' statutory/capital requirements) that can be made available to the Group to meet funding requirements for all known strategic initiatives (including funding for new business strain) with explicit buffers for prudence and a general margin for uncertainty. These assets are sourced both internally from retained earnings and externally from FinRe and debt (subject to the 28% FLR constraint).

3 **Buffer:** Discovery aims for an additional general buffer on a Group-wide basis of R1 billion to R2 billion at all times.

Discovery's objective regarding capital management is capital optimisation and value creation for the Group while keeping within the Group's stated risk appetite, meeting regulatory requirements, and allowing for the Group's investment strategy.

In capital allocation decisions, reference is made to the Group's required hurdle rate of risk-free +10%.

The Group's Return on Capital for the year ended 30 June 2017 was 14.4% (2016:13%), still reflecting the dilution caused by the R5 billion rights issue in April 2015, given that some of the proceeds were deployed in new initiatives which will only become profitable over time.

The table below summarises the minimum statutory capital across material Group subsidiaries and the actual solvency capital held as a percentage of this requirement, for each of them at 30 June:

			Actual solvency	
Insurance operations	Jurisdiction	Statutory solvency requirement	2017	2016
Discovery Life	South Africa	1 x Statutory Capital Adequacy Requirement (CAR)	**388%**	356%
Discovery Insure	South Africa	1 x Statutory Capital Adequacy Requirement (CAR)	**221%**	265%
VitalityHealth Limited	United Kingdom	1 x Solvency Capital Requirement under Solvency II	**145%**	140%
VitalityLife Limited	United Kingdom	1 x Solvency Capital Requirement under Solvency II	**215%**	295%

The Solvency Assessment and Management regulatory regime, expected to be effective in South Africa for FY 2019, will also introduce a Group statutory capital requirement. Discovery has been monitoring and reporting its Group statutory capital position to the Financial Services Board as part of the industry wide parallel run exercise. The implications of the new regime have been considered when formulating the capital management strategy going forward.

FINANCIAL LEVERAGE RATIO

As part of the capital management process, the Group monitors its capital structure utilising the Financial Leverage Ratio (FLR). This ratio is calculated as total debt divided by total debt plus total equity. The Group's strategy is to maintain a prudent Financial Leverage Ratio broadly in-line with industry norm. Per Discovery's Group Risk Appetite statement, an FLR not exceeding 28% should ideally be maintained. The table below summarises the Financial Leverage Ratio at 30 June:

R million	2017	2016
– Borrowings at amortised cost	**8 524**	5 400
– Amount owed to previous joint-venture party[3]	**3 080**	4 248
– Guarantees issued for reinsurance contracts	**171**	1 322
Total debt and guarantees	**11 775**	10 970
Total equity	**32 290**	30 607
Financial Leverage Ratio (%)	**26.7%**	26.4%

3 The amount owing to Prudential Assurance Company Limited ("PAC") is in respect of life business in the United Kingdom originally written on PAC's statement of financial position.

BORROWINGS AT AMORTISED COST

An analysis of borrowings at amortised cost is provided below:

R million	2017	2016	Change
SA borrowings	**5 999**	3 015	2 984
UK borrowings	**2 175**	2 224	(49)
Other borrowings	**350**	161	189
Total	**8 524**	5 400	3 124

SA BORROWINGS

The increase in SA borrowings is largely attributable to Discovery utilising the remaining R2 billion of its R5 billion bank-syndicated loan programme entered into in June 2016. A 10-year loan-facility agreement of R650 million was concluded by a subsidiary, of which R495 million was utilised in the current financial year. On 30 June 2017, Discovery Limited issued 5-year Investment Notes totalling R500 million with a floating interest rate linked to a 3-month JIBAR. The main uses of the borrowings related to funding new business strain in the UK and investment in new and developing businesses.

UK BORROWINGS

The growth in UK borrowings of £15 million from £113 million to £128 million needs to be viewed in the context of the reduction in Negative Reserve Funding. Prior to April 2015, the new business costs of the VitalityLife business (Negative Reserves) were funded by Prudential Assurance Company Limited (PAC). The Negative Reserve Funding liability has reduced as a result of repayments to PAC as well as the set off of a security deposit of £147 million held by PAC.

Post April 2015, acquisition of new business was funded by drawing down on bank facilities (Cash FinRe is also used by VitalityLife to fund new business strain – see note on FinRe below).

FINANCIAL REINSURANCE (FINRE)

Cash FinRe with recourse

The use of Cash FinRe by VitalityHealth and Discovery Insure necessitated the provision of guarantees for the repayment of balances owing to the reinsurers. Discovery Insure's use of FinRe was discontinued 1 July 2015. These outstanding guarantees are deemed to be debt in our calculation of the FLR and have reduced significantly from R1 322 million at 30 June 2016 to R171 million at 30 June 2017 as a result of the recapture of Cash FinRe by VitalityHealth (refer Cashless FinRe note below).

Cash FinRe without recourse

In Discovery Life (on an ad hoc basis) and VitalityLife (with effect from 1 January 2016), cash financial reinsurance is also used as a means of funding. The upfront cash is received from the reinsurer which generates a liability equal to the expected repayment. The impact on earnings over the duration of the contract is limited to the cost of funding. Discovery Life and VitalityLife's cash financing reinsurance is risk transfer reinsurance, which means that the reinsurer accepts risk (and some upside) on their reinsured block of business. As there are no financial guarantees or recourse, if the experience is worse than expected (eg higher lapses or higher claims), the outstanding balances are not considered as borrowings and are excluded from our calculation of the FLR.

Cashless FinRe

Discovery Life utilises cashless FinRe achieved by combining the sale of guaranteed endowments with a reinsurance structure which, together with the negative reserve, allows cash generated by guaranteed endowments to be freed up as liquidity funding. In other words, cash is received from the policyholders and the reinsurer protects against the lapse risk (the reinsurance piece is cashless). As no upfront cash is received from the reinsurer, there is no liability to the reinsurer and no impact on the FLR.

VitalityHealth makes use of FinRe in order to offset high acquisition costs that create an upfront cashflow strain upon the sale of a new policy. This enables VitalityHealth to better match these costs with the emergence of acquisition cost loadings, priced into the VitalityHealth product. Previously, VitalityHealth utilised Cash FinRe where the reinsurer made a financing deposit at the outset of the contract. This upfront financing was recognised as income. Thereafter, the repayment to the reinsurer and the cost of funding was expensed to the income statement. Under Solvency II, this funded FinRe was no longer permitted to contribute to solvency levels, enabling VitalityHealth to switch to a more cost effective solution, namely Cashless FinRe. This was done by recapturing GBP 49.6 million of reinsurance obligations under existing cash FinRe treaties (expense of R858 million in the "Recapture of reinsurance" line in the income statement) and replacing this with new cashless FinRe recognised in the "Recovery of expenses from reinsurers" line. The structure of Cashless FinRe is simply an unfunded version of Cash FinRe. Rather than financing being paid upfront by the reinsurer, a debtor is recognised by VitalityHealth for that financing. The debtor is amortised as premiums and claims are ceded to the reinsurer over a period of 7 years.

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 average exchange rates for consolidation purposes. A stronger average rand exchange rate during 2017 resulted in a decrease in the rand equivalent of foreign profits (mostly GBP denominated) and a decrease in the rand equivalent of foreign losses (mostly USD denominated).

Average exchange rate	2017	2016	% change
Rand/GBP	**17.29**	21.44	(19%)
Rand/USD	**13.61**	14.6	(7%)
Rand/RMB	**2.00**	2.25	(11%)

Who we are today

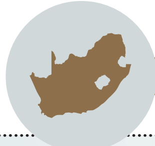
Our business and where we operate

Discovery

DISCOVERY PRIMARY MARKETS

In our primary markets of South Africa and the United Kingdom, we own and operate the financial services provider or insurer.

In South Africa and the United Kingdom, we build on our business model by developing unique insurance, investment and financial services businesses, and assets that strengthen Shared-Value Insurance (Vitality integrated with insurance).



South Africa

In South Africa, Discovery operates in the industries of health insurance, life assurance, long-term savings and investments, short-term insurance, credit card and wellness.

Discovery received formal authorisation from the Registrar of Banks to establish a banking presence in South Africa subject to meeting certain conditions, and the proposed offering is planned to launch during the course of 2018.

Discovery Health

Discovery Insure

Discovery Life

Discovery Vitality

Discovery Invest

Discovery Card

UK

In the United Kingdom, we operate in the private medical insurance, long-term protection, and wellness markets. In the period under review, investment was also made into developing an investment venture in the United Kingdom that will apply knowledge gained from Discovery Invest in South Africa.

Vitality

HEALTH AND LIFE INSURANCE

Global Vitality Network

TAKING THE ASSETS OF SHARED-VALUE INSURANCE GLOBAL

All of Discovery's businesses and partnerships apply the Vitality Shared-Value Insurance model. The assets, including partnerships, health-promotion programmes, data and other product and brand assets have been centralised in the Global Vitality Network.

OPERATING IN 16 COUNTRIES WITH 12 000 PERMANENT EMPLOYEES IMPACTING CLOSE TO

10 MILLION LIVES

AROUND THE WORLD

VITALITY GROUP

The Vitality Group in the United States and Discovery Partner Markets that managed partnerships with leading insurers have been restructured in the year under review to become Vitality Group. Vitality Group is a larger business with a unified strategy, executive team and a consistent approach to products, partners and systems.

Through Vitality Group, we bring the intellectual property and assets of Discovery to leading global insurers across the world. We form partnerships and joint ventures to implement Vitality Shared-Value Insurance and to lead innovation in the financial services and insurance sectors.

EQUITY INSURANCE PARTNERSHIPS

China

In China, Discovery has a 25% partnership with the Ping An Group of China through Ping An Health, and offers Shared-Value Insurance products with Ping An Life.

US CORPORATE BUSINESS

US

Offers standalone corporate wellness initiatives, manages partnerships and global expansion of Shared-Value Insurance and bringing the assets of the Global Vitality Network to leading global insurers.

CONTRACTUAL INSURANCE PARTNERSHIPS

Pan-Asia

A Shared-Value Insurance offering integrated with life insurance, available in Singapore, Australia, the Philippines, Hong Kong, Macau, Thailand, and Malaysia, with further launches planned. A joint venture between Discovery, AIA Australia, and GMHBA Ltd also saw the launch of a new Australian health insurer, myOwn.

Europe

A fully-integrated Shared-Value Insurance offering that combines Vitality with life assurance, currently available in Germany and France.

US

A fully-integrated Shared-Value Insurance offering that combines Vitality with life assurance.

Canada

A fully-integrated Shared-Value Insurance offering that combines Vitality with life assurance.

Japan

Will be developing a fully-integrated Shared-Value Insurance offering that combines Vitality with life assurance.

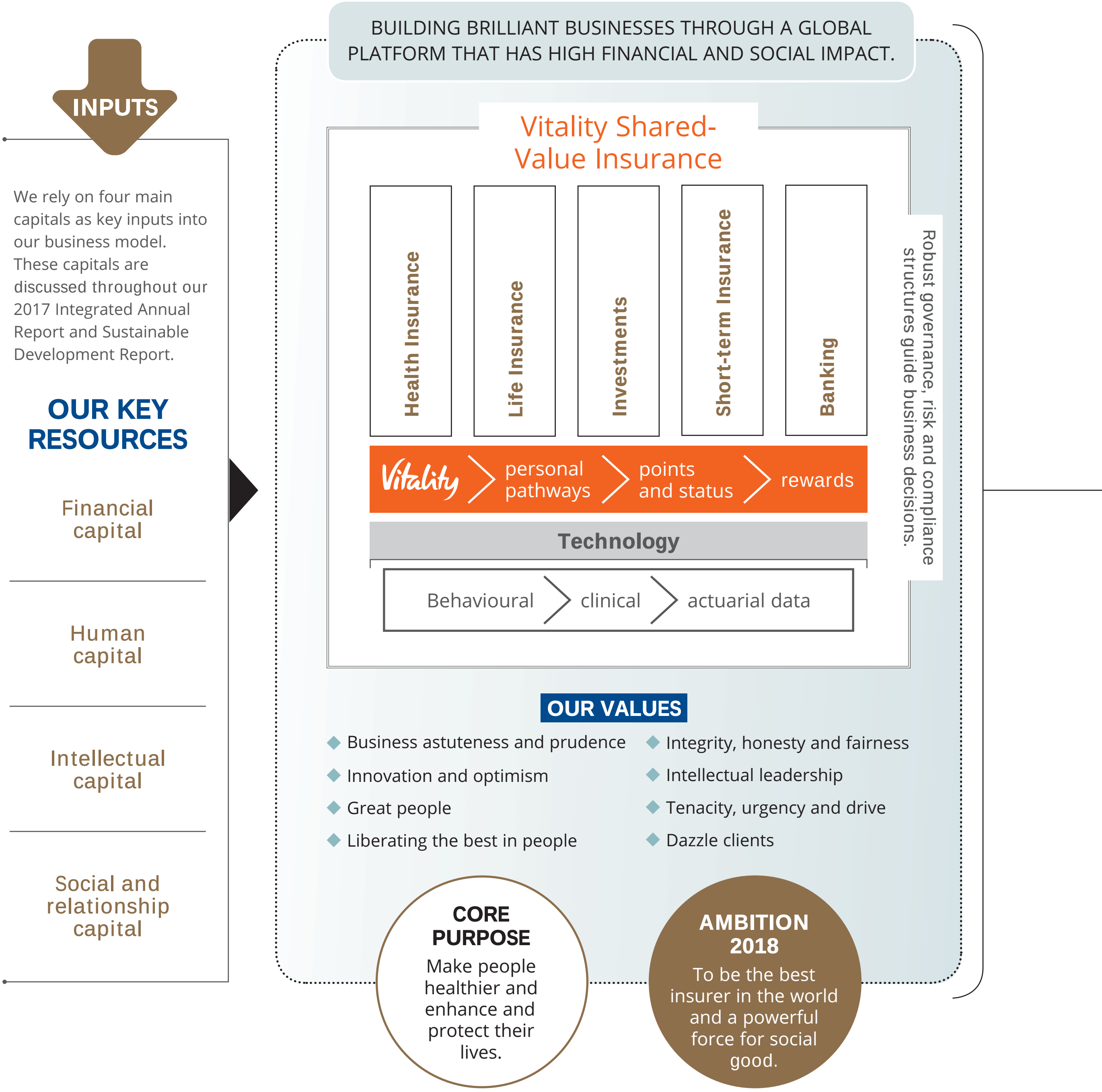
The Global Vitality Network was formalised in the year under review to optimise the value created for the Discovery businesses and global alliance of insurers. The financial incentives and behavioural interventions that encourage changes in behaviour, enable health and financial wellness to the benefit of our clients, our businesses and society. Shared-Value Insurance, with assets in the Global Vitality Network at the centre, supports Discovery's broader business strategy by increasing opportunities for integration and growth. Read more about the Global Vitality Network on page 89.

Our business model

and how our business works

Discovery offers clients insurance and financial products and services, with Vitality at the foundation. This approach manifests in value for businesses, different stakeholders and broader society.

Vitality is the key component that enables Vitality Shared-Value Insurance. Helping clients to improve and manage their health, savings and driving behaviour, it gives insurance partners the ability to better understand and measure risk. This results in more accurate pricing of premiums as clients continuously improve and engage in their health status, as measured through Vitality. This further encourages positive behaviour change. Our businesses benefit from improved risk, while clients get more value through incentives and savings based on their Vitality or Vitality drive engagement, and society benefits from this cycle. This, combined with an urgent drive towards our Ambition 2018, is paving the way for our continued growth in existing and new sectors, territories, and product lines.



OUTPUTS

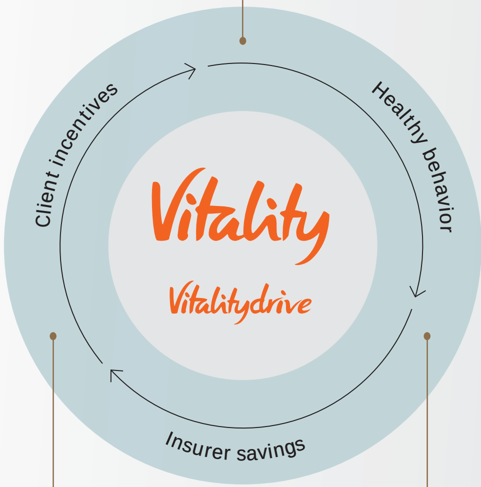
Clients are able to integrate their insurance and financial products to generate more value as they engage with Vitality. With increased Vitality engagement, financial rewards and incentives kick in, encouraging clients to continuously improve and maintain their health. For the insurer or insurance partner, integrated policies are more profitable as these clients show stronger persistency and have improved claims experiences.

POSITIVE OUTCOMES

OF VITALITY SHARED-VALUE INSURANCE

CLIENTS

- Improved health
- Better value through better price and benefits



SOCIETY

- Healthier society
- Improved productivity
- Reduced healthcare burden

INSURER

- Lower claims
- Higher margins
- Positive selection and lower lapse rates

75% lower mortality rate for clients with integrated policies.

A sustained increase of 24% in physical activity among actively engaged Vitality members with Vitality Active Rewards.

Over R644 million in fees paid back to Discovery Invest clients.

Over the year, Vitality drive members earned cash back on 77 million litres of fuel purchased from Discovery Insure partners, BP and Shell.

Life PayBack: Over R3 billion paid to clients in the past five years.

Lowering healthcare claims: Gold Vitality status members with heart disease have 41% lower risk claims than a member who has no Vitality. Similarly, members on Gold Vitality status living with diabetes or lung disease have 53% and 50% lower risk claims respectively than those with no Vitality.

Read more about our Ambition 2018, and how it supports our business model, and our strategy on **page 24**.

We illustrate the value and outcome across each business in the Business Reviews from **page 34**.

Read more about our model and how it contributes to a sustainable society on **page 10** of our Sustainable Development Report.

Challenges and opportunities

The past year's operating environment remained challenging with continued economic fluctuations that impact consumer confidence negatively. Within this environment, we have clear strategies to manage our risks and material issues, as well as to capitalise on opportunities, and to set deliverables and requirements that ensure we deliver on our short-, medium- and long-term objectives and targets.

We highlight some of the key risks for the business here and our strategies to mitigate these risks.

Read more about our risk strategy in the governance review from **page 117** or visit our website for detailed information in our full governance report.

01

Macro-economic pressure and the slow pace of economic growth, with the resultant negative impact on consumers.

As a Group, we are diversified by industry and geography and offer products that are matched to key economic variables such as increases linked to the consumer price index.

The Group offers best-in-class insurance products and services that meet clients' needs. Vitality provides clients with additional value through health and lifestyle benefits and product integration, which contribute to lower lapse levels for the Group. Through innovation and the design of products and services that improve our client experience, Discovery is able to retain and grow its client base.

02

Our home market of South Africa is currently facing economic pressures and political uncertainty, with an enhanced focus on the perceived slow pace of transformation. The Financial Sector Charter that guides transformation requirements is currently underdoing amendments.

Employees play a critical role in enabling the Group to achieve its business objectives. In South Africa in particular, there is a clear imperative to achieve an inclusive and transformed workforce that equitably represents all sectors of society. Recruiting and retaining black South Africans in senior positions remain a key priority. Discovery competes with other businesses in South Africa for a limited pool of talent and we, therefore, set a target of 25% representation by employment equity candidates in each of the business unit executive committees.

Read more about our progress towards this target in our Sustainable Development Report on **page 62**.

Some of the many initiatives undertaken to support transformation in Discovery's workforce include:

- Sourcing black talent through the Discovery network of employees
- Identifying and developing talented black employees
- Encouraging equity employees to develop skills classified as scarce and critical
- Providing bursaries for the children and families of long-serving equity employees who wish to acquire scarce and critical skills.

03

National Health Insurance and the role of the private healthcare system, as well as the sustainability of the overall healthcare system.

Medical schemes have an important role to play and can continue to operate alongside the National Health Insurance (NHI) system. An efficient interface between the NHI and the private healthcare system should be a key outcome for South Africa. Discovery is working closely with the National Department of Health and other stakeholders to ensure that the final NHI policy is optimal and that it leverages the assets of the entire national healthcare system, including the private healthcare sector.

By addressing the increasing costs of healthcare holistically and adopting an approach that combines Vitality engagement with an integrated healthcare system offering, Discovery Health Medical Scheme can offer substantially lower-cost healthcare contributions than the rest of the market.

Read the Discovery Health Business Review on **page 42**.

04

In the international market, our UK business has been affected by the UK's exit from the European Union, which has resulted in low interest rates and currency fluctuations.

The economic uncertainty surrounding the UK's exit from the European Union has had a number of implications for VitalityLife and VitalityHealth. The most significant issue has been low interest rates, which have negatively impacted profitability. The business is closely tracking the effects of the interest rate, which has increased slightly. Against these conditions, the business focussed on developing products that are priced effectively to respond to market conditions. This shows the resilience of the business in a challenging economic environment.

05

Ensuring continued growth remains a key focus. Shared-Value Insurance and our Ambition 2018 continue to drive our business operations. Further growth areas include developing our international business and expansion into additional countries by increasing our partnerships and relevant partner networks.

In the coming year, the development of our banking offering will remain a key priority.

We will also continue to invest in technology to improve healthcare, enhance client experience and ensure our products remain aligned to the changing macro-environment and consumer needs.

Having developed solutions and a business model that respond to societal issues, we remain focussed on developing ways to measure the true impact of the Vitality model on consumer behaviour. We have industry trend analyses and big data analytics, which allow us to stay ahead of market changes and to respond to these in a proactive manner. The introduction of Vitality Active Rewards has also further sharpened our focus on data integrity and client service. These are two critical issues for the business, given the personalised nature of our programmes and the data on which they rely. We use data on clients' health, wellness and driving patterns to assess and dynamically underwrite client risk – an aspect that contributes to the sustainability of the business as healthier, engaged clients stay with Discovery for longer.

The prevalence of non-communicable diseases (NCDs) in the developed world guides our selection of insurance partners. These partners have scale in their markets and have established businesses and product life-cycles. We evaluate the product fit and the impact our model will have over time. We have seen positive traction of our Shared-Value Insurance model in these markets. These partnerships enable us to increase the effectiveness and scale of our model. We now operate in 16 markets around the world.

Read more about our global expansion on **page 82** in the review of Vitality Group.

Our performance over the past year

In 2014, we set an ambition for 2018 to be the best insurer in the world and a powerful force for social good. We set this ambition to energise our drive to create value.

ESTABLISHING GREAT BUSINESSES WITH POWERFUL ASSETS THAT CREATE LONG-TERM VALUE FOR STAKEHOLDERS

		2017	2016	2015
STRATEGY MEASURES Insurgency and market leadership in new business Products that meet complex consumer needs and are sustainable Powerful, distinctive and aspirational brand	MARKET POSITION	Among the top 10 providers in the markets in which we operate	Among the top 10 providers in the markets in which we operate	Among the top 10 providers in the markets in which we operate
	NEW PRODUCTS LAUNCHED EACH YEAR	New products launched in all businesses during 2016 and 2017	New products and benefits launched in all Discovery businesses in 2015 and 2016	New products and benefits launched in all Discovery businesses in 2014 and 2015
	ROLL-OUT OF THE BUSINESS MODEL	Present in 16 countries (at the time of writing the report)	Launch of the Global Vitality Network	The Vitality-Shared Value Insurance model is present in 14 markets worldwide
SERVICE MEASURES Exceptional service ecosystem	MEMBER PERCEPTION SCORES	8.85	8.73	8.79
	BROKER/ FRANCHISE PERCEPTION SCORES*	8.96	8.73	8.55
SOCIAL MEASURES Reach 10 million members and make them healthier	GROWTH IN LIVES IMPACTED	Close to 10 million	6.9 million lives impacted	5.1 million lives impacted

Read more about our financial performance on **page 10**.

Detailed information of key performance areas as it relates to our remuneration policy is available from **page 98**.

		2017	2016	2015
FINANCIAL MEASURES Significant engagement, superior actuarial dynamics, loss ratio and lapse rates Higher value of new business (VNB) margin but never competing on price	NORMALISED HEADLINE EARNINGS	R4 656 million	R4 312 million	R4 027 million
	EMBEDDED VALUE	R57 294 million	R53 080 million	R52 295 million
	SOLVENCY	As at 30 June 2017, all businesses met and exceeded their regulatory capital requirements. *See financial statements for details.*	As at 30 June 2016, all businesses met and exceeded their regulatory capital requirements. *See financial statements for details.*	As at 30 June 2015, all businesses met and exceeded their regulatory capital requirements. *See financial statements for details.*
	RETURN ON CAPITAL (ROC) GREATER THAN RISK-FREE RATE OF RETURN +10%	14.38%	13%	17.5%
	CORE NEW BUSINESS ANNUALISED PREMIUM INCOME	R16 993 million	R14 602 million	R13 064 million (restated)
	VALUE OF NEW BUSINESS (DISCOVERY LIFE AND INVEST)	R1 231 million	R1 196 million	R1 212 million
	GROWTH IN NORMALISED PROFIT FROM OPERATIONS OF BETWEEN 20% AND 25%	10%	11%	17%
PEOPLE MEASURES Recognition as employer of choice for all critical skills Values-based culture	EMPLOYEE TURNOVER	15.89%	15.7%	11.20%
	EMPLOYEE ENGAGEMENT Employee engagement surveys, Net Promoter Score	30%	32%	21%
	LEARNING AND DEVELOPMENT ▪ Number of employees who have completed leadership development programmes at year end	406	524	211
	▪ Number of employees participating in wellness days	5 289	5 740	6 128

Note: Lapse rates, loss ratios and solvency are measured at business level, but are not disclosed due to competitive sensitivity.

* *Member and broker perception scores on service received are calculated each month. The perception scores apply to Discovery Health and are measured across communication channels.*

Our long-term strategy

Our strategy will continue to be one of driving strong organic growth by using our repeatable model in adjacent industries and new markets, supported by our Vitality platform and Shared-Value Insurance model. Our Ambition 2018 will guide our key focus areas.

01 Achieve insurgency and market leadership in all markets where we operate while contributing to a sustainable society

Further develop our emerging and new businesses into market leaders, and continue to create long-term value for society.

Read more about our model and how it contributes to sustainable development goals in the Sustainable Development Report on **page 16**.

02 Achieve significant Vitality engagement, a superior loss ratio and low lapse rates

Continue to leverage the Vitality Shared-Value Insurance model to achieve superior results and drive value in our growing global partnerships with various insurers, academic institutions and technology innovators.

03 Achieve a higher value new-business margin

- Continue to develop new products and services, as well as data assets that will strengthen our model and ability to attract and retain clients
- Invest in our distribution model to maintain and improve sales
- Continuously review and improve operational efficiencies.

04 Design products that meet complex consumer needs and are sustainable in the long term

- Maintain our discipline of product innovation and development through an annual product launch cycle
- Encourage our employees to focus on growing innovation and entrepreneurship in their day-to-day jobs to design new solutions that will benefit our clients.

05 Deliver exceptional service and attract best talent to the business

- Continue to invest in the latest and relevant service-delivery technology
- Track our quality of service and inspire our employees to deliver exceptional service through continued training, employee campaigns and relevant rewards structures.

How we create long-term value

Our business model and strategy aim to deliver tangible financial benefits and are implemented through medium- and long-term goal-setting, and a robust growth methodology and capital philosophy. As we expand our business, the combination of the Vitality Shared-Value Insurance model, our Ambition 2018, our growth methodology and capital philosophy gives us confidence in maintaining sustainable profit growth. We track our progress in terms of our short-term objectives, through our Ambition 2018, which energises our drive to create value.

Read more about our progress towards our Ambition 2018 on **page 24**. Each business review, from **page 34**, also highlights performance against these targets.

1

OUR ORGANIC GROWTH METHODOLOGY

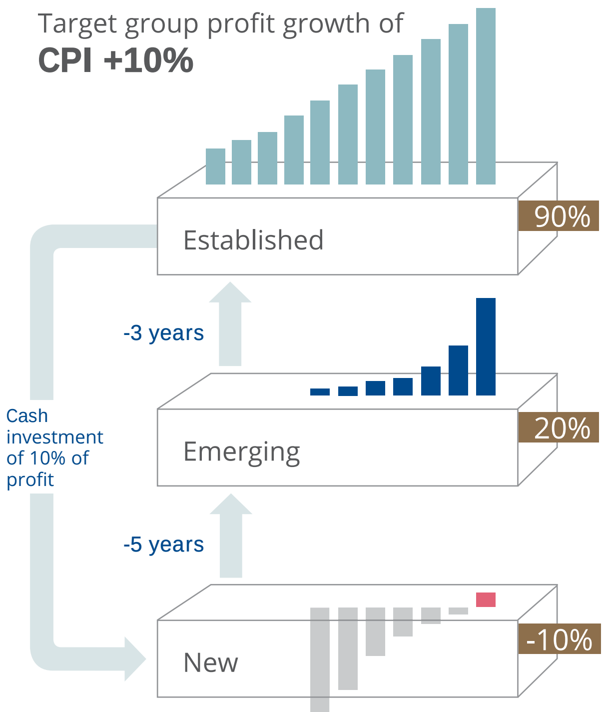
Discovery continues to be led by a highly experienced and founder-led management team who has created consistent, successful organic growth and expansion into adjacent geographies and sectors.

Operating profit of **CPI +10%** is targeted through a methodical and substantial investment in new initiatives (set at 10% of earnings), which evolve into emerging businesses (with target profit growth of CPI +30%), and ultimately scale into established businesses (with target profit growth of CPI +5%).

During the period, the established businesses performed well, achieving **CPI +5%**, in constant currency terms.

Emerging businesses showed a strong turn in earnings and traded above target, with operating losses decreasing by **61%** and Discovery Insure achieving profitability for the second half of the financial year.

Investment in new initiatives increased, representing **8%** of earnings for the full year. This is in line with the growth engine and includes sizeable planned initiatives such as Discovery's intent to enter banking, a commercial offering in Discovery Insure, Discovery Invest's Umbrella Fund and the planned UK investment business.



2

OUR SOPHISTICATED CAPITAL MANAGEMENT PHILOSOPHY

We apply rigorous solvency assessments and standards to our businesses according to a five-year capital plan, as well as a Group-wide buffer. This enables us to provide a safety margin for emerging and new businesses, while additional capital is raised for new initiatives of considerable scale. All businesses meet both their regulatory capital requirements and the additional risk appetite requirement set at Board level, as well as an Internal Rate of Return of risk-free **+10%** for both new business written and new initiatives undertaken.

- An unallocated buffer of R1 billion to R2 billion is held at the centre.
- We also ensure a best-practice Financial Leverage Ratio of less than 28% is maintained.
- Cash is managed according to the five-year capital and funding plan.

Measures of success of our business model are shown on **page 24**.

Solvency capital

Dedicated capital and reserves

5-year capital plan projection

Individual business **ORSA** including new business written

1-in-25 year

Discovery Health	DHMS 26.3% solvency
Discovery Life	388%
Discovery Invest	388%
Vitality HEALTH INSURANCE	145%
Vitality LIFE INSURANCE	215%
Discovery Insure	221%

Allocated capital

Dedicated capital for planned initiatives

5-year capital plan projection

Intent to enter banking

Global Vitality Network

Commercial insurance

UK invest business

Read more about our capital management philosophy and progress on **page 10** in the review from Discovery Financial Director, Deon Viljoen.

Additional buffer

R1 billion – R2 billion cash or near cash

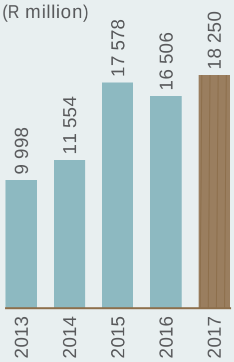
Flexibility to pursue new initiatives, support adverse experience

SUBJECT TO FINANCIAL LEVERAGE RATIO CAP OF 28%

DISCOVERY'S LONG-TERM TRACK RECORD

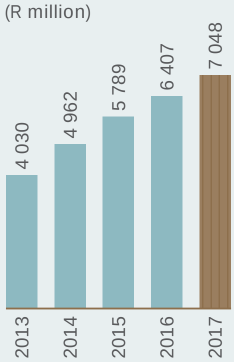
New business annualised premium income (API) and other new business

(R million)



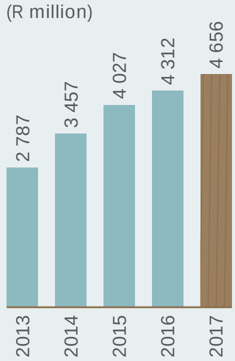
Normalised profit from operations

(R million)



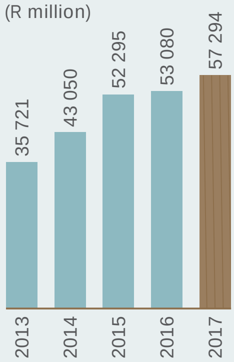
Normalised headline earnings

(R million)



Embedded value

(R million)



Business reviews

Our leadership

DISCOVERY EXECUTIVE DIRECTORS AND GROUP EXECUTIVE


Adrian Gore
Founder and
Group Chief Executive


Richard Farber
Executive Director
(from May 2017)
Financial Director
(up to April 2017)


Hylton Kallner
Executive Director
Chief Executive Officer:
Discovery Life


Neville Koopowitz
Executive Director
Chief Executive Officer:
VitalityHealth


Deon Viljoen
Financial Director
(Appointed May 2017)


Herschel Mayers
Executive Director
Chief Executive Officer:
VitalityLife


Dr Ayanda Ntsaluba
Executive Director


Alan Pollard
Executive Director
President of Product and
Innovation: Vitality Group


John Robertson
Executive Director


Barry Swartzberg
Executive Director
Chief Executive Officer:
Vitality Group

The detailed CVs of our leadership team can be found in the Governance Report on **www.discovery.co.za**

CHAIRPERSON OF THE BOARD

Monty Hilkowitz
Non-executive Director

DISCOVERY NON-EXECUTIVE DIRECTORS

Herman Bosman
Non-executive Director

Dr Brian Brink
Independent Non-executive Director

Sonja de Bruyn Sebotsa
Independent Non-executive Director

Faith Khanyile
Non-executive Director

Dr Vincent Maphai
Non-executive Director

Tito Mboweni
Independent Non-executive Director

Les Owen
Independent Non-executive Director

Sindi Zilwa
Independent Non-executive Director

Robert Enslin
Independent Non-executive Director
(Appointed May 2017)

PRESCRIBED OFFICERS OF THE BOARD

Dr Penny Moumakwa
Head of Discovery People and Sustainable Development

Kenny Rabson
Chief Executive Officer: Discovery Invest

Dr Jonathan Broomberg
Chief Executive Officer: Discovery Health

GROUP EXECUTIVE

Anton Ossip
Chief Executive Officer, Discovery Insure

Dr Shrey Viranna
Chief Executive Officer, Discovery Vitality

Vitality SA

WHO WE ARE

Vitality is the largest scientifically validated health-promotion programme globally, with more than 1.8 million lives impacted in South Africa in 2017. Discovery Vitality underpins all Discovery's businesses and supports the broader business by increasing product integration and cross-selling opportunities across the Discovery portfolio of businesses and products. Vitality was built on the understanding that risk is behavioural, and changes over time. Drawing on behavioural economics to support and incentivise people, Vitality helps people to improve behavioural risks, and subsequently their health.

This health-promotion cycle, when integrated with insurance, allows for the continual assessment of insurance risk to dynamically price insurance over time based on engagement with Vitality and the resulting health improvement. Premium discounts and other benefits act as motivation for people to increase engagement in the programme. This model, with Vitality at its foundation, is called Vitality Shared-Value Insurance. It simultaneously provides material benefits to clients, insurers and society.

As a health-promotion programme, Vitality has developed around three key areas that impact engagement in health improvement, insurance risk and health outcomes in the long term:

1. Vitality partners with networks of health, wellness, travel, technology and other providers. Through these partnerships, the perceived cost barriers to health promotion are lowered. With its foundation in behavioural economics, Vitality has gathered significant amounts of data to measure and improve engagement, behaviour change and health outcomes.

2. Understanding behaviour and how it can change, Vitality focusses on developing personalised solutions to address individual health risks, and on motivating people at an individual level to improve their health. This has ensured higher engagement with the health-promotion programme over time. Besides offering clients greater value, this cycle brings about improved mortality and morbidity rates, and lowers the claims and healthcare cost experience of insurers.

3. The rewards for engagement are part of a broader incentive structure that encourages positive change. Changed behaviour creates an actuarial surplus in the business, which is shared with clients through insurance savings and other benefits to motivate further and ongoing engagement in health-promotion activities.

VITALITY AND SHARED-VALUE INSURANCE IN THE GLOBAL MARKET

The shared-value insurance cycle that Vitality enables is being scaled through Vitality Group and the Global Vitality Network. Leading global insurers are using the model in their markets to transform their offerings, and bring about similar healthy longevity and savings for their clients.

The elements that impact health improvement, behaviour change and health outcomes, also form the basis for the global partnerships, health-promotion programmes, data, products and brand assets in the Global Vitality Network. This network and its assets were refined in the year under review. Spanning the Discovery business, the Global Vitality Network, in partnership with Vitality Group, works to bolster global growth and the Vitality proposition for clients and partner insurers.

Read more about the Global Vitality Network, our global partnerships and market presence in the review of Vitality Group on **page 82**.

Performance highlights

VITALITY MEMBERSHIP GROWTH

- As at 30 June 2017, there were 823 826 members, including the Balance members (Balance is a wellness programme for Bankmed Medical Scheme). We now cover more than 1.8 million lives in South Africa.

HOW VITALITY MEMBERS ARE USING THEIR BENEFITS, AND THE OUTCOMES FROM ENGAGEMENT IN THE PROGRAMME

Offering Vitality members additional cash back on activation of gym membership resulted in a higher-than-expected increase in gym membership uptake across Planet Fitness and Virgin Active. **More than 470 000** gym attendees across South Africa are Vitality members.

Vitality is focussed on encouraging clinically sound exercise behaviour that not only improves health outcomes but also prevents injury. Learnings from Vitality Active Rewards, with its shorter goal periods and sustained increase in activity, are under consideration for the gym benefit to produce the required health outcomes of ongoing, healthy physical activity.

BUILDING ON THE BEHAVIOURAL SCIENCE OF ACTIVE REWARDS TO INCREASE PHYSICAL ACTIVITY

AHEAD OF TARGETS, MORE THAN
300 000
VITALITY MEMBERS HAVE ACTIVATED THE BENEFIT

LEADING TO MORE THAN
28 million
DAYS OF EXERCISE

MORE THAN
4 billion
VITALITY POINTS EARNED

MORE THAN
226 billion
POINTS-EARNING STEPS TAKEN

RESULTING IN VITALITY MEMBERS RECEIVING MORE THAN
3 million
REWARDS FROM PARTNERS

HEALTH OUTCOMES:

On the way to our objective for 2018: **Reduce inactivity among Vitality members by up to 30%**.

A **26%** increase in physical activity for these members, and a **50%** increase in physical activity for the more than **32 000** Vitality members with Apple Watch. Goal completion rates for Vitality members with Apple Watch have averaged at **47%**. These rates are the highest among those using Active Rewards.

- Vitality Active Rewards Shoe Booster, introduced in January 2017, had more than 11 000 activations with over 8 000 pairs of running shoes purchased over a short period of time. Vitality members have reacted positively to the benefit and qualify for a 100% cash back on running shoes when reaching their personalised activity goals.
- More than 49 000 Vitality members with the gym benefit have also activated Vitality Active Rewards Gym Booster. Their goal completion rate on Vitality Active Rewards has increased to 36% to give these Vitality members 100% of their monthly gym fees in cash back, resulting in a saving of R32 million for these members.

VITALITY ACTIVE REWARDS SHOE BOOSTER HAD MORE THAN

11 000

ACTIVATIONS

WITH MORE THAN 8 000 PAIRS OF RUNNING SHOES PURCHASED

MORE THAN

49 000

VITALITY MEMBERS WITH THE GYM BENEFIT

HAVE ALSO ACTIVATED VITALITY ACTIVE REWARDS GYM BOOSTER

INCREASED PERSISTENCY WITH THE USE OF WEARABLE DEVICES

Vitality data shows inactive Vitality members have higher lapse rates compared with physically active Vitality members. Among physically active Vitality members, those who only use the gym benefit have a higher lapse rate compared to those who use wearable devices as well.

SHAPING THE INDUSTRY OF WEARABLE DEVICES

While predictions have shown that device use to monitor health and fitness may decline over time, Vitality data and engagement have shown an increase in physical activity from the use of devices through Vitality Active Rewards. This is due to our innovative use of behavioural economics and immediate and relevant incentives that change behaviour. Vitality Active Rewards around the world is driving the increased uptake of devices, and also of Apple Watch.

ENCOURAGING HEALTHY LIVING

- The HealthyLiving portfolio of benefits, made up of HealthyFood, HealthyGear and HealthyCare, paid more than R336 million in cash back to Vitality members over the period.
- Encouraging healthier diets with our target to reduce salt and sugar intake by 30% and increase fibre intake by 30%: A review of the HealthyFood catalogues aims to ensure Vitality members choose foods that are higher in fibre and lower in salt and sugar. This target will be measured through the purchasing behaviour of the HealthyFood cohort established in 2014 and their progress by 2018.
- Vitality members using the Vitality HealthyFood benefit increased to more than 400 000. Since the introduction of Vitality HealthyFood, Vitality members have spent a total of R5.8 billion on food items that promote a healthier diet.

THE IMPACT of sharing financial value through incentives and rewards with Vitality members to encourage better health

Engagement during the year

HEALTH CHECKS

MORE THAN
650 a day
AND MORE THAN
287 000
a year

GYM VISITS

VITALITY HAS TRACKED MORE THAN
16.6 million
GYM VISITS

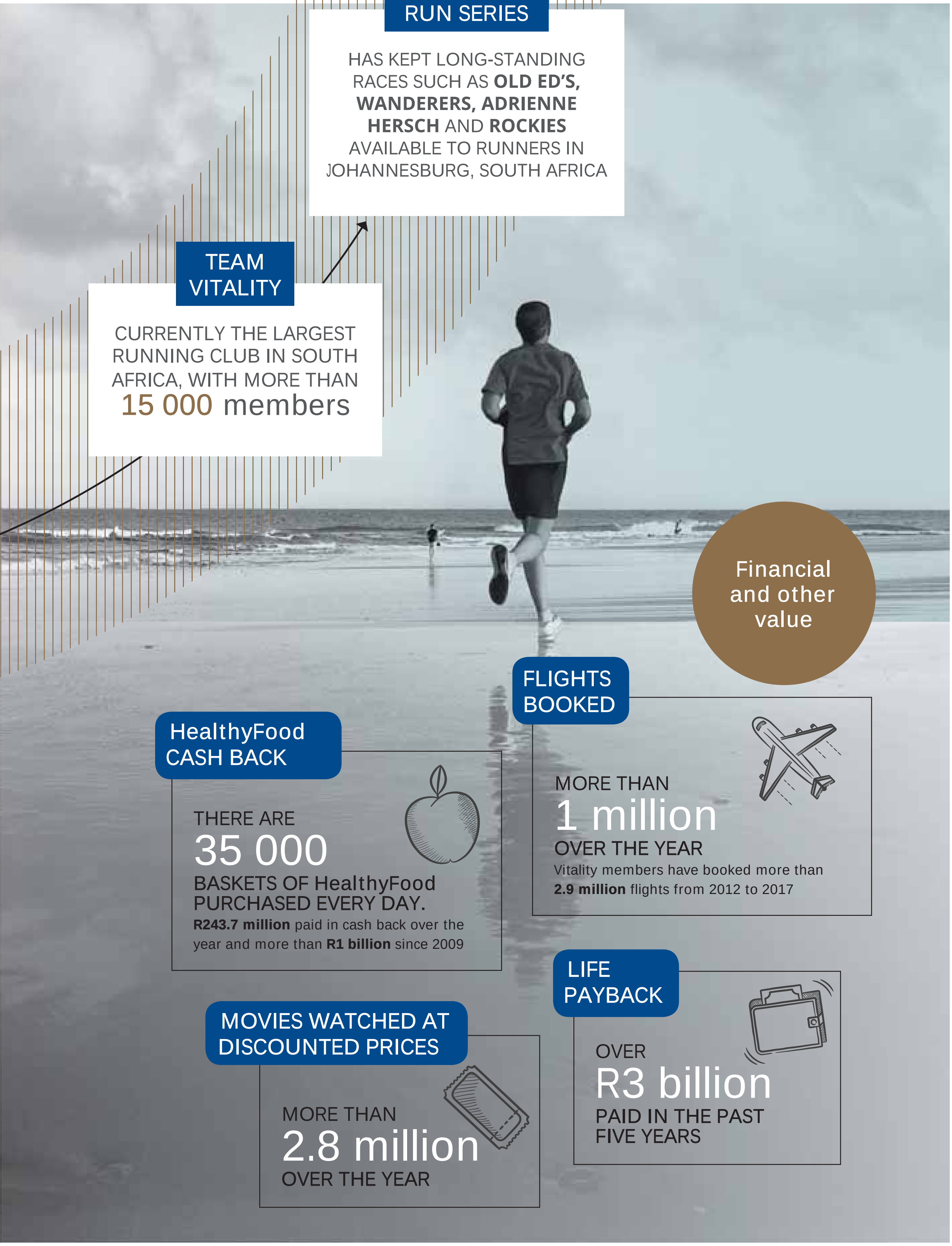
Risk improvement by Vitality status

RISK IMPROVEMENT BY VITALITY STATUS:
THE LOWERED MORTALITY RATE BY VITALITY STATUS

- 25% Physically active on Gold and Diamond status*
- 39% Gold and Diamond status
- 50% Silver status
- 54% Bronze status
- 89% Blue status

100% Non-Vitality (Base rate)

* *Physically active more than twice a week.*



THE VITALITY RUN SERIES

HAS KEPT LONG-STANDING RACES SUCH AS **OLD ED'S, WANDERERS, ADRIENNE HERSCH** AND **ROCKIES** AVAILABLE TO RUNNERS IN JOHANNESBURG, SOUTH AFRICA

TEAM VITALITY

CURRENTLY THE LARGEST RUNNING CLUB IN SOUTH AFRICA, WITH MORE THAN

15 000 members

Financial and other value

FLIGHTS BOOKED

MORE THAN

1 million

OVER THE YEAR

Vitality members have booked more than **2.9 million** flights from 2012 to 2017

HealthyFood CASH BACK

THERE ARE

35 000

BASKETS OF HealthyFood PURCHASED EVERY DAY.

R243.7 million paid in cash back over the year and more than **R1 billion** since 2009

LIFE PAYBACK

OVER

R3 billion

PAID IN THE PAST FIVE YEARS

MOVIES WATCHED AT DISCOUNTED PRICES

MORE THAN

2.8 million

OVER THE YEAR

Material issues

This section outlines the key issues and focus areas Discovery Vitality managed during the year.

01 INCREASING MEMBERSHIP AND ENGAGEMENT

During the year, Vitality delivered a number of improvements aimed at increasing engagement and boosting membership growth:

- Continually improved engagement in health-promoting activities. These were driven by:
  - A significant year-on-year increase in the Vitality Active Rewards membership, from 234 000 to 350 000. Following a refinement of our data integrity processes, service levels and the encouragement of clinically relevant physical activity, there has been a sustained increase of 26% in physical activity among actively engaged Vitality members.
  - Increased physical activity has been shown to trigger an increase in engagement in other health-promoting activities, as demonstrated by an 8% increase in fitness assessments and a 12% increase in screening and prevention through the Vitality Health Check.
- The increased use of the Vitality travel rewards with an average of 50 479 local flight bookings each month. Similarly, there was a significant increase in international flight bookings following the restructuring of the Emirates base fare, which increased the Vitality discount. An average of 1 626 international flight bookings were made each month. Vitality members also booked an average of 7 441 hotel nights each month during the period.
- Development and introduction of Vitality Weight Loss Rewards. Launched in March 2017, the intervention works on the same basis as Vitality Active Rewards, offering short-term, personalised goals with additional cash back on HealthyFood to encourage ongoing, clinically-sound weight loss.
- Lowering the projected lapse rate for the year by improving our servicing efforts to educate Vitality members about their savings and the value they get from Vitality. The effectiveness of these outbound initiatives and assisting Vitality members in activating and using their benefits has lowered the projected lapse rate. Given the success of this service, Vitality plans to extend campaigns to other Vitality offers, including HealthyFood and HealthyGear.

02 DESIGNING AND IMPLEMENTING CONTINUED IMPROVEMENTS TO ENSURE VITALITY REMAINS THE LEADING WELLNESS PROGRAMME GLOBALLY

Critical focus areas for the business are:

- **Continuing to innovate and develop additional products that drive uptake, improve health outcomes and deepen member engagement across Discovery products.** To achieve this, Vitality is personalising messaging and interaction around physical activity and nutrition through the development of a Vitality Dashboard and targeted physical activity campaigns.

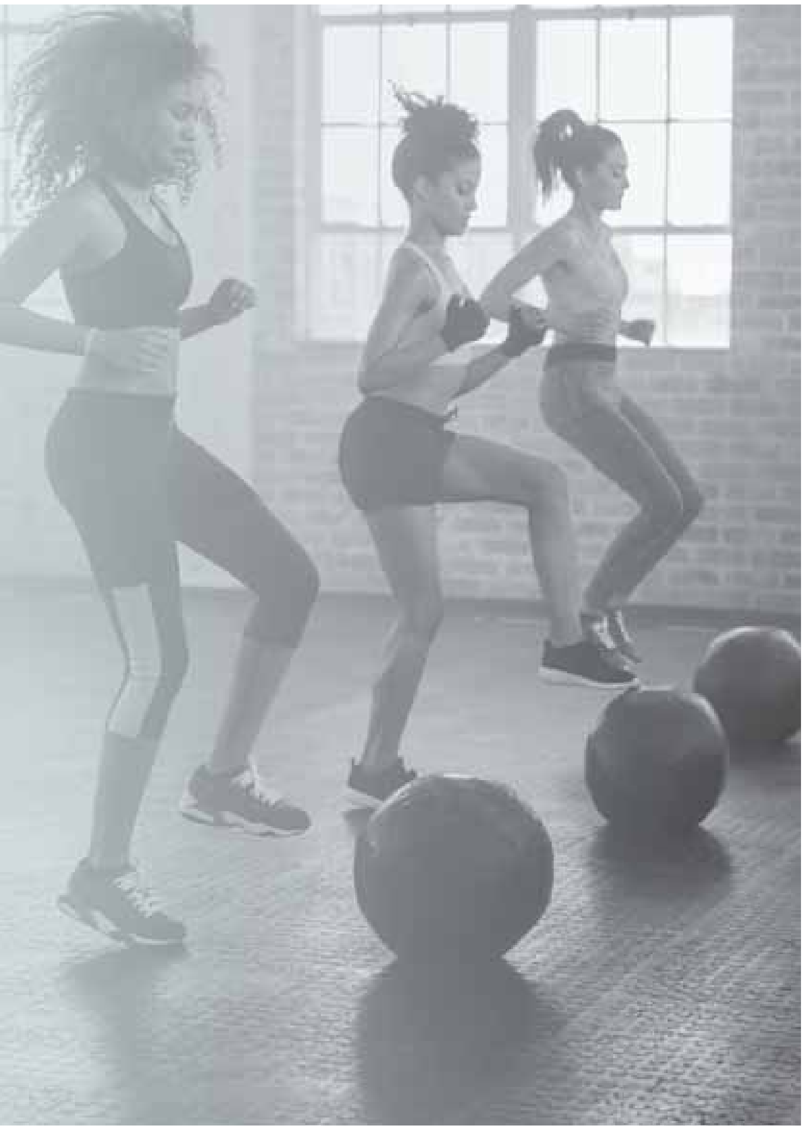
ABOUT THE VITALITY DASHBOARD

The Vitality Dashboard will intuitively guide further engagement through benchmarks, league tables and nudges with a focus on the key Vitality pillars: physical activity, nutrition and screening.

- **Driving ongoing engagement through various successful campaigns in our distribution channel will create added value for more Discovery clients.** The development of a predictive lapse model also ensures that Vitality can provide members with details of their benefits to mitigate possible lapses. This retains high-value members. Targeted engagement and re-engagement campaigns have also been developed and have already shown improvement in ensuring ongoing physical activity and uptake of other Vitality benefits.
- **Continuing to evolve the Vitality Active Rewards offering and associated rewards, and distributing the alternative Vitality options introduced in September 2017.** These new Vitality options, Vitality Move, Vitality Active and Vitality Purple, aim to cater for different segments in the market by providing a combination of certain Vitality benefits at relevant monthly premiums. It is aimed at increasing penetration of Vitality across markets to make health promotion accessible to even more of Discovery's clients.
- **Enhancing our service to the corporate market.** A dedicated engagement team has also been established to service Vitality members of Discovery Health's client medical schemes to offer these medical schemes the increased value that Vitality offers. Another strategy was to incorporate doctors as part of the solution. During the year we launched Vitality Active Rewards for Doctors. Read more in the Discovery Health Review on page 46.
- **Continuing to develop rewards and product updates that encourage the right behaviour for health promotion.** This includes maintaining our relationships with Vitality partners and managing cost increases across industries to ensure that every stakeholder can continue to see efficient benefits, while Vitality members derive value.

03 OPERATIONS, LEGISLATION AND REGULATION

In light of the challenging economic climate, Vitality will increase efforts to drive cost efficiencies and profitability through more effective, lean operations, as well as benefit optimisation. As a business, we remain focussed on the application of prudent financial management. We also continue to invest in developing our people, with a specific focus on employee engagement, recognition and career development. Discovery Vitality continues to monitor and respond to all applicable legislation, for example, protecting access to sensitive and personal information.



OUTLOOK

As outlined in this review, Vitality is working towards achieving specific goals in the next review period towards our Ambition 2018.

Beyond 2018, we have an opportunity to set the path as thought leaders as we continue to engage in matters of public health. We will continue to shape the health-promotion market as the most clinically relevant and largest science-based offering. The emphasis will be on deepening the positive impact of Vitality on our existing member base, as well as in other Discovery businesses, through the implementation of leading technology and behavioural economics data.

The focus will be on these key strategic areas:

- Increasing personalised and dynamic physical activity and nutrition programmes with the use of technology to enable improved verification and measurement. This focus area has been identified in line with the increase from 63% to 69% of Vitality members now engaging with Vitality through the website or Discovery app for members.
- Continuing to develop product offerings, such as the new Vitality options launched in September 2017 and other product updates, to increase Vitality's value within the corporate segment and in other markets.
- Developing consumer initiatives that engage more people in physical activity across South Africa.
- Enhancing Vitality to meet different health needs at different life stages, for example, young people, families and seniors.
- Developing a longer-term strategy that addresses gaps and adapts benefits and rewards for changing consumer preferences.
- Deepening the health management capabilities of Vitality by developing clinically robust smoking cessation, mental wellbeing, diabetes-management and other offerings.

Discovery Health

Discovery Health is the leading administrator and managed care provider for medical schemes in South Africa, providing services to 3.4 million members. The business has a market share of over 40% of the overall medical scheme market in South Africa and manages 18 closed medical schemes on behalf of corporate clients, as well as Discovery Health Medical Scheme – the largest open medical scheme, with a market share of 55%.

Our vision 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 vision through a pioneering shared-value healthcare model. The model incentivises people to be healthier. It generates lower claims and higher surplus for our client schemes, and incentivises healthcare professionals through value-based contracting, leading to a healthier society and more clients selecting Discovery Health.

Since our inception in 1992, Discovery Health has led the way in innovation and positive change in healthcare for the benefit of the entire industry and country. Our services go well beyond traditional administration and managed care services and include ongoing substantial investment in digital innovation, and a significant focus on improving value in healthcare through a focus on both efficiency and quality of care to ensure better health outcomes for our clients.

Performance highlights:

Discovery Health

WE CONTINUED TO DELIVER EXCELLENT RESULTS DURING THE YEAR.

Normalised operating profit increased by 11% to R2 505 million, and core new business annualised premium income increased by 18% to R6 109 million.

Based on the success of our effective business model and value proposition, we have been awarded 10 out of 12 tenders for the management of restricted-membership medical schemes over the past five years.

During the year, Discovery Health was awarded the contracts to administer SAB Medical Aid Scheme, Netcare Medical Scheme, and Glencore Medical Scheme. This brings our client base to 18 restricted medical schemes, which is more than any other medical scheme administrator in South Africa. It represents approximately 635 000 restricted medical scheme members.

In 2016, Discovery Health Medical Scheme achieved strong membership growth, with new members increasing by 43 000 to 2.76 million members.

NORMALISED OPERATING PROFIT

△ 11%

TO R2 505 MILLION

CORE NEW BUSINESS ANNUALISED PREMIUM INCOME

△ 18%

TO R6 109 MILLION

DISCOVERY HEALTH MEDICAL SCHEME (DHMS)

South Africa's largest open medical scheme

Discovery Health Medical Scheme, which is administered by Discovery Health, addresses the increasing costs of healthcare holistically and adopts an approach that combines health improvement with an integrated healthcare system.

NET MEMBERSHIP

△ 1.6%

TO A MEMBERSHIP BASE OF 2.74 MILLION LIVES AT YEAR END

SOLVENCY RATIO

26.3%

WITH R14.2 BILLION IN MEMBER RESERVES

OPEN MEDICAL SCHEME MARKET SHARE

55%

* *Discovery Health Medical Scheme data is reported for the calendar year 1 January 2016 to 31 December 2016.*

A day at Discovery Health**

Discovery Health employs 4 080 people and deploys world-class actuarial, analytic and clinical capabilities at every point in the services offered to client medical schemes and their members.

** *258 working days.*

Discovery Health

PERFORMANCE HIGHLIGHTS*

NET SURPLUS FOR THE YEAR

R1 305 million

CREDIT RATING

DHMS was reaccredited as the only open medical scheme in South Africa with an

AA+ rating

The highest possible rating, confirming financial strength and the ability to pay claims

POSITIVE NET HEALTHCARE RESULT

R102 million

CONTRIBUTION INCREASES FOR 2017

was lower than the industry average at

10.2%

enabled by effective inflation and risk management interventions

SIGNIFICANT VALUE GENERATED

from administration and managed care fees.
For every R1 paid to Discovery Health, Discovery Health Medical Scheme members received

R1.93 in value

15.1%

LOWER CONTRIBUTIONS

than the industry average for the next nine largest open medical schemes on a plan-for-plan basis (main member, one adult and one child)

ADMINISTRATION FEES

Based on information from the Council for Medical Schemes Annual Report (2015 – 2016), Discovery Health Medical Scheme was ranked the 5th lowest out of 23 open medical schemes for administration and managed care expenditure

On a daily basis Discovery Health:

- Pays out 250 900 claims to a value of R142 million
- Handles 36 600 calls
- Authorises 2 900 hospital admissions
- Adds 1 350 new beneficiaries, including 117 newborns

Material issues

This section outlines key issues and focus areas Discovery Health managed during the year.

01 ENABLING BETTER HEALTH THROUGH SCIENCE-BASED WELLNESS INTERVENTIONS

Vitality supports our efforts to help improve people's health. The use of Vitality within Discovery Health's healthcare model addresses modifiable health risk factors and enhances members' health by incentivising behaviour such as regular exercise, healthier nutrition and regular screening.

The impact of Vitality is significant, and increased engagement in Vitality over time leads to substantially improved health outcomes, lower risk claims and significant savings. Our analysis shows that Gold status members with heart disease have 41% lower risk claims than a member who has no Vitality membership. Similarly, members on Gold Vitality status living with diabetes or lung disease have 53% and 50% lower risk claims, respectively, than those with no Vitality membership.

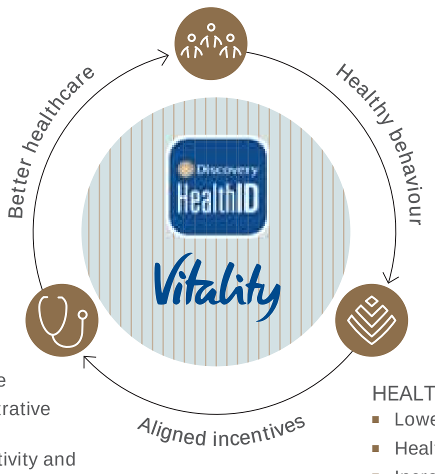
As a result of Vitality, Discovery Health Medical Scheme has benefited through a R1.2 billion (2.8%) reduction in risk claims.

One of our strategies is to increase the membership of and engagement with Vitality. During the year more than 53% of members of Discovery Health Medical Scheme were on Vitality, and 43% were actively engaging in the programme, a steady increase as a result of the Vitality Active Rewards benefit. Read more about the significant increase in physical activity and engagement in Vitality Active Rewards in the Vitality and Vitality Group Business reviews.

The role of healthcare professionals in ensuring better health

Discovery Health's analysis also shows that healthcare professionals can play an important role in helping society as a whole to lead healthier lifestyles. Healthier doctors are more productive, deliver better quality care, are more likely to prescribe wellness interventions and promote healthier lifestyles, resulting in healthier patients. To further bolster the role of healthcare professionals in encouraging wellness, we introduced Vitality Active Rewards for Doctors, a benefit modelled on Vitality Active Rewards. Doctors are rewarded for taking care of their own health and their patients' health. Doctors can earn up to 100% off the amount paid for their wearable devices and their medical practice support tools. This benefit also incentivises them to do point-of-care screening for chronic conditions for their patients. With the use of wearable devices they can better track, monitor and encourage greater activity levels.

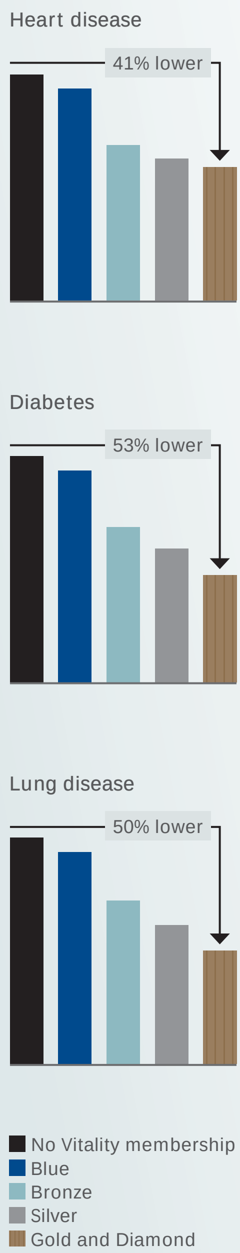
PATIENTS
Better health, more value through lower contributions and richer benefits



HEALTHCARE PROFESSIONALS
- Increased revenue
- Reduced administrative burden
- Improved productivity and job satisfaction

HEALTH INSURER
- Lower claims
- Healthier members
- Increased profitability

Vitality status is associated with improved health outcomes



02 BETTER HEALTHCARE THROUGH DEVELOPING WORLD-CLASS CLINICAL AND HEALTHCARE PROGRAMMES AND ASSETS

Discovery Health actively works to improve the quality of healthcare available to the members of our client medical schemes. By enabling a cohesive system in which healthcare professionals work in integrated teams, they are better able to share patient information to better coordinate care, and are paid using innovative alternatives to current fee-for-service models, such as value-based reimbursement models.

Discovery Health has developed disease management and care-coordination programmes to improve members' access to and quality of care, while also lowering the overall cost of healthcare. These include programmes for diabetes, renal failure, HIV and mental health, and care-coordination programmes aimed at patients with multiple conditions, such as the ElderCare programme.

EXAMPLES OF DISCOVERY HEALTH'S DISEASE MANAGEMENT AND CARE-COORDINATION PROGRAMMES

Diabetes*Care*

In response to one of the most prevalent diseases, Discovery Health developed Diabetes*Care* with the shared-value model embedded in the programme. Diabetes*Care*, together with a Premier Plus GP (a network family doctor who has contracted with us on quality-based metrics), helps patients to actively manage their condition. These doctors receive higher remuneration linked to the clinical outcomes of their patients. Patients are empowered and encouraged to manage their condition through access to personalised tracking tools in Vitality, as well as tips and advice to manage their condition, and can also access other related healthcare providers like dietitians and biokineticists. More than 22 000 medical scheme members have joined personal health programmes, and more than 1 200 healthcare professionals have enrolled in GP Premier Practice. Besides the high uptake, we have seen initial positive health outcomes.

Advanced Illness Benefit

Our data shows that the hospital costs of members during the last 12 months of life are four times more and increase up to 10 times more in their last month of life, typically due to intensive hospital care in the final weeks. Over 60% of these medical scheme members pass away in hospital, often in a high-care or an intensive-care unit, in line with the international norm. But research shows that more than 80% of people want to die at home. To address this, Discovery Health developed the Advanced Illness Benefit (AIB), which gives members with advanced stages of cancer access to a comprehensive palliative care programme, which includes Discovery HomeCare – a care solution provided by professionally trained Discovery nurses at home. With unlimited benefits, access to home-based care and a care coordinator, the service has had a significant impact on patients and their families, with over 70% of medical scheme members in this programme electing to spend their last weeks at home with their families.

Patient hospital experience surveys

Measuring quality of care has been demonstrated internationally to be effective in improving both quality and patient experience of care. In 2015, Discovery Health started an initiative to measure the patient experience of care provided by private hospitals. Since its publication on the website, the Patient Satisfaction Score (PaSS) has been viewed more than 36 500 times and the PaSS score has increased from 56% in 2013 to 59% in 2016 in response to sharing results with hospitals. We intend to extend these measures of hospital experience to include specific clinical outcomes such as mortality and infection rates, and to further extend the methodology to include visits with a GP.

All of these investments are aimed at creating an increasingly integrated, shared-value healthcare system that gives access to the highest quality healthcare at the lowest possible costs.

As part of the future focus on improving the quality of healthcare, we are planning on introducing centres of excellence for major joint replacements and in-hospital psychiatry. International evidence shows that clinical outcomes (mortality and readmission rates) are improved significantly where there is a higher volume of cases, due to the skills and experience healthcare teams develop.

03 LOWER COSTS OF HEALTHCARE THROUGH VALUE-BASED CONTRACTING AND INNOVATIVE SERVICES

In providing access to quality, cost-effective healthcare, we work with healthcare providers and their professional societies. We have made significant progress in transitioning from traditional fee-for-service models towards value-based payment models that focus on improving quality of care and patient outcomes. Discovery Health has already developed and implemented several value-based contracts with doctors, and is engaging with the industry on identifying other means to reduce healthcare costs. In addition, Discovery Health continues to grow and maintain provider networks that are efficient, drive the adoption of cost-effective generic medicine, and that incorporate technology – measures that together help to counteract medical inflation without compromising access to and quality of healthcare.

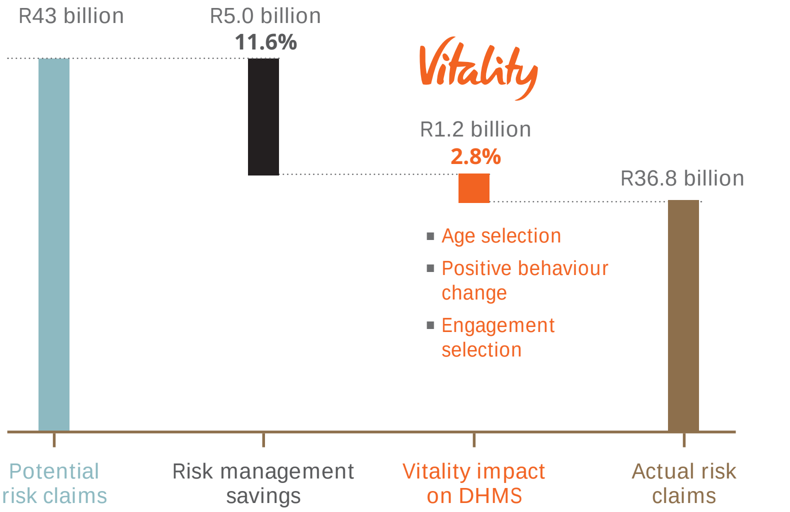
Over the reporting period, rising inflation and increasing hospital claims remained challenges for the sector. Besides the economic indicators, from the first quarter of 2016 there were significant increases in the utilisation of healthcare services, especially in hospital admission rates emanating from several new private hospitals and increases in admission rates at certain established hospitals. In May 2016, Discovery Health Medical Scheme was projecting an operating loss of R600 million for the full year. In response, Discovery Health's risk management and utilisation interventions supported a turnaround of R700 million, which enabled the Scheme to end the year with a R102 million operating surplus, and a net surplus after investment income of R1 305 million.

As a result of Discovery Health's managed care processes and interventions, Discovery Health Medical Scheme realised a reduction in risk claims of R5 billion (11.6%) in 2016. This was achieved through tariff and alternative remuneration mechanism savings, medicine savings, benefit design and funding policy, forensics and billing rules, and surgical device management. These savings equated to a 254% return on investment in managed care fees. For every R1 the Scheme paid in managed healthcare fees, it received R2.54 in return. In combination with Vitality savings, there was a 14.4% reduction in risk claims costs.

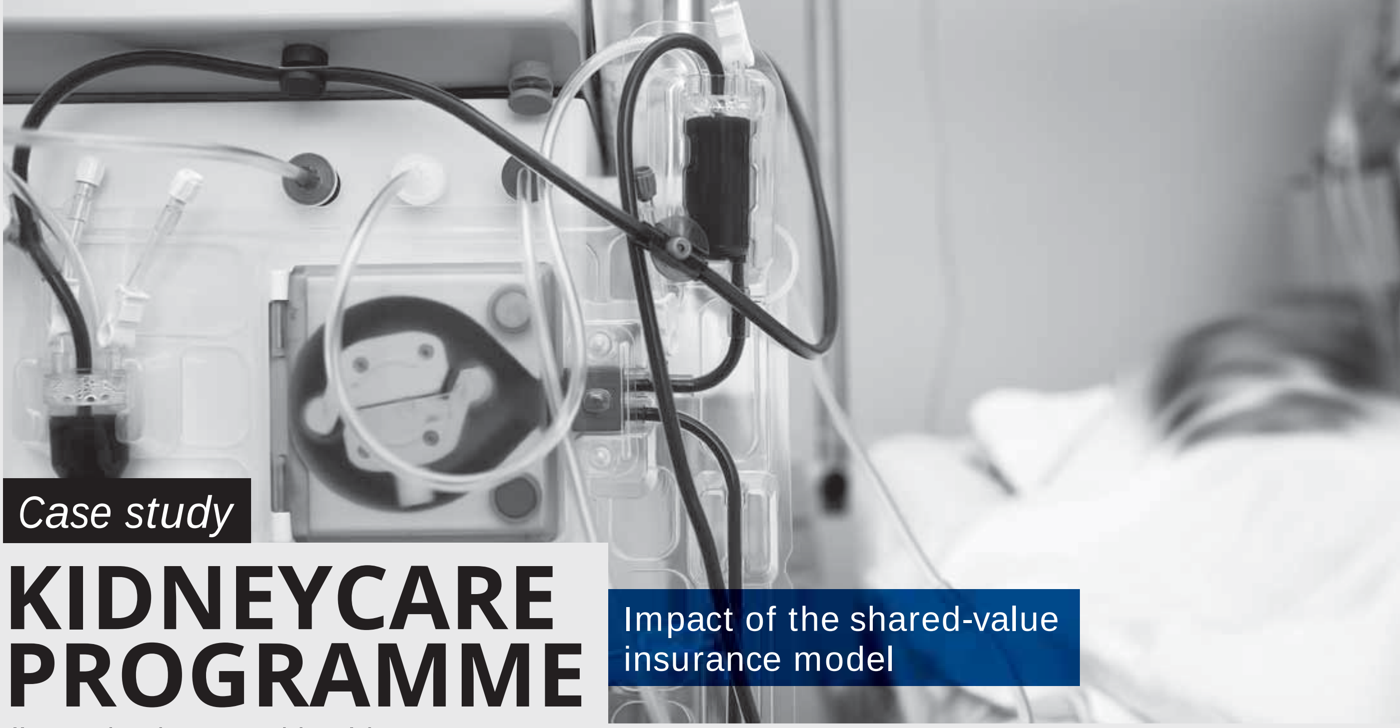
By addressing the increasing costs of healthcare holistically and adopting an approach that combines Vitality engagement with an integrated healthcare system offering, Discovery Health Medical Scheme can offer substantially lower healthcare contributions than the rest of the market. In 2017, the Scheme's contributions were 15% lower than the average for the next nine largest open medical schemes, on a plan-for-plan basis. This is an improvement on the 2016 figure of 14.6%.

These metrics will enable the continued offering of lower contribution increases than competitors in the future, as well as longer-term sustainability and market leadership.

Impact of Discovery Health and Vitality on DHMS risk claims in 2016



DISCOVERY HEALTH AND VITALITY 14.4% EFFECTIVE REDUCTION IN DHMS RISK CLAIMS



Case study

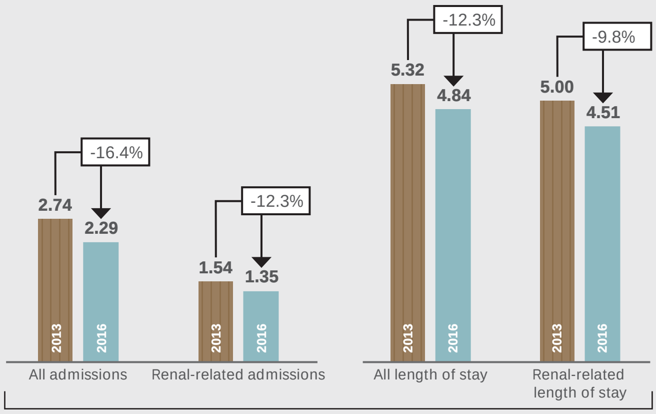
KIDNEYCARE PROGRAMME

Impact of the shared-value insurance model

Illustrating improved health outcomes and cost through value-based contracts.

The programme encourages coordinated participation and care between specialists, dialysis providers and patients. Specialists and dialysis providers report on the progress of each patient to improve quality of life and lower related healthcare costs. As part of the shared-value healthcare model, we introduced value-based contracting, which aligns the dialysis provider's incentives to improved clinical outcomes for patients.

Partnering with dialysis providers and specialists to measure and improve outcomes



Detailed monitoring of key dialysis metrics	100% of dialysis centres and patients enrolled	Detailed reporting and feedback

The programme currently has:

1 968
PARTICIPANTS FROM VARIOUS CLIENT MEDICAL SCHEMES

138
SPECIALISTS

173
CHRONIC DIALYSIS UNITS

Outcomes of the programme

Improved clinical outcome measures of
2.4%
BETWEEN 2013 AND 2016

2.44%
LOWER MORTALITY RATE
among those who use the programme, compared with those who do not

Significant reductions in

HOSPITAL ADMISSIONS FOR RENAL-RELATED CONDITIONS
down from 1.54 admissions a day in 2013 to
1.35
ADMISSIONS A DAY IN 2016
(-12.3%)

LENGTH OF HOSPITAL STAYS FOR RENAL-RELATED CONDITIONS
down from 5 days for each admission in 2013 to
4.51
DAYS IN 2016
(-9.8%)

04 DEVELOPING INTUITIVE TECHNOLOGY AND SERVICES THAT IMPROVE THE HEALTHCARE EXPERIENCE FOR ALL STAKEHOLDERS

Discovery Health continued its investment in the healthcare system and digital healthcare assets over the reporting period. These initiatives strengthen our value proposition and the value we offer our client medical schemes. It is also manifesting in improved medical scheme benefits, servicing, health outcome improvements, better quality care, and ongoing reductions in healthcare costs. These outcomes are also how we measure our mandate to improve health, the quality of care, and value we share in the healthcare system. Over the period, we invested in:

Ask Discovery (Our virtual AI assistant)

Ask Discovery, our artificial intelligence chatbot, is available on the website and allows our clients to ask product- and service-related questions in their own words and to receive accurate and succinct answers. Ask Discovery is another first for Discovery in the South African healthcare system. More than 90 000 questions have been answered, with an 87% accuracy rate. This is resulting in operational efficiencies as the number of emails and calls are reduced. We now have a real-time understanding of actual questions our clients are asking, which helps us to identify opportunities to enhance our product offerings, communications, and self-service tools.

HealthID

Our HealthID app for health professionals is South Africa's first and most comprehensive electronic health record, and provides a complete view of patients' health history and test results. Significant progress has been made with its features and functionality, including the development of a website that has resulted in an increasing adoption rate. More than 4 400 doctors are using HealthID on a monthly basis and more than 1.3 million medical scheme members have consented for their doctors to access their health records. HealthID is a key strategy to improve quality of care through improved coordination between healthcare professionals.

DrConnect

Every year millions of people actively turn to the internet to self-diagnose. These unqualified diagnoses are potentially dangerous. To address this trend, Discovery Health, in partnership with HealthTap, launched DrConnect, an app that provides access to trusted health advice. DrConnect has access to a database of 5.5 billion curated medical questions and answers from over 108 000 doctors internationally, which provides immediate response and guidance. It also offers personalised tips and checklists to meet health goals. DrConnect, which is integrated with Discovery HealthID, enables virtual follow-up consultations using video, voice or text with select doctors in a secure, private environment.

The Smart Plan

The Smart Plan, launched in 2016, incorporates Discovery Health's analytical tools and digital assets to form an integrated digital healthcare plan with network providers and medical services. The plan offers the best value for money in the South African open medical scheme market due to its use of digital technology and healthcare professional networks. Its contributions are 23% lower than the average contributions of comparable health plans from other medical schemes. The plan now has approximately 36 000 members.

Launch of Discovery Gap Cover and Supplementary Gap Cover

Final demarcation regulations that govern health insurance products such as medical gap cover, hospital cash plans and primary healthcare policies took effect in April 2017. Discovery developed an innovative and cost-effective gap cover product that combines the Group's insurance and healthcare expertise, while complementing our medical scheme cover. Discovery Gap Cover provides additional financial protection against the unforeseen costs of healthcare. Discovery Supplementary Gap Cover, underwritten by Discovery Life, extends the cover for high-cost treatments related to severe illness, such as genome sequencing for more personalised cancer treatment, and offers home support and continuing medical scheme membership for greater client value and security. We have designed a single claim-submission process, where gaps in cover are identified, assessed, and paid automatically once the medical scheme claim is processed.

Value-add enhancements to PrimaryCare

We also enhanced the value proposition offered by Discovery PrimaryCare, an affordable healthcare product priced from R199 a month, aimed at employees whose earnings prevent them from taking out private medical scheme cover. This includes extending access to dependants, funeral cover, a private hospital Trauma and Stabilisation Benefit, integration with Discovery Wellness Experience and Discovery's new Employee Assistance Programme (EAP).

05 ENGAGING WITH REGULATORY STAKEHOLDERS TO BUILD A SUSTAINABLE HEALTHCARE SYSTEM

Discovery Health continuously works with all stakeholders and regulators to contribute to the sustainability of our healthcare system. Good governance and compliance frame our decision-making and engagements. In 2017 the revised National Health Insurance (NHI) White Paper was released. Discovery Health strongly supports the objectives of the policy and remains committed to working closely with the Department of Health and all other stakeholders to assist with implementation. The Department of Health announced the establishment of a number of committees that will involve multiple stakeholders in the development of NHI. We hope to participate actively in these committees, and we are also engaging with the Department to clarify some of the key issues and details of the White Paper.

We also continue to actively participate in the processes of the Health Market Inquiry of the Competition Commission. Their report with recommendations on aspects of the South African private healthcare sector is expected in December 2017. Discovery Health continues to engage extensively with the panel.

In addition, a review of the Prescribed Minimum Benefits is currently underway. We are working closely with the relevant regulatory bodies to assist in ensuring an outcome that is sustainable and which leads to the lowering of healthcare costs and improved access to high-quality healthcare.

OUTLOOK

Discovery Health will continue to build a shared-value healthcare system by continuously investing in technology and building on our platforms and benefits to ensure members of Discovery Health's client medical schemes are part of an increasingly integrated healthcare system.

During the next year, we will focus on the following areas:

- Lowering the cost of healthcare, which we aim to achieve through increasing and expanding value-based contracting, and linking such contracts to better health outcomes, and using a portion of the generated savings to better remunerate healthcare providers.
- As part of our comprehensive and inclusive shared-value strategy we will support the expansion of Vitality Active Rewards and implement more solutions that focus on personalised healthcare and wellness services through technology and disease management programmes.

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 business now has more than 413 000 individual policyholders and approximately 500 000 Group Life policyholders.

We use data on clients' health, wellness and driving behaviour to dynamically underwrite client risk. This results in clients paying dynamic premiums that reflect the changing nature of their personal risk profiles, while Vitality engagement enables clients to manage their health and life insurance premiums over time. Premiums are offered at the lowest price at policy inception for healthy clients, with upfront discounts of up to 31% on the standard rate, and further financial incentives (Discovery Life PayBack) through client engagement in Vitality and improvements in health and driving behaviour.

Over time, providing incentives to promote healthy lifestyles and good driving behaviour has resulted in a significantly positive change in the underlying health of the risk pool and policy persistency of clients insured by Discovery Life. Improved health, as reflected through higher Vitality statuses, has a correlating positive impact on claims, while the rewards incentivising this behaviour also result in lower lapses as clients perceive more value in their product.

Discovery Life plays a key role in Discovery's portfolio of businesses, generating significant financial value, and building a platform for the development of a growing network of financial advisers.

Performance highlights

DISCOVERY LIFE DELIVERED A STRONG PERFORMANCE IN GROWTH AND PROFIT.

Discovery Life delivered a strong performance in growth and profit. Earnings increased by 10% to R3 588 million under challenging economic conditions. The value of in-force (VIF) for individual lives increased by 12% to R16 851 million from 2016. Discovery Life remains well-capitalised and generated over R3.16 billion in cash from the total existing book. This cash flow was largely utilised to continue funding further growth of the Discovery Life and Discovery Invest businesses through new product innovation and new business acquisition.

New business grew by 17% (API including servicing and ACIs) to R2 175 million, compared with the same period in the year before. Group Risk new business performed well, increasing by 96%, supported by the acquisition of a single large employer group, which had a material positive impact on this result. Individual new business increased by 12% to R1 970 million. New business margin for individual life business also grew by 8.8% to 11.2% for the period.

The new business market share in the affluent insurance segment (intermediated) grew from 28.8% in the previous period to 29.7% (NMG Life Insurance New Sales report first quarter 2017). Discovery Life is now significantly ahead in this segment in new business market share, and has the largest sum assured in the affluent life insurance segment.

EARNINGS

△10%

TO R3 588 MILLION

under challenging economic conditions

GROUP RISK NEW BUSINESS

△96%

supported by the acquisition of a single large employer group, which had a material positive impact on this result.

INDIVIDUAL NEW BUSINESS

△12%

TO R1 970 MILLION

NEW BUSINESS MARGIN FOR INDIVIDUAL LIFE

△8.8%

TO 11.2% FOR THE PERIOD

NEW BUSINESS MARKET SHARE IN THE AFFLUENT INSURANCE SEGMENT (INTERMEDIATED) GREW FROM 28.8% TO

29.7%*

* *NMG Life Insurance New Sales report Q1 2017.*

Return on capital profile over time

The internal rate of return (IRR) of new business exceeds the targeted return of risk-free +10%.

Higher-than-expected claims were experienced in the period under review. However, long-term claims continue to remain below the embedded value expectation.

The graph below illustrates Discovery Life's return on capital over time.

Life and Invest December 2016 internal rate of return

Material issues

This section outlines key issues and focus areas Discovery Life managed during the year.

01 PRODUCT INNOVATION TO OFFER VALUE IN CHALLENGING MARKET CONDITIONS

Discovery Life places a high emphasis on product innovation. This strategy aims to achieve a more precise approach to segmenting clients, meeting their unique needs, and stratifying risk. This results in the development of customised clinical pathways for individual clients who are at risk due to non-communicable diseases, while also offering value to healthy clients through unique lifestyle rewards and financial incentives. This approach has manifested in market-leading new business, and mortality and persistency metrics that deliver superior, sustainable margins and value of new business (VNB) over the long term.

New products that expanded revenue streams and improved the margin were introduced during the current period, including:

- An enhanced Severe Illness Benefit to meet the needs of patients with a relapse in illness, especially cancer.
- The implementation of Vitality Rating, which gives clients a premium discount upfront or during the policy term based on their key health metrics (done during a Vitality Health Check). This offers the lowest-cost entry point in the market for healthy clients on a fully reinsured proprietary basis.
- The Managed Care Integrator, which offers clients with health risks, pathways and guidelines for improved health management that enable them to reach standard rates for life cover and severe illness cover based on their engagement and health management.
- Medicals on Demand, which reduces the activation time by up to 75% for applications through real-time scheduling of medical underwriting appointments in a fully digitised client journey.

To maintain the momentum of new-business growth, a suite of products addressing specific life-stage needs within the retail affluent space was launched after the financial year end. The suite includes:

- **The Smart Life Plan:** A tailored product for young professionals, at a competitive rate (from R100 a month), which includes comprehensive income protection, funeral cover for family members and premium PayBack.
- **The Global Education Protector:** Protects children's education funding, while using the surplus generated by Vitality engagement to fund their tertiary education.
- **The Purple Life Plan:** Offers unique protection for high-net-worth clients.

02 CONTINUED DEVELOPMENT OF THE SHARED-VALUE APPROACH AND INTEGRATION

The Vitality Shared-Value Insurance model continued to deliver encouraging results, both for Discovery Life and its policyholders. The impact of Discovery Life's incentives for healthy lifestyle behaviours and outcomes have translated into exceptional levels of engagement in Vitality.

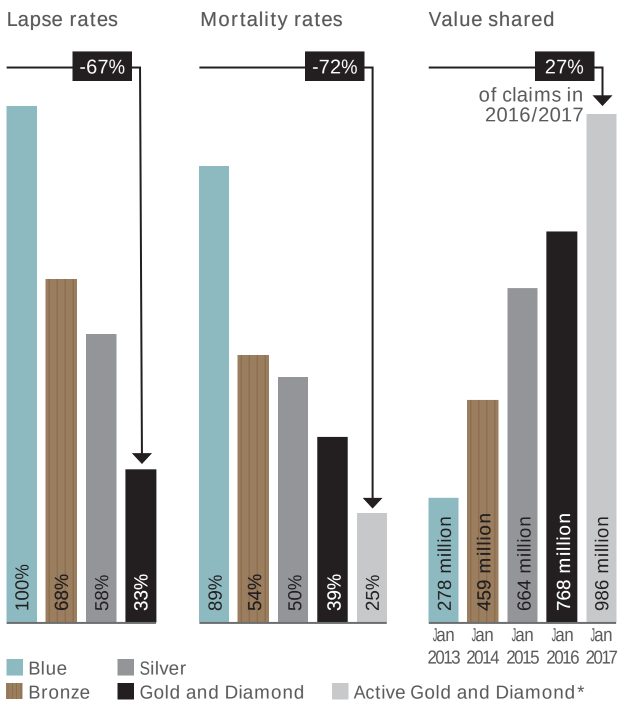
This engagement in Vitality has positively influenced the Discovery Life claims and lapse rates over time, with lapses at 83.6% (lower than the expected lapse rate) of the embedded value expectation, despite the challenging current economic climate.

Lapse rates for Vitality members on Gold and Diamond Vitality status are 67% lower than for those policyholders who do not engage with Vitality, while mortality risk is 72% lower for Vitality members on Gold and Diamond Vitality status who are physically active at least twice a week.

Policyholders benefited from Life PayBack benefits equivalent to 27% of individual premiums with R986 million in PayBack being paid to policyholders in the financial year. This highlights the value derived by healthier clients and the benefits of the Shared-Value Insurance model to both the insurer and policyholders.

Read the Vitality Business Review on **page 34**.

Shared-Value Insurance model



* *Active = physically active >2 times per week (2008 – 2015 mortality data).*

03 REGULATORY AND COMPLIANCE REQUIREMENTS

We indicated in last year's integrated annual report that we were well-advanced in preparing the business for the new Solvency Assessment and Management (SAM) framework, as well as the outcome of the Retail Distribution Review (RDR).

The RDR process continues and Discovery Life is an active participant in engagement between the industry and the Financial Services Board.

The SAM implementation was postponed to July 2018. Discovery Life has engaged with the regulator and will be ready to implement the required changes when the framework is finalised.

We are in the process of ensuring compliance with the Anti-Money Laundering Act by the due date of 1 October 2017.

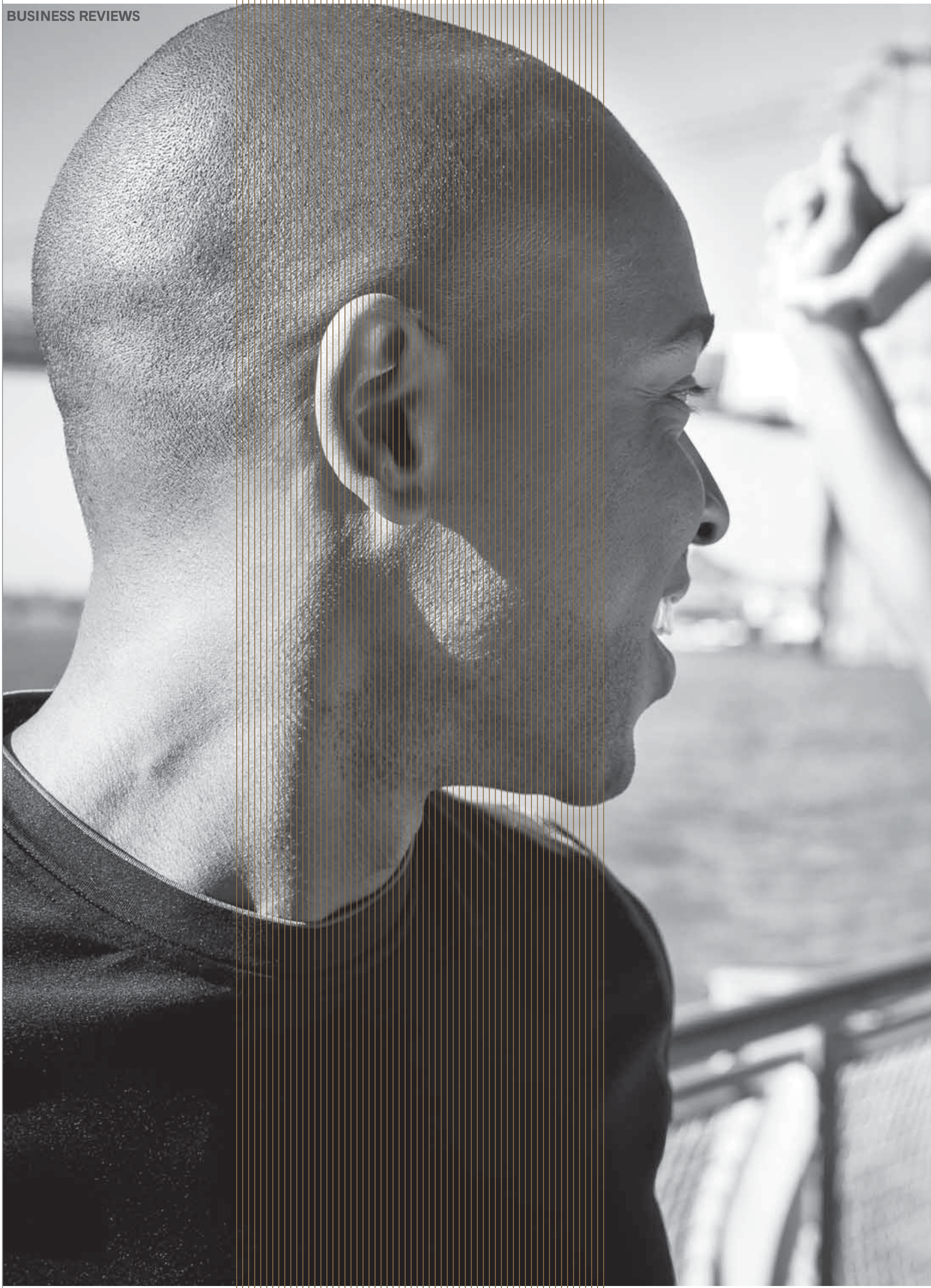
The effective implementation date for IFRS17: Insurance contracts has been confirmed for reporting periods beginning on or after 1 January 2021. This implementation will affect Discovery Life's reporting for the financial year ending June 2022. We are assessing the potential impact of IFRS17: Insurance contracts and have started specific initiatives to ensure complete compliance with the reporting requirements by the implementation date.

OUTLOOK

Discovery Life is well-capitalised and has taken steps to mitigate the direct impact of the sovereign credit rating downgrade during the year under review. The Capital Adequacy Ratio was at 3.9 at the end of June 2017, and management will continue to monitor the impact of current market conditions on the business to effectively manage possible impacts going forward.

During the coming year, we will focus on the following areas:

- Growing our market share through increased investment in product innovation.
- Growing Discovery Life's distribution channels.
- Exercising prudent financial management.



Discovery Invest

WHO WE ARE

Discovery Invest aims to be South Africa's premier savings and wealth management solutions provider. Our investment model, built on the principle of shared value, encourages positive savings behaviour through strong financial incentives and client engagement in Vitality. The superior actuarial dynamics underlying this model manifest in above-market long-term outcomes for clients, as well as the sustainable profitability of our business.

Our shared-value approach to retirement income provision is unique in today's investment market. It encourages positive behaviour change and does not rely on additional charging structures or fees. It rewards clients for both healthy behaviour and sound financial decisions; for example, clients are encouraged to select sustainable income drawdowns and to maintain a healthy lifestyle through engagement in the Vitality programme. With low income drawdowns and healthier clients living longer, funds remain invested with Discovery Invest for longer. This allows us to earn additional asset management fees, which enables us to share this surplus with our clients in the form of income boosts.

For clients engaging in this system, the impact is significant. Before retirement, they are taking responsibility for their financial future by investing earlier, receiving significant upfront financial boosts, and having their investment grow for a longer period. By maintaining a conservative drawdown level in retirement and engaging in their wellness, clients are not only increasing their longevity, but also making their savings last longer, while receiving boosts that supplement their income every month.

During the year, the Association for Savings and Investment South Africa (ASISA) ranked Discovery Invest as one of the top 10 retail asset takers in the collective investment scheme industry. The ranking was mainly thanks to the Discovery Balanced Fund, which attracted the third-highest net flows in the South African multi-asset, high-equity sector (second quarter of 2017).

Performance highlights

DISCOVERY INVEST GREW ASSETS UNDER ADMINISTRATION BY

△14%

YEAR-ON-YEAR TO R69.5 BILLION

DISCOVERY FUNDS MAKE UP

76%

OF LINKED ASSETS

which is indicative of growth in the Discovery linked investment service provider platform, as well as the growth in Discovery assets.

OPERATING PROFIT GREW TO

△R744 million

WHICH IS 12% HIGHER

than the same period in the previous year, indicating increased operational efficiency.

The business model of sharing economic value has manifested in over R644 million in fees paid back to clients and a further R425 million in accumulated fee benefits. Over R2.2 billion in upfront boosts have already been created, of which just over R200 million has already been paid out to clients. Through the Life Plan Optimiser, R2.05 billion will be channelled to boost our clients' retirement income.

During the period, Discovery Invest extended its innovation in the retirement market by making it possible for investors to convert Discovery Miles and Vitality points into their retirement plans. In doing so, Discovery Invest became the first provider in South Africa to offer zero administration fees on retirement provision with certain conditions. With over 259 000 policyholders, our market share increased by 80% in the retirement annuity and preservation funds market, and by 50% in the retirement income market.

Net flows are indicative of Discovery's growth in assets. Comparing this net flow with industry flows provides a view of performance, given current market conditions and investor appetite. Discovery Invest ranked in the fifth position as the largest retail net flow taker for the year to the end of June 2017, with flows of R4.1 billion. The total net flows exclude money market and fund of fund flows.

KEY FINANCIAL METRICS

	AUA* (Rbn)	AUM** (Rbn)	Net flows (Rm)	Operating profit (Rm)
2014/15	50.5	33.4	2 064	539
2015/16	61.0	49.9	2 413	665
2016/17	69.5	46.0	2 496	744

* *Assets under administration (AUA): defined as the assets, including those in external funds.*

** *Assets under management (AUM): defined as assets earnings a second layer of fees in addition to admin fees.*

Discovery Invest

WITH OVER

259 000

POLICYHOLDERS,

our market share increased by

80%

in the retirement annuity and preservation funds market, and by

50%

in the retirement income market.

DISCOVERY INVEST RANKED IN THE FIFTH POSITION

as the largest retail net flow taker for the year to end June 2017, with flows of

R4.1 billion.

The total net flows, exclude money market and fund of fund flows.

Material issues

This section outlines key issues and focus areas Discovery Invest managed during the year.

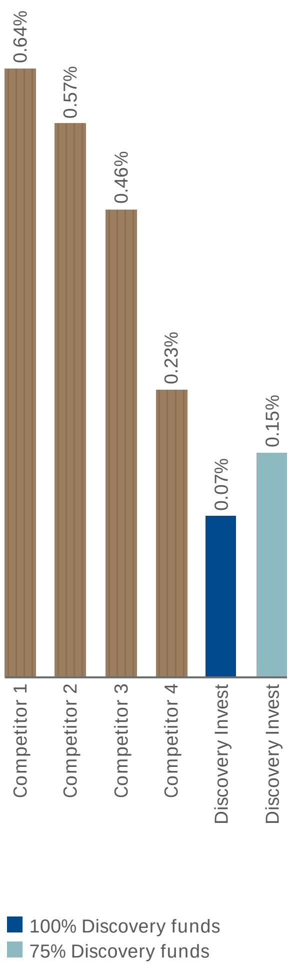
01 CURRENT ECONOMIC ENVIRONMENT AND MARKET CONDITIONS

Markets continued to be depressed in 2017, with the All Share Index (ALSI) offering gross total returns of 1.7% for the year to end June 2017, and the Shareholder Weighted Index (SWIX) returns over the same period at 0.3%. New business was up 3% at R2 496 million even in these volatile market conditions.

Against this, we placed an even greater emphasis on maximising value for clients through boosts offered on Discovery Invest products. Based on positive financial and health behaviours, we can offer enhanced value to clients independently of market conditions, for example, by offering clients who are on Vitality statuses below Silver the opportunity to receive higher boosts (at Silver Vitality status level) on their retirement income for two years. This special offer ran from April to the end of June 2017. It gave retired clients a large income boost upfront, while they can increase their Vitality status over time. Assets in the Linked Annuity Retirement Income Plan grew by 25% and now account for 13% of the total assets under administration.

Introduced in the previous period, the Retirement Upfront Investment Integrator and the Retirement Income Investment Integrator have paid out R22.3 million in benefits over two years, with a further R497 million in accumulated benefits. In response to market conditions, we also focussed on developing solutions that will help our clients protect their wealth. Through our model, some of our lump-sum retirement plans offer clients reduced administration fees and the option to use boosts in income to offset 100% of their administration fees from day one. With a reduced fee structure or zero fees, these plans offer clients more growth in investment, and places Discovery Invest competitively when comparing administration fees with the average in the market.

Lowest administration fees over a 10-year term



* *R1 million invested; no Discovery Miles invested.*

02 MANAGING LAPSE RATES

Difficult market and economic conditions have seen an increasing rate of withdrawals across the industry. Withdrawals from discretionary products across the industry averaged 20% for the period under review.

Our withdrawal rate was in line with the general industry trend over this period; however, lapse rates still remained below the expected value at the financial year end. New initiatives that offer more value through integration with other Discovery products, such as Vitality and Discovery Card, and unique savings vehicles that target the cost of medical scheme premiums in retirement also aim to strengthen client persistency. We continue to monitor product structures and fees to ensure they are providing value to clients.

03 ADDRESSING SAVINGS BEHAVIOUR IN SOUTH AFRICA

One of the most pressing challenges facing South Africa and the rest of the world is that of effective provision for retirement. Over 11 million South Africans are over-indebted and do not save enough. The National Treasury indicated in 2015 that less than 6% of South Africans are adequately prepared for retirement. This is exacerbated by the fact that, due to enhancements in medical technology and increased access to healthcare, people are living longer and 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.

Discovery Invest has focussed on addressing this trend and meeting clients' specific savings needs. During the year, one area of particular focus was to encourage provision for medical scheme costs in retirement. The Discovery Medical Investment Funds were launched in November 2016 and aim to provide returns that track the cost of medical scheme cover for 20 years in retirement.

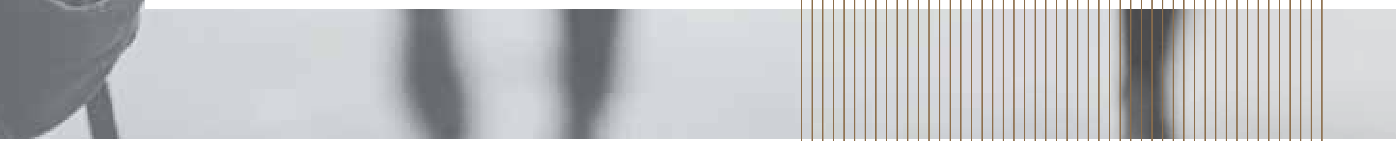
Gross flows into voluntary contribution products across the linked investment service provider (LISP) industry were R255 billion for the year ending June 2017, which is only R8 billion less than gross flows into retirement products. Net flows from discretionary products for the year were R24 billion, compared with R96 billion in net flows into retirement products. In future developments, we will aim to encourage longer investment durations on these products to ensure clients benefit appropriately from market returns.

04 CONTINUED PRODUCT INNOVATION

A key innovation during the year was introducing the conversion of Discovery Miles and Vitality points into savings in clients' retirement plans. The Savings Booster provides upfront integrator benefits on sporadic contributions to retirement annuities.

Three portfolios have also been created (with RisCura) based on different risk appetites. In addition, financial advisers can bring their own model portfolios onto the Discovery platform, and benefit from the integration benefits that Discovery Invest provides. These innovations were introduced in April 2017, and are seeing positive traction in the market.

Product and other developments will remain focussed on addressing the changing landscape of client and financial adviser needs. Developments within our distribution channel will focus on identifying ways to offer digital servicing solutions, and broadening the reach of the distribution network.



05 THE IMPACT OF CHANGING LEGISLATION OR REGULATIONS AND INDUSTRY DYNAMICS

To ensure compliance with the Financial Intelligence Centre Amendment Act, which came into effect in April 2017, additional client on-boarding and servicing requirements have to be developed. We will manage any effects of these requirements on clients and our service levels.

We continue to engage with the Financial Services Board on regulations around the Retail Distribution Review, and are well-positioned to respond to any required changes.

Changes to the handling of excess expense tax losses will affect our endowment product in the future. In response to this, all products are being reviewed and adapted to fulfil similar client needs as alternatives to the endowment product.

Success of our business model

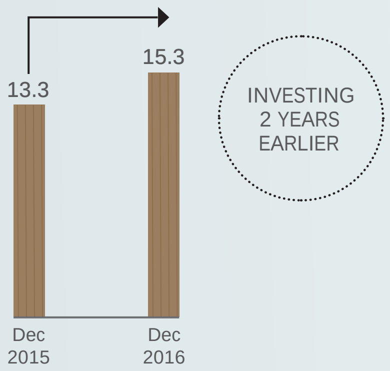
Improving clients' financial future

Our strategy of focusing on retirement funding has yielded results for Discovery Invest and our clients. We have seen positive evidence of clients starting to invest earlier for retirement (on average two years earlier) and draw down less of their capital in retirement to benefit from higher boosts (on average 2% less).

This results in policyholders having 50% more capital in their funds 10 years into retirement.

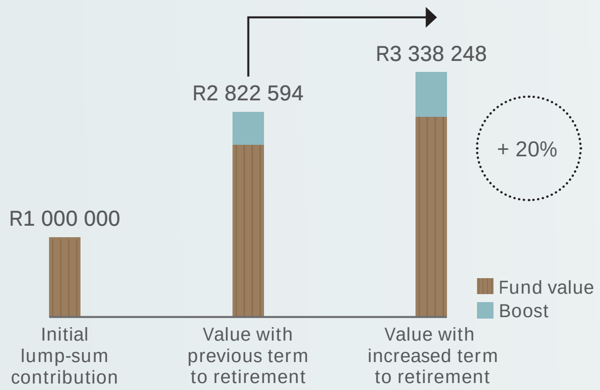
By investing earlier, clients are receiving a higher upfront boost and their investments grow for a longer period. This results in clients arriving at retirement with an extra 20% fund value.

Term to retirement



The graph above shows the change in the average term to retirement, from December 2015 to December 2016.

Fund value and boost

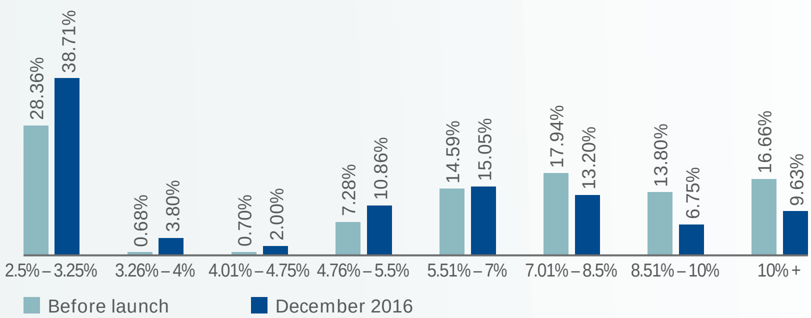


The graph above illustrates the impact of investing earlier on a client's fund value at retirement. The positive change in behaviour enables clients to grow their retirement funds more.

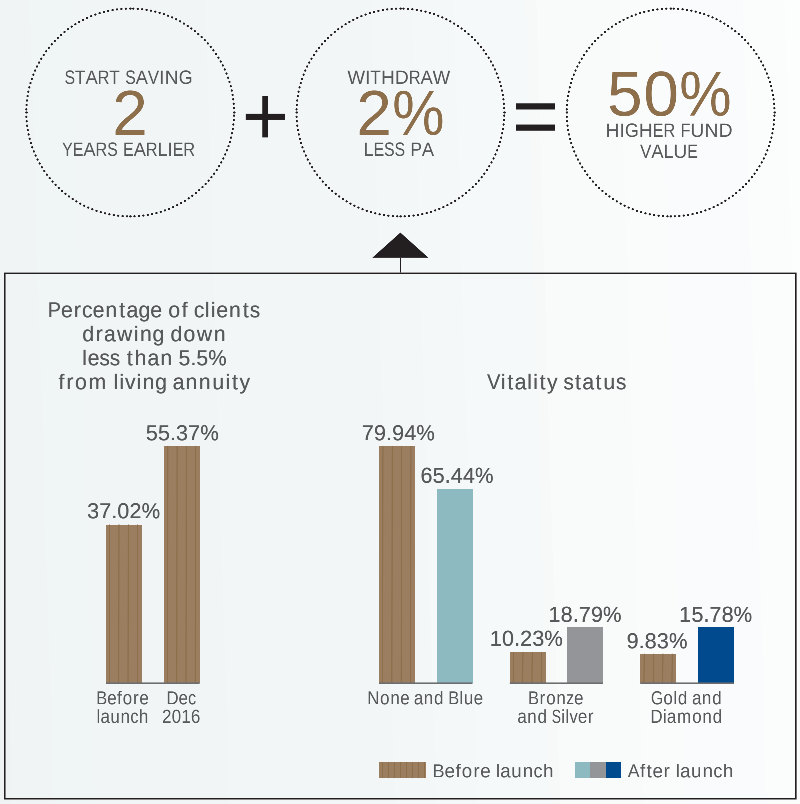
Improved financial decisions

A reduction in annuity income drawdown rates has been evident on the Linked Retirement Income Plan since the launch of this product in September 2015. The below graph shows the change in the proportion of clients in each of the annuity income drawdown bands, before December 2016. It shows that there is an increasing number of clients drawing lower annuity income percentages. The proportion of clients in the Linked Retirement Income Plan who are withdrawing an annual annuity income of less than 3.25% of their fund value has increased by 10%. Currently, 55% of clients are withdrawing an annual income of 5.5% or less, up from 37%. There has been an increase in the percentage of clients falling within income drawdown bands below 5%, which indicates a positive behaviour change.

Percentage of clients



If this trend of reduced income drawdown rates continues for the full first 10 years in retirement, clients' retirement funds are expected to grow significantly larger than they otherwise would have.



OUTLOOK

Discovery Invest aims to be a leading savings solutions provider. Over the next year, we will build on the existing Shared-Value Insurance model to continue providing outstanding value to our clients. To do this, we aim to:

- Extend our shared-value methodology to discretionary investing through a refreshed Flexible Investment Plan, which will be integrated with Vitality and Retirement Annuities.
- Expand and enhance the product and fund range offered to clients to holistically support investment needs. This will include offering share trading and porting of share portfolios onto our platform, as well as offering a Discovery hedge fund. Our new Purple range will offer high-net-worth clients rates that are cheaper than clean pricing on retirement portfolios, among other benefits. Lower minimums and tailored boosts will be introduced to create easier access to our product range for graduates and younger investors.
- Continue to offer our clients seamless digital service with an enhanced online platform.
- Deepen penetration of distribution into the market.
- Continue to adapt and respond to regulatory changes.

Discovery Insure

WHO WE ARE

Discovery Insure is a provider of short-term vehicle and home insurance, insuring assets of R175 billion, including over 172 000 vehicles. Our innovative driver-behaviour programme, Vitality drive, encourages safer driving by measuring driver behaviour and rewarding good driving.

Motor insurance currently represents the greatest segment of the Discovery Insure portfolio. The business also offers comprehensive building, household content and portable possessions insurance with unique safety benefits and quick, fair and efficient claims processing. During the year, significant progress was made with the development of a commercial insurance offering.

Since founding the business in 2011, data relating to driving behaviour has been gathered through our continually evolving telematics technology. This represents over 5.4 billion kilometres of data and forms the basis of our efforts to improve driver behaviour. We measure the frequency and severity of accidents based on driver performance and awareness as well as vehicle condition. Clients receive regular feedback and improved driver behaviour is rewarded.

Discovery Insure offers rewards of up to 50% of fuel and Johannesburg-based Gautrain travel costs in cash back. This enables clients to benefit from rewards that are underpinned by better driving behaviour, rather than price competition alone.

Telematics technology is also used to safeguard clients by alerting emergency services in the event of an accident and ensuring emergency support, where necessary. Similarly, in the case of a vehicle hijacking, call centres can detect abnormal driving patterns, based on recorded data. It can also alert owners to the potential theft of their vehicles. A vehicle panic button is also enabled on clients' smartphones.

Improvements in driver behaviour have a broader societal impact as it reduces both the human and economic cost of road accidents and fatalities.

Performance highlights

DISCOVERY INSURE SHOWED SIGNIFICANT GROWTH AND CONTINUED ITS STRONG PERFORMANCE BY ACHIEVING A CUMULATIVE PROFIT, FOR THE HALF-YEAR PERIOD FROM JANUARY TO JUNE 2017. NEW BUSINESS ANNUALISED PREMIUM INCOME INCREASED TO R895 MILLION (19% YEAR-ON-YEAR GROWTH). DRIVEN BY SIGNIFICANT SALES INCREASES ACROSS ALL INTERMEDIATED CHANNELS.

This has brought the in-force premium to just short of the R3 billion mark in the period under review. Improvements in expense efficiencies, loss ratio and driver behaviour moved the business towards profitability. Achieving monthly breakeven within the second half of the year is indicative of the rapid scaling of the business and support for mainstream adoption of telematics insurance by the market.

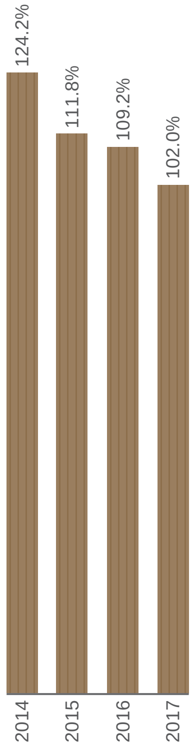
The combined ratio for the core personal lines business improved over the period to 102%, despite pressure on the loss ratio caused by catastrophe-level events taking place in the past six-month period. The loss ratio (including rewards) ended on 61%, with the expense ratio at 38%.

NEW BUSINESS ANNUALISED PREMIUM INCOME INCREASED TO

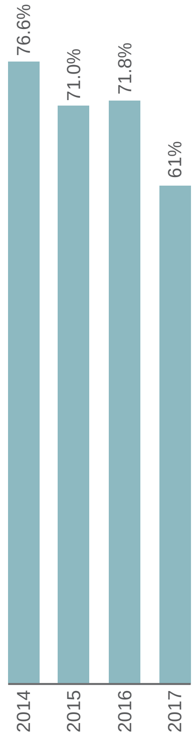
R895 million

(19% year-on-year growth)

Combined ratio over time



Loss ratio (including rewards)



Combined expense ratio over time

PARTNERSHIPS THAT PROMOTE NATIONAL AND GLOBAL ROAD SAFETY

Cambridge Mobile Telematics (CMT), our telematics partner, continued to roll out their Drivewell app, which is based on Discovery Insure technology. The Drivewell app is now available in 14 countries globally, and is helping to increase driver behaviour and road safety awareness.

A WORLD FIRST IN THE CAR RENTAL INDUSTRY

During the period, Discovery Insure concluded a partnership with Avis to extend the reach of the Vitality drive programme on changing driver behaviour.

How it works

With the Vitality drive Sensor mounted on the windscreen of the rental car, clients can download the Avis SafeDrive app to view trip data and driving scores.

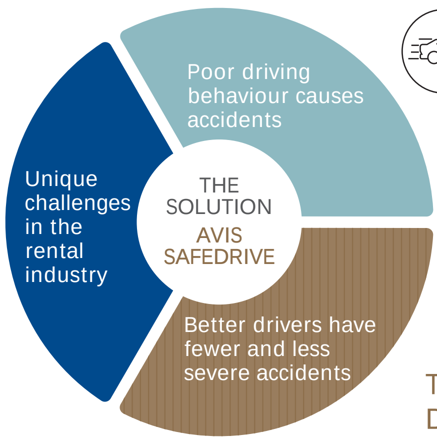
They receive daily rewards and other incentives for good driving. Included in this, is access to the compelling safety features of Discovery Insure, including ImpactAlert, a vehicle panic button, and it offers trauma counselling following a severe event.

This initiative is set to have a major bearing on the safety of our roads, particularly during busy travel seasons. The accident frequency of Discovery Insure clients has dropped by 4% in three years, and those on Advanced (now Gold) Vitality drive status have a 60% lower loss ratio. By rating and incentivising better driving behaviour in partnership with Avis SafeDrive, we hope to have a similar impact in this segment.

Innovation that solves real problems

AVIS

- Rental cars have higher accident rates compared with normal vehicles due to customer negligence
- Rental vehicles are always on the road, which increases likelihood of accidents
- Rental cars have an impact on other road users and therefore increase insurance costs
- Rental companies face higher repair costs



Cellphone use
Excessive cellphone use increases the chance of an accident by 37%

Speeding
By driving 10km/h over the speed limit, drivers increase their chances of having an accident by 49%

Time
People who drive an hour or more between the hours of 23:00 and 04:30 have, on average, a 38% higher chance of being in an accident

The accident frequency of Discovery Insure clients has dropped by **4%** in three years, and those on Advanced (now Gold) Vitality drive status have a **60%** lower loss ratio.

Material issues

This section outlines key issues and focus areas Discovery Insure managed during the year.

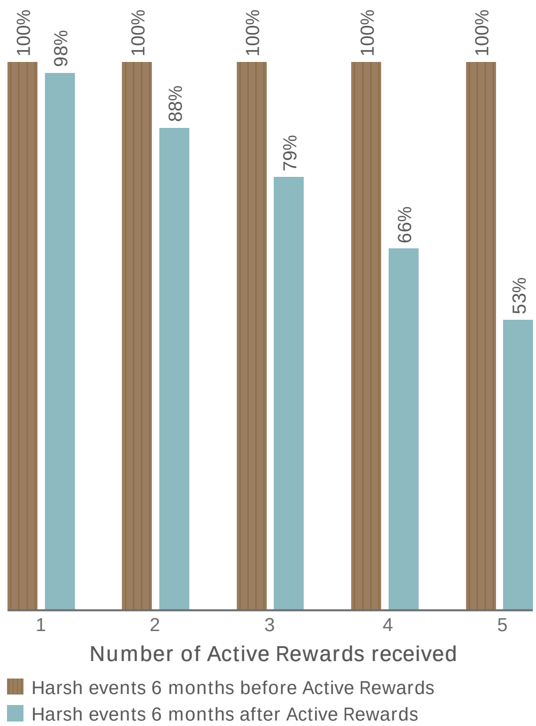
01 IMPROVING CLIENT ENGAGEMENT LEVELS

Client engagement has been a key focus area for us during the year. Effective client engagement has been shown to lead to better driving behaviour and lower claims rates. Vitality drive clients with higher engagement and Vitality drive status are also less likely to lapse and they improve the risk on the insurance book. Early-engagement campaigns during the year were successful in improving driving behaviour and participation among our clients. Some engagement campaigns involved giving new clients with good driving behaviour a fuel reward to encourage them to link and swipe their Vitality drive card when refuelling. This campaign was effective in reducing lapses and increasing engagement.

We also reminded clients to have their Annual MultiPoint check done for the period. In the first four months, the number of clients completing this check doubled. An SMS campaign over the period to increase awareness of bad driving behaviour also helped to engage clients, who showed an improvement in their driving behaviour over the course of the next three months. Following in-depth interviews with various stakeholders, including financial advisers, partners and employees, we updated our communication, welcome packs and training strategies for more effective client engagement and understanding of their cover and benefits.

Engagement in Vitality Active Rewards, as part of Vitality drive, improved overall driving behaviour by reducing the number of times clients brake harshly, take corners at high speeds, drive at night and use cellphones while driving.

Reduction in harsh events



02 MANAGING HIGH CLAIMS VOLUMES CAUSED BY EXTREME CONDITIONS

The period saw significant weather- and fire-related events, which led to a substantial number of claims across our client base. Extreme events included flooding in Gauteng, hail in KwaZulu-Natal, severe storms in Cape Town, and devastating fires in Knysna. During these events, we developed robust processes and systems to ensure we could efficiently manage a higher incidence of claims. These processes ensure we maintain exceptional service standards and help our clients to repair or replace their damaged possessions as soon as possible. Through structured reinsurance, operational efficiencies and the positive effects of our model, the impact of catastrophic events over the period on loss ratios was somewhat buffered.

Case study

RAPID RESPONSE TO THE FIRES IN KNYSNA

THE BIGGEST RESCUE OPERATION IN SOUTH AFRICA'S HISTORY:

- Over 20 suburbs were destroyed
- More than 440 properties were destroyed
- As many as 26 fires burned over an area of 300 kilometres
- More than 10 000 people were evacuated from the area

DISCOVERY INSURE WAS THE FIRST INSURER ON THE SCENE

DISCOVERY SET UP AN EMERGENCY OPERATION CENTRE WITH NETCARE 911 TO ASSIST ALL DISCOVERY CLIENTS

Timeline from 7 to 12 June 2017

- Specialist assessment teams were deployed from the very first day the fires broke out.
- A dedicated team was put in place to manage all claims related to the event.
- Trauma counselling was made available to all clients and their families.
- Discovery Insure contacted clients and financial advisers telephonically within 24 hours.
- All clients affected by the fires received an immediate upfront payment of R15 000 for urgent needs.

Claims processing and service

Teams in the area assisted all Discovery Insure clients and were commended by clients from other insurers for their emergency assistance.

ASSESSMENT OF **96%** of all claims were completed within **72 hours**

THE FIRST CLAIM FOR TOTAL LOSS OF PROPERTY AND POSSESSIONS WAS SETTLED WITHIN **60 hours**

70% of all claims were paid within **40 days**

THE AVERAGE NON-MOTOR CLAIM WAS PROCESSED AND COMPLETED WITHIN **7.9 days**

THE LARGEST CLAIM PAID **R16.3 million**

What a Discovery Insure client said:

"From the moment you called, I felt that you understood what we were going through and had an understanding of my needs. The fact that my claim was sorted out within a day showed your exceptional service."

03 CONTINUED PRODUCT DEVELOPMENT

Discovery Insure is now in the top ten short-term insurance companies by market share and is the fastest-growing short-term insurer in South Africa to date. Through continued product diversification and increased client value, we have achieved growth of our insured assets to R175 billion. Significant work has been done to develop a distinctive commercial insurance offering, combining it with our shared-value model.

Our extensive data and analytics capabilities are powerful drivers of our strong performance. We continue to boost growth and client experience through innovative services and products, and the application of technology, data and analytics to create a fully digital customer journey. From the moment our clients join Discovery Insure, they can use digital applications and technology to access various safety features, store information, and submit and view the progress of claims. System integration with our partner network also ensures our clients can easily claim their discounts and rewards for good driver behaviour.

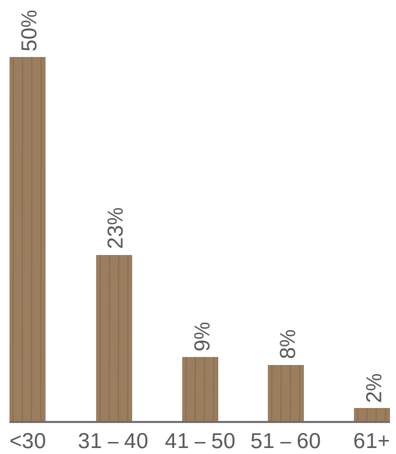
Discovery Insure continues to operate on a hybrid distribution model incorporating both direct and intermediated sales. The direct channel has developed into a significant base and the intermediated channel has grown significantly over the past two years. Both channels have proved critical in sustaining new business growth and the scaling of the business in a short space of time. We continue to invest in both segments to yield a strong and sustainable portfolio of clients.

During the year, Discovery Insure broadened access to reward partners and saw even greater engagement in earning fuel rewards with the inclusion of Shell in our partner network. Our fuel partners, BP and Shell, give clients greater opportunity to earn rewards, with one in every three filling stations in South Africa now partnering with Vitality drive.

Late-night driving is seven times more risky and young adults account for 50% of life insurance claims due to motor vehicle accidents. During the period, we have also increased rewards to address high-risk behaviour categories, such as driving at night, with an update to the Young Adult benefit (now known as Smart Insurance), which offers younger clients an upfront discount of 20% on their motor insurance premiums. These clients also receive a 25% discount on Uber when travelling at night. Alternatively, they pay for each kilometre of night driving based on their Vitality drive status.

These and other developments enable ongoing improvements in driver behaviour, vehicle recovery and client persistency.

Motor vehicle life claims by age



In line with our vision to create a nation of great drivers by rewarding good driving behaviour, our latest product updates focus on offering even better rewards for the very best drivers. Manifestations of this include the new Diamond status for clients who have been claim free for a year and have more than 1 000 Vitality drive points. These clients will have no increases on their comprehensive vehicle premium at policy anniversary and will get richer rewards. We will also refine our offers for particular segments across the age and income spectrum going forward. The new Purple Plan will replace our existing Executive Plan. The Purple Plan offers higher cover limits, greater flexibility and a tailored service experience.

04 MANAGING TOUGH ECONOMIC MARKET CONDITIONS

Despite difficult market conditions, we experienced a 17% year-on-year growth in net new business over the period. For us, the record sales numbers in this challenging environment signifies the value clients receive from our comprehensive cover and the savings from good driving behaviour. In current market conditions, clients not only become price sensitive but also rely on exceptional product value and services. Our Shared-Value Insurance model enables us to price risk accurately based on driver behaviour data so that clients receive premium discounts when lowering their risk for accidents or other events.

The vehicle insurance market is becoming increasingly digital. Our implementation of technology makes it possible to meet client expectation through fast claims assessments and payment decisions. Notably, the cost of telematics has decreased over the years as more of our clients use the app and sensor technology. Combined with this, our model of employing behavioural economics has continued to prove itself in a challenging environment through better upfront selection of risk, ongoing risk improvement through incentives, and the retention of good risk by improving the quality of the book over time.

Expanding our model and identifying other sectors where we can play a significant role to contain repair, and insurance- and accident-related costs through improved driver behaviour has been another focus area. This manifested in our partnership with Avis and the introduction of the Avis SmartDrive app.

A great contributor to insurance costs, often in challenging economic times, is the occurrence of insurance fraud. Our application of telematics technology and other digital assets across the business enables us to assess all claims against an algorithm that determines the possibility of a false claim being submitted. Our processes to prevent fraud have enabled Discovery Insure to save significantly in possible payments towards actual fraudulent claims submitted during the period. We also ensure sustainable growth and high-quality service through our crucial partnerships with various suppliers in the industry. Our remuneration agreements with partners across the industry incentivise fast, high-quality service and removes any inefficiencies or waste from the procurement cycle.

05 MANAGING REGULATORY DEVELOPMENTS

We actively worked with the South African regulator to monitor changes in our business environment to meet the requirements of the Solvency Assessment and Management (SAM) framework. Even though implementation of the SAM framework was postponed until July 2018, we have been running a comprehensive parallel framework during the past three years. We remain confident that our business will meet all requirements of the framework when it is implemented. In our experience of working within the SAM framework, it adds rigour and relevance to all the required capital management calculations.

OUTLOOK

In the coming financial year, our key focus will be on applying our Shared-Value Insurance model to commercial insurance.

We will continue to invest in technology and developments to offer a fully digital and superior customer experience across the points where clients interact with us.

The personal lines business and its profitability will be a key part of our performance in the next year as the business continues to increase in scale and become more efficient.

We will continue to look for opportunities to extend the value of the Vitality drive model in the South African market and in our international markets through Vitality Group.

Vitality UK

WHO WE ARE

VitalityLife provides individual and business clients with life, capital disability, severe illness and income protection cover. The Serious Illness Cover benefit protects policyholders for nearly four times as many conditions as other providers. In 2016, we paid out 99.4% of life insurance claims and 92.7% of critical illness claims. VitalityLife is the only life insurer who encourages and rewards policyholders for being healthy through its range of optimiser products.

VitalityHealth offers an integrated medical insurance and wellness proposition to individuals and, predominantly, small and medium enterprise clients. The holistic healthcare solution integrates prevention and health promotion with traditional illness cover. The business has achieved record-level growth through its direct channels.

Both businesses continue to invest in the Vitality brand and the strong delivery of the Vitality Shared-Value Insurance proposition. This has resulted in robust financial and actuarial performance, and the delivery of additional tangible value for clients in the UK.

Performance highlights

Vitality HEALTH AND LIFE INSURANCE

NEW BUSINESS INCREASED TO
£118 million
(+1%) (R2 040 MILLION)

INSURED LIVES APPROACHED THE
1 million
MARK

OPERATING PROFIT GREW BY
10%
TO
£44.4 million
(R768 MILLION)

Vitality LIFE INSURANCE

Value of new business margin improved to 36% for the full year.

THE ANNUALISED VALUE OF NEW BUSINESS MARGINS FOR THE YEAR WAS: 5.20%

This shows encouraging signs of resilience, driven by product enhancements, capital-efficient offerings, and an improved optimised business mix.

NUMBER OF POLICIES IN FORCE AT THE END OF THE PERIOD
337 900
policies equating to
438 862 lives

Vitality HEALTH INSURANCE

Operating profit for VitalityHealth was up 89% for the year at **£16.4 million**.

New business growth was strong at 4% to **£56.2 million**, particularly in the profitable direct and individual channels, which grew by 13% and 9% respectively.

NUMBER OF COVERED LIVES BY THE END OF THE PERIOD
537 000

INCREASING VITALITY BRAND AWARENESS IN THE UK

The private medical insurance market in the UK is complex, given that take-up is relatively low (at around 11%) among the general population. In addition, traditional providers of private medical insurance tend to focus on care rather than prevention. Both of these issues can be linked to the ubiquity of the National Health Service in the delivery of healthcare in the UK.

These issues necessitate an increased public awareness of health and wellness, and to create greater accountability among consumers for their wellbeing. This informs the products of Vitality UK, the brand, and the marketing approach. From a product perspective, we inform people of their risks and reward them for making healthy choices. From a brand perspective, we have created a retail franchise around health through our sponsorship assets and marketing campaigns.

During the year, we built on our campaigns to amplify awareness of the Vitality brand, including introducing a number of ambassadors, sponsorships, events, and charitable campaigns. Vitality UK grew its ambassador portfolio to include Joe Root (England cricket captain), Maro Itoje (England rugby team), and Ellie Simmonds (paralympian). In addition to our existing football and wellness partnerships, Vitality UK also announced an expansion of our partnership with parkrun, to become the headline partner of the initiative, which is now branded as Vitality parkrun. Other new partnerships include Great British Chefs and the Telegraph Junior Golf Championship.

During the period, Vitality Ambassador, Jessica Ennis-Hill, was involved in supporting numerous national campaigns that encourage physical activity. Vitality UK also launched VitalityMove, a music-themed running festival, while Everyday Athlete focussed on physical activity and social media campaigns such as Bring a Ball, and Where's your Wicket?

VITALITYLIFE

VitalityLife produced a steady performance and showed continued resilience in the face of a complex period. This included an unpredictable economic climate with volatility in long-term interest rates. There was strong growth of 15% in term sales, offset with a decrease in whole-of-life sales. The net effect of these conditions was a decrease in new business of 20% in rand terms to R1 068 million (1% down to 61.8 million in GBP). Normalised operating profit was also lower by 11% to £28.1 million (down 28% in rand terms to R485 million). In our reporting over the period, we saw the negative effect on profitability as a function of lower economic assumptions, exchange rates movements and margin releases in the previous period.

With a focus on value over volume, VitalityLife saw continued adoption of the Vitality integrated model over the period. We also witnessed better-than-expected overall claims experience dynamics (net and gross of reinsurance).

VitalityLife maintained a high market share of more than 10% for protection business in the independent financial adviser market. We continued the drive towards more capital-efficient products, and launched new initiatives which are all market-firsts in the UK:

- Wellness Optimiser designed to reflect health-related behaviour change through discounts on health checks (premiums change based on Vitality status).
- Enhanced Severe Illness Cover with a cancer relapse benefit, whereby clients can get Severe Illness Cover if there is a cancer relapse after one year in remission.
- Vitality Nurses, a convenient online booking system, including a range of medical screening and nursing services, aimed at supporting the underwriting process. A nurse goes to clients for their Vitality screening and non-laboratory medical diagnostic testing, and completes the process in as little as two hours. Besides fast policy activation, clients also have immediate information to engage with Vitality and improve their health.

VITALITYHEALTH

Despite the complex economic environment and political landscape, the period under review saw the acceleration of trends established during the first half of the year. New business volumes, loss ratios, operating profit and Vitality engagement all reached best-ever performance levels.

Operating profit for VitalityHealth was up 89% for the year at £16.4 million. From a cash flow perspective, the business became self-sustaining for the first time with the in-force portfolio generating £42.9 million of cash. This more than offsets the cost of writing new business.

New business growth was strong at 4% to £56.2 million, particularly in the profitable direct and individual channels, which grew by 13% and 9% respectively. This growth offset the reduction in corporate new business for the year – from £3 million previously to £1.8 million, as VitalityHealth maintained its value over volume stance in this competitive sector of the market. Importantly, individual business made up 50% of overall new business, indicating the appeal of the Vitality product in this market. Further countering this trend, a high proportion of individuals joining Vitality in the period were previously uninsured, particularly those joining through direct channels.

The period was characterised by excellent actuarial dynamics, with a continuation of good loss ratio and retention performance. There was a five percentage point reduction in the loss ratio over the period. This was driven by the combination of positive new business selection, the positive effects of Vitality on risk and retention, the purchasing power of the Healthcare Purchasing Alliance (a joint venture with Aviva), the re-engineering of our claims management processes, and the treatment pathways through which care is delivered through new products such as Consultant Select, (a consultant-led directional care pathway delivered in partnership with Alliance Surgical).

Vitality Shared-Value Insurance reinforced the strong value proposition, offering Vitality members rewards and incentives that increased from £48.6 million in the previous period to £62.7 million in the period. Of individual members who engage in the Vitality wellness programme, 26% generated more value through health discounts and rewards than they paid in policy premiums, while 46% generated more than half the value of their policy premium.

VITALITY IN THE UK

The Vitality enhancements launched during the period resonated strongly with the market, and further encouraged significant behaviour change in the areas of physical activity and nutrition.

The HealthyFood benefit in partnership with Ocado has seen over

14 600

REGISTRATIONS TO DATE AND A **19%** INCREASE

in the HealthyFood items included in food baskets during the first six months.

PARTNERSHIP WITH UNICEF:

Donate a day's food pack when a Vitality member first shops at Ocado.

OVER

30 000

FOOD PACKS DONATED TO UNICEF WITHIN THE REVIEW PERIOD.

MAKING **APPLE WATCH** AVAILABLE AS PART OF VITALITY ACTIVE REWARDS.

OVER

25 000

Apple Watches purchased. And an increase of **34%** of Vitality members who were not active, becoming active. (For the period October 2016 to April 2017).

Intellectual leadership continues to be emphasised through the **Britain's Healthiest Workplace** study, which saw 32 000 individual employees and 167 employer groups participate in 2017. A key output this year has also been the production of a new productivity model, built in partnership with RAND Europe, which links employees' distinct lifestyle behaviours to short-term productivity outcomes. Through demonstrating the cost of ill-health for employers, this research is contributing to build the business case for investment in workplace health.

Material issues

This section outlines key issues and focus areas Vitality UK managed during the year.

Vitality LIFE INSURANCE

01 MANAGING LOW INTEREST RATES

The economic uncertainty surrounding Britain's exit from the European Union has had a number of implications for VitalityLife. The most significant implication has been low and volatile long-term interest rates, which has negatively impacted profitability. The business is closely tracking the effects of the interest rate.

Against these conditions, the business remained strong over the period, with both lapse rates and claims ratios below expectations. We maintained an intense focus on business mix together with steady and continued development of products that are priced effectively to respond to market conditions. Introduction of new products in response to the environment include Premium Rate Optimiser, Interest Rate Optimiser and Wellness Optimiser. Vitality linked products now comprise over 70% of all new business uptake rates. These products are optimally priced based on actual client risk profiles, and the Wellness Optimiser, specifically, rewards clients for improving their health status. Up to 63% of all new business annual premium equivalent for the year was optimised (Vitality and Wellness Optimiser specifically).

Adoption of the Vitality integrated model has been a key driver of the increasing value of new business margin, experienced in the second half of the financial year. The continued upward direction and improvement of key metrics over the second six months, have been encouraging. It shows the resilience of the business in a challenging economic environment, and the remedial and preventive action in response to the difficult economic environment.

The business continues to meet solvency requirements against Solvency II, with cash flow requirements on track.

02 CONTINUED PRODUCT INNOVATION

During the financial year, VitalityLife further embedded wellness into its product range. The most notable addition was the Wellness Optimiser, a product which rewards consumers based on an improving health status. Integration of Vitality with life insurance products has added value to products and increased client persistency, as displayed in low lapse rates.

In 2018, we are introducing Vitality Lite, a product with selected Vitality offers at a lower price, which is expected to further increase the uptake of Vitality and the value created through the business model.

VitalityLife also aims to maintain its competitive advantage obtained through capital-efficient products with the development of an Optimiser Lite product in the new financial year. These products will remove minimum-premium requirements currently in place for other Optimiser products.

Vitality HEALTH INSURANCE

01 MANAGING CHALLENGING EXTERNAL CONDITIONS

As with VitalityLife, VitalityHealth was impaired by the current economic uncertainty surrounding Britain's exit from the European Union, which has had a number of implications for VitalityHealth. Low interest rates have impacted negatively on investment income, while the effect of poor economic performance in the uptake of private medical insurance, poses a significant risk on the industry. VitalityHealth seeks to mitigate this through offering increased demonstrable value to members through our products and Vitality Shared-Value Insurance model, whether or not members need to claim.

Service delivery within the National Health Service is a key challenge for the UK public sector, with increasing waiting times and pressure on availability of health professionals. Even small shifts in spend from the public to private sector present an opportunity for private medical insurance providers. VitalityHealth is uniquely positioned in the market due to our focus on prevention, alongside delivery of quality care.

02 CONTINUED PRODUCT INNOVATION

Engagement in Vitality continued to deliver clear benefits from both a claims and retention perspective. Member engagement is at record levels, both in terms of unique members engaging, and volume of activities. During the year, point-earning events increased exponentially, with over 24 million activities completed. Active rewards continue to be a key driver of weekly engagement, with a 10-fold increase in members reaching weekly activity threshold, and 34% of members who were inactive, becoming active.

Vitality members who increased their wellness engagement had a claims cost of around 20% lower than those who maintained their starting level of engagement. The effect on the lapse rate was even more pronounced, with this being halved for Vitality members who were actively engaged.

VitalityHealth's product launch in September 2016 included a number of key enhancements to the wellness and private medical insurance components of our value proposition. This included the addition of Consultant Select, a consultant-led directional care pathway, and the introduction of a new approach to individual renewal pricing, which moves away from the traditional no-claims discount model. These new products offer personalised help to members who take an active approach to managing their health, and Vitality linked renewal pricing, ensuring persistency for the business and value for members.

03 OPERATIONAL QUALITY AND EFFICIENCY

Key developments in the period included the completion of the migration to a single-platform administrative system, following the exit last year from the Transitional Service Agreement with Standard Life. A number of other projects have been delivered aimed at driving greater operational efficiency, while also enhancing the customer journey. These include the interactive voice response system for call centre services, enhancement of adviser self-service, and the refinement of the online offering to improve members' ability to interact with Vitality. The success of these initiatives has been demonstrated by the fact that despite member interaction with Vitality increasing dramatically due to growing engagement with Vitality's partners and rewards, the actual service load has been managed downward over the past three years.

04 NAVIGATING REGULATORY DEVELOPMENTS

Insurance Premium Tax imposed on general insurance, including private medical insurance, has doubled from 6% in October 2015 to 12% in June 2017. This has resulted in considerable increases in insurance premiums. Uncertainty remains around the future level of Insurance Premium Tax and whether or not further increases will be imposed in future. Through our shared-value approach and Vitality-linked products, we remain price competitive, and will monitor the effects of any changes in the Insurance Premium Tax against our value proposition.

The regulation implemented by the Financial Conduct Authority surrounding transparency of the previous year's premiums at renewal, was introduced in April 2017. It aims to address consumer treatment and engagement at policy renewal stage, and to promote effective competition with more transparent price increases. To demonstrate the additional value delivered to members through Vitality partners and rewards, a project was implemented to display a 'value-statement' on renewal notifications, displaying the possible savings available to our members during the course of the year. This, combined with our unique approach to renewal pricing linked to Vitality engagement, as well as the value delivered whether or not a member makes a claim in a given year, places us in a strong position relative to the market.

Another regulation we are preparing for is the General Data Protection Regulation, aimed at strengthening data protection for all individuals. This regulation comes into effect in May 2018.

OUTLOOK

VitalityLife

Key objectives for the coming financial year include keeping track of the effects of the interest rate against our projections to respond effectively. We also aim to:

- Significantly enhance distribution capability of profitable products through:
  - Increasing the franchise footprint and number of account managers.
  - Building a responsive technical marketing capability that supports our sales growth ambition with analytical tools and insights that highlight Vitality's competitive advantage and establishes a position of thought leadership in the market.
  - Focusing and targeting higher sales of indexed benefits with a review of the indexation structure to ensure simplicity and to improve customer outcomes. This will also build up additional tier-two margins, improve capital efficiency and mitigate interest rate risk.
- Enhance the service experience for clients, specifically our digital channels, and building the distribution channel and number of account managers.
- Expand our profit lines through the development of products that focus on affordable pricing and value.
- Develop the direct to consumer channel, which experienced a 77% increase in generating new business compared with the previous year.
- Ensure capital efficiency as the VitalityLife book grows on its own statement of financial position. Part VII of the business that was written on the Prudential Assurance Company's balance sheet needs to be completed by November 2019.

VitalityHealth

Key objectives for the coming financial year include pursuing further new business growth across all markets.

We will also continue to drive engagement and behavioural change through Vitality to achieve lasting changes in the health of clients, which results in reduced claims costs, delivered by our Shared-Value Insurance model.

In terms of ensuring greater operational efficiency and performance, we will focus on two key areas:

- Improvement of the client journey by positioning service as a key differentiator.
- Increased efficiencies in our digital channels for improved service, and growing our franchise footprint and the number of account managers.

INTRODUCING INVESTMENT PRODUCTS IN 2018

The potential for integration opportunities between the long-term protection and long-term savings products in the UK have driven the development of the investment offering. Vitality UK plans to launch a suite of investment products in the first quarter of 2018, subject to regulatory approval. While developing the offer for the UK market, we rely on our experience of the product overlap in our primary market of South Africa, and strong relationships we have formed within our current financial adviser force that focusses on investment and savings products.

Vitality Group

WHO WE ARE

Vitality Group is responsible for the expansion of Vitality Shared-Value Insurance beyond South Africa and the United Kingdom, serving to fully leverage the capabilities of Discovery and the Global Vitality Network beyond its primary markets.

Vitality Group operates a business providing wellness solutions to employer groups in the United States and partners with leading Insurers (AIA, Generali, John Hancock, Manulife, Sumitomo Life) across the world to launch and grow Vitality Shared-Value Insurance in their markets. Vitality Group is also responsible for Discovery's 25% equity investment in Ping An Health, the largest comprehensive medical insurer in China. Vitality Group's network jointly reaches more than seven million Vitality members across 16 countries (Australia, Canada, China, France, Germany, Hong Kong, Japan, Malaysia, Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Thailand, and the United States).

Vitality Group was formed at the end of 2016, restructuring The Vitality Group (TVG), in the United States, and Discovery Partner Markets (DPM). Vitality Group creates a more competitive international business with a single executive team, responsible for a unified strategy with a consistent approach to products, technology and partnership development. Vitality Group is a multinational corporation with its main offices in the United States and South Africa.

Performance highlights

IMPROVED FINANCIAL PERFORMANCE

Vitality Group's financial performance improved by **39%** during the period, positioning it for attaining profitability within the next year. The improved performance was driven by increased profits from insurance partnerships **(127%)**, and improvements in the profitability of Ping An Health **(66%)**.

MEMBERSHIP GROWTH

Vitality Group (excluding Ping An Health) grew by **20%** to **1.25 million clients**, while the membership of Ping An Health grew by **428%** to **3.7 million**. The Vitality-integrated insurance premiums of insurance partners grew by **126%** to **R2.7 billion**.

LAUNCH OF myOwn

At the end of the period under review, Vitality Group's successful partnership with AIA resulted in the launch of **myOwn**, a new Australian health insurer that is a joint venture between Discovery, AIA Australia, and GMHBA Ltd (a non-profit Australian private health insurance company). myOwn currently offers health insurance integrated with AIA Vitality through various direct and online channels. This partnership will soon also integrate with AIA Life to create a compelling offer that combines both health and life insurance with Vitality.

myOwn presents a significant opportunity to make a real impact on people's health, as Australia, like many other countries, has a high burden of lifestyle-related diseases. Non-communicable diseases are responsible for nine out of 10 deaths, with modifiable risk factors like inactivity, smoking and poor nutrition being the leading causes of illness and death.

VITALITY GROUP

△ 20% TO 1.25 MILLION CLIENTS

PING AN HEALTH MEMBERSHIP

△ 428% TO 3.7 MILLION

LAUNCH OF VITALITY SHARED-VALUE INSURANCE IN NEW MARKETS

Vitality Shared-Value Insurance was launched in three new markets: Germany and France with Generali Vitality, and Canada with Manulife Vitality. This brings the **total number of countries with an active Vitality Shared-Value Insurance offering to 16**, including South Africa and the United Kingdom.

During the period Vitality Group also concluded a partnership with Hannover Re to jointly pursue partnership opportunities with new insurers to implement Vitality Shared-Value Insurance. The partnership with Hannover Re will introduce new insurance partners to Vitality Active, a mobile-only version of Vitality focussed primarily on Active Rewards. This application is both faster and more economical to launch than the full Vitality offering. Vitality Active will enable the introduction of Vitality Shared-Value Insurance in less-established markets where the economics of the full Vitality offering may not be feasible.

TOTAL NUMBER OF COUNTRIES WITH AN ACTIVE VITALITY SHARED-VALUE INSURANCE OFFERING

16

RECOGNITION AS LEADING HEALTH INNOVATOR BY THE WORLD ECONOMIC FORUM

In January 2017 Vitality Group was named as a **leading health innovator** in a report released at the World Economic Forum in Davos. The report, published in collaboration with Willis Towers Watson, features a study analysing data from **100 000** US Vitality members over a three-year period, and is the first of its kind to show that increases in physical activity can lead to other health-promoting behaviours and improve overall health status. The report sought to highlight the world's best and most-innovative case studies of companies applying behavioural economics to promote health and prevent disease.

LAUNCH OF PING AN RUN VITALITY

Ping An Run Vitality (Vitality Active Rewards) was launched in China in September 2016 on Ping An Life's flagship product, **Ping An Fu**. Ping An Fu paired with Ping An Run Vitality is one of China's first life insurance products to integrate insurance with rewards for health improvements. Ping An Health manages Active Rewards on behalf of Ping An Life, supplying the rewards, systems and overall management. This creates additional benefits for the Discovery brand because of the extensive investment in Vitality in China. Ping An Run Vitality has been highly successful with engagement now at **62%** and **2 million active clients**.

PING AN RUN VITALITY HAS BEEN HIGHLY SUCCESSFUL, WITH ENGAGEMENT NOW AT

62%

AND

2 MILLION

ACTIVE CLIENTS

Focus areas

This section outlines the key focus areas of Vitality Group during the year.

01

US CORPORATE BUSINESS

Vitality USA (employer group business)

The success of Vitality with employer groups has continued with high member and client engagement. Vitality Active Rewards with Apple Watch resulted in remarkable member engagement, with the first cohort of members experiencing a 40% increase in active days per week, a 22% increase in the average daily step count, and a 15% increase in completed eligible workouts within the first six months.

The business has made good progress over the period in a competitive market. Various growth opportunities are being explored to grow the scale of the business. These included expanding the target customer base to include regional health insurance plans, and seeking opportunities to build secondary revenue streams in adjacent segments.

02

EQUITY INSURANCE PARTNERSHIPS

Ping An Health

Ping An Health continues to grow rapidly, with new business doubling to R3 billion year on year. The membership has grown by over 428% to 3.7 million. The rapid growth of Ping An Health is accompanied by strong business fundamentals, with loss ratios and lapse experience falling within expectations.

The exceptional performance of Ping An Health is attributable to the leadership of the experienced management team that was appointed in the past year. The strategic decision to significantly change the business mix over the past two years from a focus on high-end group insurance products, to middle- and low-end individual products, also contributed to this growth.

Ping An Health is investing in developing digital assets and capabilities to capitalise on the explosion of e-commerce and m-commerce use among consumers. This strategy has already started to pay dividends with the low-end individual internet product introduced in the past year, generating R1.3 billion of new business. This product continues to generate sales of more than R7 million per day. Ping An Health also launched a mobile app which was downloaded 3.6 million times with 1.7 million registrations within six months. Going forward, this app will also be used for the distribution of insurance products and health improvement services.

Ping An Health expanded its reach with the opening of the Chengdu and Foshan branches. This marks Ping An Health's first move from the eastern coastal areas to the prosperous emerging cities inland. More provincial branches and several smaller branches are planned for 2018.

Ping An Health's rapid growth is accompanied by a commitment to create superior customer experiences as evidenced by two awards. The first is the 2016 China Remuneration and Benefits Supplier Prize, awarded by HREC (HR Excellence Center), the largest and most influential internet platform in China for HR professionals. HREC gave Ping An Health the award after surveying 500 HR professionals who are in charge of remuneration and benefits in Chinese organisations. The second award was for Ping An Health's on-site, one-on-one hospital service, which was named the "2016 China Insurance Innovative Service" by the 2016 China Insurance Top 10 Innovative Service Awards.

03

CONTRACTUAL INSURANCE PARTNERSHIPS

AIA Vitality

AIA Vitality, the first Vitality Group insurance partnership, performed remarkably well. For example, the value of new business for AIA Singapore Vitality Shared-Value Insurance increased by three times in the first half of 2017 compared with the same period in 2016. Take up of AIA Vitality Shared-Value Insurance for AIA Hong Kong, reached 75% at the end of 2016. Vitality Shared-Value Insurance is currently being sold in six AIA markets (Australia, Hong Kong, Malaysia, Philippines, Singapore, and Thailand) and AIA Vitality launched stand-alone Vitality Active Rewards campaigns to market Vitality and create up-sell opportunities in six AIA markets (Hong Kong, Malaysia, Philippines, Singapore, Sri Lanka, and Vietnam). These mobile campaigns have been highly successful, with AIA Hong Kong winning five gold awards at the Marketing Magazine's 2017 Mob-Ex Awards on the strength of the campaign.

Generali Vitality

The period started with the successful launch of Vitality Shared-Value Insurance to the retail market in Germany in July 2016. New business volumes in Germany have been exceptional, with disability product volumes up by 67% and term life product volumes up 85% compared with the period leading up to the launch. In January 2017, Vitality was launched to the corporate market in France and a launch in Austria is planned before the end of 2017.

During the period, Generali Vitality signed an exclusive partnership with Angelique Kerber, former world number one female tennis player, to become the Generali Vitality brand ambassador. The French insurance magazine L'Argus de l'Assurance also awarded Generali Vitality with its coveted Innovation of the Year Award for the Corporate Life Business segment.

John Hancock and Manulife Vitality

Vitality Shared-Value Insurance continues to gain traction in North America through the John Hancock and Manulife partnerships. At John Hancock, Vitality-linked policies grew markedly over the period, on both a policy count and premium basis. This was due to more US states approving the Vitality product, strengthening of the term and unit-linked offerings, increased broker adoption driven by immersive training programmes on Vitality, and resonance of Vitality Active Rewards with Apple Watch. In addition, John Hancock was selected as the most innovative insurer in the US for the introduction of Vitality Shared-Value Insurance.

At Manulife, attaching Vitality onto a broader set of insurance products, and the launch of Vitality Active Rewards with Apple Watch later this year, is set to accelerate its growth and penetration in Canada.

Sumitomo Life Vitality

Following the conclusion of ourrtnership with Sumitomo Life at the end of the last period, work has been underway to prepare for the launch of Vitality Shared-Value Insurance to the Japanese market in the third quarter of 2018. Japan has an ageing population with the majority of deaths caused by non-communicable diseases, making it an opportune health-promotion market for Vitality Shared-Value Insurance. Vitality Group has developed a version of Vitality that specifically caters to the older population, while maintaining the integrity of the core Vitality offering. The proposed product offering is currently undergoing approval by the Japanese Financial Services Authority.

SIGNIFICANT INVESTMENT IN TECHNOLOGY TO GROW VITALITY SHARED-VALUE INSURANCE

Vitality Group is investing in technology to create a single Vitality platform to support the roll-out of Vitality Shared-Value Insurance across the globe. This new technology platform, Vitality One, is faster and more cost-effective as well as fully configurable to the needs of different international life and health insurance markets, enabling Vitality Shared-Value Insurance to be rolled out to more markets.

OUTLOOK

Vitality Group concluded its first strategy session earlier in 2017, following the restructure of Discovery Partner Markets and The Vitality Group. The strategic objectives for the next period will focus on three areas:

1 Attaining profitability

- Vitality Group aims to attain profitability by the end of the 2018 financial year by ensuring that all the businesses within Vitality Group contribute towards this goal.

2 Growing new business

- Grow the value of new business from existing partnerships by continuing to expand to additional markets, implementing effective distribution strategies within each market, and continuing to develop compelling Vitality Shared-Value Insurance offerings.
- Implement Vitality Shared-Value Insurance in Japan with Sumitomo Life in 2018.
- Grow the myOwn health insurance book and introduce additional product enhancements, including integration with AIA Life to create increased differentiation and growth in new business.
- Secure a partnership with an insurer to launch Vitality Active in a new market under the partnership with Hannover Re.
- Pursue adjacent revenue growth opportunities in the United States.

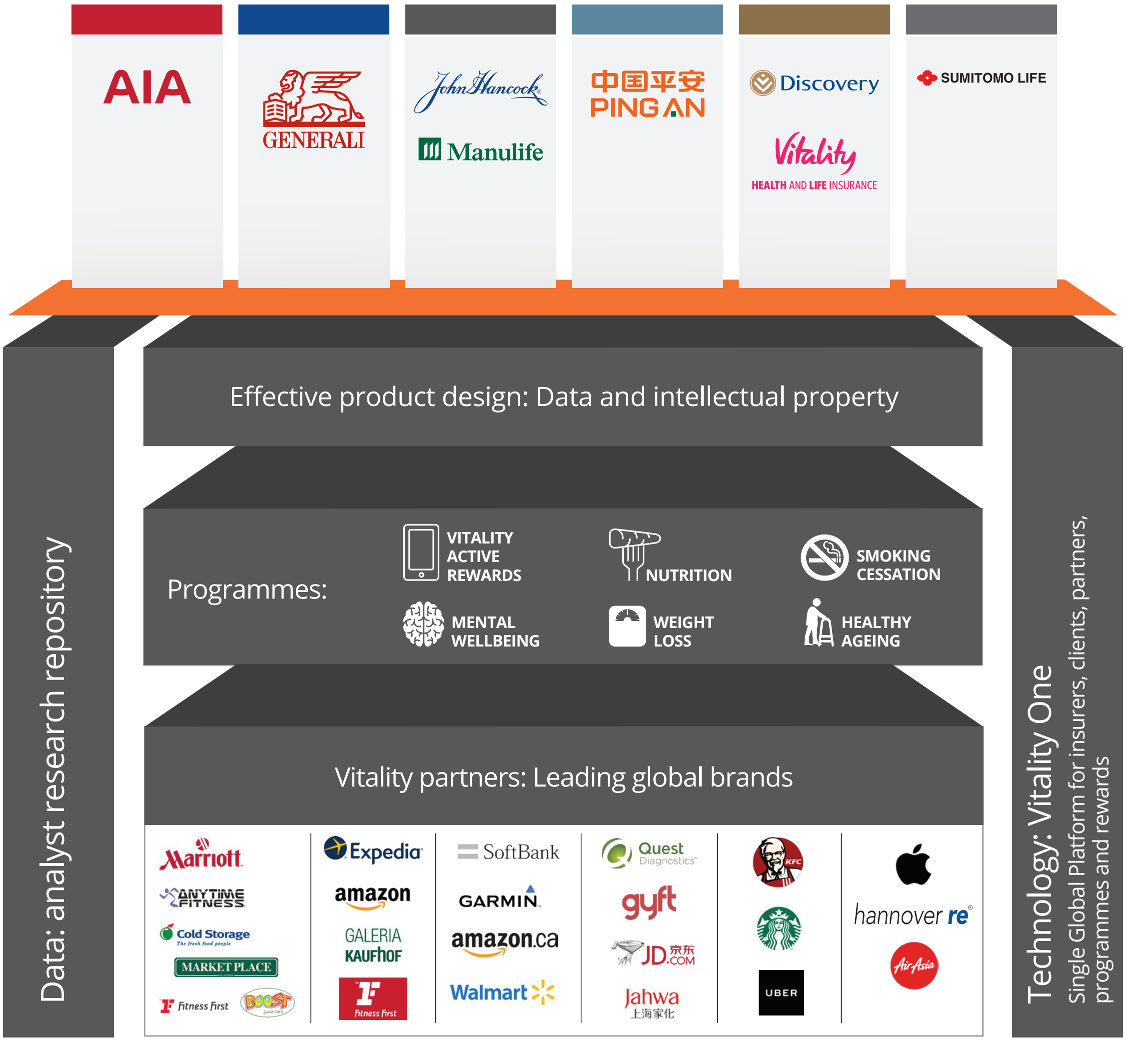
3 Implementing the current pipeline of innovations

- Complete the technology development to create Vitality Active and launch Vitality One, the new global platform.
- Launch a series of Vitality innovations through the Global Vitality Network, to address risk factors such as mental wellness, weight management, nutrition and healthy ageing.
- Work with Discovery Insure to develop a product and strategy for partnering with international short-term insurers to bring Vitality Shared-Value Insurance to their markets.

GLOBAL VITALITY NETWORK

Discovery has formed a Global Vitality Network, with powerful centralised capabilities

GLOBAL VITALITY NETWORK: FRAMEWORK AND PARTNERSHIPS



Leveraging Vitality's network benefits to:

1

Build on the experience of Active Rewards with Apple Watch and Vitality Active Rewards, and to add new benefit constructs with additional headline partners.

3

Build expertise in clinical and behavioural science to develop and roll out programmes that focus on risks that lead to chronic diseases of lifestyle, thereby cementing the Network's reputation for cutting-edge intellectual property in prevention and behaviour change.

2

Generate insights across the shared-value equation. Including answers to:

1. Optimal shared-value product design and pricing
2. Impact of positive initial selection
3. Driving engagement
4. Driving positive renewal selection
5. The impact of long-term behaviour.

4

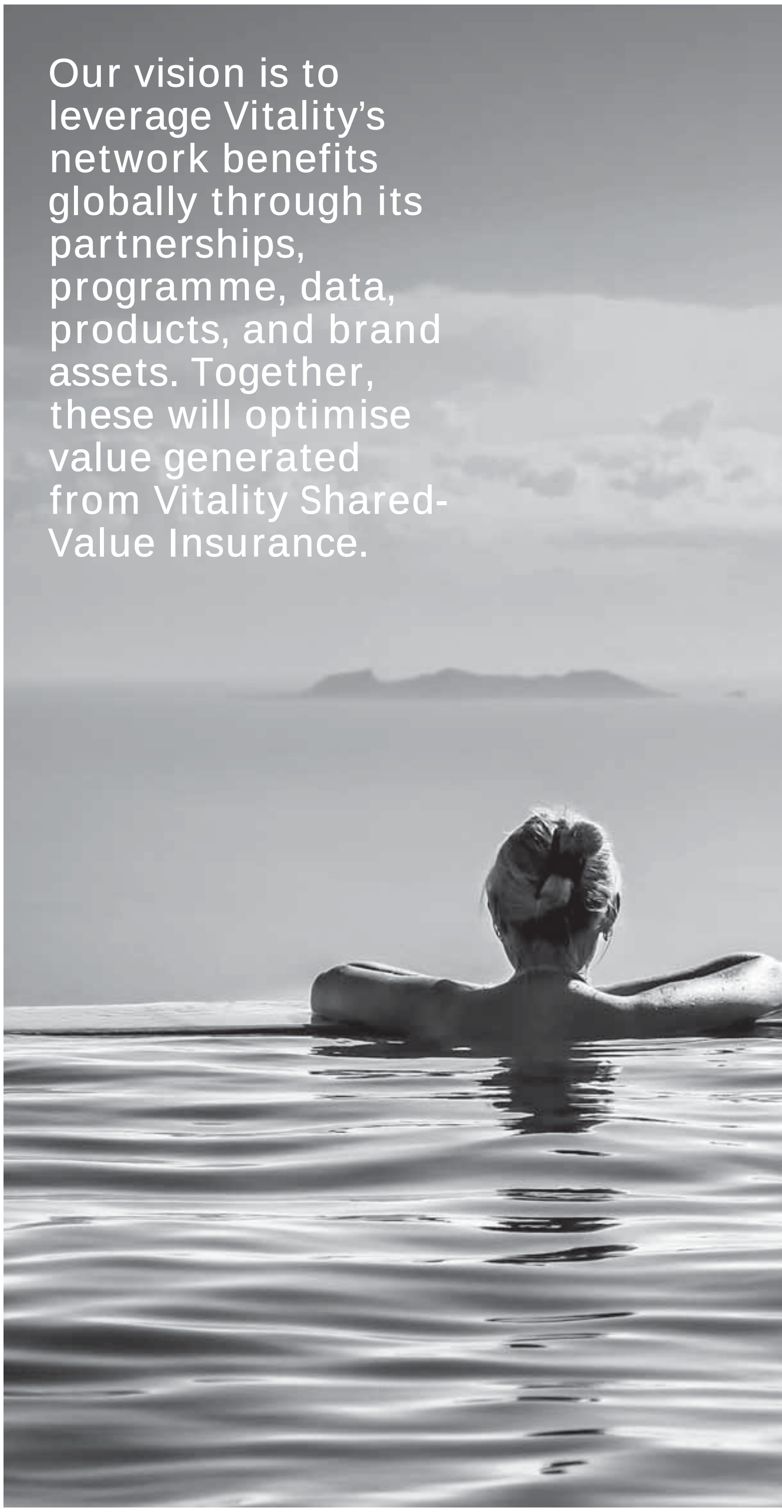
Create an increasingly visible presence as a thought-leadership brand in the area of shared-value insurance, and a consumer brand that rewards healthy living, by using the benefits and assets of the Network.

What the Global Vitality Network wants to achieve

Over the past few years, Discovery has developed a global capability that brings together all stakeholders and stimulates continuous growth of Vitality as an asset.

The aim is to:

1. Bolster the global Vitality proposition.
2. Deliver ongoing value to insurance partners through innovation at the forefront of science and health improvement.
3. Facilitate speed to market and leverage our global network scale and interconnectivity to deliver benefits that would not ordinarily be available to them.
4. Raise the global profile of the Vitality brand to become synonymous with Shared-Value Insurance (at a corporate level), and promote healthy living in a fun and engaging way, built on science and executed with leading partners (at a consumer level).
5. Shape public opinion and policy direction favourably by contributing a significant collective and credible voice to the promotion of the individual and societal benefits of health and wellbeing.



KEY PERFORMANCE HIGHLIGHTS

1 Product

Active Rewards experienced a high uptake and engagement across all markets, with an encouraging impact on physical activity levels. Today, two million Active Rewards clients are getting more active globally. In the pipeline is a Vitality Shared-Value Insurance health product that is adaptable to the needs of different international health insurance markets; as well as a shared-value corporate offering.

Since **Vitality Active Rewards** launched in the **United Kingdom, South Africa,** and the **United States,** by meeting their weekly activity goals, members have earned:

MOVIE TICKET

CARD

6.1 MILLION
free coffees and smoothies

3.5 MILLION
free coffees and cinema tickets

$75 000
worth of gift cards

Over the past **two years**, by making healthy food choices in **South Africa** and the **United Kingdom,** members have earned:

R250 MILLION
in cash back in 2016

£350 000
in discounts in 2017

2 Building a global data asset

A continuous mortality, morbidity, lapse and engagement study was initiated. The intent is to deepen the understanding of the mathematics that underpin shared-value insurance. Flowing from this study, we have created centralised data architecture to support best practice shared-value product design and pricing to achieve optimal value and health outcomes.

3 Enhancement of key programme components

We have coordinated global research and development initiatives to create new or enhanced programme components in the areas of healthy ageing, Vitality family, weight management, nutrition, and mental wellbeing.

Life expectancy has increased from around **72.3 years in 2014 to 73.3 years by 2019**, which will result in the number of people older than **65** worldwide to be over **604 million**, representing more than **10.8%** of the total global population.

Discovery has prioritised healthy longevity as a need for age-specific preventive recommendations relating to physical activity, diet, tobacco and alcohol use, medicine adherence, screening and vaccination, and mental and cognitive health.

We are working with Columbia University to quantify risk interventions that will impact most meaningfully in the older ages of insured lives.

LIFE EXPECTANCY

△ TO 73.3

YEARS BY 2019

which will result in the number of people older than 65 worldwide to be over 604 million

4 Category ownership of shared-value insurance

Discovery worked with Professor Michael Porter, Marc Pfitzer and Mark Kramer from non-profit consulting firm, FSG, to define shared-value insurance as a subset of shared value. During the period, Discovery's global leadership in pioneering this new category of insurance was recognised by FSG and the Shared Value Initiative, serving as validation of the model's efficacy and impact. At the 2017 Shared Value Leadership Summit, over 400 leaders from companies, non-profit organisations, and governments around the world convened to start developing the real business solutions urgently needed to address problems faced in society. (https://summit.sharedvalue.org)

Harvard Business School: Michael Porter

HARVARD | BUSINESS | SCHOOL

Discovery Limited

McKinsey Quarterly

McKinsey Quarterly

How Discovery keeps innovating

International media

The Economist

Getting on the treadmill

World Economic Forum

WORLD ECONOMIC FORUM

Human-Centric Health: Behaviour Change and the Prevention of Non-Communicable Diseases

Vitality was named leading health innovator at the World Economic Forum in Davos, Switzerland in 2017

Reporting, remuneration and governance

About this report

This report has been prepared in line with the guidelines of the International Integrated Reporting Council and we have aimed to make it as concise as possible. Building on our reporting in previous years, it presents readers with a complete picture of our business, our strategy, issues that are material to our business, and how we create value through Vitality Shared-Value Insurance.

This report is supplemented by a separate Sustainable Development Report in which we provide additional details about our contribution to achieving global and local sustainable development objectives. Our Sustainable Development Report is prepared in accordance with the G4 guidelines of the Global Reporting Initiative (GRI) at a core level. It also outlines our Communication of Progress to the United Nations Global Compact (UNGC). Discovery became a UNGC signatory in June 2015.

SCOPE AND BOUNDARY

In this report, we cover the operations of:

- Discovery Limited, including Discovery Health, Discovery Vitality, Discovery Life, Discovery Invest, and Discovery Insure in South Africa.
- VitalityHealth and VitalityLife in the United Kingdom.
- Our international operations, under Vitality Group.

We identify where non-financial data applies only to our South-African based businesses.

MATERIAL ISSUES FOR REPORTING

We identified issues which we believe represent some of the most material challenges for our business today. The issues were identified by Executives in our business, from a review of key risks identified in our governance structures, and from commentary by external stakeholders.

We discuss material issues throughout our report and have included a summary in the governance section, as well as in the Corporate Governance Report published on www.discovery.co.za, which supplement our reporting on how we run our business.

GOVERNANCE AND COMPLIANCE

During the year under review, Discovery complied with the mandatory principles of governance, as contained in the JSE Listings Requirements, as well as with the principles of King III. We have taken active steps to assess the requirements of King IV and to comply with mandatory requirements by the due date. A compliance programme is in place whereby the level of compliance of the Group is monitored at regular intervals. Read our Corporate Governance Report, which gives details about our compliance with the King Code, at www.discovery.co.za/info/Governance

STATEMENT OF APPROVAL BY THE DISCOVERY BOARD OF DIRECTORS

The Discovery Limited Board of Directors approved the Integrated Annual Report for the period on 9 October 2017. Approval was given following review by the Board of Directors, assessment of content by Group Internal Audit, and the recommendation of the Discovery Audit Committee.

Monty Hilkowitz
Chairperson of the Discovery Limited Board of Directors

HOW WE REPORT TO OUR STAKEHOLDERS

Along with our integrated annual report, stakeholders can also read our other reports, which provide detailed information on Discovery, our prospects, and our financial and social performance.

Integrated Annual Report

Our Integrated Annual Report provides our financial, economic, and social performance in relation to our business strategy going forward.

www.discovery.co.za info/2017integratedreport

Annual Financial Results presentation

A presentation of Discovery's Annual Financial Results to investors.

www.discovery.co.za/ info/2017annualresults

PREPARATION OF DISCOVERY'S ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017:

Annual Financial Statements

- L van Jaarsveldt CA(SA) (prepared)
- D Viljoen CA(SA) FCMA (supervised)

Embedded Value Statement

- M Curtis FASSA, FIA (prepared)
- A Rayner FASSA, FIA (supervised)

COMMENTS

We value feedback and comments on our reports and other publications from our stakeholders.

Please send your comments to askthecfo@discovery.co.za

Contact us
Mr Deon Viljoen
Discovery Group Chief Financial Officer
+27 11 529 1855

STATEMENT FROM DISCOVERY GROUP INTERNAL AUDIT

Discovery Group Internal Audit conducted a limited review of the quantitative data in the Discovery 2017 Integrated Annual Report, with the exception of the Annual Financial Statements.

Set out below is a summary of the procedures performed to verify the financial and non-financial information in the Integrated Annual Report, as well as key performance indicators, and the Global Reporting Initiative indicators in the Sustainable Development Report (and related website) for the year ending 30 June 2017.

Discovery Group Internal Audit obtained an understanding of:

- The stakeholder engagement process;
- The selection and application of reporting policies;
- The factors management considered in preparing the Integrated Annual Report and the Sustainable Development Report (and the related website).

- Discovery Group Internal Audit made enquiries of management, employees and those responsible for preparing the Integrated Annual Report and the Sustainable Development Report (and related website).
- Discovery Group Internal Audit 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.
- Discovery Group Internal Audit 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 Sustainability Development Report, sufficiently and appropriately represents the Group's performance for the year ended 30 June 2017.

Full Annual Financial Statements

This presents the full Annual Financial Statements and administration requirements.

www.discovery.co.za/info/2017financials

Sustainable Development Report

This report and detailed website chart our relationship with the broader society. It describes how we work with partners to achieve common sustainable development goals, and create value.

www.discovery.co.za/info/2017sdreport

Governance and compliance

This year we include a summarised governance section focusing on governance, compliance and regulation. A detailed governance report, including compliance, our King IV compliance, and risks can be found on the website.

www.discovery.co.za/info/governance

Group remuneration policy

The remuneration report focusses on three key areas:

1

Background to Discovery's remuneration strategy and policy

2

Our remuneration policy

3

How we implement our remuneration strategy and policy

The report demonstrates that Discovery's remuneration structure is aligned with our overall business strategy and is based on the principle of 'pay for performance'.

At Discovery, we recognise the importance of our people as an essential underpin to our Shared-Value Insurance model. We have a deep and unequivocal belief that talented employees, liberated to do their best and achieve their potential, are what makes and keeps our business successful. In the context of Discovery's expanding global footprint and our goal to become the world's best insurance organisation, innovation is essential; and to achieve sustained innovation, it is necessary to attract and retain the best talent. Our remuneration policy supports this strategy.

The Remuneration Committee's key focus areas for 2017 included:

- Reviewing overall pay policy
- Ensuring alignment between incentives and the achievement of Ambition 2018
- Reviewing director and prescribed officer package structures to ensure ongoing alignment with the market
- Continuing to address the pay gap through differential annual increases for earners on lower pay scales

Key focus areas for 2018 include:

- Continue to review remuneration practices and make adjustments as required
- Ensure incentive schemes attract, retain and reward top talent
- Continue to focus on equal pay for work of equal value; and eliminate any unjustifiable differences
- Continue to identify and address income differentials related to race and/or gender

Ms SE de Bruyn Sebotsa was appointed as chairperson of the Remuneration Committee on 25 August 2016. Other Remuneration Committee members are MI Hilkowitz and H Bosman. The Committee met three times during the past financial year and attendance was as follows:

	24 August 2016	9 November 2016	26 June 2017
SE de Bruyn Sebotsa (Chairperson)	✓	✓	✓
H Bosman	✓	✓	✓
MI Hilkowitz	✓	✓	✓

The remuneration policy and Committee responsibilities for our business in the UK are governed by a UK Remuneration Committee, chaired by Sir Andrew Foster.

All Remuneration Committee members have the relevant skills and experience to perform their duties. The majority of Remuneration Committee members have no business or other relationships that could materially interfere with their independent judgement. These members are also members of key oversight committees so that they are able to monitor risk trends across the Group. The chairperson of the Internal Remuneration Committee, Barry Swartzberg, and members of executive management, also attend the meetings by invitation. Executive directors are not allowed to participate in discussions regarding their own remuneration and they are not entitled to a vote at the meetings. B Olivier (independent remuneration expert) attends Remuneration Committee meetings by invitation.

In line with King IV, stakeholders will have the opportunity to vote on the following at the 2017 Annual General Meeting:

- A non-binding advisory vote on part 2 of this report
- A non-binding advisory vote on part 3 of this report (excluding recommended fees for Non-executive Directors)
- The recommended fees for Non-executive Directors

Discovery's remuneration policy

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 immense 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 **reward employees** who 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 that will increase trust and employee engagement
- Foster Discovery's **owner-manager culture.**

We **balance a flexible approach** that recognises differences in individual performance, value and contribution to the organisation, **with a consistent framework** that ensures fair pay levels and decisions.

REMUNERATION PRINCIPLES

- To succeed, we must have the right people in the right positions, and so 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 aligned with the objectives of the Group. Exceptional performance is recognised and rewarded.
- **We believe in pay that is right and fair** – 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 our employees join and stay at Discovery, but it is of significant concern if it is not fair or equitable.
- We are **non-discriminatory** – 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** are designed to 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 mindset) and retention.
- Our remuneration policy assists managers to make **educated and defensible pay decisions.**
- Remuneration policies and practices are governed by the **Remuneration Committee,** a subcommittee of the Board, with support from the **Internal Remuneration Committee.**

REMUNERATION GOVERNANCE

The Board is ultimately responsible for the remuneration policy. To assist the Board in fulfilling its responsibilities, it has appointed and mandated a Remuneration Committee. This Committee is a subcommittee of the Board, consists of Non-executive Directors and is advised by an independent expert.

The overarching purpose of the Remuneration Committee is to consider, agree on and recommend to the Board an overall remuneration policy and philosophy for the Group. The policy and philosophy should recognise the interests of relevant stakeholders, and align with the long-term business strategy, business objectives, risk appetite, and values of Discovery.

In its execution of this mandate, the Remuneration Committee's principal responsibilities are to:

- Formulate, approve and monitor adherence to the remuneration policy
- Ensure alignment with the latest governance standards
- Review and approve all short- and long-term incentive structures and monitor overall liability
- Approve and report to the Board on all remuneration elements for the CEO and executive directors
- Review total remuneration packages for executive management

Group remuneration policy (continued)

- Review and approve annual salary increase parameters
- Review and approve the total quantum, vesting criteria and director allocations in the phantom share scheme
- Regularly review incentive schemes to ensure continued contribution to shareholder value
- Recommend the base for Non-executive Directors' fees to the Board for shareholder approval.

The Remuneration Committee may, at its sole discretion, waive or amend the performance criteria for variable remuneration if extraordinary circumstances arise.

The Committee has delegated certain of its functions to the Internal Remuneration Committee (comprising the executive directors and business unit CEOs). This latter body is responsible for:

- Detailed analysis and development of research-based recommendations to the Remuneration Committee
- The remuneration packages of management and employees in general (with the exception of directors) in line with the policy
- Implementing the increase and incentive processes and reporting any anomalies to the Committee
- Recommending new schemes and scheme restructures to the Committee.

The Remuneration Committee uses the services of a number of independent advisors to assist in tracking market trends related to all levels of employees. In the 2017 financial year, advisors included Khokhela Consulting (Mabili Reward), PwC's Remchannel, 21st Century Pay Solutions, and Vasdex Associates.

The Board will table the remuneration policy and Implementation Report for a non-binding advisory vote by shareholders at the Annual General Meeting on a yearly basis. In the event that either the remuneration policy or the implementation report, or both, are voted against by 25% or more of the votes exercised, Discovery, in its voting results announcement following the Annual General Meeting, will issue an invitation to dissenting shareholders to engage in dialogue with us.

EMPLOYEE REMUNERATION: TOTAL REWARDS

Our total-rewards approach encompasses both financial and non-financial elements. The financial elements are explained in the sections that follow.

Financial	Non-financial
Guaranteed pay	Challenging and meaningful work
Compulsory benefits (medical and group life insurance)	Development and training
Retirement funding (pension and provident)	Discovery culture and environment
Short-term incentives	Recognition (Star Awards, etc.)
Long-term incentives	Opportunity to work with great people
	Career opportunities

The mix of the financial pay elements is linked to organisational level, with the proportion of variable pay and pay-at-risk, increasing at more senior levels.

We offer competitive guaranteed rewards (around the market average), with opportunities in many roles to earn additional variable pay-for-performance incentives, that lead to above-market-average total rewards for top performers.

REMUNERATION ELEMENTS

The remuneration policy covers four remuneration elements, although not all employees participate in all elements:

1. Guaranteed monthly salary
2. Monthly performance-based pay
3. Short-term incentive (within one year)
4. Long-term incentive (over three to five years, usually applicable only to selected senior management members)

1

GUARANTEED MONTHLY SALARY

Our **total-cost-to-company** approach is designed to provide 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 dependant on their spouse's scheme)
- Their contribution level to the provident fund, ranging from 7.5% to 20% of guaranteed or base pay
- The structure of their provident fund portfolio, with a choice of conservative, moderate and aggressive funds.

The pension fund compulsory contribution is set at 5% of salary.

Employees who work in sales environments typically receive a variable monthly remuneration linked directly to their sales productivity relative to target. The expected monthly salary, or "deemed salary" is used as the basis to calculate benefits.

GUARANTEED PAY CAN BE:

- Above the median to attract top talent, particularly in scarce and critical skill areas; and to retain top talent
- At, or close to, the market median
- In rare instances, below the median 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. Benchmarking exercises are completed at least annually to keep track of market movements. These take into account factors such as industry, company size (revenue, profit, number of employees) and availability of skills. Many of our roles at Discovery are unique, so market data is used to assist in making pay decisions, but is not the only reason we pay employees as we do.

2

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.

MONTHLY PERFORMANCE-BASED PAY

In many of the operational areas of the business where performance is highly measurable, monthly pay is made up of:

- Guaranteed monthly salary
- Performance-based pay ("on-par")

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 at the discretion of management to drive continuous improvement in the areas concerned.

Group remuneration policy (continued)

3

SHORT-TERM INCENTIVE SCHEMES

Short-term incentive schemes are designed to encourage and reward performance at every level. Different business units run different schemes based on business priorities, and therefore scheme structures (payout percentages, pay periods and calculations) vary by scheme. Typically, short-term schemes span three to 12 months, and to receive payment, an employee must have been employed for a minimum of three months in the period, and not have resigned at the time of payout. All schemes are performance-based and reward delivery against pre-agreed stretch targets, which may be at an individual, and/or business level.

- At staff and team leader levels, payments may be made quarterly, bi-annually or annually, depending on the scheme. Measures are set by management and aligned with business goals and continuous improvement.
- The management team participates in a bi-annual Management Incentive Scheme which takes into account performance against both personal and business objectives.
- Senior managers participate in a Discovery Group level profit pool scheme.
- The sales team participates in production-related incentives applicable to their roles.

Targets and final payout amounts are determined and applied at the discretion of management and the Remuneration Committee.

The management schemes have thresholds below which no payment is made as well as maximum payment caps.

Targets are set at company or divisional level using key performance indicators, and cross-company calibration ensures alignment with Group objectives and shareholder interests, as well as consistency across the various Group companies. Of the weighting, 60-70% relates to standard measures that apply to all businesses, with the balance available to drive company or divisional-specific initiatives.

THE MEASURES MAY INCLUDE, AMONG OTHERS:

- Profit
- New business
- Customer satisfaction
- Employment equity
- Key financial ratios

The Discovery Profit Pool Scheme is based on the achievement of a target level of growth in normalised operating profit, excluding start-ups.

The on-target value of the management incentives are expressed as a percentage of salary, depending on the level of the individual within the organisation. Actual payout takes into consideration individual, and business performance, and proposed payments are reviewed and signed off by the Remuneration Committee prior to payout.

The on-target split between individual and profit pool components for different levels of management are:

Employee category % of total cost to company	Individual management incentive	Discovery profit pool
Executive Director[1]	50%	50%
Prescribed Officer[2]	35%	50%
General Manager	25%	15%-25%
Deputy General Manager	20%-30%	10%
Manager/Divisional Manager	15%-20%	–

1 *Package structures aligned with the market with effect from 1 July 2016. Individual Incentive % increased from 25% to 50%.*
2 *Package structures aligned with the market with effect from 1 January 2017. Individual Incentive % increased from 25% to 35% and Profit Pool % from 35% to 50%.*

Typically, the more senior an employee, the higher the proportion of their total package that is linked to “pay at risk” or pay for performance.

4

LONG-TERM INCENTIVE PLANS

Long-term Incentives 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 senior managers and executives and align their interests with the longer-term strategic goals of the Group. Long-term Incentive Plans typically run over three to five years.

Discovery currently operates a Phantom Share and Option Scheme referenced to the Discovery share price performance for the purposes of calculating incentives payable. Selected senior managers are eligible to participate in this scheme. The Remuneration Committee approves the total allocation value per annum 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 CEO recommends the participants and the associated allocations. The Committee reviews and approves the allocations as well as the performance measures set for each allocation. Payments are made in cash on the second, third, fourth and fifth anniversaries of allocation. Growth in headline earnings per share must exceed a target level for payment to be made in any year.

From time to time, the Remuneration Committee may decide to implement a specific long-term incentive to drive a particular business result. This may be associated with, for instance, the start-up of a new venture or the delivery of strategic stretch business targets. Participation is at the discretion of the Committee and is limited to key influencers. Payout under start-up schemes is typically linked to value created and profitability.

A black economic empowerment staff share trust intended to recruit and retain senior black talent is also in operation, with allocations based on role and level.

All bonus schemes are non-contractual and discretionary, and may be changed by the Remuneration Committee.

PAYMENTS ON TERMINATION OF OFFICE

Our standard practice is to not pay ex gratia payments on termination of office of executive directors and prescribed officers, except for such payments that are due under existing short- and long-term schemes.

SIGN-ON, RETENTION AND RESTRAINT OF TRADE PAYMENTS

Such payments are made when deemed necessary in order to attract and retain critical employees. These are approved by the Remuneration Committee and disclosed appropriately.

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
- Qualification and passing certain exams
- Promotion to a higher level

ANNUAL SALARY REVIEW PROCESS

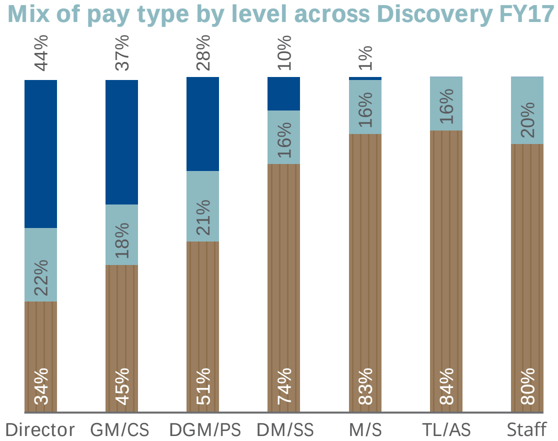
The annual salary review process provides an opportunity to adjust salaries in line with the market, and takes place between April and June each year, with increases effective from July. The Remuneration Committee determines the overall percentage increase to the salary bill, taking into account benchmarking 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. This three-month exclusion may not apply in certain instances.

Group remuneration policy (continued)

Implementation of the remuneration policy

The mix of the financial pay elements is linked to organisational level, with the proportion of variable pay and pay-at-risk increasing at more senior levels.

Mix of pay type by level across Discovery FY17



GM – General Manager
CS – Chief Specialist
DGM – Deputy General Manager
PS – Principal Specialist
DM – Divisional Manager
SS – Senior Specialist
TL – Team Leader
AS – Associate Specialist

EXECUTIVE DIRECTOR REMUNERATION

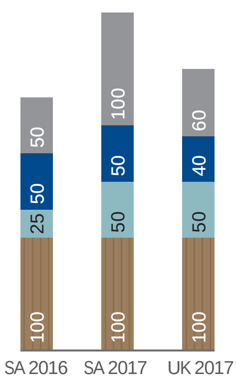
Benchmarking was carried out both in South Africa and in the United Kingdom to ensure alignment of directors' packages with the relevant local market.

In South Africa, this resulted in an increase in the on-target percentage of the short-term individual director incentive from 25% to 50%, and an increase in the annual phantom share allocation to, on average, 100% of guaranteed pay.

In the United Kingdom, the benchmarking exercise found that the UK directors' packages reflected both their roles in the UK as well as their continued influence on the wider Group as members of the top executive structure and of the Discovery Board. No adjustment was proposed.

Director target pay mix (using allocation value)

(Guaranteed pay = 100 units)



DIRECTOR INCENTIVE TARGETS AND PERFORMANCE

Stretch targets are determined annually in advance for each executive director's individual incentive and agreed to by the Remuneration Committee. These targets ensure delivery in the current financial year as well as driving strategic initiatives that will ensure the long-term, sustainable success of the company.

The measures incorporate:

1. Business performance based on the Board-approved targets
2. Transformation
3. Innovation
4. Achievement of innovative strategic initiatives for the future

In 2017, the key performance indicators per business included:

Standard business objectives	Measure	Weightings
Insurgency and market leadership in new business	▪ New business API	10%-20%
Products that meet complex consumer needs and are sustainable in the long term	▪ Innovation	10%-15%
Superior actuarial dynamics and engagement	▪ Loss ratios ▪ Lapse rates ▪ Value of new business ▪ Engagement in the Vitality programme	10%-30%
Exceptional service ecosystem	▪ Broker/franchise perception scores ▪ Member-based research (MBR) scores	10%-20%
Financial excellence and superior returns	▪ Growth in normalised profit from operations	10%-35%
Diverse workforce	▪ Employment equity	7.5%-15%

The target growth in normalised operating profit used to determine the value of the profit pool was set at 20% excluding new ventures. The threshold growth below which no profit pool accumulates, was set at CPI x 1.5%. Actual growth in normalised operating profit resulted in the profit pool value being 57.8% of expected.

Final payments (made in September) are based on audited year-end results, therefore the payouts reflected below are based on achievements against performance in the 2016 financial year, paid in March 2016 and September 2016.

For the 2016 financial year, the on-target percentages for the South African director incentive and the profit pool were 25% and 50% respectively.

An additional payment was made to directors against the 2015 Executive Outperformance Scheme. This scheme is a once-off scheme designed to drive achievement of the Discovery Ambition 2018. Two-year stretch targets were set and measured to the end of the 2015 financial year. Cash payments linked to this scheme were deferred from 2015 to 2017 based on individual performance and indexed to the Discovery share price.

Group Chief Executive

The Group Chief Executive, Adrian Gore, was awarded a total incentive of 49.91% of his annual guaranteed pay, comprising 17.18% in respect of his director incentive and 32.73% in respect of the profit pool. Individual measures for the Group Chief Executive related to guiding new developments to profitability and scale, and the launch of new initiatives.

In respect of the Executive Outperformance Scheme, Adrian Gore was awarded an additional 27% of salary.

Chief Financial Officer

The CFO, Richard Farber*, was awarded a total incentive of 52.08% of his annual guaranteed pay, comprising 19.35% in respect of his individual incentive and 32.73% in respect of the profit pool. Individual measures for the CFO related to funding and capital planning, as well as cost-efficiency and new initiatives.

In respect of the Executive Outperformance Scheme, Richard Farber was awarded an additional 52% of salary.

Remaining South African Executive Directors

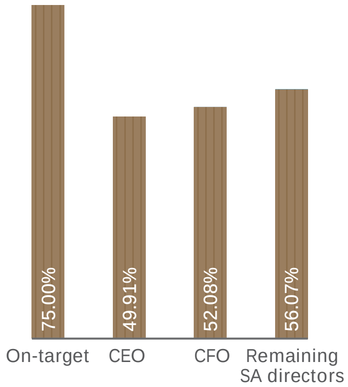
The remaining local Executive Directors were awarded, on average, a total incentive of 56.07% of their annual guaranteed pay, comprising 23.34% in respect of their individual incentives and 32.73% of the profit pool. Measures for executive directors related to business performance and delivery of key strategic initiatives in the relevant areas.

In respect of the Executive Outperformance Scheme, other South African Directors were awarded an additional 61% of salary.

* *Mr Farber relinquished his role as CFO on 1 May 2017 and remained an executive director on the Discovery Limited Board of Directors.*

Group remuneration policy (continued)

SA directors' performance against targets



UK Directors

The UK directors, Herschel Mayers and Neville Koopowitz, were awarded a total incentive of on average 81% of annual guaranteed pay, comprising 46% in respect of their individual incentive and Discovery Group profit pool performance, and 35% in respect of the stretch incentive. Individual incentive measures for the UK directors related to the business scorecard while the stretch incentive was linked to transformative initiatives and business growth.

In respect of the Executive Outperformance Scheme, the UK directors were awarded an additional 24% of salary.

US Director

Alan Pollard was awarded a total incentive of 30% of annual guaranteed pay. Individual measures related to guiding new developments to profitability and scale, and gaining traction in the US.

In respect of the Executive Outperformance Scheme, Alan Pollard was awarded an additional 36% of salary.

Prescribed officers' individual management incentives are aligned with their business units' scorecards. In the 2016 financial year, the on-target percentages for the management incentive and the profit pool were 25% and 35% respectively.

Prescribed Officers

Prescribed officers were awarded, on average, a total incentive of 48.36% of their annual guaranteed pay, comprising 25.45% in respect of their individual incentives and 22.91% of the profit pool.

In respect of the Executive Outperformance Scheme, the prescribed officers were awarded an additional 56% of salary.

Payment in respect of the long-term phantom share and option scheme relate to allocations made from the 2011 to the 2014 financial year, which vest 25% per year from year two to year five.

TERMS OF EMPLOYMENT

All executive directors are employed on employment contracts that can be cancelled with notice of one to three months by either the executive or the company.

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.

The Remuneration Committee reviews the fees paid to Non-executive Directors annually by taking into consideration the individuals' responsibilities and Board Committee membership. The chairperson is not present when his or her remuneration is reviewed. In addition, 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 Annual General Meeting for shareholder approval.

The non-executive board member fee structure has two components:

1. A retainer
2. A Board or Board Committee meeting attendance fee.

The chairperson of the Board receives an all-inclusive retainer and does not receive any other fees or retainer for attendance at Board or Committee meetings.

The fee structure for 2017 and proposed 2017/2018 financial years, is shown below (exclusive of VAT)

The Non-executive Director fees were reviewed by an independent external expert and benchmarked against comparable financial services companies operating in South Africa. As a result of this benchmarking exercise, it is proposed that adjustments higher than inflation be made to certain Non-executive Directors' fees.

	Proposed 2017/2018	2016/2017
Retainer for the Chairperson of the Board	R4 200 000	R3 834 000
SA-based Board retainer	R200 000	R172 210
SA-based Board attendance fees	R33 500 per meeting	R28 755 per meeting
SA-based Committee Chairperson retainer	R225 200	R212 470
SA-based Committee member's retainer	R130 375	R123 000
SA-based Committee Chairperson attendance fees	R26 075 per meeting	R24 600 per meeting
SA-based Committee member's attendance fee	R16 600 per meeting	R15 655 per meeting
UK-based Board retainer	GBP30 155	GBP29 420
UK-based Board attendance fee	GBP5 065 per meeting	GBP4 940 per meeting
UK-based Committee Chairperson retainer	GBP28 535	GBP27 840
UK-based Committee Chairperson attendance fee	GBP2 800 per meeting	GBP2 730 per meeting
UK-based Committee member's retainer	GBP8 615	GBP8 405
UK-based Committee member's attendance fee	GBP1 190 per meeting	GBP1 160 per meeting
USA-based Board retainer	$39 620	$38 660
USA-based Board attendance fees	$6 565 per meeting	$6 405 per meeting
Non-resident director travel allowance	$2 700 per return leg	$2 640 per return leg

TERMS FOR NON-EXECUTIVE DIRECTORS

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.

Group remuneration policy (continued)

2017 REMUNERATION AND FEES

Payments to directors for the year ended 30 June 2017 for services rendered are as follows:

R'000	Services as directors	Basic salary	Perfor-mance bonus	Phantom scheme bonus	Provident fund contributions	Other benefits[1]	Total
EXECUTIVE							
A Gore	–	6 233	3 569	6 141	935	287	17 165
R Farber	–	4 741	2 176	5 858	345	72	13 192
HD Kallner	–	4 642	3 650	8 530	232	126	17 180
NS Koopowitz[2]	–	14 929	10 501	7 898	173	411	33 912
HP Mayers[3]	–	14 894	13 208	6 780	1 623	7 821	44 326
Dr A Ntsaluba	–	3 898	2 328	10 701	292	205	17 424
A Pollard[4]	–	5 890	1 740	8 631	144	255	16 660
JM Robertson	–	3 550	2 050	6 072	727	85	12 484
B Swartzberg	–	4 634	2 731	5 858	238	129	13 590
DM Viljoen[5]	–	713	10 000	–	109	11	10 833
Subtotal	–	64 124	51 953	66 469	4 818	9 402	196 766
PRESCRIBED OFFICERS							
Dr J Broomberg	–	4 352	2 306	5 731	218	131	12 738
K Rabson	–	4 173	2 170	5 814	209	319	12 685
Dr P Moumakwa	–	2 911	1 575	5 139	291	61	9 977
Subtotal	–	11 436	6 051	16 684	718	511	35 400
NON-EXECUTIVE							
MI Hilkowitz	3 834	–	–	–	–	–	3 834
Dr BA Brink	933	–	–	–	–	–	933
HL Bosman[6]	1 268	–	–	–	–	–	1 268
SE de Bruyn Sebotsa	1 256	–	–	–	–	–	1 256
SB Epstein[7]	1 936	–	–	4 052	–	186	6 174
R Enslin	211	–	–	–	–	–	211
F Khanyile[8]	470	–	–	–	–	–	470
Dr TV Maphai	798	–	–	–	–	–	798
TT Mboweni	604	–	–	–	–	–	604
AL Owen[9]	2 862	–	–	–	–	–	2 862
SV Zilwa	1 278	–	–	–	–	–	1 278
Subtotal	15 450	–	–	4 052	–	186	19 688
Total	15 450	75 560	58 004	87 205	5 536	10 099	251 854
Less: paid by subsidiaries	(15 450)	(75 560)	(58 004)	(87 205)	(5 536)	(10 099)	(251 854)
Paid by holding company	–	–	–	–	–	–	–

1 *"Other benefits" comprise medical aid contributions, travel and other allowances, where applicable.*
2 *Salary and incentive are paid in GBP.*
3 *Remuneration consists of GBP and Rands components.*
4 *Salary and incentive are paid in USD.*
5 *The sign-on bonus paid to DM Viljoen has a two-year retention condition.*
6 *Directors' fees for services rendered by HL Bosman were paid to Rand Merchant Insurance Holdings Limited.*
7 *Included in directors' fees for SB Epstein is US$ 100 000 for services rendered as director of TVG Inc. Directors' fees are paid in USD.*
8 *Directors' fees for services rendered by F Khanyile were paid to WDB Investment Holdings Proprietary Limited.*
9 *Directors' fees are paid in GBP.*

2016 REMUNERATION AND FEES

Payments to directors for the year ended 30 June 2016 for services rendered are as follows:

R'000	Services as directors	Basic salary	Perfor-mance bonus	Phantom scheme bonus	Provident fund contributions	Other benefits[1]	Total
EXECUTIVE							
A Gore	–	5 898	3 690	7 852	845	257	18 542
R Farber	–	3 789	3 035	7 710	190	116	14 840
HD Kallner	–	3 822	2 920	8 820	191	114	15 867
NS Koopowitz[2]	–	17 646	9 572	35 211	697	506	63 632
HP Mayers[3]	–	11 214	7 454	8 664	1 228	310	28 870
Dr A Ntsaluba	–	3 409	2 664	12 132	536	182	18 923
A Pollard[4]	–	6 318	2 774	10 015	155	240	19 502
JM Robertson	–	3 355	2 337	7 932	682	58	14 364
B Swartzberg	–	4 065	2 981	7 710	479	116	15 351
Subtotal	–	59 516	37 427	106 046	5 003	1 899	209 891
PRESCRIBED OFFICERS							
Dr J Broomberg	–	3 851	2 381	7 483	256	118	14 089
K Rabson	–	3 473	2 305	7 570	343	255	13 946
Dr P Moumakwa	–	2 714	1 680	6 702	271	79	11 446
Subtotal	–	10 038	6 366	21 755	870	452	39 481
NON-EXECUTIVE							
MI Hilkowitz	3 600	–	–	–	–	–	3 600
Dr BA Brink	891	–	–	–	–	–	891
HL Bosman[5]	1 153	–	–	–	–	–	1 153
SE de Bruyn Sebotsa	924	–	–	–	–	–	924
JJ Durand[6]	439	–	–	–	–	–	439
SB Epstein[7]	1 243	–	–	1 792	–	–	3 035
F Khanyile[8]	276	–	–	–	–	–	276
Dr TV Maphai	817	–	–	–	–	–	817
TT Mboweni	444	–	–	–	–	–	444
AL Owen[9]	3 697	–	–	–	–	–	3 697
T Slabbert[8]	267	–	–	–	–	–	267
SV Zilwa	1 214	–	–	–	–	–	1 214
Subtotal	14 965	–	–	1 792	–	–	16 757
Total	14 965	69 554	43 793	129 593	5 873	2 351	266 129
Less: paid by subsidiaries	(14 965)	(69 554)	(43 793)	(129 593)	(5 873)	(2 351)	(266 129)
Paid by holding company	–	–	–	–	–	–	–

1 *"Other benefits" comprise medical aid contributions, travel and other allowances.*
2 *Salary and incentives are paid in GBP.*
3 *Received a salary paid in GBP from January 2016 in addition to component paid in rands.*
4 *Salary and incentives are paid in USD.*
5 *Directors' fees for services rendered by HL Bosman were paid to Rand Merchant Insurance Holdings Limited.*
6 *Directors' fees for services rendered by JJ Durand were paid to Remgro Limited.*
7 *Included in directors' fees for SB Epstein is US$ 100 000 for services rendered as director of TVG Inc. Directors' fees are paid in USD.*
8 *Directors' fees for services rendered by T Slabbert and F Khanyile were paid to WDB Investment Holdings Proprietary Limited.*
9 *Directors' fees are paid in GBP.*

Group remuneration policy (continued)

DIRECTORS' PARTICIPATION IN SHARE INCENTIVE SCHEMES

Discovery's directors and prescribed officers participate in the various share incentive schemes offered by the Group and their participation is disclosed below.

Discovery Limited phantom share scheme

Directors and prescribed officers participation as at 30 June 2017:

Directors and prescribed officers	Outstanding shares	Date granted	Strike price R	Final vesting date	Value at 30 June 2017 R
J Broomberg	4 315	30/09/12	–	30/09/17	**551 975**
	12 945	30/09/12	54.75	30/09/17	**960 337**
	20 072	01/07/13	–	30/09/17	**2 601 327**
	5 947	30/09/13	–	30/09/18	**755 649**
	11 893	30/09/13	84.76	30/09/18	**557 461**
	8 225	30/09/14	–	30/09/19	**1 038 312**
	16 451	30/09/14	97.89	30/09/19	**648 804**
	8 433	30/09/15	–	30/09/20	**1 057 323**
	16 866	30/09/15	134.94	30/09/20	**345 358**
	17 570	30/09/16	–	30/09/21	**2 171 744**
R Farber	4 638	30/09/12	–	30/09/17	**593 325**
	13 915	30/09/12	54.75	30/09/17	**1 032 279**
	18 434	01/07/13	–	30/09/17	**2 388 973**
	6 796	30/09/13	–	30/09/18	**863 599**
	13 592	30/09/13	84.76	30/09/18	**637 098**
	9 401	30/09/14	–	30/09/19	**1 186 669**
	18 801	30/09/14	97.89	30/09/19	**741 507**
	31 870	30/09/15	–	30/09/20	**3 995 836**
	63 739	30/09/15	134.94	30/09/20	**1 305 156**
	37 936	30/09/16	–	30/09/21	**4 689 088**
A Gore	4 638	30/09/12	–	30/09/17	**593 325**
	13 915	30/09/12	54.75	30/09/17	**1 032 279**
	16 295	01/07/13	–	30/09/17	**2 111 852**
	10 194	30/09/13	–	30/09/18	**1 295 399**
	20 388	30/09/13	84.76	30/09/18	**955 647**
	14 101	30/09/14	–	30/09/19	**1 780 003**
	28 201	30/09/14	97.89	30/09/19	**1 112 231**
	14 456	30/09/15	–	30/09/20	**1 812 482**
	28 913	30/09/15	134.94	30/09/20	**592 039**
	32 424	30/09/16	–	30/09/21	**4 007 776**
HD Kallner	4 638	30/09/12	–	30/09/17	**593 325**
	13 915	30/09/12	54.75	30/09/17	**1 032 279**
	27 651	01/07/13	–	30/09/17	**3 583 460**
	6 796	30/09/13	–	30/09/18	**863 599**
	13 592	30/09/13	84.76	30/09/18	**637 098**
	41 581	30/09/14	–	30/09/19	**5 248 932**
	83 162	30/09/14	97.89	30/09/19	**3 279 869**
	9 638	30/09/15	–	30/09/20	**1 208 405**
	19 275	30/09/15	134.94	30/09/20	**394 686**
	75 918	30/09/16	–	30/09/21	**9 383 861**
NS Koopowitz	40 861	01/07/13	–	30/09/17	**5 295 558**

DIRECTORS' PARTICIPATION IN SHARE INCENTIVE SCHEMES (continued)

Discovery Limited phantom share scheme (continued)

Directors and prescribed officers	Outstanding shares	Date granted	Strike price R	Final vesting date	Value at 30 June 2017 R
HP Mayers	4 638	30/09/12	–	30/09/17	**593 325**
	13 915	30/09/12	54.75	30/09/17	**1 032 279**
	26 360	01/07/13	–	30/09/17	**3 416 232**
	6 796	30/09/13	–	30/09/18	**863 599**
	13 592	30/09/13	84.76	30/09/18	**637 098**
	9 401	30/09/14	–	30/09/19	**1 186 669**
	18 801	30/09/14	97.89	30/09/19	**741 507**
	9 638	30/09/15	–	30/09/20	**1 208 405**
	19 275	30/09/15	134.94	30/09/20	**394 686**
A Ntsaluba	4 638	30/09/12	–	30/09/17	**593 325**
	13 915	30/09/12	54.75	30/09/17	**1 032 279**
	22 489	01/07/13	–	30/09/17	**2 914 547**
	6 796	30/09/13	–	30/09/18	**863 599**
	13 592	30/09/13	84.76	30/09/18	**637 098**
	9 401	30/09/14	–	30/09/19	**1 186 669**
	18 801	30/09/14	97.89	30/09/19	**741 507**
	9 638	30/09/15	–	30/09/20	**1 208 405**
	19 275	30/09/15	134.94	30/09/20	**394 686**
	38 229	30/09/16	–	30/09/21	**4 725 304**
A Pollard	1 546	30/09/12	–	30/09/17	**197 764**
	4 638	30/09/12	54.75	30/09/17	**344 075**
	19 663	01/07/13	–	30/09/17	**2 548 238**
	2 294	30/09/13	–	30/09/18	**291 446**
	4 588	30/09/13	84.76	30/09/18	**215 030**
	3 134	30/09/14	–	30/09/19	**395 556**
	6 267	30/09/14	97.89	30/09/19	**247 169**
	3 213	30/09/15	–	30/09/20	**402 843**
	6 425	30/09/15	134.94	30/09/20	**131 562**
	7 587	30/09/16	–	30/09/21	**937 793**
	15 175	30/09/16	134.94	30/09/21	**574 655**
K Rabson	4 315	30/09/12	–	30/09/17	**551 975**
	12 945	30/09/12	54.75	30/09/17	**960 337**
	20 789	01/07/13	–	30/09/17	**2 694 231**
	5 947	30/09/13	–	30/09/18	**755 649**
	11 893	30/09/13	84.76	30/09/18	**557 461**
	8 225	30/09/14	–	30/09/19	**1 038 312**
	16 451	30/09/14	97.89	30/09/19	**648 804**
	30 665	30/09/15	–	30/09/20	**3 844 754**
	61 330	30/09/15	134.94	30/09/20	**1 255 828**
	17 570	30/09/16	–	30/09/21	**2 171 744**
JM Robertson	4 638	30/09/12	–	30/09/17	**593 325**
	13 915	30/09/12	54.75	30/09/17	**1 032 279**
	20 277	01/07/13	–	30/09/17	**2 627 871**
	6 796	30/09/13	–	30/09/18	**863 599**
	13 592	30/09/13	84.76	30/09/18	**637 098**
	9 401	30/09/14	–	30/09/19	**1 186 669**
	18 801	30/09/14	97.89	30/09/19	**741 507**
	9 638	30/09/15	–	30/09/20	**1 208 405**
	19 275	30/09/15	134.94	30/09/20	**394 686**
	37 936	30/09/16	–	30/09/21	**4 689 088**
DM Viljoen	75 785	01/05/17	–	30/04/22	**9 222 553**

Group remuneration policy (continued)

DIRECTORS' PARTICIPATION IN SHARE INCENTIVE SCHEMES (continued)

Discovery Limited phantom share scheme (continued)

Directors and prescribed officers	Outstanding shares	Date granted	Strike price R	Final vesting date	Value at 30 June 2017 R
B Swartzberg	4 638	30/09/12	–	30/09/17	**593 325**
	13 915	30/09/12	54.75	30/09/17	**1 032 279**
	18 434	01/07/13	–	30/09/17	**2 388 973**
	6 796	30/09/13	–	30/09/18	**863 599**
	13 592	30/09/13	84.76	30/09/18	**637 098**
	9 401	30/09/14	–	30/09/19	**1 186 669**
	18 801	30/09/14	97.89	30/09/19	**741 507**
	9 638	30/09/15	–	30/09/20	**1 208 405**
	19 275	30/09/15	134.94	30/09/20	**394 686**
	43 493	30/09/16	–	30/09/21	**5 375 962**
P Moumakwa	4 315	30/09/12	–	30/09/17	**551 975**
	12 945	30/09/12	54.75	30/09/17	**960 337**
	14 983	01/07/13	–	30/09/17	**1 941 704**
	5 947	30/09/13	–	30/09/18	**755 649**
	11 893	30/09/13	84.76	30/09/18	**557 461**
	8 225	30/09/14	–	30/09/19	**1 038 312**
	16 451	30/09/14	97.89	30/09/19	**648 804**
	8 433	30/09/15	–	30/09/20	**1 057 323**
	16 866	30/09/15	134.94	30/09/20	**345 358**
	17 570	30/09/16	–	30/09/21	**2 171 744**

The Vitality Group Inc phantom stock plan

Directors and prescribed officers participation as at 30 June 2017:

Directors and prescribed officers	Outstanding shares	Date granted	Strike price US$	Final vesting date	Value at 30 June 2017 US$
A Pollard	146 429	01/10/13	–	01/10/17	**117 143**
	312 814	01/10/14	–	01/10/18	**262 764**
	346 287	01/10/15	–	01/10/19	**305 887**
	355 773	01/10/16	–	01/10/19	**346 730**

The VitalityHealth and VitalityLife phantom share schemes

Directors and prescribed officers participation as at 30 June 2017:

Directors and prescribed officers	Outstanding shares	Date granted	Strike price GBP	Final vesting date	Value at 30 June 2017 GBP
NS Koopowitz	19 493	2016	–	2020	**562 178**
	19 978	2015	154.13	2019	**616 721**
	19 873	2015	–	2019	**570 554**
	7 960	2013	–	2017	**255 118**
HP Mayers	19 978	2015	154.13	2019	**616 721**
	19 493	2016	–	2020	**562 178**

Governance review

OUR LEADERSHIP

The Board of Directors, as the ultimate governing authority, is committed to leading the Group responsibility, ethically and with integrity in the best interest of the Group and all its stakeholders. The Group's key stakeholders include shareholders, clients, partners, employees, regulators and the societies in which it operates.

The Board currently consists of Non-executive and Executive Directors, with diverse, industry knowledge, academic qualifications, skills and experience. This diversity allows for enhanced decision-making and the effective discharge of the Board's governance responsibilities. The recent changes to the Board have added additional knowledge and expertise in strategic business development and research and development priorities. The Board is satisfied its composition has the appropriate mix of knowledge, skills, experience, diversity and independence.

Non-executive Directors may serve on the Boards of other organisations. The Chairman of the Discovery Board must be satisfied that the nature of the other organisation, its location and the expected commitment time will not affect the role and responsibility of the Non-executive Director to make the affairs of the Discovery Group a priority.

Chairperson

Monty Hilkowitz
Chairman of the Board
Non-executive Director
FIA
Committee membership
▼

Adrian Gore
Founder, Group Chief Executive
BSc (Hons), FFA, ASA, MAAA, FASSA
Committee membership
■

Our Board

Herman Bosman
Non-executive Director
LLM (Cum Laude), CFA
Committee membership
▲ ▼

Richard Farber
Executive Director
(from May 2017)
Financial Director
(up to April 2017)
BCom (Hons), CA (SA), FCMA
Committee membership
▲ ◆ ■

Faith Khanyile
Non-executive Director
BA Econ, MBA (Finance), HDIP Tax, Executive Leadership Programme
Committee membership
■

Dr Vincent Maphai
Non-executive Director
BA, BA (Hons), M Phil, D Phil, Advanced Management Program (Harvard)

Dr Brian Brink
Independent Non-executive Director
BSc (Med), MBBCh, DMed (Hon)
Committee membership
▲ ■

Sonja de Bruyn Sebotsa
Independent Non-executive Director
LLB (Hons), MA, SFA, Harvard Exec. Prog.
Committee membership
▲ ▼

Robert Enslin
Independent Non-executive Director
(Appointed May 2017)
Vast experience in information technology and strategy across geographies.

Tito Mboweni
Independent Non-executive Director
BA Economics and Political Science (NUL), MA Development Economics (UEA), Diploma in International Business Diplomacy (Georgetown University)
Committee membership
▲

Les Owen
Independent Non-executive Director
BSc (Hons), FIA, FPMI
Committee membership
● ▲ ◆

Sindi Zilwa
Independent Non-executive Director
BCompt (Hons), CTA, CA (SA), Advanced Taxation Certificate (SA), Advanced Diploma in Financial Planning (UOFS), Advanced Diploma in Banking (RAU)
Committee membership
■ ● ▲

Our Board *(continued)*

Hylton Kallner
Executive Director
BEconSc, FFA, FASSA
Committee membership
◆ ▲

Dr Ayanda Ntsaluba
Executive Director
MBChB, MSc (Lond), FCOG (SA)
Committee membership
■

Barry Swartzberg
Executive Director
BSc, FFA, ASA, FASSA, CFP
Committee membership
■

Neville Koopowitz
Executive Director
BCom, CFP

Alan Pollard
Executive Director
BSc (Hons), FIA, FASSA

Deon Viljoen
Financial Director
(Appointed May 2017)
BCom Accountancy (Cum Laude), BCom (Hons), CA(SA)
Committee membership
▲ ◆

Herschel Mayers
Executive Director
BSc (Hons), FIA, FASSA
Committee membership
◆ ▲ ■

John Robertson
Executive Director
BCom, CTA, CA (SA), HDipTax
Committee membership
■ ▲

Group Executives acting as Executives of subsidiary Boards

Dr Jonathan Broomberg
Executive Director and Chief Executive Officer Discovery Health (Pty) Ltd
MBBCh, BA(Hons),MSc, PhD
Committee membership
■ ▲

Kenny Rabson
Executive Director Discovery Life Ltd and Discovery Invest (Pty) Ltd
BSc, FIA, FASSA
Committee membership
◆ ■

Dr Penny Moumakwa
Executive Director Discovery Health (Pty) Ltd
MbCHB
Committee membership
■

■ Social and Ethics Committee
▼ Remuneration Committee
◆ Actuarial Committee
▲ Risk and Compliance Committee
● Audit Committee

You can view detailed CVs of our directors in the Corporate Governance Report we publish on **www.discovery.co.za** under Investor Relations.

The Board Charter sets out the roles and responsibilities of the Board.

The Board formally meets six times a year to discuss and review a relevant schedule of matters. At these meetings the directors discuss the development and implementation of the previously approved long- and short-term strategies of the Group, and engage with executive management on the implementation of Group strategies.

An internal evaluation of the performance of the Board was conducted earlier in the year. The results confirmed that the Board continues to operate effectively and demonstrates a high degree of integrity and ethics.

APPOINTMENT AND ROTATION OF DIRECTORS

Appointments to the Board are made formally and transparently, with the assistance of a subcommittee, specifically established to search for and vet potential directors. Potential 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 three years. The re-appointment of directors is not automatic. It is dependent on the knowledge and skills required by the Board, the director's fit, and the diversity targets determined by the Board.

GENDER AND RACE DIVERSITY

Diversity in race and gender forms an integral part of the way Discovery conducts its business and this is clear from the Board Charter, recruitment policies and the Group Broad-Based Black Economic Empowerment Policy. Discovery is committed to maintaining a working environment that is fair and non-discriminatory.

The Board recognises that diversity encourages constructive debate. In light of this, the Board formally adopted the Broad-Based Black Economic Empowerment Policy to annually review the status of gender and race diversity, and to set achievable targets to ensure fair representation. To date, there are four women on the Board and seven out of the total of twenty-five members are black. The Board is satisfied that its current composition reflects the appropriate mix of knowledge, skills, diversity and experience required to meet the objectives of the Group.

CHIEF FINANCIAL OFFICER

The Audit Committee reviews the qualifications and performance of the Chief Financial Officer (CFO) annually. The performance and financial knowledge of the CFO, Deon Viljoen, was reviewed as part of his recent appointment. It will be reviewed again during the next year to ensure his experience meets the responsibilities of the position. The Committee has confirmed that it is satisfied with the appropriateness, expertise and adequacy of the finance function within the Group during the period.

COMPANY SECRETARY

The Company Secretary, Thys Botha, is responsible for ensuring that sound governance procedures are followed and maintained. In accordance with the JSE Listings Requirements, the Board has evaluated the Company Secretary's competence, qualifications, skills, knowledge and experience. The Board is satisfied that the Company Secretary has fulfilled his responsibilities and is suitably qualified to continue fulfilling these responsibilities.

TRADING IN DISCOVERY SHARES

In line with best practice and regulatory provisions, policies and procedures have been implemented to manage the trading of shares and conflict of interest. Directors are prohibited from dealing directly or indirectly in shares during closed periods. In addition, Directors are required to disclose if they have a direct or indirect interest in any matter, for consideration by the Board.

KING CODE

The Board has recognised that to be a sustainable and ethical company, the business of the Group must be conducted in accordance with the principles and practices contained in the King Code. With the introduction of King IV, emphasis was placed on reviewing the organisation and the governance structures to ensure the principles and recommendations are entrenched in the governance and risk management structures, policies and procedures. The Group has formally adopted the King IV Code and has made significant progress with its implementation of King IV.

BOARD COMMITTEES

The Board is ultimately responsible and accountable for the governance, performance and strategy of the Group. The Group governance structure is strengthened by Board subcommittees as well as management committees that support the Board in the performance of its responsibilities. Each committee acts within approved terms of reference and their authority is delegated by the Board.

OVERVIEW OF THE BOARD AND SUBCOMMITTEES

DISCOVERY LIMITED BOARD

- **Board Sub-committees**
  - Audit Committee
  - Risk and Compliance Committee
    - Treating Customers Fairly
  - Actuarial Committee
  - Social and Ethics Committee
  - External Remuneration Committee
- **Group Executive Committee**
  - IT Strategy Committee
  - Capital, Currency and Investment Committee
- **Management Board Committees**
  - Life Management Board
  - Health Management Board
  - Vitality Management Board

Further information about the responsibilities of these Committees is available in the Governance report we publish on **www.discovery.co.za** under Investor Relations.

CONTROL FUNCTIONS

Risk Management

KEY FOCUS AREAS FOR RISK MANAGEMENT DURING THE YEAR

- **Enhancing the Group capital management process**
  The capital management process was further enhanced and embedded during the year. A more robust capital framework, linking financial soundness to cash flow generation and return on capital, was produced giving further clarity internally on the Group-wide approach to capital management. The Capital, Currency and Investment Committee convened and adjudicated on a number of key strategic initiatives and requests for funding.

- **Solvency Assessment and Management (SAM) readiness**
  The requirements of both SAM and Solvency II are now firmly embedded in the business processes even though SAM has yet to be legislated. All relevant businesses have now been through at least two full solvency assessment cycles (most of them three), including reporting. Measurement of solvency according to the SAM framework is now part of our business reporting cycle. We have focussed on using the internal solvency assessment process to extract valuable insights to improve our business intelligence, resilience to adverse scenarios and identifying opportunities to improve our business.

- **Enhancing the risk management capacity**
  Risk management capacity in the second-line function was strengthened during the year by filling key vacancies and acquiring skills necessary for our specific set of risks. We acquired further actuarial, accounting, risk and specialist technology-risk skills. Significant first-line businesses are now all staffed with skilled risk management resources. The UK risk function has also been significantly strengthened with the appointment of an actuary as Chief Risk Officer.

- **Enhancing the combined assurance model**
  We have continued to enhance our approach to combined assurance to maximise value derived from the risk management, compliance, and internal and external audit activities. We did so to ensure there are minimal gaps in providing assurance to our stakeholders and minimal duplication of effort. An assessment of the impact of the King IV principles on our approach has been started.

- **Implementation of a risk management software solution**
  We selected a service provider during the year and implementation of the risk management system has started. This process has enabled us to formalise a number of processes and to improve them based on external input. Significant progress has been made, including in building the system and in data collection and migration. We anticipate that the system will be fully operational before the end of 2017 and will drive the consistency in our approach, optimise a number of risk processes, and streamline reporting and assessment to focus more on value-adding activities.

Compliance

KEY COMPLIANCE FOCUS AREAS DURING THE YEAR

During the year we focussed on the following material developments within our regulatory environment that have an impact on our business:

- **Implementation of a Group-wide anti-money laundering (AML) framework**
  Discovery has made substantial progress to incorporate the amendments to the anti-money laundering requirements in various business processes during the year. Our focus was to develop a comprehensive anti-money laundering framework that delivers on the objectives of the requirements and that aligns business processes to them.
- **Enhancing Treating Customers Fairly (TCF)**
  The TCF principles are now firmly embedded in the business processes considering the objectives defined by the Financial Services Board when they introduced TCF. During the year we completed the work to define the objectives of TCF applicable to each business and to identify the appropriate measures to evaluate performance against these objectives. The internal reporting standards have also been enhanced to more effectively oversee how each business is doing against their defined objectives.
  - We have also established a committee as part of the governance structure, to provide the Board with updates on the status of TCF within the business.
- **Enhancing compliance with local and international data privacy requirements**
  We have continued our efforts to develop a formal data management framework, both locally and internationally, and to align it to the emerging data protection requirements.
  - Though the Protection of Personal Information Act is not yet effective, we have continued our work towards compliance and have completed a number of initiatives during the year aimed at improving the quality of data management.
  - We have also made substantial progress within our UK business to implement the necessary processes and controls to ensure compliance with the requirements of the General Data Protection Regulation, with a number of these initiatives already embedded in the business processes.
- **Enhancement to our Governance Framework**
  During the year we initiated a number of programmes to review and enhance the Governance Framework.

  This included:
  - **Review and implementation of the King IV principles**
    With the introduction of King IV in November 2016, we reviewed our existing Governance Framework to identify areas where we would be required to align with the recommended practices. Our review did not highlight any material weaknesses, but highlighted areas where we could implement further enhancement to the framework. Most of this work has been completed and we are finalising the delegated authorities and terms of reference of a number of Board committees.
  - **Enhancement to comply with Fit and Proper Requirements**
    Although the Fit and Proper Requirements have not been finalised, we have adopted the principles proposed by the regulator. So far, we introduced a Group-wide programme to assess the status of all Directors, shareholders and key persons within these requirements. During the year, we completed the assessment for all Directors and made substantial progress with the assessment of all key persons within the businesses.
  - **Enhancement of Group policy management**
    We initiated a comprehensive review of all policies during the year. The aim was to ensure all policies are aligned and supported by an appropriate policy framework that can be monitored and measured to provide evidence of compliance with the policy. We also updated the policy principles with the latest legislative and business requirements, and have made substantial progress with this project.
- **Implementation of the Retail Distribution Review (RDR)**
  During the past year we have continued our engagement with the regulator as well as our participation in various industry initiatives on the implementation of the RDR. This process is ongoing and we expect this to continue.

Internal audit

The Audit Committee reviewed and approved the Internal Audit Charter and the Annual Internal Audit Plan, which have been prepared on a risk-based approach. The performance of the Chief Audit Executive has been reviewed by the Audit Committee and the Committee was satisfied with his performance and independence. The results of the annual internal effectiveness evaluation of the audit function found it to be both independent and effective in its responsibilities. The Audit Committee assessed the skills of the audit team and found it satisfactory. An Independent assurance review is conducted at least every five years. The latest review was completed during the period.

ETHICS

The Group is committed to establishing an ethical culture based on non-discrimination, fairness, integrity and transparency.

The Ethics Office is an independent function mandated by the Board to implement the Ethics Management Framework to cultivate ethical consciousness and culture within the Group. The Ethics Management Framework prioritises the integration of ethics through the following practices:

- Having Group-wide leaders set the example through ethical leadership
- Reinforcement of the company's core values
- Promotion of "ethics talk" at all levels
- Promotion of ongoing communication, training and awareness in ethics.

The outcomes and principles are illustrated below:

INFORMATION SECURITY

Our philosophy on information security is simple: to protect the Group's information assets as well as those of our employees, clients, partners and other stakeholders. Over the period, we have invested significantly in improving this capability through the enhancement of a Group-wide Information Security Programme. We have secured additional resources, both in staff and technology, targeting specific areas we deemed necessary. In parallel, the Group employs a continuous improvement model that is balanced and responds to the consistently changing landscape. Looking forward, we continue to adapt our practices to offer our clients the best possible products, while providing the ability to feel safe within our system. This, combined with our principles of promoting the ethical and responsible use of information and technology, will sustain and extend the corporate objectives and values of the Group.

Financial statements

Statement of financial position

at 30 June 2017

R million	Group 2017 Audited	Group 2016 Audited
ASSETS		
Assets arising from insurance contracts	**37 691**	33 815
Property and equipment	**1 210**	1 052
Intangible assets including deferred acquisition costs	**5 096**	4 584
Goodwill	**2 107**	2 447
Investment in equity-accounted investees	**979**	491
Financial assets		
– Available-for-sale investments	**7 298**	9 794
– Investments at fair value through profit or loss	**58 948**	50 948
– Derivatives	**392**	590
– Loans and receivables including insurance receivables	**6 470**	4 891
Deferred income tax	**1 337**	824
Current income tax asset	**34**	97
Reinsurance contracts	**263**	410
Cash and cash equivalents	**9 098**	8 634
Total assets	**130 923**	118 577
EQUITY		
Capital and reserves		
Ordinary share capital and share premium	**8 306**	8 300
Perpetual preference share capital	**779**	779
Other reserves	**346**	1 934
Retained earnings	**22 859**	19 594
	32 290	30 607
Non-controlling interest	*****	*
Total equity	**32 290**	30 607
LIABILITIES		
Liabilities arising from insurance contracts	**52 477**	44 673
Liabilities arising from reinsurance contracts	**6 746**	4 894
Financial liabilities		
– Negative reserve funding	**847**	4 248
– Borrowings at amortised cost	**8 524**	5 400
– Investment contracts at fair value through profit or loss	**14 867**	13 514
– Derivatives	**135**	49
– Trade and other payables	**7 369**	8 563
Deferred income tax	**6 963**	6 035
Deferred revenue	**291**	291
Employee benefits	**191**	169
Current income tax liability	**223**	134
Total liabilities	**98 633**	87 970
Total equity and liabilities	**130 923**	118 577

* *Amount is less than R500 000.*

Income statement

for the year ended 30 June 2017

R million	Group 2017 Audited	Group 2016 Audited	% change
Insurance premium revenue	**33 533**	33 074	
Reinsurance premiums	**(3 837)**	(4 316)	
Net insurance premium revenue	**29 696**	28 758	
Fee income from administration business	**8 372**	7 651	
Vitality income	**4 267**	3 844	
Investment income	**758**	745	
– investment income earned on shareholder investments and cash	**150**	265	
– investment income earned on assets backing policyholder liabilities	**608**	480	
Net realised gains on available-for-sale financial assets	**8**	5	
Net fair value gains on financial assets at fair value through profit or loss	**2 108**	2 720	
Net income	**45 209**	43 723	3%
Claims and policyholders' benefits	**(19 237)**	(19 163)	
Insurance claims recovered from reinsurers	**2 816**	3 586	
Recapture of reinsurance	**(858)**	–	
Net claims and policyholders' benefits	**(17 279)**	(15 577)	
Acquisition costs	**(5 237)**	(6 185)	
Marketing and administration expenses	**(15 652)**	(14 789)	
Amortisation of intangibles from business combinations	**(171)**	(275)	
Recovery of expenses from reinsurers	**2 985**	1 346	
Transfer from assets/liabilities under insurance contracts	**(3 362)**	(1 745)	
– change in assets arising from insurance contracts	**5 346**	5 591	
– change in assets arising from reinsurance contracts	**(109)**	41	
– change in liabilities arising from insurance contracts	**(6 625)**	(6 250)	
– change in liabilities arising from reinsurance contracts	**(1 974)**	(1 127)	
Fair value adjustment to liabilities under investment contracts	**(248)**	(695)	
Profit from operations	**6 245**	5 803	8%
Gain from business combination	**–**	8	
Finance costs	**(478)**	(293)	
Foreign exchange (losses)/gains	**(21)**	18	
Share of net profits/(losses) from equity-accounted investments	**26**	(66)	
Profit before tax	**5 772**	5 470	6%
Income tax expense	**(1 278)**	(1 740)	27%
Profit for the year	**4 494**	3 730	20%
Profit attributable to:			
– ordinary shareholders	**4 411**	3 655	21%
– preference shareholders	**83**	75	
– non-controlling interest	*****	*	
	4 494	3 730	20%
Earnings per share for profit attributable to ordinary shareholders of the company during the year (cents):			
– undiluted	**684.2**	573.1	19%
– diluted	**683.6**	568.8	20%

* *Amount is less than R500 000.*

Statement of other comprehensive income

for the year ended 30 June 2017

R million	Group 2017 Audited	Group 2016 Audited	% change
Profit for the year	**4 494**	3 730	
Items that are or may be reclassified subsequently to profit or loss:			
Change in available-for-sale financial assets	**17**	4	
– unrealised gains	**29**	24	
– capital gains tax on unrealised gains	**(6)**	(16)	
– realised gains transferred to profit or loss	**(8)**	(5)	
– capital gains tax on realised gains	**2**	1	
Currency translation differences	**(1 575)**	62	
– unrealised gains	**(1 581)**	86	
– tax on unrealised gains	**6**	(24)	
Cash flow hedges	**33**	(195)	
– unrealised (losses)/gains	**159**	(129)	
– tax on unrealised losses/gains	**(25)**	14	
– gains recycled to profit or loss	**(123)**	(95)	
– tax on recycled gains	**22**	15	
Share of other comprehensive (loss)/income from equity-accounted investments	**(58)**	39	
– change in available-for-sale financial assets	**(1)**	(11)	
– currency translation differences	**(57)**	50	
Other comprehensive loss for the year, net of tax	**(1 583)**	(90)	
Total comprehensive income for the year	**2 911**	3 640	(20%)
Attributable to:			
– ordinary shareholders	**2 828**	3 565	(21%)
– preference shareholders	**83**	75	
– non-controlling interest	*****	*	
Total comprehensive income for the year	**2 911**	3 640	(20%)

* *Amount is less than R500 000.*

Headline earnings

for the year ended 30 June 2017

R million	Group 2017 Audited	Group 2016 Audited	% change
Normalised headline earnings per share (cents):			
– undiluted	**722.2**	676.3	7%
– diluted	**721.5**	671.1	8%
Headline earnings per share (cents):			
– undiluted	**683.1**	571.1	20%
– diluted	**682.5**	566.7	20%
The reconciliation between earnings and headline earnings is shown below:			
Net profit attributable to ordinary shareholders	**4 411**	3 655	
Adjusted for:			
– gains from business combination	**–**	(8)	
– gain on disposal of property and equipment	**(1)**	(2)	
– realised gains on available-for-sale financial assets net of CGT	**(6)**	(4)	
Headline earnings	**4 404**	3 641	21%
– accrual of dividends payable to preference shareholders	**(1)**	(4)	
– additional 54.99% share of Discovery Card profits	**–**	86	
– amortisation of intangibles from business combinations net of deferred tax	**154**	224	
– rebranding and business acquisitions expenses	**99**	365	
Normalised headline earnings	**4 656**	4 312	8%
Weighted number of shares in issue (000's)	**644 651**	637 608	
Diluted weighted number of shares (000's)	**645 236**	642 534	

Statement of changes in equity

for the year ended 30 June 2017

R million	Share capital and share premium	Preference share capital	Share-based payment reserve
	Attributable to equity holders of the Company		
Year ended 30 June 2017			
At beginning of year	**8 300**	**779**	**319**
Total comprehensive income/(loss) for the year	**–**	**83**	**–**
Profit for the year	**–**	**83**	**–**
Other comprehensive income/(losses)	**–**	**–**	**–**
Transactions with owners	**6**	**(83)**	**(5)**
Increase in treasury shares	**(4)**	**–**	**–**
Delivery of treasury shares	**11**	**–**	**–**
Share buy-back	**(1)**	**–**	**–**
Employee share option schemes:			
– Share schemes cancelled	**–**	**–**	**(19)**
– Value of employee services	**–**	**–**	**14**
Dividends paid to preference shareholders	**–**	**(83)**	**–**
Dividends paid to ordinary shareholders	**–**	**–**	**–**
At end of year	**8 306**	**779**	**314**
Year ended 30 June 2016			
At beginning of year	7 488	779	319
Total comprehensive income/(loss) for the year	–	75	–
Profit for the year	–	75	–
Other comprehensive income/(losses)	–	–	–
Transactions with owners	812	(75)	–
Increase in treasury shares	(5)	–	–
Proceeds from treasury shares	*	–	–
Share issue	817	–	–
Share issue costs	*	–	–
Share buy-back	*	–	–
Dividends paid to preference shareholders	–	(75)	–
Dividends paid to ordinary shareholders	–	–	–
At end of year	8 300	779	319

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

** Amount is less than R500 000.*

		Attributable to equity holders of the Company				
Available-for-sale investments[1]	Foreign currency translation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total
164	**1 485**	**(34)**	**19 594**	**30 607**	*****	**30 607**
16	**(1 632)**	**33**	**4 411**	**2 911**	*****	**2 911**
–	**–**	**–**	**4 411**	**4 494**	*****	**4 494**
16	**(1 632)**	**33**	**–**	**(1 583)**	*****	**(1 583)**
–	**–**	**–**	**(1 146)**	**(1 228)**	**–**	**(1 228)**
–	**–**	**–**	**–**	**(4)**	**–**	**(4)**
–	**–**	**–**	**(11)**	**–**	**–**	**–**
–	**–**	**–**	**1**	**–**	**–**	**–**
–	**–**	**–**	**12**	**(7)**	**–**	**(7)**
–	**–**	**–**	**–**	**14**	**–**	**14**
–	**–**	**–**	**–**	**(83)**	**–**	**(83)**
–	**–**	**–**	**(1 148)**	**(1 148)**	**–**	**(1 148)**
180	**(147)**	**(1)**	**22 859**	**32 290**	*****	**32 290**
171	1 373	161	17 065	27 356	*	27 356
(7)	112	(195)	3 655	3 640	*	3 640
–	–	–	3 655	3 730	*	3 730
(7)	112	(195)	–	(90)	*	(90)
–	–	–	(1 126)	(389)	–	(389)
–	–	–	–	(5)	–	(5)
–	–	–	–	*	–	*
–	–	–	–	817	–	817
–	–	–	–	*	–	*
–	–	–	–	*	–	*
–	–	–	–	(75)	–	(75)
–	–	–	(1 126)	(1 126)	–	(1 126)
164	1 485	(34)	19 594	30 607	*	30 607

Statement of cash flows

for the year ended 30 June 2017

R million	Group 2017 Audited	Group 2016 Audited
Cash flow from operating activities	**(832)**	985
Cash generated by operations	**9 672**	8 481
Net purchase of investments held to back policyholder liabilities[1]	**(7 084)**	(9 597)
Working capital changes	**(4 146)**	1 699
	(1 558)	583
Dividends received	**197**	171
Interest received	**1 711**	1 478
Interest paid	**(437)**	(277)
Taxation paid	**(745)**	(970)
Cash flow from investing activities	**15**	(2 428)
Net disposal of financial assets[2]	**2 125**	286
Purchase of property and equipment	**(239)**	(465)
Proceeds from disposal of property and equipment	**5**	20
Purchase of software and other intangible assets	**(1 353)**	(2 253)
Proceeds from the disposal of intangible assets	**7**	4
Increase in investment in associate	**(530)**	–
Purchase of businesses	**–**	(20)
Cash flow from financing activities	**1 913**	4 009
Proceeds from issuance of ordinary shares	**–**	817
Share buy-back	*****	*
Share issue costs	**–**	*
Dividends paid to ordinary shareholders	**(1 152)**	(1 130)
Dividends paid to preference shareholders	**(83)**	(75)
Increase in borrowings	**3 514**	7 608
Repayment of borrowings	**(366)**	(3 211)
Net increase in cash and cash equivalents	**1 096**	2 566
Cash and cash equivalents at beginning of year	**8 614**	6 251
Exchange losses on cash and cash equivalents	**(613)**	(203)
Cash and cash equivalents at end of year	**9 097**	8 614
Reconciliation to statement of financial position		
Cash and cash equivalents	**9 098**	8 634
Bank overdraft included in borrowings at amortised cost	**(1)**	(20)
Cash and cash equivalents at end of year	**9 097**	8 614
1 Net purchase of investments held to back policyholder liabilities	**(7 084)**	(9 597)
Purchase of investments held to back policyholder liabilities	**(32 104)**	(20 098)
Disposal of investments held to back policyholder liabilities	**25 020**	10 501
2 Net disposal of financial assets	**2 125**	286
Purchase of financial assets	**(14 083)**	(14 409)
Disposal of financial assets	**16 208**	14 695

* *Amount is less than R500 000.*

Additional information

at 30 June 2017

Fair value hierarchy of financial instruments

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

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

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

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

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

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

	30 June 2017			
R million	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss:				
– Equity securities	24 069	–	–	24 069
– Equity linked notes	–	2 557	–	2 557
– Debt securities	11 815	462	–	12 277
– Inflation linked securities	386	–	–	386
– Money market securities	590	5 628	–	6 218
– Mutual funds	13 441	–	–	13 441
Available-for-sale financial instruments:				
– Equity securities	145	–	–	145
– Equity linked notes	–	17	–	17
– Debt securities	94	147	–	241
– Inflation linked securities	5	–	–	5
– Money market securities	642	1 588	–	2 230
– Mutual funds	4 660	–	–	4 660
Derivative financial instruments at fair value:				
– Hedges	–	354	–	354
– Non-hedges	–	38	–	38
	55 847	10 791	–	66 638
Financial liabilities				
Derivative financial instruments at fair value:				
– Hedges	–	29	–	29
– Non-hedges	–	106	–	106
	–	135	–	135

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

Additional information

at 30 June 2017 (continued)

Fair value hierarchy of financial instruments continued

SPECIFIC VALUATION TECHNIQUES USED TO VALUE FINANCIAL INSTRUMENTS IN LEVEL 2

– Discovery has invested in equity linked notes offered by international banks in order to back certain unit-linked contract liabilities. The calculation of the daily value of the equity linked investments is made by the provider of the note. Discovery has procedures in place to ensure that these prices are correct. Aside from the daily reasonableness checks versus similar funds and movement since the prior day's price, the fund values are calculated with reference to a specific formula or index, disclosed to the policyholders, which is recalculated by Discovery in order to check if the price provided by the provider is correct.

– If a quoted market price is not available on a recognised stock exchange or from a broker for non-exchange traded financial instruments, the fair value of the instrument is estimated by the asset managers, using valuation techniques including the use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions.

– The fair value of the hedged derivatives is calculated by the issuers of those instruments, as follows:

(a) The fair value of call options is calculated on a Black-Scholes model.

(b) The fair value of the return swaps is calculated by discounting the future cash flows of the instruments.

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

	30 June 2016			
R million	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss:				
– Equity securities	20 049	–	–	20 049
– Equity linked notes	–	2 462	–	2 462
– Debt securities	10 238	731	–	10 969
– Inflation linked securities	429	–	–	429
– Money market securities	601	4 157	–	4 758
– Mutual funds	12 281	–	–	12 281
Available-for-sale financial instruments:				
– Equity securities	151	–	–	151
– Equity linked notes	–	5	–	5
– Debt securities	91	189	–	280
– Inflation linked securities	5	–	–	5
– Money market securities	299	1 571	–	1 870
– Mutual funds	7 483	–	–	7 483
Derivative financial instruments at fair value:				
– Hedges	–	521	–	521
– Non-hedges	–	69	–	69
	51 627	9 705	–	61 332
Financial liabilities				
Derivative financial instruments at fair value:				
– Hedges	–	29	–	29
– Non-hedges	–	20	–	20
	–	49	–	49

Exchange rates used in the preparation of these results

	USD	GBP
30 June 2017		
– Average	**13.61**	**17.29**
– Closing	**13.12**	**17.03**
30 June 2016		
– Average	14.60	21.44
– Closing	14.73	19.78

Segmental information

for the year ended 30 June 2017

R million	SA Health	SA Life	SA Invest	SA Vitality
Income statement				
Insurance premium revenue	16	9 993	11 515	–
Reinsurance premiums	(2)	(1 838)	–	–
Net insurance premium revenue	14	8 155	11 515	–
Fee income from administration business	6 314	26	1 677	–
Vitality income	–	–	–	2 472
Investment income earned on assets backing policyholder liabilities	–	431	38	–
Finance charge on negative reserve funding	–	–	–	–
Inter-segment funding[1]	–	(573)	573	–
Net fair value gains on financial assets at fair value through profit or loss	–	476	1 317	–
Net income	6 328	8 515	15 120	2 472
Claims and policyholders' benefits	(1)	(6 241)	(6 800)	–
Insurance claims recovered from reinsurers	1	1 365	–	–
Recapture of reinsurance	–	–	–	–
Net claims and policyholders' benefits	–	(4 876)	(6 800)	–
Acquisition costs	–	(1 565)	(1 022)	(89)
Marketing and administration expenses				
– depreciation and amortisation	(303)	(15)	–	–
– other expenses	(3 520)	(1 521)	(663)	(2 333)
Recovery of expenses from reinsurers	–	–	–	–
Transfer from assets/liabilities under insurance contracts				
– change in assets arising from insurance contracts	–	3 577	–	–
– change in assets arising from reinsurance contracts	–	(4)	–	–
– change in liabilities arising from insurance contracts	–	(124)	(5 867)	–
– change in liabilities arising from reinsurance contracts	–	(397)	–	–
Fair value adjustment to liabilities under investment contracts	–	(2)	(24)	–
Share of net profits from equity-accounted investments	–	–	–	–
Normalised profit/(loss) from operations	2 505	3 588	744	50
Investment income earned on shareholder investments and cash	55	26	21	17
Net realised gains on available-for-sale financial assets	–	1	7	–
Rebranding and business acquisitions expenses	–	–	–	–
Amortisation of intangibles from business combinations	–	–	–	–
Finance costs	(49)	(8)	–	–
Foreign exchange losses	–	–	(8)	–
Profit before tax	2 511	3 607	764	67
Income tax expense	(685)	(1 008)	(214)	(20)
Profit for the year	1 826	2 599	550	47

1 *The inter-segment funding of R573 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.*

					IFRS reporting adjustments			
	UK Health	UK Life	All other segments	Segment total	UK Life[2]	DUT[3]	Normalised profit adjustments[4]	IFRS total
	7 040	3 617	2 076	34 257	(724)	–	–	33 533
	(1 335)	(1 183)	(203)	(4 561)	724	–	–	(3 837)
	5 705	2 434	1 873	29 696	–	–	–	29 696
	24	–	331	8 372	–	–	–	8 372
	538	94	1 163	4 267	–	–	–	4 267
	15	18	106	608	–	–	(608)	–
	–	(43)	–	(43)	43	–	–	–
	–	–	–	–	–	–	–	–
	–	(109)	–	1 684	–	424	–	2 108
	6 282	2 394	3 473	44 584	43	424	(608)	44 443
	(4 376)	(740)	(1 426)	(19 584)	347	–	–	(19 237)
	1 125	407	265	3 163	(347)	–	–	2 816
	(858)	–	–	(858)	–	–	–	(858)
	(4 109)	(333)	(1 161)	(17 279)	–	–	–	(17 279)
	(574)	(1 744)	(200)	(5 194)	(43)	–	–	(5 237)
	(214)	(6)	(161)	(699)	–	–	–	(699)
	(2 533)	(1 431)	(2 548)	(14 549)	(103)	(202)	(99)	(14 549)
	1 566	1 419	–	2 985	–	–	–	2 985
	–	1 406	–	4 983	363	–	–	5 346
	(111)	8	–	(107)	(2)	–	–	(109)
	(25)	(14)	(35)	(6 065)	2	–	(562)	(6 625)
	–	(1 214)	–	(1 611)	(363)	–	–	(1 974)
	–	–	–	(26)	–	(222)	–	(248)
	1	–	25	26	–	–	–	26
	283	485	(607)	7 048	(103)	–	(1 269)	5 676
	2	6	23	150	–	–	608	758
	–	–	–	8	–	–	–	8
	(91)	–	(8)	(99)	–	–	99	–
	–	–	(171)	(171)	–	–	–	(171)
	(2)	(1)	(418)	(478)	–	–	–	(478)
	–	–	(13)	(21)	–	–	–	(21)
	192	490	(1 194)	6 437	(103)	–	(562)	5 772
	(21)	(119)	124	(1 943)	103	–	562	(1 278)
	171	371	(1 070)	4 494	–	–	–	4 494

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

2 *The VitalityLife results, for business written on the Prudential Assurance Company license, are reclassified to account for the contractual arrangement as a reinsurance contract under IFRS 4.*

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

4 *Normalised profit adjustments:*

Investment income on assets backing policyholder liabilities is included as part of the normalised profit from operations in the segmental disclosure, but is included together with shareholder investment income for IFRS purposes. Rebranding and business acquisitions expenses are excluded from normalised profit from operations, but are included in marketing and administration expenses for IFRS purposes.

The accounting impact of the recognition of a deferred tax asset arising from the Discovery Life Individual Policyholder Fund ('IPF'), has been excluded from normalised profit from operations for segmental purposes.

Segmental information

for the year ended 30 June 2016

Audited and restated

R million	SA Health	SA Life Restated[2]	SA Invest Restated[2]	SA Vitality
Income statement				
Insurance premium revenue	16	8 974	10 968	–
Reinsurance premiums	(1)	(2 014)	–	–
Net insurance premium revenue	15	6 960	10 968	–
Fee income from administration business	5 582	17	1 541	–
Vitality income	–	–	–	2 253
Investment income earned on assets backing policyholder liabilities	–	320	29	–
Finance charge on negative reserve funding	–	–	–	–
Inter-segment funding[1]	–	(452)	452	–
Net fair value gains on financial assets at fair value through profit or loss	–	285	1 638	–
Net income	5 597	7 130	14 628	2 253
Claims and policyholders' benefits	(1)	(5 670)	(5 741)	–
Insurance claims recovered from reinsurers	1	1 658	–	–
Net claims and policyholders' benefits	–	(4 012)	(5 741)	–
Acquisition costs	–	(1 489)	(981)	(82)
Marketing and administration expenses				
– depreciation and amortisation	(253)	(23)	–	–
– other expenses	(3 079)	(1 410)	(567)	(2 127)
Recovery of expenses from reinsurers	–	–	–	–
Transfer from assets/liabilities under insurance contracts				
– change in assets arising from insurance contracts	–	3 429	–	–
– change in assets arising from reinsurance contracts	–	17	–	–
– change in liabilities arising from insurance contracts	–	(15)	(6 556)	–
– change in liabilities arising from reinsurance contracts	–	(354)	–	–
Fair value adjustment to liabilities under investment contracts	–	(2)	(118)	–
Share of net profits/(losses) from equity-accounted investments	–	–	–	–
Normalised profit/(loss) from operations	2 265	3 271	665	44
Investment income earned on shareholder investments and cash	90	77	19	14
Net realised gains on available-for-sale financial assets	–	1	4	–
Rebranding and business acquisitions expenses	–	–	–	–
Gain from business combination	–	–	–	–
Amortisation of intangibles from business combinations	–	–	–	–
Finance costs	(37)	(15)	–	–
Foreign exchange gains/(losses)	–	–	(1)	–
Profit before tax	2 318	3 334	687	58
Income tax expense	(646)	(925)	(192)	(16)
Profit for the year	1 672	2 409	495	42

1 *The inter-segment funding of R452 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.*

				IFRS reporting adjustments			
UK Health	UK Life	All other segments	Segment total	UK Life[3]	DUT[4]	Normalised profit adjustments[5]	IFRS total
8 530	3 854	1 558	33 900	(826)	–	–	33 074
(2 030)	(884)	(213)	(5 142)	826	–	–	(4 316)
6 500	2 970	1 345	28 758	–	–	–	28 758
41	–	470	7 651	–	–	–	7 651
561	67	963	3 844	–	–	–	3 844
62	–	69	480	–	–	(480)	–
–	(632)	–	(632)	632	–	–	–
–	–	–	–	–	–	–	–
–	59	–	1 982	–	738	–	2 720
7 164	2 464	2 847	42 083	632	738	(480)	42 973
(6 357)	(781)	(1 043)	(19 593)	430	–	–	(19 163)
1 771	436	150	4 016	(430)	–	–	3 586
(4 586)	(345)	(893)	(15 577)	–	–	–	(15 577)
(617)	(2 218)	(166)	(5 553)	(632)	–	–	(6 185)
(197)	(1)	(117)	(591)	–	–	–	(591)
(2 637)	(1 264)	(2 372)	(13 456)	(214)	(163)	(365)	(14 198)
686	660	–	1 346	–	–	–	1 346
–	1 035	–	4 464	1 127	–	–	5 591
6	10	15	48	(7)	–	–	41
366	(17)	(35)	(6 257)	7	–	–	(6 250)
–	354	–	–	(1 127)	–	–	(1 127)
–	–	–	(120)	–	(575)	–	(695)
1	–	(67)	(66)	–	–	–	(66)
186	678	(788)	6 321	(214)	–	(845)	5 262
7	14	44	265	–	–	480	745
–	–	–	5	–	–	–	5
(365)	–	–	(365)	–	–	365	–
–	–	8	8	–	–	–	8
–	–	(275)	(275)	–	–	–	(275)
(7)	(18)	(216)	(293)	–	–	–	(293)
(30)	–	49	18	–	–	–	18
(209)	674	(1 178)	5 684	(214)	–	–	5 470
29	(237)	33	(1 954)	214	–	–	(1 740)
(180)	437	(1 145)	3 730	–	–	–	3 730

The segment information is presented on the same basis as reported to the Chief Executive Officers (CEO) of the reportable segments. At each reporting date, Discovery must review whether the segments being disclosed still comply with IFRS8 – Segment reporting. Based on this review, the following changes were required:

2 Since the beginning of the current financial year, the performance of the Discovery Retirement Optimiser (DRO) product is reported to the CEO of Discovery Invest. DRO was previously reported as part of the SA Life segment. The comparatives have been restated to include the DRO product in the SA Invest segment, in line with the current year disclosure.

The segment total, as reported to the CEO, is adjusted for accounting reclassifications and entries required to produce IFRS compliant results. These adjustments include the following:

3 The VitalityLife results, for business written on the Prudential Assurance Company license, are reclassified to account for the contractual arrangement as a reinsurance contract under IFRS 4.

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

5 Investment income on assets backing policyholder liabilities is included as part of the normalised profit from operations in the segmental disclosure, but is included together with shareholder investment income for IFRS purposes. Rebranding and business acquisitions expenses are excluded from normalised profit from operations, but are included in marketing and administration expenses for IFRS purposes.

Review of Group results

for the year ended 30 June 2017

New business annualised premium income

R million	June 2017	June 2016	% change
Discovery Health – DHMS	**5 157**	4 558	13%
Discovery Health – Closed Schemes[1]	**952**	629	51%
Discovery Life[2]	**2 175**	1 866	17%
Discovery Invest[2]	**2 496**	2 413	3%
Discovery Insure[3]	**895**	749	19%
Discovery Vitality	**167**	162	3%
VitalityHealth	**972**	1 161	(16%)
VitalityLife	**1 068**	1 332	(20%)
Ping An Health	**3 111**	1 732	80%
Core new business API of Group	**16 993**	14 602	16%
New Closed Schemes[1]	**623**	1 392	(55%)
New business API of Group including new Closed Schemes	**17 616**	15 994	10%
Gross revenue Vitality Group[4]	**634**	512	24%
Total new business API and other new business	**18 250**	16 506	11%

1 *The new business API for Closed Schemes includes additional lives on existing closed schemes. The new business API for New Closed Schemes includes contracted new business API and business in the first twelve months of on-boarding. Closed Schemes are restricted to certain employers and industries.*

2 *The comparatives have been restated to include the Discovery Retirement Optimiser (DRO) in the Discovery Invest new business API which was previously included in the Discovery Life new business API.*

3 *The comparative for Discovery Insure has been restated to only include first year servicing, and is net of indirect taxes.*

4 *Vitality Group new business includes gross recurring and lump sum revenues earned by Vitality Group and specifically excludes fees collected for administrative and implementation services.*

In the past two years, Discovery Health has brought on a number of new Closed Schemes, of varying sizes, resulting in large fluctuations in the new business annualised premium income in the year of acquisition. By excluding the new business annualised premium income for these new schemes, hence reducing the volatility caused, the new business annualised premium income for Discovery increased 16% for the year ended 30 June 2017, when compared to the same period in the prior year.

CALCULATION OF NEW BUSINESS ANNUALISED PREMIUM INCOME (API)

New business API is calculated at 12 times the monthly premium for new recurring premium policies and 10% of the value of new single premium policies. It also includes both automatic premium increases and servicing increases on existing policies. The amounts exclude indirect taxes and the comparatives have been restated where necessary.

The new business API in the table above differs from the new business API disclosed in the embedded value largely as a result of:

– *The timing of inclusion of policyholders in the calculation of new business API* – In the embedded value, new business is included from the earlier of the date that the first premium has been received or when the policy is on risk, whereas in the table above, new business is included when the policy has been contractually committed.

– *Inclusion of automatic premium increases and servicing increases on existing life policies* – These are included in the table above but excluded in the embedded value API values disclosed.

For Ping An Health, the embedded value definition of new business is used in the table above.

Refer to the footnotes to Table 7: Embedded Value of New Business for a more detailed description of the differences in new business disclosures between the embedded value and the table above.

Gross inflows under management

Gross inflows under management measures the total funds collected by Discovery. Gross inflows under management increased 10% for the year ended 30 June 2017 when compared to the same period in the prior year.

R million	June 2017	June 2016	% change
Discovery Health	**68 226**	59 303	15%
Discovery Life[1]	**10 019**	8 991	11%
Discovery Invest[1]	**19 461**	17 818	9%
Discovery Insure	**2 099**	1 583	33%
Discovery Vitality	**2 472**	2 253	10%
VitalityHealth	**7 602**	9 132	(17%)
VitalityLife	**3 711**	3 921	(5%)
All other businesses	**1 471**	1 408	4%
Gross inflows under management	**115 061**	104 409	10%
Less: collected on behalf of third parties	**(68 165)**	(59 014)	16%
Discovery Health	**(61 896)**	(53 705)	15%
Discovery Invest	**(6 269)**	(5 309)	18%
Gross income of Group per the segmental information	**46 896**	45 395	3%
Gross income is made up as follows:			
– Insurance premium revenue	**34 257**	33 900	1%
– Fee income from administration business	**8 372**	7 651	9%
– Vitality income	**4 267**	3 844	11%
Gross income of Group per the segmental information[2]	**46 896**	45 395	3%

1 *The comparatives have been restated to include the Discovery Retirement Optimiser (DRO) inflows in Discovery Invest. This was previously reported under Discovery Life.*
2 *The appreciation of the rand over the period had a negative impact of 6% on Gross income of the Group.*

Normalised profit from operations

The following table shows the main components of the normalised profit from operations for the year ended 30 June 2017:

R million	June 2017	June 2016	% change
Discovery Health	**2 505**	2 265	11%
Discovery Life[1]	**3 588**	3 271	10%
Discovery Invest[1]	**744**	665	12%
Discovery Vitality	**50**	44	14%
VitalityHealth	**283**	186	52%
VitalityLife	**485**	678	(28%)
Additional 54.99% share of Discovery Card after tax profit	**140**	121	16%
– Included in profit or loss in 'All other segments'	**140**	35	
– included in normalised headline earnings	**–**	86	
Normalised profit from established businesses	**7 795**	7 230	8%
All other segments (excluding additional 54.99% share of Discovery Card after tax profit)	**(747)**	(823)	9%
– Emerging businesses	**(170)**	(439)	61%
– Development and other segments	**(577)**	(384)	(50%)
Normalised profit from operations[2]	**7 048**	6 407	10%

1 *The comparatives have been restated to include the Discovery Retirement Optimiser (DRO) profits in Discovery Invest. This was previously reported under Discovery Life.*
2 *The comparative figure does not agree to the normalised profit from operations per the segmental information due to the inclusion of the additional 54.99% share of Discovery Card after tax profit of R86 million, which is adjusted for in Normalised headline earnings and not included in earnings.*

Emerging businesses are those businesses that have achieved sufficient scale to be profitable or profitable in the near future, although not yet significant in cash generation for the Group and likely to require funds to support new business growth. These businesses are approximately 5 years into their launch. Discovery Insure, excluding commercial insurance, and Vitality Group have been disclosed as Emerging businesses.

Development and other segments include costs of start-up businesses and expenses incurred to investigate new products and markets. Start-up costs include costs in relation to the bank, the planned UK investment business, a commercial offering in Discovery Insure, and an Umbrella Fund offering in Discovery Invest. Head office costs are also included in this segment.

Review of Group results

for the year ended 30 June 2017 (continued)

Significant transactions affecting the current results

INCREASE IN BORROWINGS

United Kingdom borrowings

During the past two financial years, Discovery entered into term facilities totalling GBP 150 million, of which GBP 120 million was utilised by the end of June 2016. In the current financial year, Discovery utilised the remaining GBP 30 million of its facilities. These borrowings have been used to fund the new business acquisition costs incurred by VitalityLife. These costs were previously funded by The Prudential Assurance Company Limited (Prudential) and disclosed as Negative Reserve Funding in the Statement of financial position.

Discovery repaid GBP 7.5 million of this facility on 30 November 2016 and 31 May 2017 respectively, as per the agreed terms (2016: GBP 7.5 million). The balance owing at 30 June 2017 amounts to GBP 127.5 million (R2 174 million) (2016: GBP 112.5 million (R2 226 million)).

Interest rates on these facilities are floating, linked to 3 month LIBOR, payable quarterly in arrears. Finance charges of R50 million (2016: R60 million) in respect of these borrowings have been recognised in profit or loss.

South African borrowings

During the current financial year, Discovery utilised an additional R2 billion of its bank syndicated loan programme entered into in June 2016. The amount outstanding under this programme totals R5 billion (2016: R3 billion).

The additional 5 year term facility of R2 billion, has the following profile:

Interest*	Maturity date	Amount (R million)
fixed at 10.39% per annum	30 September 2021	375
fixed at 10.31% per annum	15 December 2021	450
linked to 3 month JIBAR, (currently 9.77% per annum)	10 March 2022	175
fixed at 10.20% per annum	17 March 2022	800
fixed at 10.23% per annum	16 May 2022	200
		2 000

* *Interest is payable quarterly in arrears.*

- Furthermore, Discovery Central Services, a subsidiary of the Discovery Group, concluded a 10 year loan facility agreement of R650 million, of which R495 million was utilised in the current financial year. Interest rates on the utilised amount is fixed at a weighted average rate of 11.44% per annum, with capital and interest repayable in instalments over the duration of the loan facility.
- On 30 June 2017, R500 million was raised in the form of unsecured Investment Notes with a 5 year term, on which interest accrues at a floating margin linked to 3 month JIBAR. Interest and capital are repayable on 30 June 2022.
- The Group entered into various finance leases during the current financial year in the ordinary course of business, totalling a net increase of R209 million.

Finance charges of R368 million (2016: R155 million) in respect of these South African borrowings have been recognised in profit or loss.

NEGATIVE RESERVE FUNDING

The negative reserve funding liability on Discovery's Statement of financial position represents the acquisition costs that were funded by Prudential on behalf of VitalityLife. The liability unwinds and is repaid on a matched basis as the cash flows emerge from the assets arising from insurance contracts. In the event that the cash flows do not emerge as anticipated, VitalityLife would be required to repay these liabilities from other resources.

In terms of the level premium reinsurance treaty that VitalityLife entered into, the reinsurer is required to place a security deposit with Prudential to reduce counterparty risk. At 30 June 2017, Prudential held GBP 147 million (2016: GBP 85 million) as a security deposit. The contractual arrangement in respect of the business written on the Prudential license is accounted for as a reinsurance contract under IFRS 4 and as a result, the 'deposit back' held by Prudential has been disclosed as a reduction of the negative reserve funding liability. The corresponding liability to the reinsurer has been accounted for in Trade and other payables.

The decrease in the negative reserve funding liability in the current financial year, relates to the repayment of funding by VitalityLife as well as an increase in the amount of deposit back held by Prudential.

EXPIRY OF BEE TRANSACTION

In September 2005, Discovery concluded a BEE transaction pursuant to which 38 725 909 shares were issued to a consortium of BEE parties. 1 106 455 of these shares were issued to the Maphai SPV being one of the BEE consortium members for an initial period of 11 years (initial period). The shares were issued at R0.001 each, with a subscription consideration of R1.72 per share.

The difference between the market value of the ordinary shares issued to the BEE parties and the subscription consideration, represented an outstanding funded amount provided by Discovery shareholders (funded amount). As a result, 1 017 939 of the shares issued to the Maphai SPV were treated as treasury shares.

The BEE parties committed to utilise any dividend or capital distributions made by Discovery to acquire additional Discovery shares in the market within three months of the date of any distributions. These additional shares were also treated as treasury shares.

At the end of the initial period,

- Discovery had the right to repurchase such number of ordinary shares at R0.001 per share that would provide Discovery with a notional return of the funded amount.
- In order for the Maphai SPV to retain the full number of Discovery shares originally issued to them, the Maphai SPV then had the right to simultaneously acquire from Discovery, at the then thirty-day volume-weighted average price per Discovery share, the same number of shares repurchased by Discovery.

The initial period expired in December 2016 and resulted in the following transactions:

- Discovery repurchased 582 954 Discovery shares held by the Maphai SPV at a price of R0.001 per Discovery share.
- The Maphai SPV chose not to exercise their right to acquire the shares repurchased by Discovery. These shares have been cancelled from issue.

As a result of this transaction, treasury shares have decreased by 1 200 554 shares, representing shares funded through this transaction as well additional shares purchased by the Maphai SPV utilising dividend distributions. The delivery of treasury shares purchased by the Maphai SPV using dividend distributions received in the past, resulted in an increase in Share Premium of R11 million.

All amounts funded in terms of the September 2005 BEE transaction have now been repaid.

CONSOLIDATION OF DISCOVERY UNIT TRUSTS

The Discovery Unit Trusts are consolidated into Discovery's results in both the current and prior financial year. The following large increases in the Discovery Unit Trusts' Statement of financial position have had a direct impact on the Group's Statement of financial position:

- Cash and cash equivalents decreased by R667 million.
- Loans and receivables decreased by R250 million.
- Trade and other payables decreased by R1 476 million.
- Investments at fair value through profit or loss increased by R4 099 million.
- Investment contracts at fair value through profit or loss increased by R1 412 million.

Other significant items in these results

INCREASE IN THE DISCOVERY CARD PROFIT SHARE ARRANGEMENT IN THE PRIOR PERIOD

In December 2015, Discovery increased its economic interest in the Discovery Card (a "Discovery" branded FNB credit card), by subscribing for R1.4 billion redeemable preference shares in the share capital of FirstRand Bank Limited (FRB). This entitled Discovery to receive an additional 54.99% of the profits generated by the Discovery Card effective from 1 July 2015.

The contractual rights under the preference shares were only finalised in April 2016 and as such, any profits earned prior to that, being R86 million, represented an adjustment to the purchase price rather than income received. In order to reflect the economic effect of the transaction, this was added to Normalised headline earnings for the year ended 30 June 2016.

In terms of IAS 38: Intangible Assets, the preference shares have been disclosed as an intangible asset in the Statement of financial position as the substance of the arrangement is a right to receive additional 54.99% of the profits generated by the Discovery Card. This intangible asset is amortised through profit or loss as and when profits are expected to emerge. R84 million (2016: R26 million) amortisation has been recognised for the current financial year. This has been added back in the calculation of Normalised headline earnings.

RECAPTURE OF REINSURANCE

VitalityHealth makes use of financial reinsurance as a financing tool for new business acquisition costs. The receipt from the reinsurer is recognised in profit or loss upfront in the year received. Thereafter, the repayment to the reinsurer and the cost of funding are expensed through profit or loss.

During the current financial year, VitalityHealth converted their Cash financial reinsurance to Cashless financial reinsurance to minimise the cost of funding. This was done by recapturing GBP 49.6 million of reinsurance obligations and replacing this with new cashless reinsurance treaties. The impact on the Income statement is an expense of R858 million in 'Recapture of reinsurance' which is offset by new financing recognised in 'Recovery of expenses from reinsurers'.

Review of Group results

for the year ended 30 June 2017 (continued)

MATERIAL TRANSACTIONS WITH RELATED PARTIES

Discovery Health administers the Discovery Health Medical Scheme (DHMS) and provides managed care services for which it charges an administration fee and a managed healthcare fee respectively. These fees are determined on an annual basis and approved by the trustees of DHMS. The fees totalled R5 089 million for the year ended 30 June 2017 (2016: R4 711 million). Discovery offers the members of DHMS access to the Vitality programme.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss have increased by R7.8 billion due to the sale of Discovery Invest products. This includes the impact of consolidating the Discovery Unit Trusts into the Group's results. The increase in the financial assets at fair value through profit or loss has been presented in 'Net purchase of investments held to back policyholder liabilities' of R7 084 million in the Statement of cash flows.

DEFERRED TAX

Deferred tax liability

The deferred tax liability is primarily attributable to the application of the Financial Services Board directive 145. This directive allows for the zeroing on a statutory basis of the assets arising from insurance contracts. The statutory basis is used when calculating tax payable for Discovery Life, resulting in a timing difference between the tax base and the accounting base.

A new tax basis for Life companies was promulgated in January 2017. The effective date of the new 'adjusted IFRS' tax valuation basis will align with the implementation of Solvency Assessment and Management (SAM) and has had no impact on the current year's results.

Deferred tax asset

Recent tax amendments for Life companies introduced a Risk Policy Fund for all new risk business written, effective 1 July 2016. In terms of the legislation, Discovery Life has elected to move existing risk business to this fund. A portion of the assessed loss of R16.5 billion in the Individual Policyholder Fund is now expected to be utilised over time. A value of R562 million, implicit in the valuation of insurance contract liabilities have therefore been recognised as an explicit deferred tax asset in terms of IAS 12: Income Taxes.

The impact of this recognition on the Statement of financial position is an increase in the deferred tax asset of R562 million and a corresponding increase in Liabilities arising from insurance contracts. The impact on the Income statement is an increase in Transfer from liabilities under insurance contracts of R562 million and a corresponding decrease in Income tax expense.

TAXATION

For South African entities that are in a tax paying position, tax has been provided at 28% (2016: 28%) in the financial statements. No deferred tax assets have been recognised on the assessed losses in Discovery Insure and Vitality Group and no further deferred tax asset has been raised in respect of the VitalityHealth assessed losses.

Shareholder information

DIRECTORATE

Changes to the Board of Discovery Limited from 1 July 2016 to the date of this announcement are as follows:

- Mr R Farber relinquished his role as Chief Financial Officer and Group Financial Director of Discovery with effect from 30 April 2017. Mr R Farber remains a director on the Board of Discovery.
- Mr DM Viljoen was appointed as Chief Financial Officer and Group Financial Director of Discovery with effect from 1 May 2017.
- Mr SB Epstein resigned as a non-executive director on 5 December 2016.
- Mr R Enslin was appointed as a non-executive director on 4 May 2017.

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

DIVIDEND AND CAPITAL

Interim dividends paid

The following interim dividends were paid during the current financial year:

- B preference share dividend of 529.31507 cents per share (423.45206 cents net of dividend withholding tax), paid on 13 March 2017.
- Ordinary share dividend of 88 cents per share (70.4 cents net of dividend withholding tax), paid on 20 March 2017.

Final dividend declaration

B preference share cash dividend declaration:

On 24 August 2017, the directors declared a final gross cash dividend of 520.68493 cents (416.54794 cents net of dividend withholding tax) per B preference share for the period 1 January 2017 to 30 June 2017, payable from the income reserves of the Company. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

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

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Tuesday, 12 September 2017
Shares commence trading "ex" dividend	Wednesday, 13 September 2017
Record date	Friday, 15 September 2017
Payment date	Monday, 18 September 2017

B preference share certificates may not be dematerialised or rematerialised between Wednesday, 13 September 2017 and Friday, 15 September 2017, both days inclusive.

Ordinary share cash dividend declaration:

Notice is hereby given that the directors have declared a final gross cash dividend of 98 cents (78.4 cents net of dividend withholding tax) per ordinary share, out of income reserves for the year ended 30 June 2017. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

The issued ordinary share capital at the declaration date is 646 844 992 ordinary shares.

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Tuesday, 3 October 2017
Shares commence trading "ex" dividend	Wednesday, 4 October 2017
Record date	Friday, 6 October 2017
Payment date	Monday, 9 October 2017

Share certificates may not be dematerialised or rematerialised between Wednesday, 4 October 2017 and Friday, 6 October 2017, both days inclusive.

Capital requirements

At 30 June 2017, the capital adequacy requirement on the statutory basis for Discovery Life was R705 million (2016: R628 million) and was covered 3.9 times (2016: 3.6 times). Vitality Life Limited's capital adequacy requirement on the statutory basis was GBP 87.5 million (R1 490 million) (2016: GBP 34.3 million (R678 million)) and was covered 2.15 times (2016: 2.95 times). Both VitalityHealth and Discovery Insure are adequately capitalised at 145% (2016: 140%) and 221% (2016: 265%) respectively.

Basis of preparation

The summary consolidated financial statements are prepared in accordance with JSE Limited's (JSE) requirements for summary financial statements, and the requirements of the Companies Act applicable to summary financial statements. The JSE requirements require summary financial statements to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the consolidated financial statements from which the summary consolidated financial statements were derived are in terms of International Financial Reporting Standards and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements.

Audit

This summarised report is extracted from audited information, but is not itself audited. The annual financial statements were audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon. The audited annual financial statements and the auditor's report thereon are available for inspection at the company's registered office.

The directors of Discovery take full responsibility for the preparation of this report and that the financial information has been correctly extracted from the underlying Annual Financial Statements.

Embedded value statement

for the year ended 30 June 2017

The embedded value of Discovery consists of the following components:

- the adjusted net worth attributed to the business at the valuation date;
- plus: the present value of expected future shareholder cash flows from the in-force covered business;
- less: the cost of required capital.

The present value of future shareholder cash flows from the in-force covered business is calculated as the value of projected future after-tax shareholder cash flows of the business in-force at the valuation date, discounted at the risk discount rate.

The required capital are the assets attributed to the covered business above the amount required to back covered business liabilities, whose distribution to shareholders is restricted as they are allocated to cover regulatory and internal capital requirements.

The value of new business is the present value, at the point of sale, of the projected future after-tax shareholder cash flows of the new business written by Discovery, discounted at the risk discount rate, less an allowance for the reserving strain, initial expenses and cost of required capital. The value of new business is calculated using the current reporting date assumptions.

For Life, the shareholder cash flows are based on the release of margins under the Statutory Valuation Method ("SVM") basis.

The embedded value includes the insurance and administration profits of the covered business in the Discovery Limited group. Covered business includes business written in South Africa through Discovery Life ("Life"), Discovery Invest ("Invest"), Discovery Health ("Health") and Discovery Vitality ("Vitality"), and in the United Kingdom through VitalityLife and VitalityHealth. For Vitality Group, Ping An Health and Discovery Insure, no published value has been placed on the current in-force business as the businesses have not yet reached suitable scale with predictable experience.

In August 2011, Discovery raised R800 million through the issue of non-cumulative, non-participating, non-convertible preference shares. For embedded value purposes this capital, net of share issue expenses, has been excluded from the adjusted net worth.

In January 2016, the European insurance regulation Solvency II came into effect and Vitality Life Limited was granted a life insurance licence in the United Kingdom on which it commenced writing new business. These two changes required that the embedded value methodology for VitalityLife be reviewed. The key methodology change was the zeroisation of the negative reserves emerging under insurance contracts in Vitality Life Limited and Discovery funded VitalityLife business on the Prudential licence. This effectively moves the negative reserve from net worth to the value of in-force.

The 30 June 2017 embedded value results and disclosures were subjected to an external review.

Table 1: Group embedded value

R million	30 June 2017	30 June 2016	% change
Shareholders' funds	**32 290**	30 607	5%
Adjustment to shareholders' funds from published basis[1]	**(27 558)**	(23 583)	
Adjusted net worth[2]	**4 732**	7 024	
Value of in-force covered business before cost of required capital	**54 756**	48 121	
Cost of required capital	**(2 194)**	(2 065)	
Discovery Limited embedded value	**57 294**	53 080	8%
Number of shares (millions)	**645.0**	644.2	
Embedded value per share	**R88.83**	R82.40	8%
Diluted number of shares (millions)	**646.2**	646.7	
Diluted embedded value per share[3]	**R88.67**	R82.17	8%

1 *A breakdown of the adjustment to shareholders' funds is shown in the table below. An additional adjustment has been included as at 30 June 2017 to reflect the methodology change in VitalityHealth where the financial reinsurance cash flows have been removed from the value of in-force and deducted from the net worth. Note that where relevant, adjustments have been converted using the closing exchange rate of R17.03/GBP (June 2016: R19.78/GBP):*

R million	*30 June 2017*	*30 June 2016*
Life net assets under insurance contracts	*(18 354)*	*(15 768)*
Vitality Life Limited and Discovery funded VitalityLife business on the Prudential licence net assets under insurance contracts	*(3 620)*	*(3 090)*
VitalityHealth financial reinsurance liability	*(1 440)*	*–*
VitalityHealth and VitalityHealth Insurance Limited deferred acquisition costs (net of deferred tax)	*(252)*	*(290)*
VitalityLife receivable relating to the Unemployment Cover benefit (net of deferred tax)	*(27)*	*(41)*
Goodwill and intangible assets (net of deferred tax) relating to the acquisition of Standard Life Healthcare and the Prudential joint venture	*(3 086)*	*(3 615)*
Net preference share capital	*(779)*	*(779)*
	(27 558)	*(23 583)*

2 *The following table sets out the capital position of the covered businesses with the required capital on a consistent basis to that used in the embedded value:*

R million	*30 June 2017*	*30 June 2016*
Shareholders' funds	*32 290*	*30 607*
Adjustment to shareholders' funds	*(27 558)*	*(23 583)*
Adjusted net worth	*4 732*	*7 024*
Excess of available regulatory capital over adjusted net worth	*4 100*	*2 417*
Available regulatory capital	*8 832*	*9 441*
Regulatory required capital	*4 477*	*3 947*
Required capital buffer	*2 664*	*2 257*
Required capital	*7 141*	*6 204*
Excess available capital	*1 691*	*3 237*

The excess of available regulatory capital over adjusted net worth reflects the difference between the adjusted net worth and the available regulatory capital. This includes the net preference share capital of R779 million which is included as available regulatory capital. At 30 June 2017, this adjustment also includes the difference between Vitality Life Limited's Solvency II Pillar 1 Own Funds and its adjusted net worth and adds back the negative reserves eliminated on the Discovery funded VitalityLife business on the Prudential licence.

The required capital at June 2017 for Life is R1 409 million (June 2016: R1 255 million), for Health and Vitality is R797 million (June 2016: R725 million), for VitalityHealth is R1 984 million (June 2016: R2 212 million) and for VitalityLife is R2 951 million (June 2016: R2 011 million (restated in-line with new capital position table above)). For Life, the required capital was set equal to two times the statutory Capital Adequacy Requirement. For Health and Vitality, the required capital was set equal to two times the monthly renewal expense and Vitality benefit cost. For VitalityHealth, the required capital amount was set equal to 1.4 times the Solvency II Pillar 1 Solvency Capital Requirement. For the VitalityLife business on the Prudential licence, the required capital was set equal to the UK Solvency I long term insurance capital requirement as per the agreement with Prudential. For the business sold on the Vitality Life Limited licence, the required capital was set equal to the excess of 1.4 times the Solvency II Pillar 1 Solvency Capital Requirement. The Regulatory Required Capital is calculated as the relevant regulatory solvency capital requirement for each insurance business.

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

Embedded value statement

for the year ended 30 June 2017 (continued)

Table 2: Value of in-force covered business

R million	Value before cost of required capital	Cost of required capital	Value after cost of required capital
at 30 June 2017			
Health and Vitality	**18 595**	**(352)**	**18 243**
Life and Invest[1]	**25 102**	**(780)**	**24 322**
VitalityHealth[2]	**5 959**	**(307)**	**5 652**
VitalityLife[2]	**5 100**	**(755)**	**4 345**
Total	**54 756**	**(2 194)**	**52 562**
at 30 June 2016			
Health and Vitality	16 834	(315)	16 519
Life and Invest[1]	22 411	(723)	21 688
VitalityHealth[2]	4 421	(377)	4 044
VitalityLife[2]	4 455	(650)	3 805
Total	48 121	(2 065)	46 056

1 *Included in the Life and Invest value of in-force covered business is R1 153 million (June 2016: R1 100 million) in respect of investment management services provided on off balance sheet investment business. The net assets of the investment service provider are included in the adjusted net worth.*

2 *The value of in-force has been converted using the closing exchange rate of R17.03/GBP (June 2016: R19.78/GBP).*

Table 3: Group embedded value earnings

R million	Year ended 30 June 2017	Year ended 30 June 2016
Embedded value at end of period	**57 294**	53 080
Less: Embedded value at beginning of period	**(53 080)**	(52 295)
Increase in embedded value	**4 214**	784
Net change in capital[1]	**4**	(812)
Dividends paid	**1 231**	1 201
Transfer to hedging reserve	**(29)**	171
Employee share option schemes	**(7)**	–
Embedded value earnings	**5 413**	1 345
Annualised return on opening embedded value	**10.2%**	2.6%

1 *The net change in capital reflects an increase in treasury shares in the period. For the comparative period, the net change in capital includes the R817 million increase in share capital and premium associated with the Discovery Foundation BEE Share recapture in December 2015.*

Table 4: Components of Group embedded value earnings

R million	Year ended 30 June 2017 Net worth	Cost of required capital	Value of in-force covered business	Embedded value	Year ended 30 June 2016 Embedded value
Total profit from new business (at point of sale)	(4 436)	(276)	7 149	**2 437**	2 332
Profit from existing business					
▪ Expected return	4 840	(66)	446	**5 220**	4 622
▪ Change in methodology and assumptions[1]	1 044	51	(237)	**858**	(3 764)
▪ Experience variances	(504)	17	553	**66**	(178)
Impairment, amortisation and fair value adjustment[2]	(95)	–	–	**(95)**	(37)
Increase in goodwill and intangibles	(203)	–	–	**(203)**	(366)
Other initiative costs[3]	(707)	–	16	**(691)**	(878)
Non-recurring expenses[4]	(103)	–	–	**(103)**	(508)
Acquisition costs[5]	(196)	–	–	**(196)**	(23)
Finance costs	(500)	–	–	**(500)**	(107)
Foreign exchange rate movements	(431)	145	(1 283)	**(1 569)**	(39)
Other[6]	13	–	(9)	**4**	56
Return on shareholders' funds[7]	185	–	–	**185**	235
Embedded value earnings	(1 093)	(129)	6 635	**5 413**	1 345

1 *The changes in methodology and assumptions will vary over time to reflect adjustments to the model and assumptions as a result of changes to the operating and economic environment. The current period's changes are described in detail in Table 6 below (for previous periods refer to previous embedded value statements).*

2 *This item reflects the amortisation of the intangible assets reflecting the Discovery Card profit share arrangement, banking costs and the PrimeMed acquisition.*

3 *This item reflects Group initiatives including expenses relating to the investment in Vitality Group, banking development costs, Vitality International, Discovery Insure, other new business initiatives and unallocated head office costs.*

4 *This item includes rebranding costs, as well as other once-off costs relating to the acquisition of 25% of Prudential Health Holdings Limited.*

5 *Acquisition costs relate to commission paid on the VitalityLife and Life business and expenses incurred in writing Health and Vitality business that has been written over the period but will only be activated and on risk after the valuation date. These policies are not included in the embedded value or the value of new business and therefore the costs are excluded.*

6 *This item includes, among other items, the tax benefit that will be obtained as the VitalityHealth DAC and intangible software assets amortise.*

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

Embedded value statement

for the year ended 30 June 2017 (continued)

Table 5: Experience variances

R million	Health and Vitality Net worth	Health and Vitality Value of in-force	Life and Invest Net worth	Life and Invest Value of in-force	VitalityHealth Net worth	VitalityHealth Value of in-force	VitalityLife Net worth	VitalityLife Value of in-force	Total
Renewal expenses	161	–	60	(12)	(202)	–	22	–	**29**
Lapses and surrenders	18	198	(133)	183	–	1	(19)	(67)	**181**
Mortality and morbidity	–	–	(131)	(45)	284	–	30	–	**138**
Policy alterations	–	64	(491)	249	–	–	(29)	(43)	**(250)**
Premium and fee income[1]	16	74	(251)	60	–	–	(3)	(4)	**(108)**
Economic assumptions	–	–	14	(359)	–	–	–	–	**(345)**
Commission	–	–	–	–	32	–	–	–	**32**
Tax[2]	31	–	202	(225)	(80)	–	83	–	**11**
Reinsurance	–	–	–	–	26	–	(33)	(3)	**(10)**
Maintain modelling term[3]	–	285	–	60	–	62	–	–	**407**
Vitality benefits	17	–	–	–	(71)	–	–	–	**(54)**
Other	5	0	(24)	88	(51)	–	13	4	**35**
Total	248	621	(754)	(1)	(62)	63	64	(113)	**66**

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

2 *The tax variance for Life and Invest arises due to a movement in the deferred tax asset which delays the payment of tax. The tax variance for VitalityLife arises due to actual shareholder and policyholder tax being lower than expected.*

3 *The projection term for Health and Vitality, Group Life and VitalityHealth at 30 June 2017 has not been changed from that used in the 30 June 2016 embedded value calculation. Therefore, an experience variance arises because the total term of the in-force covered business is effectively increased by twelve months.*

Table 6: Methodology and assumption changes

R million	Health and Vitality Net worth	Health and Vitality Value of in-force	Life and Invest Net worth	Life and Invest Value of in-force	VitalityHealth[2] Net worth	VitalityHealth[2] Value of in-force	VitalityLife Net worth	VitalityLife Value of in-force	Total
Modelling changes	–	–	(114)	159	–	–	(14)	12	**43**
Expenses	–	–	–	(1)	–	(202)	148	(3)	**(58)**
Lapses	–	–	–	–	–	(505)	–	–	**(505)**
Mortality and morbidity	–	–	–	–	–	1 472	–	–	**1 472**
Benefit enhancements	–	–	–	–	–	–	–	–	**–**
Vitality benefits	–	(1)	–	–	–	(142)	2	34	**(107)**
Tax	–	–	–	(3)	–	45	–	16	**58**
Economic assumptions	–	10	3	(118)	–	(69)	(28)	74	**(128)**
Premium and fee income	–	–	(1)	(5)	–	–	–	–	**(6)**
Reinsurance[1]	–	–	1 649	(1 722)	(622)	642	–	–	**(53)**
Other	–	–	21	(12)	–	123	–	10	**142**
Total	–	9	1 558	(1 702)	(622)	1 364	108	143	**858**

1 *For Life the reinsurance item primarily relates to the impact of the financing reinsurance arrangements. For VitalityHealth this includes a change in methodology where financial reinsurance cash flows have been removed from the value of in-force and deducted from the net worth.*

2 *For VitalityHealth, the granularity, level and shape of the assumptions have been rebalanced to reflect experience. Furthermore, policy projections truncate all cash flows after the 20th anniversary of the policy from original date of inception.*

Table 7: Embedded value of new business

R million	Twelve months ended 30 June 2017	30 June 2016	% change
Health and Vitality			
Present value of future profits from new business at point of sale	**820**	844	
Cost of required capital	**(31)**	(48)	
Present value of future profits from new business at point of sale after cost of required capital	**789**	796	(1%)
New business annualised premium income[1]	**4 533**	7 415	(39%)
Life and Invest			
Present value of future profits from new business at point of sale[2]	**1 304**	1 263	
Cost of required capital	**(73)**	(67)	
Present value of future profits from new business at point of sale after cost of required capital	**1 231**	1 196	3%
New business annualised premium income[3]	**2 840**	2 798	2%
Annualised profit margin[4]	**5.5%**	5.3%	
Annualised profit margin excluding Invest business[5]	**10.2%**	8.9%	
VitalityHealth			
Present value of future profits from new business at point of sale	**157**	109	
Cost of required capital	**(46)**	(47)	
Present value of future profits from new business at point of sale after cost of required capital	**111**	62	79%
New business annualised premium income (Rand)[6]	**958**	1 071	(11%)
Annualised profit margin[4]	**1.8%**	0.9%	
VitalityLife[7]			
Present value of future profits from new business at point of sale	**432**	593	
Cost of required capital	**(126)**	(315)	
Present value of future profits from new business at point of sale after cost of required capital	**306**	278	10%
New business annualised premium income (Rand)	**844**	1 083	(22%)
Annualised profit margin[4]	**5.2%**	3.5%	

1 *Health new business annualised premium income is the gross contribution to the medical schemes. The new business annualised premium income shown above excludes premiums in respect of members who join an existing employer where the member has no choice of medical scheme, as well as premiums in respect of new business written during the period but only activated after 30 June 2017.*

The total Health and Vitality new business annualised premium income written over the period was R6 276 million (June 2016: R6 764 million).

2 *Included in the Life and Invest embedded value of new business is R109 million (June 2016: R159 million) in respect of investment management services provided on off balance sheet investment business.*

Risk business written prior to the valuation date allows certain Invest business to be written at financially advantageous terms, the impact of which has been recognised in the value of new business.

3 *Life new business is defined as Life policies to which Life became contractually bound during the reporting period, including policies whose first premium is due after the valuation date. Invest new business is defined as business where at least one premium has been received and which has not been refunded after receipt. Invest new business also includes Discovery Retirement Optimiser policies to which Life and Invest became contractually bound during the reporting period, including policies whose first premium is due after the valuation date.*

The new business annualised premium income of R2 840 million (June 2016: R2 798 million) (single premium APE: R1 169 million (June 2016: R1 175 million)) shown above excludes automatic premium increases and servicing increases in respect of existing business. The total new business annualised premium income written over the period, including automatic premium increases of R1 172 million (June 2016: R966 million) and servicing increases of R659 million (June 2016: R516 million), was R4 671 million (June 2016: R4 279 million) (single premium APE: R1 277 million (June 2016: R1 218 million)). Single premium business is included at 10% of the value of the single premium.

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

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

5 *From 30 June 2017, Discovery Retirement Optimiser policies fall under Invest. Therefore, the "Annualised profit margin excluding Invest business" at 30 June 2017 excludes Discovery Retirement Optimiser policies, whereas these policies are included in the comparative period. On a like-for-like basis to the comparative period the "Annualised profit margin excluding Invest business" at 30 June 2017 would have been 9.5%.*

6 *VitalityHealth new business is defined as individuals and employer groups which incepted during the reporting period. The new business annualised premium income shown above has been adjusted to exclude premiums in respect of members who join an existing employer group after the first month, as well as premiums in respect of new business written during the period but only activated after 30 June 2017.*

7 *VitalityLife new business is defined as policies to which VitalityLife became contractually bound during the reporting period, including policies whose first premium is due after the valuation date.*

Embedded value statement

for the year ended 30 June 2017 (continued)

Table 8: Embedded value economic assumptions

		30 June 2017	30 June 2016
Beta coefficient		**0.75**	0.75
Equity risk premium (%)		**3.5**	3.5
Risk discount rate (%)			
Health and Vitality		**12.125**	11.875
Life and Invest		**12.875**	12.625
VitalityHealth		**3.90**	3.77
VitalityLife		**4.755**	4.695
Rand/GB Pound exchange rate			
Closing		**17.03**	19.78
Average		**17.29**	21.44
Medical inflation (%)			
South Africa		**9.25**	9.00
Expense inflation (%)			
South Africa		**6.25**	6.0
United Kingdom		**3.25**	2.9
Pre-tax investment return (%)			
South Africa	– Cash	**8.75**	8.50
	– Life and Invest bonds	**10.25**	10.00
	– Health and Vitality bonds	**9.50**	9.25
	– Equity	**13.75**	13.50
United Kingdom	– VitalityHealth investment return	**1.28**	1.15
	– VitalityLife investment return	**2.13**	2.07
Income tax rate (%)			
South Africa		**28**	28
United Kingdom	– long term[1]	**17**	18
Projection term			
– Health and Vitality		**20 years**	20 years
– Life		**No cap**	No cap
– Group Life		**10 years**	10 years
– VitalityHealth[2]		**20 years**	20 years

1 *The United Kingdom Corporation tax rate assumed is 20% in 2017, 19% in 2018 to 2020, and 17% beyond that.*

2 *VitalityHealth policies are projected for 20 years from the original date of inception.*

The Discovery Limited embedded value is calculated based on a risk discount rate using the CAPM approach with specific reference to the Discovery beta coefficient. The assumed beta is set with reference to the capital structure of the Group and the observed beta calculated using daily returns over a long time period. The beta is calculated with reference to the ALSI. The resulting assumed beta will be fixed at this level unless the observed beta calculated using daily returns over a long time period departs significantly from this assumption at the financial year end. As beta values reflect the historic performance of share prices relative to the market they may not allow fully for non-market related and non-financial risk. Investors may want to form their own view on an appropriate allowance for these risks which have not been modelled explicitly.

Life and Invest mortality, morbidity and lapse and surrender assumptions were derived from internal experience, where available, augmented by reinsurance and industry information.

The Health and Vitality lapse assumptions were derived from the results of recent experience investigations.

The VitalityHealth assumptions were derived from internal experience, augmented by industry information.

VitalityLife assumptions were derived from internal experience, where available, augmented by reinsurance, industry and Discovery Limited group information.

Renewal expense assumptions were based on the results of the latest expense and budget information.

The initial expenses included in the calculation of the embedded value of new business are the actual costs incurred excluding expenses of an exceptional or non-recurring nature.

The South African investment return assumption for Life and Invest and Health and Vitality was based on a single interest rate derived from the risk-free zero coupon government bond yield curve. Other economic assumptions were set relative to this yield. The current and projected tax position of the policyholder funds within the Life company has been taken into account in determining the net investment return assumption.

The best estimate investment return assumption for VitalityHealth and VitalityLife was based on the single interest rate derived from the risk-free zero coupon sterling yield curve. The United Kingdom expense inflation assumption was set in line with long-term United Kingdom inflation expectations.

It is assumed that, for the purposes of calculating the cost of required capital, the Life and Invest required capital amount will be backed by surplus assets consisting of 100% equities and the Health, Vitality, VitalityHealth and Vitality Life Limited required capital amounts will be fully backed by cash. The VitalityLife business on the Prudential licence required capital amount is assumed to earn the same return as the assets backing the VitalityLife policyholder liabilities. Allowance has been made for tax and investment expenses in the calculation of the cost of required capital. In calculating the capital gains tax liability, it is assumed that the portfolio is realised every 5 years. The Life and Invest cost of required capital is calculated using the difference between the gross of tax equity return and the equity return net of tax and expenses. The Health, Vitality, VitalityHealth and Vitality Life Limited cost of required capital is calculated using the difference between the risk discount rate and the net of tax cash return. The VitalityLife business on the Prudential licence cost of required capital is calculated using the difference between the risk discount rate and the net of tax asset return assumption.

The embedded value has been calculated in accordance with the Actuarial Society of South Africa's Advisory Practice Note ("APN") 107: Embedded Value Reporting, except the recommended disclosure of Free Surplus and Required Capital has been adjusted to take into account the revised capital requirements and resources arising from Solvency II in the United Kingdom as can be seen in Table 1 note 2.

Embedded value statement

for the year ended 30 June 2017 (continued)

Sensitivity to the embedded value assumptions

The risk discount rate uses the CAPM approach with specific reference to the Discovery beta coefficient. As beta values reflect the historic performance of share prices relative to the market they may not allow fully for non-market related and non-financial risk. Investors may want to form their own view on an appropriate allowance for these risks which have not been modelled explicitly. The sensitivity of the embedded value and the embedded value of new business at 30 June 2017 to changes in the risk discount rate is included in the tables below.

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

Table 9: Embedded value sensitivity

		Health and Vitality	
R million	Adjusted net worth[2]	Value of in-force	Cost of required capital
Base	4 732	18 595	(352)
Impact of:			
Risk discount rate +1%	4 732	17 494	(383)
Risk discount rate -1%	4 732	19 818	(315)
Lapses -10%	4 659	19 235	(368)
Interest rates -1%[1]	3 621	18 533	(338)
Equity and property market value -10%	4 670	18 595	(352)
Equity and property return +1%	4 732	18 595	(352)
Renewal expenses -10%	4 831	20 489	(326)
Mortality and morbidity -5%	4 929	18 595	(352)
Projection term +1 year	4 732	18 883	(356)

1 *All economic assumptions were reduced by 1%.*

2 *The sensitivity impact on the VitalityLife net of tax change in negative reserves is included in the adjusted net worth column.*

The following table shows the effect of using different assumptions on the embedded value of new business.

Table 10: Value of new business sensitivity

	Health and Vitality	
R million	Value of new business	Cost of required capital
Base	820	(31)
Impact of:		
Risk discount rate +1%	751	(34)
Risk discount rate -1%	897	(28)
Lapses -10%	873	(33)
Interest rates -1%[1]	828	(30)
Equity and property return +1%	820	(31)
Renewal expense -10%	960	(29)
Mortality and morbidity -5%	820	(31)
Projection term +1 year	839	(31)
Acquisition costs -10%	843	(31)

1 *All economic assumptions were reduced by 1%.*

	Life and Invest		VitalityHealth		VitalityLife			
	Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	Embedded value	% change
	25 102	(780)	5 959	(307)	5 100	(755)	**57 294**	
	22 441	(683)	5 591	(399)	4 814	(883)	**52 724**	(8%)
	28 398	(904)	6 367	(203)	5 421	(577)	**62 737**	10%
	27 150	(832)	6 646	(327)	5 338	(868)	**60 633**	6%
	25 569	(841)	6 351	(284)	5 119	(1 807)	**55 923**	(2%)
	24 895	(780)	5 958	(307)	5 100	(755)	**57 024**	(0%)
	25 347	(780)	5 958	(307)	5 100	(755)	**57 538**	0%
	25 580	(778)	6 331	(307)	5 135	(649)	**60 306**	5%
	26 716	(764)	6 896	(307)	5 153	(655)	**60 211**	5%
	25 163	(780)	5 959	(307)	5 100	(755)	**57 639**	1%

	Life and Invest		VitalityHealth		VitalityLife			
	Value of new business	Cost of required capital	Value of new business	Cost of required capital	Value of new business	Cost of required capital	Value of new business	% change
	1 304	(73)	157	(46)	432	(126)	**2 437**	
	1 035	(64)	93	(60)	341	(141)	**1 921**	(21%)
	1 646	(84)	231	(31)	534	(100)	**3 065**	26%
	1 567	(78)	292	(51)	552	(139)	**2 983**	22%
	1 367	(79)	228	(43)	442	(252)	**2 461**	1%
	1 337	(73)	157	(46)	432	(126)	**2 470**	1%
	1 341	(73)	231	(46)	452	(94)	**2 742**	12%
	1 437	(71)	292	(46)	464	(93)	**2 772**	14%
	1 311	(73)	172	(47)	432	(126)	**2 477**	2%
	1 434	(73)	184	(46)	536	(126)	**2 721**	12%

Five-year review

for the year ended 30 June

	Group 2013	Group 2014	Group 2015	Group 2016	Group 2017	Compound growth %
Total new business API and other new business (R million)	9 998	11 554	17 578	16 506	**18 250**	16%
Gross inflows under management (R million)						
Gross inflows under management	65 657	78 013	89 483	104 409	**115 061**	15%
Less: Collected on behalf of third parties	(40 813)	(46 002)	(51 587)	(59 014)	**(68 165)**	14%
Gross income of Group	24 844	32 011	37 896	45 395	**46 896**	17%
Income statement extracts (R million)						
Profit from operations	3 558	5 058	5 229	5 803	**6 245**	15%
Headline earnings	2 062	3 064	5 285	3 641	**4 404**	21%
Abnormal expenses/(income)	725	393	(1 258)	671	**252**	
Normalised headline earnings	2 787	3 457	4 027	4 312	**4 656**	14%
Diluted normalised headline earnings per share (cents)[1]	496.0	580.2	663.0	671.1	**721.5**	10%
Statement of financial position extracts (R million)						
Total assets[1]	55 099	77 241	95 880	118 577	**130 923**	24%
Shareholders' funds	13 708	17 411	27 356	30 607	**32 290**	24%
Embedded value						
Embedded value (R million)	35 721	43 050	52 295	53 080	**57 294**	13%
Diluted embedded value per share (R)	63.30	74.13	82.29	82.17	**88.67**	9%
Key ratios						
Return on average equity (%)	17	21	25	13	**14**	
Return on average assets (%)[2]	4	5	6	3	**4**	
Exchange rates						
Rand/US$						
– Closing	10.01	10.63	12.18	14.73	**13.12**	
– Average	8.94	10.43	11.49	14.60	**13.61**	
Rand/GBP						
– Closing	15.22	18.17	19.19	19.78	**17.03**	
– Average	13.98	17.06	18.04	21.44	**17.29**	
Share statistics						
Number of ordinary shares in issue						
– Weighted average (000's)[1]	554 165	581 123	598 946	637 608	**644 651**	
– Diluted weighted average (000's)[1]	561 843	595 699	607 290	642 534	**645 236**	
– End of period (000's)	591 872	591 872	647 428	647 428	**646 845**	
Price/diluted headline earnings (times)	16.9	16.7	19.1	18.3	**17.7**	
Share price (cents per share):						
– High	8 700	9 831	14 195	15 467	**13 748**	
– Low	5 280	7 110	9 050	11 000	**10 910**	
– Closing	8 406	9 715	12 647	12 250	**12 792**	
Market capitalisation (R million)	49 753	57 500	81 880	79 310	**82 744**	

1 2013 has not been adjusted for the bonus element of the rights issue.

2 2013 has not been restated (Refer to change in comparatives note 43 in the Annual Financial Statements for the year ended 30 June 2016).

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