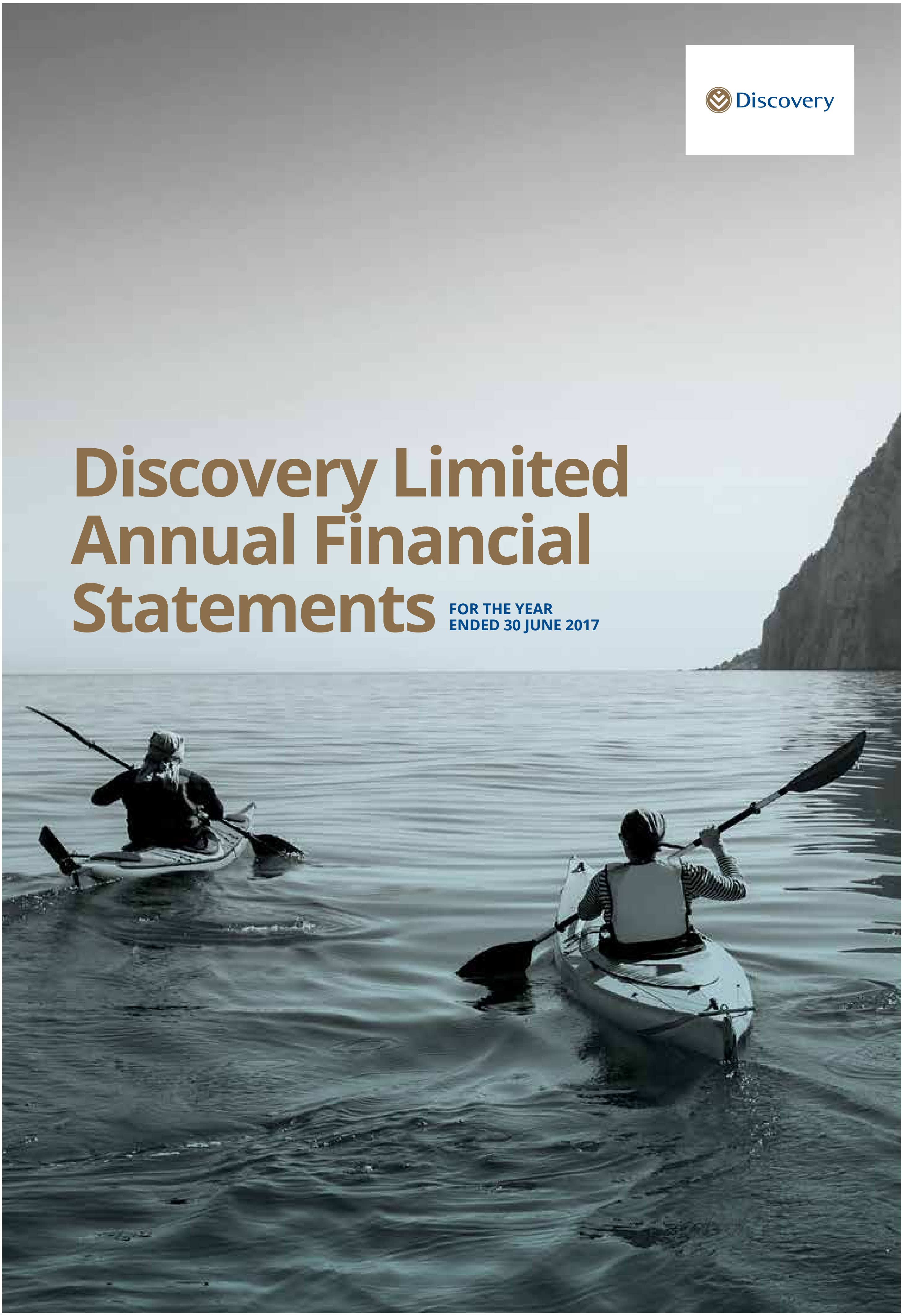


Discovery Limited Annual Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

Discovery Limited
Registration number 1999/007789/06

Annual Financial Statements

for the year ended 30 June 2017

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

Contents

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

Directors' responsibility statement

for the year ended 30 June 2017

Directors' responsibility to the shareholders of Discovery Limited and its subsidiaries (Discovery or the Group)

The directors of Discovery are required by the Companies Act (Act 71 of 2008) (Companies Act), to maintain adequate accounting records and to prepare financial statements for each financial year which fairly present the state of affairs of Discovery at the end of the financial year, and of the results and cash flows for the period. In preparing the accompanying annual financial statements, International Financial Reporting Standards have been used and reasonable estimates have been made. The Annual Financial Statements incorporate full and responsible disclosure, in line with Discovery's philosophy on corporate governance.

The directors have reviewed Discovery's budget and cash flow forecast for the year to 30 June 2018. On the basis of this review, and in light of the current financial position and available cash resources, the directors have no reason to believe that Discovery will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the annual financial statements.

The directors are responsible for Discovery's systems of internal control, which include internal financial controls in the various subsidiaries that are designed to provide reasonable, but not absolute, assurance against material misstatement and loss. Discovery maintains internal financial controls to provide assurance regarding:

- Safeguarding of assets against unauthorised use or disposition, and
- The maintenance of proper accounting records and the reliability of financial information used within the business, or for publication.

The controls contain self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified. Even an effective system of internal control, no matter how well designed, has inherent limitations, including the possibility of circumvention and the overriding of controls. An effective system of control therefore aims to provide reasonable assurance with respect to the reliability of financial information and, in particular, the presentation of annual financial statements.

To the best of their knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the year under review.

Discovery's external auditors, PricewaterhouseCoopers Inc., have audited the Annual Financial Statements and their unqualified report appears on pages 7 to 14.

The Annual Financial Statements of Discovery for the year ended 30 June 2017, which appear on pages 15 to 179, have been approved by the Board of Directors on 6 September 2017 and are signed on its behalf by:

A Gore
Chief Executive Officer

DM Viljoen
Chief Financial Officer

Certificate by the Company Secretary

for the year ended 30 June 2017

It is hereby certified in terms of section 88(2)(e) of the Companies Act, that Discovery Limited has for the year ended 30 June 2017 lodged with the Registrar of Companies all such returns as are required by a public company in terms of this Act and that all such returns are true, correct and up to date.

MJ Botha
Company Secretary
6 September 2017

Report of the Audit Committee

for the year ended 30 June 2017

We are pleased to present our report for the financial year ended 30 June 2017. The Audit Committee (the Committee) is an independent statutory committee. Duties are delegated to the Committee by the Board of Directors of Discovery Limited (Discovery).

The scope of the Committee extends to all activities of Discovery Limited and its subsidiaries, both locally and internationally. The Committee also acts as the statutory Audit Committee of Discovery Life Limited, Discovery Insure Limited, Discovery Pref Holding Company (RF) Limited and Discovery Purple Holdings Limited. The Discovery Holdings Europe Limited Group and Vitality Group International Inc. Group have their own independent Audit Committees.

Audit Committee Terms of Reference

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

Audit Committee members, meeting attendance and assessment

The Committee is constituted as per section 94(4) of the Companies Act and consists of 3 independent non-executive directors of Discovery. It meets at least four times per annum as per its Terms of Reference, and in the year ended 30 June 2017 met seven times.

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

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

Committee member	Qualifications	Number of meetings held during the year ended 30 June 2017	Number of meetings eligible to attend	Number of meetings attended
AL Owen (Chairman)	BSc (Hons), FIA, FPMI	7	7	7
SE de Bruyn Sebotsa	LLB (Hons), MA	7	7	6
SV Zilwa	BCompt (Hons), CTA, CA (SA)	7	7	7

An internally managed assessment of the effectiveness of the Committee will be carried out in the year commencing 1 July 2017.

Role and responsibilities

Statutory duties

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

The Committee executed its duties in accordance with its Terms of Reference and applicable laws and regulations in force during the year ended 30 June 2017.

External auditor appointment and independence

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

Report of the Audit Committee

for the year ended 30 June 2017

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

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

The Committee, following consultation with executive management, approved the engagement letter, terms, audit plan and budgeted audit fees for the year ending 30 June 2017.

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

There is a formal policy in respect of the provision of non-audit services by the external auditors of Discovery and its subsidiaries, and a formal procedure governs the process whereby the auditor is appointed to provide any non-audit services, including a limitation on fees for non-audit services which shall not exceed 25% of the audit fees. The Chairman of the Committee approves the nature and extent of any non-audit services that the external auditor provides in terms of the agreed pre-approval policy and a schedule of approved non-audit services is reviewed annually by the Committee. The Committee satisfied itself that the provision of non-audit services carried out by the external auditors during the year was in accordance with the approved policy.

Financial statements and accounting practices

The Committee has reviewed the accounting policies and the consolidated and separate financial statements of Discovery and is satisfied that they are appropriate and comply with International Financial Reporting Standards. The Committee concluded that Discovery is a going concern. A process has been established to receive and deal appropriately with any concerns and complaints relating to the accounting and reporting practices of Discovery. There were none in the year ended 30 June 2017.

During the year, the Committee gave particular consideration to the following in respect of the year ended 30 June 2017:

- the changes to IFRS applicable to the year.
- the implications of the Taxation Laws Amendment Bill in respect of insurance entities, including the accounting treatment of the deferred tax asset arising from the Discovery Life Individual Policyholder Fund ('IPF').
- the accounting treatment of the Discovery Bank start-up and license application costs.
- impairment testing of intangible assets purchased in business combinations.
- the appropriateness of raising deferred tax assets in respect of the different subsidiaries with tax losses.
- the findings contained in the JSE's "Report on proactive monitoring of financial statements 2016" of issuers listed on the JSE and the applicability of any such findings to Discovery Limited's Annual Financial Statements.

The Committee is represented on the Group's Actuarial Committee and continuously evaluates the appropriateness of the accounting policies and practices in line with the underlying actuarial bases of products offered.

Internal financial controls

The Committee is responsible for assessing Discovery's systems of internal financial and accounting control. In this regard the Committee has, inter alia, evaluated the adequacy and effectiveness of Discovery's systems of internal control and made appropriate recommendations to the Board. This has included a formal documented review by the internal audit function of the design, implementation and effectiveness of Discovery's system of internal financial controls. Based on the results of this review, it is the view of the Committee that Discovery's internal financial controls are effective in producing accurate financial information and a fair presentation of the financial performance of Discovery in the Annual Financial Statements.

Internal Audit

The Committee has reviewed and approved the Internal Audit Charter and has approved the Annual Internal Audit Plan which has been prepared on a risk based approach. The performance of the Chief Audit Executive has been reviewed by the Committee which is satisfied with his performance and independence. An internal effectiveness evaluation of the internal audit function is conducted annually and based on these results, it was found to be both independent and effective in discharging its responsibilities. The Committee assessed the skills mix of the internal audit team and found it satisfactory. An independent quality assurance review is conducted at least every five years and the last review was carried out in the latter part of 2016.

Report of the Audit Committee

for the year ended 30 June 2017

Evaluation of the expertise and experience of the finance function and Financial Director

The Committee reviewed and satisfied itself of the appropriateness of the expertise, resources and experience of Discovery's finance function, including the Financial Director. Mr R Farber relinquished his role as Chief Financial Officer and Group Financial Director of Discovery with effect from 30 April 2017. The Committee was involved in the process of determining a suitable replacement for this position. Mr DM Viljoen was appointed as Chief Financial Officer and Group Financial Director of Discovery with effect from 1 May 2017.

Whistle blowing

The Committee receives and deals with any concerns or complaints, whether from within or outside Discovery, relating to the accounting practices and internal audit of Discovery, the content or auditing of Discovery's financial statements, the internal financial controls of Discovery and related matters. No such concerns or complaints were received during the financial year.

Ethics and compliance

The Committee is responsible for reviewing any major breach of Discovery's code of conduct and ethics and relevant legal, regulatory and other obligations as reported to the Committee by the Social and Ethics Committee. The Committee is satisfied that there has been no material breach of these standards or material non-compliance with laws and regulations. The Committee is satisfied that it has complied with all its legal, regulatory and other obligations during the period under review.

Combined assurance

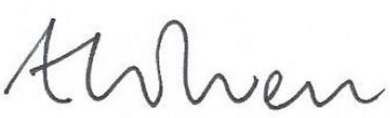
The Committee has reviewed the combined assurance model which has been implemented throughout the Group. It has concluded that the model is appropriate and adequate to address the risks facing Discovery.

Opinion

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

The Committee has reviewed the consolidated and separate financial statements of Discovery Limited for the year ended 30 June 2017 and, based on the information provided to the Committee, considers that Discovery complies, in all material respects, with the requirements of the Companies Act and International Financial Reporting Standards.

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



AL Owen
Chairman: Audit Committee
6 September 2017

Independent auditor's report

for the year ended 30 June 2017

To the shareholders of Discovery Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Discovery Limited (the Company) and its subsidiaries (together the Group) as at 30 June 2017, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Discovery Limited's consolidated and separate financial statements set out on pages 19 to 172 comprise:

- the group and company statements of financial position as at 30 June 2017;
- the group and company income statements for the year then ended;
- the group and company statements of other comprehensive income for the year then ended;
- the group and company statements of changes in equity for the year then ended;
- the group and company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the *Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B).

Independent auditor's report

for the year ended 30 June 2017

Our audit approach

Overview

	**Overall Group materiality** ● R 273.5 million which represents 5% of profit before tax.
	Group audit scope ● Our Group scoping included full scope audits based on financial significance, audit risks and statutory audit requirements for forty-nine components.
	Key Audit Matters ● Valuation of assets and liabilities arising from insurance contracts ● Annual assessment of Goodwill for impairment ● Valuation of intangible asset arising from transactions to establish Discovery Bank ● Deferred Tax Asset arising on the Individual Policyholder Fund of Discovery Life

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Group materiality	R 273.5 million
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Independent auditor's report

for the year ended 30 June 2017

The Group has seven operating segments that operate across various countries but predominantly in South Africa and the United Kingdom. The Group consolidation is a consolidation of fifty four components including unit trust funds. Full scoped audits were performed for forty-nine of the Group's components due to their financial significance, group audit risks and their statutory audit requirements.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by us, as the group engagement team, or component auditors from other PwC network firms or other firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Group financial statements:

Key audit matter	**How our audit addressed the key audit matter**
Valuation of assets and liabilities arising from insurance contracts (Refer to Notes 4.2, 5 and 16 of the financial statements)	
The valuation of assets and liabilities from insurance contracts of the group was considered a matter of most significance as it involves complex and subjective judgment about future events, policyholder behaviour and economic conditions. Assumptions about these matters are made in determining the value of the policyholder asset or liability and changes to these may result in a material change to the valuation. The most significant matters in this respect relate to:	Our actuarial experts performed, amongst others, the following procedures with respect to these balances: • Considering Discovery's actuarial control environment and governance such as the functioning of the Actuarial Committee (and subsidiary Actuarial Committees). • Inspecting the liability build-up control performed by management to explain the sources of profit and corroborating to relevant information. • Challenging the appropriateness of all significant assumptions adopted by management, by comparing the assumptions to results of actuarial experience investigations conducted by management and benchmarking the assumptions to South African life insurance industry trends. We found management's assumptions to be within an acceptable range.
Impact of Vitality programme on valuation As for most life insurers, assumptions relating to mortality, morbidity and the level of lapses are significant in the determination of the value of policyholder liabilities and assets. Discovery is unique in the South African market due to its Vitality programme. In terms of this programme policyholders are provided access to a number of services	In terms of IFRS, the valuation of insurance contract liabilities, including the impact of the Discovery Vitality statuses on the assumptions used, is required to be performed on the Financial Soundness Valuation ("FSV") basis as described in SAP 104 and as set out in more detail in the accounting policies. We assessed the methodology used by Discovery, in particular, we tested the

and benefits to encourage them to get healthier. Policyholders earn Vitality points which determine their Vitality status. The mortality, morbidity and lapse assumptions within the valuation of policyholder liabilities and assets in Discovery is specifically impacted by the Discovery Vitality policyholder statuses. The Discovery Vitality policyholder statuses inform the policyholder behaviour experience expected in future and therefore these assumptions.	methodology and the process for the allocation of Vitality points to policyholders and the resultant allocated Vitality status. We compared the actual policyholder behaviour to the assumed behaviour to assess the reasonableness of the Vitality statuses assumption used. We found that management's assumptions were within an acceptable range.
Use of discretionary margins with respect to profit recognition The life insurance operations sell profitable business. Applying the reserving basis using only compulsory margins as required for regulatory purposes, would result in an upfront profit being recognised at inception of a block of new business. Profits recognised at initial recognition of the insurance contracts are however limited to the extent of actual acquisition costs incurred through the addition of discretionary margins. The discretionary margins are reset at every valuation date to reflect the underlying profitability of the portfolio and are released over the term of a policy in line with the risk borne. Changes to discretionary margins have a direct impact on the profit recognition in a period and therefore need careful consideration to ensure compliance with the accounting policy.	The discretionary margins are reset annually as part of the valuation process to reflect the portfolio profitability. Our work therefore focussed amongst others on: • Confirming all acquisition costs were captured in the determination of the discretionary margins at 30 June 2017 through comparison to the acquisition cost amounts in the income statement. • Re-performing management's reconciliation of the discretionary margin transfer required to match the acquisition costs incurred to ensure no upfront profit is recognised. We found the net transfer for 30 June 2017 closely matched the level of acquisition costs incurred and that no material profit is recognised. • Considering the release of profits in subsequent periods and the pattern of release compared to the risk profile associated with the policyholder liability.
Annual assessment of Goodwill for impairment (Refer to notes 4.1 and 8 of the financial statements) Discovery has a significant goodwill balance (R 2,107 million) on its group statement of financial position as at 30 June 2017. We considered management's annual impairment assessment as a matter of most significance, as it is subject to estimation uncertainty and significant judgement by management with respect to the inputs to the calculation of the recoverable amount used to assess the goodwill for impairment. The most significant judgements relate to the discount rate applied together with the assumptions supporting the underlying forecast cash flows.	We evaluated management's assessment of goodwill as at 30 June 2017 to ascertain whether there is any impairment of the balance. We obtained management's calculation of the recoverable amount of the goodwill and performed amongst other the following procedures: • Considered whether or not the methodology and source of information for the calculation was consistent to that used in prior years; • Agreed the cash flows used in the calculation to the cash flows used in the insurance contract and embedded value valuations of the books of business associated with these entities. These were consistently applied and considered reasonable; and • Our valuation experts assessed the discount rate for reasonableness by developing our own range of acceptable discount rates considering other similar

	entities or transactions. We were satisfied that the discount rate used by the management falls within a reasonable range our own developed range.
Valuation of intangible asset arising from transactions to establish Discovery Bank (Refer to notes 4.3 and 7 of the financial statements) Discovery acquired the right to increase its share of the profits arising from the Discovery Card business by 54.99% within its business partnership with First National Bank Limited in 2016. Discovery's right was acquired through a preference share arrangement at an initial cost of R 1,422 million. The rights acquired through this transaction have been accounted for as an intangible asset in terms of I*nternational Accounting Standard (IAS) 38 – Intangible Assets.* The carrying value of the intangible asset at year-end is assessed for impairment by management, using a valuation expert. We considered the impairment assessment of management as a matter of most significance, as the value in use calculation is based on discounted projected profits from the business partnership which is subject to estimation uncertainty and significant audit effort is required in evaluating the reasonableness of the projected future profits and the appropriateness of the discount rate applied.	We performed audit procedures to assess the competence and objectivity of management's expert. We evaluated the reasonableness of the projected profits used by management through benchmarking management's projections with the actual profits achieved by the business partnership in the current and previous financial years. The audit work performed revealed no unreasonable profit projections or inappropriate discount rates applied. Our valuation experts evaluated the soundness of the methodology applied by management's expert and the reasonableness of the discount rate applied.
Deferred Tax Asset on the assessed loss within the Individual Policyholder Fund ("IPF") of Discovery Life (Refer to notes 4.2 and 22 in the financial statements) The life insurance tax reform currently underway involves a modernisation of the previous four funds tax regime. Risk policies (as defined in the Income Tax Act) issued with effect from 1 July 2016 are taxed in a new separate fifth tax fund called the Risk Policy Fund ("RPF"). Discovery has elected to move all existing risk policies from the IPF to the RPF under the "once off election" as provided for under the Income Tax Act. The election decision affects the composition and extent of expenses ("E") in the IPF and the timing of when the fund is expected to be in an excess income ("I") position. The IPF "I-E" losses are currently in excess of R 17 billion and arose as a result of the excess of expenses (bolstered by commission expenses on risk policies) allocated to the IPF compared to taxable income (mostly interest) earned in the IPF in the past. With the election, only investment policies (and some endowment policies) will remain in the IPF which will result	We obtained management's calculation and forecast of the recovery of the assessed loss and the resultant deferred tax asset to be raised. We made use of our actuarial experts within our engagement team in challenging the assumptions made by management in determining future levels of new investment business as well as the expected period over which the "I-E" assessed loss will be recovered. We assessed the probabilities applied as mentioned above for reasonableness by comparing this to past experience and management's forecasts. We noted that management's projections were reasonable. We made use of our tax specialists in our engagement team to evaluate the appropriateness of the tax principles applied in projecting the recovery of the assessed loss in

in income in the IPF exceeding the expenses from 2017, resulting in a recovery of the existing I-E losses. Management has performed projections (based on a number of assumptions, including future new business levels etc.) that indicate that the recovery of some of the losses within the IPF is probable and recognised a deferred tax asset of R 562 million in terms of *IAS 12 – Income taxes*. This projection is considered a matter of most significance to our current year audit as it is subject to significant management judgement and high estimation uncertainty.	terms of the relevant taxation laws. No exceptions noted in the tax principles applied.

Company financial statements:

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

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa and the Director's responsibility statement, Directorate and Analysis of shareholders, which we obtained prior to the date of this auditor's report, and the Discovery Limited Integrated Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and / or the Company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report

for the year ended 30 June 2017

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and / or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent auditor's report

for the year ended 30 June 2017

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Discovery Limited for 17 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: J Goncalves
Registered Auditor
Johannesburg
6 September 2017

Directors' report

for the year ended 30 June 2017

The directors present their 18th annual report, which forms part of the consolidated and separate financial statements of Discovery Limited for the year ended 30 June 2017.

Nature of business

Discovery Limited (the Company) is listed on the Johannesburg Stock Exchange and is an integrated financial services organisation specialising in health insurance, life assurance, wellness, investments and savings products, short-term insurance and credit card products. The Company is directly and indirectly the holding company of:

Subsidiary	Percentage holding	Country
Discovery Central Services Proprietary Limited	100%	SA
Discovery Connect Distribution Services Proprietary Limited	100%	SA
Discovery Health Proprietary Limited which holds the interests in:	100%	SA
- Discovery Third Party Recovery Services Proprietary Limited	100%	SA
- PrimeMed Administrators Proprietary Limited	100%	SA
- Discovery HealthCare Services Proprietary Limited which holds the interests in:	100%	SA
o Discovery Medical Suppliers Proprietary Limited	100%	SA
o Grove Nursing Services Proprietary Limited	100%	SA
o Southern RX Distributors Proprietary Limited	100%	SA
Discovery Insure Limited	100%	SA
Discovery Investment Management Proprietary Limited (dormant)	100%	SA
Discovery Life Collective Investments Proprietary Limited	100%	SA
Discovery Life Investment Services Proprietary Limited which holds the interest in:	100%	SA
- Discovery Life Nominees Proprietary Limited	100%	SA
Discovery Life Limited	100%	SA
Discovery Pref Holding Company (RF) Limited	100%	SA
Discovery Purple Holdings Limited (dormant)	100%	SA
Discovery Vitality Proprietary Limited which holds the interest in:	100%	SA
- NewDisc Limited	52.1%	SA
Discovery Partner Markets Asia Private Limited which holds the interest in:	100%	Singapore
- Discovery Partner Markets Services Private Limited	100%	Singapore
Discovery Finance Company Europe Limited	100%	UK
Discovery Group Europe Limited which holds the interests in:	100%	UK
- Discovery Offshore Holdings No 2 Limited (dormant)	100%	UK
- Discovery Holdings Europe Limited*, which holds the interest in:	99%	UK
o Health Protect Limited (dormant)	100%	UK
o Insure Your Health Limited	100%	UK
o KYS Paid Limited	100%	UK
o Vitality Corporate Services Limited	100%	UK
o Vitality Life Limited	100%	UK
o Vitality Health Limited which holds the interest in:	100%	UK
▪ Vitality Health Insurance Limited	100%	UK
Vitality Group International Inc., which holds the interests in:	100%	USA
- Discovery Vitality Australia Proprietary Limited	100%	Australia
- Vitality Management Company LLC	100%	USA
- The Vitality Group Inc., which holds the interest in:	100%	USA
- The Vitality Group LLC *	99.99%	USA

* The balance of the interest is held by senior management of these subsidiaries.

"Discovery Limited and its subsidiaries" are referred to herein as Discovery or the Group.

In addition to the above subsidiaries, Discovery consolidates unit trusts in which the Group has control in terms of IFRS 10. The consolidated unit trusts include:

- Discovery Aggressive Dynamic Asset Optimiser Fund of Funds
- Discovery Balanced Fund
- Discovery Cautious Balanced Fund
- Discovery Conservative Dynamic Asset Optimiser Fund of Funds
- Discovery Diversified Income Fund
- Discovery Dynamic Equity Fund
- Discovery Equity Fund
- Discovery Flexible Property Fund
- Discovery Global Balanced Fund of Funds
- Discovery Global Equity Feeder Fund
- Discovery Global Real Estate Securities Feeder Fund
- Discovery Global Value Equity Feeder Fund
- Discovery Moderate Balanced Fund
- Discovery Moderate Dynamic Asset Optimiser Fund of Funds
- Discovery Money Market Fund
- Discovery Target Retirement 2010 Fund
- Discovery Target Retirement 2015 Fund
- Discovery Target Retirement 2020 Fund
- Discovery Target Retirement 2025 Fund
- Discovery Target Retirement 2030 Fund
- Discovery Target Retirement 2035 Fund
- Discovery Target Retirement 2040 Fund
- Discovery Target Retirement 2045 Fund
- Discovery Target Retirement 2050 Fund
- Discovery Worldwide Best Ideas Fund

Review of Results

Profit attributable to ordinary shareholders is R4 411 million, a 21% increase from profits of R3 655 million reported in the prior financial year. The profit for the year ended 30 June 2016 included rebranding and business acquisitions expenses of R365 million which has decreased by R266 million in the current year. Amortisation of intangibles from business combinations have also decreased by R104 million to R171 million. Normalised headline earnings, which excludes both these expenses and other once-off items, increased by 8% to R4 656 million.

Share capital

The share capital of the Company at 30 June 2017 was as follows:

Class of shares	Authorised number of shares	Issued number of shares
Ordinary shares of 0.1 cent per share	1 000 000 000	646 844 992
A preference shares	40 000 000	-
B preference shares	20 000 000	8 000 000
C preference shares	20 000 000	-

Dividends

Dividends paid in respect of the 2016 financial year

Interim dividends:

- B preference share dividend of 480.06849 cents per share (408.05822 cents net of dividend withholding tax), paid on 14 March 2016.
- Ordinary share dividend of 85.5 cents per share (72.675 cents net of dividend withholding tax), paid on 22 March 2016.

Final dividends:

- B preference share dividend of 514.24658 cents (437.10959 cents net of dividend withholding tax), paid on 19 September 2016.
- Ordinary share dividend of 90 cents per share (76.5 cents net of dividend withholding tax), paid on 10 October 2016.

Directors' report

for the year ended 30 June 2017

Interim dividends paid in respect of the 2017 financial year

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 dividends declaration in respect of the 2017 financial year

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

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 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 were 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 cash dividend declaration:

No ordinary cash dividend was declared between the reporting date, being 30 June 2017 and the date of approval of the Annual Financial Statements, namely 6 September 2017. A cash dividend is expected to be declared on 18 September 2017.

Directors and prescribed officers

The following were directors and prescribed officers of the Company during the current and prior financial year:

Executive directors	Non-executive directors	Prescribed officers
A Gore	MI Hilkowitz	Dr J Broomberg
R Farber	HL Bosman	K Rabson
HD Kallner	Dr BA Brink	Dr P Moumakwa
NS Koopowitz	SE de Bruyn Sebotsa	
HP Mayers	JJ Durand (resigned 13 January 2016)	
Dr A Ntsaluba	R Enslin (appointed 4 May 2017)	
A Pollard	SB Epstein (resigned 5 December 2016)	
JM Robertson	F Khanyile (appointed 22 October 2015)	
B Swartzberg	Dr TV Maphai	
DM Viljoen (appointed 1 May 2017)	TT Mboweni	
	AL Owen	
	T Slabbert (resigned 22 October 2015)	
	SV Zilwa	

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 of 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 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.

Directors' report

for the year ended 30 June 2017

Details of the directors' emoluments, participation in share incentive schemes and interests in the Company are reflected on pages 173 to 178.

Company secretary

Mr MJ Botha continues in office as Company Secretary.

Registered office	*Postal address*
155 West Street	PO Box 786722
Sandton	Sandton
2146	2146

Directors' interests in contracts

No material contracts involving directors' interests were entered into in the current year. The directors had no interest in any third party or company responsible for managing any of the business activities of Discovery.

Borrowing powers

The directors may exercise all the powers of the Company to borrow money. In terms of the Memorandum of Incorporation, the borrowing powers of the Company are unlimited. In terms of the Long-term Insurance Act, 1998, and the Short-term Insurance Act, 1998, both Discovery Life and Discovery Insure may not encumber its assets or directly or indirectly borrow.

Indemnification and insurance of directors and officers

The Company entered into agreements to indemnify its directors to the extent permitted by law against all liabilities including legal costs incurred by the director in connection with or as a consequence of the director acting in any capacity, including as an authorised representative of a group company.

During the financial year, the Company paid insurance premiums in respect of a Directors and Officers Liability insurance contract, which insures directors and officers of the Company against certain liabilities arising in the course of their duties to the Company or group companies. Details of the nature of the liabilities covered and the amount of premium paid are not disclosed as such disclosure is prohibited under the terms of the contract.

Events after the reporting date

The events after the reporting date are noted in Group note 42. There are no other significant events after the reporting date, being 30 June 2017, to the date of the approval of the Annual Financial Statements, namely, 6 September 2017.

Auditors

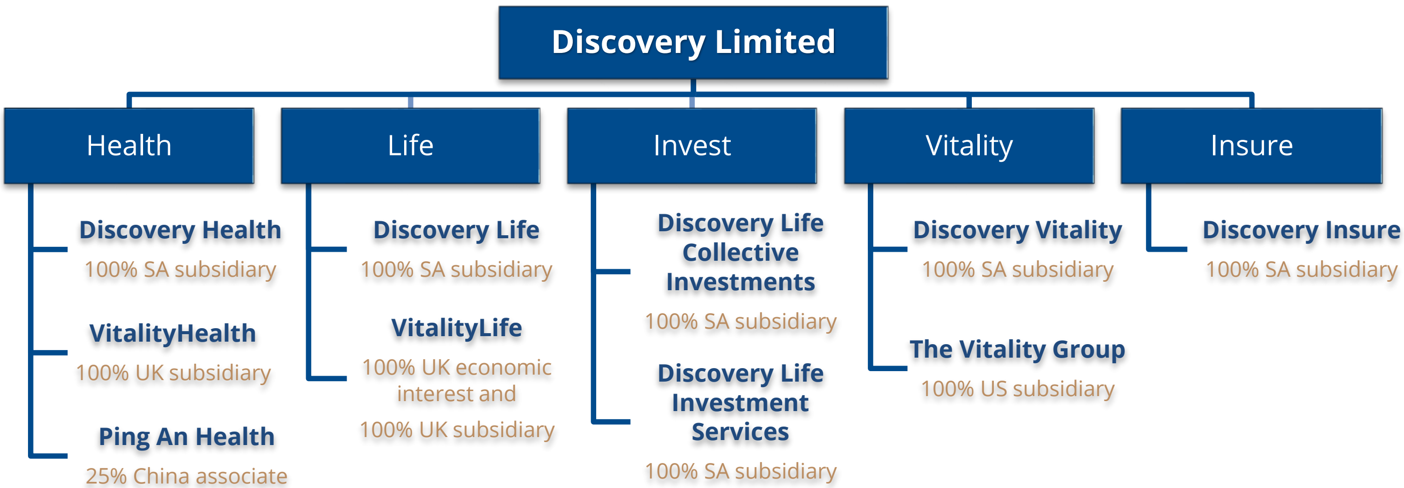
It will be proposed at the Annual General Meeting of shareholders, that PricewaterhouseCoopers Inc. continue in office in accordance with section 90(1) of the Companies Act.

Group accounting policies

for the year ended 30 June 2017

General information

Discovery Limited is listed in the insurance sector of the JSE Limited and is an integrated financial services organisation, specialising in health insurance, life assurance, investments and savings products, wellness, short-term insurance and credit card products. Below is a graphical representation of the material operating companies of the Group:



1. Health

Discovery Health

Discovery Health provides administration services and managed care services to the Discovery Health Medical Scheme as well as 17 closed schemes.

Discovery Health offered the insurance of private ward and overseas cover benefits. Members that had taken up this benefit before the distribution of it ceased, had the option to continue with this benefit. These benefits were written through Discovery Life.

Discovery Health provides cover for shortfalls on specialist accounts for hospital admissions, shortfalls for specific treatment before and after hospital admissions, as well as additional funds for cancer treatment. These benefits are written through Discovery Insure.

VitalityHealth

The VitalityHealth product offers policyholders in the United Kingdom, cover for a range of private healthcare-related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions. It specifically excludes emergency cover, maternity cover and cover for chronic conditions.

Policies offered by VitalityHealth are annual contracts which can be cancelled or the premiums adjusted on renewal.

Ping An Health

Ping An Health offers policyholders in China, cover for a range of private healthcare-related claims.

2. Life

Discovery Life

Discovery Life offers a range of insurance and financial solutions to both individual and group policyholders. The Discovery Life products reflect Discovery's underlying philosophy to make members healthier and to enhance and protect their lives. Discovery Life offers some unique benefits that integrate with the benefits offered by Discovery Health, Discovery Vitality and Discovery Invest.

Individual life insurance

Discovery Life Plan

The Discovery Life Plan provides protection against a comprehensive spectrum of risks, including life, disability, severe illness and income continuation cover.

Health Plan Protector

The Health Plan Protector will fund contributions to the Discovery Health plans in the event of death, disability or severe illness. It further rewards members for positive health management through the payback benefit.

DiscoveryCard Protector

The DiscoveryCard Protector will cover the outstanding balance on the DiscoveryCard in the event of death, disability or severe illness. It further provides a monthly benefit for a defined period equal to the average DiscoveryCard spend in the six-month period prior to the life-changing event.

Global Education Protector

The Global Education Protector funds education costs for children in the event of death, disability or severe illness of the insured life. Cover is provided to the earlier of the insured life reaching age 65 or the child reaching age 24. This benefit can be purchased on a stand-alone basis.

Supplementary Cancer Protector

The Supplementary Gap Cover benefit offers lump sum cover for defined severe illnesses, funding for genomic sequencing of certain cancers, a home support benefit as well as a health premium waiver given a defined life changing event.

Funeral Cover

The Funeral Cover benefit will pay out a defined lump sum in the event of death which can be used to cover the costs of a funeral. This lump sum is doubled in the event of accidental death. An education benefit is automatically included at a defined amount which aims to fund the education costs for children upon death of the principal member or spouse. Additional memorial and grocery benefits may be added to the policy as an option.

Group life insurance

Discovery Group Life offers a comprehensive spectrum of protection benefits on a group basis. Life cover, severe illness, disability and income continuation benefits are offered.

VitalityLife

VitalityLife is Discovery's life insurance offering to policyholders in the United Kingdom. It sells pure protection policies and is based on the Vitality structure that enables dynamic pricing to be employed in the UK life assurance market.

3. Invest

Discovery Invest

Discovery Invest offers, through a range of investment fund choices, including Discovery managed unit trusts, a comprehensive and flexible range of investment choices. These products are sold through a number of investment wrappers or preserver retirement funds.

4. Vitality

Discovery Vitality

Discovery Vitality offers the Group's clients health and lifestyle benefits with selected partners. This business includes the DiscoveryCard which is offered to Discovery policyholders within South Africa. The lifestyle benefits offered by Discovery Vitality are subject to change and can be adjusted on a monthly basis.

The Vitality Group

The Vitality Group offers the Vitality programme in the US on a stand-alone basis by wrapping it around other health plans and employer groups. It also provides a Vitality platform to international insurance businesses.

5. Insure

Discovery Insure

Discovery Insure provides motor vehicle, household and other short-term risk insurance products to the South African market. Discovery Insure product offerings include, but are not limited to, the following benefits:

Vitalitydrive

Discovery Insure encourages safe driving through Vitalitydrive, a programme that gives rewards for improved driving. The programme uses the latest motor vehicle telematics technology to develop a scientific measure of driver behaviour.

If a policyholder insures both their car and home with Discovery Insure, and drive well, they can earn up to 50% of their BP or Shell fuel spend back every month (fuel cash back). The fuel cash back can be used to either reduce the premium that the policyholder is required to pay for the month in question or alternatively, at the election of the policyholder, have their fuel cash back doubled and paid into an excess funder account (EFA). The fuel rewards will depend on the number of points earned in the month.

The funds in the EFA can be used to pay the excess liability a member incurs as a result of a valid claim for any motor vehicle insured under the policy. After three years, up to 50% of the funds available in the EFA can be withdrawn. If the policy lapses, the member forfeits the amount deferred in the EFA.

Young Adult Plan

The Young Adult Plan is available to drivers younger than 26 years and includes the following benefits:

- 25% of their car insurance premiums paid into a Rewards Fund every six months, which they can spend on whatever they want.
- A further amount will be paid into the Rewards Fund each month if they drive well and avoid driving late at night. This is limited to R200 depending on driver status.

Group accounting policies

for the year ended 30 June 2017

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented.

1. Basis of presentation

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as well as the South African Companies Act. They have been prepared in accordance with the going concern principle using the historical cost basis except where otherwise stated in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Discovery's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are outlined in note 4 to the Annual Financial Statements.

All monetary information and figures presented in these financial statements are stated in millions of Rand (R million), unless otherwise indicated.

New standards and amendments to published standards not yet effective

The following new standards and amendments to existing standards have been published and are not yet effective for the current financial year. Discovery has not early adopted them and unless otherwise stated, it is not expected that they will have any material impact on Discovery's results but may result in additional disclosures in the Annual Financial Statements.

Standard	Scope and potential impact	Effective for annual periods beginning on or after stated date
IAS 7 (Amendment): Cash flow statements	The amendment introduces additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.	1 January 2017
IAS 12 (Amendment): Income taxes	The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets.	1 January 2017
IFRS 4 (Amendment): Insurance contracts	These amendments relate to the implementation of IFRS 9: Financial instruments, introducing two approaches namely an overlay approach and a deferral approach. The amended standard will: • Give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued;	1 January 2018

Standard	Scope and potential impact	Effective for annual periods beginning on or after stated date
IFRS 4 (Amendment): Insurance contracts continued	• Give companies whose activities are predominantly connected with insurance an optional exemption from applying IFRS 9 until 1 January 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39. Discovery will not defer the implementation of IFRS 9.	
IFRS 9 (Amendment): Financial instruments	This standard introduces new requirements for the classification and measurement of financial assets. The standard also contains a new impairment model which will result in earlier recognition of losses. No changes were introduced for the classification and measurement of financial liabilities, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. The amendments also align hedge accounting more closely with an entity's risk management. The revised standard also establishes a more principles-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in IAS 39. *Potential impact*: A significant change in measurement relates to equity instruments measured at fair value through other comprehensive income. Currently, when these instruments are classified as available for sale and when these instruments are derecognised, the cumulative gain/loss is recycled out of other comprehensive income back to profit or loss. Under IFRS 9, this will no longer be permissible and the cumulative gain/loss will remain in other comprehensive income. Under IFRS 9 an entity on an instrument by instrument basis, elect to fair value equity securities at fair value through other comprehensive income or through profit or loss).	1 January 2018

Standard	Scope and potential impact	Effective for annual periods beginning on or after stated date
IFRS 9 (Amendment): Financial instruments continued	Discovery does not expect significant impairment provisions to be raised. It is anticipated that the hedge accounting requirements may simplify the existing hedge accounting process and effectiveness testing, however Discovery does not expect a significant impact on recognised amounts.	
IFRS 10 (Amendment): Consolidated financial statements and IAS 28 (Amendment): Investments in associates and joint ventures	This amendment eliminates the inconsistency between IFRS 10 and IAS 28. If the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business', then the full gain or loss will be recognised by the investor. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendment also clarifies the application of the consolidation exception for investment entities and their subsidiaries.	Effective date postponed
IFRS 15: Revenue from contracts with customers	This standard establishes a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of good or service transfers to a customer. *Potential impact*: The impact on the Annual Financial Statements has not yet been fully determined. It is expected that non-insurance operations with multi-element arrangements will be most significantly impacted, specifically Discovery Vitality and Vitality Group. Although it is not anticipated that IFRS 15 will significantly impact the timing or amount of revenue recognised, areas of specific focus are the requirements relating to principle vs agent, the assessment of contract amounts against the variable consideration constraint, as well as the recognition, measurement and impairment requirements of contract assets and contract liabilities. Further effort will relate to the more extensive disclosure requirements to ensure the most useful information is provided. Discovery has not yet determined the approach for transition, which will be considered as part of the implementation of the standard.	1 January 2018

Standard	Scope and potential impact	Effective for annual periods beginning on or after stated date
IFRS 16: Leases IFRS 16 supersedes IAS 17: Leases, IFRIC 4: Determining whether an arrangement contains a lease, SIC 15: Operating lease – Incentives, and SIC 27: Evaluating the substance of transactions involving legal form of a lease	The new standard requires lessees to recognise a lease liability and a 'right-of-use' asset for nearly all lease contracts. Lessor accounting has not substantially changed in the new standard. A lessee will measure the lease liabilities at the present value of future lease payments. The 'right-of-use' asset will initially be the same amount as lease liabilities, including costs directly related to entering into the lease. 'Right-of-use' assets will be amortised over the shorter period of the useful life or the end of the lease term. A lessee will not be required to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture.) *Potential impact*: Discovery currently has a cash flow commitment of R8 421 million in respect of land and buildings under operating leases (Refer to note 38.2). In terms of the new standard Discovery will be required to raise an asset and liability in respect of these leases in its Statement of Financial Position. In addition there will be a change in the timing of expense recognition in profit or loss, however there will be no overall impact over the lease term. Various transitional reliefs and practical expedients are available both on transition and on an on-going basis. These will be assessed as part of the implementation process.	1 January 2019
IFRS 17: Insurance contracts	IFRS 17 was issued in May 2017. The standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. *Potential impact*: The new standard will have significant impacts on underlying valuation models, systems, processes, internal controls and various other fundamental aspects of the insurance business. Discovery is in the process of scrutinising the final requirements of the standard and develop a working understanding of how it should be applied.	1 January 2021

Standard	Scope and potential impact	Effective for annual periods beginning on or after stated date
IFRIC 22: Foreign currency transactions and advance consideration	This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payment/receipts are made. The guidance aims to reduce diversity in practice. Discovery is currently assessing the potential impact of this IFRIC.	1 January 2018
IFRIC 23: Uncertainty over Income Tax Treatments	The IFRIC clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. This includes where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates. The interpretation requires that the entity account for tax consequences based on the probability of the tax authority accepting the treatment. The effects of uncertainty are recognised using either the most likely amount or the expected value where there are a range of possible outcomes. The potential impact of this IFRIC is currently being assessed by Discovery.	1 January 2019

New and amended standards not relevant for Discovery's operations

Standard	Scope	Effective for annual periods beginning on or after stated date
IAS 28 (Amendment): Investments in associates and joint ventures	IAS 28 allows venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss. The election should be made separately for each associate or joint venture at initial recognition.	1 January 2018
IAS 40 (Amendment): Investment property	These amendments clarify that to transfer to, or from, investment properties there must be a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. This change must be supported by evidence.	1 January 2018
IFRS 1 (Amendment): First-time adoption of IFRS	Deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10.	1 January 2018

Standard	Scope	Effective for annual periods beginning on or after stated date
IFRS 2 (Amendment): Share-based payments	The amendment clarifies the measurement basis for cash-settled share-based payments. The amendment further clarifies the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is required to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority. The amendments also add a requirement to disclose an estimate of the amount of cash expected to be transferred to the tax authority as a results of such an arrangement.	1 January 2018
IFRS 12 (Amendment): Disclosure of interests in other entities	The amendment clarifies that the disclosures requirements of IFRS 12 are applicable to interest in entities classified as held for sale, except for summarised financial information (IFRS 12.B17). Previously, it was unclear whether all other IFRS 12 requirements were applicable for these interests.	1 January 2017

2. Consolidation

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

2.1 Business combinations

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a business is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the acquisition date. On an acquisition-by-acquisition basis, Discovery recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, being the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired, is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

2.2 Subsidiaries

Subsidiaries are all entities (including structured entities) over which Discovery has control. Discovery controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to Discovery. Consolidation is discontinued from the date on which control ceases.

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

Intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated. Unrealised losses are also eliminated. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by Discovery.

Transactions entered into that impact a number of entities in the Group are considered based on the economic substance of the transactions and treated as such.

2.3 Non-controlling interests

Non-controlling interests can be measured at either:

- The proportionate share in the fair value of the identifiable net assets of the subsidiary at acquisition date, or
- Fair value.

This measurement choice is not an accounting policy choice and Discovery will apply this at acquisition date per business combination transaction.

Non-controlling interests are treated as equity participants of the subsidiary company. Therefore, all transactions of Discovery with non-controlling interest in their capacity as owners, where there is no change in control, are treated as transactions within equity. In such transactions the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of Discovery.

2.4 Associates and joint ventures

Associates are entities over which Discovery has the ability to exercise significant influence but not control over the financial and operational policies. Significant influence is determined based primarily on percentage voting rights, generally between 20% and 50%, together with other factors such as board participation and participation in the policy-making process.

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

Discovery recognises its interest in an associate or a joint venture as an investment and accounts for that investment using the equity method. Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise Discovery's share of the profit or loss of the investee after the date of acquisition. Discovery's share of the investee's profit or loss is recognised in profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in Discovery's proportionate interest in the investee arising from changes in the investee's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. Discovery's share of those changes is recognised in other comprehensive income.
Discovery discontinues equity accounting when the carrying amount of the investment in an associate or a joint venture reaches zero, unless it has incurred obligations, guaranteed obligations or made payments on behalf of the associate or the joint venture. Discovery resumes equity accounting only after its share of the profits equals the share of losses not recognised. Discovery increases the carrying amount of investments with its share of the associate's or joint venture's income when equity accounting is resumed.

As Discovery's investment in an associate or a joint venture includes goodwill identified on acquisition, Discovery assesses at each reporting date whether there is objective evidence that an associate or a joint venture is impaired. If such evidence of impairment exists, Discovery calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognises the amount in share of profit/loss from equity accounted investments in profit or loss.

Profits and losses resulting from upstream and downstream transactions between Discovery and its associates or joint ventures are recognised in Discovery's financial statements only to the extent of unrelated investor's interests in the associate or joint venture. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Discovery will discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:

(a) If the investment becomes a subsidiary, Discovery will account for its investment in accordance with IFRS 3 and IAS 27.

(b) If the retained interest in the former associate or joint venture is a financial asset, Discovery will measure the retained interest at fair value. The fair value of the retained interest will be regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. Discovery will recognise in profit or loss any difference between:

  (i) The fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture, and

  (ii) The carrying amount of the investment at the date the equity method was discontinued.

(c) When Discovery discontinues the use of the equity method, it will account for all amounts previously recognised in other comprehensive income in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.

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

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

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

Of the 25 Discovery Unit Trusts consolidated at 30 June 2017, Discovery holds less than a 50% economic interest in three of these funds. Refer to page 16 for a list of consolidated unit trusts.

3. Foreign currency translation

3.1 Functional and presentation currency

Items included in the financial statements of each of Discovery's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Rand, which is the functional and presentation currency of Discovery Limited.

3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from:

- The settlement of trading transactions are included in the results of operating activities in profit or loss.
- The settlement of financing transactions and from the translation at year-end exchange rates of assets and liabilities denominated in foreign currencies are recognised in profit or loss as foreign exchange gains and losses.
- Qualifying cash flow hedges and qualifying net investment hedges are deferred in the statement of comprehensive income and are recycled to profit or loss in the periods in which the hedged item affects profit or loss.

3.3 Group companies

The results and financial position of all Discovery entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position.
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at rates at the date of the transactions).
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognised in the foreign currency translation reserve in the statement of comprehensive income. When a foreign operation is partially disposed of or sold, such exchange differences are recognised in profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

4. Property and equipment

Property and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Discovery and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Property and equipment are depreciated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold improvements	Shorter of estimated life or period of lease
Computer equipment and operating systems	3-5 years
Computer software packages	3 years
Furniture, fittings and equipment	5-10 years
Motor vehicles	4 years
Telematics devices	2-5 years

The assets' residual values and useful lives are reviewed at each reporting period and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to dispose and value-in-use.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount. These are recorded in profit or loss.

5. Intangible assets

5.1 Computer software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by Discovery are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use.
- Management intends to complete the software product and use or sell it.

- There is an ability to use or sell the software product.
- It can be demonstrated how the software product will generate probable future economic benefits.
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available.
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product, include the software development employee costs and an appropriate portion of directly attributable overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their useful lives, which is between three to seven years. The amortisation is reflected under marketing and administration expenses in profit or loss.

5.2 Deferred acquisition costs

The direct costs of acquiring new business, which are expected to be recovered out of future revenue margins, are deferred over the period in which the related revenue is earned and recognised as an asset in the statement of financial position.

The accounting policies relating specifically to deferred acquisition costs for insurance and investment contracts are detailed in accounting policies 13 and 14.

5.3 Intangible assets identified in the acquisition of business combinations

Intangible assets acquired as part of business combinations are capitalised at their fair value, represented by the estimated net present value of future cash flows relating to existing business, or at a value as determined by an independent valuer. These intangible assets are amortised over their useful lives and only tested for impairment if an indication of impairment arises.

5.4 Banking license and right to profit share

Intangible assets which represent rights to receive future profits are capitalised at their fair values, represented by the estimates net present value of future cash flows relating to existing business, or at a value as determined by an independent valuer. These intangible assets are amortised into profit or loss as profits are expected to emerge and only tested for impairment if an indication of impairment arises.

5.5 Other intangible assets

Discovery does not attribute value to internally developed trademarks, patents and similar rights and assets, including franchises and management contracts and expenses the costs incurred to profit or loss in the period in which they are incurred.

6. Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in profit or loss.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGU), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

7. Financial assets

Discovery classifies its financial assets into the following categories:

- Financial assets at fair value through profit or loss.
- Available-for-sale financial assets.
- Loans and receivables.
- Derivative financial instruments at fair value through profit or loss or carried as a hedge.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and Discovery has also transferred substantially all risks and rewards of ownership.

7.1 Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

A financial asset is classified into the 'financial assets at fair value through profit or loss' category at inception if:

- It is acquired principally for the purpose of selling in the short-term, or
- It forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking.

Derivatives are also classified as held for trading unless they are designated as hedges.

Financial assets designated as financial assets at fair value through profit or loss at inception are those that are:

- Held in internal funds to match insurance and investment contract liabilities that are linked to the changes in fair value of these assets. The designation of these assets to be at fair value through profit or loss eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.
- Managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to Discovery's key management personnel.

Financial assets carried at fair value through profit or loss, are initially recognised at fair value with transaction costs expensed in profit or loss. These assets are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in profit or loss in the period in which they arise.

Discovery recognises interest income, dividends received, realised and unrealised gains and losses of 'financial assets at fair value through profit or loss' category within net fair value gains on financial assets at fair value through profit or loss in profit or loss.

7.2 Available-for-sale financial assets

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

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

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

7.3 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that Discovery intends to sell in the short-term or that it has designated as at fair value through profit or loss or available-for-sale.

Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that Discovery will not be able to collect all amounts due according to their original terms (see accounting policy 9 for the policy on impairment). Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

7.4 Fair value

The fair values of quoted and listed investments are based on current closing prices. Investments in unit trusts are valued at their repurchase price. If the market for a financial asset is not active, Discovery establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

8. Derivative financial instruments

Discovery initially recognises derivative financial instruments in the statement of financial position at fair value on the date which a derivative contract is entered into (the best evidence of fair value on day one is the transaction price) and subsequently re-measures these instruments at their fair value. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Discovery designates certain derivatives as either:

- Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), or
- Hedges of highly probable forecast transactions (cash flow hedges).

Discovery documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. Discovery also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are expected to be and have been highly effective in offsetting changes in fair values or cash flows of hedged items.

8.1 Cash flow hedge

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

Non-financial asset or liability

Amounts accumulated in the statement of other comprehensive income are recycled to profit or loss in the period in which the hedged item will affect profit or loss. Where the forecast transaction or a foreign currency firm commitment results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred are transferred from the statement of comprehensive income and included in the initial measurement of the cost of the non-financial asset or liability.

Financial asset or liability

Amounts accumulated in the statement of other comprehensive income are recycled to profit or loss in the period in which the hedged item will affect the profit or loss. Where the forecast transaction subsequently results in the recognition of a financial asset or liability, gains or losses deferred in equity are transferred from the statement of comprehensive income when the financial asset or liability is sold or impaired.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss.

8.2 Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of all such derivative instruments are recognised immediately in profit or loss.

9. Impairment of assets

9.1 Financial assets carried at amortised cost

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

Objective evidence includes one or more of the following events:

- Significant financial difficulty of the issuer or debtor.
- A breach of contract, such as default or delinquency in payments.
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation.
- The disappearance of an active market for that financial asset because of financial difficulties.
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in Discovery, including:
  - Adverse changes in the payment status of issuers or debtors of Discovery.
  - National or local economic conditions that correlate with defaults on the assets of Discovery.

Discovery first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If Discovery determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

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

9.2 Financial assets carried at fair value

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

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

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

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

9.3 Impairment of other non-financial assets

Assets, including intangible assets and deferred acquisition costs, other than those relating to insurance contracts (see accounting policy 13), that are subject to amortisation, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Such indicators include continued losses, changes in technology, market, economic, legal and operating environments.

An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is measured using the higher of the fair value less costs to sell and the value-in-use. Value-in-use is the present value of projected cash flows covering the remaining useful life of the asset. An impairment charge is recognised as a loss in profit or loss immediately.

10. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

11. Cash and cash equivalents

Cash and cash equivalents comprise:

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

Cash and cash equivalents only include items held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. Cash and cash equivalents have a maturity of less than three months from the date of acquisition. Cash and cash equivalents are carried at cost which due to their short-term nature approximates fair value.

12. Share capital

Shares are classified as equity when there is no obligation to transfer cash or assets. Incremental costs directly related to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

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

13. Insurance contracts

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

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

13.1 Recognition and measurement

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

13.1.1 Individual life insurance

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

Valuation of policyholder liabilities

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

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

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

Discretionary and compulsory margins are therefore added to the best estimate assumptions within the following framework:

- All margins are at least equal to the compulsory margins prescribed by regulations.
- For the discount rate and lapse rate margins, the direction of the margins may vary based on policy type and duration to ensure that the margin is in the conservative direction, overall.
- Given the level of uncertainty in the best estimate assumptions for lapse, mortality and morbidity margins are added to protect against future possible adverse experience.
- Additional margins are added to allow for the release of profit over the term of the policy.
- Margins are released over the term of a policy in line with the risk borne.
- The best estimate assumptions and margins are reset at every valuation date to reflect the underlying profitability of the portfolio. Changes to assumptions, models and benefits are therefore offset at the portfolio level through an increase in discretionary margin (or release if sufficient discretionary margin exists). The impact of experience variances (with the exception of lapse and mortality experience) on the end-of-period prospective liability recognised in respect of in-force policies is offset at the portfolio level against an increase in discretionary margin (or release if sufficient discretionary margin exists). The impact of experience variances on the in-period cash flows is accounted for in profit and loss for the period and not offset through changes in discretionary margins.

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

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

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

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

Premium revenue

For individual life insurance contracts, premiums are recognised as revenue when due. Premiums are shown net of premium discounts received and before the deduction of commission. Premiums exclude taxes and levies.

Insurance benefits and claims

Insurance benefits and claims relating to individual life insurance contracts are recognised in profit or loss based on the estimated liability for benefits owed to the contract holder. Death, disability and severe illness and surrender claims are accounted for when notified. These claims include claims reported but not yet validated. The estimate is determined taking into account the likelihood of the claim being valid and the expected severity of the claim given that the claim is valid. The proportion to be included is estimated separately for each benefit type. An estimate of the expected claim amount is charged to profit or loss and included in liabilities under insurance contracts. Maturity and income disability are recorded as incurred. Liabilities are held to reflect incurred but not yet reported (IBNR) claims. The IBNR liabilities are modified to reflect actual current operating conditions. The liabilities are calculated gross of reinsurance. An asset is then raised to allow for the expected recoveries from reinsurers.

Acquisition costs

Acquisition costs for these contracts represent commission and other costs that relate to the securing of new contracts and the renewing of existing contracts. The valuation basis for valuing insurance contracts makes implicit allowance for the deferral of acquisition costs and hence no explicit deferred acquisition cost asset is recognised in the statement of financial position. These are expensed in profit or loss.

13.1.2 Group life insurance

These contracts insure against a comprehensive spectrum of protection benefits on a group basis. Life cover, severe illness, disability and income continuation benefits are offered. These contracts are short-term in nature.

Premium revenue

For group life insurance contracts, premiums are recognised as revenue when due. Premiums are shown before the deduction of commission and exclude taxes and levies.

Insurance benefits and claims

Insurance benefits and claims relating to group life insurance contracts are recognised in profit or loss based on the estimated liability for benefits owed to the contract holder. Death, disability and severe illness and surrender claims are accounted for when notified. These claims include claims reported but not yet validated. The estimate is determined taking into account the likelihood of the claim being valid and the expected severity of the claim given that the claim is valid. The proportion to be included is estimated separately for each benefit type. An estimate of the expected claim amount is charged to profit or loss and included in liabilities under insurance contracts. Maturity and income disability are recorded as incurred. Liabilities are held to reflect IBNR claims. The IBNR is modified to reflect actual current operating conditions. The liabilities are calculated gross of reinsurance. An asset is then raised to allow for the expected recoveries from reinsurers.

Acquisition costs

Acquisition costs for group life insurance contracts comprise all direct costs arising from the sale of insurance contracts. Commissions are expensed as incurred.

13.1.3 Health insurance

These contracts insure policyholders against healthcare-related claims.

Premium revenue

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

Insurance benefits and claims

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

Deferred acquisition costs

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

13.1.4 Short-term insurance

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

Premium revenue

Short-term insurance premiums received in respect of monthly contracts are recognised as revenue when due. Premiums are shown before the deduction of commission, less the fuel cash back rewards described below, and exclude value-added tax.

Unearned Premium Provision

An unearned premium provision is created at the commencement of each insurance contract and is released as the risk covered by the contract expires. The Unearned Premium Provision, represents a proportion of premiums underwritten in the current year, which relate to risks which have not expired by the end of the financial year, this is calculated on a time-proportionate basis for even risks. Therefore, the unearned premium is released over the period of insurance using a method which approximates the time period of the risk covered.

The unearned premium provision is calculated on a gross basis as reinsurance is calculated on earned premium.

Reinsurance commission income

Reinsurance commission income is recognised in profit or loss over the period of the related direct insurance business assumed.

Insurance benefits and claims

Claims are accounted for as incurred and consist of claims paid, movement in the provision for outstanding claims and related claims handling expenses.

The provision for outstanding claims is based on estimates of the cost of settling all claims incurred but unpaid at the reporting date, whether reported or not. Related anticipated reinsurance recoveries are disclosed separately as assets in the statement of financial position and are included in recoveries from reinsurers in profit or loss.

Salvage and subrogation recoveries

Certain short-term insurance contracts allow Discovery to sell property acquired as a result of a claim (salvage). Discovery may also have the legal right to pursue third parties for payment of some or all of the costs (subrogation).

The estimated salvage and subrogation reimbursements are treated as a reduction in the measurement of claims liability.

Acquisition costs

Acquisition costs for these contracts comprise all direct costs arising from the sale of insurance contracts and are recognised in profit or loss for monthly policies and deferred in DAC for future periods.

Excess funder account (EFA)

As discussed on page 21, the fuel cash back can be used to either reduce the premium that the policyholder is required to pay for the month in question or can be doubled and paid into an EFA.

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

If the policyholder has elected to double the fuel cash back and paid it into an EFA, an EFA liability is raised. The EFA liability is calculated using a discounted cash flow approach and is disclosed in liabilities arising from insurance contracts in the statement of financial position and the movement is disclosed in the transfer to liabilities under insurance contracts.
When the member uses funds in the EFA to pay for his excess, the excess is paid by Discovery Insure and an expense is included in claims in the statement of comprehensive income.

Where the member withdraws the funds after three years, the member is paid out in cash and an expense is disclosed against insurance premium revenue in the income statement.

13.2 Embedded derivatives

A unit-linked insurance contract is an insurance contract with an embedded derivative linking payments on the contract to units of an investment fund purchased with the consideration received from the contract holders. This embedded derivative meets the definition of an insurance contract and is therefore not accounted for separately from the host insurance contract. The liability for such contracts is adjusted for all changes in the fair value of the underlying assets.

Discovery does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or amount based on a fixed amount and an interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host insurance contract and meet the definition of a derivative. Embedded derivatives that are separated from the host contract are fair valued through profit or loss.

13.3 Liability adequacy test

At the reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to profit or loss initially by writing off deferred acquisition costs and by subsequently establishing a provision for losses arising from the liability adequacy test.

13.4 Reinsurance contracts

Contracts entered into by Discovery with reinsurers under which the Company is compensated for insured events on one or more contracts that meet the classification requirements for insurance contracts are classified as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial assets.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

The amounts Discovery is required to pay under its reinsurance contracts held are recognised as reinsurance liabilities (liabilities arising from reinsurance contracts).

Outward reinsurance premiums are recognised as an expense and are accounted for when due under the reinsurance contract. The amounts due to Discovery under its reinsurance contracts are recognised as reinsurance assets (classified within loans and receivables). Discovery assesses its reinsurance assets for impairment on an annual basis following the same method used for financial assets.

In certain cases there is a net gain or loss at inception of a reinsurance contract:

- Where these amounts relate directly to a reimbursement of expenses the gain is disclosed as a recovery of expenses from reinsurers.
- Other gains or losses are amortised over the life of the reinsurance contract on a consistent basis as the profit is expected to emerge on the underlying policies but considering the contractual terms and intent of the specific reinsurance contract.

In certain cases there is a net gain or loss upon early termination of a reinsurance contract. Where these amounts result directly from the termination, they are recognised as at the termination date and disclosed as Recapture of reinsurance in profit or loss.

13.5 Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. Discovery assesses its receivables for impairment on an annual basis following the same method used for financial assets.

14. Investment contracts

Investment contracts are those contracts that transfer financial risk without significant insurance risk. Financial risk refers to the risk of a possible future change in the value of an asset or financial instrument due to a change in interest rate, commodity price, index of prices, foreign exchange rate or other measurable variable.

Discovery issues investment contracts without fixed benefits (e.g. unit-linked and structured products) and investment contracts with fixed and guaranteed benefits (e.g. term certain annuity).

Valuation of policyholder liabilities

Investment contracts without fixed benefits are financial liabilities whose fair value is dependent on the fair value of the underlying financial assets and derivatives (unit-linked) and are designated at inception as at fair value through profit or loss. Discovery designates these investment contracts to be measured at fair value through profit or loss because it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. See accounting policy 7.1 for the financial assets backing these liabilities.

Discovery's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. The fair value of a unit-linked financial liability is determined using the current unit price that reflects the fair values of the financial assets contained within Discovery's unitised investment funds linked to the financial liability. The fair value of the financial liabilities is obtained by multiplying the number of units attributed to each policyholder at the reporting date by the unit price for the same date.

For investment contracts with fixed and guaranteed terms, valuation techniques are used to establish the fair value at inception and at each reporting date. Valuation techniques include discounted cash flow analysis using current market rates of interest and reference to other instruments that are substantially the same.

Premium revenue

All premiums under investment contracts are recorded as deposits to investment contract liabilities and claims incurred on investment contracts are recorded as deductions from investment contract liabilities.

Fees on investment contracts

Service fee income on investment management contracts is recognised on an accrual basis as and when the services are rendered. Fees on investment contracts are included in fee income.

A deferred revenue liability (DRL) is recognised in respect of upfront fees directly attributable to a contract that are charged for securing the investment management service contract. The DRL is then released to revenue when the services are provided, proportionate to the underlying expected profit signature of the contract.

Regular fees are charged to the customer monthly either directly or by making a deduction from invested funds.

Deferred acquisition costs

Deferred acquisition costs on investment contracts represent the contractual customer relationship and the right to receive future investment management fees. Incremental costs directly attributable to securing rights to receive policy fees for services sold with investment contracts, are recognised as an intangible asset where they can be identified separately and measured reliably and it is probable that they will be recovered. An incremental cost is one that would not have been incurred if the Group had not secured the investment contract.

The asset represents the Group's contractual right to benefit from providing asset management services and is amortised over the expected life of the contract as the entity recognises the related revenue.

15. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment and amortised over the period of the facility to which it relates.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in profit or loss as finance costs.

16. Deferred income tax

Discovery calculates deferred income tax on all temporary differences using the statement of financial position based approach. It calculates deferred tax liabilities or assets by applying corporate tax rates that have been substantively enacted to the temporary differences existing at each reporting date between the tax values of assets and liabilities and their carrying amount, where such temporary differences are expected to result in taxable or deductible amounts in determining taxable income for future periods when the carrying amount of the assets or liabilities are recovered or settled.

Discovery recognises deferred tax assets if the directors of Discovery consider it probable that future taxable income will be available against which the unused tax losses can be utilised.

Temporary differences arise primarily from the difference between accounting and tax balances arising from insurance contracts, depreciation of property and equipment, effect of accounting for leases as a finance lease, effect of straight-lining of operating leases, revaluation of certain financial assets and liabilities, provisions for leave pay, provisions for share-based payments and tax losses carried forward. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income.

Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to the statement of other comprehensive income, is also credited or charged directly to the statement of other comprehensive income and is subsequently recognised in profit or loss when the gain or loss is realised.

Deferred income tax assets and liabilities are offset when:

- There is a legally enforceable right to offset current tax assets against current tax liabilities, and
- When the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

If offsetting does not apply, Discovery separately discloses the deferred tax asset and deferred tax liability.

17. Employee benefits

17.1 Post-employment benefits

Discovery operates defined contribution schemes, the assets of which are held in separate trustee-administered funds.

These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Discovery employees. Qualified actuaries perform annual valuations.

For defined contribution plans, Discovery pays contributions to privately administered pension insurance plans on a mandatory basis. Discovery has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

17.2 Share-based compensation

Discovery operates equity-settled and cash-settled share-based compensation plans.

Equity-settled share-based compensation plans

Discovery expenses the fair value of the employee services received in exchange for the grant of the options, over the vesting period of the options, as employee costs, with a corresponding credit to a share-based payment reserve in the statement of changes in equity. The total value of the services received is calculated with reference to the fair value of the options on grant date.

The fair values of the options are determined excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each reporting date, Discovery revises its estimate of the number of options expected to vest. Any changes to the estimated number of options are recognised in profit or loss immediately.

Cash-settled share-based compensation plans

Discovery recognises employee services received in exchange for cash-settled share-based payments at the fair value of the liability incurred and expenses these services over the vesting period of the benefits, as employee costs.

The liability is re-measured at each reporting period to its fair value, with all changes recognised immediately in profit or loss.

17.3 Leave pay

Discovery accrues in full the employees' rights to annual leave entitlement in respect of past service. This is expensed over the period the services are rendered.

17.4 Profit share and bonus plan

Discovery recognises a liability and an expense for bonuses and profit-sharing in staff costs, based on a formula where there is a contractual obligation or where there is a past practice that has created a constructive obligation.

18. Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less from the reporting date. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

19. Provisions

Provisions are recognised when, as a result of past events, Discovery has a present legal or constructive obligation of uncertain timing or amount, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured as the present value of management's best estimate of the expenditure required to settle the obligation at the reporting date. The pre-tax discount rate used to determine the present value reflects current market assessments of the time value of money. The increase in the provision due to the passage of time is recognised as interest expense.

Discovery recognises a provision for an onerous contract when the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligations under the contract.

20. Contingent liabilities

Discovery discloses a contingent liability when:

- It has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or
- It has a present obligation that arises from past events but not recognised because
  - It is not probable that an outflow of resources will be required to settle an obligation, or
  - The amount of the obligation cannot be measured with sufficient reliability.

21. Revenue recognition

21.1 Insurance premium revenue

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

21.2 Fee income on administration business

Administration fees and managed care fees are included in fee income and are accounted for on an accrual basis in the accounting period in which the services are rendered.

21.3 Vitality income

Vitality income includes:

- Vitality contributions received from its members which is accounted for on an accrual basis in the accounting period in which the services are rendered.
- Revenue income from the sale of benefits offered by Vitality which is accounted for on an accrual basis in the accounting period when the benefits are sold.
- Fee income received from the activation of new gym contracts. These fees are deferred and released on a straight-line basis over the period of the contract.
- Fee income received from FNB in respect of the DiscoveryCard joint venture which is accounted for on an accrual basis in the accounting period in which the services are rendered.
- DiscoveryCard fee income which is deferred and released on a straight-line basis over the period of the contract.

Discovery Vitality operates a loyalty scheme through the DiscoveryCard which allows customers to accumulate miles that entitle them, subject to certain criteria, to use their miles against purchases with Discovery Vitality partners. Income, which is equal to the fair value attributed to the miles awarded, is deferred and recognised when the miles are redeemed or expire. The fair value of the miles is estimated by applying a weighted average cost per mile based on estimated redemption percentages.

21.4 Investment income

Investment income comprises interest and dividends received on available-for-sale investments, interest received from assets held at amortised cost and cash and cash equivalents.

Discovery recognises dividends when Discovery's right to receive payment is established. This is on the "last day to trade" for listed shares and on the "date of declaration" for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares.

Interest is accounted for on an accrual basis using the effective interest rate method.

21.5 Net realised gains on available-for-sale financial assets

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

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

Net fair value gains on financial assets at fair value through profit or loss include gains arising from interest, dividends and net realised and unrealised gains on financial assets held at fair value through profit or loss.

22. Leases

22.1 Finance leases

Discovery classifies leases as finance leases where it assumes substantially all the benefits and risks of ownership.

Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. Discovery allocates each lease payment between the liability and finance costs to achieve a constant rate on the finance balance outstanding. The interest component of the finance cost is recognised in profit or loss over the lease period. The assets acquired are depreciated over the useful life of the assets, unless it is not probable that Discovery will take ownership of the assets, in which case the assets are depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

22.2 Operating leases

Discovery classifies leases as operating leases where the lessor effectively retains the risks and benefits of ownership. Operating lease payments are recognised in profit or loss on a straight-line basis over the period of the lease. Minimum rentals due after year-end are reflected under commitments.

Discovery recognises as an expense any penalty payment to the lessor for early termination of an operating lease, in the period in which termination takes place.

23. Marketing and administration expenses

Marketing and administration expenses include marketing and development expenditure, all other non-acquisition related expenditure and benefits paid under the Vitality program. These costs are expensed in profit or loss as incurred.

24. Finance costs

Finance costs (net of investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets) directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other finance costs are recognised as an expense in profit or loss on an accrual basis using the effective interest rate method.

25. Direct and indirect taxes

Direct taxes include South African and foreign jurisdiction corporate tax payable and are disclosed as taxation in profit or loss.

Indirect taxes include various other taxes paid to central and local governments, including value-added tax and skills development levies. Indirect taxes are included as part of marketing and administration expenses in profit or loss.

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed. It is calculated using taxation rates that have been enacted or substantively enacted by the reporting date, in each particular jurisdiction within which the Discovery entities operate.

Taxation in respect of the South African life insurance operations is determined in accordance with the rates and basis applicable to section 29A of the Income Tax Act at the reporting date.

26. Dividend distribution

Dividend distribution to Discovery Limited's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved.

27. Segment reporting

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

An operating segment is a component of an entity:

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

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

(c) For which discrete financial information is available.

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

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

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

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

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

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

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

Statement of financial position

at 30 June 2017

R million	Notes	Group 2017 Audited	Group 2016 Audited
Assets			
Assets arising from insurance contracts	5	**37 691**	33 815
Property and equipment	6	**1 210**	1 052
Intangible assets including deferred acquisition costs	7	**5 096**	4 584
Goodwill	8	**2 107**	2 447
Investment in equity-accounted investees	9	**979**	491
Financial assets			
- Available-for-sale investments	10	**7 298**	9 794
- Investments at fair value through profit or loss	10	**58 948**	50 948
- Derivatives	11	**392**	590
- Loans and receivables including insurance receivables	12	**6 470**	4 891
Deferred income tax	22	**1 337**	824
Current income tax asset		**34**	97
Reinsurance contracts	13	**263**	410
Cash and cash equivalents	14	**9 098**	8 634
Total assets		**130 923**	118 577
Equity			
Capital and reserves			
Ordinary share capital and share premium	15.1	**8 306**	8 300
Perpetual preference share capital	15.2	**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	16	**52 477**	44 673
Liabilities arising from reinsurance contracts	17	**6 746**	4 894
Financial liabilities			
- Negative reserve funding	18	**847**	4 248
- Borrowings at amortised cost	19	**8 524**	5 400
- Investment contracts at fair value through profit or loss	20	**14 867**	13 514
- Derivatives	11	**135**	49
- Trade and other payables	21	**7 369**	8 563
Deferred income tax	22	**6 963**	6 035
Deferred revenue	23	**291**	291
Employee benefits	24	**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	Notes	Group 2017 Audited	Group 2016 Audited
Insurance premium revenue		**33 533**	33 074
Reinsurance premiums		**(3 837)**	(4 316)
Net insurance premium revenue	25	**29 696**	28 758
Fee income from administration business		**8 372**	7 651
Vitality income		**4 267**	3 844
Investment income	26	**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	27	**8**	5
Net fair value gains on financial assets at fair value through profit or loss	28	**2 108**	2 720
Net income		**45 209**	43 723
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	29	**(17 279)**	(15 577)
Acquisition costs	30	**(5 237)**	(6 185)
Marketing and administration expenses	31	**(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	17	**(1 974)**	(1 127)
Fair value adjustment to liabilities under investment contracts	20	**(248)**	(695)
Profit from operations		**6 245**	5 803
Finance costs	33	**(478)**	(293)
Foreign exchange (losses)/gains	34	**(21)**	18
Gain from business combination		**-**	8
Share of net profits/(losses) from equity-accounted investments	9	**26**	(66)
Profit before tax		**5 772**	5 470
Income tax expense	35	**(1 278)**	(1 740)
Profit for the year		**4 494**	3 730
Profit attributable to:			
- ordinary shareholders		**4 411**	3 655
- preference shareholders		**83**	75
- non-controlling interest		*****	*
		4 494	3 730

* Amount is less than R500 000.

Earnings per share for profit attributable to ordinary shareholders of the Company during the year (cents):	36		
- undiluted		**684.2**	573.1
- diluted		**683.6**	568.8

Statement of other comprehensive income

for the year ended 30 June 2017

R million	Group 2017 Audited	Group 2016 Audited
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 (losses)/gains	**(1 581)**	86
- tax on unrealised losses/gains	**6**	(24)
Cash flow hedges	**33**	(195)
- unrealised gains/(losses)	**159**	(129)
- tax on unrealised gains/losses	**(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
Attributable to:		
- ordinary shareholders	**2 828**	3 565
- preference shareholders	**83**	75
- non-controlling interest	*****	*
Total comprehensive income for the year	**2 911**	3 640

* Amount is less than R500 000.

Statement of cash flows

for the year ended 30 June 2017

R million	Notes	Group 2017 Audited	Group 2016 Audited
Cash flow from operating activities		**(832)**	985
Cash generated by operations	37.1	**5 526**	10 180
Net purchase of investments held to back policyholder liabilities [1]		**(7 084)**	(9 597)
		(1 558)	583
Dividends received		**197**	171
Interest received		**1 711**	1 478
Interest paid		**(437)**	(277)
Taxation paid	37.2	**(745)**	(970)
Cash flow from investing activities		**15**	(2 428)
Net purchase 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 intangible assets		**(1 353)**	(2 253)
Proceeds from 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	37.3	**-**	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	37.4	**3 514**	7 608
Repayment of borrowings	37.4	**(366)**	(3 211)
Net increase in cash and cash equivalents		**1 096**	2 566
Cash and cash equivalents at beginning of the year		**8 614**	6 251
Exchange losses on cash and cash equivalents		**(613)**	(203)
Cash and cash equivalents at end of the year	14	**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 purchase 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.

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	Available-for-sale investments[(1)]
	Attributable to equity holders of the Company			
Year ended 30 June 2016				
At beginning of the year	7 488	779	319	171
Total comprehensive income for the year	-	75	-	(7)
Profit for the year	-	75	-	-
Other comprehensive income	-	-	-	(7)
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 the year	8 300	779	319	164
Year ended 30 June 2017				
At beginning of the year	**8 300**	**779**	**319**	**164**
Total comprehensive income for the year	**-**	**83**	**-**	**16**
Profit for the year	**-**	**83**	**-**	**-**
Other comprehensive income	**-**	**-**	**-**	**16**
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 the year	**8 306**	**779**	**314**	**180**

[(1)] This relates to the fair value adjustment of available-for-sale financial assets

* Amount is less than R500 000.

Of the R22 859 million (2016: R19 594 million) held in retained earnings, R6 754 million (2016: R6 332 million) is distributable. The balance is held to meet the capital requirements in various Group companies.

Attributable to equity holders of the Company					
Foreign currency translation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total
1 373	161	17 065	27 356	*	27 356
112	(195)	3 655	3 640	*	3 640
-	-	3 655	3 730	*	3 730
112	(195)	-	(90)	*	(90)
-	-	(1 126)	(389)	-	(389)
-	-	-	(5)	-	(5)
-	-	-	*	-	*
-	-	-	817	-	817
-	-	-	*	-	*
-	-	-	*	-	*
-	-	-	(75)	-	(75)
-	-	(1 126)	(1 126)	-	(1 126)
1 485	(34)	19 594	30 607	*	30 607
1 485	**(34)**	**19 594**	**30 607**	*	**30 607**
(1 632)	**33**	**4 411**	**2 911**	*	**2 911**
-	**-**	**4 411**	**4 494**	*	**4 494**
(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)**
(147)	**(1)**	**22 859**	**32 290**	*	**32 290**

1. Segment information

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

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

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

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

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

(iv) **Vitality South Africa:** offers health and lifestyle benefits with selected partners to the Group's clients. This segment includes the DiscoveryCard which is offered to clients within South Africa.

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

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

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

- SA Insure: provides motor vehicle, household and other short-term risk insurance products to the South African market.
- SA Bank: includes start-up costs being incurred towards the launch of a bank in the South African market.
- SA Distribution: provides sales and distribution services in respect of all SA products.
- Vitality Group: provides a Vitality platform to international insurance businesses.
- Other new business development costs: expenses incurred to investigate new products and markets.
- UK, US, SA and Singapore head office costs.

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

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

(i) The VitalityLife results are reclassified to account for the contractual arrangement in respect of the business written on the Statement of financial position of Prudential Assurance Company Limited, as a reinsurance contract under IFRS 4.

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

(iii) Investment income earned on assets backing policyholder liabilities is included as part of the normalised profit from operations but is included together with shareholder investment income for IFRS purposes.

(iv) The accounting impact on the transfer to/from liabilities under insurance contracts following the recognition of a deferred tax asset arising on the assessed loss in the Discovery Life Individual Policyholder Fund ('IPF'), has been excluded from normalised profit from operations for segmental purposes.

1. Segment information continued

Change in presentation

At each reporting date, Discovery must review whether the segments being disclosed still comply with IFRS8 - Segment reporting. Since the beginning of the current financial year, the performance of the Discovery Retirement Optimiser (DRO) product has been 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.

1. Segment information continued

R million	SA Health	SA Life	SA Invest	SA Vitality
30 June 2017				
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 acquisition 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.

UK Health	UK Life	All other segments	Segment total	IFRS reporting adjustments: UK Life	IFRS reporting adjustments: DUT	IFRS reporting adjustments: Normalised profit adjustments	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)	(14 953)
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

1. Segment information continued

Restated R million	SA Health	SA Life Restated	SA Invest Restated	SA Vitality
30 June 2016				
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 acquisition 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	DUT	Normalised profit adjustments	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

2. Management of insurance risk

Discovery enters into contracts that carry insurance risk or financial risk or both. The following table analyses the various contracts offered by the Group and the risks these contracts transfer.

Contracts offered by the Group	Contract type	Insurance risk	Financial risk
Discovery Life			
- Discovery Life Plan	Insurance	√	
- Dollar Life Plan	Insurance	√	
- Business Life Plan	Insurance	√	
- Health Plan Protector	Insurance	√	
- DiscoveryCard Protector	Insurance	√	
- Global Education Protector	Insurance	√	
- Supplementary Cancer Protector	Insurance	√	
- Supplementary Gap Cover	Insurance	√	
- Funeral Cover	Insurance	√	
- Group Life	Insurance	√	
Discovery Invest			
- Unit-linked contracts without significant insurance risk	Unit-linked investment		√
- Unit-linked contracts with significant insurance risk	Unit-linked insurance	√	√
- Guaranteed return plans	Insurance	√	√
- Fixed annuities	Insurance	√	√
- Discovery Retirement Optimiser: Linked	Unit-linked insurance	√	√
- Discovery Retirement Optimiser: Guaranteed	Insurance	√	√
Discovery Insure			
- Short-term insurance	Insurance	√	
VitalityHealth			
- Individual product	Insurance	√	
- SME product	Insurance	√	
- Corporate product	Insurance	√	
VitalityLife			
- VitalityLife Life Plan	Insurance	√	
- Essentials Plan	Insurance	√	
- Guaranteed 50s Plus Plan	Insurance	√	
- Relevant Life Plan	Insurance	√	
- Business Protection Plan	Insurance	√	
- Vitality Optimiser	Insurance	√	
- Interest rate Optimiser	Insurance	√	
- Premium Optimiser	Insurance	√	

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

- **Management of insurance risks**: pages 59 to 89.
- **Management of financial risks**: pages 90 to 119.

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

2. Management of insurance risk continued

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

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

Discovery assumes the following risks transferred from insurance contracts:
- Automatic increase take-up rate.
- Capital adequacy requirements and protection against adverse experience.
- Concentration risk.
- Currency risk.
- Expense risk.
- Lapse and surrender risk.
- Liquidity risk.
- Market and mismatching risk.
- Modeling and data risk.
- Operational/implementation risk.
- Policy wording/legal risks.
- Regulatory risk.
- Reputational risk.
- Tax risk.
- Underwriting experience risk.

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

2.1 Discovery Life and Discovery Invest

2.1.1 Product descriptions

Discovery Life offers policyholders a range of insurance and financial solutions. The Discovery Life products reflect Discovery's underlying philosophy to make members healthier and to enhance and protect their lives.

Discovery Life offers some unique benefits that integrate with the benefits offered by Discovery Health, Discovery Vitality, DiscoveryCard, Discovery Insure and Discovery Invest.

Discovery Life Plan

The Discovery Life Plan provides protection against a comprehensive spectrum of risks. Discovery Life offers a Classic Life Plan with broad and comprehensive protection for the policyholder and his or her immediate family and an Essential Life Plan which offers cost effective protection for the principal policyholder and his or her spouse.

The Discovery Life Plan covers:
- Life Cover Benefits.
- Disability Benefits.
- Severe Illness Benefits.
- Income Continuation Benefits

2. Management of insurance risk Discovery Life and Discovery Invest continued

The Life Fund forms the base amount of cover insured under the Life Plan (the basic sum assured amount). The Life Fund can be linked to a benefit escalation rate, for example inflation, and will then automatically increase at each policy anniversary.

The key risk benefits are then defined as a percentage of the Life Fund. The Life Fund is reduced by the amount of benefits paid from the Life Fund. The Life Fund can be protected against claims by means of the Minimum Protected Fund. Multiple claims are allowed against the Life Fund from the same benefit.

There are a number of risk benefits that are defined in monetary terms or in the form of indemnity benefits, rather than being expressed as a percentage of the Life Fund. These benefits include:

- Income Continuation Benefit.
- Global Education Benefit.
- Global Health Protector.

The Life Plan has unique features allowing policyholders to add benefits for other family members. The Global Education Protector, Global Health Protector, Childbirth Benefit, Child Severe Illness Benefit, Parent Severe Illness Benefit and Family Trauma Benefit allow protection for the whole immediate family.

By actively maintaining and improving their health, Discovery Life policyholders, through the Integrator Benefit, could receive premium discounts and refunds of premiums.

The Life Plan provides whole of life cover. Premium guarantees are offered and quantified on most benefits. For example, the premiums for Life Cover are guaranteed not to increase by more than 25% for any 10 year period.

Premiums are payable monthly. There are various funding methods that allow policyholders a choice of premium funding patterns. A combination of level premium funding patterns, annually increasing premium patterns and ten-yearly stepped premium funding patterns are offered. The higher the compulsory future premium increase, the lower the starting premium.

The Dollar Life Plan, replacing the historical Global Linkage Benefit, offers the ability to specify the sum insured in US Dollars and pay premiums in Rands, but linked to the Rand/Dollar exchange rate. The Business Life Plan is tailored to the needs of business owners.

At 30 June 2017 there were 349 537 Life Plans with an annualised premium income of R8 626 million (2016: 332 173 Life Plans with an annualised premium income of R7 743 million). The annualised premium income is calculated by multiplying the monthly in-force premium at 30 June by 12 months.

Health Plan Protector

The Health Plan Protector will fund contributions to the Discovery Health Medical Scheme in the event of death, disability or severe illness. It further rewards members for positive health management through the payback benefit and Health Dividends. The Health Plan Protector can be added to the Life Plan or can be bought on a stand-alone basis. The Health Plan Protector provides cover up to age 65, however premiums are not guaranteed.

At 30 June 2017 there were 35 485 Health Plan Protector policies with an annualised premium income of R201 million (2016: 40 961 Health Plan Protector policies with an annualised premium income of R208 million).

2. Management of insurance risk Discovery Life and Discovery Invest continued

DiscoveryCard Protector

The DiscoveryCard Protector will cover the outstanding balance on the DiscoveryCard in the event of death, disability or severe illness. It further provides a monthly benefit for a defined period equal to the average DiscoveryCard spend in the six month period prior to the life changing event.

At 30 June 2017 there were 8 330 DiscoveryCard Protector policies with an annualised premium income of R11 million (2016: 9 148 policies with an annualised premium income of R11 million).

Global Education Protector

The Global Education Protector funds education costs for children in the event of death, disability or severe illness of the insured life. Cover is provided to the earlier of the insured life reaching age 65 or the child reaching age 24. This benefit can be purchased on a stand-alone basis.

At 30 June 2017 there were 1 545 stand-alone Global Education Protector policies with an annualised premium income of R7 million (2016: 1 665 stand-alone Global Education Protector policies with an annualised premium income of R7 million).

Supplementary Gap Cover

The Supplementary Gap Cover benefit was launched in April 2017 and offers lump sum cover for defined severe illnesses, funding for genomic sequencing of certain cancers, a home support benefit as well as a health premium waiver given a defined life changing event.

At 30 June 2017 there were 146 stand-alone Supplementary Gap Cover policies with an annualised premium income of less than R1 million.

Supplementary Cancer Protector

The Supplementary Cancer Protector benefit will pay defined monthly amounts which can be used to meet costs that arise when a family is affected by cancer.

At 30 June 2017 there were 5 645 stand-alone Supplementary Cancer Protector policies with an annualised premium income of R22 million (2016: 6 510 Supplementary Cancer Protector policies with an annualised premium income of R23 million).

Funeral Cover

The Funeral Cover benefit will pay out a defined lump sum in the event of death which can be used to cover the costs of a funeral. This lump sum is doubled in the event of accidental death. An education benefit is automatically included at a defined amount which aims to fund the education costs for children upon death of the principal member or spouse. Additional memorial and grocery benefits may be added to the policy as an option.

At 30 June 2017 there were 12 658 stand-alone Funeral Cover policies with an annualised premium income of R33 million (2016: 8 971 stand-alone Funeral Cover policies with an annualised premium income of R26 million).

Group Life

Discovery Life offers a comprehensive spectrum of protection benefits on a group basis. Life Cover, Severe Illness, Disability and Income Continuation Benefits are offered on a group basis. The policies offered under Group Life can be cancelled or the premiums adjusted at the end of the contract term (usually one year).

At 30 June 2017 there were 502 258 lives covered under group policies with an annualised premium income of R1 844 million (2016: 435 168 lives covered under group policies with an annualised premium income of R1 568 million).

2. Management of insurance risk Discovery Life and Discovery Invest continued

Discovery Invest

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

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

The following wrappers are available:

- **Endowment:** A medium-term investment vehicle that provides tax efficiencies for an investor with a five to ten year time horizon.
- **Flexible investment:** A flexible investment vehicle that allows tailor made investment solutions whilst providing immediate access to funds.
- **Retirement plan:** A long-term investment vehicle providing a tax efficient structure for saving towards retirement.
- **Preserver plans:** An investment vehicle that helps to ensure retirement benefits continue to grow on a tax efficient basis once a policyholder has left the retirement plan of an employer.
- **Retirement income plan:** Fixed and linked annuities are provided giving flexibility to meet retirement needs.

A comprehensive range of investment fund choices are provided including unique Discovery Invest funds. The funds include:

- **Discovery Invest funds:** Includes a comprehensive range of Discovery Invest's single and multi-manager funds across a range of asset classes.
- **Dynamically protected funds:** Unique Discovery Invest funds that are designed to protect investors against the major risks associated with investment choice, for example, underperformance by fund, asset class and geographic region.
- **Special purpose funds:** These funds are designed to provide solutions to investors looking to save for specific goals, such as retirement. These funds provide alternative and innovative management expertise.
- **External funds:** Discovery Invest provides a broad range of externally managed funds.

Invest offers various benefits which reduces the cost of investment and enhances benefits available under the Invest plans.

- **Investment Integrator:** Uses inter alia the health improvements from Vitality and tax efficiencies created to offer a cost effective endowment and increase the value of the investment. A fee reduction of up to 100% can be achieved on both administration and asset management fees.
- **Annuity Integrator:** By releasing the value of a policyholder's life cover at retirement, the Annuity Integrator creates enhanced benefits for Discovery Retirement Income Plan investors. The benefits include increased retirement income, protection against longevity, protection against ill-health and protection against poor performance of underlying assets.
- **Guaranteed return plans:** Guaranteed return plans include the following:
  - The Guaranteed Growth Plan is a single premium endowment that provides a guaranteed return at the end of five years.
  - The Guaranteed Income Plan provides a guaranteed return at the end of five years on the chosen percentage of the lump sum contribution. The remainder of the lump sum will provide a monthly or annual income.
- **Upfront Investment Integrator:** Provides an upfront boost to the member's investment value of the lump sum Endowment plan.
- **Life Booster:** Provides a boost to the investment fund value on death of between 5% and 15% depending on the member's Vitality status.

2. Management of insurance risk Discovery Life and Discovery Invest continued

- **Retirement Income Investment Integrator:** Boosts annual annuity payments received by up to 50% depending on the member's Vitality status and chosen annual annuity income.
- **Retirement Upfront Investment Integrator:** Provides an upfront boost to the member's investment value of the lump sum Retirement and Preserver plans.
- **Classic Benefits:** Consists of a range of benefits which enhance and protect the member's investment fund offered on the lump sum Retirement plans, Preserver plans and lump sum Flexible Investment plans.
- **Discovery Retirement Optimiser:** Offers funding for retirement and offers unique benefits that, together with a Discovery Life Plan, boosts retirement funding. Policyholders have a choice of linked investment portfolios or a portfolio that offers a guaranteed return in real terms. Funds offering a guaranteed return has been closed to new business.

At 30 June 2017 there were 259 526 Invest plans with an annualised premium equivalent of R9 020 million (2016: 237 004 Invest plans with an annualised premium equivalent of R7 844 million). The annualised premium equivalent includes 10% of the value of single premium policies. The Discovery Retirement Optimiser was previously reported under the Discovery Life segment but has been transferred to the Discovery Invest segment during the current financial year.

2.1.2 Insurance risks

Market and mismatching risk

Mismatching risk is the risk that movements in assets and liabilities are out of line given changes in market conditions as defined on page 90.

Assets under insurance contracts

For assets under insurance contracts, the insurance related cash outflows (e.g. benefit payments, administrations expenses) are covered by expected future cash inflows (predominantly future premiums). This can clearly be seen by considering the future net cash flows arising from insurance contracts. These cash flows are calculated in accordance with the accounting policies. Contractual premium and benefit increases are recognised in the cash flow projections.

The expected discounted future cash flows utilised in the calculation of assets under insurance contracts are disclosed in the table below.

R million	Total	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2017						
Discovery Life	**24 009**	**2 409**	**6 821**	**5 114**	**4 869**	**4 796**
2016						
Discovery Life	20 904	1 928	6 193	4 509	4 290	3 984

The discount rate is set with reference to the prevailing risk free SA gilt yield. The value of assets under insurance contracts is subject to interest rate risk.

2. Management of insurance risk Discovery Life and Discovery Invest continued

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

R million	2017	2016
Assets arising from insurance contracts at end of year, net of reinsurance	**32 539**	30 589
Adjusted for:		
- Assets arising from insurance contracts relating to VitalityLife	**(8 530)**	(9 685)
Discovery Life value of discounted cash flows under insurance contracts	**24 009**	20 904

Liabilities arising from insurance contracts

For liabilities arising from insurance contracts, the insurance related cash outflows are matched with a combination of a release of policyholder assets (net of retained fees), investment return on these assets and Discovery Life cash flows. Refer to page 91 for a breakdown of the assets backing these liabilities.

The expected discounted future cash flows in the calculation of liabilities under insurance contracts are disclosed in the table below. The discount rate is set with reference to the prevailing risk free SA gilt yield.

R million	Total	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2017						
Discovery Invest	**(6 657)**	**(1 805)**	**(6 516)**	**825**	**827**	**12**
2016						
Discovery Invest	(4 588)	(1 270)	(4 736)	597	548	273

Reconciliation of the liabilities under insurance contracts disclosed in the cash flows above to the Statement of financial position (refer to note 16):

R million	2017	2016
Long-term insurance contract liabilities with fixed and guaranteed terms	**9 853**	7 900
Negative insurance liability included in unit-linked insurance contracts	**(3 196)**	(3 312)
Discovery Invest value of liabilities under insurance contracts	**6 657**	4 588

There is thus a risk that a change in the risk free SA gilt yield could cause a change in the value of the assets and liabilities under insurance contracts.

The outstanding claims and incurred but not reported claims are mostly short-term in nature and have consequently been matched with cash.

The risk under the Global Linkage Benefit is fully reinsured and Discovery does not face any net direct market risk. In the event of the reinsurer defaulting, the investments held by the reinsurer to hedge their risk relating to the Global Linkage Benefit, will be ceded to Discovery Life.

Automatic increase take-up rate

The majority of Discovery Life Plan policyholders have selected policies with automatic contractual premium and benefit increases.

2. Management of insurance risk Discovery Life and Discovery Invest continued

Recurring premium Invest plans have various automatic increase options ranging from 0% up to 20% per annum. A CPI-linked option is also available. The majority of Invest policyholders have selected plans with automatic benefit increases.

The automatic increases increase the profitability of the plans to Discovery over time since the cash flows under the policy are maintained in real terms.

Lapse and surrender risk

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

There is a risk of financial loss due to the withdrawal rate being higher than expected. The risk is highest during the early duration of the policy since the acquisition costs and commission incurred at the inception of the policy will not yet have been recouped. On Invest plans, the surrender value may also exceed the policy value, net of expenses, at early durations.

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

There is a further risk that Life Plan withdrawals are selective from a claims experience point of view. For example, healthy lives may find it easier to obtain cover elsewhere compared to less healthy lives.

Future earnings under Life Plans are dependent on the number of policies remaining in future years and thus future earnings are dependent on the lapse rate. The future expected earnings vary by the premium funding method chosen by the policyholder. In general, the higher the increases, the higher the withdrawal risk to future earnings.

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

The lapse risk is managed as follows:

- *Product design*
  Products are designed to be sustainable in the long-term. New product offerings are made available to existing policyholders as far as possible to prevent lapse and re-entry risk.

  Integration between different product offerings across Discovery enhances the value proposition of the overall package of products from Discovery. For example, Vitality provides unique rewards and benefits to members who have proven to be a credible risk differentiator. Premium discounts are available to policyholders who actively engage in a healthier lifestyle and utilise the Vitality benefit. Better terms are thus offered to healthy lives compared to less healthy lives.

  No surrender benefit is offered on risk benefits and thus the loss on withdrawal on Life Plans is reduced.

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

2. Management of insurance risk Discovery Life and Discovery Invest continued

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

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

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

- *Proactive conservation*
  Targeted conservation campaigns are run for example, financial advisors are notified of clients that do not have certain features on their policies that are correlated with good persistency. Financial advisors are thus encouraged to add such features.

Underwriting experience risk

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

On guaranteed annuities there is a risk that mortality experience is lower than expected and thus income payments continue for longer than expected. The guaranteed annuity book of Discovery Life was insignificant at 30 June 2017.

Discovery Life does not offer any deferred annuities where the annuity rate at a future point in time is guaranteed for new entrants.

Investment products are not directly impacted by mortality and morbidity risks. The Annuity Integrator's Ill-health booster boosts retirement income on severe illness. The Annuity Integrator's Longevity booster boosts retirement income every 10 years. The Life Booster increases the investment fund value by between 5% and 15% on death, depending on Vitality status. The costs of the benefits were allowed for in the product design and pricing of the benefits.

Selection risk is the risk that worse risks than expected are attracted and these risks are then charged inadequate premiums. Selection could also lead to higher than expected mortality and morbidity experience on Life Plans or lower mortality on guaranteed annuity policies.

There is a risk that the emergence of a new disease or epidemic can increase the number of claims.

The risks are managed through:

- *Product design and pricing*
  Products are carefully designed to minimise adverse selection. Rating factors are applied to standard premium rates to differentiate between different levels of risk. For example, premiums are differentiated by income, education level, smoker status, gender, medical history and age. Discovery Life has the unique ability to take additional rating factors into account for example the current medical scheme claims and lifestyle factors.

2. Management of insurance risk Discovery Life and Discovery Invest continued

All new premium rates are reviewed and approved by the statutory actuary. Product integration between the different product offerings in the Discovery Group helps to attract healthier lives than average in the market leading to positive selection.

For certain of the product-options offered under the Life Plan, Discovery Life has retained the option to review premium rates annually throughout the life of the contract because of uncertainties underlying the value of the benefits offered. Only premiums that can be predicted with confidence are guaranteed. Where guarantees are offered, Discovery guarantees that premiums can only be reviewed every 10 years and increased by a maximum of 25%. The guarantee provided to the policyholder will, however, be strengthened based on the policyholder's actual annual historic Vitality status.

Discovery Life predominantly operates in the high end of the insurance market where the risk to AIDS is lower than for the market as a whole. The impact of HIV/AIDS is considered and allowed for during the product development and pricing.

Group business is reviewed on a contract by contract basis, with the review period never exceeding two years. AIDS risk is specifically allowed for in the pricing of individual groups.

- *Underwriting*
  Underwriting ensures that only insurable risks are accepted and that premiums reflect the unique circumstances of each risk.

  Financial underwriting is applied to ensure that the policyholder can justify the amount of cover applied for. Premium loadings and exclusions are applied where high risks are identified.

  For Integrated policies, Discovery Life can dynamically adjust certain premiums using the information from the health claims experience of a policyholder who is also a member of the Discovery Health Medical Scheme and Vitality. This provides Discovery Life with an advantageous position in the market.

  Group business is underwritten on an employer by employer basis and additional allowance is made for the impact of industry class, income and geographic location on expected claims experience. The free cover limit is the sum assured that will be given automatically to a specific life without further specific underwriting. The free cover limits are set separately for each scheme depending on the size and cover chosen by the specific scheme.

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

- *Reinsurance*
  Reinsurance protects against volatility in claims experience and against an accumulation of risk. Reinsurance is further utilised on a facultative basis if uncertainty exists over the terms that should be offered to a particular risk.

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

  Discovery Life utilises surplus reinsurance to reinsure amounts in excess of defined retention levels. Discovery Life is thus protected against large individual claims.

2. Management of insurance risk Discovery Life and Discovery Invest continued

In addition, catastrophe reinsurance reduces the risk of an accumulation of risk due to a single event. Both individual and group business are covered by catastrophe reinsurance.

- *Experience monitoring*
  Experience investigations are conducted and corrective action is taken where adverse experience is noted. Experience monitoring is done on at least a quarterly basis.

Expense risk

Expense risk is the risk of actual expenses being higher than expected. Expenses could exceed expectations due to an increase in the expense inflation or due to a reduction in the number of in-force policies. A reduction in the assets under management could be an expense risk due to the number of fixed costs. Expenses are monitored on a monthly basis against budgeted expenses. Any deviation from the budget is investigated, reported and where necessary, remedial action is taken.

Modelling and data risk

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

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

The original actuarial model was tested and verified using an independent but identical parallel model. Any changes made are externally and independently reviewed. Parallel models are developed to test any modelling changes.

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

The data is extracted from modern administration systems and subjected to detailed checks together with high-level reasonability checks. Discovery Life does not have any legacy systems that could impact on the data quality. Data is checked at each valuation date.

Operational / Implementation risk

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

Regulatory risk

Discovery Life operates in a highly regulated environment which is currently being scrutinised and questioned by both consumers and regulators. This has resulted in the constant review of the in-force regulations and the interpretation thereof. The regulatory risk can thus be defined as the potential detrimental impact unexpected changes in regulations (or interpretation thereof) may have on Discovery Life.

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

Although Discovery endeavours to design insurance and financial solutions which meet the requirements of the current regulations in force, the risk does exist that changes in the regulations or the interpretation of the regulations, over time may result in the current products not fully complying with the regulations in force in future. This risk is managed through constantly seeking legal advice on new product developments. Further, all insurance products issued by Discovery Life have to be signed off by the statutory actuary.

2. Management of insurance risk Discovery Life and Discovery Invest continued

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

Tax risk

Tax risk is the risk that the actual future tax liability is different to what is currently expected. This could be as a result of an incorrect interpretation or application of tax legislation or as a result of changes to tax legislation.

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

Currency risk

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

Capital adequacy requirements and protection against adverse experience

There is a risk that future premiums, investment returns and estimates used to calculate liabilities are insufficient to provide for variations in actual future experience. Insurance liabilities are calculated using best estimates plus the addition of various margins to avoid premature recognition of profits and to provide for a buffer against future adverse experience. In addition, Discovery maintains shareholder capital to meet substantial deviations in experience beyond those provided for in the liability calculations.

In accordance with the Long-term Insurance Act (1998), Discovery Life is required to demonstrate solvency to the Registrar of Long-term Insurance. Discovery Life thus needs to maintain sufficient shareholder assets, over and above the assets required to meet shareholder liabilities, to support a multiple of the Capital Adequacy Requirement (CAR).

The CAR is calculated in accordance with the Standard of Actuarial Practice Note (SAP) 104 as issued by the Actuarial Society of South Africa. The CAR calculation is intended to approximate a risk-based capital measure and covers the major areas of insurance risk. It explicitly covers the following areas of risk:

- Lapse and withdrawal risk.
- Fluctuations in mortality and morbidity experience.
- Fluctuation in expense experience.
- AIDS risk.
- Risk of asset liability mismatches.
- Risk of worse than expected investment returns.
- Operational risk.
- Credit risk.

In calculating the CAR there is no credit taken for management action to offset adverse conditions.

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

At 30 June 2017, the statutory capital adequacy requirement was R705 million and was covered 3.9 times (2016: the statutory capital adequacy requirement was R628 million and was covered 3.6 times).

2. Management of insurance risk Discovery Life and Discovery Invest continued

Looking towards the future anticipated solvency regime (Solvency Assessment and Management, or SAM) expected to be implemented no earlier than 1 July 2018, Discovery Life has calculated its solvency position on the relevant SAM basis annually from 30 June 2013 to 30 June 2017. A consistent level of solvency cover, comfortably in excess of the statutory minimum, was observed at all these valuation dates.

Liquidity risk

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

Discovery maintains sufficient liquid assets to meet short-term liabilities and to allow for the initial cash flow strain when writing new business.

Currently, Discovery Life's expected outflows are mostly long-term and the main liquidity requirement is to fund acquisition expenses on new business and unexpected fluctuations in benefit payments. As discussed in note 3.4.3, Discovery invests primarily in liquid financial assets. There is a need to meet liquidity requirements under the growing Guaranteed Plan book. Liquidity requirements are managed to ensure a liquidity buffer is maintained to meet potential outflows if exit rates are higher than expected. The liquidity risk on the existing portfolio is thus relatively small.

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

The discounted expected statutory cash flows under in-force contracts after policyholder liabilities have been met, net of tax and reinsurance, as at 30 June were as follows:

R million	Total	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2017						
Discovery Life	**18 836**	**769**	**3 156**	**4 348**	**5 029**	**5 534**
Discovery Invest	**6 269**	**901**	**2 137**	**1 564**	**1 382**	**285**
2016 Restated *						
Discovery Life	16 802	679	3 188	3 750	4 359	4 826
Discovery Invest	5 609	878	1 900	1 317	1 201	313

* The Discovery Retirement Optimiser (DRO) was previously reported under the Discovery Life segment but has been transferred to the Discovery Invest segment during the current financial year. The comparatives have been restated to include DRO in the Discovery Invest segment, in line with the current year disclosure.

The cash flows in the table above differ from those disclosed on pages 64 and 65, since these are based on best estimate free cash flows after meeting policyholder liabilities. Cash flows arising under investment management contracts are also included. No allowance has been made for new business and related expenses.

Policy wording / legal risks

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

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

Reputational risk

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

2. Management of insurance risk Discovery Life and Discovery Invest continued

Reputational risks are controlled in that all decisions to repudiate claims are reviewed by the Chief Medical Officer and legal advice is obtained where necessary.

Marketing material and policy wordings are reviewed and designed to be clear and unambiguous to avoid creating unreasonable policyholder expectations.

Discovery Life offers policies that integrate with the product offerings within the Discovery Group. The reputational risk to Discovery Life is thus extended to the reputational risk of the entire Discovery Group. Discovery Life management reviews all product offerings to minimise the reputational risk. All products underwritten on the Discovery Life license are approved by the statutory actuary prior to launch.

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

Concentration risk

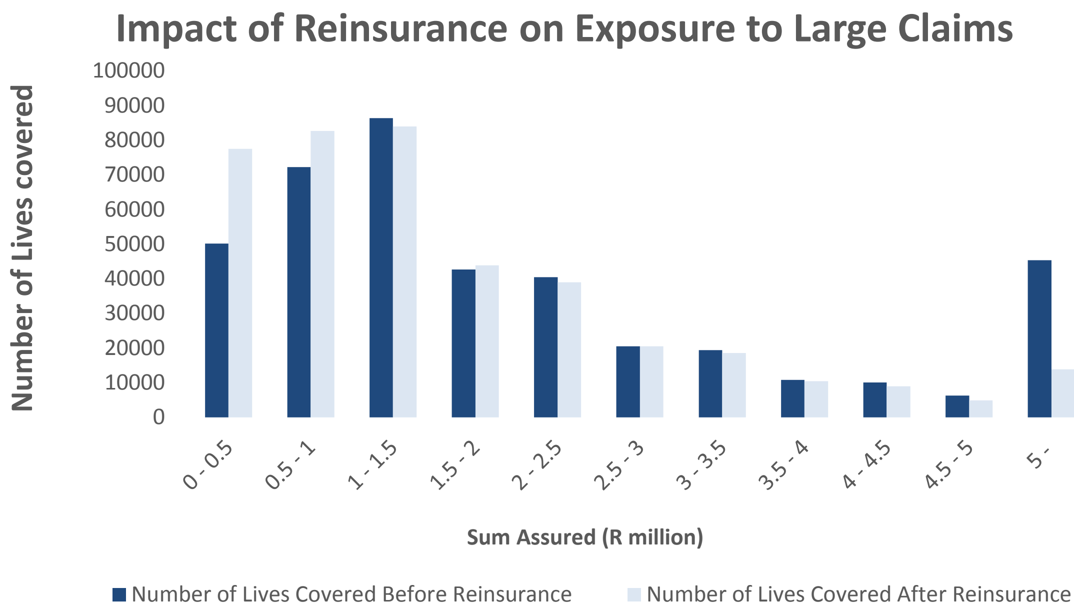
- *Claims experience risk*

  There is a risk that a concentration of risk can lead to worse than expected experience. The concentration risk is the highest in group business, since assured lives live in the same geographical location and generally work in the same industry or at the same location. This risk is mitigated through catastrophe reinsurance.

  Discovery Life maintains a well-diversified portfolio of policies. Reinsurance is further used to protect against the concentration of risk. Catastrophe reinsurance protects against accumulation of claims from a single event, for example an airplane crash. The catastrophe reinsurance covers single event disasters for up to R660 million where the net of reinsurance impact is greater than R66 million.

  Reinsurance removes the exposure to large individual claims. The table on the next page demonstrates that the distribution of policies by sum assured is shifted towards lower sum assured due to the reinsurance cover. The profile is largely the same as the prior period.

2. Management of insurance risk Discovery Life and Discovery Invest continued



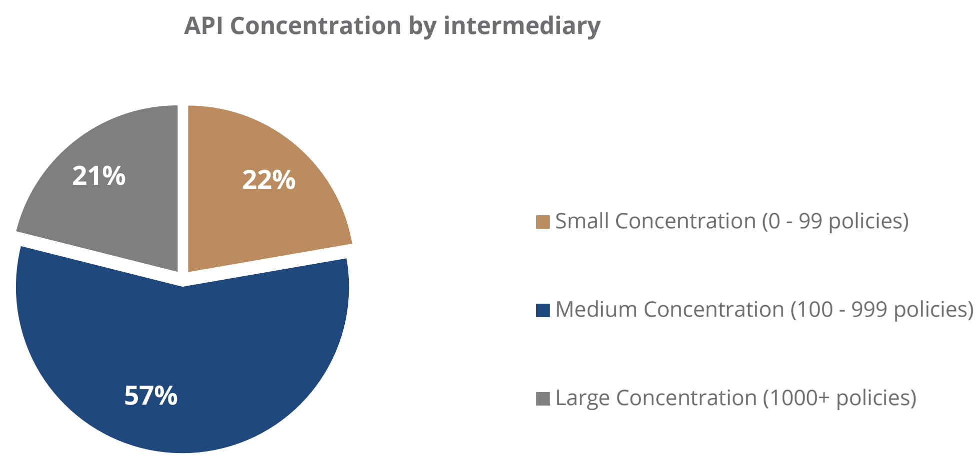
- *Withdrawal concentration risk*
  There is a financial risk of the withdrawal of a block of policies written by a single independent intermediary.

  Discovery Life has a well-diversified book of business by source of new business and spread across more than 7 700 (2016: 7 800) brokers and agents.

  The maximum exposure of Discovery Life to a single intermediary is smaller than 1.2% (2016: 1.2%) and to a group of intermediaries is 2.5% (2016: 2.5%) as a percentage of total premium income.

  The distribution of annualised premium income (API) by concentration to an intermediary group is given in the graph on page 74 and has the same profile as at 30 June 2016.

2. Management of insurance risk Discovery Life and Discovery Invest continued



2.1.3 Sensitivity analysis

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

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

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

The ranges of sensitivity were chosen for illustration purposes and do not represent the extremes of possible experience.

The sensitivities shown under insurance risks consider a change in the long-term assumption used in the projection model.

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

2. Management of insurance risk Discovery Life and Discovery Invest continued

Assets under insurance contracts in the Statement of financial position include assets for both Discovery Life and VitalityLife. The total assets under insurance contracts gross of reinsurance recoveries are R37 691 million (2016: R33 815 million) (refer note 5). R10 698 million (2016: R10 399 million) of this relates to VitalityLife. The sensitivities in the table below relate to Discovery Life and are gross of reinsurance.

	Assets under insurance contracts R million	**Change from base assumption %**
Base: June 2017 assumptions	**26 993**	
Lapses +10% (e.g. from x% to 1.1x%)	**24 489**	**(9.3)**
Lapses -10% (e.g. from x% to 0.9x%)	**30 024**	**11.2**
Investment return and inflation -1% (e.g. from 5% to 4%)	**28 179**	**4.4**
Investment return and inflation +1% (e.g. from 5% to 6%)	**25 936**	**(3.9)**
Expense assumption +10%	**26 676**	**(1.2)**
Expense assumption -10%	**27 310**	**1.2**
Mortality and morbidity +10%	**22 748**	**(15.7)**
Mortality and morbidity -10%	**31 355**	**16.2**
Base: June 2016 assumptions	23 416	
Lapses +10% (e.g. from x% to 1.1x%)	21 207	(9.4)
Lapses -10% (e.g. from x% to 0.9x%)	26 095	11.4
Investment return and inflation -1% (e.g. from 5% to 4%)	24 465	4.5
Investment return and inflation +1% (e.g. from 5% to 6%)	22 483	(4.0)
Expense assumption +10%	23 141	(1.2)
Expense assumption -10%	23 691	1.2
Mortality and morbidity +10%	19 683	(15.9)
Mortality and morbidity -10%	27 250	16.4

2. Management of insurance risk Discovery Life and Discovery Invest continued

The sensitivities in the table below are net of reinsurance recoveries of R5 152 million (2016: R3 226 million) (refer to note 5). R2 168 million (2016: R 714 million) of this relates to VitalityLife. The sensitivities in the table below relate to Discovery Life.

	Assets under insurance contracts R million	Change from base assumption %
Base: June 2017 assumptions	**24 009**	
Lapses +10% (e.g. from x% to 1.1x%)	**21 731**	**(9.5)**
Lapses -10% (e.g. from x% to 0.9x%)	**26 777**	**11.5**
Investment return and inflation -1% (e.g. from 5% to 4%)	**25 084**	**4.5**
Investment return and inflation +1% (e.g. from 5% to 6%)	**23 061**	**(3.9)**
Expense assumption +10%	**23 692**	**(1.3)**
Expense assumption -10%	**24 325**	**1.3**
Mortality and morbidity +10%	**20 151**	**(16.1)**
Mortality and morbidity -10%	**28 038**	**16.8**
Base: June 2016 assumptions	20 904	
Lapses +10% (e.g. from x% to 1.1x%)	18 894	(9.6)
Lapses -10% (e.g. from x% to 0.9x%)	23 350	11.7
Investment return and inflation -1% (e.g. from 5% to 4%)	21 856	4.6
Investment return and inflation +1% (e.g. from 5% to 6%)	20 049	(4.1)
Expense assumption +10%	20 629	(1.3)
Expense assumption -10%	21 179	1.3
Mortality and morbidity +10%	17 541	(16.1)
Mortality and morbidity -10%	24 424	16.8

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

For long-term insurance liabilities relating to fixed and guaranteed contracts and unit-linked contracts (refer to reconciliation on page 65), the sensitivities are detailed in the table below:

	Liabilities under insurance contracts R million	Change from base assumption %
Base: June 2017 assumptions	**6 657**	
Lapses +10% (e.g. from x% to 1.1x%)	**6 738**	**1.2**
Lapses -10% (e.g. from x% to 0.9x%)	**6 604**	**(0.8)**
Investment return and inflation -1% (e.g. from 5% to 4%)	**6 859**	**3.0**
Investment return and inflation +1% (e.g. from 5% to 6%)	**6 472**	**(2.8)**
Expense assumption +10%	**6 745**	**1.3**
Expense assumption -10%	**6 587**	**(1.1)**
Mortality and morbidity +10%	**6 691**	**0.5**
Mortality and morbidity -10%	**6 640**	**(0.3)**

2. Management of insurance risk Discovery Life and Discovery Invest continued

	Liabilities under insurance contracts R million	Change from base assumption %
Base: June 2016 assumptions	4 588	
Lapses +10% (e.g. from x% to 1.1x%)	4 637	1.1
Lapses -10% (e.g. from x% to 0.9x%)	4 539	(1.1)
Investment return and inflation -1% (e.g. from 5% to 4%)	4 780	4.2
Investment return and inflation +1% (e.g. from 5% to 6%)	4 404	(4.0)
Expense assumption +10%	4 628	0.9
Expense assumption -10%	4 547	(0.9)
Mortality and morbidity +10%	4 609	0.5
Mortality and morbidity -10%	4 565	(0.5)

2.2 VitalityLife

2.2.1 Product description

VitalityLife Plan

The VitalityLife Plan is a lifestyle protection plan which allows customers to select from a menu of benefits which includes:

- Life cover.
- Serious illness cover.
- Capital disability cover.
- Income protection insurance.
- Family income cover.
- Education cover.
- Health cover.
- Waiver of premium on death, serious illness and/or incapacity.
- Additional optional serious illness cover for children.
- Cancer relapse cover.

The VitalityLife Plan has at its basis a Plan Account. The Plan Account defines the amount paid out under any benefit that is attached to it (the sum assured). The benefits that are attached to the Plan Account are expressed as a percentage of the Plan Account's value.

The Plan Account can be structured to provide cover that is level, increasing or decreasing.

The VitalityLife Plan can be written on a single or joint life basis and cover may be stand-alone or limited to the Plan Account whereby claims would accelerate payment of the Plan Account. Premiums are payable monthly in advance and can be guaranteed or reviewable. Premiums can either be level, increase at a fixed rate or increase at a rate related to the Retail Price Index in the UK. The Plan does not offer any surrender value.

2. Management of insurance risk VitalityLife continued

The VitalityLife Plan provides extensive severity-based cover for serious illness. At 30 June 2017, there were 337 900 VitalityLife policies with an annualised premium income of GBP 229 million (R3 902 million), (2016: 299 315 VitalityLife policies with an annualised premium income of GBP 201 million (R4 309 million).

Essentials Plan

The Essentials Plan is a lower cost version of the VitalityLife Plan and provides roughly the same type of benefits and has the same structure.

Guaranteed 50 Plus Plan

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

Relevant Life Plan

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

Business Protection Plan

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

Vitality Optimiser

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

Whole of Life Optimiser

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

Wellness Optimiser

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

2.2.2 Insurance risks

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

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

2. Management of insurance risk VitalityLife continued

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

Market and mismatching risk

The insurance-related cash outflows (e.g. benefit payments, administration expenses) have been matched predominantly with future premiums. The valuation discount rate is set with reference to the prevailing risk-free gilt yield. The value of assets under insurance contracts is subject to interest rate risk. There is thus a risk that a change in the risk-free gilt yield could cause a change in the value of the assets under insurance contracts. VitalityLife has no investment or embedded derivative type products.

Lapse risk

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

There is a risk of financial loss due to the withdrawal rate being higher than expected. The risk is highest during the early duration of the policy since the acquisition costs and commission incurred at the inception of the policy would not yet have been recouped.

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

There is a further risk that withdrawals are selective from a claims experience point of view. For example, healthy lives may find it easier to obtain cover elsewhere compared to less healthy lives.

Future earnings are dependent on the number of policies remaining in future years and thus future earnings are dependent on the lapse rate. The future expected earnings vary by the premium funding method chosen by the policyholder. In general, the higher the increases, the higher the withdrawal risk to future earnings.

The lapse risk is managed as follows:

- *Product design*

  Products are designed to be sustainable in the long term. New product offerings are made available to existing policyholders as far as possible to prevent lapse and re-entry risk.

  Vitality provides unique rewards and benefits to policyholders which have proven to be a credible risk differentiator. Premium discounts are available to policyholders who actively engage in a healthier lifestyle and utilise the Vitality benefit. Better terms are thus offered to healthy lives compared to less healthy lives.

  No surrender benefit is offered on risk benefits and thus the loss on withdrawal is reduced.

- *Commission clawback*

  VitalityLife predominantly distributes via independent intermediaries.

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

- *Client relationships*

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

2. Management of insurance risk VitalityLife continued

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

Underwriting experience risk

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

Selection is the risk that worse risks than expected are attracted and these risks are then charged inadequate premiums. Selection could also lead to higher than expected mortality and morbidity experience.

There is a risk that the emergence of a new disease or epidemic can increase the number of claims.

The risks are managed through:

- *Product design and pricing*
  Products are carefully designed to minimise adverse selection. Rating factors are applied to standard premium rates to differentiate between different levels of risk. For example, premiums are differentiated by income, education level, smoker status, gender (prior to 2013), medical history and age. From January 2013 onwards, no differentiation of premiums or benefits on the basis of gender is allowed in the UK.

  For certain of the product-options offered, VitalityLife has retained the option to review premium rates annually throughout the life of the contract because of uncertainties underlying the value of the benefits offered.

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

- *Underwriting*
  Underwriting ensures that only insurable risks are accepted and that premiums reflect the unique circumstances of each risk. This is achieved by different levels of medical underwriting, depending on the answers to medical questions on the application form. Financial underwriting is applied to ensure that the policyholder can justify the amount of cover applied for. Premium loadings and exclusions are applied where high risks are identified.

  Quality assurance audits are performed on underwriting to minimise the risk of incorrect underwriting decisions.

- *Reinsurance*
  Reinsurance protects against volatility in claims experience and against an accumulation of risk. In addition, reinsurers provide specialist advice when designing new products.

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

Expenses

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

2. Management of insurance risk VitalityLife continued

on a monthly basis against budgeted expenses. Any deviation from the budget is investigated, reported and where necessary, remedial action is taken.

Modelling and data risk

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

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

Any changes made to the model are reviewed.

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

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

Operational/ Implementation risk

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

Regulatory risk

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

Although VitalityLife endeavours to design insurance and financial solutions which meet the requirements of the current regulations in force, the risk does exist that changes in the regulations, or the interpretation of the regulations, over time may result in the current products not fully complying with the regulations in force, currently or in future. This risk is managed through constantly seeking legal advice on new product developments. Further, all insurance products issued by VitalityLife are subject to a rigorous sign-off process.

Tax risk

Tax risk is the risk that the actual future tax liability is different to what is currently expected. This could be as a result of an incorrect interpretation or application of tax legislation or as a result of changes to taxation legislation. Tax relief on expenses does not apply to protection business sold from January 2013 onwards.

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

Currency risk

All of VitalityLife's insurance benefits and premiums are Sterling denominated as all business is sold in the UK market.

A significant part of operational expenses are Rand denominated as systems and administration are based in South Africa. This creates a potential mismatching risk.

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

2. Management of insurance risk VitalityLife continued

Solvency capital requirements and protection against adverse experience

VitalityLife obtained its own life insurance license at the end of calendar year ending 2015. This significant milestone, together with the implementation of Solvency II in the UK from 1 January 2016 necessitates a change to the capital requirements of VitalityLife.

The business that was written on Prudential Assurance Company's (PAC's) life insurance license (up to 31 December 2015) will, as per contractual agreement with PAC, still be valued under the Solvency I or old capital requirement rules described below. The business written on the new life insurance license within VitalityLife (from 1 January 2016) needs to be fully Solvency II compliant.

Solvency I
There is a risk that future premiums, investment returns and estimates used to calculate liabilities are insufficient to provide for variations in actual future experience. Margins are allowed for in the calculation of all insurance liabilities.

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

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

- Pillar 1, which covers public solvency information that appears within the regulatory returns on the basis of prescriptive rules. This includes the statutory valuation of liabilities together with a prescribed measure of additional capital, the Long-Term Insurance Capital Requirement (LTICR).

- Pillar 2, the Individual Capital Assessment (ICA), which covers a confidential company-specific assessment of solvency. This assessment is done on a realistic basis with the aim to protect against risks up to the 99.5 percentile over a one-year period.

The LTICR is a minimum required margin for solvency on the statutory valuation basis and covers the following basic risks:
- Mortality risk.
- Expense risk.
- Market risk.
- Health risk.

The amount of capital that ultimately needs to be held by a life insurance company in the UK is the larger of the Pillar 1 and Pillar 2 results. VitalityLife is required to provide capital to the Prudential Assurance Company (PAC) equal to 1 times the Pillar 1 capital requirement.

2. Management of insurance risk VitalityLife continued

Solvency II

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

- Best estimate liabilities (BEL): policyholder liabilities are calculated on a best estimate basis (excluding any margins) and discounted at the latest swap curve published by EIOPA.
- Solvency capital requirement (SCR): 1-in-200 year stresses are applied to the BEL to stress the key risks and are combined correlation matrices.
- Risk Margin (RM): 6% of the SCR run-off projected over time is discounted at the latest swap curve.

- Technical Provisions: the sum of the BEL and the RM.
- Own Funds: the net assets of the company needed to cover the SCR and other liquidity requirements; a negative TP can be included in the sum of Own Funds to cover the SCR.

The company needs enough Own Funds (as a minimum) to cover the SCR. At 30 June 2017, VitalityLife's actual solvency was 215% (2016: 295%) of the required capital.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with insurance liabilities due to insufficient cash being available to meet commitments as and when they become due. Liquidity risk arises due to a timing mismatch between the assets and liabilities.

VitalityLife maintains sufficient liquid assets to meet short-term liabilities and to allow for the initial cash flow strain when writing new business.

Currently, VitalityLife's expected liabilities are mostly long-term and the main liquidity requirement is to fund acquisition expenses on new business. The liquidity risk on the existing portfolio is thus relatively small.

Policy wording / legal risks

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

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

Reputational risk

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

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

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

2. Management of insurance risk VitalityLife continued

Concentration risk

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

- *Withdrawal concentration risk*
  There is a financial risk of the withdrawal of a block of policies written by a single independent intermediary. VitalityLife has a well-diversified book of business by source of new business and spread across more than 25 449 (2016: 21 848) brokers and agents. The maximum exposure of VitalityLife to a single intermediary is smaller than 0.70% (2016: 0.75%) of annualised premium income.

2.2.3 Sensitivity analysis

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

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

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

The ranges of sensitivity were chosen for illustration purposes and do not represent the extremes of possible experience.

The sensitivities shown under insurance risks consider a change in the long-term assumption used in the projection model.

The following sensitivities are provided under insurance risk:

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

2. Management of insurance risk VitalityLife continued

Assets under insurance contracts in the Statement of financial position include assets for both Discovery Life and VitalityLife. The total assets under insurance contracts gross of reinsurance recoveries are R37 691 million (2016: R33 815 million) (refer note 5). R26 993 million (2016: R23 416 million) of this relates to Discovery Life and R10 698 million (GBP 628 million) ((2016: R10 399 million) (GBP: 526 million)) relates to VitalityLife.

	Assets under insurance contracts R million	Change from base assumption %
Base: June 2017 assumptions	**10 698**	
Lapses +10% (e.g. from x% to 1.1x%)	**10 523**	**(1.6)**
Lapses -10% (e.g. from x% to 0.9x%)	**10 865**	**1.6**
Investment return and inflation -1% (e.g. from 5% to 4%)	**9 137**	**(14.6)**
Investment return and inflation +1% (e.g. from 5% to 6%)	**11 571**	**8.2**
Expense assumption +10%	**10 525**	**(1.6)**
Expense assumption -10%	**10 870**	**1.6**
Mortality and morbidity +10%	**9 943**	**(7.1)**
Mortality and morbidity -10%	**11 447**	**7.0**
Base: June 2016 assumptions	10 399	
Lapses +10% (e.g. from x% to 1.1x%)	10 303	(0.9)
Lapses -10% (e.g. from x% to 0.9x%)	10 477	0.8
Investment return and inflation -1% (e.g. from 5% to 4%)	8 758	(15.8)
Investment return and inflation +1% (e.g. from 5% to 6%)	11 352	9.2
Expense assumption +10%	10 189	(2.0)
Expense assumption -10%	10 608	2.0
Mortality and morbidity +10%	9 820	(5.6)
Mortality and morbidity -10%	10 966	5.5

The sensitivities in the table below are net of reinsurance recoveries of R2 168 million. The business written on Prudential Assurance Company's (PAC's) life insurance license (up to 31 December 2015) is classified as a reinsurance contract under IFRS 4. The reinsurance recoveries of R2 168 million only relate to the business written on the VitalityLife license.

	Assets under insurance contracts R million	Change from base assumption %
Base: June 2017 assumptions	**8 530**	
Lapses +10% (e.g. from x% to 1.1x%)	**8 407**	**(1.4)**
Lapses -10% (e.g. from x% to 0.9x%)	**8 642**	**1.3**
Investment return and inflation -1% (e.g. from 5% to 4%)	**6 885**	**(19.3)**
Investment return and inflation +1% (e.g. from 5% to 6%)	**9 480**	**11.1**
Expense assumption +10%	**8 357**	**(2.0)**
Expense assumption -10%	**8 703**	**2.0**
Mortality and morbidity +10%	**8 079**	**(5.3)**
Mortality and morbidity -10%	**8 961**	**5.0**

2. Management of insurance risk VitalityLife continued

	Assets under insurance contracts R million	Change from base assumption %
Base: June 2016 assumptions	9 685	
Lapses +10% (e.g. from x% to 1.1x%)	9 608	(0.8)
Lapses -10% (e.g. from x% to 0.9x%)	9 750	0.7
Investment return and inflation -1% (e.g. from 5% to 4%)	8 018	(17.2)
Investment return and inflation +1% (e.g. from 5% to 6%)	10 662	10.1
Expense assumption +10%	9 475	(2.2)
Expense assumption -10%	9 895	2.2
Mortality and morbidity +10%	9 225	(4.7)
Mortality and morbidity -10%	10 127	4.6

2.3 VitalityHealth

2.3.1 Product description

VitalityHealth offers three main product types:

Individual product

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

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

SME product

This is an age-rated product offered to small groups (typically 2-100 employees) either direct or via a broker. The product features include:

- **Private Medical Insurance:** Cover is offered for a range of private healthcare-related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions.
- **Cashback for employers:** A cashback is provided to employers after renewal depending on the levels of engagement achieved by their employees in the previous year.
- **Vitality rewards for employees:** A full Vitality package is offered, including gym offering and healthcare-related rewards

Corporate product

This is an experience-rated product offered by brokers and employee benefit consultants. The product features include:

- **Private Medical Insurance:** Cover is offered for a range of private healthcare-related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions.
- **Vitality rewards for employees:** A base level Vitality package is offered to all members, including gym offering and healthcare-benefits. Employers can choose to add activity- and status-dependent rewards.

2. Management of insurance risk VitalityHealth continued

At 30 June 2017, there were 537 695 VitalityHealth members with an annualised premium income of GBP 427.8 million (R7 266 million). (2016: 546 214 VitalityHealth members with an annualised premium income of GBP 404.9 million (R8 680 million)).

2.3.2 Insurance risks

VitalityHealth takes a proactive approach to managing its risk and each business unit responsible for the risk groupings identified below have initiated a series of risk management processes to ensure that they are adequately controlled.

The key areas of risk are premium pricing, lapses, claims volatility and failing to meet target levels of business. Monthly meetings are held to review recent actual experience against that expected in the financial forecast for sales and lapse rates and all revenue items including premium income and claims incurred. The standard terms and conditions applicable to the company's products mitigate the risk of late reporting of claims. Recent claims experience is monitored against expected to ensure that VitalityHealth's current pricing assumptions are reasonable and formal pricing reviews are conducted by the Actuarial and Pricing department at least twice each year.

On an annual basis, the financial forecast is fully reviewed taking into account both emerging actual experience and anticipated future experience. VitalityHealth measures profitability and solvency using a financial model of the business that projects in-force and expected new business cash flows.

Excess of loss reinsurance is utilised to mitigate the risk of undue concentrations of insurance risk. Due to the short tail nature of the company's risks the vast majority of claims are expected to be settled within 12 months of reporting and accordingly, the company has not presented a comparison of actual claims compared with previous estimates. Loss development tables are not provided since all claims are typically settled within a year of the claim arising.

VitalityHealth currently has quota share agreements in place with three reinsurers with an outstanding balance of GBP 104.5 million (R1 775 million) at year end (2016: GBP 80.7 million (R1 596million)).

Capital adequacy requirements and protection against adverse experience

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

With effect from 1 January 2016 a new insurance regulatory regime "Solvency II" was implemented in the UK. Solvency II introduces a new, harmonised EU-wide insurance regulatory regime and in particular prescribes new capital requirements and asset/liability valuation standards. VitalityHealth is subject to this new regime.

At 30 June 2017, the capital requirement for Vitality Health Limited was GBP 83.2 million (R1 414 million) with the solvency cover of 145%. VitalityHealth risk appetite is to hold capital resources that are 40% in excess of the solvency capital requirement. At 30 June 2016, the capital requirement for Vitality Health Limited was GBP 82.9 million (R1 639 million) with the solvency cover of 140%. The calculation of capital requirements and available own funds as of 30 June 2017 are subject to audit for the first time and will be audited annually.

2.3.3 IBNR calculation

VitalityHealth's reserves are set using traditional actuarial chain ladder models with an expected cost approach for the most recent two month. The chain ladder model assumes that there is stability in the delays from treatment date to payment date (therefore future payments can be estimated using historical experience), and the average cost assumes that the total costs arising from each month of treatment can be estimated independent of any payments already made. Other business indicators are monitored during the reserving process to ensure the validity of these

2. Management of insurance risk VitalityHealth continued

assumptions. Adjustments to the model results are made if evidence arise of developments in the business that the models do not reflect. The Reserving Committee considers both the model results and other business indicators, when setting the actual reserves.

The IBNR is GBP 32.3 million (R549 million) at 30 June 2017 (2016: GBP 42 million (R831 million)), which approximates one and a half months' worth of claims. This is the expected delay in claims reporting estimate by the two approaches discussed above. Claims provisions at 30 June 2017 include a supplier settlement and disputed claims provision reflecting the probability weighted settlement of supplier invoices and claims in dispute. The total of such provisions is GBP 4.5 million (R76.4 million)

2.3.4 Sensitivity analysis

VitalityHealth's expected claims are sensitive to both changes in claims authorisations (frequency) and to the case mix of claims authorised (severity). A 1% increase in either of these claim drivers for a year is estimated to result in a GBP 2.5million (R43 million) increase in the overall annual claims. This will result in a corresponding loss assuming all other variables are held constant. Since 2013 the maximum observed year on year volatility in claims authorisations has been 5%, and for case mix this has been 3%.

2.4 Discovery Insure

2.4.1 Product description

The policies underwritten by Discovery Insure are as follows:

Motor
Provides cover for loss, damage and liabilities arising from the use or ownership of motor vehicles. The cover includes comprehensive, third party, fire, theft and third party liability cover.

Property
Provides cover for loss or damage from specified events – such as fire, storm, theft etc. – to movable and immovable property belonging to the insured.

Liability
Provides cover for risks relating to the insured incurring personal liability to specified third parties which are not specifically covered under another insurance contract.

Health Gap Cover
Provides cover shortfalls on specialist accounts for hospital admissions, shortfalls for specific treatment before and after hospital admissions, as well as additional funds for cancer treatment.

At 30 June 2017, 75% (2016: 74%) of insurance premium revenue related to motor policies and 25% (2016: 26%) to property policies.

2.4.2 Insurance risks

Discovery Insure covers clients for various short-term insurance risks. Such risks include the perils around property, motor and liability. The principal risk is that the frequency and/or severity of claims are greater than expected. Insurance events are, by their nature, random and the actual number and size of events during any one year may vary from those estimated and experienced in prior periods.

2. Management of insurance risk Discovery Insure continued

Discovery Insure mitigates its insurance risk through its reinsurance programme which is structured to protect the company against material losses to either a single insured risk, or group of insured risks in the case of a catastrophe where there would tend to be a concentration of insured risks.

Discovery Insure also mitigates its insurance risk through the use of telematics. The telemetry received in respect of vehicles in which the devised are installed, highlights speeding, harsh breaking, harsh cornering and other risk related incidents. By informing the driver of how they are driving and in turn rewarding them for driving well, the risk of an accident is reduced. The 'deep install' device is also equipped with a stolen vehicle recovery transponder that increases the probability of recovering a vehicle should it be stolen.

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

Underwriting strategy

Discovery Insure aims to manage risk through diversifying the pool of insured risks by establishing a balanced portfolio of insurance risks over a wide geographical area. Short-term insurance risks are priced on an individual basis, therefore a minimal cross subsidy exists between risks.

Premiums are calculated using statistical regression techniques. Insurance risk factors identified would typically include the past insurance history, type and value of asset covered, measures taken to protect the asset, primary use of covered item and various other pertinent factors.

Discovery Insure's quotation and administration system calculates risk on an individual basis based on information captured by brokers and agents for each risk. Individual risks are accepted automatically up to cut-off limits which vary by risk type. Insurance conditions and exclusions are also automatically set at an individual risk level.

Individual risks greater than the limit are automatically referred and underwritten by the underwriting department. No risks are accepted which exceed the upper limits of the reinsurance contracts without the necessary facultative cover being arranged.

Reinsurance strategy

Discovery Insure reinsures a portion of the risk it underwrites to protect the profitability and the capital of the company. A variety of treaties are entered into in order to limit losses resulting from individual and collective insurance risks. Additional facultative reinsurance is purchased for certain individual risks that are in excess of the relevant treaty limits. Discovery Insure only enters into reinsurance arrangements with reinsurers that have adequate credit ratings.

Concentration of risk

There is a risk that a concentration of risk can lead to worse than expected claims experience. Discovery Insure is exposed to a concentration of insurance risk in the Gauteng province of South Africa where 55% (2016: 58%) of the company's total sum insured is domiciled. In order to manage this concentration of insurance risk, the company has entered into a catastrophe excess of loss reinsurance treaty that would limit the loss of the company to pre-determined levels following the occurrence of a localised catastrophe in this area.

3. Management of financial risk

Discovery's activities expose it to a variety of financial risks. Financial risks include market risk, credit risk and liquidity risk.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and investment return. Market risk that could impact on future cash flows and hence the value of a financial instrument arises from:

- *Equity price risk*: The impact of changes in equity prices and dividend income.
- *Interest rate risk*: The impact of changes in market interest rates.
- *Currency risk*: The impact of changes in foreign exchange rates.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Liquidity risk is the risk that Discovery will encounter difficulty in meeting obligations associated with financial liabilities due to insufficient cash being available to meet commitments as and when they become due.

Financial risks are managed by Discovery as follows:

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

Discovery has not significantly changed the processes used to manage its risks from previous periods.

To assist in the analysis of the financial risks that Discovery and its policyholders are exposed to, the Statement of financial position has been divided into five categories, based on the nature of the products provided by Discovery and the nature of the financial assets held to back the policyholder liabilities. The table on page 59 lists the contracts that Discovery offers and the category they are included in for financial risk disclosure.

- **Unit-linked investment contracts** – this category relates to contracts issued by Discovery where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. Discovery holds the assets on which the unit prices are based and as a result there is no mismatch. The market risk (including equity price, interest rate and currency risk) for these contracts is therefore borne by the policyholder and not the Discovery shareholders.
- **Unit-linked insurance contracts** – this category relates to insurance contracts issued by Discovery which have a component that is linked to the units of an underlying portfolio. For this component, Discovery holds the assets on which the unit prices are based. However, the gross unit liabilities are reduced by the present value of future charges less the present value of future expenses and risk claims. The unit-linked component is not accounted for separately from the host insurance contract. These contracts expose both Discovery shareholders and policyholders to financial risks.
- **Other insurance** contracts – this category relates to insurance contracts issued by Discovery which Discovery funds with a portfolio of matching assets, exposing the Discovery shareholders to financial risk.
- **Shareholder financial assets and liabilities** – this category includes the financial assets and financial liabilities that expose the Discovery shareholders to financial risks.
- **Shareholder non-financial assets and liabilities**.

3. Management of financial risk continued

The following tables reconcile the Group Statement of financial position to the classes of risks and the categories listed on the previous page. The look-through basis has been applied to investments in mutual funds to assist in the identification of Discovery's financial risks and will not agree to the investment disclosure in note 10.

					Shareholder	
R million	**Total**	**Unit-linked investment contracts**	**Unit-linked insurance contracts**	**Insurance contracts**	**Financial assets and liabilities**	**Other assets and liabilities**
30 June 2017						
Assets arising from insurance contracts	**37 691**	**-**	**-**	**37 691**	**-**	**-**
Financial instruments at fair value through profit or loss:						
Listed:						
- Equity securities	**32 068**	**9 463**	**22 488**	**117**	**-**	**-**
- Equity linked notes	**2 557**	**231**	**2 326**	**-**	**-**	**-**
- Debt securities	**14 498**	**1 817**	**4 714**	**7 967**	**-**	**-**
- Inflation linked securities	**386**	**34**	**55**	**297**	**-**	**-**
- Money market securities	**2 830**	**769**	**2 021**	**40**	**-**	**-**
Unlisted:						
- Equity securities	**731**	**84**	**647**	**-**	**-**	**-**
- Equity linked notes	**1**	**-**	**-**	**1**	**-**	**-**
- Debt securities	**128**	**38**	**89**	**1**	**-**	**-**
- Money market securities	**5 749**	**1 847**	**3 722**	**180**	**-**	**-**
Available-for-sale financial instruments:						
Listed:						
- Equity securities	**616**	**-**	**-**	**-**	**616**	**-**
- Equity linked notes	**8**	**-**	**-**	**-**	**8**	**-**
- Debt securities	**2 055**	**-**	**-**	**-**	**2 055**	**-**
- Inflation linked securities	**6**	**-**	**-**	**-**	**6**	**-**
- Money market securities	**2 185**	**-**	**-**	**-**	**2 185**	**-**
Unlisted:						
- Equity securities	**2**	**-**	**-**	**-**	**2**	
- Equity linked notes	**9**	**-**	**-**	**-**	**9**	**-**
- Debt securities	**18**	**-**	**-**	**-**	**18**	**-**
- Money market securities	**2 399**	**-**	**-**	**-**	**2 399**	**-**
Derivative financial instruments at fair value:						
- Hedges	**354**	**-**	**-**	**-**	**354**	**-**
- Non-hedges	**38**	**5**	**32**	**1**	**-**	**-**
Loans and receivables:						
- Insurance receivables	**3 757**	**-**	**-**	**-**	**3 757**	**-**
- Other	**2 713**	**136**	**372**	**2**	**1 805**	**398**
Reinsurance contracts	**263**	**-**	**-**	**263**	**-**	**-**
Cash and cash equivalents	**9 098**	**547**	**1 362**	**7**	**7 182**	**-**
Other assets	**10 763**	**-**	**-**	**-**	**-**	**10 763**
Total assets	**130 923**	**14 971**	**37 828**	**46 567**	**20 396**	**11 161**
Liabilities arising from insurance contracts	**52 477**	**-**	**34 375**	**18 102**	**-**	**-**
Liabilities arising from reinsurance contracts	**6 746**	**-**	**-**	**6 746**	**-**	**-**
Negative reserve funding	**847**	**-**	**-**	**-**	**847**	**-**
Borrowings at amortised cost	**8 524**	**-**	**-**	**-**	**8 524**	**-**
Investment contracts at fair value through profit or loss	**14 867**	**14 867**	**-**	**-**	**-**	**-**
Derivative financial instruments at fair value:						
- Hedges	**29**	**-**	**-**	**-**	**29**	**-**
- Non-hedges	**106**	**3**	**22**	**1**	**80**	**-**
Trade and other payables	**7 369**	**101**	**235**	**2**	**6 981**	**50**
Other liabilities	**7 668**	**-**	**-**	**-**	**-**	**7 668**
Total liabilities	**98 633**	**14 971**	**34 632**	**24 851**	**16 461**	**7 718**

3. Management of financial risk continued

R million	Total	Unit-linked investment contracts	Unit-linked insurance contracts	Insurance contracts	Shareholder Financial assets and liabilities	Shareholder Other assets and liabilities
30 June 2016						
Assets arising from insurance contracts	33 815	-	-	33 815	-	-
Financial instruments at fair value through profit or loss:						
Listed:						
- Equity securities	27 972	8 206	19 686	80	-	-
- Equity linked notes	2 474	257	2 217	-	-	-
- Debt securities	12 377	2 253	5 175	4 949	-	-
- Inflation linked securities	429	45	75	309	-	-
- Money market securities	2 809	800	1 951	58	-	-
Unlisted:						
- Equity securities	5	-	5	-	-	-
- Equity linked notes	1	-	-	1	-	-
- Debt securities	467	100	170	197	-	-
- Money market securities	4 414	1 441	2 698	275	-	-
Available-for-sale financial instruments:						
Listed:						
- Equity securities	602	-	-	-	602	-
- Equity linked notes	8	-	-	-	8	-
- Debt securities	2 715	-	-	-	2 715	-
- Inflation linked securities	5	-	-	-	5	-
- Money market securities	3 308	-	-	-	3 308	-
Unlisted:						
- Debt securities	29	-	-	-	29	-
- Money market securities	3 127	-	-	-	3 127	-
Derivative financial instruments at fair value:						
- Hedges	521	-	-	-	521	-
- Non-hedges	69	3	12	-	54	-
Loans and receivables:						
- Insurance receivables	1 964	-	-	-	1 964	-
- Other	2 927	240	572	3	1 796	316
Reinsurance contracts	410	-	-	410	-	-
Cash and cash equivalents	8 634	795	1 797	9	6 033	-
Other assets	9 495	-	-	-	-	9 495
Total assets	118 577	14 140	34 358	40 106	20 162	9 811
Liabilities arising from insurance contracts	44 673	-	29 828	14 845	-	-
Liabilities arising from reinsurance contracts	4 894	-	-	4 894	-	-
Negative reserve funding	4 248	-	-	-	4 248	-
Borrowings at amortised cost	5 400	4	16	-	5 380	-
Investment contracts at fair value through profit or loss	13 514	13 514	-	-	-	-
Derivative financial instruments at fair value:						
- Hedges	29	-	-	-	29	-
- Non-hedges	20	3	15	1	1	-
Trade and other payables	8 563	619	1 186	8	6 694	56
Other liabilities	6 629	-	-	-	-	6 629
Total liabilities	87 970	14 140	31 045	19 748	16 352	6 685

3. Management of financial risk Unit-linked investment contracts

The financial risks associated with each category are discussed below.

3.1 Unit-linked investment contracts

Unit-linked investment contracts relate to contracts where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. The market risk (including equity price, interest rate and currency risk) for these contacts is therefore borne by the policyholder. Discovery holds the assets on which the unit prices are based and as a result there is no mismatch.

	Investments held at risk of investment policyholders	
R million	**June 2017**	**June 2016**
Financial assets at fair value through profit or loss:		
Listed:		
- Equity securities	**9 463**	8 206
- Equity linked notes	**231**	257
- Debt securities	**1 817**	2 253
- Inflation linked securities	**34**	45
- Money market securities	**769**	800
Unlisted:		
- Equity securities	**84**	-
- Debt securities	**38**	100
- Money market securities	**1 847**	1 441
Derivatives:		
- Non-hedges	**5**	3
Loans and receivables	**136**	240
Cash and cash equivalents	**547**	795
Total assets	**14 971**	14 140
Investment contracts at fair value through profit or loss	**14 867**	13 514
Borrowings at amortised cost	**-**	4
Derivatives:		
- Non-hedges	**3**	3
Trade and other payables	**101**	619
Total liabilities	**14 971**	14 140

3.1.1 Market risk

Discovery's primary exposure to market risk from these contracts is the volatility in asset management fees earned by Discovery, due to the impact of interest rate, equity price and currency movements on the fair value of the assets held in the linked funds, on which the investment management fees are based. A decrease of 10% in the value of the assets would reduce the asset management fees by R33 million per annum (2016: R28 million).

In respect of IFRS-defined investment management contracts there may be an associated deferred acquisition cost intangible asset. There is a risk that in the event of adverse market movements, future expected management fees may reduce and consequently this asset may not be realised and therefore necessitate impairment.

3. Management of financial risk Unit-linked investment contracts continued

3.1.2 Credit risk

Credit risk is borne by the policyholder. For the majority of the unit-linked investments, Discovery has invested in mutual funds in order to provide for obligations under unit-linked investment contract liabilities. Each mutual fund has its own legal constitution and operates within a mandate that is delegated to the appointed fund manager. Credit

risks assumed within the assets held are controlled by various protection mechanisms within the mandate and in law. For example, the Collective Investment Schemes Control Act of 2002, in South Africa prescribes maximum limits to concentration risk exposures. Each fund's trustees or board appoints administrators who are responsible to ensure that the fund's mandate and any internal and legislated control procedures are adhered to. In the event of breach they are obligated to bring it immediately to the attention of the fund's trustees or board and management of the administrators for remedial action.

In the case where unit-linked investment contracts are linked to structured products, Discovery's policy dictates that these obligations are matched exactly. At inception of these contracts, assets which have proceeds that exactly match the pay-out under the policy, with the exception of credit risk, are purchased. Credit risk on these products is therefore also borne by the policyholder.

3.1.3 Liquidity risk

Certain contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. This surrender value is equal to or less than the carrying amount of the contract liabilities. If all the contracts with this option were surrendered at the financial year-end, a loss of R330 million (2016: R226 million) would have been recorded in profit or loss. This loss results from the deferred acquisition cost and deferred revenue liability relating to these contracts being impaired, but the impact is reduced by the surrender penalties receivable.
A maturity analysis based on the earliest contractual repayment date would present 100% (2016: 100%) of the policyholder liabilities due within one year. The assets held to match these policyholder liabilities are realisable in the short-term.

3.2 Unit-linked insurance contracts

A unit-linked insurance contract is an IFRS-defined insurance contract with a component that is linked to the units of an underlying portfolio. For this component, Discovery holds the assets on which the unit prices are based. However, the gross unit liabilities are reduced by the present value of future charges less the present value of future expenses and risk claims. Some market risk is therefore retained on these contracts. The unit-linked component is not accounted for separately from the host insurance contract.

	Investments held at risk of insurance policyholders	
R million	**June 2017**	**June 2016**
Financial assets at fair value through profit or loss:		
Listed:		
- Equity securities	**22 488**	19 686
- Equity linked notes	**2 326**	2 217
- Debt securities	**4 714**	5 175
- Inflation linked securities	**55**	75
- Money market securities	**2 021**	1 951
Unlisted:		
- Equity securities	**647**	5
- Debt securities	**89**	170
- Money market securities	**3 722**	2 698
Derivatives		
- Non-hedges	**32**	12
Loans and receivables	**372**	572
Cash and cash equivalents	**1 362**	1 797
Total assets	**37 828**	34 358
Liabilities arising from insurance contracts	**34 375**	29 828
Borrowings at amortised cost	**-**	16
Derivatives:		
- Non-hedges	**22**	15
Trade and other payables	**235**	1 186
Total liabilities	**34 632**	31 045

The assets are greater than the liabilities as a result of the Negative insurance liability included in unit-linked insurance contracts (refer to note 16).

3.2.1 Market risk

Discovery's primary exposure to market risk from these contracts is the volatility in asset management fees due to the impact of interest rate, equity price and currency movements on the fair value of the assets held in the linked funds, on which the investment management fees are based. A decrease of 10% in the value of the assets would reduce the asset management fees by R33 million per annum (2016: R73 million).

3. Management of financial risk Unit-linked insurance contracts continued

3.2.2 Credit risk

Credit risk is borne by the policyholder. For the majority of the unit-linked investments, Discovery has invested in mutual funds in order to provide for obligations under unit-linked insurance contract liabilities. Each mutual fund has its own legal constitution and operates within a mandate that is delegated to the appointed fund manager. Credit risks assumed within the assets held are controlled by various protection mechanisms within the mandate and in law. For example, the Collective Investment Schemes Control Act of 2002, in South Africa prescribes maximum limits to concentration risk exposures. Each fund's trustees or board appoints administrators who are responsible to ensure that the fund's mandate and any internal and legislated control procedures are adhered to. In the event of breach they are obligated to bring it immediately to the attention of the fund's trustees or board and management of the administrators for remedial action.

In the case where unit-linked insurance contracts are linked to structured products, Discovery's policy dictates that these obligations are matched exactly. At inception of these contracts, assets which have proceeds that exactly match the pay-out under the policy, with the exception of credit risk, are purchased. Credit risk on these products is therefore also borne by the policyholder.

3.2.3 Liquidity risk

All contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. This surrender value is equal to or less than the carrying amount of the contract liabilities. If all the contracts with this option were surrendered at the financial year-end, a loss of R3 103 million (2016: R2 506 million) would have been recorded in profit or loss. This loss results from the impairment of Assets arising from insurance contracts relating to these contracts, but the impact is reduced by the surrender penalties receivable.

A maturity analysis based on the earliest contractual repayment date would present R37 215 million (2016: R32 549 million) of the liabilities as due on the earliest period of the table (between 0 and one year), R227 million (2016: R234 million) of the liabilities would be due between one and two years, and R129 million (2016: R358 million) of the liabilities would be due between three and five years. The assets held to match these policyholder liabilities are very liquid.

3. Management of financial risk Insurance contracts

3.3 Insurance contracts

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

R million	June 2017	June 2016
Assets arising from insurance contracts	**37 691**	33 815
Financial assets at fair value through profit or loss:		
Listed:		
- Equity securities	**117**	80
- Equity linked notes	**-**	-
- Debt securities	**7 967**	4 949
- Inflation linked securities	**297**	309
- Money market securities	**40**	58
Unlisted:		
- Equity linked notes	**1**	1
- Debt securities	**1**	197
- Money market securities	**180**	275
Derivative financial instruments at fair value:		
- Non-hedge derivative	**1**	-
Loans and receivables	**2**	3
Reinsurance contracts	**263**	410
Cash and cash equivalents	**7**	9
Total assets	**46 567**	40 106
Liabilities arising from insurance contracts	**18 102**	14 845
Liabilities arising from reinsurance contracts	**6 746**	4 894
Derivatives:		
- Non-hedges	**1**	1
Trade and other payables	**2**	8
Total liabilities	**24 851**	19 748

3.3.1 Market risk

When calculating the liabilities arising from insurance contracts, an increase/decrease in the investments would result in an increase/decrease in the liability but it may not be an equal Rand value movement, resulting in the difference being accrued to the shareholders.

Based on guidance from SAP 104, these movements are captured in the resilience Capital Adequacy Requirement (CAR) and an amount of R43 million is included in the CAR at 30 June 2017 (2016: R106 million) to protect against potential mismatches between assets and liabilities.

3. Management of financial risk Insurance contracts continued

3.3.2 Credit risk

Discovery is exposed to credit risk from the financial investments comprising money market and debt instruments entered to match policyholders' insurance contract liabilities. Discovery is exposed to the issuer's credit standing on these instruments which is monitored by the CCIC by setting a minimum credit rating. Regulations in the various jurisdictions in which Discovery operates have the effect of limiting exposure to individual issuers due to the inadmissibility of assets if specified limits are breached. Discovery has appointed reputable asset managers to manage these instruments. Information regarding the aggregated credit risk exposure for debt and money market instruments categorised by Moody's credit ratings is provided below. Refer to www.moodys.com for rating definitions.

R million	Total	Aaa	Aa1 Aa2 Aa3	A1 A2 A3	Baa1 Baa2 Baa3	Ba1 Ba2 Ba3	Govt	Not rated
At 30 June 2017								
Financial assets at fair value through profit or loss:								
Listed:								
- Debt securities	**7 967**	**302**	**226**	**91**	**1**	**-**	**7 346**	**1**
- Equity securities	**117**	**-**	**-**	**-**	**-**	**-**	**-**	**117**
- Inflation linked securities	**297**	**-**	**-**	**19**	**-**	**-**	**278**	**-**
- Money market securities	**40**	**3**	**22**	**13**	**-**	**-**	**-**	**2**
Unlisted:								
- Debt securities	**1**	**-**	**-**	**-**	**-**	**1**	**-**	**-**
- Money market securities	**180**	**80**	**63**	**29**	**-**	**-**	**-**	**8**
- Equity linked notes	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**1**
	8 603	**385**	**311**	**152**	**1**	**1**	**7 624**	**129**

Prior year categorisation was done according to Fitch's ratings. Following the deregistration of Fitch's offices by the Financial Services Board during the financial year under review current year balances are classified according to Moody's credit ratings. As these ratings are comparable no restatement of prior year disclosures was done.

R million	Total	AAA	AA+ AA AA-	A+ A A-	BBB BBB+ BBB-	BB+ BB BB-	Govt	Not rated
At 30 June 2016								
Financial assets at fair value through profit or loss:								
Listed:								
- Debt securities	4 949	177	590	61	1	-	4 120	-
- Equity securities	80	-	-	-	-	-	-	80
- Inflation linked securities	309	-	-	-	-	-	309	-
- Money market securities	60	3	10	45	1	-	-	1
- Equity linked notes	-	-	-	-	-	-	-	-
Unlisted:								
- Debt securities	197	-	187	10	-	-	-	-
- Money market securities	273	-	91	21	-	-	-	161
- Equity linked notes	1	-	-	-	-	-	-	1
	5 869	180	878	137	2	-	4 429	243

3. Management of financial risk Insurance contracts continued

3.3.3 Liquidity risk

The liquidity risk for assets and liabilities arising from insurance contracts are discussed in insurance risks on page 71. The financial investments held at fair value through profit or loss are realisable in the short-term.

3.4 Shareholder financial assets and liabilities

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

R million	June 2017	June 2016
Available-for-sale financial assets:		
Listed:		
- Equity securities	**616**	602
- Equity linked notes	**8**	8
- Debt securities	**2 055**	2 715
- Inflation linked securities	**6**	5
- Money market securities	**2 185**	3 308
Unlisted:		
- Equity securities	**2**	-
- Equity linked notes	**9**	-
- Debt securities	**18**	29
- Money market securities	**2 399**	3 127
Derivative financial instruments at fair value:		
- Hedges	**354**	521
- Non-hedges	**-**	54
Loans and receivables	**5 562**	3 760
Cash and cash equivalents	**7 182**	6 033
Total financial assets	**20 396**	20 162
Negative reserve funding	**847**	4 248
Borrowings at amortised cost	**8 524**	5 380
Derivative financial instruments at fair value:		
- Hedges	**29**	29
- Non-hedges	**80**	1
Trade and other payables	**6 981**	6 694
Total financial liabilities	**16 461**	16 352

3. Management of financial risk Shareholder financial assets and liabilities continued

3.4.1 Market risk

Equity price risk

Investments

Discovery is exposed to equity price risk because of investments held by the Group and classified on the consolidated Statement of financial position as available-for-sale. To manage its equity risk arising from investments in equity securities and equity linked notes of R624 million (2016: R610 million), the Group diversifies its portfolio and uses experienced asset managers.

For shareholder investments, a 10% increase in the equity markets would result in a profit of R81 million before tax (2016: R67 million). A 10% decrease in the equity markets would result in a loss of R38 million before tax (2016: R26 million). This impact would be recognised in the Statement of other comprehensive income. The sensitivity is based on the assumption that the equity markets had increased/decreased by 10% with all other variables held constant.

Hedge derivative instruments

Discovery is also exposed to equity price risk through its cash-settled share incentive schemes, namely the Phantom share scheme and the Acquisition share scheme, the details of which is described in note 32. This liability has been included in Trade and other payables in the table in note 3.4. To manage this risk, Discovery has purchased a combination of return swaps and call options from Baa or A - rated South African banks to hedge a portion of its exposure to changes in the Discovery share price.

i. Phantom share scheme

As at 30 June 2017, approximately 94% (2016: 91.0%) of this exposure is hedged. The hedges were designed to be highly effective, where the terms of the hedge or return swaps substantially match that of the phantom share scheme on a per instrument basis. Combinations of return swaps and call options were designated on a unit for unit basis to substantially match the terms of the phantom share and call option units.

When these hedges are entered into, they are designated as the hedge of a highly probable forecast transaction and accounted for as a cash flow hedge.

3. Management of financial risk Shareholder financial assets and liabilities continued

The cash-settled call options held by the Group at 30 June were:

Maturity date	Strike Price	Number of call options
2016		
30 September 2016	54.75	950 000
30 September 2016	84.76	545 000
30 September 2016	97.89	601 680
30 September 2017	54.75	900 000
30 September 2017	84.76	515 000
30 September 2017	97.89	582 877
30 September 2017	134.94	503 000
30 September 2018	84.76	485 000
30 September 2018	97.89	564 075
30 September 2018	134.94	487 000
30 September 2019	97.89	545 272
30 September 2019	134.94	472 000
30 September 2020	134.94	456 000
2017		
30 September 2017	**54.75**	**900 000**
30 September 2017	**84.76**	**515 000**
30 September 2017	**97.89**	**582 877**
30 September 2017	**134.94**	**503 000**
30 April 2018	**127.22**	**11 791**
30 June 2018	**122.50**	**6 735**
30 September 2018	**84.76**	**485 000**
30 September 2018	**97.89**	**564 075**
30 September 2018	**124.94**	**487 000**
30 September 2018	**114.96**	**105 018**
31 October 2018	**115.23**	**10 414**
30 April 2019	**127.22**	**11 791**
30 June 2019	**122.50**	**6 735**
30 September 2019	**97.89**	**545 272**
30 September 2019	**134.94**	**472 000**
30 September 2019	**114.96**	**101 736**
31 October 2019	**115.23**	**5 207**
30 April 2020	**127.22**	**11 791**
30 June 2020	**122.50**	**6 735**
30 September 2020	**134.94**	**456 000**
30 September 2020	**114.96**	**98 455**
31 October 2020	**115.23**	**5 207**
30 April 2021	**127.22**	**11 791**
30 September 2021	**114.96**	**95 173**

The notional value of the outstanding cash-settled call options held by the Group at 30 June 2017 was R610 million (2016: R716 million).

The fair value of the call options is repriced at each reporting date and was calculated on a Black-Scholes model using the same assumptions as tabled in note 32.

3. Management of financial risk Shareholder financial assets and liabilities continued

The return swaps held by the Group at 30 June were:

Maturity date	Strike Price	Number of return swaps
2016		
30 September 2016	39.21 – 97.89	1 812 385
30 June 2017	84.01	374 000
30 September 2017	54.76 – 134.94	1 210 998
30 September 2018	84.71 – 134.94	767 610
30 September 2019	97.89 – 134.94	508 223
30 September 2020	134.94	228 000
2017		
30 September 2017	**54.76 – 134.94**	**1 210 619**
28 February 2017	**115.07**	**15 208**
30 April 2018	**127.22**	**5 895**
30 June 2018	**122.50**	**3 367**
30 September 2018	**84.71 – 134.94**	**1 330 316**
31 October 2018	**115.23**	**5 207**
28 February 2019	**115.07**	**15 208**
30 April 2019	**127.22 – 131.95**	**24 841**
30 June 2019	**122.50**	**3 367**
30 September 2019	**97.89 – 134.94**	**1 053 344**
31 October 2019	**115.23**	**2 604**
28 February 2020	**115.07**	**15 208**
30 April 2020	**127.22 – 131.95**	**24 841**
30 June 2020	**122.50**	**3 367**
30 September 2020	**114.96 – 134.94**	**755 537**
31 October 2020	**115.23**	**2 604**
28 February 2021	**115.07**	**15 208**
30 April 2021	**127.22 – 131.95**	**24 841**
30 September 2021	**114.96**	**509 952**
30 April 2022	**131.95**	**18 946**

The notional value of the outstanding return swaps held by the Group at 30 June 2017 was R580 million (2016: R427 million). The fair value of the return swaps is calculated by discounting the future cash flows of the instruments.

ii. Acquisition share scheme

As at 30 June 2017, approximately 89.7% (2016: 98.4%) of this exposure is hedged. The hedges were designed to be highly effective, where the terms of the hedge or return swaps substantially match that of the acquisition share scheme on a per instrument basis.

When these hedges are entered into, they are designated as the hedge of a highly probably forecast transaction and accounted for as a cash flow hedge.

3. Management of financial risk Shareholder financial assets and liabilities continued

The return swaps held by the Group at 30 June were:

Maturity date	Strike Price	Number of return swaps
2016		
30 June 2017	59.00 – 126.21	848 483
30 June 2018	84.06 – 134.94	818 839
30 June 2019	96.06 – 126.21	718 535
30 June 2020	118.31 – 126.21	96 235
30 June 2021	118.31	42 498
2017		
30 June 2017	**84.06 – 134.94**	**818 838**
30 June 2018	**96.06 – 127.92**	**741 691**
30 June 2019	**118.31 – 127.92**	**562 204**
30 June 2020	**118.31 – 127.92**	**64 403**
30 June 2021	**127.92**	**21 279**

The notional value of the outstanding return swaps held by the Group at 30 June 2017 was R188 million (2016: R268 million). The fair value of the return swaps is calculated by discounting the future cash flows of the instruments.

At 30 June 2017, the fair value of the derivative instruments purchased to hedge the Phantom and Acquisition share schemes, is R340 million (2016: R493 million) (refer to note 11). To reduce the credit risk exposure from the hedge derivative instruments purchased, Discovery has entered into collateral agreements with the relevant financial institutions to post cash collateral periodically, equal to the fair value of the derivatives.

A total of R270 million cash collateral is being held by Discovery at 30 June 2017 (2016: R430 million) (refer to note 21). R24 million was paid as collateral to financial institutions in the prior year and was disclosed in Loans and receivables. The cash collateral held has been invested into money market securities and presented as financial assets in the Statement of financial position. The posting of the collateral does not result in legal settlement of the outstanding derivative balance. The collateral will only be used to settle the derivative upon default or bankruptcy of either party. The offsetting requirements of IAS 32 are therefore not met.

Discovery recognises the effective portion of fair value changes of derivatives that are designated and qualify as cash flow hedges and prove to be highly effective in relation to the hedged risk, in the cash flow hedging reserve in the Statement of other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. A gain of R16 million was recognised in profit or loss during the current year as a result of ineffectiveness. No amount was recognised in the prior year.

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

R million	2017	2016
Balance at beginning of the year	**5**	(164)
Unrealised (gains)/losses accumulated in equity	**(176)**	100
Tax on unrealised gains/losses	**29**	(14)
Recycled to profit or loss in ‘Marketing and administration expenses’ and ‘Acquisition costs’	**131**	99
Deferred tax movement	**(22)**	(16)
Balance at end of the year	**(33)**	5

Notes to the annual financial statements

for the year ended 30 June 2017

3. Management of financial risk Shareholder financial assets and liabilities continued

The cash flow hedge as at June 2017 is expected to be recycled to profit or loss as follows:

R million	2017	2016
Recycled to profit or loss within one year	**(24)**	(5)
Recycled to profit or loss within two to five years	**(9)**	10
	(33)	5

Interest rate risk

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

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

R million	Carrying amount	Fixed	Floating	Non-interest bearing
At 30 June 2017				
Available-for-sale financial assets:				
Listed				
- Equity securities	**616**	**-**	**-**	**616**
- Equity linked notes	**8**	**-**	**-**	**8**
- Debt securities	**2 055**	**232**	**1 823**	**-**
- Inflation linked securities	**6**	**5**	**1**	**-**
- Money market securities	**2 185**	**688**	**1 189**	**308**
Unlisted				
- Equity securities	**2**	**-**	**-**	**2**
- Equity linked notes	**9**	**-**	**-**	**9**
- Debt securities	**18**	**15**	**3**	**-**
- Money market securities	**2 399**	**290**	**2 105**	**4**
Derivative financial instruments at fair value:				
- Hedges	**354**	**354**	**-**	**-**
Loans and receivables	**5 562**	**29**	**321**	**5 212**
Cash and cash equivalents	**7 182**	**15**	**7 167**	**-**
Total financial assets	**20 396**	**1 628**	**12 609**	**6 159**
Negative reserve funding	**847**	**-**	**847**	**-**
Borrowings at amortised cost	**8 524**	**5 500**	**3 024**	**-**
Derivative financial instruments at fair value:				
- Hedges	**29**	**14**	**15**	**-**
- Non-hedges	**80**	**-**	**80**	**-**
Trade and other payables	**6 981**	**2**	**2 570**	**4 409**
Total financial liabilities	**16 461**	**5 516**	**6 536**	**4 409**

3. Management of financial risk Shareholder financial assets and liabilities continued

R million	Carrying amount	Fixed	Floating	Non-interest bearing
At 30 June 2016				
Available-for-sale financial assets:				
Equity securities	602	-	-	602
Equity linked notes	8	-	-	8
Debt securities	2 744	2 435	309	-
Inflation linked securities	5	4	1	-
- Money market securities	6 435	1 766	4 667	2
Derivative financial instruments at fair value:				
- Hedges	521	195	326	-
- Non-Hedges	54	54	-	-
Loans and receivables	3 760	214	26	3 520
Cash and cash equivalents	6 033	10	6 023	-
Total financial assets	20 162	4 678	11 352	4 132
Negative reserve funding	4 248	-	4 248	-
Borrowings at amortised cost	5 380	3 015	2 365	-
Derivative financial instruments at fair value:				
- Hedges	29	29	-	-
- Non-hedges	1	-	1	-
Trade and other payables	6 694	-	2 111	4 583
Total financial liabilities	16 352	3 044	8 725	4 583

Investments

For shareholder investments, a 1% increase in the local interest rate would result in an increase of R47 million in the value of these investments (2016: R94 million). A 1% decrease in the local interest rate would result in a decrease of R47 million in the value of these investments (2016: R95 million). The sensitivity is based on the assumption that the interest rate had increased/decreased by 1% with all other variables held constant.

Borrowings at amortised cost and related hedges

Discovery is exposed to interest rate risk through long-term borrowings held with various financial institutions.

R million	Ref	2017 Carrying value	2017 Facility value	2016 Carrying value	2016 Facility value
Fixed rate loan facility	i	**3 094**	**3 069**	1 620	1 600
Floating interest rate facility with floating-to-fixed interest rate swap	ii	**829**	**825**	-	-
Floating interest rate facilities	iii	**677**	**675**	-	-
Foreign floating interest rate facilities	iii	**2 174**	**2 174**	2 226	2 373
Total bank borrowings (refer to note 19)		**6 774**	**6 743**	3 846	3 973

3. Management of financial risk Shareholder financial assets and liabilities continued

i. The fixed rate loan facilities have the following profiles, with interest payable quarterly in arrears:

Interest rate per annum	Maturity date	Capital repayment	Facility value
Fixed at 10.94%	10 June 2021	Maturity	500
Fixed at 10.59%	10 June 2021	Annually [1]	1 100
Total fixed rate loan facilities 30 June 2016			**1 600**
Fixed at 10.20%	17 March 2022	Maturity	800
Fixed at 10.23%	16 May 2022	Maturity	200
Fixed at a weighted average rate of 11.44%	Various maturities	Instalments	469
Total fixed rate loan facilities 30 June 2017			**3 069**

[1] The loan has an amortising capital profile, having the first repayment on 10 June 2019 and final settlement on 10 June 2021.

Discovery entered into fixed rate term facilities in the prior period after renegotiating its floating rate facility. The cash flow hedge attached to the renegotiated floating rate facility was terminated at the time of drawdown and the liability of R29 million was capitalised to the borrowings.

Discovery continues to cash flow hedge its floating rate facilities. The fair value movement of the notional cash flow interest rate hedge accumulated in equity is as follows:

R million	2017	2016
Opening balance 1 July 2016	**28**	**-**
Unrealised losses accumulated in equity	**15**	**29**
Recycled to profit or loss during the current year [1]	**(5)**	**(1)**
Deferred tax on unrealised losses	**(4)**	**-**
Closing balance 30 June 2017	**34**	**28**
The cash flow hedge will be recycled to profit or loss as follows:		
Recycled to profit or loss within one year	**6**	**5**
Recycled to profit or loss within two to five years	**28**	**23**
	34	**28**

[1] Recognised as finance costs in profit or loss.

ii. During the current financial year, Discovery entered into long-term borrowing facilities at a floating interest rate, which exposes Discovery to cash flow interest rate risk. This risk has been managed by using a floating-to-fixed interest rate swap. This interest rate swap has the economic effect of converting the borrowings from floating to fixed rates. Interest is payable quarterly in arrears, with capital repayable on maturity.

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

	June 2017	
R million	Nominal value	Fair value Liability
Maturity date:		
30 September 2021	**375**	**(7)**
15 December 2021	**450**	**(8)**
	825	**(15)**

3. Management of financial risk Shareholder financial assets and liabilities continued

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

R million	Hedging reserve
Unrealised losses accumulated in equity	**15**
	(15)

iii. Discovery has long-term borrowings at floating rates in the UK and South Africa. The floating rate is managed by aligning the interest rate exposure to the underlying operational assets for which these borrowings have been raised. The interest rates earned on the underlying operational assets are at a higher margin, which gives Discovery the ability to fix the borrowing interest rates should the interest environments weaken.

Non-hedge derivative financial instruments

i. *Interest rate swap*

VitalityLife has an exposure to the 'FTSE Actuaries UK Conventional Gilts over 15 Year Index ("the index") as a result of products underwritten by the Prudential Assurance Company on behalf of VitalityLife. In order to economically hedge the Vitality UK group's exposure to the index, Discovery Holdings Europe Limited (DHEL) has been party to a number of over-the-counter total return interest rate swap derivatives during the financial year.

These derivatives provide DHEL with the capital depreciation / appreciation and coupon payments on a basket of Gilts designed to closely match that of the index in return for a payment of fixed interest to the counterparty.

At 30 June 2017 DHEL is party to 1 (30 June 2016: 1) open derivative contract. The fixed interest payable is 0.8% on a notional derivative value of GBP 150.4 million.

At 30 June 2017 the fair value of the derivative was a liability of GBP 4.6 million (R79 million) (2016 asset of GBP 2.7 million (R54 million)). At 30 June 2017 DHEL has provided the counterparty with GBP 1m of collateral (2016: Nil) against this liability.

Although the instrument reduces the exposure to the volatility of the index, the derivative instrument does not qualify for hedge accounting. Accordingly, the derivative has been classified as a financial asset or liability carried at fair value through profit or loss. The fair value adjustment of GPB 9.6 million (R166 million) has been recognised in 'Net fair value gains on financial assets at fair value through profit or loss'. The current open derivative contract expires on 2 October 2017.

At 30 June 2017 the fair value of the derivative was a liability of GBP 4.6 million (R79 million) (2016 asset of GBP 2.7 million (R54 million)).

ii. *Derivative instruments used by Discovery's asset managers*

Discovery's asset managers use derivative instruments as mandated to limit or reduce risk. The majority of derivatives are exchange traded (SAFEX or Yield-X). Exchange traded derivatives are settled daily by reducing exposures (and hence credit risk) to zero at the end of each day. The market values of these derivatives at 30 June are disclosed below. Discovery also has interest rate swap agreements and the value of exposure towards these parties was calculated by taking into consideration the ISDA agreements in place which allow for netting off between positive and negative exposures.

3. Management of financial risk Shareholder financial assets and liabilities continued

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

R million	Notional amount	Fair value asset	Fair value liability
June 2017			
Interest rate contracts:			
- fixed for floating swaps	**(50)**	*****	*****
- floating for fixed swaps	**(22)**	**-**	*****
	(72)	*****	*****
June 2016			
Interest rate contracts:			
- fixed for floating swaps	(21)	*	(1)
- fixed for fixed swaps	(8)	-	*
- floating for fixed swaps	(1)	-	*
	(30)	*	(1)

*Amount is less than R500 000

Currency risk

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

R million	Total	Rand	GBP in UK subsidiary	GBP other	USD in US subsidiary	USD other	Other currencies
At 30 June 2017							
Available-for-sale financial assets:							
Listed:							
- Equity securities	**616**	**334**	**-**	**33**	**-**	**179**	**70**
- Equity linked notes	**8**	**8**	**-**	**-**	**-**	**-**	**-**
- Debt securities	**2 055**	**248**	**1 806**	**-**	**-**	**1**	**-**
- Inflation linked securities	**6**	**6**	**-**	**-**	**-**	**-**	**-**
- Money market securities	**2 185**	**2 185**	**-**	**-**	**-**	**-**	**-**
Unlisted:							
- Equity securities	**2**	**2**	**-**	**-**	**-**	**-**	**-**
- Equity linked notes	**9**	**9**	**-**	**-**	**-**	**-**	**-**
- Debt securities	**18**	**17**	**-**	**-**	**-**	**1**	**-**
- Money market securities	**2 399**	**2 168**	**228**	**-**	**-**	**3**	**-**
Derivative financial instruments at fair value:							
- Hedges	**354**	**354**	**-**	**-**	**-**	**-**	**-**
- Non-hedges	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans and receivables	**5 562**	**2 931**	**2 345**	**-**	**198**	**58**	**30**
Cash and cash equivalents	**7 182**	**3 969**	**2 952**	**5**	**165**	**6**	**85**
Total financial assets	**20 396**	**12 231**	**7 331**	**38**	**363**	**248**	**185**

3. Management of financial risk Shareholder financial assets and liabilities continued

R million	Total	Rand	GBP in UK subsidiary	GBP other	USD in US subsidiary	USD other	Other currencies
Negative reserve funding	**847**	**-**	**847**	**-**	**-**	**-**	**-**
Borrowings at amortised cost	**8 524**	**6 350**	**2 174**	**-**	**-**	**-**	**-**
Derivative financial instruments at fair value:							
- Hedges	**29**	**29**	**-**	**-**	**-**	**-**	**-**
- Non-hedges	**80**	**1**	**79**	**-**	**-**	**-**	**-**
Trade and other payables	**6 981**	**2 836**	**3 908**	**-**	**197**	**34**	**6**
Total financial liabilities	**16 461**	**9 216**	**7 008**	**-**	**197**	**34**	**6**
At 30 June 2016							
Available-for-sale financial assets:							
Listed:							
- Equity securities	602	320	54	-	-	164	64
- Equity linked notes	8	8	-	-	-	-	-
- Debt securities	2 715	374	2 312	-	22	7	-
- Inflation linked securities	5	5	-	-	-	-	-
- Money market securities	3 308	3 308	-	-	-	-	-
Unlisted:							
- Debt securities	29	28	-	-	-	1	-
- Money market securities	3 127	2 661	464	-	-	-	2
Derivative financial instruments at fair value:							
- Hedges	521	521	-	-	-	-	-
- Non-Hedges	54	-	54	-	-	-	-
Loans and receivables	3 760	2 773	673	-	180	114	20
Cash and cash equivalents	6 033	1 501	4 281	4	153	7	87
Total financial assets	20 162	11 499	7 838	4	355	293	173
Negative reserve funding	4 248	-	4 248	-	-	-	-
Borrowings at amortised cost	5 380	3 154	2 226	-	-	-	-
Derivative financial instruments at fair value:							
- Hedges	29	29	-	-	-	-	-
- Non-hedges	1	1	-	-	-	-	-
Trade and other payables	6 694	2 895	3 536	-	227	25	11
Total financial liabilities	16 352	6 079	10 010	-	227	25	11

Financial assets and financial liabilities in respect of the Group's US and UK subsidiaries are accounted for in their functional currency. Foreign currency movements will be recognised in the foreign currency translation reserve.

3. Management of financial risk Shareholder financial assets and liabilities continued

The exchange rates at year-end are detailed in the table below (quoted as Rand per foreign currency):

	USD	GBP
30 June 2017	**13.12**	**17.03**
30 June 2016	14.73	19.78

Investments

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

Forward exchange contracts (FECs)

To manage its foreign exchange risk arising from future commercial transactions, Discovery enters into FECs. In the current financial year, Discovery agreed to buy foreign currency from third party banks which were BBB- rated, as rated by Moody's. The fair value of these contracts have been included in financial liabilities (refer to note 11).

Discovery entered into these agreements to hedge the foreign currency risk for expenses expected to be paid in the future. In the prior year the FECs were designated as a cash flow hedge of a forecast transaction and firm commitment. Gains and losses on the FECs are initially included in equity and once the expense is incurred the gain/loss is transferred to profit or loss.

In the prior period the fair value of the derivative liability was less than R1 million. The notional value of the FEC contracts was USD 1.6 million.

In the current year new transactions have been entered into which have not been designated as hedges and as a result gains and losses are recognised in profit or loss. The amount recognised in profit or loss for the current year was a gain of R1 million, with a corresponding derivative asset of R1 million. The notional value of the FEC contracts are USD 3 million and EUR 1 million respectively.

Borrowings

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

3. Management of financial risk Shareholder financial assets and liabilities continued

3.4.2 Credit risk

Key areas where Discovery is exposed to credit risk are:

- **Financial investments comprising money market and debt instruments entered to invest surplus shareholder funds** - Discovery is exposed to the issuer's credit standing on these instruments which is monitored by the CCIC by setting a minimum credit rating and maximum exposures per issuer. Regulations in the various jurisdictions in which Discovery operates have the effect of limiting exposure to individual issuers due to the inadmissibility of assets if specified limits are breached. Discovery has appointed reputable asset managers to manage these instruments. Information regarding the aggregated credit risk exposure for debt and money market instruments categorised by credit ratings is provided below.
- **Cash and cash equivalents** - This risk is managed by monitoring exposure to external financial institutions against approved limits per institution. Credit ratings are provided below.
- **Certain accounts within the Statement of financial position category of Loans and receivables** - The management of this risk is discussed in detail on page 112 and 113.
- **Reinsurance assets comprising receivables raised for expected recoveries on projected claims (Discovery's liability as primary insurer is not discharged) and amounts due from reinsurers in respect of claims already paid** - This risk is limited as risk premiums are paid monthly to reinsurers and claims can be offset against risk premiums. Further, it is expected that there will be little build-up of actuarial liability on the reinsurers' side. The risk thus mainly arises following a period of higher than expected claims. Credit ratings of reinsurers are taken into account in reinsurance placement decisions. Credit exposure to reinsurers is also limited through the use of several reinsurers. Reinsurance is placed with reputable international companies directly or through their national offices. The reinsurance companies used by Discovery are rated A or higher by A.M.Best, a rating agency with an exclusive insurance industry focus. Refer to www.ambest.com for further detail.

Credit exposure for debt instruments, money market instruments and cash and cash equivalents

The following table provides information regarding the aggregated credit risk exposure for debt instruments, money market instruments and cash and cash equivalents, categorised by Moody's credit ratings:

R million	Total	Aaa	Aa1 Aa2 Aa3	A1 A2 A3	Baa1 Baa2 Baa3	Ba1/Ba2 /Ba3	Govt	Not rated
At 30 June 2017								
Available-for-sale financial assets:								
– Debt securities	**2 073**	**78**	**71**	**1 858**	**2**	**23**	**20**	**21**
– Inflation linked securities	**6**	**-**	**-**	**-**	**-**	**6**	**-**	**-**
– Money market securities	**4 584**	**847**	**1 364**	**350**	**1 327**	**16**	**629**	**51**
Cash and cash equivalents	**7 182**	**173**	**1 323**	**3 154**	**2 530**	**-**	**-**	**2**
	13 845	**1 098**	**2 758**	**5 362**	**3 859**	**45**	**649**	**74**

Prior year categorisation was done according to Fitch's ratings. Following the deregistration of Fitch's offices by the Financial Services Board during the financial year under review current year balances are classified according to Moody's credit ratings. As these ratings are comparable no restatement of prior year disclosures was done.

3. Management of financial risk Shareholder financial assets and liabilities continued

R million	Total	AAA	AA+ AA AA-	A+ A A-	BBB BBB+	BB+	Govt	Not rated
Available-for-sale financial assets:								
– Debt securities	2 744	59	2 477	153	29	-	26	-
– Inflation linked securities	5	-	-	-	5	-	-	-
– Money market securities	6 435	796	4 257	191	1 118	-	71	2
Cash and cash equivalents	6 033	1 350	2 787	167	1 727	-	-	2
	15 217	2 205	9 521	511	2 879	-	97	4

Credit risk relating to loans and receivables

The table below summarises Discovery's shareholder loans and receivables including insurance receivables, at 30 June. This table only relates to shareholder's credit exposure relating to loans and receivables and will therefore not agree to note 12. Refer to tables provided on page 91 and 92.

R million	Ref	2017	2016
Insurance receivables:			
Premium debtors	i	**497**	317
Less provision for impairment of premium debtors		**(56)**	(39)
Reinsurance debtors (refer to page 110)	ii	**3 316**	1 686
Other receivables:			
Agents and brokers	iii	**275**	281
Cash-in-transit debtor		**156**	12
Closed scheme debtors	iv	**73**	73
Discovery Health Medical Scheme	iv	**576**	553
Discovery Unit Trust debtors		**2**	7
Expired hedge receivable		**36**	31
FNB – joint venture receivable		**105**	76
International partner markets receivables		**55**	154
Loans to BEE initiatives		**104**	85
Loans to senior management		**145**	183
BEE partners' rights-issue funding		**101**	92
Security deposits on derivatives		**17**	48
Vitality partner debtors		**31**	23
Other debtors		**349**	378
Less provision for impairment of other loans and receivables		**(220)**	(200)
		5 562	3 760

Credit risk relating to loans and receivables is managed as follows:

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

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

3. Management of financial risk Shareholder financial assets and liabilities continued

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 reinsurance obligations and replacing this with new cashless reinsurance treaties. GBP 101.6 million (R1 731 million) is outstanding in respect of cashless reinsurance treaties.

Refer to page 110 for detail regarding the management of risk in respect of reinsurance receivables raised for expected recoveries on projected claims and amounts due from reinsurers in respect of claims already paid. Discovery's liability as primary insurer is not discharged.

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

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

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

R million	Gross 2017	Impairment 2017	Gross 2016	Impairment 2016
Not past due	**5 240**	**(94)**	3 526	(73)
30 days	**66**	**(17)**	156	(12)
60 days	**33**	**(12)**	41	(7)
90 days	**30**	**(9)**	34	(5)
120 days	**15**	**(9)**	30	(3)
150 days	**35**	**(6)**	32	(4)
>150 days	**419**	**(129)**	180	(135)
Total	**5 838**	**(276)**	3 999	(239)

Discovery establishes an allowance for impairment that represents its estimate of incurred losses in respect of loans and receivables. The allowance comprises of a specific loss component that relates to individually significant exposures, and a collective loss component, established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The movement in the provision for impairment during the year was as follows:

R million	2017	2016
Balance beginning of year	**239**	207
Increase in provision	**53**	40
Amounts utilised during the period	**(16)**	(8)
Balance at 30 June	**276**	239

3. Management of financial risk Shareholder financial assets and liabilities continued

3.4.3 Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities (refer to note 19). Such forecasting takes into consideration the Group's debt financing plans, covenant compliance and, if applicable, external regulatory or legal requirements – such as capital requirements.

Cash held by the operating entities is managed by Group treasury. Group treasury invests it in interest-bearing accounts, time deposits and money market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. At the reporting date, the shareholders held money market funds and cash and cash equivalents of R11 766 million (2016: R12 468 million) and other liquid assets of R2 944 million (2016: R2 873 million).

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

R million	Ref	Total	<1 year	1- 5 years	6 –10 years	> 10 years	Open ended
At 30 June 2017							
Negative reserve funding	i	**308**	**77**	**231**	**-**	**-**	**-**
Borrowings net of interest rate swap	ii	**10 846**	**1 001**	**9 079**	**766**	**-**	**-**
Derivative financial instruments at fair value:							
- Non-hedges		**95**	**79**	**16**	**-**	**-**	**-**
Trade and other payables		**6 981**	**3 683**	**3 123**	**18**	**4**	**153**
Total		**18 230**	**4 840**	**12 449**	**784**	**4**	**153**
At 30 June 2016							
Negative reserve funding	i	4 566	1 139	3 062	365	-	-
Borrowings net of interest rate swap	ii	6 767	662	6 105	-	-	-
Derivative financial instruments at fair value:							
- Non-hedges		1	1	*	*	*	*
Trade and other payables		6 694	3 525	860	265	-	2 044
Total		18 028	5 327	10 027	630	*	2 044

* Amount is less than R500 000.

i. The negative reserve funding liability represents the acquisition costs that are funded by the Prudential Assurance Company 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. These amounts do not agree to the Statement of financial position as these are the undiscounted contractual payments.

3.5 Capital management

The Group's objectives when managing capital are:

- To comply with the statutory capital requirements required by the regulators of the insurance markets where the Group operates.
- To maintain a capital buffer in excess of the statutory capital requirements in order to reduce the risk of breaching the statutory requirement in the event of deviations from the main assumptions affecting the Group's insurance businesses.
- To ensure that sufficient capital is available to fund the Group's working capital and strategic capital requirements.
- To achieve an optimal and efficient capital funding profile.
- To consider capital management needs both in the short term and over a 5-year planning horizon.

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

Financial Leverage Ratio

As part of the capital management process, the Group monitors its capital structure utilising the Financial Leverage Ratio (FLR). This ratio is calculated as total debt divided by total debt plus total equity. The Group's strategy is to maintain a prudent FLR of 28% per the Group Risk Appetite statement. The table below summarises the FLR at 30 June:

R million	2017	2016
- Amount owed to Prudential Assurance Company Limited	**3 080**	4 248
- Borrowings at amortised cost (refer to note 19)	**8 524**	5 400
- 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%

The FLR at 30 June 2017 is therefore in line with Discovery's risk appetite.

Minimum capital requirements

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

With effect from 1 January 2016 a new insurance regulatory regime, namely Solvency II, was implemented in the UK. Solvency II introduces a new, harmonised EU-wide insurance regulatory regime and in particular prescribes new capital requirements and asset and liability valuation standards.

3. Management of financial risk Capital management continued

The table below summarises the minimum required capital across the 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 Life Investment Services	South Africa	13/52 x annualised operational expenses	**157%**	281%
Discovery Life Collective Investments (DLCI)	South Africa	13/52 x annualised fixed operational expenses plus a portion of risk capital on investments held by DLCI	**414%**	218%
Discovery Insure	South Africa	1 x Statutory Capital Adequacy Requirement (CAR)	**221%**	265%
Vitality Health Limited	United Kingdom	Highest capital requirement determined under the Solvency II Directive	**145%**	140%
Vitality Health Insurance Limited	United Kingdom	Highest capital requirement determined under the Solvency II Directive	**482%**	481%
Vitality Life Limited	United Kingdom	1 x Solvency Capital Requirement under Solvency II	**215%**	295%

The Solvency Assessment and Management regulatory regime, expected to be effective no earlier than 1 July 2018, will implement 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.

3.6 Fair value estimation

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

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

3. Management of financial risk Fair value estimation continued

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.

For the amounts disclosed in the fair value hierarchy table, the look-through basis has not been applied to the mutual fund balances and the amounts will therefore agree to the amounts disclosed in the Statement of financial position.

R million	Level 1	Level 2	Level 3	Total
30 June 2017				
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**

3. Management of financial risk Fair value estimation continued

R million	Level 1	Level 2	Level 3	Total
30 June 2016				
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

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

Specific valuation techniques used to value financial instruments in level 2

- Discovery Life has invested in equity linked notes offered by international banks in order to back certain unit-linked contract liabilities. The calculation of the daily value of the equity linked investments is made by the provider of the note. Discovery Life has procedures in place to ensure that these prices are correct. Aside from the daily reasonableness checks versus similar funds and movement since the prior day’s price, the fund values are calculated with reference to a specific formula or index, disclosed to the policyholders, which is recalculated by Discovery Life in order to check if the price provided by the provider is correct.
- If a quoted market price is not available on a recognised stock exchange or from a broker for non-exchange traded financial instruments, the fair value of the instrument is estimated by the asset managers, using valuation techniques including the use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions.
- The fair value of the hedged derivatives is calculated by the issuers of those instruments, as follows:
  - The fair value of call options is calculated based on a Black-Scholes model.
  - The fair value of the return swaps is calculated by discounting the future cash flows of the instruments.
  - The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

3. Management of financial risk continued

3.7 Offsetting financial assets and financial liabilities

Financial assets

The following financial assets are subject to offsetting:

R million	Gross financial assets	Gross offsetting financial liabilities	Net amount presented
30 June 2017			
Cash and cash equivalents	**9 275**	**(177)**	**9 098**
30 June 2016			
Cash and cash equivalents	9 499	(865)	8 634

Offsetting of cash and cash equivalents takes place as a result of sweeping arrangements that Discovery has in force with various financial institutions. No other amounts presented on the financial statements are subject to netting arrangements.

Cash collateral

To reduce the credit risk exposure from the hedge derivative instruments purchased (refer to note 3.4.1), Discovery has entered into collateral agreements with the relevant financial institutions to post cash collateral periodically, equal to the fair value of the derivatives. A total of R270 million cash collateral is being held by Discovery at 30 June 2017 (2016: R430 million held by Discovery and R24 million paid by Discovery to financial institutions).

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

4. Critical accounting estimates and judgements in applying accounting policies

Assumptions and estimates form an integral part of financial reporting and have an impact on the amounts reported. Assumptions are based on historical experience and expectations of future outcomes and anticipated changes in the environment. Assumptions are further regularly reviewed in the light of emerging experience and adjusted where required.

4.1 Goodwill and goodwill impairment

Following the acquisition of Standard Life Healthcare and the related capital restructure of the Prudential joint venture, Discovery allocated GBP 120.1 million to goodwill at 1 August 2010. The goodwill represents the value of future new business expected to be written by VitalityHealth and VitalityLife and has been allocated between VitalityHealth and VitalityLife based on management's estimate of the present value of future new business for each entity as at 31 July 2010.

The value of future VitalityHealth new business was calculated as the present value of future after-tax profits of the business expected to be written in future. The after-tax profits in each future period are calculated as the earned premium multiplied by the net profit margin. A long-term net margin of 5% and a terminal growth rate of 2.5% have been used in this calculation.

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

The value of future VitalityLife new business was calculated using an appraisal value methodology, where the value of future new business is calculated as a 3 times multiple of the value of new business written over the past year.

Based on the above valuations, GBP 96.7 million and GBP 23.4 million of the goodwill was allocated to VitalityHealth and VitalityLife respectively as at 31 July 2010.

Recoverable amount of goodwill at 30 June 2017

Discovery tests each cash-generating unit (CGU) containing goodwill for impairment on an annual basis. An impairment loss is recognised whenever the carrying amount of a CGU exceeds its recoverable amount. The recoverable amount of each CGU is estimated as the present value of future cash flows that are expected to be derived from the asset i.e. its value-in-use.

The value in-use is calculated as the present value of the best-estimate pre-tax cash flows of the CGU for the in-force policies at the valuation date and 10 years of new business. For the policies in-force at the valuation date and for each tranche of new business, the cash flows are projected over a 10 year period and a terminal value is applied in the final year of the projection, calculated using a growth rate assumption appropriate for the decline in the best-estimate pre-tax cash flows.

During the reporting period, the recoverable amount for VitalityHealth and VitalityLife was higher than the carrying amount, therefore no impairment is necessary.

4.2 Policyholder liabilities assumptions and estimates (including assets arising from insurance contracts)

Discovery Life and VitalityLife

The insurance policies issued are valued using various methodologies and assumptions. The methodology is described in accounting policy 13.1. The assumptions used are best estimate assumptions, with the addition of explicit compulsory margins required by:

- SAP 104 of the Actuarial Society of South Africa for Discovery Life.
- INSPRU of the Prudential Regulatory Authority (PRA) in the UK,

and discretionary margins described on pages 36 and 37 of the accounting policies. The process used to decide on best estimate assumptions is described below.

Experience investigations

Experience investigations into lapse, mortality, morbidity, expenses and other key accounting estimates are performed at every valuation date. The data for the months since the previous valuation date forms the basis of each investigation. The experience of prior periods is also considered to establish trends and add credibility to the results.

The most recent experience investigations were performed at 30 June 2017.

Mortality and morbidity

Assumptions of future mortality and morbidity experience are derived based on data from reinsurers and compared to actual past experience. Where appropriate, the assumptions are adjusted to reflect actual past experience or for expected changes in future experience.

The assumptions are modified for each policy based on actual data available from underwriting performed on the policy and compared against standard industry tables for reasonability. The key mortality and morbidity assumptions are reviewed and benchmarked against the industry by independent actuarial consultants to ensure that the assumptions are reasonable, upon implementation of significant new products.

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

An adjustment is made to the standard mortality and morbidity assumptions to reflect the expected impact of engagement in the Vitality programme. It has been observed that higher rates of engagement result in lower lapses.

An allowance is made for the impact of AIDS on South African mortality rates. This is described in detail under the AIDS assumption below.

Surrender and lapse rates

Lapse rates are based on actual past experience where available. The lapse analysis is done by considering the in-force duration of policies. For durations longer than existing actual data, lapse rates are set based on expectations of future experience based on internal and external expert advice. The lapse experience investigation covers at least the last two years of lapse experience to allow trends to be identified.

Lapse assumptions are varied between different types of policies where the lapse experience is expected to differ significantly. Allowance is made for the estimated impact of the economic environment. An adjustment is made to the lapse assumptions to reflect the expected impact of engagement in the Vitality programme because it has been observed that higher rates of engagement results in lower lapses.

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

Taxation

Future tax is allowed for according to the current tax legislation and current tax rates. It is assumed that future tax on statutory profits will be payable at the prevailing company tax rate of 28% (2016: 28%) in South Africa. The prevailing tax rate in the UK is 19% (2016: 20%) but is expected to decrease to 17% in May 2020.

Recent tax amendments for Life companies introduced a Risk Policy Fund for all new risk business written after 1 July 2016. In terms of this legislation Discovery Life has also elected to move existing risk business to this Fund. As a result of these changes the assessed loss in the Individual Policyholder Fund is now expected to stop increasing and will be utilised over time. Therefore, in terms of IAS 12: Income Taxes, a value of R562 million, which was previously implicit in the valuation of insurance contract liabilities, has been recognised as an explicit deferred tax asset.

To calculate this value, Discovery Life performed a probability weighted cash flow forecast of the annual cash flows expected to arise from the utilisation of the assessed loss. The primary factors that management have taken into account when arriving at the probability are the expected market growth and withdrawal rate of the Linked Asset and Guaranteed Endowment book. For Linked Assets, given the uncertainty inherent in market growth assumptions and the fact that discounting of cash flows is not permitted by IAS12, future market growth was assumed to be 0% for the purpose of calculating the deferred tax asset. The expected income on the bond portfolio held to match policyholder liabilities has been fully allowed for at current rates. For both the Linked and bond portfolio, cash flows arising from the tax asset were further reduced to account for the uncertainty of future lapse rates and product mix as well as the broader economic and legislative environment.

Deferred tax arises on the other temporary differences between the accounting basis and the tax basis.

Economic assumptions / Investment returns

The discount rate is set equal to the estimate of the risk free investment return rate. The risk free rate is calculated with reference to the risk free yield curve. A single risk free rate is then derived appropriate to the weighted duration of the cash flows. For Discovery Life, this is rounded to the nearest quarter of a percent. The risk free rate at 30 June 2017 was set at 10.25% p.a. (2016: 10.00% p.a.). The risk free rate at 30 June 2017 was set at 2.13% p.a (2016: 2.07% p.a.) for VitalityLife.

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

Other investment returns and economic assumptions are set relative to this yield.

The assumptions for Discovery Life are as follows:

Cash:	Risk free – 1.5%
Fixed interest:	Risk free
Equity:	Risk free + 3.5%
Consumer price inflation:	Risk free – 4%

For VitalityLife, the risk free rate is set in line with the market observed investment return of fixed interest assets of appropriate term and nature, less a margin to protect against adverse experience. The best estimate inflation assumption is set in line with long-term UK inflation expectations and observed real yields consistent with the term of the liabilities.

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

Expense assumptions

Renewal expense assumptions are based on the results of the latest expense and budget information. Expenses are considered to be non-recurring when they relate to the start-up of a new business area or when they are material and are specific to an event that is not expected to occur in the future.

The allocation of expenses between initial and renewal expenses is based on the latest expense analysis where expenses are directly allocated based on the function performed. Where an expense could relate to both initial and renewal functions, the expenses are allocated proportionately based on estimates of the functions performed.

Per policy expenses are projected to increase in line with consumer price inflation.

Non-recurring expenses are excluded from the expense analysis used to derive the assumption.

HIV / AIDS

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

For Group policies a loading is applied at the underwriting stage to allow for the expected effect of AIDS. The loading varies based on the industry and geographic area and composition of the group and is derived from advice received from the reinsurers. The loading then forms the AIDS assumption for Group policies.

Reinsurance

All prospective liabilities are valued gross of reinsurance and then adjusted for the expected effect of reinsurance. For outstanding reported claims and IBNR, a specific allowance is made for reinsurance recoveries.

The Global Linkage Benefit is fully reinsured. The cost of the future reinsurance is dependent on the cost at which the reinsurer can buy assets to match the liability under this benefit. Assumptions are made around the cost at which the reinsurer can purchase these benefits, based on current and historic costs of these assets.

Automatic premium increases

Automatic premium increases could include both contractual and voluntary increases. No allowance is made for voluntary premium increases when calculating liabilities under insurance contracts.

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

Contractual premium increases are defined as increases that cannot be cancelled by the policyholder without altering the terms of the benefits provided under the policy. Contractual increases are included in the calculation of policyholder liabilities.

Policy alterations

In the calculation of policyholder liabilities, no allowance is made for policy alterations over time in accordance with actuarial guidance.

Changes in assumptions

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

Modelling and assumptions changes were made to the valuation at 30 June 2017 to ensure that assumptions are in line with the best estimate of future experience. For Discovery Life, the total effect of these changes on the Assets arising from insurance contracts was a decrease in the assets on the Financial Soundness Valuation basis of R225 million (2016: R1 054 million decrease). For VitalityLife, the total effect of these changes was an increase in the assets of R376 million (2016: R635 million increase).

In addition to this, the discretionary margins were reset to reflect the underlying profitability of the overall portfolio. The reset of margins increased the assets on the Financial Soundness Valuation basis by R717 million (2016: R2 125 million increase). Refer to note 5 for an analysis of these changes.

Sensitivities

The sensitivity of the policyholder liabilities on the Financial Soundness Valuation basis is set out on pages 75 to 77. The sensitivity of the policyholder liabilities on the INSPRU basis is set out on pages 85 and 86.

VitalityHealth

IBNR calculation

The estimation of treatments incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling treatments already notified to VitalityHealth, where more information about the claim event is generally available. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where treatments are typically reported relatively quickly after the claim event tend to display lower levels of volatility.

In calculating the estimated cost of unpaid claims VitalityHealth uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assume that the development pattern of the current claim will be consistent with past experience.

Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- Changes in company processes which might accelerate or slow down the development and/or recording of paid or incurred treatments compared with the statistics from previous periods.
- Changes in the legal environment.
- The effects of inflation.
- Changes in the mix of business.
- The impact of large losses.
- Movements in industry benchmarks.

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

A component of these estimation techniques is usually the estimation of the cost of notified but not paid treatments. In estimating the cost of these VitalityHealth has regard to the claim circumstance as reported and information on the cost of settling claims with similar characteristics in previous periods.

Where possible VitalityHealth adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes.

The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each incident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

4.3 Intangible assets

Right to profit share included in intangible asset

Discovery and FirstRand Bank Limited (FRB) has a joint arrangement in place that makes a "Discovery" branded FNB credit card (DiscoveryCard) available to the clients of Discovery. During the prior financial period, Discovery increased its economic interest in the DiscoveryCard, by subscribing for redeemable preference shares in the share capital of FRB. This entitled Discovery to receive an additional 54.99% of the profits generated by the DiscoveryCard effective from 1 July 2015. Discovery paid R1 422 million to FRB in this regard.

The contractual rights under the preference shares were only finalised in April 2016. Any profits earned prior to that, being R86 million, represented an adjustment to the purchase price of the intangible rather than income received and as such reduced the value of the intangible asset recognised. The right to profit share was therefore capitalised initially at a cost of R1 336 million.

The carrying amount is assessed for impairment on an annual basis. The value in use calculation is based on discounted projected profits from the business partnership, which is subjective. The discount rate used to discount the projected cash flows was 13.78%. The discount rate and the projected cash flows were stressed to determine the sensitivity of the value in use calculated for the purpose of impairment testing.

No impairment was deemed necessary at 30 June 2017.

5. Assets arising from insurance contracts

R million	Group 2017	Group 2016
Long-term insurance contracts - gross	**37 691**	33 815
Less: ceded to reinsurers (refer to note 17)	**(5 152)**	(3 226)
Long-term insurance contracts - net	**32 539**	30 589
Current	**2 409**	1 841
Non-current	**30 130**	28 748
	32 539	30 589
Movement in assets arising from insurance contracts		
Balance at beginning of the year	**30 589**	26 076
Movement for the year:		
Expected movement in policyholder liabilities	**(2 917)**	(2 862)
Unwinding of discount rate	**2 091**	1 766
New business written	**3 843**	4 415
Experience variances	**(588)**	(636)
Economic	**(128)**	(225)
Operational	**(460)**	(411)
Modelling and method changes	**14**	69
Benefit enhancements	**-**	(16)
Changes in assumptions	**137**	(488)
Economic	**(138)**	(1 277)
Operational	**275**	789
Changes in margins [1]	**717**	2 125
Exchange rate difference	**(1 347)**	140
Balance at end of the year	**32 539**	30 589

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

6. Property and equipment

R million	Furniture, fittings and equipment	Computer equipment and operating systems	Leasehold improve-ments	Motor vehicles	Telematics devices	Total
Year ended 30 June 2016						
Opening carrying amount	62	457	93	15	100	727
Exchange differences	(2)	12	3	-	-	13
Additions	92	211	213	6	60	582
Disposals						
- Cost	(28)	(4)	(6)	-	(10)	(48)
- Accumulated depreciation	23	2	3	-	2	30
Derecognition and impairment						
- Cost	(10)	(34)	(12)	-	(12)	(68)
- Accumulated depreciation	10	34	12	-	3	59
Depreciation charge	(32)	(128)	(44)	(7)	(32)	(243)
Closing carrying amount	115	550	262	14	111	1 052
At 30 June 2016						
Cost	313	989	489	44	176	2 011
Accumulated depreciation	(198)	(439)	(227)	(30)	(65)	(959)
Carrying amount	115	550	262	14	111	1 052
Year ended 30 June 2017						
Opening carrying amount	**115**	**550**	**262**	**14**	**111**	**1 052**
Exchange differences	**(8)**	**(47)**	**(8)**	**-**	**-**	**(63)**
Additions	**26**	**120**	**307**	**6**	**48**	**507**
Disposals						
- Cost	**(1)**	**-**	**-**	**(3)**	**(4)**	**(8)**
- Accumulated depreciation	**1**	**-**	**-**	**3**	**2**	**6**
Derecognition and impairment						
- Cost	**-**	**-**	**(3)**	**-**	**(38)**	**(41)**
- Accumulated depreciation	**-**	**-**	**3**	**-**	**17**	**20**
Depreciation charge	**(36)**	**(130)**	**(53)**	**(7)**	**(37)**	**(263)**
Closing carrying amount	**97**	**493**	**508**	**13**	**99**	**1 210**
At 30 June 2017						
Cost	**328**	**1 039**	**779**	**47**	**182**	**2 375**
Accumulated depreciation	**(231)**	**(546)**	**(271)**	**(34)**	**(83)**	**(1 165)**
Carrying amount	**97**	**493**	**508**	**13**	**99**	**1 210**

Leased assets

Computer equipment and operating systems includes the following amounts which are leased under a finance lease:

R million	Group 2017	Group 2016
Opening carrying amount	**131**	63
Additions	**27**	117
Depreciation charge	**(50)**	(49)
Closing carrying amount	**108**	131
Cost	**274**	247
Accumulated depreciation	**(166)**	(116)
Carrying amount	**108**	131

The Group has capitalised leasehold improvements of R241 million in respect of Discovery's new head office for which it is receiving funding through a finance lease which has 10 year lease period.

Derecognition

In Discovery Insure, when policies relating to motor vehicle insurance lapse, the telematics devices installed in those vehicles are not always recovered. The value of these unrecovered units are derecognised.

7. Intangible assets including deferred acquisition costs

R million	Software development	Deferred acquisition costs	Business acquisitions [1]		Banking license and right to profit share	Total
			Customer contracts [2]	Prudential brand		
Year ended 30 June 2016						
Opening carrying amount	982	698	743	103	-	2 526
Exchange differences	23	4	32	10	-	69
Additions	889	1 098	-	-	1 364	3 351
Acquisition of business	*	-	37	-	-	37
Amortisation charge	(348)	-	(136)	(113)	(26)	(623)
Derecognition						-
- cost	(5)	-	-	(310)	-	(315)
- accumulated amortisation	1	-	-	310	-	311
Deferred acquisition costs amortised	-	(772)	-	-	-	(772)
Closing carrying amount	1 542	1 028	676	-	1 338	4 584
At 30 June 2016						
Cost	2 726	1 028	1 703	-	1 364	6 821
Accumulated amortisation	(1 184)	-	(1 027)	-	(26)	(2 237)
Carrying amount	1 542	1 028	676	-	1 338	4 584
Year ended 30 June 2017						
Opening carrying amount	**1 542**	**1 028**	**676**	**-**	**1 338**	**4 584**
Exchange differences	**(134)**	**(51)**	**(90)**	**-**	**-**	**(275)**
Additions	**1 353**	**935**		**-**	**-**	**2 288**
Amortisation charge	**(436)**	**-**	**(86)**	**-**	**(85)**	**(607)**
Derecognition						
- cost	**(207)**	**-**	**-**	**-**	**-**	**(207)**
- accumulated amortisation	**207**	**-**	**-**	**-**	**-**	**207**
Disposal						
- cost	**(7)**	**-**	**-**	**-**	**-**	**(7)**
- Accumulated amortisation	**-**	**-**	**-**	**-**	**-**	**-**
Deferred acquisition costs amortised	**-**	**(887)**	**-**	**-**	**-**	**(887)**
Closing carrying amount	**2 318**	**1 025**	**500**	**-**	**1 253**	**5 096**
At 30 June 2017						
Cost	**3 561**	**1 025**	**1 471**	**-**	**1 364**	**7 421**
Accumulated amortisation	**(1 243)**	**-**	**(971)**	**-**	**(111)**	**(2 325)**
Carrying amount	**2 318**	**1 025**	**500**	**-**	**1 253**	**5 096**

* Amount is less than R500 000.

(1) Intangibles identified in the acquisition of business combinations are amortised over their remaining useful lives and only tested for impairment if an indication of impairment arises. There was no indication of impairment for the current reporting period.

(2) Customer contracts represents the value of in-force business acquired in the Standard Life Healthcare and PrimeMed business combinations.

Deferred acquisition costs

This intangible asset relates to acquisition costs incurred that are expected to be recovered out of future revenue margins. The carrying value of the deferred acquisition costs relate to the following contracts:

R million	**Group 2017**	Group 2016
Investment management contracts	**512**	463
Insurance management contracts - including health and short-term insurance	**365**	395
Vitality contracts	**148**	170
	1 025	1 028

7. Intangible assets including deferred acquisition costs continued

Banking license and right to profit share

Prior to 1 July 2015, Discovery and FirstRand Bank Limited (FRB) had a joint arrangement in place that makes a "Discovery" branded FNB credit card (DiscoveryCard) available to the clients of Discovery. In terms of this arrangement, FRB paid Discovery an amount equal to 20% of the profits generated by the DiscoveryCard.

During the 2016 financial year, both parties agreed that Discovery will increase its economic interest in the DiscoveryCard by subscribing for redeemable preference shares in the share capital of FRB. This entitles Discovery to receive an additional 54.99% of the profits generated by the DiscoveryCard effective from 1 July 2015. In December 2015, Discovery subscribed for R1 422 million FRB redeemable preference shares and in April 2016 the contractual rights under the preference shares were finalised.

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 DiscoveryCard. This will be amortised through profit or loss as and when profits are expected to emerge. R84 million (2016: R26 million) has been recognised in profit or loss for the current financial year and has been added back in the calculation of Normalised Headline Earnings. At 30 June 2017, there was no indication of impairment.

R140 million (2016: R121 million) is receivable in respect of the 54.99% profits generated by the DiscoveryCard for the current financial year. As the contractual rights under the preference shares were only finalised in April 2016, any profits earned prior to that, being R86 million, represents an adjustment to the purchase price of the intangible rather than income received and as such reduced the value of the intangible asset recognised. This was added to Normalised Headline Earnings.

During the 2016 financial year, Discovery also incurred costs of R28 million in respect of the application for a banking license. Discovery has capitalised these costs in terms of IAS 38: Intangible Assets, as it is Discovery's belief that the license will be granted by the South African Reserve Bank.

8. Business combinations

Goodwill recognised through business combinations

Goodwill, which represents the value of future business expected to be written, is not amortised, but is assessed for possible impairment at each reporting date. The impairment is recorded in profit or loss, if necessary. At 30 June 2017 there was no indication that goodwill is impaired.

Reconciliation of goodwill	Date of acquisition	GBP million at date of acquisition	R million 2017	R million 2016
Goodwill recognised from the following business combinations and allocated to the UK Group cash generating unit:				
- Vitality Health Holdings Limited	31 July 2010	86.9	1 480	1 719
- Standard Life Healthcare	31 July 2010	33.2	565	657
- Insure Your Health	25 March 2013	2.5	43	49
- KYS Paid Limited	30 April 2014	1.1	19	22
		123.7	**2 107**	**2 447**

9. Equity-accounted investees

R million	Group 2017	Group 2016
Carrying value of material interest in associates and joint ventures	**785**	412
Carrying value of individually immaterial interest in associates	**178**	8
Carrying value of individually immaterial interest in joint ventures	**16**	71
Investment in equity-accounted investees	**979**	491

Material interests in associates and joint ventures

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

R million	Ping An Health 2017	Ping An Health 2016
Ownership structure	**Equity accounted associate**	
Nature	**Insurance**	
Place of business	**China**	
% of ownership interest	**25%**	25%
Summarised statement of comprehensive income		
Revenue	**2 832**	1 729
Net loss	**(20)**	(279)
Other comprehensive income/(loss)	**6**	(43)
Total comprehensive loss	**(14)**	(322)
Summarised statement of financial position		
Current assets	**2 575**	1 680
Non-current assets	**2 753**	501
Current liabilities	**(1 902)**	(1 524)
Non-current liabilities	**(2 406)**	(30)
Net assets	**1 020**	627
Reconciliation to carrying amounts:		
Opening net assets	**627**	845
Loss for the year	**(20)**	(279)
Other comprehensive income/(loss)	**6**	(43)
Increase in share capital and share premium	**524**	-
Foreign exchange (losses)/gains	**(117)**	104
Closing net assets	**1 020**	627
Group's share of net assets	**255**	157
Goodwill	**191**	206
Increase in consideration paid	**339**	49
Carrying value at 30 June	**785**	412

Ping An Health Insurance Company of China, Limited (Ping An Health or PAH)

Ping An Health offers policyholders in China cover for a range of private healthcare-related claims. PAH is a strategic partnership for the group, providing access to new clients and markets in China. Discovery's investment was recorded at cost and has been reduced by its proportionate share of the losses of PAH. During the current financial year, additional amounts were invested into PAH.

Individually immaterial associates and joint ventures

R million	Associates 2017	Associates 2016	Joint ventures 2017	Joint ventures 2016
Aggregate carrying amount	**178**	8	**16**	71
Aggregate amounts of the group's share of:				
Profit/(loss) for the year	**19**	6	**12**	(1)
Other comprehensive income	**-**	*	**(1)**	-
Total comprehensive income	**19**	6	**11**	(1)

10. Financial assets - investments

R million	Group 2017	Group 2016
The Group's investment in financial assets are summarised by measurement category in the table below:		
Available-for-sale financial assets:	**7 298**	9 794
- Equity securities	**145**	151
- Equity linked notes [(1)]	**17**	5
- Debt securities	**241**	280
- Inflation linked securities	**5**	5
- Money market securities	**2 230**	1 870
- Mutual funds	**4 660**	7 483
Financial assets at fair value through profit or loss:	**58 948**	50 948
- Equity securities	**24 069**	20 049
- Equity linked notes [(1)]	**2 557**	2 462
- Debt securities	**12 277**	10 969
- Inflation linked securities	**386**	429
- Money market securities	**6 218**	4 758
- Mutual funds	**13 441**	12 281
Total investments	**66 246**	60 742
Listed	**55 360**	51 864
Unlisted	**10 886**	8 878
	66 246	60 742

[(1)] Majority of the equity linked notes are Rand denominated investments providing equity exposure together with either a floor of 80% of the highest price observed since inception or a return after five years based on the best of three different unit trusts or indices.

Maturity profile:

- It is management's intention to hold the available-for-sale financial assets as a long-term investment but may utilise these funds when required by business.
- Financial assets at fair value through profit or loss are held to back policyholder liabilities. Except for R227 million (2016: R234 million) which will be held to back unit-linked insurance contracts with a maturity profile between one and two years and R129 million (2016: R358 million) which will be held to back unit-linked insurance contracts with a maturity profile between three and five years (refer to page 95), the balance can be withdrawn in the short-term.

11. Derivative financial instruments

R million	Group 2017 Assets	Group 2017 Liabilities	Group 2016 Assets	Group 2016 Liabilities
Share scheme - cash flow hedge	**354**	**(14)**	521	(28)
Interest rate swap	**-**	**(15)**	-	-
Foreign exchange contracts - cash flow hedge	**-**	**-**	-	(1)
Non-hedge derivatives	**38**	**(106)**	69	(20)
	392	**(135)**	590	(49)
Current	**201**	**(109)**	306	(21)
Non-current	**191**	**(26)**	284	(28)
	392	**(135)**	590	(49)

Refer to pages 99 to 102 and 104 to 107 for a detailed description of the derivative financial instruments listed above.

Notes to the annual financial statements

for the year ended 30 June 2017

12. Loans and receivables including insurance receivables

R million	Group 2017	Group 2016
Receivables arising from insurance and reinsurance contracts:		
- Premium debtors	**497**	317
- Less provision for impairment of premium debtors	**(56)**	(39)
- Reinsurance debtors	**3 316**	1 686
Other loans and receivables:		
- Agents and brokers	**275**	281
- BEE partners' rights-issue funding	**101**	92
- Cash-in-transit debtors	**156**	96
- Closed scheme debtors	**73**	73
- Discovery Health Medical Scheme	**576**	553
- Discovery Unit Trust debtors	**480**	730
- Expired hedge receivables	**36**	31
- FNB - DiscoveryCard receivable	**105**	76
- International partner market receivables	**55**	154
- Loans to BEE initiatives	**104**	85
- Loans to senior management	**145**	183
- Prepayments	**374**	312
- Security deposit on derivatives	**17**	48
- Vitality partner debtors	**31**	23
- Other debtors	**405**	390
- Less provision for impairment of other loans and receivables	**(220)**	(200)
Total loans and receivables	**6 470**	4 891
Current	**4 526**	4 308
Non-current	**1 944**	583
	6 470	4 891

The carrying value approximates the fair value of the loans and receivables.

13. Reinsurance contracts

Reinsurers' share of insurance contract liabilities	**263**	410
Current	**263**	410

Amounts due from reinsurers in respect of claims paid and reported by the Group on the contracts that are reinsured are included in loans and receivables (refer to note 12).

14. Cash and cash equivalents

Cash at bank and in hand	**5 294**	8 046
Short-term deposits	**3 804**	588
	9 098	8 634

Reconciliation to cash flow statement

The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the financial year as follows:

Balances as above	**9 098**	8 634
Bank overdraft (note 19)	**(1)**	(20)
Balances per statement of cash flows	**9 097**	8 614

15. Share capital and share premium

15.1 Ordinary share capital and share premium

R million	Issued: Share capital	Issued: Share premium	Treasury shares: Discovery Health	Treasury shares: BEE share trust	Treasury shares: BEE transaction partners	Total outstanding
At 1 July 2015	1	7 558	(14)	(50)	(7)	7 488
Share movements:						
- treasury shares delivered	-	817	-	*	-	817
- treasury share purchases	-	3	-	(6)	(2)	(5)
Share issue costs	-	*	-	-	-	*
At 30 June 2016	1	8 378	(14)	(56)	(9)	8 300
Share movements:						
- treasury shares delivered	**-**	**-**	**-**	**-**	**11**	**11**
- treasury share purchases	**-**	**(1)**	**-**	**(2)**	**(2)**	**(5)**
At 30 June 2017	**1**	**8 377**	**(14)**	**(58)**	**-**	**8 306**

* Amount is less than R500 000.

Number of shares	Issued	Treasury shares: Discovery Health	Treasury shares: BEE share trust	Treasury shares: BEE transaction partners	Total outstanding
At 1 July 2015	647 427 946	(680 268)	(1 438 216)	(16 311 021)	628 998 441
Share movements:					
- treasury shares delivered	-	-	154 104	15 129 467	15 283 571
- treasury share purchases	-	-	(40 000)	(19 000)	(59 000)
At 30 June 2016	647 427 946	(680 268)	(1 324 112)	(1 200 554)	644 223 012
Share movements:					
- cancelled from issue	**(582 954)**	**-**	**-**	**-**	**(582 954)**
- treasury shares delivered	**-**	**-**	**138 408**	**1 200 554**	**1 338 962**
- treasury share purchases	**-**	**-**	**(20 000)**	**-**	**(20 000)**
At 30 June 2017	**646 844 992**	**(680 268)**	**(1 205 704)**	**-**	**644 959 020**

The total authorised number of ordinary shares is 1 billion (2016: 1 billion), with a par value of 0.1 cent per share.

Expiry and refinancing of BEE transactions

In December 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.
- 14 226 181 of these shares were issued to the Discovery Foundation (The Foundation), another member of the BEE consortium, at R0.001 each, for an initial period of 10 years (initial period). No subscription consideration was payable.

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). These shares 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.

15. Share capital and share premium continued

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 BEE Partners to retain the full number of Discovery shares originally issued to them, the BEE Partners 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.

Expiry of BEE transaction in the current financial year

The initial period of The Maphai SPV transaction expired in December 2016 and resulted in the following:

- 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.

Refinancing of BEE transaction in the prior financial year

The initial period of The Foundation transaction expired in December 2015 and resulted in the following:

- Discovery repurchased 5 666 134 Discovery shares held by The Foundation at a price of R0.001 per Discovery share.
- The issue to The Foundation by Discovery of 5 666 134 new Discovery shares at a price of R144.22 per Discovery share (representing the 30 day VWAP to 9 December 2015). This increased Share Capital and Share Premium by R817.2 million.
- Treasury shares were decreased by 14 226 181 shares for this transaction.

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

15.2 Preference share capital

R million	Group 2017	Group 2016
Authorised		
40 000 000 A no par value preference shares		
20 000 000 B preference shares of R100 each	**2 000**	2 000
20 000 000 C no par value preference shares		
	2 000	2 000
Issued		
8 000 000 B preference shares of R100 each	**800**	800
Share issue costs	**(21)**	(21)
At 30 June	**779**	779

The B preference shares are non-compulsory, non-cumulative, non-participating, non-convertible, voluntarily redeemable preference shares and were issued at a coupon rate of 85% of prime rate. With the introduction of dividend withholding tax on 1 April 2012, the coupon rate on the preference shares was increased to 100% of the prime rate.

16. Liabilities arising from insurance contracts

R million	Group 2017	Group 2016
Gross		
- claims reported and loss adjustment expenses	**6 256**	5 179
- claims incurred but not reported	**1 255**	1 232
- EFA liability	**38**	32
- unearned premiums	**700**	501
- unit-linked insurance contracts	**34 375**	29 829
- with fixed and guaranteed terms	**9 853**	7 900
Total liabilities arising from insurance contracts, gross	**52 477**	44 673
Recoverable from reinsurers		
- claims incurred but not reported	**(258)**	(405)
- unearned premiums	**(5)**	(5)
Total reinsurers' share of liabilities arising from insurance contracts (refer to note 13)	**(263)**	(410)
Net		
- claims reported and loss adjustment expenses	**6 256**	5 179
- claims incurred but not reported	**997**	827
- EFA liability	**38**	32
- unearned premiums	**695**	496
- unit-linked insurance contracts	**34 375**	29 829
- with fixed and guaranteed terms	**9 853**	7 900
Total liabilities arising from insurance contracts, net	**52 214**	44 263
Current [(1)]	**44 647**	40 857
Non-current	**7 567**	3 406
	52 214	44 263

[(1)] Includes R37 571 million (2016: R33 138 million) for which there is no maturity profile for these liabilities. Contractually policyholders may disinvest on demand and therefore maturity depends on policyholder behaviour.

Movements in the liabilities are as follows:

R million	2017 Gross	2017 Reinsurance	2017 Net	2016 Gross	2016 Reinsurance	2016 Net
Claims reported and loss adjustment expenses and IBNR						
Notified claims	**5 179**	**-**	**5 179**	3 998	-	3 998
Incurred but not reported	**1 232**	**(405)**	**827**	1 482	(362)	1 120
Balance at beginning of the year	**6 411**	**(405)**	**6 006**	5 480	(362)	5 118
Cash paid for claims settled in the year	**(3 382)**	**449**	**(2 933)**	(2 715)	414	(2 301)
Increase/(decrease) in liabilities:						
- arising from current year claims	**5 189**	**(339)**	**4 850**	4 025	(451)	3 574
- arising from prior year claims	**(543)**	**-**	**(543)**	(443)	-	(443)
Net exchange differences	**(164)**	**37**	**(127)**	64	(6)	58
Total at end of the year	**7 511**	**(258)**	**7 253**	6 411	(405)	6 006
Notified claims	**6 256**	**-**	**6 256**	5 179	-	5 179
Incurred but not reported	**1 255**	**(258)**	**997**	1 232	(405)	827
Total at end of the year	**7 511**	**(258)**	**7 253**	6 411	(405)	6 006
EFA liability						
Balance at beginning of the year	**32**	**-**	**32**	32	-	32
Increase in the year	**10**	**-**	**10**	3	-	3
Cash paid	**(4)**	**-**	**(4)**	(3)	-	(3)
Total at end of the year	**38**	**-**	**38**	32	-	32

16. Liabilities arising from insurance contracts continued

R million	2017 Gross	2017 Reinsurance	2017 Net	2016 Gross	2016 Reinsurance	2016 Net
Provisions for unearned premiums						
Balance at beginning of the year	**501**	**(5)**	**496**	548	-	548
Increase in the year	**1 200**	**(5)**	**1 195**	521	(58)	463
Release in the year	**(933)**	**5**	**(928)**	(589)	53	(536)
Net exchange differences	**(68)**	**-**	**(68)**	21	-	21
Total at end of the year	**700**	**(5)**	**695**	501	(5)	496

R million	Group 2017	Group 2016
Unit-linked insurance contracts		
Balance at beginning of the year	**29 829**	24 599
Premiums received	**8 452**	8 512
Fair value adjustment	**1 210**	1 451
Withdrawals	**(4 249)**	(3 362)
Fees	**(983)**	(850)
Movement in negative insurance liability	**116**	(521)
Balance at end of the year	**34 375**	29 829
Balance is made up as follows:		
Unit-linked liabilities	**37 571**	33 141
Negative insurance liability	**(3 196)**	(3 312)
	34 375	29 829
With fixed and guaranteed terms		
Balance at beginning of the year	**7 900**	6 577
Expected movement in policyholder liabilities	**(1 594)**	(1 495)
Unwinding of discount rate	**575**	364
New business written	**2 829**	2 371
Experience variances	**143**	83
Balance at end of the year	**9 853**	7 900

17. Liabilities arising from reinsurance contracts

R million	Group 2017	Group 2016
Lapse risk treaties	**1 594**	1 668
Reinsurance recoveries relating to assets arising from insurance contracts (refer to note 5)	**5 152**	3 226
	6 746	4 894
Balance at beginning of the year	**4 894**	3 827
Increase in liability	**1 974**	1 127
- gross increase in liability	**2 841**	1 584
- receipt arising from reinsurance contracts	**65**	-
- reinsurance premiums paid	**(932)**	(457)
Net exchange differences	**(122)**	(60)
Balance at end of the year	**6 746**	4 894
Current	**902**	438
Non-current	**5 844**	4 456
	6 746	4 894

18. Negative reserve funding

R million	Group 2017	Group 2016
Negative reserve funding	**758**	2 970
Finance charge payable on negative reserve balance	**89**	1 278
	847	4 248
Movement analysis:		
Balance at beginning of the year	**4 248**	5 437
Additional acquisition costs funded	**5**	173
Interest accrued	**131**	359
Repayment of funding	**(1 920)**	(603)
Deposit back of reserves received	**(1 069)**	(1 396)
Foreign exchange differences	**(548)**	278
	847	4 248
Current [(1)]	**(1 666)**	(202)
Non-current	**2 513**	4 450
	847	4 248

[(1)] Includes a security deposit of R2 501 million (2016: R1 681 million) of which the maturity profile is dependent upon the exposure to the counterparty.

The negative reserve funding liability represents the acquisition costs that are funded by the Prudential Assurance Company (PAC) on behalf of VitalityLife as well as interest charge on VitalityLife's negative reserve balance. 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 PAC to reduce counterparty risk. The contractual arrangement in respect of the business written on the PAC license is accounted for as a reinsurance contract under IFRS 4 and as a result, the ‘deposit back’ held by PAC 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.

19. Borrowings at amortised cost

R million	Ref	Group 2017	Group 2016
Bank borrowings	(i)	**6 774**	3 846
Redeemable preference shares	(ii)	**1 400**	1 394
Bank overdraft		**1**	20
Finance lease liability	(iii)	**349**	140
		8 524	5 400
Current		**382**	70
Non-current		**8 142**	5 330
		8 524	5 400

19. Borrowings at amortised cost

(i) Bank borrowings

Movement analysis of borrowings:

R million	Group	Group
Balance at beginning of the year	**3 846**	893
Loans raised	**3 514**	6 207
Loans repaid	**(302)**	(3 173)
Cash flow hedge capitalised	**(5)**	29
Interest accrued	**313**	212
Interest paid	**(277)**	(196)
Raising fees capitalised	**(2)**	(9)
Net exchange differences arising during the period	**(313)**	(117)
Balance at end of year	**6 774**	3 846

SA borrowing facilities

- Discovery Limited has borrowed R3.6 billion (2016: R1.6 billion) for long term funding requirements. The borrowings were acquired for general corporate purposes in order to fund the various growth initiatives within the Group.

The facilities have the following profile and salient terms:

Facility amount R million	Interest rate per annum	Maturity date	Capital repayment
500	Fixed at 10.94%	10 June 2021	Maturity
1 100	Fixed at 10.59%	10 June 2021	Annually [1]
375	Fixed at 10.39% [2]	30 September 2021	Maturity
450	Fixed at 10.31% [2]	15 December 2021	Maturity
175	Linked to 3 month JIBAR [3]	10 March 2022	Maturity
800	Fixed at 10.20%	17 March 2022	Maturity
200	Fixed at 10.23%	16 May 2022	Maturity
3 600			

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

[2] The interest rate has been fixed through interest rate swaps. Refer to page 106.

[3] As at 30 June 2017, interest is accruing at 9.77% per annum.

The borrowings are unsecured senior debt and are not callable or convertible. Interest is payable quarterly in arrears.

- Discovery Central Services Proprietary Limited entered into borrowing facilities for an amount of R650 million. Discovery Health Proprietary Limited, Discovery Vitality Proprietary Limited and Discovery Limited have provided guarantees in respect of these facilities. Interest rates on the utilised amount is fixed at a weighted average rate of 11.44% per annum, with capital and interest repayable in instalments over the duration of the loan facility.

During the current financial year R495 million of the facility was utilised. R43 million of this facility was repaid. The balance owing at 30 June 2017 amounts to R469 million which includes accrued interest.

UK borrowing facilities

In order to fund the operations of VitalityLife, Discovery entered into two term loan facilities. During the current financial year, VitalityLife utilised the remaining GBP 30 million of its facilities, totalling to GBP 150 million of utilised facilities.

GBP 7.5 million of this facility was repaid in the previous financial period on May 2016. Further repayments of GBP 7.5 million were made during the current financial year on 30 November 2016 and 31 May 2017 respectively.

19. Borrowings at amortised cost continued

UK borrowing facilities continued

The balance owing as at 30 June 2017 amounts to GBP 127.5 million (R2 174 million) (2016: GBP 112.5 million (R2 226 million)).

The salient terms of the facilities are as follows:

Facility 1:

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

Facility 2:

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

The bank borrowings impose certain restrictions on Discovery's operations, including limitation on total borrowings. A breach of these restrictions would require immediate repayment of any outstanding balance. At 30 June 2017 there was no breach.

Other

Included in borrowings is R500 million raised at 30 June 2017 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.

(ii) Redeemable preference shares

During the prior financial year, Discovery Pref Holding Company (RF) Limited issued 1 400 A preference shares at an issue price of R1 million each, by way of a private placement. The preference shares were issued at a fixed coupon rate of 8.225% per annum, paid bi-annually. The shares are cumulative, non-participating, non-convertible preference shares and redeemable on 29 June 2021.

As the shares are mandatorily redeemable on a specific date, they have been recognised in Borrowings. The value of the preference shares has been reduced by the share issue costs of R6.7 million.

(iii) Capitalised finance lease liability

The Group leases computer equipment with the carrying value of R108 million (2016: R131 million) under finance leases expiring within one year to five years. The leases are unsecured as the right to the leased assets remain with the lessee in the event of default.

The Group has capitalised leasehold improvements of R241 million in respect of Discovery's new head office for which it is receiving funding through a finance lease which has a 10 year lease period.

19. Borrowings at amortised cost continued

(iii) Capitalised finance lease liability continued

Commitments in relation to finance leases are payable as follows:

R million	Minimum lease payments	Finance cost	Present value
30 June 2017			
Due within one year	**89**	**(40)**	**49**
Due between two and five years	**273**	**(116)**	**157**
Due between six and ten years	**196**	**(53)**	**143**
	558	**(209)**	**349**
30 June 2016			
Due within one year	53	(8)	45
Due between two and five years	111	(16)	95
	164	(24)	140

20. Investment contracts at fair value through profit or loss

R million	Group 2017	Group 2016
The movements during the year were as follows:		
Balance at beginning of the year	**13 514**	10 059
Deposits received	**5 703**	6 126
Account balances paid on withdrawal and other terminations in the year	**(4 598)**	(3 366)
Fair value adjustment	**248**	695
Balance at end of the year	**14 867**	13 514
Current [(1)]	**14 867**	13 514

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

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

21. Trade and other payables

R million	Group 2017	Group 2016
Commissions payable	**235**	164
Digicore payable	**8**	6
Discovery Unit Trust creditors	**328**	1 804
Due to reinsurers	**189**	506
Payables and accrued liabilities	**1 931**	1 679
Payroll creditors	**718**	1 124
Policyholder unallocated funds	**282**	266
Premiums and fees received in advance	**288**	146
VitalityLife working capital funding	**2 713**	2 031
Security deposits on derivatives	**270**	430
Straight-lining operating lease payments	**71**	76
Value-added tax	**53**	56
Other creditors	**283**	275
	7 369	8 563
Current	**4 072**	5 393
Non-current	**3 297**	3 170
	7 369	8 563

22. Deferred income tax

R million	Group 2017	Group 2016
Deferred tax asset	**1 337**	824
- Current	**241**	134
- Non-current	**1 096**	690
Deferred tax liability	**(6 963)**	(6 035)
- Current	**-**	(36)
- Non-current	**(6 963)**	(5 999)
	(5 626)	(5 211)
Movement summary		
Balance at beginning of the year	**(5 211)**	(4 387)
Income statement charge (refer to note 35)	**(372)**	(827)
Capital gains taxation on available-for-sale financial assets charged to other comprehensive income	**(4)**	(15)
Deferred tax on cash flow hedge charged to other comprehensive income	**(3)**	29
Deferred tax raised through business combination	**-**	(10)
Exchange differences	**(36)**	(1)
Balance at end of the year	**(5 626)**	(5 211)

Deferred taxation comprises:

R million	Opening balance	Charge for the year	Forex movement	Closing balance
Year ended 30 June 2017				
Assessed loss in Company Policyholders' Fund	**41**	**-**	**-**	**41**
Assessed loss in Individual Policyholders' Fund	**-**	**562**	**-**	**562**
Assessed loss in subsidiaries *	**478**	**(75)**	**(48)**	**355**
Capital gains tax on available-for-sale financial instruments	**(79)**	**(4)**	**-**	**(83)**
Cash flow hedge	**(47)**	**13**	**-**	**(34)**
Deferred acquisition costs	**(175)**	**(8)**	**-**	**(183)**
Deferred revenue	**36**	**(1)**	**-**	**35**
Difference between accounting and tax balances arising from insurance contracts	**(5 817)**	**(939)**	**-**	**(6 756)**
Difference between wear and tear and depreciation	**(66)**	**(19)**	**(2)**	**(87)**
Finance Lease	**3**	**(3)**	**-**	**-**
Income received in advance	**8**	**30**	**-**	**38**
Intangibles recognised on acquisition of businesses	**(127)**	**17**	**16**	**(94)**
Operating leases	**8**	**-**	**-**	**8**
Prepayments	**(27)**	**(1)**	**-**	**(28)**
Provisions	**72**	**37**	**(1)**	**108**
Share-based payments	**106**	**(22)**	**-**	**84**
Unutilised special transfer balances	**366**	**20**	**-**	**386**
Pre-trade expenditure	**-**	**17**	**-**	**17**
Other	**9**	**(3)**	**(1)**	**5**
	(5 211)	**(379)**	**(36)**	**(5 626)**

* Deferred tax assets have been raised in respect of tax losses in Discovery Life Investment Services Proprietary Limited, Discovery Vitality Proprietary Limited and Vitality Health Limited. The Group recognises deferred tax assets on carried forward tax losses to the extent there are sufficient estimated future taxable profits and/or taxable temporary differences against which the tax losses can be utilised.

A deferred tax asset has been recognised on assessed losses in the Discovery Life Individual Policyholder Fund. Refer to note 4.2

22. Deferred income tax continued

At 30 June 2017, Vitality Health Limited (VHL) has a potential deferred tax asset of GBP 25.1 million (2016: GBP 30.3 million). During the 2015 financial year, all UK health insurance business was migrated from Vitality Health Insurance Limited (VHIL) to VHL. As a result, VHL is expected to make taxable profits over the next ten years.

Management have applied a probability factor to these estimated profits and raised a deferred tax asset, based on the UK tax rate of 19% which reduces to 17% from April 2020 onwards, totalling GBP 14.2 million (2016: GBP 14.3 million). This is 57% of the total estimated deferred tax asset for VHL.

R million	Opening balance	Charge for the year	Forex movement	Closing balance
Year ended 30 June 2016				
Assessed loss in Company Policyholders' Fund	41	-	-	41
Assessed loss in subsidiaries	431	38	9	478
Capital gains tax on available-for-sale financial instruments	(64)	(15)	-	(79)
Cash flow hedge	(99)	52	-	(47)
Deferred acquisition costs	(114)	(61)	-	(175)
Deferred revenue	12	24	-	36
Difference between accounting and tax balances arising from insurance contracts	(4 858)	(959)	-	(5 817)
Difference between wear and tear and depreciation	(26)	(41)	1	(66)
Finance Lease	-	3	-	3
Income received in advance	-	8	-	8
Intangibles recognised on acquisition of businesses	(158)	40	(9)	(127)
Operating leases	7	1	-	8
Prepayments	(20)	(7)	-	(27)
Provisions	59	14	(1)	72
Share-based payments	131	(25)	-	106
Unutilised special transfer balances	252	114	-	366
Other	19	(9)	(1)	9
	(4 387)	(823)	(1)	(5 211)

Assessable losses

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

R million	Group 2017	Group 2016
Destiny Health (will begin to expire in 2021)	**3 150**	3 432
Discovery Connect Distribution Services Proprietary Limited	**235**	123
Discovery Group Europe Limited	**91**	11
Discovery Insure Limited	**1 030**	969
Discovery Life - Individual Policyholders' Fund (refer note 4.2)	**14 625**	17 023
Discovery Partner Market Services PTE LTD	**47**	54
Grove Nursing Services Proprietary Limited	**22**	20
Southern Rx Proprietary Limited	**43**	28
Vitality Health Limited	**1 273**	1 529
	20 516	23 189

23. Deferred revenue

Balance at 1 July	**291**	192
Income deferred	**201**	254
Income recognised through profit or loss	**(201)**	(156)
Foreign currency adjustment on translation	*****	1
Balance at 30 June	**291**	291
Current	**129**	124
Non-current	**162**	167
	291	291

* Amount is less than R500 000.

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for the year ended 30 June 2017

24. Employee benefits

R million	Group 2017	Group 2016
Leave pay		
Opening balance	**169**	152
Additional provisions raised	**265**	244
Used during the year	**(219)**	(208)
Paid to terminated employees	**(24)**	(20)
Foreign currency adjustment on translation	**-**	1
Closing balance	**191**	169
Current	**162**	145
Non-current	**29**	24
	191	169

25. Net insurance premium revenue

Health	**5 720**	6 514
Recurring premiums	**7 056**	8 545
Reinsurance premiums	**(1 336)**	(2 031)
Individual life and invest	**20 496**	19 483
Recurring premiums	**14 981**	10 694
Single premiums	**7 722**	10 791
Reinsurance premiums	**(2 207)**	(2 002)
Group life	**1 607**	1 416
Recurring premiums	**1 698**	1 486
Reinsurance premiums	**(91)**	(70)
Short-term insurance	**1 873**	1 345
Recurring premiums	**2 076**	1 558
Reinsurance premiums	**(203)**	(213)
	29 696	28 758
Insurance premium revenue	**33 533**	33 074
Outward reinsurance premiums	**(3 837)**	(4 316)
	29 696	28 758

26. Investment income

Available-for-sale financial assets	**53**	48
- Interest	**36**	35
- Dividends	*****	*
- Mutual fund distributions	**17**	13
At amortised cost interest income	**20**	17
Cash and cash equivalents interest income	**685**	680
	758	745
Attributable to:		
- shareholders	**150**	265
- policyholders	**608**	480
	758	745

* Amount is less than R500 000.

27. Net realised gains on available-for-sale financial assets

R million	Group 2017	Group 2016
Realised gains	**11**	6
- Equity securities	*****	1
- Money market securities	**2**	1
- Mutual funds	**9**	4
Realised losses	**(3)**	(1)
- Money market securities	**(1)**	(1)
- Mutual funds	**(2)**	*
	8	5

* Amount is less than R500 000.

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

Investment income	**1 176**	925
- Interest	**979**	754
- Dividends	**197**	171
Net realised gains	**16**	68
Net fair value gains	**262**	1 287
Mutual fund distribution	**654**	440
	2 108	2 720

29. Net claims and policyholders' benefits

Health insurance claims	**4 109**	4 585
Gross claims	**4 377**	6 357
Recapture of reinsurance	**858**	-
Less: Reinsurance recoveries	**(1 126)**	(1 772)
Individual life insurance claims	**3 992**	3 081
Death	**2 027**	1 835
Disability	**2 286**	1 957
Payback benefits	**1 020**	771
Less: Reinsurance recoveries	**(1 341)**	(1 482)
Group life insurance claims	**1 217**	1 276
Death	**608**	476
Disability	**691**	982
Payback benefits	**2**	-
Less: Reinsurance recoveries	**(84)**	(182)
Individual investment benefits	**6 800**	5 742
Surrenders	**5 543**	4 650
Guaranteed payments	**65**	81
Annuity payments	**1 192**	1 011
Short-term insurance claims	**1 161**	893
Gross claims	**1 426**	1 043
Less: Reinsurance recoveries	**(265)**	(150)
	17 279	15 577
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

30. Acquisition costs

R million	Group 2017	Group 2016
Commission expenses	**5 285**	6 511
Movement in deferred acquisition costs (refer to note 7)	**(48)**	(326)
	5 237	6 185

31. Marketing and administration expenses

R million	Group 2017	Group 2016
Auditors remuneration		
Audit fees	**38**	30
Fees for other services	**1**	7
Prior year	**4**	1
	43	38
Operating lease charges		
Property	**233**	240
Computer and office equipment	**83**	65
	316	305
Staff costs including executive directors [(1)]		
Salaries, wages and allowances	**4 702**	4 349
Medical aid fund contributions	**279**	256
Defined contribution provident fund contributions	**266**	244
Social security levies	**188**	159
Share-based payment expenses		
- equity-settled	**29**	-
- cash-settled	**204**	344
- gain/(loss) on cashflow hedge	**60**	(78)
Staff training	**26**	23
Recruitment fees	**53**	61
Temporary staff	**212**	241
Provision for leave pay	**46**	36
Other	**175**	151
	6 240	5 786
Other operating costs		
Amortisation of software (note 7) [(2)]	**436**	348
Building related and office costs	**750**	722
Depreciation of property and equipment (note 6)	**263**	243
Gains on disposal of plant and equipment	**3**	2
Impairment of loans and receivables (note 12)	**37**	32
Insurance	**15**	10
IT systems and consumables	**988**	862
Marketing and distribution costs	**1 468**	1 421
Non-executive directors fees	**14**	17
Professional fees	**569**	711
Vitality benefit expenses [(3)]	**2 534**	1 877
Other operating expenses	**1 976**	2 415
	9 053	8 660
Total marketing and administration expenses	**15 652**	14 789

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

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

(3) Vitality Group's reward expenses previously included in other operating costs is reflected in Vitality benefit expenses for the current financial year to enhance disclosure.

32. Share-based payment expenses

32.1 Staff incentive schemes

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

1. **BEE staff share trust**

   5 290 000 Discovery Limited's shares were issued to the BEE staff share trust for current and future employees. 960 000 additional shares have been purchased accumulatively in prior years, for future allocation to employees. 20 000 additional shares were purchased by the BEE staff share trust during the current year. The trusts consists of two components; the allocation scheme and the option scheme as described below:

   Allocation scheme

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

   Option scheme

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

2. **The Vitality Group phantom stock plan**

   Participants earn a cash bonus based on allocation of bonus scheme units which in turn are linked to the performance of the Vitality Group Inc. share price. The bonus is earned if the participant is employed on each vesting date. The units typically vest equally over a 4 year period but 3 year vesting grants are offered as well.

3. **The Discovery Limited phantom scheme**

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

   The 2011 allocations consist of units that replicate the economics of a Discovery Limited share. The 2012 - 2016 allocations were pre-determined combinations of units that replicate the economics of a Discovery Limited share and units that replicate the economics of a call option over a Discovery Limited share.

4. **Acquisition schemes**

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

5. **The VitalityHealth and VitalityLife phantom share scheme**

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

6. **The VitalityHealth and VitalityLife equity share scheme**

   Options to purchase shares in Discovery Holdings Europe Limited were issued to participants. The participants have the option to sell the shares at any point in time until 12 March 2019 on which their holding company, Discovery Group Europe Limited, has an obligation to purchase the shares from them.

32. Share-based payment expenses continued

The share option schemes mentioned in 1 and 6 on the previous page have been classified as equity-settled schemes and therefore a share-based payment reserve has been recognised.

The schemes mentioned in 2, 3, 4 and 5 have been classified as cash-settled schemes and a liability is raised in terms of IFRS 2.

The following is a summary of the terms and conditions of the share options granted:

Date granted	Option price	Final vesting date	Shares under option at beginning of year	Options granted during year	Options delivered during year	Options cancelled or adjusted during year	Shares under option at end of year
1. BEE staff share trust							
01/07/2011 - 30/06/2012	R 0.00	30/09/2017	77 830	-	(62 560)	(10 307)	4 963
01/07/2012 - 30/06/2013	R 0.00	30/09/2018	48 794	-	(17 557)	(20 338)	10 899
01/07/2013 - 30/06/2014	R 0.00	30/09/2019	165 704	-	(48 811)	(4 918)	111 975
01/07/2014 - 30/06/2015	R 0.00	30/09/2020	55 178	-	(9 007)	(19 150)	27 021
01/07/2015 - 30/06/2016	R 122.40	01/03/2021	14 705	-	-	-	14 705
01/07/2015 - 30/06/2016	R 121.50	01/04/2021	58 271	-	-	(8 889)	49 382
01/07/2015 - 30/06/2016	R 0.00	30/09/2021	80 761	-	(473)	(16 344)	63 944
01/07/2016 - 30/06/2017	R 113.00	30/09/2021	-	8 496	-	-	8 496
01/07/2016 - 30/06/2017	R 122.50	30/09/2021	-	130 024	-	-	130 024
01/07/2016 - 30/06/2017	R 0.00	30/04/2022	-	176 642	-	(4 094)	172 548
2. The Vitality Group phantom stock plan							
01/10/2012	USD 0.00	01/10/2016	630 741	-	(630 741)	-	-
01/10/2013	USD 0.00	01/10/2017	1 894 415	-	(935 722)	(384 756)	573 937
01/10/2014	USD 0.00	01/10/2018	3 615 481	-	(1 100 223)	(1 601 364)	913 894
01/10/2015	USD 0.00	01/10/2019	2 760 579	-	(120 000)	(1 087 038)	1 553 541
01/10/2016	USD 0.00	01/10/2020	-	1 986 681	(123 288)	-	1 863 393
3. The Discovery Limited phantom scheme							
1/07/2011 to 30/06/2012	R 0.00	30/09/2016	799 750	-	(795 925)	(3 825)	-
1/07/2012 to 30/06/2013	R 54.75	30/09/2017	2 169 460	-	(1 074 812)	(76 038)	1 018 610
1/07/2012 to 30/06/2013	R 0.00	30/09/2017	755 851	-	(374 620)	(25 346)	355 885
1/07/2013 to 29/09/2013	R 0.00	30/06/2017	827 428	-	(754 365)	315 199	388 262
30/09/2013 to 30/06/2014	R 84.76	30/09/2018	1 673 083	-	(549 672)	(82 889)	1 040 522
30/09/2013 to 30/06/2014	R 0.00	30/09/2018	843 231	-	(277 066)	(41 444)	524 721
1/07/2014 to 30/06/2015	R 97.89	30/09/2019	2 512 227	-	(616 526)	(138 201)	1 757 500
1/07/2014 to 30/06/2015	R 0.00	30/09/2019	1 353 601	-	(332 635)	(142 225)	878 741
1/07/2015 to 30/06/2016	R 134.94	30/09/2020	2 224 454	-	-	(204 319)	2 020 135
1/07/2015 to 30/06/2016	R 0.00	30/09/2020	1 149 253	-	-	(144 993)	1 004 260
1/07/2016 to 30/06/2017	R114.96 - R127.22	30/09/2021	-	545 872	(3 367)	(1 566)	540 939
1/07/2016 to 30/06/2017	R 0.00	30/09/2021	-	2 521 193	(6 735)	(46 582)	2 467 876
4. Acquisition schemes							
1/07/2011 to 30/06/2012	R 0.00	30/06/2017	44 747	-	(36 742)	(8 005)	-
1/07/2012 to 30/06/2013	R 0.00	30/06/2018	91 152	-	(48 531)	220	42 841
1/07/2013 to 30/06/2014	R 0.00	30/06/2019	769 772	-	(675 203)	(1 487)	93 082
1/07/2014 to 30/06/2015	R 0.00	30/06/2020	817 120	-	(90 851)	(34 299)	691 970
1/07/2015 to 30/06/2016	R 0.00	30/06/2021	831 410	-	(10 915)	(12 199)	808 296
1/07/2016 to 30/06/2017	R 0.00	30/06/2022	-	849 502	-	(23 309)	826 193

32. Share-based payment expenses continued

Date granted	Option price	Final vesting date	Shares under option at beginning of year	Options granted during year	Options delivered during year	Options cancelled or adjusted during year	Shares under option at end of year
5. The VitalityHealth and VitalityLife phantom share scheme							
06/11/2012	£0.00	06/11/2016	21 738	-	(21 738)	-	-
04/11/2013	£0.00	04/11/2017	80 848	-	(39 633)	(4 057)	37 158
27/01/2014	£0.00	27/01/2018	1 958	-	(979)	-	979
04/12/2014	£0.00	04/12/2018	40 665	-	(12 529)	(7 035)	21 101
07/01/2015	£0.00	07/01/2019	3 145	-	-	-	3 145
01/09/2015	£154.13	01/09/2019	42 649	-	-	(2 693)	39 956
30/10/2015	£0.00	30/10/2019	99 268	-	-	(9 936)	89 332
20/11/2016	£0.00	20/11/2020	-	125 877	-	(7 214)	118 663
22/12/2016	£0.00	22/12/2020	-	2 144	-	-	2 144
6. The VitalityHealth and VitalityLife equity share scheme							
12/03/2015	£0.00	12/03/2019	57 739	-	(4 541)	-	53 198

The Black-Scholes model was used to calculate the fair value of the following options based on the assumptions in the below table:

	Spot price	Exercise price	Option term	Volatility	Dividend yield
BEE staff share trust					
Originally issued on:					
-13 September 2005	R 21.47	R 21.47	2 to 5 years	32.7% - 35.5%	-
Phantom scheme					
- issued between					
30/09/2016 and 30/09/2017	R 127.92	R114.96 - R127.22	up to 4.25 years	28.42% - 29.86%	0.00-1.60
Issued on:					
- 30/09/2015	R 127.92	R 134.94	up to 3.25 years	29.2%	0.00-1.25
- 30/09/2014	R 127.92	R 97.89	up to 2.25 years	31.4%	0.00-1.18
- 30/09/2013	R 127.92	R 84.76	up to 1.25 years	23.6%	0.00-1.06
- 30/09/2012	R 127.92	R 54.75	up to 0.25 years	20.6%	-

The VitalityHealth and VitalityLife phantom share scheme is cash settled and thus repriced at each reporting date. The value of the shares and options allocated are dependent on the performance of VitalityLife and VitalityHealth, more specifically the Value of In Force ("ViF") of Vitality Life and the Embedded Value ("EV") of Vitality Health. The valuation of the Discovery Holdings Europe Limited equity share scheme options, is calculated on the same basis.

The Phantom schemes and Acquisition schemes are cash-settled and are thus repriced at each reporting date. The fair value of shares granted under these schemes during the current financial year, has been calculated using the closing price of R127.92 adjusted for expected future dividends that will be declared by Discovery during the vesting period.

32. Share-based payment expenses continued

32.2 Black Economic Empowerment (BEE) transaction and IFRS 2

Discovery concluded a BEE transaction in September 2005 pursuant to which 38 725 909 shares were issued to BEE parties as follows:

BEE parties	Number of shares issued	Number of shares settled	Number of shares outstanding	Date of settlement	Subscription price per
Dlamini SPV	200 000	(200 000)	-	15 April 2009	0.00
Zilwa SPV	200 000	(200 000)	-	9 Dec 2010	0.00
WDBIH SPV	17 703 273	(17 703 273)	-	6 Dec 2013	0.11
Discovery Foundation	14 226 181	(14 226 181)	-	8 Dec 2015	0.00
Maphai SPV	1 106 455	(1 106 455)	-	9 Dec 2016	1.72
BEE staff share trust	5 290 000	(4 925 972)	225 621	-	0.00

Mechanics of the transaction with BEE partners other than BEE staff share trust (BEE parties)

In terms of the original transaction, the difference between the market value of the ordinary shares issued to the BEE parties of R715 million and the subscription consideration of R3.9 million represented an outstanding funded amount provided by Discovery shareholders (the funded amount). The BEE parties would provide Discovery and its subsidiaries with a right to purchase, at the end of an initial period of ten years, such number of ordinary shares at 0.1 cent per share (the par value) that would provide Discovery with a notional return on this funded amount (the Discovery repurchase agreement).

In order to allow the BEE parties to retain the full number of Discovery shares originally issued to them, the BEE parties had a 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 in terms of the Discovery repurchase agreement.

Shares acquired by the BEE parties ranked *pari passu* with existing Discovery shares. The BEE parties undertook 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 distribution.

Refer to note 15.1 for disclosure regarding the expiry and refinancing of BEE transactions in the current and prior financial year. All amounts funded in terms of the September 2005 BEE transaction have now been repaid.

33. Finance costs

R million	Group 2017	Group 2016
Interest expense on:		
- Bank loan	**419**	245
- Finance lease liability	**29**	13
- Accounts payable balances	**30**	35
	478	293

34. Foreign exchange gains and losses

Net foreign exchange (losses)/gains	**(21)**	18

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

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35. Taxation

R million	Group 2017	Group 2016
Charge for the year:		
Current taxation	**906**	913
Normal taxation	**904**	912
Capital gains taxation	**2**	1
Deferred taxation	**372**	827
	1 278	1 740
	%	%
Taxation rate reconciliation		
Effective taxation rate	**22.1**	31.8
Subsidiary losses not provided for	**(0.8)**	(3.5)
Tax on Individual Policyholder Fund prior year losses raised	**7.0**	-
Capital profits and dividend income	**0.8**	0.3
Disallowed expenditure	**(1.3)**	(1.0)
Non-taxable income	**0.1**	0.2
Tax rate decrease in the UK	**(0.1)**	0.1
Tax rate differences	**0.3**	(0.3)
Other permanent differences	**(0.1)**	0.4
Standard rate of taxation	**28.0**	28.0

For South African entities that are in a tax paying position, tax has been provided at 28% (2016: 28%).

Taxation in respect of the South African life insurance operations is determined in accordance with the rates and basis applicable to section 29A of the Income Tax Act at the reporting date.

36. Earnings per share

	Group 2017	Group 2016
Basic earnings per share		
Earnings per share is based on net profit after tax attributable to ordinary shareholders and the weighted number of ordinary shares in issue.		
Net profit attributable to ordinary shareholders (R million)	**4 411**	3 655
Weighted number of ordinary shares in issue (000's)	**644 651**	637 608
Undiluted earnings per share (cents)	**684.2**	573.1
Diluted earnings per share		
Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Discovery has two categories of dilutive potential ordinary shares namely: - shares issued from the staff share trusts which have not been delivered to participants - shares issued to BEE parties		
Weighted average ordinary shares in issue (000's) adjusted for:	**644 651**	637 608
- Weighted average ordinary shares in the staff share trusts (000's)	**392**	432
- Weighted average ordinary shares issued to BEE parties (000's)	**193**	4 494
	645 236	642 534
Diluted earnings per share (cents)	**683.6**	568.8

36. Earnings per share continued

	Group 2017	Group 2016
Headline earnings		
Headline earnings per share is based on the net profit after tax attributable to ordinary shareholders adjusted for items of a capital nature and the weighted average number of ordinary shares in issue.		
Headline earnings reconciliation (R million)		
Net profit attributable to ordinary shareholders	**4 411**	3 655
Adjusted for:		
- gain from business combination	**-**	(8)
- gain on disposal of property and equipment	**(1)**	(2)
- realised gains on available-for-sale financial assets	**(8)**	(5)
- capital gains tax on realised gains on available-for-sale financial assets	**2**	1
Headline earnings	**4 404**	3 641
Headline earnings per share (cents):		
- undiluted	**683.1**	571.1
- diluted	**682.5**	566.7
Normalised headline earnings (R million)		
Normalised headline earnings is calculated by adjusting headline earnings with significant items that are not considered to be part of Discovery's normal operations.		
Headline earnings	**4 404**	3 641
- accrual of dividends payable to preference shareholders	**(1)**	(4)
- additional 54.99% share of DiscoveryCard profits capitalised to intangible assets	**-**	86
- amortisation of intangibles from business combinations	**171**	275
- deferred tax on amortisation of intangibles from business combinations	**(17)**	(51)
- rebranding and business acquisition expenses	**99**	365
Normalised headline earnings	**4 656**	4 312
Normalised headline earnings per share (cents):		
- undiluted	**722.2**	676.3
- diluted	**721.5**	671.1

37. Cash flow information

R million	Group 2017	Group 2016
37.1 Cash generated by operations		
Profit before taxation	**5 772**	5 470
Adjusted for:		
Investment income	**(2 588)**	(2 110)
Realised investment gains and losses	**(24)**	(73)
Financing costs	**478**	293
Premiums, claims and investment charges for liabilities under investment contracts	**1 105**	2 760
Non-cash items:		
Amortisation of software	**436**	348
Amortisation of intangibles from business combinations	**171**	275
Deferred acquisition costs	**(48)**	(326)
Deferred revenue	**-**	98
Depreciation	**263**	243
Gain on fair value hedge	**237**	(68)
Gain on disposal of property and equipment	**(3)**	(2)
Derecognition of property and equipment	**21**	9
Derecognition of intangible assets	**-**	4
Operating lease payments in advance	**-**	49
Provision for bad debts	**37**	32
Provision for employee benefits	**46**	36
Share-based payment expenses	**239**	314
Share of net gains/(losses) in associates	**(26)**	66
Transfer to assets under insurance contracts	**(5 346)**	(5 591)
Transfer to assets under reinsurance contracts	**109**	(41)
Transfer to liabilities under insurance contracts	**6 625**	6 250
Transfer to liabilities under reinsurance contracts	**1 974**	1 127
Fair value adjustment to liabilities under investment contracts	**248**	695
Translation differences	**28**	38
Unearned premiums	**267**	(68)
Unrealised gains from business combinations	**-**	(8)
Unrealised gains on foreign exchange	**(87)**	(52)
Unrealised gains on investments at fair value through profit or loss	**(262)**	(1 287)
Working capital changes:		
Loans and receivables including insurance receivables	**(1 614)**	(923)
Trade and other payables	**(2 532)**	2 622
	5 526	10 180
37.2 Taxation paid		
Balance at beginning of the year	**(37)**	(72)
Taxation charged for the year in the income statement	**(1 278)**	(1 740)
Adjustment for movement in deferred taxation	**372**	827
Taxation charged for the year in other comprehensive income	**6**	(24)
Acquisition of subsidiary	**-**	*
Foreign currency movement	**3**	2
Balance at end of the year	**189**	37
Taxation paid	**(745)**	(970)
37.3 Proceeds from issuance of shares		
Ordinary shares issued to BEE partner	**-**	817
	-	817

* Amount is less than R500 000.

37. Cash flow information continued

R million	Group 2017	Group 2016
37.4 Movement of borrowings		
Balance at beginning of the year excluding bank overdraft	**5 380**	954
Assets purchased on finance lease	**268**	117
Increase in borrowings	**3 514**	7 608
Raising fees capitalised	**(1)**	(16)
Cash flow hedge capitalised	**-**	29
Interest accrued not paid	**41**	16
Repayment of borrowings	**(366)**	(3 211)
Foreign currency adjustment	**(313)**	(117)
Balance at end of the year excluding bank overdraft	**8 523**	5 380

38. Commitments

38.1 Capital commitments

Capital expenditure approved but not contracted for at the reporting date is as follows:		
Property and equipment including new head office leasehold improvements	**1 151**	748
Intangible assets	**662**	753
Development costs for Discovery Bank	**665**	661
	2 478	2 162

38.2 Operating lease commitments

Discovery has various operating lease agreements. Most leases contain renewal options. Lease terms do not contain restrictions on Discovery's activities concerning dividends, additional debt or further leasing.

Discovery leases certain computer and office equipment under operating leases. The remaining periods of the leases are from two months to four years. The future minimum commitments are as follows:

Due within one year	**88**	76
Due within two to five years	**90**	72
Cash flow commitment	**178**	148

Discovery leases certain land and buildings under operating leases. The remaining periods of the leases are from two months to fifteen years. The future minimum commitments in terms of the leases of land and buildings, including Discovery's operational head office, are as follows:

Due within one year	**352**	218
Due within two to five years	**1 827**	1 509
Due after five years	**6 242**	6 464
Cash flow commitment	**8 421**	8 191
Accrued to a liability (refer to note 21)	**(71)**	(76)
Net commitment	**8 350**	8 115

In February 2014, Discovery concluded an agreement to develop Discovery’s new head office and is expecting to take occupation on 1 January 2018. The initial rental will be approximately R266 million per annum and will escalate at a rate of 7% per annum compounded annually. The initial lease period, commencing 1 November 2017, is for 15 years with the option to renew.

39. Dividends per share

39.1 Dividends per ordinary share

The dividends paid in 2017 totalled R1 152 million and comprised a final dividend of 90 cents per share paid on 10 October 2016 and an interim dividend of 88 cents per share paid on 20 March 2017.

The dividends paid in 2016 totalled R1 130 million and comprised a final dividend of 89 cents per share paid on 12 October 2015 and an interim dividend of 85.5 cents per share paid on 22 March 2016.

39.2 Dividends per preference share

The dividends paid in 2017 totalled R83 million and comprised a final dividend of 514.24658 cents per share paid on 19 September 2016 and an interim dividend of 529.31507 cents per share paid on 13 March 2017.

The dividends paid in 2016 totalled R75 million and comprised a final dividend of 458.699 cents per share paid on 21 September 2015 and an interim dividend of 480.06849 cents per share paid on 14 March 2016.

40. Contingencies

The Group is exposed to the following contingencies at 30 June 2017:
- VitalityHealth has provided certain volume guarantees to its reinsurance providers. Discovery Limited has guaranteed these obligations.
- In terms of the agreement entered into with Hannover Reinsurance, Discovery Limited has guaranteed the obligations of Discovery Insure to Hannover Reinsurance.

41. Related parties

41.1 List of related parties as defined

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

Associates and Joint Ventures
Details of Discovery's material associates and joint ventures are contained in note 9.

Corporate investors
RMI Holdings Limited has a 25.04% shareholding in Discovery Limited. Included in the RMI Holdings group structure are the following subsidiaries and associates which are also considered to be related parties:
- MMI Holdings Limited.
- OUTsurance Holdings Limited.
- RMBSI Investments Proprietary Limited.

Besides the transaction with RMI Holdings discussed below, Discovery did not enter into any other transactions with these related parties during the current or prior financial year.

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

A list of the directors and prescribed officers of Discovery Limited can be found on page 17.

It is not considered necessary to disclose details of key management family members and their influenced or controlled separate entities. To the extent specific transactions have occurred between Discovery and these related parties (as defined in IAS 24) the details are included in the aggregate disclosure contained below under key management and where significant, full details of all relationships and terms of the transactions are provided.

41. Related parties continued

41.2 Transactions with related parties

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

Discovery Health Medical Scheme (DHMS)

Discovery Health administers DHMS and provides managed care services for which it charges an administration fee and a managed healthcare fee respectively. These fees are determined on an annual basis and approved by the trustees of DHMS. The fees totalled R5 090 million (2016: R4 711 million). Discovery offers the members of DHMS access to the Vitality programme. Discovery Health also provides wellness services to DHMS. The fees received for these services totalled R38 million (2016: R18 million). Interest between Discovery Health and DHMS is calculated at prime-linked rates on the daily outstanding balance. Interest received from DHMS amounted to R1 million (2016: R1 million).

Discovery Third Party Recovery Services (DTPRS) paid DHMS R14 million (2016: R11 million) to purchase all the risks and rewards of ownership to the claims due from the Road Accident Fund up to 31 December 2016 (2016: up to 31 December 2015). DTPRS also provides a service to DHMS to recover all claims that are due from the Compensation for Occupational Injuries and Diseases. DTPRS received R20 million (2016: R17 million) for this service. DTPRS owes DHMS R2 million (2016: R3 million) at year-end.

Discovery Vitality receives monthly contributions from DHMS members that have activated the Vitality Wellness programme through various product integrations. The membership fees totalled R1 383 million for the year ended 30 June 2017 (2016: R1 309 million).

DHMS owes the Discovery Group R576 million (2016: R553 million) at year-end.

Closed schemes

Discovery Health administers the following restricted membership medical schemes:

- Anglo Medical Scheme.
- Anglovaal Group Medical Scheme.
- Bankmed Medical Scheme.
- BMW Employees Medical Aid Scheme.
- Glencore Medical Scheme (effective 1 July 2016).
- LA Health Medical Scheme.
- Lonmin Medical Scheme.
- Malcor Medical Aid.
- Naspers Medical Fund.
- Netcare Medical Scheme (effective 1 January 2017).
- Quantum Medical Aid Society.
- Remedi Medical Scheme.
- Retail Medical Scheme.
- TFG Medical Scheme.
- Tsogo Sun Group Medical Scheme.
- University of KwaZulu-Natal Medical Scheme.
- WITS Medical Aid Fund.

Discovery Health charges these schemes administration fees which are determined on an annual basis and approved by the trustees of the respective closed schemes. The fees totalled R777 million (2016: R547 million).

Discovery Vitality receives monthly contributions from the closed scheme members that have activated the Vitality Wellness programme through various product integrations. The membership fees totalled R76 million (2016: R56 million).

DTPRS paid Bankmed R9 million to purchase all the risks and rewards of ownership for the claims due from the Road Accident Fund up to 31 August 2016. DTPRS also provides a service to Bankmed to recover all claims that are due from the Compensation for Occupational Injuries and Diseases. DTPRS received R20 573 for this service.

Discovery purchased PrimeMed in October 2015. PrimeMed administered the Netcare Medical Scheme until 31 December 2016, for which it charged an administration fee. The fees totalled R19 million for the 9 months ended 30 June 2016.

Amounts due to the Discovery Group at year-end totalled R73 million (2016: R73 million).

41. Related parties continued

Cambridge Mobile Telematics Inc. (CMT)

Discovery Insure procured the services of CMT to develop software for the smartphone telematics platform. R0.6 million (2016: R2 million) has been paid to CMT in respect of this software.

Discovery Insure also paid fees on a monthly basis to CMT for the collation and interpretation of data and the translating of driving behaviour into scorable events. Fees paid for the year totalled R9.6 million (2016: R10 million).

Discovery Franchises

Discovery has established a network of 39 franchises in order to establish a national footprint for its products. Discovery has paid R274 million (2016: R266 million) in fees to the franchises.

The franchises participate in the Acquisition Scheme (refer to note 32 for further details). During the year, R19 million (2016: R14 million) was accrued for in terms of this scheme.

The Discovery Foundation

The Discovery Foundation was launched in 2006 and is an independent shareholder of Discovery, with its own trustees. It forms one arm of Discovery's Black Economic Empowerment transaction. The principal aim of the Discovery Foundation is to invest in the education and training of medical specialists and the development of academic and research centres, with particular focus on those areas with greatest need.

The Discovery Foundation received contributions from Discovery of R29 million during the year (2016: R27 million). Discovery also paid a management fee of R3 million (2016: R3 million).

The Discovery Foundation has invested R63 million (2016: R61 million) in Discovery Unit Trusts.

The Discovery Fund

A fund for sustainable non-governmental healthcare projects, especially in primary healthcare. These projects complement the delivery of primary and preventative care in the public sector and help to relieve the burden on state facilities.

The Discovery Fund received contributions from Discovery of R29 million during the year (2016: R28 million). Discovery also paid a management fee of R2 million (2016: R2 million).

Discovery staff pension and provident funds

A pension and provident fund has been set-up specifically for the Discovery staff. Contributions made to this fund during the year amounted to R215 million (2016: R184 million). The pension and provident fund has invested R879 million (2016: R780 million) in Discovery Invest Target Retirement Funds.

Key management personnel of Discovery Limited, families of key management (as defined in IAS 24) and entities significantly influenced or controlled by key management

(i) Discovery Limited key management personnel's compensation, paid by the Company or on behalf of the Company for services rendered to Discovery Limited, is detailed in the Directorate on pages 173-178.

(ii) Aggregate details of insurance, annuity and investment transactions between Discovery Limited, any subsidiary, associate or joint venture of Discovery Limited and key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management:

Insurance contracts

R'000	Aggregate insured cover 2017	Aggregate insured cover 2016	Premiums received 2017	Premiums received 2016	Claims paid 2017	Claims paid 2016
Life insurance	**1 095 050**	859 757	**6 124**	5 302	**-**	-
Short-term insurance	**556 876**	442 412	**2 403**	2 087	**4 673**	604

Investment contracts

R'000	Investment value 2017	Investment value 2016	Premiums received 2017	Premiums received 2016	Withdrawal benefits 2017	Withdrawal benefits 2016	Investment returns 2017	Investment returns 2016
Investment contacts	**72 676**	62 569	**13 692**	8 654	**4 429**	6 997	**844**	219

41. Related parties continued

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

Health insurance

R'000	Premiums received 2017	Premiums received 2016	Claims paid 2017	Claims paid 2016
Health insurance	**37**	26	**174**	127

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

Vitality loyalty programme

R'000	Premiums received 2017	Premiums received 2016	Amounts paid 2017	Amounts paid 2016
Vitality benefits	**70**	34	**1 286**	642

DiscoveryCard

R'000	Card fees received 2017	Card fees received 2016	Discounts paid 2017	Discounts paid 2016
DiscoveryCard	**298**	164	**96**	86

Key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management accrued 486 846 Discovery miles as part of the DiscoveryCard loyalty programme for the year ended 30 June 2017 (2016: 324 966).

(v) Aggregate shareholdings of key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management, in Discovery Limited as at 30 June 2017 was 93 607 020 ordinary shares (2016: 94 271 499 ordinary shares).

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

- CSI donations and management fees of R32 million (2016: R30 million) were paid to the Discovery Foundation in which an executive director of Discovery has significant influence.
- Sponsorship and enterprise development grants to the value of R0.75 million (2016: R0.4 million) were made to organisations where members of key management personnel have significant influence.
- Discovery paid R1 million (2016: R0.5 million) in legal fees to a company in which a non-executive director of Discovery has significant influence.
- Discovery acquired paintings and other services to the value of R1.4 million (2016: R0.8 million) from a company controlled by a family member of key management personnel.

42. Events after reporting date

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 income reserves of the Company. A dividend withholding tax of 20% will be applicable to all preference 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 were 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:

No ordinary cash dividend was declared between the reporting date, being 30 June 2017 and the date of approval of the Annual Financial Statements, namely 6 September 2017. A cash dividend is expected to be declared on 18 September 2017.

Discovery Limited

Company statement of financial position

at 30 June 2017

R million	Notes	Company 2017	Company 2016
Assets			
Investments in subsidiaries	1	**16 444**	14 309
Investment in associate	2	**831**	399
Financial assets			
- Available-for-sale financial assets	3	**56**	26
- Loans and receivables	4	**1**	-
- Loans to subsidiaries	6	**3 046**	1 356
- Loans to BEE partners	7	**101**	92
- Trade and other receivables	8	**52**	-
Deferred income tax asset	14	**2**	-
Current income tax asset		**-**	21
Cash and cash equivalents	20.6	**219**	4
Total assets		**20 752**	16 207
Equity			
Capital and reserves			
Ordinary share capital and share premium	9.1	**8 496**	8 496
Preference share capital	9.2	**779**	779
Other reserves		**286**	276
Retained earnings		**3 942**	4 242
Total equity		**13 503**	13 793
Liabilities			
Financial liabilities			
- Borrowings at amortised cost	10	**3 630**	1 621
- Derivatives	11	**15**	-
- Trade and other payables	12	**2 424**	792
- Loans from subsidiaries	13	**1 175**	-
Deferred income tax	14	**-**	1
Current income tax liabilities		**5**	-
Total liabilities		**7 249**	2 414
Total liabilities and equity		**20 752**	16 207

* Amount is less than R500 000.

Discovery Limited

Income statement

for the year ended 30 June 2017

R million	Notes	Company 2017	Company 2016
Investment income	15	**1 297**	2 577
Other income	16	**27**	20
Marketing and administration expenses	17	**(14)**	(7)
Impairment of investment in subsidiaries	18	**(108)**	(155)
Profit from operations		**1 202**	2 435
Finance costs		**(254)**	(155)
Foreign exchange (losses)/gains		**(23)**	137
Profit before tax		**925**	2 417
Taxation	19	**10**	(65)
Profit for the year		**935**	2 352
Attributable to:			
- ordinary shareholders		**852**	2 277
- preference shareholders		**83**	75
		935	2 352

Statement of other comprehensive income

for the year ended 30 June 2017

R million	Company 2017	Company 2016
Profit for the year	**935**	2 352
Items that are or may be reclassified subsequently to profit or loss:		
Change in available-for-sale financial assets	**2**	1
- unrealised gains	**3**	1
- capital gains tax on unrealised losses/gains	**(1)**	*
Cash flow hedges	**(6)**	(26)
- unrealised losses	**(15)**	(29)
- deferred tax	**4**	(1)
- (losses)/gains recycled to profit or loss	**5**	4
Other comprehensive loss for the year, net of tax	**(4)**	(25)
Total comprehensive income for the year	**931**	2 327
Attributable to:		
- ordinary shareholders	**848**	2 252
- preference shareholders	**83**	75
	931	2 327

* Amount is less than R500 000.

Discovery Limited

Company statement of changes in equity

for the year ended 30 June 2017

R million	Share capital and share premium	Preference share capital	Hedging reserve	Share-based payment reserve	Available-for-sale investments	Retained earnings	Total
Year ended 30 June 2016							
At beginning of the year	7 679	779	(3)	300	4	3 095	11 854
Total comprehensive income for the year	-	75	(26)	-	1	2 277	2 327
Profit for the year	-	75	-	-	-	2 277	2 352
Other comprehensive income	-	-	(26)	-	1	-	(25)
Transactions with owners	817	(75)	-	-	-	(1 130)	(388)
Increase in ordinary shares	817	-	-	-	-	-	817
Share issue costs	*	-	-	-	-	-	*
Dividends paid to ordinary shareholders	-	-	-	-	-	(1 130)	(1 130)
Dividends paid to preference shareholders	-	(75)	-	-	-	-	(75)
Balance at 30 June 2016	8 496	779	(29)	300	5	4 242	13 793
Year ended 30 June 2017							
At beginning of the year	**8 496**	**779**	**(29)**	**300**	**5**	**4 242**	**13 793**
Total comprehensive income for the year	**-**	**83**	**(6)**	**-**	**2**	**852**	**931**
Profit for the year	**-**	**83**	**-**	**-**	**-**	**852**	**935**
Other comprehensive income	**-**	**-**	**(6)**	**-**	**2**	**-**	**(4)**
Transactions with owners	**-**	**(83)**	**-**	**14**	**-**	**(1 152)**	**(1 221)**
Increase in ordinary shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Share issue costs	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Increase in BEE share option scheme	**-**	**-**	**-**	**14**	**-**	**-**	**14**
Dividends paid to ordinary shareholders	**-**	**-**	**-**	**-**	**-**	**(1 152)**	**(1 152)**
Dividends paid to preference shareholders	**-**	**(83)**	**-**	**-**	**-**	**-**	**(83)**
Balance at 30 June 2017	**8 496**	**779**	**(35)**	**314**	**7**	**3 942**	**13 503**

* Amount is less than R500 000.

Discovery Limited

Company statement of cash flows

for the year ended 30 June 2017

R million	Notes	Company 2017	Company 2016
Cash flow from operating activities		**3 677**	2 831
Cash generated by operations	20.1	**2 767**	656
Dividends received		**1 102**	2 428
Interest received		**5**	29
Interest paid		**(233)**	(155)
Taxation received/(paid)	20.2	**36**	(127)
Cash flow from investing activities		**(4 220)**	(3 640)
Increase investment in subsidiary	20.3	**(2 229)**	(4 099)
Increase investment in associate	20.4	**(432)**	-
Purchase of financial assets	3	**(27)**	(1 629)
Disposal of financial assets	3	**-**	2 833
Proceeds from the settlement of BEE loans	7	**-**	8
Proceeds from the settlement of loans granted		**-**	1
Increase in loans granted	6	**(1 532)**	(754)
Cash flow from financing activities		**758**	812
Proceeds from issuance of ordinary shares	9.1	**-**	817
Share issue costs	9.1	**-**	*
Proceeds from long-term borrowings	20.5	**1 998**	4 200
Repayment of long-term borrowings	20.5	**(5)**	(3 000)
Dividends paid to ordinary shareholders		**(1 152)**	(1 130)
Dividends paid to preference shareholders		**(83)**	(75)
Net increase in cash and cash equivalents		**215**	3
Cash and cash equivalents at beginning of the year		**4**	1
Cash and cash equivalents at end of the year	20.6	**219**	4

* Amount is less than R500 000.

1. Investments in subsidiaries

	Issued ordinary capital R million		Effective percentage holding %		Investment in subsidiaries [4] R million	
	2017	2016	**2017**	2016	**2017**	2016
Vitality Group International Inc. [1]	**2 380**	2 181	**99. 99**	99. 98	**573**	439
Discovery Connect	*****	*	**100**	100	*****	*
Discovery Control Services	*****	*	**100**	100	*****	*
Discovery Finance Co Europe Limited [2]	**393**	393	**100**	100	**393**	393
Discovery Group Europe Limited [2]	**11296**	10 252	**100**	100	**11 283**	10 239
Discovery Health	**271**	271	**100**	100	**480**	469
Discovery Insure	**1 969**	1 784	**100**	100	**1 077**	934
Discovery Life	**1 416**	1 416	**100**	100	**1 698**	1 697
Discovery Life Collective Investments	**15**	15	**100**	100	**15**	15
Discovery Life Investment Services	**3**	3	**100**	100	**3**	3
Discovery Pref Holdings Company Ltd	*****	*	**100**	100	*****	*
Discovery Vitality	**1 600**	*	**100**	100	**809**	7
Discovery Vitality International Asia[3]	**211**	211	**100**	100	**113**	113
* Amount is less than R5 000.					**16 444**	14 309

[1] Incorporated in the United States of America.

[2] Incorporated in England and Wales.

[3] Incorporated in Singapore.

[4] Investments in subsidiaries include cost less impairments and the value of share options issued to subsidiary staff. Refer to Company note 20.3 for a detailed movement analysis.

2. Investment in associate and joint ventures

R million	% ownership interest **2017**	2016	Company **2017**	Company 2016
Investment at cost:				
Ping An Health Insurance Company in China, Limited	**25%**	25%	**831**	399
AIA Vitality (Hong Kong) Limited	**44%**	44%	*****	*
			831	399

*Amount is R102.

Refer to Group note 9 for disclosure of the investment in associate and joint ventures.

3. Financial assets - investments

R million	Company **2017**	Company 2016
Available-for-sale financial assets:		
- Mutual funds	**56**	26
	56	26
Movement analysis:		
Balance at beginning of year	**26**	1 229
Additions	**27**	1 606
Disposals	**-**	(2 833)
Gain on fair value adjustment	**3**	1
Investment income reinvested	**-**	23
Balance at end of year	**56**	26

Notes 5.1 to 5.3 apply the look-through basis to the financial assets, to assist in the identification of Discovery's financial risks.

4. Loans and receivables

During the current financial year Discovery Limited granted a loan of R1 million to Discovery Central Services Proprietary Limited (Discovery Central Services) to assist the company's operational requirements. The loan is interest free and will be settled by Discovery Central Services as and when sufficient cash

5. Management of financial risk

Discovery's activities expose it to a variety of financial risks. Financial risks include market risk, credit risk and liquidity risk. Refer to page 90 for a detailed explanation of financial risks and how they are managed.

5.1 Interest rate risk

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

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

R million	Carrying amount	Fixed	Floating
At 30 June 2017			
Available-for-sale financial assets:			
- Debt securities	**11**	**-**	**11**
- Money market securities	**45**	**12**	**33**
Loans to subsidiaries	**3 046**	**-**	**3 046**
Loans to BEE partners	**101**	**-**	**101**
Cash and cash equivalents	**219**	**-**	**219**
	3 422	**12**	**3 410**
At 30 June 2016			
Available-for-sale financial assets:			
- Debt securities	11	-	11
- Money market securities	15	2	13
Loans to subsidiaries	1 356	-	1 356
Loans to BEE partner	92	-	92
Cash and cash equivalents	4	-	4
	1 478	2	1 476

5.2 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Key areas where Discovery Limited is exposed to credit risk are:

• *Financial assets comprising money market and debt instruments* – Discovery Limited is exposed to the issuer's credit standing on these instruments which is monitored by the CCIC by setting a minimum credit rating. The aggregate credit risk exposure for financial assets categorised by credit ratings is provided in the table below.

• *Cash and cash equivalents* – This risk is managed by monitoring exposure to external financial institutions

5. Management of financial risk continued

The following table provides information regarding the credit risk exposure categorised by Moody's credit ratings:

R million	Total	Aaa	Aa1-3	A1-3	Baa1-3	Ba1-3	Not rated
At 30 June 2017							
Available-for-sale financial assets:							
- Debt securities	**11**	**-**	**-**	**-**	**-**	**6**	**5**
- Money market securities	**45**	**4**	**16**	**6**	**-**	**-**	**19**
Loans to subsidiaries	**3 046**	**-**	**-**	**-**	**-**	**-**	**3 046**
Loans to BEE partner	**101**	**-**	**-**	**-**	**-**	**-**	**101**
Cash and cash equivalents	**219**	**-**	**-**	**-**	**219**	**-**	**-**
	3 422	**4**	**16**	**6**	**219**	**6**	**3 171**

The following table provides information regarding the credit risk exposure categorised by Fitch credit ratings that were used in the prior financial year:

R million	Total	AAA	AA+ AA AA-	A+ A A-	BBB BBB+ BBB-	Not rated
At 30 June 2016						
Available-for-sale financial assets:						
- Debt securities	11	-	-	-	11	-
- Money market securities	15	-	2	-	11	2
Loans to subsidiaries	1 356	-	-	-	-	1 356
Loans to BEE partner	92	-	-	-	-	92
Cash and cash equivalents	4	-	-	-	4	-
	1 478	-	2	-	26	1 450

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

5.3 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. due to insufficient cash available to meet commitments as and when due.

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

Cash held by Discovery Limited is managed by Treasury. Treasury invests it in interest-bearing accounts, term deposits and money-market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide headroom as determined by the above-mentioned forecasts. At the reporting date, Discovery Limited had money market funds and cash and cash equivalents of R264 million (2016: R19 million).

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

R million	Total	<1 year	1-5 years	Open ended
At 30 June 2017				
Borrowings	**5 104**	**341**	**4 763**	**-**
Trade and other payables	**2 424**	**-**	**-**	**2 424**
	7 528	**341**	**4 763**	**2 424**
At 30 June 2016				
Borrowings	2 338	135	2 203	-
Trade and other payables	792	-	-	792
	3 130	135	2 203	792

6. Loans to subsidiaries

R million		Company 2017	Company 2016
Balance at beginning of the year		**1 356**	1 466
Additional loan granted		**1 532**	754
Settlement of loan through the issue of shares		**-**	(1 111)
Repayment of loans		**-**	(1)
Interest receivable		**181**	111
Exchange differences		**(23)**	137
Balance at end of the year		**3 046**	1 356
Discovery Group Europe Limited	i	**979**	548
Discovery Health Proprietary Limited	ii	**1 919**	727
Discovery Connect Distribution Services Proprietary Limited	iii	**148**	81
		3 046	1 356
Current		**-**	2
Non-current		**3 046**	1 354
		3 046	1 356

i. Discovery has granted three GBP denominated loans to Discovery Group Europe Limited (DGEL), a foreign subsidiary of Discovery Limited, the terms are as follows:

Loan 1- accrues interest at 400 basis points above 3 month LIBOR and is repayable on 31 July 2020. The value of the loan outstanding at 30 June 2017 is R217 million (GBP 12.7 million) (2016: R241 million (GBP 12.2 million)).

Loan 2- accrues interest at 200 basis points above 3 month JIBAR and is repayable on 11 November 2022. The value of the loan outstanding at 30 June 2017 is R336 million (2016: R307 million).

Loan 3- accrues interest at 600 basis points above 3 month LIBOR and is repayable on 1 April 2027. The value of the loan outstanding at 30 June 2017 is R426 million (GBP 25 million). This loan was granted during the current financial year.

Interest of R46 million was earned in respect of these loans in the current financial year (2016: R57 million) and R23 million foreign exchange gains was recognised in profit and loss (2016: R137 million).

ii. During the current financial year, Discovery Limited has granted loans of R375 million and R696 million to Discovery Health. The loans bear interest at 240 basis points above the 3 month JIBAR and are payable in five years time from the date of issue. The loans will become payable upon maturity and interest is payable quarterly, with the option available for Discovery Health to capitalise the interest to the value of the loan. The value of the loan outstanding at 30 June 2016 is R1 919 million, comprising of capital of R1 747 million and interest of R120 million (2016: R52 million).

iii. During the current financial year, Discovery granted a loan of R53 million to Discovery Connect. The loan bears interest at First National Bank's published prime overdraft lending rate and is repayable on 30 June 2021. The loan and the interest will become payable upon maturity. The value of the loan outstanding at 30 June 2017 is R148 million, comprising of capital of R131 million and interest of R15 million (2016: R2 million).

7. Loans to BEE Partners

R million	**Company 2017**	Company 2016
Balance at the beginning of the year	**92**	91
Loan repaid	**-**	(8)
Interest receivable	**9**	9
Balance at end of the year	**101**	92
Non-current	**101**	92
	101	92

Financial assistance was provided to Discovery's BEE Partners in April 2015 to assist them in following their rights in terms of the Discovery Limited's rights issue. Interest accrues at a rate of prime less 0.5% and is repayable within five years. However, the outstanding balance is repayable immediately if they are no longer a BEE partner.

8. Trade and other receivables

R million	**Company 2017**	Company 2016
Value-added tax	*****	-
Other debtors	**46**	-
Outstanding bank deposits	**6**	-
	52	-

*Amount less than R500 000.

9. Share capital and share premium

9.1 Ordinary share capital and share premium

	Number of shares	Share capital R million	Share premium R million	Total R million
Issued				
At 30 June 2015	647 427 946	1	7 678	7 679
Share movements:				
- treasury shares delivered	-	-	817	817
Share issue costs	-	-	*	*
At 30 June 2016	647 427 946	1	8 495	8 496
Share movements:				
- rights issue	**-**	**-**	**-**	**-**
- shares cancelled	**(582 954)**	**(*)**	**-**	**(*)**
Share issue costs	**-**	**-**	**-**	**-**
At 30 June 2017	**646 844 992**	**1**	**8 495**	**8 496**

* Amount is less than R500 000.

The total authorised number of ordinary shares is 1 billion (2016: 1 billion), with a par value of 0.1 cent per share.

9. Share capital and share premium

9.2 Preference share capital

R million	Company 2017	Company 2016
Authorised		
40 000 000 A no par value preference shares		
20 000 000 B preference shares of R100 each	**2 000**	2 000
20 000 000 C no par value preference shares		
	2 000	2 000
Issued		
8 000 000 B	**800**	800
Share issue costs	**(21)**	(21)
At 30 June	**779**	779

The preference shares are non-compulsory, non-cumulative, non-participating, non-convertible, voluntarily redeemable preference shares and were issued at a coupon rate of 85% of prime rate. With the introduction of dividend withholding tax on 1 April 2012, the coupon rate on the preference shares was increased to 100% of the prime rate.

10. Borrowings at amortised cost

R million	Company 2017	Company 2016
Bank borrowings	**3 630**	1 621
Current	**20**	4
Non-current	**3 610**	1 617
	3 630	1 621

Discovery borrowed R3.6 billion for long term funding requirements. The borrowings were acquired for general corporate purposes in order to fund the various growth initiatives within the Group. Interest accrued was R30 million for the current financial year. The facility has the following profile and salient terms:

Facility amount R million	Interest rate per annum	Maturity date	Capital repayment
500	Fixed at 10.94%	10 June 2021	Maturity
1 100	Fixed at 10.59%	10 June 2021	Annually (1)
375	Fixed at 10.39% (2)	30 September 2021	Maturity
450	Fixed at 10.31% (2)	15 December 2021	Maturity
175	Linked to 3 month JIBAR (3)	10 March 2022	Maturity
800	Fixed at 10.20%	17 March 2022	Maturity
200	Fixed at 10.23%	16 May 2022	Maturity
3 600			

(1) Commencing on 10 June 2019 with final payment on 10 June 2021.
(2) The interest rate has been fixed through interest rate swaps. Refer to page 106.
(3) As at 30 June 2017, interest is accruing at 9.77% per annum.

The borrowings are unsecured senior debt and are not callable or convertible. Interest is payable quarterly in arrears. Refer to note 20.5 for movement analysis of borrowings.

11. Derivative financial liabilities

R million	Company 2017	Company 2016
Interest rate swap	**15**	-
Non-current	**15**	-

Refer to page 106 for a detailed description of the derivative financial instruments listed above.

12. Trade and other payables

R million		Company 2017	Company 2016
Accrued expenditure		**1**	11
Dividends due to shareholders		**4**	4
Intercompany payables		**2 419**	777
		2 424	792
Intercompany payables include:			
Discovery Health Proprietary Limited	i	**2 357**	712
Discovery Pref Holding Company (RF) Limited	ii	**62**	65
		2 419	777

i. Discovery receives funds from Discovery Health Proprietary Limited through a loan account, based on operational requirements. The loan is interest free and is settled as and when sufficient cash becomes available.

ii. Discovery received funds from Discovery Pref Holding Company (RF) Limited through a loan account to assist the company's operational requirements. The loan is interest free and is settled as and when sufficient cash becomes available.

13. Loans from subsidiaries

R million		Company 2017	Company 2016
Discovery Life Limited	i	**500**	-
NewDisc Limited	ii	**675**	-
		1 175	-

i. On 30 June 2017, Discovery Limited issued 5 year term Investment Notes to the value of R500 million. Interest is linked to 3 month JIBAR, currently at 11.51% per annum and is repayable in arrears together with capital on 30 June 2022. The Investment Notes are held by Discovery Life Limited.

ii. The loan from NewDisc Limited is interest free and is repayable on demand.

14. Deferred income tax

R million	Company 2017	Company 2016
Deferred tax asset	**2**	-
- Non-current	**2**	-
Deferred tax liability	**-**	(1)
- Non-current	**-**	(1)
	2	(1)
Movement summary:		
Balance at beginning of the year	**(1)**	*
Deferred tax on cash flow hedge charged to other comprehensive income	**4**	(1)
Deferred tax on investment charged to other comprehensive income	**(1)**	
Income statement charge (refer to Company note 20)	**-**	*
Balance at end of the year	**2**	(1)
Deferred taxation comprises:		
Capital gains tax on unrealised gains on available-for-sale financial instruments	**(2)**	(1)
Cash flow hedge	**4**	-
	2	(1)

* Amount is less than R500 000.

15. Investment income

Available-for-sale interest income	**-**	28
Dividends received from subsidiaries	**1 102**	2 428
At amortised cost interest income	**190**	120
Cash and cash equivalents interest income	**5**	1
	1 297	2 577

16. Other income

Guarantee fees	**27**	20
	27	20

During the prior financial year, Discovery Limited issued a guarantee to HSBC in respect of Discovery Finance Co Europe obligations. It was elected that a guarantee fee would be charged by Discovery Limited. As at 30 June 2017, R27 million in guarantee fees had been charged by Discovery Limited, with the full amount having been paid.

17. Marketing and administration expenses

Marketing and administration expenses comprises:

Audit fees	**3**	1
Professional fees	**9**	3
Other	**2**	3
	14	7

18. Impairment of investments in subsidiaries

R million	Company 2017	Company 2016
Discovery Insure	**43**	155
The Vitality Group Inc.	**65**	-
	108	155

Subsidiaries are tested for impairment at each reporting date.The above subsidiaries had been impaired to the recoverable amount, which is equal to the net asset value of investments. Impairment was considered for the remaining subsidiaries and no indicators of impairment were found.

19. Taxation

R million	Company 2017	Company 2016
South African normal taxation		
Current tax	**(8)**	(65)
Prior year over provision	**18**	*
Deferred tax	**-**	*
	10	(65)

	%	%
Taxation rate reconciliation		
Effective taxation rate	**(1.1)**	2.7
Capital profits and dividend income	**33.3**	28.0
Disallowed expenditure	**(2.2)**	(0.1)
Impairment of subsidiaries	**(3.3)**	(1.8)
Prior year over provision	**1.9**	-
Other permanent differences	**(0.6)**	(0.8)
Standard rate of taxation	**28.0**	28.0

* Amount is less than R500 000

20. Cash flow information

R million	Company 2017	Company 2016
20.1 Cash generated by operations		
Profit before taxation	**925**	2 417
Adjusted for:		
Investment income	**(1 297)**	(2 577)
Finance costs	**254**	155
Non-cash items:		
Impairment of investments in subsidiaries	**108**	155
Unrealised foreign exchange loss/(gain)	**23**	(137)
Working capital changes:		
Loans and receivables	**(53)**	-
Trade and other payables and loans from subsidiaries	**2 807**	643
	2 767	656
20.2 Taxation paid		
Balance at beginning of the year	**21**	(41)
Taxation charged for the year in the statement of comprehensive income	**10**	(65)
Adjustment for movement in deferred taxation	**-**	*
Balance at end of the year	**5**	(21)
	36	(127)

* Amount is less than R500 000.

20. Cash flow information continued

R million	Company 2017	Company 2016
20.3 Increase in investment in subsidiary		
Balance at beginning of the year	**14 309**	9 254
Impairment of investments in subsidiaries	**(108)**	(155)
Conversion of loan to subsidiary to equity	**-**	1 111
Value of share options issued to subsidiary staff	**14**	-
Balance at end of the year	**(16 444)**	(14 309)
	(2 229)	(4 099)
20.4 Increase in investment in associate		
Balance at beginning of the year	**399**	399
Balance at end of the year	**(831)**	-
	(432)	399
20.5 Long-term borrowings		
Balance at beginning of the year	**1 621**	402
Interest accrued	**249**	149
Interest paid	**(233)**	(149)
Cashflow hedge capitalised	**-**	28
Increase in borrowings	**2 000**	4 200
Raising fees capitalised	**(2)**	(9)
Repayment of borrowings	**(5)**	(3 000)
Balance at end of the year	**3 630**	1 621
20.6 Cash and cash equivalents		
Cash at bank and in hand	**219**	4

21. Contingencies

Discovery Limited has provided the following guarantees:

- Discovery Limited has issued a guarantee to HSBC Bank in respect of the obligations of Discovery Finance Company Europe Limited in the amount of GBP 150 million. As at 30 June 2017, Discovery Finance Company Europe Limited owed GBP 127.5 million in respect of these borrowing facilities.
- In terms of the acquisition implementation agreement between Discovery Group Europe Limited, The Prudential Assurance Company Limited and Vitality Health Limited, Discovery Limited has guaranteed the obligations of Discovery Group Europe Limited to The Prudential Assurance Company Limited and Vitality Health Limited, in terms of this agreement.
- VitalityHealth has provided certain volume guarantees to its reinsurance providers. Discovery Limited has guaranteed these obligations.
- In terms of the agreement entered into with Digicore Holdings Limited and C-Track (SA) Proprietary Limited, Discovery Limited has guaranteed the obligations of Discovery Insure to Digicore Holdings Limited.
- In terms of the agreement entered into with Hannover Reinsurance, Discovery Limited has guaranteed the obligations of Discovery Insure to Hannover Reinsurance.
- Discovery Health and Discovery Vitality have guaranteed the borrowing facilities of Discovery Limited and Discovery Pref Holding Company. As at 30 June 2017, Discovery Limited owed R3.6 billion and Discovery Pref Holding Company owed R1.4 billion in respect of these facilities. Discovery Limited has issued a counter guarantee in terms of these facilities.

21. Contingencies continued

- Discovery Central Services has entered into borrowing facilities for an amount of R649 million. R469 million has been drawn down at 30 June 2017. Discovery Health, Discovery Vitality and Discovery Limited have provided guarantees in respect of these facilities.

22. Events after reporting date

Refer to Group note 42 for a list of the events after reporting date.

Directorate

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
Sub-total	-	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
Sub-total	-	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
Sub-total	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.
(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) Director's fees for services rendered by HL Bosman were paid to Rand Merchant Insurance Holdings Limited.
(7) Included in director's fees for SB Epstein is US$ 100 000 for services rendered as director of TVG Inc. Director's fees are paid in USD.
(8) Director's fees for services rendered by F Khanyile were paid to WDB Investment Holdings Proprietary Limited.
(9) Director's fees are paid in GBP.

Directorate

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
Sub-total	-	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
Sub-total	-	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
Sub-total	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 incentive are paid in GBP.
(3) Received a salary paid in GBP from January 2016 in addition to component paid in Rands.
(4) Salary and incentive are paid in USD.
(5) Director's fees for services rendered by HL Bosman were paid to Rand Merchant Insurance Holdings Limited.
(6) Director's fees for services rendered by JJ Durand were paid to Remgro Limited.
(7) Included in director's fees for SB Epstein is US$ 100 000 for services rendered as director of TVG Inc. Director's fees are paid in USD.
(8) Director's fees for services rendered by T Slabbert and F Khanyile were paid to WDB Investment Holdings Proprietary Limited.

Directorate

Directors' participation in share incentive schemes

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

Discovery Limited phantom share scheme

Directors and prescribed officers participation as at 30 June 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	30/09/2012	-	30/09/2017	551 975
	12 945	30/09/2012	54.75	30/09/2017	960 337
	20 072	01/07/2013	-	30/09/2017	2 601 327
	5 947	30/09/2013	-	30/09/2018	755 649
	11 893	30/09/2013	84.76	30/09/2018	557 461
	8 225	30/09/2014	-	30/09/2019	1 038 312
	16 451	30/09/2014	97.89	30/09/2019	648 804
	8 433	30/09/2015	-	30/09/2020	1 057 323
	16 866	30/09/2015	134.94	30/09/2020	345 358
	17 570	30/09/2016	-	30/09/2021	2 171 744
R Farber	4 638	30/09/2012	-	30/09/2017	593 325
	13 915	30/09/2012	54.75	30/09/2017	1 032 279
	18 434	01/07/2013	-	30/09/2017	2 388 973
	6 796	30/09/2013	-	30/09/2018	863 599
	13 592	30/09/2013	84.76	30/09/2018	637 098
	9 401	30/09/2014	-	30/09/2019	1 186 669
	18 801	30/09/2014	97.89	30/09/2019	741 507
	31 870	30/09/2015	-	30/09/2020	3 995 836
	63 739	30/09/2015	134.94	30/09/2020	1 305 156
	37 936	30/09/2016	-	30/09/2021	4 689 088
A Gore	4 638	30/09/2012	-	30/09/2017	593 325
	13 915	30/09/2012	54.75	30/09/2017	1 032 279
	16 295	01/07/2013	-	30/09/2017	2 111 852
	10 194	30/09/2013	-	30/09/2018	1 295 399
	20 388	30/09/2013	84.76	30/09/2018	955 647
	14 101	30/09/2014	-	30/09/2019	1 780 003
	28 201	30/09/2014	97.89	30/09/2019	1 112 231
	14 456	30/09/2015	-	30/09/2020	1 812 482
	28 913	30/09/2015	134.94	30/09/2020	592 039
	32 424	30/09/2016	-	30/09/2021	4 007 776
HD Kallner	4 638	30/09/2012	-	30/09/2017	593 325
	13 915	30/09/2012	54.75	30/09/2017	1 032 279
	27 651	01/07/2013	-	30/09/2017	3 583 460
	6 796	30/09/2013	-	30/09/2018	863 599
	13 592	30/09/2013	84.76	30/09/2018	637 098
	41 581	30/09/2014	-	30/09/2019	5 248 932
	83 162	30/09/2014	97.89	30/09/2019	3 279 869
	9 638	30/09/2015	-	30/09/2020	1 208 405
	19 275	30/09/2015	134.94	30/09/2020	394 686
	75 918	30/09/2016	-	30/09/2021	9 383 861
NS Koopowitz	40 861	01/07/2013	-	30/09/2017	5 295 558

Directorate

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	30/09/2012	-	30/09/2017	593 325
	13 915	30/09/2012	54.75	30/09/2017	1 032 279
	26 360	01/07/2013	-	30/09/2017	3 416 232
	6 796	30/09/2013	-	30/09/2018	863 599
	13 592	30/09/2013	84.76	30/09/2018	637 098
	9 401	30/09/2014	-	30/09/2019	1 186 669
	18 801	30/09/2014	97.89	30/09/2019	741 507
	9 638	30/09/2015	-	30/09/2020	1 208 405
	19 275	30/09/2015	134.94	30/09/2020	394 686
A Ntsaluba	4 638	30/09/2012	-	30/09/2017	593 325
	13 915	30/09/2012	54.75	30/09/2017	1 032 279
	22 489	01/07/2013	-	30/09/2017	2 914 547
	6 796	30/09/2013	-	30/09/2018	863 599
	13 592	30/09/2013	84.76	30/09/2018	637 098
	9 401	30/09/2014	-	30/09/2019	1 186 669
	18 801	30/09/2014	97.89	30/09/2019	741 507
	9 638	30/09/2015	-	30/09/2020	1 208 405
	19 275	30/09/2015	134.94	30/09/2020	394 686
	38 229	30/09/2016	-	30/09/2021	4 725 304
A Pollard	1 546	30/09/2012	-	30/09/2017	197 764
	4 638	30/09/2012	54.75	30/09/2017	344 075
	19 663	01/07/2013	-	30/09/2017	2 548 238
	2 294	30/09/2013	-	30/09/2018	291 446
	4 588	30/09/2013	84.76	30/09/2018	215 030
	3 134	30/09/2014	-	30/09/2019	395 556
	6 267	30/09/2014	97.89	30/09/2019	247 169
	3 213	30/09/2015	-	30/09/2020	402 843
	6 425	30/09/2015	134.94	30/09/2020	131 562
	7 587	30/09/2016	-	30/09/2021	937 793
	15 175	30/09/2016	134.94	30/09/2021	574 655
K Rabson	4 315	30/09/2012	-	30/09/2017	551 975
	12 945	30/09/2012	54.75	30/09/2017	960 337
	20 789	01/07/2013	-	30/09/2017	2 694 231
	5 947	30/09/2013	-	30/09/2018	755 649
	11 893	30/09/2013	84.76	30/09/2018	557 461
	8 225	30/09/2014	-	30/09/2019	1 038 312
	16 451	30/09/2014	97.89	30/09/2019	648 804
	30 665	30/09/2015	-	30/09/2020	3 844 754
	61 330	30/09/2015	134.94	30/09/2020	1 255 828
	17 570	30/09/2016	-	30/09/2021	2 171 744
JM Robertson	4 638	30/09/2012	-	30/09/2017	593 325
	13 915	30/09/2012	54.75	30/09/2017	1 032 279
	20 277	01/07/2013	-	30/09/2017	2 627 871
	6 796	30/09/2013	-	30/09/2018	863 599
	13 592	30/09/2013	84.76	30/09/2018	637 098
	9 401	30/09/2014	-	30/09/2019	1 186 669
	18 801	30/09/2014	97.89	30/09/2019	741 507
	9 638	30/09/2015	-	30/09/2020	1 208 405
	19 275	30/09/2015	134.94	30/09/2020	394 686
	37 936	30/09/2016	-	30/09/2021	4 689 088
DM Viljoen	75 785	01/05/2017	-	30/04/2022	9 222 553

Directorate

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	30/09/2012	-	30/09/2017	593 325
	13 915	30/09/2012	54.75	30/09/2017	1 032 279
	18 434	01/07/2013	-	30/09/2017	2 388 973
	6 796	30/09/2013	-	30/09/2018	863 599
	13 592	30/09/2013	84.76	30/09/2018	637 098
	9 401	30/09/2014	-	30/09/2019	1 186 669
	18 801	30/09/2014	97.89	30/09/2019	741 507
	9 638	30/09/2015	-	30/09/2020	1 208 405
	19 275	30/09/2015	134.94	30/09/2020	394 686
	43 493	30/09/2016	-	30/09/2021	5 375 962
P Moumakwa	4 315	30/09/2012	-	30/09/2017	551 975
	12 945	30/09/2012	54.75	30/09/2017	960 337
	14 983	01/07/2013	-	30/09/2017	1 941 704
	5 947	30/09/2013	-	30/09/2018	755 649
	11 893	30/09/2013	84.76	30/09/2018	557 461
	8 225	30/09/2014	-	30/09/2019	1 038 312
	16 451	30/09/2014	97.89	30/09/2019	648 804
	8 433	30/09/2015	-	30/09/2020	1 057 323
	16 866	30/09/2015	134.94	30/09/2020	345 358
	17 570	30/09/2016	-	30/09/2021	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	Exercise price US$	Final vesting date	Value at 30 June 2017 US$
A Pollard	146 429	01/10/2013	-	01/10/2017	117 143
	312 814	01/10/2014	-	01/10/2018	262 764
	346 287	01/10/2015	-	01/10/2019	305 887
	355 773	01/10/2016	-	01/10/2019	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	Exercise 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

Directorate

Directors' interests in shares

According to the Register of Directors' Interests, maintained by Discovery in accordance with the provisions of section 30(4)(d) of the Companies Act, directors and prescribed officers of Discovery have disclosed the following interest in the ordinary shares of the Company at 30 June:

Directors and prescribed officers	**Direct beneficial**	**Indirect beneficial**	**Total 2017**	Direct beneficial	Indirect beneficial	Total 2016
A Gore	-	49 618 784	**49 618 784**	-	49 618 784	49 618 784
R Farber	55 076	-	**55 076**	139 576	-	139 576
HD Kallner	100 398	-	**100 398**	138 398	-	138 398
NS Koopowitz	250 000	852 764	**1 102 764**	250 000	852 764	1 102 764
HP Mayers	36 948	8 449 550	**8 486 498**	81 948	8 449 550	8 531 498
A Ntsaluba	110 164	-	**110 164**	85 164	-	85 164
A Pollard	1 423 099	-	**1 423 099**	1 453 099	-	1 453 099
JM Robertson	1 404 439	3 390 812	**4 795 251**	1 404 439	3 390 812	4 795 251
B Swartzberg	3 384 227	22 279 011	**25 663 238**	3 384 227	22 279 011	25 663 238
DM Viljoen	10 000	-	**10 000**	-	-	-
Dr J Broomberg	160 842	-	**160 842**	200 842	-	200 842
Dr P Moumakwa	13 284	-	**13 284**	13 284	-	13 284
H Bosman	-	77 027	**77 027**	-	77 027	77 027
Dr BA Brink	25 000	-	**25 000**	30 004	-	30 004
SB Epstein	-	-	**-**	19 250	-	19 250
Dr TV Maphai	1 919	1 074 349	**1 076 268**	1 864	1 429 784	1 431 648
K Rabson	-	755 000	**755 000**	-	825 000	825 000
SE de Bruyn Sebotsa	65 800	-	**65 800**	78 095	-	78 095
AL Owen	33 747	-	**33 747**	33 747	-	33 747
SV Zilwa	-	34 780	**34 780**	-	34 780	34 780
	7 074 943	86 532 077	**93 607 020**	7 313 937	86 957 512	94 271 449

There has been no change in the directors' interests in Discovery Limited's shares between 30 June 2017 and the date of publication of this annual report.

Analysis of shareholders

at 30 June 2017

	Number of shareholders	%	Number of shares	%
Shareholder spread				
1 - 1 000 shares	25 148	76.22	7 164 129	1.11
1 001 - 10 000 shares	6 538	19.82	18 295 196	2.84
10 001 - 100 000 shares	1 020	3.09	30 625 491	4.73
100 001 - 1 000 000 shares	216	0.65	65 362 559	10.10
1 000 001 shares and over	73	0.22	525 397 617	81.22
	32 995	**100.00**	**646 844 992**	**100.00**
Distribution of shares				
Black Economic Empowerment			43 602 009	6.74
Charity			815 932	0.13
Corporate holding			161 944 576	25.04
Custodians			5 079 244	0.79
Exchange-traded fund			7 041 246	1.09
Foreign government			1 411 340	0.22
Hedge fund			3 516 378	0.54
Insurance companies			4 959 450	0.77
Investment trusts			4 151 629	0.64
Local authority			305 225	0.05
Medical Aid Scheme			157 494	0.02
Other managed funds			19 758 175	3.05
Pension funds			93 494 822	14.45
Private investor			117 655 101	18.19
Sovereign wealth			23 888 942	3.69
Trading position			8 205 443	1.27
Unit trusts and mutual funds			150 477 317	23.26
University			184 853	0.03
Venture capital			195 816	0.03
			646 844 992	**100.00**
Public/non-public shareholders				
Non-public shareholders	**27**	**0.08**	**363 784 046**	**56.24**
- Directors of the Company	15	0.04	91 601 626	14.16
- Empowerment*	6	0.02	54 133 394	8.37
- Own holdings	1	0.00	680 268	0.11
- Key management personnel	3	0.01	929 126	0.14
Strategic holdings (more than 5%)	2	0.01	216 439 632	33.46
Public shareholders	**32 968**	**99.92**	**283 060 946**	**43.76**
	32 995	**100.00**	**646 844 992**	**100.00**

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

	Number of shares	%
Beneficial shareholders' holding of 5% or more		
Rand Merchant Insurance Holdings Limited	161 944 576	25.04
Government Employees Pension Fund	54 495 056	8.42
A Gore	49 618 784	7.67