Discovery Vitality Proprietary Limited

(Registration Number: 1999/07736/07)

Annual Financial Statements

for the year ended 30 June 2021

Discovery Vitality Proprietary Limited
(Registration number 1999/07736/07)
Annual Financial Statements
for the year ended 30 June 2021

These Annual Financial Statements cover the financial results of Discovery Vitality Proprietary Limited and were audited in terms of the Companies Act 71 of 2008.

Auditors:	PricewaterhouseCoopers Inc.
Prepared by:	L Thapedi (Team Leader) and T Tsangwane (Finance Manager)
Supervised by:	M Mpshane (Head of Finance) and S Mbatha (CFO)

Contents | **Page**

Discovery Vitality Proprietary Limited
Directors' responsibility statement
for the year ended 30 June 2021

Directors' responsibility to the shareholder of Discovery Vitality Proprietary Limited (Vitality or Company)

The Directors of Vitality are required by the Companies Act (Act 71 of 2008) (Companies Act), to maintain adequate accounting records and to prepare Annual Financial Statements for each financial year which fairly present the state of affairs of Vitality 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 Vitality's philosophy on corporate governance.

The Directors have reviewed Vitality's budget and cash flow forecast for the year ending 30 June 2022, on the basis of this review, and in the light of the current financial position and available cash resources, the Directors have no reason to believe that Vitality will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing these Annual Financial Statements.

The Directors are responsible for Vitality's systems of internal control, which include internal financial controls that are designed to provide reasonable, but not absolute, assurance against material misstatement and fraud. Vitality maintains internal financial controls to provide reasonable 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 and when 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.

Vitality's external auditors, PricewaterhouseCoopers Inc., have audited the Annual Financial Statements and their unqualified report appears on page 3 to 5.

The Annual Financial Statements of Vitality for the year ended 30 June 2021, which appear on pages 8 to 50 have been approved by the Board of Directors on 27 August 2021 and are signed on its behalf by:

A. Gore	**D. Viljoen**
Director	Director

Independent auditor's report

To the Shareholder of Discovery Vitality Proprietary Limited

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Discovery Vitality Proprietary Limited (the Company) as at 30 June 2021, and its financial performance and 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 Vitality Proprietary Limited's financial statements set out on pages 8 to 50 comprise:

- the statement of financial position as at 30 June 2021;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and key management assumptions.

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 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 Company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

PricewaterhouseCoopers Inc., 4 Lisbon Lane, Waterfall City, Jukskei View, 2090
Private Bag X36, Sunninghill, 2157, South Africa
T: +27 (0) 11 797 4000, F: +27 (0) 11 209 5800, www.pwc.co.za

Chief Executive Officer: L S Machaba
The Company's principal place of business is at 4 Lisbon Lane, Waterfall City, Jukskei View, where a list of directors' names is available for inspection.
Reg. no. 1998/012055/21, VAT reg.no. 4950174682.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled Discovery Vitality Proprietary Limited Annual Financial Statements, which includes the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the 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 financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, 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 financial statements

The directors are responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

PricewaterhouseCoopers Inc

PricewaterhouseCoopers Inc.

Director: Andrew Graham Taylor

Registered Auditor

Johannesburg

30 August 2021

Discovery Vitality Proprietary Limited
Director's report
for the year ended 30 June 2021

The Directors present their report, which forms part of the Annual Financial Statements of Discovery Vitality Proprietary Limited, for the year ended 30 June 2021.

Nature of business
Vitality offers a range of products to policyholders within the Discovery Limited Group (Discovery) in South Africa. Products include the Vitality Wellness, Vitality Money, and Rewards programme, which fulfils and tracks the Discovery core purpose of making people healthier, protecting, and enhancing their lives.

Review of results
Vitality made a profit for the year of R64 million (2020: R69 million).

Share Capital
There were no changes in the authorised or issued share capital of the Company during the financial year.

Dividends
There were no dividends paid in the current and prior financial year.

Holding company
Vitality is a wholly owned subsidiary of Discovery Limited which is listed in the insurance sector of the JSE Limited.

Directorate and secretary
The following were Directors of Vitality during the current and prior financial year unless otherwise indicated:

Executive Directors	*Non-Executive Directors*
A Gore	HL Bosman
H Kallner	Dr BA Brink
NS Koopowitz	SE de Bruyn Sebotsa
Dr A Ntsaluba	R Farber
A Pollard	FN Khanyile
B Swartzberg	T Maphai
DM Viljoen	HP Mayers *
	SV Zilwa

Prescribed Officer

D Govender

* Resigned during this financial year.
Refer to Directors emoluments on page 48.

Discovery Vitality Proprietary Limited
Director's report
for the year ended 30 June 2021

Company secretary
Mr. MJ Botha was Company Secretary for period 1 July to November 2020, thereafter by Ms. NN Mbongo commenced in office from 1 December 2020 and continues as Company Secretary.

Registered office	*Postal address*
1 Discovery Place	PO Box 786722
Sandton	Sandton
2146	2146

Directors' remuneration
A detailed analysis of remuneration paid to Directors and prescribed officers is set out in note 20 of the Annual Financial Statements.

Remuneration packages for executive Directors consist of the following components:
- *Guaranteed component*: cost to company element which comprises a fixed cash portion and fixed benefits.
- *Short-term incentives*: consists of an annual personal incentive linked to individual goals for each director and a "profit pool" element which allows Senior Management to share in profit in the Discovery Limited Group's performance if above certain profit hurdles.
- *Long-term incentive*: Executive Directors take part in Discovery Limited's share-based incentive scheme. This scheme is described in detail in note 16 to the Annual Financial Statements.

Non-Executive Directors receive a combination of fixed and meeting fees for their participation on the board and board committees. Black Non-Executive Directors also participate in the Discovery BEE transaction described in note 16 to the Annual Financial Statements. Non-Executive Directors' fees are reviewed annually and benchmarked against industry standards to ensure the fees remain competitive.
The Remuneration Committee, which is a sub-committee of the board, is responsible for approving the remuneration packages of Executive Directors and recommending the Non-Executive Directors' fees to the board for approval.

Directors' service contracts
All executive Directors are employed on employment contracts that can be cancelled with written notice by either the Executive or Vitality.

Directors' interests in contracts
No material contracts involving Director's 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 Vitality.

Events after the reporting date
There are no significant events after the reporting date, being 30 June 2021, to the date of the approval of the Annual Financial Statements, namely, 27 August 2021.

Auditors
The current auditors PricewaterhouseCoopers Inc. together with KPMG, will act as joint auditors of Discovery for the years ending June 2022 and June 2021 in accordance with section 90(1) of the Companies Act.

Vitality Wellness, Vitality Money and Rewards Programme
The Vitality Wellness, Vitality Money and Rewards Programme gives policyholders access to a wide range of tools, activities, and partners to help them get healthier and enhance their lives. As policyholders improve their physical and financial health, they earn rewards and Vitality Points which will contribute to their Vitality Status. Their level of engagement will determine the Vitality status and in certain instances, discounts at selected partners.

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these Annual Financial Statements are set out below. These policies have been consistently applied to all the years presented.

1. Basis of presentation

Vitality's Annual 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 the Annual 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 Vitality's accounting policies.

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

New standards and amendments to published standards not yet effective
Vitality has not early adopted any accounting standards, amendments or annual improvements issued but not yet effective.

The accounting standards, amendments and annual improvements described below are those that are expected to have an impact on Vitality's results and/or disclosures. Accounting standards, amendments and annual improvements not mentioned below are not expected to have a significant impact on recognised amounts.

During 2020, the IASB published a revised Conceptual Framework for Financial Reporting. This conceptual framework is not an accounting standard, rather it provides guidance and concepts to underpin the IASB's standard development process. This does not change any existing published accounting standard but could affect accounting policies developed by an entity where the IFRS do not stipulate accounting requirements. Vitality does not develop accounting policies with reference to the Conceptual Framework and thus does not anticipate any changes arising from the issuing of the Conceptual Framework for Financial Reporting.

The IASB also released non-mandatory guidance on making materiality judgements (IFRS Practice Statement 2). Vitality has considered this guidance in making materiality judgements in its Annual Financial Statements.

New and amended standards not relevant for Vitality's operations

Standard	**Scope**	**Potential impact**
IFRS 17: Insurance Contracts Effective date: 1 July 2023	IFRS 17 was issued in May 2017, with amendments issued in June 2021. Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those	No impact on Vitality.

Standard	Scope	Potential impact
	with a coverage period of one year or less. For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity’s share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.	

2. Foreign currency translation

2.1 Functional and presentation currency

Items included in the Annual Financial Statements are measured in South African Rands (ZAR) which is the currency of the primary economic environment in which the Company operates (the functional currency).

2.2 Transactions and balances

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

- The settlement of trading transactions is included in the results of operating activities in profit or loss.
- The settlement of financing transactions and from the translation at year-end exchange rates of assets and liabilities denominated in foreign currencies are recognised in profit or loss as foreign exchange gains and losses.
- Qualifying cash flow hedges are deferred in the Statement of Other Comprehensive Income and are recycled to profit or loss.

3. Loans and receivables

Initial recognition
Vitality initially recognises Loans and receivables when it becomes party to the contract. Financial Instruments are measured at initial recognition at fair value net of directly attributable transaction costs unless the financial instrument is classified as fair value through profit or loss.

Subsequent measurement
Financial instruments are classified at amortised cost where they are held in a business model whose objectives are achieved through the collection of cash flows and whose cash flow characteristics are sole payments of principal and interest. These instruments are measured at amortised cost using the effective interest rate method. Movements in the balance of the instrument relate to impairment losses which are recognised on profit or loss.

A provision for impairment of loans and receivables is established when there are expected credit losses (see accounting policy 8 for the policy on impairment).

4. Motor vehicles

Motor vehicles 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 Vitality 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.

Motor vehicles are depreciated over their useful life of 4-years using the straight-line method.

The Motor vehicles carrying amount is written down immediately to its recoverable amount if the 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. Derivative financial instruments

Derivative financial instruments are classified as held for trading unless they are designated as effective hedging instruments.

Vitality 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 of the transaction) 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.

Vitality designates certain derivatives as either:

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

Vitality 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. Vitality 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.

5.1 Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest rate method is used, is amortised to profit or loss over the period to maturity.

5.2 Cash flow hedge

Vitality 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 the profit or loss.

Amounts accumulated in the Statement of Other Comprehensive Income are recycled to profit or loss in the periods 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 profit or loss and included in the initial measurement of the cost of the non-financial asset or liability.
When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss.

5.3 Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of all such derivative instruments are recognised immediately in profit or loss, within net fair value gains on financial assets at fair value through profit or loss in the Statement of Comprehensive Income.

6. Acquisition costs – contract assets with customers

Acquisition Costs represent the amount incurred by Vitality to purchase a fitness device for members which will be used to track physical activity over a contractual 24-month period. The costs are capitalised and amortised on a straight-line basis and disclosed as an asset in the Statement of Financial Position.

The amortisation of capitalised deferred acquisition costs is reflected under benefit expenses in profit or loss.

Active Rewards acquisition costs are derecognised at the earlier of the following:

- Member cancels device benefit;
- Member cancels Vitality membership;
- Member defaults and put on collection;
- Trade-in for a new device; and
- End of 24 months' contractual period.

7. Intangible assets – software development assets

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design, building and testing of an identifiable unique software product 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 for use.
- There is an ability to use the software product.
- It can be demonstrated how the software product will generate probable future economic benefits.
- Adequate technical and other resources to complete the development and to use the software products 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 expenditure that does not meet these criteria are recognised as an expense as and when 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 does not exceed 3 years. The amortisation is reflected under marketing and administration expenses in profit or loss.

De-recognition

An intangible asset shall be de-recognised on disposal, or when no future economic benefits are expected from its use or disposal.

The gain or loss arising from the de-recognition of an intangible asset shall be determined as the difference between the net disposal proceeds if any, and the carrying amount of the asset. It shall be recognised in profit or loss when the asset is de-recognised. Gains shall not be classified as revenue.

Consideration of impairment of intangible assets

Vitality performs an impairment assessment of the intangible assets at each reporting period through assessing indications of decline in the asset’s market value, adverse technological changes, deterioration in the expected level of the asset’s performance and assessment of future cash inflows and profitability. Vitality Performed impairment testing and concluded that Vitality Active 2.0 should be impaired due to the low take up when comparing to the initial business case.

8. Impairment of assets

Financial assets carried at amortised cost

Expected credit losses are recognised on Financial assets measured at amortised cost. Vitality applies the expected credit loss model to loans and receivables, and contract assets from customers and cash and cash equivalents. The approach to determining credit losses varies according to the asset type, past bad debt experience and the potential to incorporate forward looking information.

The expected credit loss approach requires that Vitality assess the credit risk of the instrument and determine whether there has been a significant increase in credit risk since recognition. Where there has not been a significant increase in credit risk since initial recognition, expected credit losses are measured as the 12 month expected credit losses. Where there has been a significant increase in credit risk, expected credit losses are recognised as the lifetime credit losses. Where a financial instrument is 30 days past due the credit risk is assumed elevated.

Where Vitality has no reasonable expectation of recovery of a debt the amount is written off, this is considered occur when all avenues of legal recourse to recover the debt have been unsuccessful.

9. 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 or on a pass-through arrangement. 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 Vitality or the counterparty.

10. Cash and cash equivalents

Cash and cash equivalents comprise:
- Deposits held at call and short notice deposits accounts.
- 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 3 months from the date of acquisition. Cash and cash equivalents are carried at cost which due to their short-term nature approximates fair value.

11. 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.

12. Deferred income tax

Vitality calculates deferred income tax on all temporary differences using the Statement of Financial Position 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.

Vitality recognises deferred tax assets if the Directors consider it probable that future taxable income will be available against which the tax losses can be utilised.

Temporary differences arise primarily from revaluation of certain Financial Assets and Liabilities, Share Based Payments, Contract liabilities for Miles and Provisions for Leave Pay. 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 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 taxes 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, Vitality separately discloses the deferred tax asset and deferred tax liability.

13. Employee benefits

13.1 Post-employment benefits

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

At 30 June 2021, the Discovery Staff Pension Fund and Discovery Staff Provident Fund, the two standalone Funds previously providing retirement benefits to Discovery Staff, were in the process of moving their member's assets across to the to the Discovery Retirement Funds, subject to the regulated Section 14 transfer process. The assets of the Discovery Staff Pension Fund amounting to R 1 787 million were transferred across to the Discovery Retirement Funds in June 2021. The movement of the assets of the Discovery Staff Provident Fund amounting to R1 550 million is pending S14 approval by the FSCA.

Contributions to the Discovery Retirement Funds by Discovery Staff during the year amounted to R497 million (2020: R0). The Discovery Retirement Funds have R2 288 million invested in unit linked insurance policies with Discovery Life (2020: R0) on behalf of Discovery Staff. R1 969 million (2020: R0) of the insurance policies are in turn linked to unit trusts managed by Discovery Life Collective Investments.

Contributions to the Discovery Staff Pension Fund and Discovery Staff Provident Fund by Discovery Staff stopped during the year (2020: R461 million).

The Board of the Discovery Staff Pension Fund and Discovery Staff Provident Fund have resolved to close the Funds after the transfer is completed and there are no assets remaining in either of the Funds.

13.2 Share-based compensation

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

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

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

Cash-settled share-based compensation plans
Vitality 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 remeasured at each reporting date to its fair value, with all changes recognised immediately in profit or loss.

13.3 Leave pay

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

13.4 Profit share and bonus plan

Vitality 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. This liability is disclosed in trade and other payables in the Statement of Financial Position with a corresponding expense taken to profit or loss.

14. 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. 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.

15. Provisions

Provisions are recognised when a present obligation (legal or constructive) arises as a result of past events, 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 economic resources required to settle the obligation at the reporting date.

16. Contingent liabilities

Vitality 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.

17. Financial Guarantees

Vitality accounts for financial guarantee contracts (FGCs) in accordance with IFRS 9 Financial Instruments. Vitality issues FGCs to assist in securing funding for fellow subsidiaries and its parent.

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

FGCs are initially measured at fair value, and subsequently at the higher of:

- Expected credit losses determined under IFRS 9; and
- The amount initially recognised less, when appropriate, the cumulative amount of income recognised under the principles of IFRS 15 Revenue from Contracts with Customers.

18. Revenue from contract with customers

IFRS 15 requires that once contracts have been identified, the entity identifies the performance obligations in the contract. This is determined on the basis of whether the customer can benefit from the promised good or service individually or together with other readily available resources and whether the performance obligation is distinct in the context of the contract. For the Vitality wellness and rewards programme, all contracts contained a single performance obligation.

The timing of revenue recognition is dependent on whether the entity transfers control over the good or service over time or at a point in time. In determining the appropriate timing for revenue recognition, Vitality considers whether the customer benefits as it performs. For most revenue types, Vitality provides stand ready services to customers, where customers benefit as services are consumed. In limited instances where revenue is not recognised over time it is recognised at a point in time when control transfers. For revenue recognised over time the stand ready service is recognised straight line over the term of the contract.

In determining the amount of revenue to recognise, Vitality considers any uncertainty created through variable consideration contained in the contract and constrains the recognition of revenue in order to recognise revenue only to the extent that it is highly probably that a significant reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty is resolved. Vitality also considers the impact of the timing of receiving payments for revenue transactions and determines whether a significant financing component should be taken into account in the measurement of the transaction price. As Vitality's contracts routinely include single performance obligations, there is limited complexity in allocating transaction prices to performance obligations.

Where contracts with customers involve a third party, Vitality considers whether it is acting as the principal or the agent in the delivery of the promised goods or services to the customer. This assessment is based on whether Vitality controls the goods or services before it is transferred to the customer.

For certain contracts with customers, Vitality receives income in advance of discharging the related performance obligation. In these instances, the amount is recognised as a contract liability incurred in the acquisition or fulfilment of a contract.

Vitality considers whether there are costs incurred or the acquisition of fulfilment of a contract. These costs are recognised as an asset and amortised over the expected period over which performance obligations under the contract are satisfied. Contract costs incurred that are considered to be of a general and administrative nature, (that are not explicitly recovered from the customer), are expensed as incurred.

Nature of performance obligations
Revenue includes the Vitality fee income that members pay to access the Vitality benefit, various activation fees for activating additional benefits as well as Income from penalties imposed on goals not achieved on the Active Rewards benefit. The performance obligation relates to access to the Vitality rewards programme and partner benefits provided to members.

When does control pass point in time vs over time
Performance obligations to provide access to benefits are considered stand ready services as the customer obtains benefits over the duration of the contract and when required by the customer. As a result, revenue is recognised over time based on the passage of time.

When are amounts payable
Amounts are billed either monthly, payable within 30 days, or billed on activation of the benefit, payable immediately.

Variable consideration and estimates
There are no adjustments to the transaction price as a result of any variable consideration, nor is there any financing component.

Costs to capitalise
In respect of the Active Rewards fitness device, Vitality incurs costs upfront to purchase the device and provides it to the customer. These costs are deferred and recognised over the 24-month term of the benefit.

19. Investment income

Interest is recognised on assets held at amortised cost and cash and cash equivalents and is accounted for on an accrual basis using the effective interest rate method.

20. Net Benefit expenses

Benefit expenses include all direct rewards related expenses paid net of rebates and discounts under the Vitality programme and are expensed in profit or loss as incurred.

21. Acquisition costs

Acquisition costs represent cost incurred directly related to acquiring new business. These costs are expensed in profit or loss as incurred.

22. Marketing and administration expenses

Marketing and administration expenses include marketing and development expenditure and all other non-acquisition related expenditure. These costs are expensed in profit or loss as incurred.

23. Direct and indirect taxes

Direct taxes include South African corporate tax payable and movement of Deferred Tax. Direct taxes are disclosed as taxation in profit or loss.

Indirect taxes include various other taxes paid to central and local governments, including 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, disallowed and/or any allowances. Income tax is calculated using taxation rates that have been enacted at the reporting date.

Discovery Vitality Proprietary Limited
Statement of financial position
As at 30 June 2021

R million	Notes	2021	2020
Assets			
Motor vehicles	3	*	*
Intangible assets - software development assets	4	**14**	28
Contract assets with customers	5	**115**	71
Financial guarantee contract	19	**8**	8
Financial assets			
– Derivative financial instruments	6	*	1
– Loans and receivables	7	**494**	204
Deferred income tax asset	8	**79**	18
Current income tax asset		**-**	*
Cash and cash equivalents	18.3	**678**	738
Total assets		**1 388**	1 068
Equity			
Capital and Reserves			
Share capital	9	*	*
Other reserves		**(30)**	1
Retained earnings		**437**	373
Total equity		**407**	374
Liabilities			
Financial liabilities			
– Derivative financial instruments	6	**4**	10
– Trade and other payables	10	**479**	279
Financial guarantee contract	19	**6**	11
Contract liabilities to customers	11	**448**	382
Employee benefits	12	**13**	12
Current income tax liability		**31**	-
Total liabilities		**981**	694
Total equity and liabilities		**1 388**	1 068

* Amount is less than R500 000

Discovery Vitality Proprietary Limited
Statement of comprehensive income
for the year ended 30 June 2021

R million	Notes	2021	2020
Revenue	13	**2 875**	3 091
Benefit expenses		**(1 939)**	(2 237)
Acquisition costs		**(61)**	(66)
Marketing and administration expenses	15	**(828)**	(713)
Profit from operations		**47**	75
Net fair value losses and financial assets at fair value through profit or loss		*****	(2)
Investment income	14	**39**	28
Net fair value adjustment to financial guarantees	19	**2**	(4)
Finance costs		**(*)**	(*)
Profit before tax		**88**	97
Income tax expense	17	**(24)**	(28)
Total profit for the year		**64**	69
Other comprehensive income:			
Items that may be reclassified subsequently to Statement of Comprehensive Income:			
Cash flow hedges		**2**	(2)
– Unrealised (losses)/gains		**4**	(13)
– Tax on unrealised losses/gains		**(1)**	4
– Gains recycled to profit or loss		**(2)**	7
– Tax on realised gains		**1**	-
Other comprehensive loss for the year, net of tax		**2**	(2)
Total comprehensive income for the year		**66**	67

* Amount is less than R500 000

Discovery Vitality Proprietary Limited
Statement of changes in equity
for the year ended 30 June 2021

R million	Share capital	Hedging reserve	Share-based payment reserve	Retained earnings	Total
Year ended June 2020					
At the beginning of the year	*	*	1	304	305
Total comprehensive income for the year	-	(2)	-	69	67
Net profit for the year	-	-	-	69	69
Other comprehensive income	-	(2)	-	-	(2)
Transactions with owners	-	-	2	-	2
Employee share option schemes:					
- Value of employee services	-	-	2	-	2
- Transfer of share options	-	-	-	-	-
At end of the year	*	(2)	3	373	374
Year ended 30 June 2021					
At the beginning of the year	*****	**(2)**	**3**	**373**	**374**
Total comprehensive income for the year	**-**	**2**	**-**	**64**	**66**
Net profit for the year	**-**	**-**	**-**	**64**	**64**
Other comprehensive income	**-**	**2**	**-**	**-**	**2**
Transactions with owners	**-**	**-**	**(33)**	*****	**(33)**
Employee share option schemes:					
- Value of employee services	**-**	**-**	**(33)**	**-**	**(33)**
- Transfer of share options	**-**	**-**	**(*)**	*****	**-**
At end of the year	*****	*****	**(30)**	**437**	**407**

* Amount is less than R500 000

Discovery Vitality Proprietary Limited
Statement of cash flows
for the year ended 30 June 2021

R million	Notes	2021	2020
Cash flow from operating activities		**(60)**	266
Cash generated by operations	18.1	**(44)**	305
Taxation paid	18.2	**(55)**	(67)
Interest received	14	**39**	28
Cash flow from investing activities		**(*)**	(19)
Purchase of Motor vehicles	3	**(*)**	-
Purchase of intangible assets	4	**-**	(19)
Net increase/(decrease) in cash and cash equivalents		**(60)**	247
Cash and cash equivalents at beginning of the year		**738**	491
Cash and cash equivalents at end of the year	18.3	**678**	738

* Amount is less than R500 000

1. Critical estimates

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.

Discovery Miles liability
The fair value of the Discovery Miles awarded to members is estimated by applying a weighted average cost per Mile based on estimated redemption patterns by members. The weighted average cost is 9.06 cents per mile for the current financial year (2020: 8.79 cents per mile). This has been included as part of Contract Liabilities in the Statement of Financial Position.

Employee benefits
The provision for leave pay is based on expected future salary increases of 5% (2020: 5%) and is discounted at a rate of 4% (2020: 3.91%).

Deferred income tax
Vitality recognises deferred income 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.

2. Management of financial risk

Vitality is exposed to a range of financial risks through its Financial Assets and Financial Liabilities. Financial risks include market risk, credit risk and liquidity risk.

Financial risks are managed by Vitality as follows:
- The Capital, Currency, 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 of individual counterparties.
- The Investment Committee is a sub-committee of the CCIC and meets monthly to make practical decisions regarding Vitality's liquidity.

Vitality has not significantly changed the processes used to manage its risks from previous periods. To assist in the analysis of the financial risks that Vitality is exposed to, the Statement of Financial Position has been divided into the following categories:
- Financial Assets and Liabilities.
- Non-Financial Assets and Liabilities.

The following table reconciles the Statement of Financial Position to the categories listed above:

R million	30 June 2021 Total	30 June 2021 Financial assets and liabilities	30 June 2021 Non-financial assets and liabilities	30 June 2020 Total	30 June 2020 Financial assets and liabilities	30 June 2020 Non-financial assets and liabilities
Intangible assets	**14**	**-**	**14**	28	-	28
Contract assets with customers	**115**	**-**	**115**	71	-	71
Financial guarantee contract	**8**	**-**	**8**	8	-	8
Motor vehicles	*****	**-**	*****	*	-	*
Derivatives used as cash flow hedges	*****	*****	**-**	1	1	-
Loans and receivables[1]	**494**	**388**	**106**	204	190	14
Deferred income tax	**79**	**-**	**79**	18	-	18
Cash and cash equivalents	**678**	**678**	**-**	738	738	-
Total assets	**1 388**	**1 066**	**322**	1068	929	139
Derivatives used as cash flow hedges	**3**	**3**	**-**	8	8	-
Derivatives not designated as hedging instruments	**1**	**1**	**-**	2	2	-
Trade and other payables[2]	**479**	**479**	**-**	279	279	-
Financial guarantee contract	**6**	**6**	**-**	11	11	-
Contract liabilities	**448**	**-**	**448**	382	-	382
Other liabilities	**44**	**-**	**44**	12	-	12
Total liabilities	**981**	**489**	**492**	694	300	394

* Amount is less than R500 000
1 Prepayments, stock and value-added tax assets are non-financial assets.
2 Other liabilities comprises of Current Income tax liability and Employee benefits which are non-financial liabilities.

2. Management of financial risk continued

2.1 Market 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 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.

Vitality's exposure will be discussed in more detail below.

Equity price risk

Hedge Derivative Instruments
Vitality is exposed to equity price risk through its cash-settled share incentive scheme, the details of which is described in note 16. To manage this risk, Vitality has purchased various instruments from a BBB+ rated South African bank to hedge a portion of its exposure to changes in the Discovery share price.

As at 30 June 2021, 1.08% (2020: 1.05%) of this exposure is hedged. The hedges were designed to be highly effective, where the terms of the hedge substantially match that of the phantom share scheme on a per instrument basis.

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

Maturity Date	Strike Price	Number of call options
2021		
FY22	**114.96 – 141.65**	**15 750**
FY23	**141.65**	**15 310**
2020		
FY21	134.94 - 141.65	35,158
FY22	141.65	15,423
FY23	141.65	14,993

The fair value of the call and put options are repriced at each reporting period and were calculated based on the Black-Scholes model using the same assumptions as tabled in note 16.

2. Management of financial risk continued

The return swaps held by Vitality at 30 June were:

Maturity Date	Strike Price	Number of return swaps
2021		
FY22	**114.96 - 173.59**	**51 424**
FY23	**141.65 – 173.59**	**32 763**
FY24	**147.04 – 173.59**	**15 857**
2020		
FY21	114.96 - 173.59	70,121
FY22	114.96 - 173.59	58,790
FY23	141.65 - 173.59	37,591
FY24	173.59	18,294

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

Interest rate risk
Interest rate risk is the impact of changes in market interest rates on future cash flows and hence the value of a financial instrument. Interest rate risk is managed by the Investment Committee.

The table below details specific interest rate risk that the company is exposed to.

R million	Carrying value	Floating	Fixed	Non-interest bearing
2021				
Derivatives used as cash flow hedges	*****	**-**	*****	**-**
Loans and receivables	**388**	**-**	**-**	**388**
Cash and cash equivalents	**678**	**678**	**-**	**-**
Total financial assets	**1 066**	**678**	**-**	**388**
Derivatives used as cash flow hedges	**3**	**-**	**-**	**3**
Derivatives not designated as hedging instruments	**1**	**-**	**-**	**1**
Trade and other payables	**479**	**-**	**-**	**479**
Financial guarantee contract	**6**	**-**	**-**	**6**
Total financial liabilities	**489**	**-**	**-**	**489**
2020				
Derivatives used as cash flow hedges	1	-	1	-
Loans and receivables	190	-	-	190
Cash and cash equivalents	738	738	-	-
Total financial assets	929	738	1	190

Derivatives used as cash flow hedges	8	-	8	-
Derivatives not designated as hedging instruments	2	-	2	-
Trade and other payables	279	-	-	279
Financial guarantee Contract	11	-	-	11
Total financial liabilities	300	-	10	290

2. Management of financial risk continued

Interest rate sensitivity analysis
For cash and cash equivalents, a 1% increase in the local interest rate would result in an increase of R8 million before tax (2020: R7 million). A 1% decrease in the local interest rate would result in a decrease of R8 million before tax (2020: R7 million). The sensitivity is based on the assumption that the interest rate had increased/decreased by 1% with all other variables held constant.

Currency Risk

Currency risk is the impact of changes in foreign exchange rates on future cash flows and hence the value of a financial instrument.

All Vitality's financial assets are Rand denominated and therefore have no exposure to currency risk.

2.2 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.

Credit Risk relating to loans and receivables
Vitality's loans and receivables comprise:

R million	**Notes**	**2021**	2020
Contract receivables:	**7**		
- Discovery Health Medical Scheme members		**27**	34
- Closed scheme members		**6**	6
- Less provision for impairment of contract receivables		**(1)**	(1)
Other receivables:	**7**		
- Fellow subsidiary intercompany accounts		**256**	48
- DiscoveryCard fees due		**-**	10
- Agents and brokers		**14**	9
- Vitality partners		**81**	80
- Other debtors		**101**	50
Less allowance for expected credit losses		**(97)**	(46)
Total		**387**	190

2. Management of financial risk continued

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

1. The Vitality premiums due from Discovery Health Medical Scheme (DHMS) and closed scheme members do not carry significant credit exposure as amounts due from any single member is insignificant.

2. Loans with fellow subsidiaries arise from intercompany transactions as disclosed in note 20 - Related Parties. These loans are settled on a monthly basis.

3. Agents and brokers are subject to a comprehensive relationship management program including credit assessment. Agents and brokers are not rated by Vitality 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 off-set against future payments and hence the risk of outstanding commission is minimal.

4. Vitality partners settle their accounts within 30 days in the ordinary course of business. These debtors have not been rated.

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

	2021		2020	
R million	**Gross**	**Impairment**	Gross	Impairment
Not past due	**388**	**(17)**	190	(16)
30 days	**13**	**(1)**	12	-
60 days	**6**	**(3)**	5	(1)
90 days	**2**	**(2)**	2	(2)
120 days	**70**	**(70)**	25	(25)
150 days	**(1)**	**-**	-	-
>150 days	**5**	**(5)**	3	(3)
Total	**483**	**(98)**	237	(47)

* Amount is less than R500 000

Vitality applies the expected credit loss model to loans and receivables, and contract assets from customers and cash and cash equivalents. The approach to determining credit losses varies according to the asset type, past bad debt experience and the potential to incorporate forward looking information.

The expected credit loss approach requires that Vitality assess the credit risk of the instrument and determine whether there has been a significant increase in credit risk since recognition. Where there has not been a significant increase in credit risk since initial recognition expected credit losses are measured as the 12 month expected credit losses. Where there has been a significant increase in credit risk, expected credit losses are recognised as the lifetime credit losses.

2. Management of financial risk continued

The movement in the provision for impairment during the year was as follows:

	2021		2020	
R million	**12 month credit losses**	**Lifetime credit losses**	12 month credit losses	Lifetime credit losses
Balance at beginning of the year	**(47)**	**-**	(26)	-
Increase in provision	**(162)**	**-**	(82)	-
Amounts utilised during the year	**111**	**-**	61	-
Balance at end of the year	**(98)**	**-**	(47)	-

Credit exposure for cash and cash equivalents
The credit risk on cash and cash equivalents is managed by monitoring exposure to external financial institutions against approved limits per institution.

The following table provides information regarding the aggregated credit risk exposure for cash and cash equivalents, categorised by Moody's credit ratings at 30 June:

R million	**Total**	**AA1 AA2 AA3**	**A1 A2 A3**	**BA1 BA2 BA3**	**Govt**	**Not rated**
2021						
Cash and cash equivalents	**678**	**-**	**-**	**678**	**-**	**-**
2020						
Cash and cash equivalents	738	-	-	581	-	157

2.3 Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities (i.e. insufficient cash available to meet commitments as and when due).

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

Cash held by Vitality is managed by Treasury department (Treasury). 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 company held cash and cash equivalents of R678 million (2020: R738 million).

The table below analyses Vitality's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

2. Management of financial risk continued

R million	< 1 year	1-2 years	3-5 years	5-10 years	Total
2021					
Trade and other payables	**468**	**9**	**2**	**-**	**479**
Derivative financial instrument	**1**	**2**	**1**	**-**	**4**
2020					
Trade and other payables	277	2	-	-	279
Derivative financial instrument	3	6	1	-	10

3. Motor vehicles

R million	2021	2020
Year ended 30 June		
Opening carrying amount	*****	*
Additions	*****	-
Depreciation charge	**(*)**	*
Closing carrying amount	**-**	*
At 30 June		
Cost	*****	*
Accumulated depreciation	**(*)**	*
Carrying amount	*****	*

* Amount is less than R500 000

4. Intangible assets – software development assets

R million	2021	2020
Year ended 30 June		
Opening carrying amount	**28**	33
Additions	**-**	19
Amortisation charge	**(13)**	(15)
Impairment		
- cost	**(3)**	-
- accumulated amortization	**2**	-
Derecognition		
- cost	**-**	(18)
- accumulated amortization	**-**	9
Closing carrying amount	**14**	28
At 30 June		
Cost	**37**	40
Accumulated amortisation and impairment	**(23)**	(12)
Carrying amount	**14**	28

5. Contract assets with customers

R million	Assets arising from contracts with customers	Costs of obtaining contracts	Total
2021			
Opening carrying amount	**10**	**61**	**71**
Accrued income recognised during the year	**37**	**-**	**37**
Payments received	**(30)**	**-**	**(30)**
Costs of obtaining new contracts	**-**	**106**	**106**
Amortised during the year	**-**	**(69)**	**(69)**
Closing carrying amount	**17**	**98**	**115**
Current	**17**	**67**	**84**
Non-Current	**-**	**31**	**31**
	17	**98**	**115**
2020			
Opening carrying amount	8	76	84
Accrued income recognised during the year	2	-	2
Costs of obtaining new contracts	-	55	55
Amortised during the year	-	(70)	(70)
Closing carrying amount	10	61	71
Current	10	48	58
Non-Current	-	13	13
	10	61	71

Contract assets with customers relate to acquisition costs incurred by Vitality to purchase a fitness device for customers. The costs incurred are amortised over a 24-month period and are expected to be recovered out of future revenue margins.

6. Derivative financial instruments

	2021		2020	
R million	**Asset**	**Liability**	Asset	Liability
Derivatives used as cash flow hedges:				
Equity price risk derivatives[1]	*****	**(3)**	1	(8)
Derivatives not designated as hedging instruments:				
De-designated derivatives[2]	**-**	**(1)**	-	(2)
	*****	**(4)**	1	(10)
Current portion	*****	**(1)**	*	(3)
Non-current portion	*****	**(3)**	1	(7)
	*****	**(4)**	1	(10)

* Amount is less than R500 000

[1] Total return swaps and call options are entered into to hedge exposure to equity price risk related to share schemes.

[2] Due to certain employees resigning during the current period, certain share-based payment awards (hedged item) that had been designated as part of a hedging relationship, were forfeited. This resulted in the related derivatives (hedging instrument) being de-designated and presented separately. This amount has been included under "Net fair value gains on financial assets at fair value through profit or loss", in profit or loss.

7. Loans and receivables

R million	**2021**	2020
Contract receivables:	**32**	39
- Discovery Health Medical Scheme members	**27**	34
- Closed scheme members	**6**	6
- Less provision for impairment of contract receivables	**(1)**	(1)
Other receivables:	**462**	165
- Agents and brokers	**14**	9
- Fellow subsidiary intercompany account	**256**	48
- DiscoveryCard fees due	**-**	10
- Prepayments	**95**	12
- Stock	**3**	2
- Value-added tax asset	**9**	-
- Vitality partners debtors	**81**	80
- Other debtors	**101**	50
- Less allowance for expected credit losses	**(97)**	(46)
	494	204
Current	**488**	202
Non-current	**6**	2
	494	204

8. Deferred income tax

R million	2021	2020
Deferred tax asset	**121**	43
Deferred tax liability	**(42)**	(25)
	79	18
Movement summary:		
Balance at 1 July	**18**	10
Statement of comprehensive income charge	**63**	8
Deferred tax on cash flow hedge	**(2)**	-
Balance at 30 June	**79**	18

Deferred tax for the year comprises:

R million	Opening balance	Charge for the year	Closing balance
Year ended 30 June 2021			
Contract liabilities	**10**	**36**	**46**
Prepayments	**(3)**	**(8)**	**(11)**
Provisions	**26**	**46**	**72**
Share-based payments – Cash Settled	**4**	**(2)**	**2**
Cash Flow Hedge	**3**	**(2)**	**1**
Contract assets with customers	**(17)**	**(10)**	**(27)**
Software Development	**(5)**	**1**	**(4)**
Difference between wear and tear and depreciation	*****	*****	*****
	18	**61**	**79**
Year ended 30 June 2020			
Contract liabilities	14	(4)	10
Prepayments	(2)	(1)	(3)
Provisions	16	10	26
Software Development	(2)	(3)	(5)
Share based payments – Cash Settled	6	(2)	4
Cash Flow Hedge	(1)	4	3
Contract assets with customers	(21)	4	(17)
Difference between wear and tear and depreciation	*	*	*
	10	8	18

* Amount is less than R500 000

9. Share capital

R	2021	2020
Authorised		
1 000 ordinary share of R1 each	**1 000**	1 000
Issued		
1 ordinary share of R1 each (2020: 1 ordinary share)	**1**	1
Share capital	**1**	1

10. Trade and other payables

R million	2021	2020
Payables and accrued liabilities	**378**	85
Fellow subsidiary intercompany account	**49**	104
Cash-settled share-based payment provision	**20**	20
Other creditors	**32**	70
	479	279
Current	**468**	277
Non-current	**11**	2
	479	279

Provisions contained within payables and accrued liabilities are measured at the best estimate (including risks and uncertainties) of the expenditure required to settle the present obligation.

11. Contract liabilities to customers

R million	2021	2020
Opening carrying amount	**382**	267
Contract liabilities recognised in the current year	**107**	195
Revenue recognised in the year	**(41)**	(80)
Balance at 30 June	**448**	382
Current	**444**	379
Non-Current	**4**	3
	448	382

The contract liabilities relate to advance consideration received from customers for which revenue will be recognised over the expected terms of the arrangement as well as Miles and cashback balances that are due to the members.

12. Employee benefits

R million	2021	2020
Provision for leave pay		
Balance at 1 July	**12**	11
Provision raised	**13**	14
Used during the year	**(11)**	(12)
Paid to terminated employees	**(1)**	(1)
Balance at 30 June	**13**	12
Current	**11**	10
Non-current	**2**	2
	13	12

13. Revenue

R million	2021	2020
Revenue comprises:		
Vitality fee income	**2 228**	2 260
Vitality member income/ Benefit sales	**113**	289
DiscoveryCard income	**2**	137
Vitality Access fee	**532**	405
	2 875	3 091

14. Investment income

R million	2021	2020
Interest received on cash and cash equivalents	**39**	28

15. Marketing and administration expenses

R million	2021	2020
Auditors' remuneration – included in		
Audit fees		
- Current year	**2**	2
- Prior year	**-**	*
Fees for other services	**-**	*
	2	2
Staff costs including Directors and prescribed offices		
Salaries, wages and allowances	**222**	200
Medical aid fund contributions	**17**	17
Defined contribution provident fund contributions	**15**	15
Social security levies	**1**	1
Share-based payment expenses		
- cash-settled	**3**	(2)
- equity-settled	**7**	2
- (loss)/gain on cashflow hedge	**(1)**	13
Staff training	**1**	1
Recruitment fees	**1**	2
Temporary staff	**2**	-
Provision for leave pay	**1**	2
Other	**5**	4
	274	255
Other operating costs		
Amortisation of software	**13**	15
Building related and office costs	**2**	7
Depreciation of property and equipment	*****	-
Impairment of intangible assets	**1**	-
Impairment of loans and receivables	**51**	21
IT systems and consumables	**72**	88
Marketing and distribution costs	**32**	27
Professional fees	**4**	9
Loss on derecognition of intangible assets	**-**	9
Group recharges/recoveries and other operating costs	**377**	280
	552	456
Total marketing and administration expenses	**828**	713

* Amount is less than R500 000

16. Share-based payment expenses

Discovery Limited operates various share-based payment arrangements in which employees of Vitality participate. The details of these arrangements are described below:

BEE staff share scheme

In 2005 5 290 000 Discovery Limited's shares were issued to the BEE staff share trust for current and future employees. These shares have all been allocated in prior years. As at 30 June 2018 there were 125 781 outstanding shares which have all vested during the current financial year. 1 020 000 shares were purchased accumulatively in prior years. The trusts consist of two components; the allocation scheme and the option scheme as described below:

Allocation scheme
Shares have been allocated to senior black employees based on level of seniority and length of past service. The shares vest to employees in 25% traches from year two, three, four and five years respectively. 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.

The 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 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 in 25% tranches in year two, three, four and five years after allocation of the bonus units. The bonus may not be carried forward.

The 2013 - 2020 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.

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

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

16. Share-based payment expenses continued

The following is a summary of the terms and conditions of the share options granted to Vitality employees:

Date Granted	Option Price (R)	Final Vesting Date	Shares under option at beginning of year	Options granted during year	Options delivered during year	Options cancelled/ adjusted during year	Shares under option at end of year
BEE staff share scheme							
FY 2016	-	30/09/2021	434	-	(366)	(68)	**-**
FY2016	122.41	01/03/2021	441	-	(441)	-	**-**
FY2016	121.50	30/03/2021	988	-	(988)	-	**-**
FY2017	-	02/05/2022	4 994	-	(2 562)	(1 086)	**1 346**
FY2018	-	22/05/2023	853	-	(829)	1 209	**1 233**
FY 2019	-	30/04/2024	3 655	-	(913)	-	**2 742**
FY2020	-	30/09/2025	-	-	-	-	**-**
The phantom scheme							
FY2016	-	30/04/2021	8,720	-	(6,259)	(2,461)	**-**
FY2016	-	30/04/2021	17,441	-	(15,366)	(2,075)	**-**
FY2017	-	30/04/2022	38,014	-	(13,556)	(8,496)	**15,962**
FY2018	-	31/03/2023	47,654	-	(11,000)	(10,885)	**25,768**
FY2019	-	31/03/2023	43,523	-	(14,508)	-	**29,015**
FY2015	-	31/03/2024	68,262	-	(12,616)	(13,196))	**42,450**
DSY LTIP							
FY2020	-	30/09/2024	148 446	-	-	(17 159)	**131 287**
FY2021	-	30/09/2025	-	178 886	-	(10 431)	**168 455**

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 scheme					
Issued in prior years	R113 – R127.14	R113 – R122.50	Up to 0.25 years	26.89% - 27.37%	1.31% - 1.70%
The phantom scheme					
01/07/2016 – 30/06/2017	R126.27	R114.96	Up to 0.25 years	30.76%	0%
01/07/2017 - 30/06/2018	R126.27	R141.65	Up to 1.25 years	38.19%	0% - 2.16%

The Discovery Limited phantom scheme, long term incentive plan scheme are cash-settled and are thus repriced at each reporting date.

17. Taxation

R million	2021	2020
South African normal taxation		
Current tax	**86**	36
Deferred tax	**(62)**	(8)
	24	28

Tax rate reconciliation

%	2021	2020
Effective tax rate	**28.3**	29.14
Non-deductible expenditure	**(0.3)**	(0.91)
Impact on prior year adjustments	**-**	(0.23)
Standard rate of taxation	**28.0**	28.0

18. Cash flow information

18.1 Cash generated by operations

R million	2021	2020
Profit before taxation	**88**	97
Adjusted for:		
Investment income	**(39)**	(28)
Non-cash items:		
Allowance for expected credit losses	**51**	21
Amortisation of intangible assets	**13**	15
Contract assets movement	**(43)**	5
Contract liabilities movement	**66**	116
Depreciation – Motor vehicles	*****	*
Gain from derivatives	**(6)**	14
Impairment/de-recognition of intangible assets	**1**	9
Provision for employee benefits	**1**	*
Fair value gain/loss - Financial guarantee	**(5)**	3
Provision for Vitality benefits	**-**	(15)
Share-based payment expense - cash settled	**(33)**	2
Share-based payment transfer to retained earnings	*****	-
Hedge ineffectiveness	**1**	(1)
Working capital changes:		
Loans and receivables	**(340)**	47
Trade and other payables	**201**	19
	(44)	305

18. Cashflow information

	R million	2021	2020
18.2	**Taxation paid**		
	Amounts at beginning of the year	*****	*
	Amounts charged to profit or loss	**(24)**	(28)
	Adjustment for movement in deferred taxation	**(62)**	(8)
	Amounts at end of the year	**31**	*
	Taxation paid	**(55)**	(67)
18.3	**Cash and cash equivalents**		
	Cash at bank and on hand	**99**	581
	Short term deposits	**579**	157
		678	738

* Amount is less than R500 000

19. Financial guarantee contracts (FGC)

Vitality has provided the following guarantees:

- In respect of the borrowing facilities of Discovery Limited. As at 30 June 2021, Discovery Limited owed R9 billion in respect of these facilities (2020: R8 billion).
- In respect of borrowing facilities of Discovery Central Services. As at 30 June 2021, Discovery Central Services owed R2 billion (2020: R2 billion) in respect of these facilities.
- In respect of borrowing facilities of Discovery Bank. As at 30 June 2021, Discovery Bank owed nil (2020: R500 million) in respect of these facilities.

	2021		2020	
R million	**Asset**	**Liability**	Asset	Liability
Opening balance	**8**	**(11)**	6	(6)
FGC recognised	**-**	**-**	2	(2)
Net fair value gains/losses on FGC	**-**	**2**	-	(4)
Credit losses on FGC	**-**	**3**	-	1
Closing balance	**8**	**(6)**	8	(11)

20. Related parties

Discovery Limited (incorporated in South Africa) owns 100% of the ordinary share capital issued by Discovery Vitality.

Vitality undertakes certain transactions with related parties. The related parties are Directors and fellow subsidiaries of Discovery Vitality in the Discovery Limited Group, and certain other related parties. Details of the transactions are set out below. All amounts are excluding VAT.

Balances and transactions with fellow subsidiaries and associates in the Discovery Group

R million	2021	2020
Discovery Health		
Vitality fee income	**414**	376
Systems recharges and consultant fees	**(33)**	(44)
Wellness events recharges	**(1)**	(1)
Discovery Insure		
Benefit sales	**22**	13
Systems recharges	*****	*
Discovery Life		
Systems recharges	**(1)**	(1)
Discovery Bank		
Operations charges – Bank Rewards	**6**	5
Bank Access Fee	**142**	55
Discovery Connect		
Acquisition costs	**(20)**	(11)
Discovery Partner Markets		
Benefit Sales	**-**	*
Systems Recharges – Vitality International	**(12)**	(12)
Discovery Central Services		
Building and Office costs	**(42)**	(39)
Other Corporate Recharges	**(181)**	(199)

* Amount is less than R500 000

20. Related parties continued

Intercompany receivables/(payables) at 30 June:

R million	2021	2020
Discovery Health	**6**	(49)
Discovery Life	**38**	40
Discovery Limited	**211**	-
Discovery Insure	**1**	1
Discovery Invest	*****	-
Discovery Central Services	**(41)**	(54)
Discovery Connect	*****	*
Discovery Bank	**(6)**	(6)
Discover Partner Markets	**(1)**	(1)

* Amount is less than R500 000

The Discovery Foundation
The Discovery Foundation was launched in 2006 and is an independent shareholder of Discovery Limited, with its own trustees. It forms one arm of Discovery Limited'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 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.

Key management personnel
Aggregate details of transactions between Vitality and key management personnel, their families (as defined per IAS 24) and entities significantly influenced or controlled by key management:

Vitality loyalty programme

	Premiums received		Rewards paid	
R 000	**2021**	2020	**2021**	2020
Vitality benefits	**66**	78	**593**	1 397

DiscoveryCard

	Card fees received		Discounts paid	
R 000	**2021**	2020	**2021**	2020
DiscoveryCard	**-**	21	**-**	39

20. Related parties continued

Payments to Directors and prescribed officers for the year ended 30 June 2021 for services rendered are as follows:

R'000	Services as Directors	Basic salary	Perfor-mance bonus	Phantom scheme bonus	Provident fund contribu-tions	Other benefits[1]	Total
Executive							
A Gore	-	7 052	7 112	1 547	1 094	365	17 170
HD Kallner	-	5 273	9 539	4 871	272	164	20 119
NS Koopowitz [2]	-	18 340	9 917	5 726	49	528	34 560
Dr A Ntsaluba	-	4 425	4 371	987	343	274	10 400
A Pollard [3]	-	6 524	4 373	3 119	221	303	14 540
B Swartzberg	-	4 993	4 649	2 808	534	182	13 166
DM Viljoen		4 581	4 843	3 033	722	82	13 261
Subtotal	-	51 188	44 804	22 091	3 235	1 898	123 215
Non-Executive							
DR BA Brink	1 416	-	-	-	-	-	1 416
R Farber [4]	2 281	-	-	-	-	3 295	5 576
HL Bosman [5]	1 822	-	-	-	-	-	1 822
SE de Bruyn Sebotsa	325	-	-	-	-	-	325
Dr TV Maphai*	1 728	-	-	-	-	-	1 728
SV Zilwa*	1 832	-	-	-	-	-	1 832
FN Khanyile [6]	1 104	-	-	-	-	-	1 104
Subtotal	10 508	-	-	-	-	3 295	13 803
Prescribed officer							
D Govender	-	4 622	3 148	1 136	347	182	9 435
Subtotal	-	4 622	3 148	1 136	347	182	9 435
Total	10 508	55 810	47 952	23 227	3 582	5 375	146 453
Less: paid by fellow subsidiaries	(10 508)	(51 188)	(44 804)	(22 091)	(3 235)	(5 193)	(137 018)
Paid by Vitality	-	4 622	3 148	1 136	347	182	9 435

(1) "Other benefits" comprise medical aid contributions, travel and other allowances.
(2) Salary and incentive are paid in GBP.
(3) Salary and incentive are paid in USD.
(4) Director’s fees for services and fees for other consulting services rendered by R Farber were paid in AUD. Director’s fees for consulting services are included as part of other benefits.
(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 F Khanyile were paid to WDB Investment Holdings Proprietary Limited.
*Black Non-Executive Directors also participate in the Discovery Limited BEE-transaction

20. Related parties continued

Payments to Directors and prescribed officers for the year ended 30 June 2020 for services rendered are as follows:

R'000	Services as Directors	Basic salary	Perfor-mance bonus	Phantom scheme bonus	Provident fund contribu-tions	Other benefits[(1)]	Total
Executive							
A Gore	-	6 767	4 375	3 636	1 088	413	16 279
HD Kallner	-	5 105	7 258	11 036	271	168	23 838
NS Koopowitz [(2)]	-	19 858	18 798	44 887	214	541	84 298
Dr A Ntsaluba	-	4 281	3 417	2 400	342	273	10 713
A Pollard [(3)]	-	7 857	4 323	5 191	197	298	17 866
B Swartzberg	-	4 902	3 682	3 166	470	173	12 393
DM Viljoen	-	4 419	3 350	2 331	722	89	10 911
Subtotal	-	53 189	45 203	72 647	3 304	1 955	176 298
Non-Executive							
DR BA Brink	1 062	-	-	-	-	-	1 062
R Farber [(4)]	2 689	-	-	-	-	3 764	6 453
HL Bosman [(5)]	1 663	-	-	-	-	-	1 663
SE de Bruyn Sebotsa	1 364	-	-	-	-	-	1 364
Dr TV Maphai	1 390	-	-	-	-	-	1 390
AL Owen [(6)]	2 224	-	-	-	-	185	2 409
SV Zilwa	1 832	-	-	-	-	-	1 832
FN Khanyile [(7)]	844	-	-	-	-	-	844
HP Mayers	420	-	-	-	-	-	420
Subtotal	13 488	-	-	-	-	3 949	17 437
Prescribed officer							
D Govender	-	4 210	3 680	1 382	313	186	9 771
Subtotal	-	4 210	3 680	1 382	313	186	9 771
Total	13 488	57 399	48 883	74 029	3 617	6 090	203 506
Less: paid by fellow subsidiaries	(13 488)	(53 189)	(45 203)	(72 647)	(3 304)	(5 904)	(193 735)
Paid by Vitality	-	4 210	3 680	1 382	313	186	9 771

(1) "Other benefits" comprise medical aid contributions travel and other allowances
(2) Salary and incentive are paid in GBP
(3) Salary and incentive are paid in USD
(4) Director's fees were paid in AUD and Rand components
(5) Director's fees for services rendered by HL Bosman were paid to Rand Merchant Insurance Holdings Limited
(6) Director's fees are paid in GBP
(7) Director's fees for services rendered by F Khanyile were paid to WDB Investment Holdings Proprietary Limited

21. Contingencies

No material claims have been instituted against Vitality at the reporting date.

22. Events after reporting date

COVID-19 impact
On 11 March 2020 the World Health Organization declared COVID-19 a global pandemic the global response to COVID-19 continues to evolve rapidly and has included mandates from various levels of governments across the world to mitigate the spread of the virus. The adverse impact on global commercial activity from the COVID-19 pandemic has contributed to significant volatility in financial markets

The Directors have obtained and will continue to monitor reports from across multiple functions within the Company on the implementation of the business continuity plans as well as the financial position of the Company

While the Directors continue to monitor developments closely their current assessment is that there is no significant impact on the business in the future This is primarily as a result of the following factors:

- the business model of Vitality is to continue providing wellness and rewards benefits for its members;
- the business' operating model and technology stack lends itself to remote working allowing staff to remain fully operational at full capacity; and
- the Directors have considered the budgets and latest forecasts for the foreseeable future including stress testing for various economic downturn scenarios and believe that the impact on its business is limited.

There are therefore no significant factors arising from COVID-19 which would cause the Directors to reconsider the application of the going concern principle or the value of financial statement components at the reporting date.

Other significant events
No significant events occurred after the reporting date being 30 June 2021 to the date of approval of the Annual Financial Statements namely 27 August 2021.