REVIEW FROM DEON VILJOEN

DISCOVERY
FINANCIAL DIRECTOR

I am pleased to present the Discovery annual financial results for the year ended 30 June 2018.

The review of operations and strategic discussions are contained in Group Chief Executive, Adrian Gore's report, on page 04 and operational reviews are available from page 39. This report specifically provides a high-level overview and more technical analysis of the financial statements.

In addition, we have various discussion documents (unaudited) to assist further in the understanding of the application of our accounting policies and financial disclosures.

Visit **www.discovery.co.za/corporate/investor-relations** and page down to Financial results and reports, Annual/ Interim Results, 2018, Additional Information.

During the year, each of our businesses grew operating profit. With the exception of VitalityLife in the United Kingdom, all our established businesses generated positive cash flow, showed overall non-economic positive experience variances, and had a return on capital at or near the Group target of risk-free +10%.

Our foundation and Shared-Value Insurance model described on page 30 continued to create a competitive advantage across markets, despite economic complexity and volatility in both our primary markets, South Africa and the United Kingdom. Our foundation and model assisted in the delivery of strong results for the 12 months ended 30 June 2018, with excellent earnings growth, strong cash generation and continuing investment in organically growing new initiatives and developing new businesses.

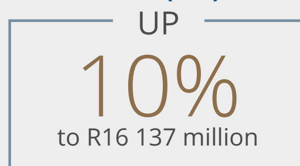
Discovery

These are the main highlights, with an explanation of factors that contributed to the performance.

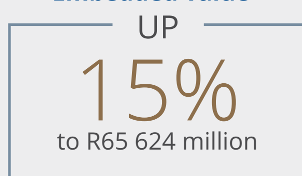
Key performance highlights are available on **page 34**.

Normalised headline earnings*

Core new business Annualised Premium Income (API)**



Embedded value



Return on equity exceeded risk-free + 9%,
despite considerable investment in new businesses

Our established businesses, Discovery Health, Discovery Life, Discovery Invest and Vitality UK, delivered combined growth in operating profit of 14%. This is well above the Group's long-term target of consumer price index (CPI) + 5% for the established businesses, with VitalityHealth the outstanding performer at 108% growth in operating profit.

In addition, emerging businesses, Discovery Insure, Vitality Group and Ping An Health exceeded their targeted earnings growth of CPI + 30%. Discovery Insure (excluding the commercial offering), Vitality Group and Ping An Health are well beyond the breakeven point, largely in line with their business plan.

* *Normalised headline earnings would have shown a 20% increase to R5 609 million, excluding the impact of the finance lease accounting in relation to the commencement of a 15-year lease at 1 Discovery Place during the period. See page 14 for the accounting treatment.*

** *Excludes Discovery Health's take-on of new closed medical schemes and gross revenue of Vitality Group. Read these business reviews on page 48 and page 82.*

1 Growth methodology

We focus on organic growth and expansion into adjacent geographies and sectors using our Shared-Value Insurance model. Our growth and expansion plan is guided by an earnings growth methodology, outlined here:

Established businesses

Our established businesses are defined as:

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

For established businesses we target:

Operating profit growth of CPI + 5%

Our established businesses continue to show strong operating profit growth. During the year, these businesses delivered a combined 14% growth in operating profit, which is CPI + 9%.

Emerging businesses

Emerging businesses are defined as:

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

For emerging businesses we target:

Profit growth of CPI + 30%

Potential to ultimately develop into established businesses with a targeted profit growth of CPI + 5%.

All emerging businesses turned profitable over the period and have significant future potential.

New initiatives

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

HOW WE PERFORMED AGAINST OUR GROWTH METHODOLOGY

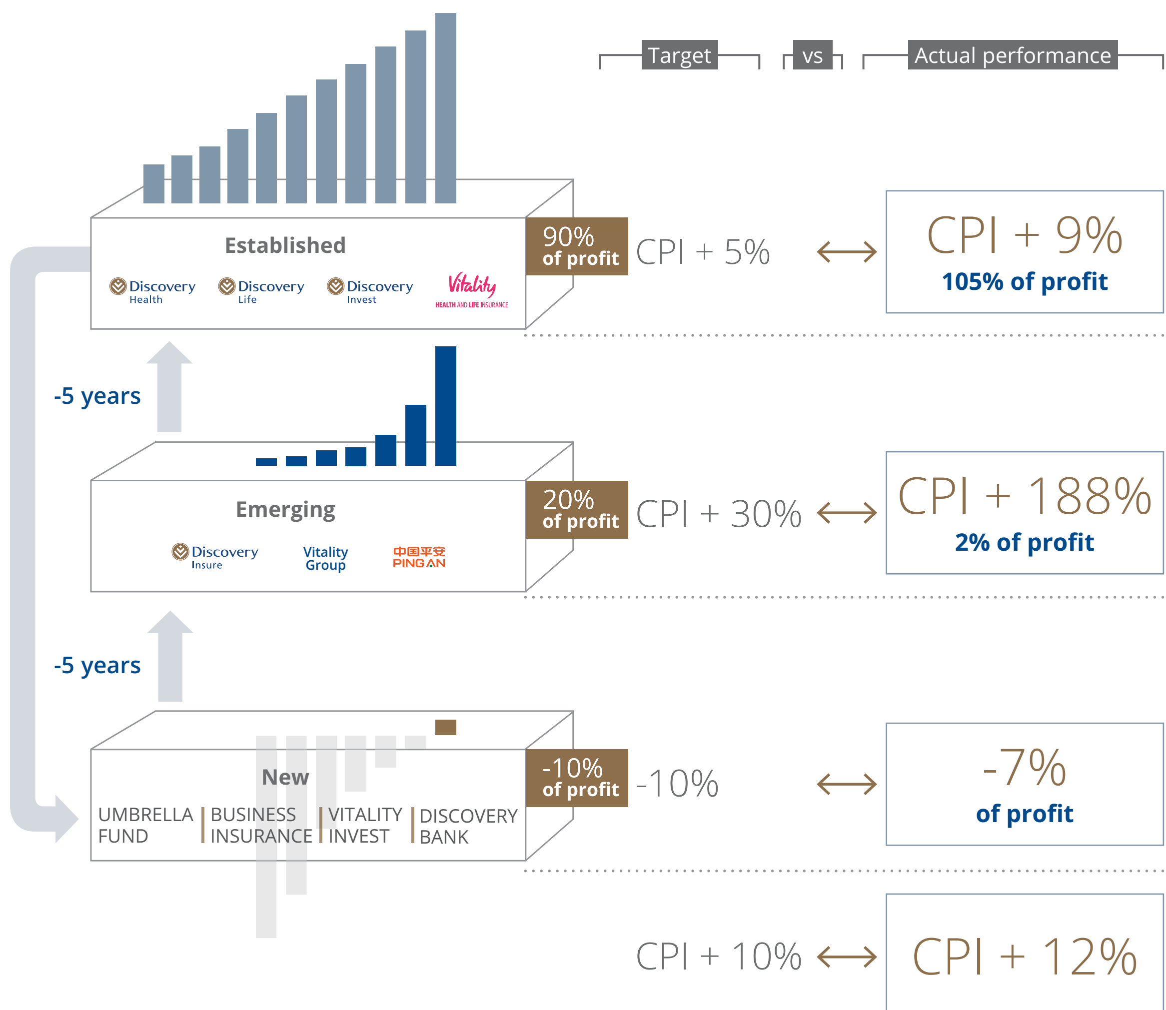
The established businesses delivered aggregate growth in operating profit of 14% to R8 661million (2017: R7 630 million), exceeding the target of CPI + 5%.

The emerging businesses achieved aggregate growth in operating profit of 193% to R158 million (CPI + 188%), exceeding the target of CPI + 30%, and all turning profitable during the financial year.

7% of earnings was invested in new initiatives, including Umbrella Funds, VitalityInvest and Discovery Insure for Business (Discovery Insure's commercial insurance offering). These were all launched during the year. Significant investment was also made in developing Discovery Bank. The majority of these costs have been capitalised ahead of the launch, which is expected to take place before the end of the 2018 calendar year.

Refer to **page 20** for more information on Discovery Bank.

Performance largely in line with growth methodology targets



2 Capital management philosophy

Our capital management framework has three components:

STATUTORY OR REQUIRED CAPITAL
Regulated entities are capitalised in line with regulatory solvency requirements.

ALLOCATED CAPITAL
Robust and prudent five-year business plans ensure that assets are available to the Group to meet funding requirements for all known strategic initiatives.

BUFFER
An additional buffer of between R1 billion to R2 billion is held at the centre.

STATUTORY OR REQUIRED CAPITAL

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

The implementation of the Solvency Assessment and Management (SAM) framework was effective from 1 July 2018 and is expected to result in a significant release of capital from Discovery Life. This will result in a lower level of assets being held and decreased associated investment income, although improving the business' return on capital.

The table below summarises the minimum statutory capital requirements for each material Group entity and the solvency capital actually held as a percentage of this requirement, as at 30 June:

ALLOCATED CAPITAL

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

In capital allocation decisions, reference is made to the Group's required hurdle rate of risk-free + 10%. The return on equity (ROE) for the year ended 30 June 2018 was 16.5% (2017: 14.4%) despite considerable investment in new businesses over the past few years.

BUFFER

Discovery aims to have an additional general buffer on a Group-wide basis of R1 billion to R2 billion at all times. At 30 June 2018, we maintained a buffer within guidance of R1.7 billion (2017: R1.6 billion).

FUNDING

The funding of the above capital plan and buffer are sourced internally from retained earnings and externally from Financial Reinsurance (FinRe) and debt (subject to a maximum 28% Financial Leverage Ratio policy detailed on page 14 and 15).

			Actual solvency	
Insurance operations	**Jurisdiction**	**Statutory solvency requirement**	**2018**	2017
Discovery Life	South Africa	1 x Statutory Capital Adequacy Requirement (CAR)	**3.5 times**	3.9 times
		1 x Solvency Capital Requirements under SAM[1]	**1.7 times**	
Discovery Insure	South Africa	1 x Statutory Capital Adequacy Requirement (CAR)	**2.0 times**	2.2 times
		1 x Solvency Capital Requirements under SAM[1]	**1.6 times**	
VitalityHealth	United Kingdom	1 x Solvency Capital Requirement under Solvency II	**1.4 times**	1.5 times
VitalityLife	United Kingdom	1 x Solvency Capital Requirement under Solvency II	**1.9 times**	2.1 times

1 *For illustrative purposes: SAM effective from 1 July 2018.*

3 Borrowings

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

FLR IS CALCULATED AS:

Total debt
÷
Total debt + total equity

The Group's strategy is to maintain a prudent FLR broadly in line with industry norms. In line with Discovery's risk appetite statement, an FLR of less than 28% needs to be maintained. This was achieved during the year, with an FLR of 25.8% at 30 June 2018.

The table below summarises the FLR at 30 June 2018:

R million	2018	2017
– Borrowings at amortised cost[1]	10 842	8 524
– Amount owed to Prudential Assurance Company Limited	2 189	3 080
– Guarantees issued for reinsurance contracts	50	171
Total debt and guarantees	**13 081**	**11 775**
Total equity	37 594	32 290
Financial leverage ratio (%)	25.8%	26.7%

1 *For the FLR calculation this is reduced by the head office lease liability.*

An analysis of borrowings at amortised cost is provided below:

R million	2018	2017
SA borrowings	7 240	4 600
UK borrowings	1 810	2 174
Redeemable preference shares	1 402	1 400
Finance lease liability	3 621	349
– Head office lease[1]	3 237	
– Other finance lease liabilities	384	349
Bank overdraft	6	1
Total	**14 079**	**8 524**

1 *Read Finance lease liability in relation to our head office, 1 Discovery Place.*

Finance lease liability in relation to our head office, 1 Discovery Place

Discovery has entered into a 15-year lease agreement to occupy our new head office. We began occupancy of the buildings from November 2017 on a phased approach.

International Accounting Standard (IAS) 17: Leases requires a lessee to classify a lease as either a finance lease or an operating lease at the start of the lease term. A lease is classified as a finance lease if it substantially transfers all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

In terms of the indicators provided in IAS 17.10 and IAS 17.11, Discovery has classified the lease as a finance lease, as the present value of the minimum lease payments amount to at least substantially all of the fair value of the leased asset. This accounting treatment has resulted in the recognition of an asset of R3 155 million, which has been disclosed in "Property and equipment" and a corresponding lease liability of R3 621 million (which represents the present value of future lease obligations). Ownership does not transfer to Discovery at the end of the lease period, and the building remains the property of the landlords.

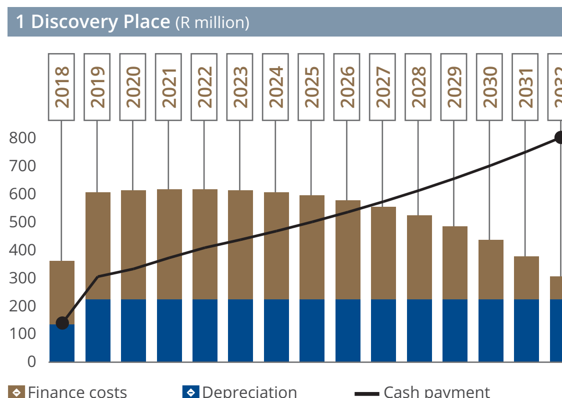
The treatment under *International Financial Reporting Standards (IFRS) 16: Leases*, effective for reporting periods starting on or after 1 January 2019, would result in a similar treatment, with the lease capitalised.

The recognised asset is depreciated over the lease term using the straight-line method, while the recognised liability accrues notional interest and is amortised using the actual cash rentals paid to the landlords.

Normalised profit from operations of individual business units, as per segmental information, includes the market-related rental paid (R128 million) and reverses the depreciation (R126 million) and finance costs (R210 million). Normalised headline earnings include the full finance lease treatment according to IAS 17. This had a negative impact on the overall growth rate of normalised headline earnings for the year (refer to the reconciliation on page 17).

The graph indicates the profile of depreciation and finance charges versus the profile of cash rentals to show the impact of accounting for the building as a finance lease over the next number of years. Although the differences are not normalised in headline earnings, the relevant values will be made available at each reporting period.

1 Discovery Place (R million)



Domestic Medium-Term Note (DMTN) programme

During the year, Discovery registered an unsecured R10 billion DMTN programme.

On 16 November 2017, Discovery came to market for its inaugural DMTN issuance.

The objectives of the debt programme were to:

- broaden our funding base;
- optimise our cost of funding; and
- ensure funding capacity for the Group over a five-year time frame

The first auction was successful, with R1.5 billion JSE Listed Notes issued. The offer was significantly oversubscribed.

Subsequent to year-end, on 29 August 2018 Discovery issued further Floating Rate Notes in terms of its DMTN programme totalling R700 million, bringing the total nominal value in issue under the DMTN programme to R2.2 billion.

Credit rating

Moody's Investors Service has assigned Ba1 global scale and Aa3.za national scale Long-Term Issuer ratings to Discovery. The outlook for Discovery is stable, in line with that of the Government of South Africa (Baa3, stable).

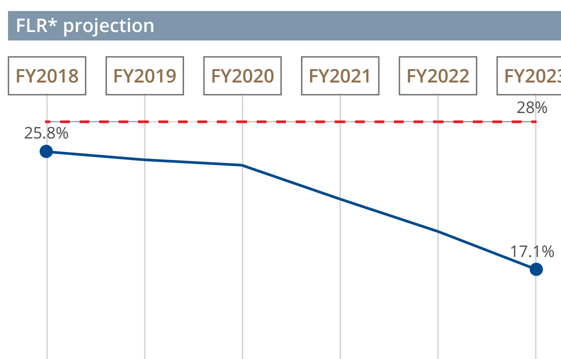
Key drivers of funding requirements for the next five years

1 to 2 years	VitalityLife new business General corporate purposes including investment in new initiatives
2 to 3 years	Transfer of VitalityLife business from Prudential balance sheet to VitalityLife Limited (Part VII) Refinance maturing South African and United Kingdom bank debt arrangements
3 to 5 years	Refinance maturing South African and United Kingdom bank debt arrangements

In our five-year capital plan, debt levels remain well within the risk appetite as shown in the reduction of the FLR over the projection period in the graph below.

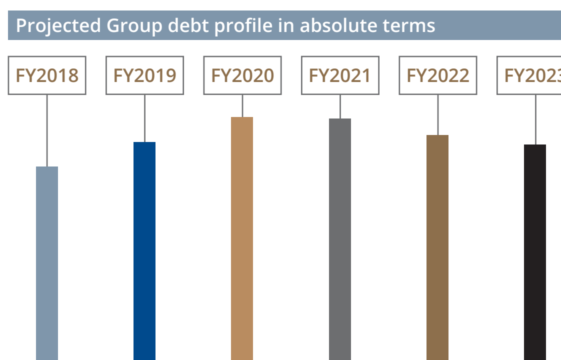
It should be noted that in managing the Group debt profile and FLR, the anticipated funding of the Bank's core deposit-taking and lending activities are excluded.

FLR* projection



* *Financial Leverage Ratio (FLR) = Debt (Excluding Lease Liability)/[Debt (Excluding Lease Liability) + Equity].*

Projected Group debt profile in absolute terms



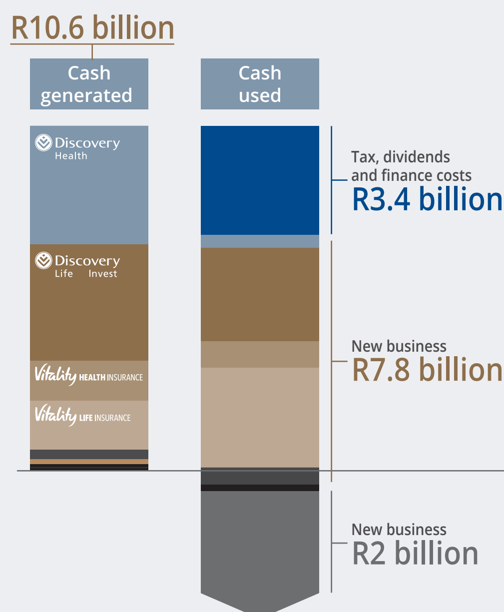
4 Cash management philosophy

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

During the year, we generated R10.6 billion in cash from in-force businesses. After investing R7.8 billion in new business and payment of tax, dividends and interest on debt (R3.4 billion), we invested R2 billion in new initiatives.

The new business internal rate of return was 26%, while growth in value of new business was 16%.

These investments meet the return criteria of risk-free + 10%. This validates the approach to continue to invest significantly without breaching the FLR of 28% or the cash buffer of R1 billion to R2 billion.



OUR KEY FINANCIAL MEASURES

There are a number of key measures we use to track our growth and performance. These include:

1 | Normalised profit from operations and normalised headline earnings

2 | Embedded value

3 | Solvency

4 | Return on capital

5 | Core new business annualised premium

6 | Value of new business

1 | Normalised profit from operations and normalised headline earnings

To facilitate analysis of the results, we provide normalised results which are adjusted for once-off, non-trading items or accounting adjustments to give a clearer picture of the operating performance of the Group.

Normalised profit from operations reflected in the segmental information (per individual business unit), reflects the cash rental costs of the Group's new building – a different treatment than under IFRS finance lease accounting. We do this because individual business expenses and margins are managed on underlying cash rental costs incurred by each business.

Reconciliation of profit from operations per the income statement to normalised profit from operations:

R million	Group 2018 Audited	Group 2017 Audited	% change
Profit from operations	**8 260**	6 245	32
Shareholder investment income	**(209)**	(150)	
Net realised gains on available-for-sale financial assets	**(10)**	(8)	
Amortisation of intangibles	**123**	171	
Share of profits from equity-accounted investments after tax	**115**	26	
Normalised profit from operations IFRS total per segmental information	**8 279**	6 284	32
VitalityLife IFRS 4 adjustment[1]	**27**	103	
Other normalised profit adjustments	**(40)**	661[2]	
Normalised profit from operations segment total per segmental information	**8 266**	7 048	17

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

2 R562 million is in relation to deferred tax asset (refer to the Tax and deferred tax note on page 19).

Reconciliation between earnings, headline earnings and normalised headline earnings:

R million	2018	2017	% change
Net profit attributable to ordinary shareholders	**5 652**	4 411	28
Gains on disposal of property and equipment net of Capital Gains Tax (CGT)	**(3)**	(1)	
Impairment of intangible assets net of tax	**162**	–	
Realised gains on available-for-sale financial assets net of CGT	**(8)**	(6)	
Headline earnings as reported	**5 803**	4 404	32
Accrual of dividends payable to preference shareholders	**1**	(1)	
Amortisation of intangibles from business combinations net of deferred tax	**109**	154	
Deferred tax asset raised on assessed losses	**(352)**	–	
Deferred tax timing difference related to new 'adjusted IFRS' tax basis	**(119)**	–	
Duplicate building costs	**37**	–	
Unrealised gains on foreign exchange contracts not designated as a hedge	**(77)**	–	
Initial expenses related to Prudential Book transfer	**(1)**	–	
Rebranding and business acquisition expenses		99	
Normalised headline earnings	**5 401**	4 656	16

The accounting treatment of the new head office has a significant impact on normalised headline earnings, as detailed in the table below.

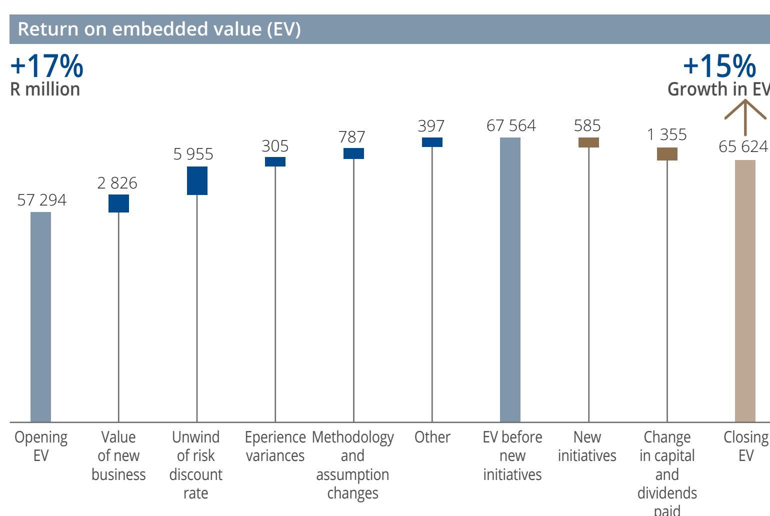
R million	June 2018	June 2017	% change
Reported normalised headline earnings	**5 401**	4 656	16
Finance lease accounting impact	**208**	–	
Market-related cash rental paid	**(128)**	–	
Depreciation	**126**		
Finance costs	**210**	–	
Normalised headline earnings adjusted for finance lease accounting impact	**5 609**	4 656	20

2 | Embedded value

The embedded value (EV) of Discovery (refer to pages 155 to 165) includes the insurance and administration businesses in the Group. Covered business includes business written in South Africa through Discovery Life, Discovery Invest, Discovery Health and Vitality, and in the United Kingdom through VitalityLife and VitalityHealth. No published value has been placed on the current in-force business of other businesses in the Group as these have not reached suitable scale with reliable trends to forecast future experience.

The EV grew by 15% to R65 624 million (2017: R57 294 million) and annualised return on opening EV increased to 16.9% (10.2%).

The components of the change in embedded value:



2 | Embedded value *continued*

We have published the following additional unaudited investor communications on actuarial basis changes and experience variances. Please go to **www.discovery.co.za/corporate/investor-relations** and page down to Financial results and reports, Annual results, 2018, Additional information:

- Changes to Discovery's economic basis – June 2018
- Discovery Life and Invest experience variances
- Embedded value assumptions for VitalityHealth

3 | Solvency

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

4 | Return on capital

The return on capital target for the Group is risk free + 10%. In addition to the ROE measure discussed on page 13, Discovery's Group new business internal rate of return (IRR) was 26%.

5 | Core new business API

Core new business API (excluding new closed schemes and gross revenue for the Vitality Group) provides a view of the scale of new business across the operations of the Group. Core new business API increased by 10% to R16 137 million (2017: R14 660 million) for the 2018 financial year.

6 | Value of new business (VNB)

The Life businesses pleasingly showed an increase in value of new business and annualised profit margin.

R million	2018	2017	% change
Life and Invest			
Present value of future profits from new business at point of sale after cost of required capital	**1 302**	1 231	6
New business API[1]	**2 773**	2 840	(2)
Annualised profit margin[2]	**5.6%**	5.5%	
Annualised profit margin excluding Invest business	**10.7%**	10.2%	
VitalityLife[3]			
Present value of future profits from new business point of sale after cost of required capital	**349**	306	14
New business API	**898**	844	6
Annualised profit margin[2]	**5.4%**	5.2%	

1 *Life new business is defined as Life policies to which Life became contractually bound during the reporting period, including policies whose first premium is due after the valuation date. Invest new business is defined as business where at least one premium has been received and which has not been refunded after receipt. Invest new business also includes Discovery Retirement Optimiser policies to which Life and Invest became contractually bound during the reporting period, including policies whose first premium is due after the valuation date. The new business annualised premium income of R2 773 million (June 2017: R2 840 million) (single premium Annual Premium Equivalent (APE): R1 195 million (June 2017: R1 169 million)) shown above excludes automatic premium increases and servicing increases in respect of existing business. The total new business API written over the period, including automatic premium increases of R1 254 million (June 2017: R1 172 million) and servicing increases of R615 million (June 2017: R659 million), was R4 642 million (June 2017: R4 671 million) (single premium APE: R1 248 million (June 2017: R1 277 million)). Single premium business is included at 10% of the value of the single premium. Policy alterations and internal replacement policies, including Discovery Retirement Optimisers added to existing Life Plans, are not included as new business. Term extensions on existing contracts are not included as new business.*

2 *The annualised profit margin is the value of new business expressed as a percentage of the present value of future premiums.*

3 *VitalityLife new business is defined as policies to which VitalityLife became contractually bound during the reporting period, including policies whose first premium is due after the valuation date.*

OTHER NOTABLE ITEMS

Lease of new building

Discovery has classified the lease agreement for its new head office as a finance lease in terms of IFRS. This accounting treatment has resulted in the recognition of an asset of R3 155 million, which was disclosed in "Property and equipment" and a corresponding lease liability of R3 621 million. The impact of the accounting treatment on earnings is shown on page 14.

Tax and deferred tax

With the promulgation of the South African Insurance Act, No 18 of 2017, in January 2018, the new "adjusted IFRS" tax basis, effective 1 July 2018, was substantively enacted as at 30 June 2018.

As a result, deferred tax has been calculated on this basis and reflects the values at which the tax liabilities will ultimately be settled. A reduction in the deferred tax liability of R119 million was recognised as a timing difference, and has been adjusted for in the calculation of normalised headline earnings.

During the year, a deferred tax asset was recognised on the full balance of the assessed tax loss in Discovery Insure. This is in line with the business proving sustainable profitability and the expectation of future profits. Further amounts were raised during the current year in relation to the VitalityHealth assessed tax losses. These amounted to R243 million and R109 million respectively, and were added back in the calculation of normalised headline earnings.

In the previous financial year, following the introduction of a "Risk Policy Fund" for all new risk business written (effective 1 July 2016), Discovery Life elected to move its existing risk business to this fund. As a result, a portion of the assessed loss of R16.5 billion in the Individual Policyholder Fund is expected to be utilised over time. No deferred tax asset was previously recognised for this assessed tax loss. A value of R562 million, implicit in the valuation of insurance contract liabilities, was recognised as an explicit deferred tax asset in terms of *IAS 12: Income Taxes*. The impact of this recognition on the statement of financial position at 30 June 2017 was an increase in the deferred tax asset of R562 million and a corresponding increase in liabilities arising from insurance contracts. The impact on the income statement for the year ended 30 June 2017 was an increase in transfer from liabilities under insurance contracts of R562 million and a corresponding decrease in income tax expense. Although this impacted the Group's operating profit and tax expense, there was no impact on profit after tax. The net movement in 2018 was not material.

Dividend policy

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

At Group level, a total dividend cover of 4x is considered appropriate. On this basis, the Board declared a final gross cash dividend of 114 cents per share compared with a final gross cash dividend of 98 cents per share in the prior year.

Potential impact of IFRS standards applicable for 2019 financial year

IFRS 9: Financial Instruments and *IFRS 15: Revenue from Contracts with Customers* are effective for the Group from 1 July 2018. For both these standards, the decision on the transitional approach has not yet been made. The current approach we are considering is the cumulative catch-up approach, which applies the standards retrospectively as if these standards have always applied, but without restating comparative figures. All measurement changes due to the adoption of these standards will be reflected in the opening retained earnings as at 1 July 2018. The transitional approach, as well as the impact on transition, will be presented in the interim results as at 31 December 2018.

In respect of IFRS 9, we are in the process of assessing the classification and measurement of the Group's financial assets. Discovery's implementation of IFRS 9 will result in the removal of the available-for-sale classification for financial instruments. We are evaluating what the measurement impact will be under IFRS 9.

Discovery does not expect significant impairment provisions to be raised due to the short-term nature of financial assets subject to the impairment model and low historical losses suffered.

In respect of IFRS 15, we have performed detailed assessments of the most material contracts within each non-insurance entity in the Group. This was done through a detailed contract checklist, defining each entity's ordinary activities and customers, scoping all contracts with customers and assessing related contracts against the checklist. The most material contracts in each area have been reviewed in detail.

Discovery is currently quantifying the impact of IFRS 15 and the preliminary findings indicate that it is unlikely that there will be a material financial impact on the timing or amount of revenue recognised. However, we expect that there will be an effect on the financial statement disclosure.

IFRS 17: Insurance Contracts

IFRS 17: Insurance Contracts is effective for the Group from 1 July 2021. The standard is expected to have a material impact on the recognition, measurement, presentation and disclosure for insurance contracts. The standard will have a significant impact on underlying valuation models, systems, processes, internal controls and various other fundamental aspects of the insurance business. Discovery has established governance structures relating to the IFRS 17 project and is in the process of performing an impact assessment of applying the requirements of IFRS 17.

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

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

Average exchange rate	2018	2017	% change
Rand/GBP	**17.33**	17.29	–
Rand/USD	**12.86**	13.61	(6)
Rand/RMB	**1.98**	2.00	(1)

Update on Discovery Bank

As outlined on SENS on 16 October 2017, we received a banking licence issued by the Registrar of Banks (now the Chief Executive Officer of the Prudential Authority, South African Reserve Bank). At the time, we also advised that the approval from the Registrar contained certain conditions relating to the shareholding of Discovery Bank, the impact of which was being considered by all affected parties.

A condition relating to the shareholding of Discovery Bank imposed by the Registrar is that the proposed 25.01% ultimate cross-holding in Discovery Bank by FirstRand Investment Holdings Limited (FRIHL) should be reduced and ultimately exited over a period of time.

Given this condition, Discovery and FRIHL have since agreed that it would be preferable for FRIHL to exit entirely as soon as practically possible.

The proposed transaction concluded subsequent to year-end includes:

- the acquisition of the effective 25.01% interest of FRIHL in Discovery Bank;
- acquiring the remaining 25.01% economic interest that FirstRand Bank currently owns in the Discovery Card joint venture; and
- Discovery Bank acquiring all rights to the Discovery Card book and related assets which will be migrated over time.

The transaction is subject to approval by certain regulatory authorities, including the Prudential Authority and the Competition Authorities.

The total combined acquisition price payable by Discovery to the FirstRand Group will be R1.8 billion.

Purchase price	**R1.8 billion**
25.01% of the Discovery Card joint venture	**R0.7 billion**
+	
25.01% shareholding in Discovery Bank	**R1.1 billion**

Discovery has advised that it plans to pursue existing growth initiatives without recourse to additional capital. As demonstrated by our performance during the period under review, the Group and its growth initiatives have delivered strongly, and the capital plan has evolved better than expected. This gives us the opportunity for continued growth, supported by our cash and capital management policies.

As the acquisition of the remaining 25.01% constitutes a new initiative and represents an important opportunity for the Group, the Board has decided that this acquisition should be funded by way of an equity issuance limited to the purchase price. Given the relative immateriality, the transaction does not require shareholder approval. Although these developments have delayed the process slightly, the Bank development is progressing well and remains within budget. The launch is expected before the end of the 2018 calendar year.

Discovery

Looking forward

Our focus going forward will be to continue building on the strengths and efficiencies gained from our growth methodology, capital management philosophy and cash framework. These have proven to be robust mechanisms for managing our growth and investment, and position us well as we continue to build new businesses and grow our established businesses.

We remain aware of the economic and regulatory effects in each of the markets where we operate and apply stringent processes to make sure we adhere to all requirements and respond to changes in the environment. Our structures and the targets we have set to maintain growth and sustainability supported by our Shared-Value Insurance model bode well for future performance. Our risk management and other processes will play an important role as we launch new businesses and continue to expand the reach of our existing businesses as outlined in our strategy across the integrated annual report. From a financial management perspective, we will continue to focus on the following key aspects:

- Managing the debt profile detailed in the report
- Meeting all the requirements of new and emerging IFRS standards
- Monitoring the effects of regulatory changes across our insurance businesses
- Ensuring that our application of reporting and disclosure remains transparent and that we proactively engage with stakeholders and other parties

INVESTOR **Q&A**

Q **Is your accounting policy for long-term insurance contracts appropriate?**

A The current accounting standard for insurance contracts, IFRS 4, does not prescribe any measurement rules for insurance contracts. However, it requires consistent application of an insurer's policy to recognise profit on insurance contracts. In line with this, Discovery has consistently adopted the policy of setting up a negative reserve at the point of sale that is approximately equal to the acquisition costs incurred in writing that policy. These acquisition costs are then amortised over the life of the policy and the profit inherent in the policy recognised by Discovery as the risk is assumed.

We have published additional unaudited investor communication to assist in understanding profit reporting and resultant negative reserves.

Please go to **https://www.discovery.co.za/corporate/investor-relations** and page down to: Financial results and reports, Interim results, 2018, Additional information:

- *Earnings and accounting policy*

Under Annual results 2018, Additional information:

- *Negative reserve principles infographic*
- *Resilience of Negative Rand Reserves in Discovery Life*

Read our operational reviews for more frequently asked questions.