



ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2023



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DISCOVERY LIMITED

Registration number 1999/007789/06

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HOW WE REPORT TO OUR STAKEHOLDERS



ANNUAL FINANCIAL RESULTS PRESENTATION AND BOOKLET

Provides an overview of Discovery's financial performance and can be accessed at www.discovery.co.za/corporate/investor-relations



INTEGRATED ANNUAL REPORT

Our primary report to our shareholders, providers of financial capital and other key stakeholders, detailing how we created, preserved or eroded value for our stakeholder groups.



GROUP ANNUAL FINANCIAL STATEMENTS

THIS REPORT

The consolidated financial results, embedded value and five-year review of the Discovery Group, as well as the separate financial results of Discovery Limited.



SUSTAINABILITY REPORT

An overview of the Group's performance against our Integrated Sustainability Framework and, where appropriate, against relevant standards and frameworks.



TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURE (TCFD) REPORT

Discovery's climate change response regarding governance, strategy, risk management, and metrics and targets related to the Group's environmental impact.



GOVERNANCE REPORT

Our governance report includes information on our governance philosophy, leadership and our compliance with King IV™.



REMUNERATION REPORT

Outlines our remuneration policy and implementation approach and factors influencing our remuneration-related decisions.



TAX TRANSPARENCY REPORT

Communicates material tax disclosure information to demonstrate our commitment to tax transparency and operating as a force for good through our tax contributions.

Basis of preparation

The consolidated and separate Annual Financial Statements have been prepared in accordance with IFRS Accounting Standards, its interpretations adopted by the IASB, the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides Limited as issued by the Accounting Practices Committee, Financial pronouncements as issued by the Financial Reporting Standards Council, the JSE Limited Listings Requirements, JSE Debt Listings Requirements 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 (refer Annexure B).

The Annual Financial Statements have been prepared under the supervision of Deon Viljoen CA(SA), Group Chief Financial Officer. The Annual Financial Statements are reviewed by management, the Discovery Limited Audit Committee and Board, and are audited by the external auditors of the Group.

The embedded value statements has been prepared by Peter Bolink (FASSA) and supervised by Andrew Rayner (FASSA, FIA).

A copy of the set of annual consolidated financial statements with the signatures of the directors is available at the Company's registered office.





Directors' responsibility statement

for the year ended 30 June 2023

DIRECTORS' RESPONSIBILITY TO THE SHAREHOLDERS OF DISCOVERY LIMITED AND ITS SUBSIDIARIES (DISCOVERY OR THE GROUP)

The directors of Discovery are required by the Companies Act, No. 71 of 2008, as amended (Companies Act), to maintain adequate accounting records and to prepare financial statements for each financial year which fairly present the state of affairs of Discovery at the end of the financial year, and of the results and cash flows for the period. In preparing the accompanying Annual Financial Statements, International Financial Reporting Standards have been used and reasonable estimates have been made. The Annual Financial Statements incorporate full and responsible disclosure, in line with Discovery's philosophy on corporate governance.

The directors have reviewed Discovery's budget and cash flow forecast for the year to 30 June 2024. On the basis of this review, and in light of the current financial position and available cash resources, the directors have no reason to believe that Discovery will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the Annual Financial Statements.

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

- Safeguarding of assets against unauthorised use or disposition, and
- The maintenance of proper accounting records, written or electronic and the reliability of financial information used within the business, or for the publication thereof, including submissions to the Companies and Intellectual Property Commission (CIPC).

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

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

Discovery's external auditors, PricewaterhouseCoopers Inc. and KPMG Inc., have audited the Annual Financial Statements and their unqualified report appears on pages 10 to 14.

The Annual Financial Statements of Discovery for the year ended 30 June 2023, which appear on pages 18 to 199 have been approved by the Board of Directors on 20 September 2023 and are signed on its behalf by:

Mark Tucker
Chairperson

Adrian Gore
Group Chief Executive



Group Chief Executive and Group Chief Financial Officer's internal financial control responsibility statement

for the year ended 30 June 2023

After due, careful, and proper consideration, in accordance with the JSE Listings Requirements 3.84(k), each of the directors, whose names are stated below, hereby confirm that:

- The Annual Financial Statements set out on pages 18 to 199 fairly present, in all material respects, the financial position, financial performance and cashflows of the issuer in terms of IFRS;
- To best of our knowledge and belief, no facts have been omitted or untrue statements made that would make the Annual Financial Statements false or misleading;
- Internal financial controls have been put in place to ensure that material information relating to the issuer and its consolidated subsidiaries have been provided to effectively prepare the financial statements of the issuer;
- The internal financial controls are adequate and effective and can be relied upon in compiling the Annual Financial Statements, having fulfilled our role and function as executive directors with primary responsibility for implementation and execution of controls;
- Where we are not satisfied, we have disclosed to the Discovery Limited Audit Committee and the auditors any deficiencies in design and operational effectiveness of the internal financial controls, and have remediated or taken steps to remedy the deficiencies; and
- We are not aware of any fraud involving directors.

Adrian Gore

Group Chief Executive
20 September 2023

Deon Viljoen

Group Chief Financial Officer
20 September 2023

Certificate by the Company Secretary

for the year ended 30 June 2023

It is hereby certified in terms of section 88(2)(e) of the Companies Act, that Discovery Limited has for the year ended 30 June 2023 lodged with the Companies and Intellectual Property Commission (CIPC) all such returns as are required by a public company in terms of this Act and that all such returns are true, correct and up to date.

Ayanda Ceba

Company Secretary
20 September 2023



Report of the Discovery Limited Audit Committee

for the year ended 30 June 2023

We are pleased to present the Discovery Limited Audit Committee's (DLAC) report for the financial year ended 30 June 2023. Our report details how we accomplished our various statutory obligations as well as our key focus areas and the significant audit matters we considered during the period.

This report has been prepared based on the requirements of the Companies Act, the King Report on Corporate Governance™ for South Africa, 2016 (King IV™), the JSE Listings Requirements, the JSE Debt Listings Requirements and other applicable regulatory requirements.

TERMS OF REFERENCE, ROLES AND RESPONSIBILITIES

The DLAC is an independent statutory committee constituted under section 94 (7) of the Companies Act. The DLAC's main objective, as set out in its Terms of Reference, is to assist the Board in fulfilling its oversight responsibilities and evaluating the adequacy and efficiency of accounting policies, internal financial controls (IFCs) and financial and corporate reporting processes.

In addition, the DLAC assesses the effectiveness of the internal auditors and the independence and effectiveness of the joint external auditors, as well as considers and recommends to shareholders the appointment of the joint external auditors.

Structure of the audit committees in Discovery Group

The scope of the DLAC extends to all activities of the Discovery Limited Group and all its subsidiaries, both locally and internationally. Prior to implementing the revised Subsidiary Governance Framework (SGF), the DLAC also acted as the statutory Audit Committee of Discovery Life Limited and Discovery Insure Limited.

Composition and governance

The DLAC consists of a minimum of three independent non-executive directors of the Discovery Limited Board of Directors. During the financial year ended 30 June 2023, the committee held six meetings per the standard meeting cycle, one ad hoc meeting and an annual trilateral meeting with the Prudential Authority.

The DLAC has the appropriate balance, diversity of knowledge, financial skills, and experience to execute its duties effectively. The membership, qualifications, and attendance of the members of the DLAC for the year ended 30 June 2023 are as follows:

Committee member ¹	Qualifications	Number of meetings eligible to attend	Number of meetings attended
D Macready (Chairperson)	BCom (Hons), CTA, CA (SA)	6	6
M Hlahla	BA (Hons) (Economics), MA	6	5
M Schreuder	BCom (Hons), FIA, FASSA	6	6

¹ L Chiume and KC Ramon were both appointed as independent non-executive directors and as members of the Discovery Limited Audit Committee, with effect from 18 September 2023.

In addition to their membership on the DLAC, the committee members also serve across all key Board committees so as to ensure a collective and integrated oversight of key matters across the Discovery Group.

Committee member	Actuarial committee	Risk and compliance committee	Remuneration committee	Social and Ethics committee
D Macready	x	x		
M Hlahla			x	x
M Schreuder	x	x		

The Chairperson of Discovery's Board and other non-executive directors are entitled to attend any meetings upon request. The Group Chief Executive Officer, Group Chief Financial Officer, Chairperson of the Actuarial Committee, and executive directors attend meetings or parts of meetings by invitation only. Other members of management are invited to attend meetings to provide the DLAC with greater insights into specific issues or areas of the Group. The Chairperson has regular contact with the management team to discuss relevant matters directly.



Report of the Discovery Limited Audit Committee *continued*

for the year ended 30 June 2023

MEETINGS CYCLE FOR THE YEAR

For the financial year ended 30 June 2023, the DLAC held the following meetings and regulatory engagements:

Committee meetings: The DLAC convened six scheduled meetings. This included an ad hoc meeting to specifically consider the Annual Financial Statements and results, which included the disclosures on the transition to IFRS 17 *Insurance Contracts* (IFRS 17).

Management engagement: The DLAC Chairperson meets regularly with the Group Chief Financial Officer, the Heads of Actuarial, Risk and Compliance, and executive management where necessary.

Auditor engagements: The internal and external auditors have direct access to the Chairperson, including closed sessions without management during the year, on any matter they consider relevant to fulfilling the DLAC's responsibilities. In addition, the Chairperson meets regularly with internal audit and the external auditors before each meeting and at other times as necessary by either party before Committee meetings.

Regulatory engagements: The DLAC participated in the annual bilateral and trilateral meetings as set up with the respective regulatory bodies.

Subsidiary Audit Committee Engagement: The DLAC Chairperson meets regularly with the individual Chairpersons of the subsidiary audit committees and can attend their subsidiary meetings as an invitee. Subsidiary Chairpersons are invited formally to give feedback to the DLAC during reporting periods.

Annual General Meeting: The DLAC Chairman attends Annual General Meetings and is available to answer any questions concerning matters pertaining to the Committee's responsibilities.

KEY FOCUS AREAS FOR THE FINANCIAL YEAR 2023

The section discusses how the DLAC delivered against its key focus areas for the financial year 2023 as set out in the DLAC's last year's report.

Subsidiary Governance Framework

During the financial year 2023, the DLAC was actively involved in the revision and implementation of Discovery's revised SGF. Implementing the new framework has significantly enhanced and strengthened the governance and oversight of subsidiaries within the broader Discovery multi-national groupings whilst maintaining its common purpose, values and Shared-Value business model.

The implementation of the SGF has resulted in the formation of new independent statutory Audit Committees for Discovery Life and Invest, Discovery Insure and Discovery Health. These new Subsidiary Audit Committees supplement the existing independent Audit Committees of the Discovery Group Europe Limited grouping which incorporates both VitalityLife and VitalityHealth, the Discovery Bank Holdings Limited grouping, as well as the Vitality Group International Audit and Finance Committee.

IFRS 17 Insurance Contracts

The successful transition and implementation of IFRS 17 was a key focus of the DLAC. The Chairperson of DLAC is also the Chairperson of the IFRS 17 Governance Committee, a subset of the various Discovery and UK Vitality Audit and Actuarial committees. The DLAC and the IFRS 17 Governance Committee receive detailed feedback from the respective IFRS 17 project groups which allows for appropriate debates on key policy and modelling elections. Note 30 of Annexure B sets out in more detail the governance structures of the IFRS 17 project.

The DLAC has played an integral role in the overall governance oversight of the IFRS 17 project which included the appropriateness, integrity and veracity of key policy elections and interpretations as well as consideration of the disclosures, communication and overall assurance obtained of the impact on transition from IFRS 4 *Insurance Contracts* (IFRS 4) to IFRS 17.

The past year has seen the final quantification of the transition position to IFRS 17 as at 1 July 2022, the summary of which is set out in note 30 of Annexure B. The following key activities were concluded under the IFRS 17 project:

- Discovery has modelled full retrospective application of IFRS 17 up to 30 June 2022 for all material insurance portfolios. The benefit of such a significant exercise has enabled a rigorous and informed debate on accounting policy elections and modelling. The fully retrospective approach has allowed Discovery to evaluate how its products behave during various scenarios, such as the financial crises of 2008, volatile periods of market movements in foreign exchange and interest rates, and the COVID-19 pandemic.
- Discovery subject matter experts on IFRS Accounting Standards, Tax and Actuarial actively partake in various insurance industry forums to keep close to recent market practices and developments. This ensures that debates on the various accounting policy elections and modelling are well thought through and benchmarked to best industry practices. In particular, Discovery has remained closely attuned to the developments in tax legislation in both South Africa and the United Kingdom to clearly understand any impacts the legislation could have on Discovery's recognised assets and liabilities.
- The members of the Discovery Board, the DLAC and various other Board sub-committees, and executives of the various insurance business lines have had extensive training sessions on IFRS 17, including the practical interpretation and application within the context of the Discovery Group businesses.
- The DLAC was consulted and provided input into the IFRS 17 Investor communications to the market.
- KPMG Inc., as the current joint auditor, and Deloitte & Touche, as the proposed joint auditor following the mandatory audit firm rotation of PricewaterhouseCoopers Inc., have been engaged to provide the external audit assurance for IFRS 17 in their capacity as the external auditors for the financial year ending 30 June 2024, the first financial year that Discovery will apply IFRS 17. A combined assurance approach is being followed whereby group internal and external audits incrementally test the new IFRS 17 landscape.
- The focus in the next six months is finalising and producing IFRS 17 compliant financial statements for the first interim reporting period for the six months ending 31 December 2023, including restated information for the financial year ended 30 June 2023 and the interim reporting period for the six months ended 31 December 2022. A key consideration for DLAC going forward is to obtain assurance as to the 'business-as-usual' IFRS 17 financial, data, processes and financial reporting controls.

Report of the Discovery Limited Audit Committee *continued*

for the year ended 30 June 2023

Implementation of the second phase of the audit firm rotation plan

Discovery continued implementing the second phase of the audit firm rotation plan, which sees PricewaterhouseCoopers Inc. finalise its tenure as joint external auditor for the financial year ended 30 June 2023.

As noted at the time, Discovery had early commenced its process for both the anticipated regulations by the Prudential Authority of the South African Reserve Bank for insurance groups that have joint external auditors and the required auditor rotation rules issued by the Independent Regulatory Board of Auditors (IRBA) in South Africa. Under its rotation plan, the shareholders approved KPMG Inc. as joint external auditor from the financial year ended 30 June 2022. As a result, KPMG Inc. will have had two years of continuity alongside the outgoing joint auditor PricewaterhouseCoopers Inc. At the Annual General Meeting of November 2022, the shareholders also approved the appointment of Deloitte & Touche as joint external auditors from 1 July 2023.

The DLAC noted the Supreme Court of Appeal ruling in May 2023, which set aside the Mandatory Audit Firm Rotation (MAFR) rule issued by the IRBA. Despite this ruling, the DLAC considers it appropriate to continue with the rotation in auditors, supported by the following considerations:

- It is consistent with the vote at the Annual General Meeting, where shareholders overwhelmingly supported the appointment of Deloitte & Touche with effect from 1 July 2023 as joint auditors.
- Deloitte & Touche, having regard for the timing of audit firm rotation, were appointed with KPMG Inc. as the external audit assurance providers on IFRS 17. Therefore, Deloitte & Touche, with KPMG Inc., are best placed to continue as external auditors, with IFRS 17 being effective from 1 July 2023 for Discovery.
- Within Discovery Group, a conglomerate encompassing a diverse range of businesses, the significance of maintaining a strong independent oversight as well as business insight cannot be overstated. This insight is underpinned by the rigorous, disciplined, and fresh perspectives offered through rotational roles, ensuring a seamless transition whilst preserving the invaluable continuity offered by the incumbent team members.

Effective functioning of the Group's financial systems and control environment

Discovery continues to maintain a strong risk culture and has implemented appropriate and effective IFCs to enable the integrity and reliability of the financial statements. These IFCs safeguard, verify, and maintain accountability of Discovery's financial position and performance.

The DLAC is responsible for assessing Discovery's system of internal financial and accounting controls. In this regard, the DLAC has evaluated the adequacy and effectiveness of Discovery's system of internal controls and made appropriate recommendations to the Board. This has included a formal documented review by the internal audit function of Discovery's internal financial controls system's design, implementation, and effectiveness.

Discovery has successfully completed the third year of the internal financial control attestation process in terms of paragraph 3.84(k) of the JSE Limited Listings Requirements. Any deficiencies in design and operating effectiveness of IFCs identified via the Group's three lines of defence are reported to the DLAC. The DLAC considered the identified deficiencies together with the appropriateness of management's response, including remediation, reliance on compensatory controls, and additional review procedures. The DLAC noted and supports the Group Chief Executive Officer and Group Chief Financial Officer positive attestations under their names and signature.

The DLAC believes that, based on the results of these reviews, Discovery's IFCs effectively produce accurate financial information and a fair presentation of the financial performance of Discovery in the Annual Financial Statements.

KEY ACTIVITIES OF THE DLAC FOR THE FINANCIAL YEAR 2023

Key audit matters

The DLAC annually assesses the Key Audit Matters (KAMs) reported by the external auditors and considers the key judgements and estimates pertaining to the Annual Financial Statements. Accordingly, the KAMs of the joint auditors for the current period were addressed as follows.

Key Audit Matter	How the DLAC addressed the matter
Valuation of assets and liabilities arising from insurance contracts	The DLAC reviewed reports from the Group Chief Actuary and the external auditors on actuarial assumptions and basis changes. The DLAC evaluated the appropriateness of actuarial assumptions used in the setting of reserves, including negative Rand reserves, taking into account recommendations made by the Actuarial Committee.
The annual assessment for impairment of goodwill and intangible assets	<p>The DLAC reviewed the impairment assessments based on the latest business planning inputs.</p> <p>It considered the sensitivity of these estimates to various scenarios. The most material of these is the valuation of Discovery Bank, which is sensitive to the discount rate, business plan performance and, most notably, the terminal growth rate. Management re-engaged an external valuator to perform an independent valuation. This valuation and the work performed by the auditors provided acceptable headroom at a Discovery Bank and Group levels against its respective carrying values</p> <p>Note 4 Significant accounting estimates and judgement in applying accounting policies of the financial statements sets out the respective significant accounting estimates and judgements. Further information is also included in note 10, Goodwill.</p>



Report of the Discovery Limited Audit Committee *continued*

for the year ended 30 June 2023

KEY ACTIVITIES OF THE DLAC FOR THE FINANCIAL YEAR 2023 *continued*

Key audit matters *continued*

Other significant matters considered

Significant matters are those that the DLAC views as significant or material in nature, requiring either the exercise of judgement or matters otherwise considered subjective from an accounting or auditing perspective. The following areas received a key focus from the DLAC during the year:

- Evaluation of management's assessment of impairment of specified assets under IAS 36 *Impairment of Assets*. In addition to focusing on the goodwill of Discovery Bank, as noted in the KAMs above, the DLAC also considered the goodwill of VitalityHealth and VitalityLife and the carrying value of material associates. The DLAC is satisfied that there was no risk of impairment of any material assets.
- Review of the supportability of deferred tax assets raised on assessed losses.

Financial statement and accounting practices

The DLAC has reviewed the accounting policies of all entities included in the consolidated Annual Financial Statements and is satisfied that they are appropriate, consistently applied and comply with IFRS Accounting Standards. The DLAC is satisfied that Discovery has established financial reporting procedures so as to ensure access to all financial information required by the issuer to prepare and report on the financial statements of Discovery effectively. The DLAC confirmed the going concern basis for the preparation of both Interim and Annual Financial Statements

During the year, the DLAC reviewed the following financial reporting matters to ensure the integrity and fairness of financial information:

- Reviewed and debated the key accounting, actuarial and tax judgements and assumptions, including external audit's KAMs and were satisfied with how these were addressed.
- Reviewed financial information included in the Group's interim and year-end results announcements to ensure the accuracy and integrity of financial data disclosed externally.
- As part of its annual work plan, the DLAC evaluates management's assessment of the findings in the most recent JSE's Proactive Monitoring Report. Management performs a detailed assessment of the JSE's findings against Discovery's Annual Financial Statements to identify any potential areas of non-compliance or potential improvements or enhancements in disclosures. The review was completed in November 2022 with the release of the JSE's Proactive Monitoring Report 2022. No significant deficiencies were identified, but smaller changes were incorporated into the interim results and Annual Financial Statements in light of recommendations from the report.
- Evaluated the consistent application of accounting policies for insurance reserves.
- An established DLAC process receives and appropriately considers any concerns or complaints relating to Discovery's accounting and reporting practices. The DLAC immediately deals with any such issues raised. No issues have been raised during the course of the financial year.

Finally, the DLAC has considered accounting treatments of significant or unusual transactions and accounting judgements. The DLAC has evaluated management's judgements and reporting decisions in relation to the Integrated annual report and ensured all material disclosures have been included. In addition, it has reviewed both financial and non-financial information, forward-looking statements, and sustainability information.

RESTATEMENT AS A RESULT OF PRIOR PERIOD ERROR – RECLASSIFICATION OF UNIT-LINKED INSURANCE CONTRACTS TO UNIT-LINKED INVESTMENT CONTRACTS

As noted in note 45 of the Discovery consolidated results, Discovery has restated its previously published results for an error in the classification of certain unit-linked policies.

As part of the IFRS 17 project, Discovery performed a full reassessment of all insurance contracts to ensure the products were correctly included in the scope of IFRS 17. Discovery identified that certain offshore unit-linked policies do not transfer significant insurance risk as required under IFRS 17. Instead of being classified as unit-linked insurance contracts, these policies should have been accounted for as unit-linked investment contracts under IFRS 9 *Financial Instruments*. As the definition of identification of significant insurance risk under IFRS 17 and IFRS 4 is the same; the change in treatment and restatement of previously published information is required under IFRS 4 in the current period.

The DLAC has reviewed the proposed correction by management, the control environment to process the correction, and the external audit work to ensure the changes were made correctly. In addition, the DLAC considered the disclosures in the financial statements, required communication with the relevant regulatory bodies and confirmed it had discharged all its obligations as required.

CLIMATE, NATURE AND BIODIVERSITY AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

The DLAC also:

- Performed review of the Sustainability Report, including understanding sources of data, metrics, methodologies and narrative.
- Considered the level of both internal and external assurance obtained on ESG reporting and disclosures, including reviews of the workplans and procedures.
- Performed review of the Task Force for Climate-Related Disclosures (TCFD) Report, focusing on the disclosure of climate-related risks, opportunities, and financial implications.



Report of the Discovery Limited Audit Committee *continued*

for the year ended 30 June 2023

KEY ACTIVITIES OF THE DLAC FOR THE FINANCIAL YEAR 2023 *continued*

External audit

The DLAC is responsible for the appointment, compensation and oversight of the independent joint external auditors, namely KPMG Inc. and PricewaterhouseCoopers Inc, who were appointed as joint auditors effective 1 July 2022.

- The DLAC has assessed the independence and objectivity of the external auditors and is satisfied that the external auditors are independent of Discovery. The requisite assurance was sought and provided by the auditors that internal governance processes within each audit firm support and demonstrate its claim to independence.
- The DLAC has also reviewed the appropriate JSE accreditation of the individual audit partners responsible for the audit sign-off and the respective auditors' most recent IRBA inspection reports.
- A formal policy exists in respect of the provision of non-audit services by the external auditors of Discovery and its subsidiaries, and a formal procedure governs the process whereby the auditors are appointed to provide any non-audit services, including a limitation on fees for non-audit services which shall not exceed 25% of each joint auditor audit fee. Non-audit services rendered by PricewaterhouseCoopers Inc. were less than 1% of the total audit fees. KPMG Inc. did not provide any non-audit services. In addition, as part of ensuring the independence of Deloitte & Touche as the proposed incoming auditor, the DLAC also considered any non-audit services rendered by Deloitte to the same standard as the existing auditors. During the period, Deloitte & Touche did not render any non-audit services.
- The Chairperson of the DLAC pre-approves the nature and extent of any non-audit services that the external auditors provide in terms of the agreed pre-approval policy, and the schedule of approved non-audit services is reviewed annually by the DLAC.
- The DLAC, following consultation with executive management, approved the engagement letter, terms, audit plan, main areas of focus, and budgeted audit fees for the year ended 30 June 2023. This approval of the audit plan included specific consideration as to the allocation of work between the joint auditors.
- The DLAC Chairperson met with both KPMG Inc. and PricewaterhouseCoopers Inc. lead partners prior to every DLAC meeting to discuss the 2022/23 audit plan, key areas of focus, scope and findings, including suitability of any reliance on Group Internal Audit. The DLAC met with the external auditors independently twice for the year under review.
- In terms of the conditions laid out in section 94(8) of the Companies Act and based on its assessment, taking consideration of the criteria of King IV™, the JSE and general guidance to Audit Committees, the DLAC is satisfied with the performance and quality of the external audit, the external auditor firms and lead partners for the year ended 30 June 2023.
- The DLAC received feedback from the external auditors on the audit of the Annual Financial Statements of the Group, the critical accounting estimates and judgements, and cross reviews, including the Summary of Audit Differences for the year ended 30 June 2023. The DLAC notes the unqualified independent auditors' report in relation to Discovery Limited and the Group.

Group Internal Audit (GIA)

GIA provides independent objective assurance that the governance processes, including professional ethics, the management of risk and systems of internal controls, are both adequate and effective. The Chief Audit Executive (CAE) has a functional reporting line to the DLAC Chairperson and an administrative reporting line to the Group Chief Financial Officer.

The DLAC is satisfied that the GIA displays high professional objectivity and professional ethics in performing its work.

In assessing the quality, performance, and delivery of the internal audit plan, including the scope of the work performed, the level of resources and coverage of the audit plan, the DLAC took cognisance of the following:

- Reviewed and approved the internal audit charter and audit plan and evaluated the independence, effectiveness, and performance in line with its charter.
- Challenged the audit plan's focus, relevance, and risk-based emphasis.
- Considered reports on the Group's internal control systems, specifically focusing on the effectiveness of IFCs, including financial reporting controls.
- Reviewed significant issues raised by the internal audit processes and the adequacy of corrective action and accountability taken in response to such findings.
- Assessed the independence and effectiveness of the Chief Audit Executive, the internal audit function and the quality and extent of audit resources and found them satisfactory.
- Received the annual assessment provided by internal audit confirming the effectiveness of Discovery's governance, risk management and control processes.
- Reviewed the external auditors' annual assessment of the internal audit in terms of the requirements of ISA 610 *Using the Work of Internal Auditors*, reaffirming the extent of reliance that could be placed on the internal audit work.



Report of the Discovery Limited Audit Committee *continued*

for the year ended 30 June 2023

OTHER MATTERS CONSIDERED BY THE DLAC

In further fulfilling its duties and discharging its obligations for the year ended 30 June 2023, the DLAC also considered:

Matter considered	Outcome
Evaluation of the expertise and experience of the finance function and financial director	The DLAC reviewed and satisfied itself with the appropriateness of Discovery's finance function's expertise, resources, and experience, including the Group Chief Financial Officer, Mr Deon Viljoen.
Combined assurance	The combined assurance model provides an integrated plan of the various activities and sources of assurance, including risk and compliance, external and internal audit, corporate finance functions and the Actuarial Committees. The DLAC has reviewed and noted the combined assurance model, which has been implemented throughout the Group and considers that the model is appropriate in addressing Discovery's risks.
Whistleblowing	The DLAC receives and deals with any complaints or whistleblowing, whether from within or outside Discovery, relating to Discovery's accounting practices and internal audit, the content or auditing of Discovery's financial statements, the internal financial controls of Discovery and related matters. No such whistleblowing was received during the financial year.
Ethics and compliance	The DLAC is responsible for reviewing any major breach of Discovery's code of conduct and ethics and relevant legal, regulatory, and other obligations reported to the DLAC by the Social and Ethics Committee. The DLAC is satisfied that there has been no material breach of these standards or material non-compliance with laws and regulations. The DLAC is satisfied that it has complied with all its legal, regulatory, and other obligations during the period under review.

KEY FOCUS AREAS FOR THE FINANCIAL YEAR 2024

The DLAC will remain focused on:

- Evaluating the effectiveness of the DLAC and its subsidiary Audit Committees relative to the SGF objectives, with particular emphasis on, skills, capacity, and workplans to ensure the members are enabled to fulfil their roles effectively.
- Enhance the capabilities, skills and oversight and effectiveness of the DLAC by expanding the audit committee with additional members. This expansion is intended to bring in diverse expertise and perspectives that can contribute to more robust decision-making, improved risk management, and a higher level of assurance in financial matters.
- A comprehensive analysis of Discovery's ESG financial reporting practices in comparison to industry-leading standards and emerging trends. It aims to identify areas where Discovery can improve its ESG reporting, aligning it with best practices, the newly published IFRS Sustainability Disclosure Standards' and staying ahead of evolving global expectations in ESG disclosure. The findings from this project will guide future reporting strategies and sustainability initiatives.
- Implement a specific project to ensure ongoing assurance for IFRS 17 systems, data, models, and reporting, as part of 'business as usual' processes. This includes the IFRS 17 restatement of comparative information, and investor presentations.
- Review the effectiveness of GIA and the appropriateness of the insourcing model. The review will assess whether the current insourcing model is suitable, especially in areas where risks are evolving rapidly, such as cybersecurity, IT General Controls (ITGCs), and core actuarial modeling within IFRS 17. The goal is to ensure that the GIA function is optimally structured to provide timely and comprehensive assessments of risk and compliance across these critical domains.
- Facilitate the audit firm rotation from PricewaterhouseCoopers Inc. to Deloitte & Touche.

CONCLUSION

The DLAC is satisfied that it has complied with all statutory duties and duties given to it by the Board under its Terms of Reference.

The DLAC has reviewed the consolidated and separate financial statements of Discovery Limited for the year ended 30 June 2023 and, based on the information provided to the DLAC, considers that Discovery complies, in all material respects, with the requirements of the Companies Act and IFRS Accounting Standards.

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

D Macready

Chairperson: Discovery Limited Audit Committee
20 September 2023



Independent Auditors' report

for the year ended 30 June 2023

To the shareholders of Discovery Limited

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our opinion

We have audited the consolidated and separate financial statements of Discovery Limited (the Group and Company), set out on pages 18 to 199 which comprise:

- the Group and Company statements of financial position at 30 June 2023;
- the Group and Company income statements for the year then ended;
- the Group and Company statements of other comprehensive income for the year then ended;
- the Group and Company statements of changes in equity for the year then ended;
- the Group and Company statements of cash flows for the year then ended; and
- the notes to the Group and Company annual financial statements (including Annexures A, B and C), including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Discovery Limited at 30 June 2023, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with IFRS Accounting Standards and the requirements of the Companies Act of South Africa.

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 *Auditors' responsibilities for the audit of the consolidated and separate financial statements* section of our report.

We are independent of the Group and 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)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditors' report *continued*

for the year ended 30 June 2023

Key audit matters

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

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

Valuation of assets and liabilities arising from individual life insurance contracts

Refer to Section 13 of Annexure B – Group accounting policies, and notes 2, 4.1, 5 and 18 to the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
<p>At 30 June 2023, the Group held assets arising from insurance contracts to the value of R63 865 million and liabilities arising from insurance contracts of R114 807 million.</p> <p>The assets and liabilities arising from insurance contracts related to both individual life and group life policies, with the key audit matter focusing on individual life policies (insurance contracts) underwritten by Discovery Life and Vitality Life.</p> <p>The actuarial value of those individual life assets and liabilities arising from insurance contracts that are long-term in nature is determined based on a prospective discounted cash flow valuation basis, calculated as the difference between the present value of future benefit payments plus expenses and the present value of future premiums.</p> <p>In valuing these assets and liabilities arising from insurance contracts, management applies significant judgement and various assumptions are made, including best estimate assumptions regarding the future expected claims experience, premium income, expenses and commission. Changes to these assumptions may result in a material change to the valuation.</p> <p>The most significant assumptions made in determining the value of these assets and liabilities arising from insurance contracts relate to:</p> <ul style="list-style-type: none"> ■ Impact of the Vitality status distribution on mortality, morbidity and the level of surrender and lapses. The Group is unique due to its Vitality programme as policyholders are provided access to several services and benefits that encourage healthy lifestyle choices and are awarded Vitality points, which ultimately determine their Vitality status. The mortality, morbidity and lapse assumptions within the valuation are specifically impacted by the Vitality status of the policyholder. Furthermore, the Vitality status informs future expected policyholder behaviour and adjustments are therefore made to the mortality, morbidity, and lapse assumptions to reflect the expected impact of the Vitality programme. ■ Use of discretionary margins with respect to profit recognition. Discovery Life Limited writes profitable insurance products and applying the reserving basis using only compulsory margins as prescribed by regulations would result in a premature recognition of future profits at the inception of new business contracts; and therefore, certain discretionary margins are added to the best estimate assumptions. This is however limited to the extent of actual acquisition costs incurred and these discretionary margins are reset at each valuation date to reflect the underlying profitability of the portfolio. Changes to the discretionary margins have a direct impact on the profit recognition in a period and the Group has therefore established a framework as disclosed in Section 13 of Annexure B – Group accounting policies, to utilise the available discretionary margin in a specified order. <p>We considered the valuation of assets and liabilities arising from insurance contracts to be a key audit matter in our audit of the consolidated financial statements, as it involves complex and subjective judgements about future events, including policyholder behaviour and economic conditions.</p>	<p>The primary procedures we performed to address this key audit matter included the following:</p> <p>We involved our actuarial specialist to assist in:</p> <ul style="list-style-type: none"> ■ Gaining an understanding of the Group's actuarial internal control environment and governance, including the functioning of the Group's Actuarial Committee (and where applicable, the subsidiaries' Actuarial Committees) and testing the design and implementation of key controls. ■ Testing the design and implementation of the liability build-up control to support the sources of profit and corroborate the movements in the liability to relevant underlying information, from both internal and external sources. ■ Evaluating the appropriateness of the valuation methodology applied by the Group to determine the value of assets and liabilities arising from insurance contracts. In doing so, we considered the principles and integrity of the Group's models against acceptable industry standards. ■ Challenging management with respect to the appropriateness of all significant assumptions adopted in the determination of the valuation of assets and liabilities arising from insurance contracts by comparing these assumptions to the results of historical actuarial experience investigations conducted by management, including benchmarking these assumptions against life insurance industry trends to determine whether they are reasonable and supportable. ■ Evaluating the compliance of the valuation of the assets and liabilities arising from insurance contracts against the requirements of the Financial Soundness Valuation (FSV) basis as described in the Standard of Actuarial Practice (SAP) 104 and the Group's accounting policies as set out in Section 13 of Annexure B – Group Accounting policies. <p>In respect of the impact of the Vitality programme on the valuation of assets and liabilities arising from insurance contracts relating to individual life policies underwritten by the Group:</p> <ul style="list-style-type: none"> ■ Evaluating, on a sample basis, the reasonability of the Group's assumptions in setting the Discovery Vitality status distribution, and the progression between statuses, by comparing these against historical trends; and ■ Evaluating, on a sample basis, the integrity of the data inputs captured in the models by assessing whether the inputs used are consistent with historical actual experience. <p>Use of discretionary margins with respect to profit recognition:</p> <ul style="list-style-type: none"> ■ Assessing whether all acquisition costs were appropriately captured in the determination of the discretionary margins at 30 June 2023 by comparing these input amounts to the audited acquisition cost amounts included in the Group's income statement; and ■ Evaluating the appropriateness of the calculation of the discretionary margin transfer against the requirements of the methodology set out in the Group's accounting policies in Section 13 of Annexure B – Group Accounting policies.

Independent Auditors' report *continued*

for the year ended 30 June 2023

Impairment assessment of goodwill for the Discovery Bank cash-generating unit (CGU)

Refer to Section 7 and 8 of Annexure B – Group accounting policies, and notes 4.2 and 10 to the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
<p>At 30 June 2023, the Group held goodwill in relation to the Discovery Bank cash-generating unit (CGU) at a carrying value of R2 417 million. This goodwill arose from the acquisition of the DiscoveryCard business.</p> <p>In accordance with the requirements of IAS 36 <i>Impairment of Assets</i> (IAS 36), the Group annually assesses goodwill allocated to the Discovery Bank CGU for impairment. The recoverable amount of the Discovery Bank CGU is estimated on a fair value less costs to sell basis, using the income approach. Estimation uncertainty is inherent in the determination of fair value less costs to sell given the significant unobservable inputs into the calculation, which results in the fair value estimate being categorised as level 3 in terms of the fair value hierarchy in IFRS 13 <i>Fair Value Measurement</i>.</p> <p>Management has applied judgement in determining the inputs used in deriving their fair value estimate for the Discovery Bank CGU. These inputs include customer growth rates, customer behaviour assumptions and the expensing of system-build costs, which drive forecasts of future cashflows. In addition, management has applied judgement in the determination of their estimated discount rate, notably the beta factor used in deriving a cost of equity, and the terminal growth rate.</p> <p>We considered the impairment assessment of goodwill for the Discovery Bank CGU to be a key audit matter in our audit of the consolidated financial statements, as it involves complex and subjective judgements and is subject to estimation uncertainty.</p>	<p>The primary procedures we performed to address this key audit matter included the following:</p> <ul style="list-style-type: none"> ■ Gaining an understanding of the process followed by management to assess goodwill for the Discovery Bank CGU for impairment, including the derivation of management's key assumptions and testing the design and implementation of certain key controls related to this assessment. ■ Assessing management's attribution of assets and liabilities to the Discovery Bank CGU against the requirements of IAS 36. ■ Assessing the appropriateness of disclosures included in the consolidated financial statements in accordance with the group accounting policies and the requirements of IAS 36. <p>We involved our valuation and economic specialists to assist in:</p> <ul style="list-style-type: none"> ■ Evaluating the appropriateness of the valuation methodology applied by management to calculate the recoverable amount of the Discovery Bank CGU. In doing so, we considered the principles and integrity of the discounted cash flow model against the requirements of IAS 36 and acceptable industry standards. ■ Evaluating the appropriateness of management's assumptions against external market data or industry benchmarks, including the discount rate applied, customer growth rates and customer behavioural assumptions that drive forecasted cashflows. This includes an assessment of the reasonableness of the capital requirements and credit loss ratios applied in the future cashflows. We also assess the expensing of system build costs. ■ Performing various sensitivity analyses over management's forecast cash flows, customer growth rates, the terminal growth rate and discount rate applied to assess the impact of changes in these key assumptions on the recoverable amount of the Discovery Bank CGU.



Independent Auditors' report *continued*

for the year ended 30 June 2023

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Discovery Annual Financial Statements for the year ended 30 June 2023", which includes the Directors' report, the Report of the Discovery Limited Audit Committee and the Certificate by the Company Secretary as required by the Companies Act of South Africa, which we obtained prior to the date of this auditors' report, and the document titled "Discovery Integrated Annual Report for the year ended 30 June 2023", which is expected to be made available to us after that date. The other information does not include the consolidated and the separate financial statements and our auditors' report thereon.

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

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

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

Responsibilities of the directors for the consolidated and separate financial statements

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

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

Auditors' responsibilities for the audit of the consolidated and separate financial statements

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

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

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



Independent Auditors' report *continued*

for the year ended 30 June 2023

Auditors' responsibilities for the audit of the consolidated and separate financial statements *continued*

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

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

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

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that KPMG Inc. and PricewaterhouseCoopers Inc. have been the joint auditors of Discovery Limited for two years.

Prior to the commencement of the joint audit relationship, PricewaterhouseCoopers Inc. was the sole auditor of Discovery Limited for twenty-one years.

PricewaterhouseCoopers Inc.

Director: Andrew Taylor
Registered Auditor
Jukskei View
4 Lisbon Lane
Waterfall City
2090
South Africa
21 September 2023

KPMG Inc.

Director: Mark Danckwerts
Registered Auditor
KPMG Crescent
85 Empire Road
Parktown
2193
South Africa
21 September 2023

Directors' report

for the year ended 30 June 2023

NATURE OF BUSINESS

Discovery Limited (the Company) is listed on the JSE Limited and is an integrated financial services organisation specialising in health insurance, life assurance, wellness, investments and savings, short-term insurance and banking.

Discovery is a shared value insurance and banking company whose purpose and ambition are achieved through a pioneering business model that incentivises people to be healthier and enhances and protects their lives.

Our unique and sophisticated Shared-value insurance model delivers better health and value for clients, superior actuarial dynamics for the insurer and a healthier society. It is a powerful platform of integrated assets and capabilities, which has positioned us well to respond to the following key trends that were accelerated by COVID-19 and remain relevant:

- a focus on health, wellness and resilience (nature of risk)
- accelerated use of technology and increased digitisation
- increased importance of purpose and trust

YEAR UNDER REVIEW

The year under review was characterised by significant macroeconomic uncertainty, with several issues coalescing. The period saw sustained inflationary pressures, rising interest rates, a particularly strong US dollar, increasing consumer pressure and a cost-of-living crisis in many regions. These pressures have constrained economic growth, following short-lived rebounds experienced by many countries post-COVID, with severe energy shortages in South Africa proving to be a further constraint.

For the year ended 30 June 2023, normalised operating profit for the Group increased by 24% to R11 661 million (2022: R9 384 million) following a robust performance across each composite. Core new business annualised premium income (API) was up 6% to R23 025 million (up 12% to R22 788 million excluding products of VitalityInvest and Ping An Health Insurance Company of China Limited (PAHI) reinsurance business in rundown), with particularly strong growth from the South African (SA) and United Kingdom (UK) composites. Persistency continued to exceed expectations in all businesses. The Group continued to streamline some new initiatives with a focus on those businesses expected to generate significant value. In the previous financial year, the Group announced its decision to exit the UK investment market (VitalityInvest) and more recently has decided to terminate VitalityCar, extracting from the challenging UK motor insurance market.

The following table demonstrates the contribution of key businesses to the growth in normalised profit from operations of 24% compared to the prior year. The weakening of the rand over the year contributed to the translated growth rate for the UK and Vitality Global (VG) composites with the latter also benefiting from a strong dollar over the year under review.

Business	Normalised profit from operations (Current period, in R million)	% change (Current period vs prior period)	Core new business API ² (Current period, in R million)	% change (Current period vs prior period)
Discovery Health	3 854	7%	8 678	19%
Discovery Life	4 807	19%	2 838	12%
Discovery Invest	1 560	30%	3 050	4%
Discovery Insure – Personal ¹	62	(138%)	1 249	0%
Discovery Vitality	16	78%	372	45%
Discovery Bank	(767)	23%		
Other initiatives and central costs	(436)	88%	631	(25%)
– SA new initiatives	(312)	28%	631	(25%)
– Central costs	(124)			
SA Composite	9 096	22%	16 818	11%
VitalityHealth ³	1 283	(3%)	2 064	19%
VitalityLife	1 039	55%	1 721	37%
Closure costs of VitalityInvest and VitalityCar in run down	(455)	(1%)		
Other initiatives and central costs	(79)	32%		
UK Composite	1 788	21%	3 785²	26%
Vitality Health International – PAHI	596	76%	2 185 ²	(1%)
Vitality Health International – Other	(195)	1%		
Vitality Network	411	26%		
Other initiatives and central costs	(35)	46%		
VG Composite	777	74%	2 185	(1%)
	11 661	24%	22 788	

¹ Includes Discovery Insure's share of equity accounted losses of R19 million (2022: R13 million).

² Core new business API excludes products in rundown of VitalityInvest and PAHI reinsurance business.

Core new business API for the UK composite increased 3% including VitalityInvest. Core new business API for PAHI decreased 18% including PAHI reinsurance business.

³ The difference between VitalityHealth normalised profit compared to that shown in the segment information is the accelerated write-off in the current year of the VitalityCar's capitalised systems and intangible assets, with a pre-tax impact of R189 million. The write-off is disclosed in this table in Closure costs of VitalityInvest and VitalityCar in run down. Closure costs include

- VitalityInvest R266 million (30 June 2022: R458 million)
- VitalityCar R189 million (30 June 2022: nil).

Directors' report *continued*

for the year ended 30 June 2023

Normalised headline earnings increased 32% to R7 678 million (2022: R5 816 million) while headline earnings increased 5% to R5 490 million (2022: R5 204 million) negatively impacted by the effect of a significant increase in both real and nominal interest rates in SA.

The return on opening embedded value (RoEV) of 13.2%, benefited from translation and foreign exchange gains as a result of the weakening rand combined with strong local currency growth for Discovery's offshore operations. R2.6 billion of positive non-economic experience variances were generated over the year, reflecting the positive dynamics of the shared value insurance model. However, this was offset by higher long-term rates in SA and UK which created a significant impact on the economic basis within the embedded value and constrained new business margins materially.

SHARE CAPITAL

Details of the authorised and issued share capital, together with details of shares issued during the year, are set out in note 8 to the Company Annual Financial Statements.

OWNERSHIP

For details of shareholders, refer to Annexure D.

GROUP STRUCTURE

The Company is directly and indirectly the holding company of subsidiaries and investments as set out in Annexure A. In addition, Discovery is required to consolidate certain unit trusts which are deemed to be under the Group's control in terms of IFRS 10 Consolidated Financial Statements. These are also set out in Annexure A.

DIVIDENDS

Details of dividends paid and declared are set out in note 43 and note 44 to the Annual Financial Statements.

CAPITAL

Solvency and liquidity tests

The directors have performed the requisite solvency and liquidity tests where required by the Companies Act as amended.

Liquidity and solvency as well as the Group's capital position remained strong and is robust under various stress scenarios across the Group.

Statutory capital requirements

With effect from 1 July 2018, the Insurance Act 18 of 2017 (Insurance Act), and the related Prudential Standards were implemented in South Africa. Discovery Life and Discovery Insure are regulated under the Insurance Act, while VitalityHealth and VitalityLife are regulated under the European Solvency II regulatory regime, which was implemented from 1 January 2016. The values below are estimated based on information extracted from the audited Annual Financial Statements.

	June 2023		June 2022	
	Statutory capital requirements	Cover	Statutory capital requirements	Cover
Discovery Life	R20 809 million	1.9 times	R20 322 million	1.7 times
Discovery Insure	R1 113 million	1.6 times	R1 138 million	1.2 times
Vitality Health	GBP130.8 million		GBP117.2 million	
	(R3 138 million)	1.4 times	(R2 344 million)	1.5 times
Vitality Life	GBP272.1 million		GBP297.1 million	
	(R6 528 million)	2.1 times	(R5 943 million)	2.1 times

Directors' report *continued*

for the year ended 30 June 2023

DIRECTORS AND PRESCRIBED OFFICERS

The following were directors and prescribed officers of the Company during the current financial year unless otherwise indicated:

Executive directors	Independent non-executive directors	
A Gore (Group Chief Executive)	ME Tucker (Chairperson)	T Mboweni
Dr A Ntsaluba ²	L Chiume ⁴	KC Ramon ⁵
A Pollard ²	N Hlahla	M Schreuder
B Swartzberg	FN Khanyile	B van Kralingen
DM Viljoen (Group Chief Financial Officer)	D Macready	SV Zilwa
	Dr TV Mapha	

Prescribed officers	Non-executive directors
HD Kallner ^{2,3}	HL Bosman ¹
NS Koopowitz ^{2,3}	R Farber

¹ Retired effective 1 December 2022 following conclusion of the Company's Annual General Meeting. This follows the unbundling by Rand Merchant Investment Holdings Limited of its shareholding in Discovery Limited earlier in 2022. He also resigned as chairperson and member of the Risk and Compliance Committee and as a member of the Remuneration Committee and the Nominations Committee. He has also retired as a non-executive director of Discovery Life Limited, Discovery Health (Pty) Limited and Discovery Vitality (Pty) Limited.

² Stepped down from the Board effective 1 March 2023 as part of a change in governance structures.

³ Transitioned to Prescribed Officer with effect from 1 March 2023 as part of a change in governance structures.

⁴ Appointed with effect from 18 September 2023. She is also a member of the Discovery Limited Audit Committee and the Group and South African Risk and Compliance Committees. She brings a wealth of financial services and investment experience.

⁵ Appointed with effect from 18 September 2023. She is a member of the Discovery Limited Audit Committee and the Social and Ethics Committee. She brings diverse leadership and board experience in multiple sectors.

The notice for the forthcoming Annual General Meeting of shareholders will include those names of individuals that retire by rotation and are eligible and available for re-election.

DIRECTORS' INTERESTS

Details of the directors' emoluments, participation in share incentive schemes and interests in the Company are reflected in Annexure C.

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

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company entered into agreements to indemnify its directors to the extent permitted by law against all liabilities including legal costs incurred by the director in connection with or as a consequence of the director acting in any capacity, including as an authorised representative of a Group company. During the financial year, the Company paid insurance premiums in respect of a Directors and Officers Liability insurance contract, which insures directors and officers of the Company against certain liabilities arising in the course of their duties to the Company or Group companies. Details of the nature of the liabilities covered and the amount of premium paid are not disclosed as such disclosure is prohibited under the terms of the contract.

COMPANY SECRETARY

Nobuhle Mbongo resigned as the Group Company Secretary with effect from 31 March 2023 to pursue another opportunity outside of the Group.

In the interim, Ayanda Manqele, the current Deputy Company Secretary, was appointed Acting Group Company Secretary, with effect from 31 May 2023 until 31 August 2023. Ayanda Ceba was appointed as Group Company Secretary of Discovery with effect from 1 September 2023, following the resignation of the Group Company Secretary.

Registered office	Postal address
1 Discovery Place	PO Box 786722
Sandton	Sandton
2196	2146

BORROWING POWERS

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

EVENTS AFTER THE REPORTING DATE

Refer to Group note 44 for a list of the events after reporting date.

AUDITORS

It will be proposed at the Annual General Meeting of shareholders, that KPMG Inc. and Deloitte & Touche be appointed as joint external auditors in accordance with section 90(1) of the Companies Act.



Group statement of financial position

at 30 June 2023

R million	Notes	Group 2023	Restated ¹ Group 2022	Restated ¹ Group 1 July 2021
Assets				
Goodwill	10	5 406	4 912	4 879
Intangible assets	7	6 982	6 539	6 371
Property and equipment	6	3 910	3 811	4 188
Assets arising from insurance contracts	5	63 865	56 645	50 483
Deferred tax asset	24	4 404	4 455	3 948
Deferred acquisition costs	8	799	640	585
Assets arising from contracts with customers	9A	2 201	1 692	1 375
Investment in equity-accounted investees	11	7 024	6 008	3 459
Financial assets				
– Loans and advances to customers at amortised cost	12	4 702	3 944	3 361
– Investments at amortised cost	12	9 910	7 161	5 604
– Investments at fair value through profit or loss	12	155 426	141 494	130 937
– Derivative financial instruments at fair value through profit or loss	13	119	276	249
Insurance receivables, contract receivables and other receivables	14	16 059	13 113	10 533
Non-current assets held for sale	11.2.1	-	171	-
Current tax asset		41	220	391
Reinsurance contracts	15	709	511	445
Cash and cash equivalents	16	20 370	19 775	20 013
TOTAL ASSETS		301 927	271 367	246 821
Equity				
Capital and reserves				
Ordinary share capital and share premium	17.1	10 351	10 178	10 151
Perpetual preference share capital	17.2	779	779	779
Other reserves		8 622	3 621	1 935
Retained earnings		44 218	38 972	33 550
Equity attributable to equity holders of the Company		63 970	53 550	46 415
Non-controlling interest		4	5	4
TOTAL EQUITY		63 974	53 555	46 419
Liabilities				
Liabilities arising from insurance contracts	18	114 807	108 067	100 041
Liabilities arising from reinsurance contracts	19	14 669	13 192	12 525
Deferred tax liability	24	9 559	9 335	8 814
Contract liabilities to customers	9A	656	944	776
Financial liabilities				
– Borrowings at amortised cost	20	20 586	20 584	19 493
– Other payables	22	14 780	15 123	14 904
– Deposits from customers	23	14 333	10 881	8 985
– Investment contracts at fair value through profit or loss	21	48 044	38 637	33 354
– Derivative financial instruments at fair value through profit or loss	13	20	202	826
Employee benefits	25	334	320	315
Current tax liability		165	527	369
TOTAL LIABILITIES		237 953	217 812	200 402
TOTAL EQUITY AND LIABILITIES		301 927	271 367	246 821

¹ The comparative information has been restated. Refer to note 45 for detail.

The order in which individual line items are presented in the Statement of financial position has been amended to better reflect their respective liquidity, as far as possible, from least liquid to the most liquid items. No values were reclassified or restated between line items.



Group income statement

for the year ended 30 June 2023

R million	Notes	Group 2023	Restated ¹ Group 2022
Insurance premium revenue		59 671	58 312
Reinsurance premiums		(10 136)	(8 262)
Net insurance premium revenue	26	49 535	50 050
Fee income from administration business	9B	14 757	12 752
Vitality income	9B	3 891	3 495
Net banking fee and commission		965	645
Banking fee and commission income	9B	1 292	853
Banking fee and commission expense		(327)	(208)
Net banking interest and similar income		574	318
Bank interest and similar income using the effective interest rate		1 318	811
Bank interest and similar expense using the effective interest rate		(744)	(493)
Investment income using the effective interest rate method	27	772	296
Net fair value gains/(losses) on financial assets at fair value through profit or loss	28	14 373	(1 825)
Other income		1 544	1 341
Net income		86 411	67 072
Net claims and policyholders' benefits	29	(40 135)	(30 715)
Claims and policyholders' benefits		(46 746)	(38 022)
Insurance claims recovered from reinsurers		6 611	7 218
Recapture of reinsurance		-	89
Acquisition costs	30	(6 213)	(4 758)
Marketing and administration expenses	31	(28 905)	(25 209)
Amortisation of intangibles from business combinations		(56)	(59)
Expected credit losses		(139)	(67)
Recovery of expenses from reinsurers		3 593	2 859
Net transfer to/from assets and liabilities under insurance contracts		(322)	(1 297)
- Change in assets arising from insurance contracts		5 860	5 786
- Change in assets arising from reinsurance contracts		135	63
- Change in liabilities arising from insurance contracts		(3 992)	(6 738)
- Change in liabilities arising from reinsurance contracts		(328)	(577)
- Economic assumptions adjustments net of discretionary margins		(1 997)	169
Fair value adjustment to liabilities under investment contracts		(5 572)	32
Profit from operations		8 662	7 858
Finance costs	33	(1 941)	(1 658)
Foreign exchange gains	34	150	155
Impairment of goodwill		(9)	-
(Losses)/gains on dilution and/or disposal of equity-accounted investments		(5)	33
Reversal of impairment of equity-accounted investments		-	134
Share of net profits from equity-accounted investments		515	422
Profit before tax		7 372	6 944
Income tax expense	35	(2 052)	(1 465)
Profit for the year		5 320	5 479
Profit attributable to:			
- Ordinary shareholders		5 258	5 422
- Preference shareholders		69	56
- Non-controlling interest		(7)	1
		5 320	5 479
Earnings per share for profit attributable to ordinary shareholders of the Company during the year (cents):	36		
- Basic		785.4	825.5
- Diluted		781.5	817.8

¹ The comparative information has been restated. Refer to note 45 for detail.



Group statement of other comprehensive income

for the year ended 30 June 2023

R million	Group 2023	Group 2022
Profit for the year	5 320	5 479
Items that are or may be subsequently reclassified to profit or loss:		
Currency translation differences	4 107	467
- Unrealised gains	4 222	467
- Tax on unrealised gains	(115)	-
Cash flow hedges	76	309
- Unrealised gains	76	322
- Tax on unrealised gains	-	(2)
- Gains recycled to profit or loss	(1)	(10)
- Tax on recycled gains	1	(1)
Share of other comprehensive income from equity-accounted investments	419	601
- Change in fair value of debt instruments at fair value through other comprehensive income	(23)	17
- Currency translation differences	442	584
Items that may not be reclassified to profit or loss:		
Share of other comprehensive income from equity-accounted investments	7	-
- Change in fair value of equity instruments at fair value through other comprehensive income	7	-
Other comprehensive income for the year, net of tax	4 609	1 377
Total comprehensive income for the year	9 929	6 856
Attributable to:		
- Ordinary shareholders	9 867	6 799
- Preference shareholders	69	56
- Non-controlling interest	(7)	1
Total comprehensive income for the year	9 929	6 856



Group statement of cash flows

for the year ended 30 June 2023

R million	Notes	Group 2023	Group 2022
Cash flow from operating activities		2 549	3 597
Cash generated by operations	37.1	8 308	20 943
Purchase of investments held to back policyholder liabilities		(62 773)	(56 588)
Proceeds from disposal of investments held to back policyholder liabilities		55 908	38 411
Cash generated from operating activities		1 443	2 766
Dividends received	28	728	600
Interest received	27&28	3 718	2 824
Interest paid	37.4	(1 501)	(1 412)
Taxation paid	37.2	(1 839)	(1 181)
Cash flow from investing activities		(2 236)	(4 704)
Purchase of financial assets		(30 966)	(32 878)
Proceeds from disposal of financial assets		30 932	31 482
Purchase of property and equipment		(551)	(275)
Proceeds from disposal of property and equipment		2	25
Purchase of software and other intangible assets		(1 760)	(1 567)
Proceeds from disposal of software and other intangible assets		-	2
Acquisition of business net of cash		(3)	-
Additional investment in equity-accounted investments		(182)	(1 593)
Proceeds from sale of non-current asset held for sale		184	-
Dividends from equity-accounted investments		108	100
Cash flow from financing activities		(1 234)	518
Dividends paid to preference shareholders		(69)	(56)
Proceeds from borrowings	37.3	7 442	3 261
Repayment of borrowings	37.3	(8 607)	(2 687)
Net decrease in cash and cash equivalents		(921)	(589)
Cash and cash equivalents at beginning of the year		19 619	20 013
Exchange gains on cash and cash equivalents		1 639	195
Cash and cash equivalents including bank overdraft at end of the year	16	20 337	19 619
Reconciliation to Statement of financial position			
Cash and cash equivalents		20 370	19 775
Bank overdraft included in borrowings at amortised cost	20	(33)	(156)
Cash and cash equivalents including bank overdraft at end of the year	16	20 337	19 619



Group statement of changes in equity

for the year ended 30 June 2023

R million	Attributable to equity holders of the Company							Non-controlling interest	Total Equity	
	Share capital and share premium	Preference share capital	Share-based payment reserve	Investment reserve ¹	Translation reserve	Hedging reserve	Retained earnings			Total
Year ended 30 June 2023										
At beginning of the year	10 178	779	798	35	2 823	(35)	38 972	53 550	5	53 555
Total comprehensive income for the year	-	69	-	(16)	4 549	76	5 258	9 936	(7)	9 929
Profit for the year	-	69	-	-	-	-	5 258	5 327	(7)	5 320
Other comprehensive income	-	-	-	(16)	4 549	76	-	4 609	-	4 609
Transactions with owners	173	(69)	392	-	-	-	(12)	484	6	490
Share issue	514	-	-	-	-	-	-	514	-	514
Increase in treasury shares	(514)	-	-	-	-	-	-	(514)	-	(514)
Delivery of treasury shares	173	-	(161)	-	-	-	(12)	-	-	-
Acquisition of subsidiaries with non-controlling interest	-	-	-	-	-	-	-	-	6	6
Employee share option schemes:	-	-	553	-	-	-	-	553	-	553
- Value of employee services, net of tax	-	-	553	-	-	-	-	553	-	553
Dividends paid to preference shareholders	-	(69)	-	-	-	-	-	(69)	-	(69)
At end of the year	10 351	779	1 190	19	7 372	41	44 218	63 970	4	63 974
Year ended 30 June 2022										
At beginning of the year	10 151	779	489	18	1 772	(344)	33 550	46 415	4	46 419
Total comprehensive income for the year	-	56	-	17	1 051	309	5 422	6 855	1	6 856
Profit for the year	-	56	-	-	-	-	5 422	5 478	1	5 479
Other comprehensive income	-	-	-	17	1 051	309	-	1 377	-	1 377
Transactions with owners	27	(56)	309	-	-	-	-	280	-	280
Share issue	443	-	-	-	-	-	-	443	-	443
Increase in treasury shares	(443)	-	-	-	-	-	-	(443)	-	(443)
Delivery of treasury shares	27	-	(17)	-	-	-	-	10	-	10
Employee share option schemes:	-	-	326	-	-	-	-	326	-	326
- Value of employee services	-	-	326	-	-	-	-	326	-	326
Dividends paid to preference shareholders	-	(56)	-	-	-	-	-	(56)	-	(56)
At end of the year	10 178	779	798	35	2 823	(35)	38 972	53 550	5	53 555

¹ This relates to fair value adjustments on those equity instruments designated at fair value through other comprehensive income (FVOCI) and those debt instruments measured at FVOCI, in terms of IFRS 9 Financial Instruments.

Notes to the Group annual financial statements

for the year ended 30 June 2023

1. SEGMENT INFORMATION

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

An operating segment is a component of an entity:

- (a) That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- (b) Whose operating results are regularly reviewed by the entity's CODM to make decisions about resources to be allocated to the segment and assess its performance; and
- (c) For which discrete financial information is available.

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

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

- (a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 percent or more of the combined revenue, internal and external, of all operating segments;
- (b) The absolute amount of its reported profit or loss is 10 percent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; and
- (c) Its assets are 10 percent or more of the combined assets of all operating segments.

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

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

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

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

- (i) **Health South Africa:** administers and provides managed care services to medical schemes and renders administration services to other business segments within the Group.
- (ii) **Life South Africa:** offers a range of insurance and financial solutions to the Group's clients against the financial impact of lifestyle-changing events in South Africa.
- (iii) **Invest South Africa:** offers, through a range of investment fund choices, including Discovery managed unit trusts, a comprehensive and flexible range of investment choices. These products are sold through a number of investment wrappers including Discovery Life policies and are offered to individuals in South Africa.
- (iv) **Vitality South Africa:** offers health and lifestyle benefits with selected partners to the Group's clients.
- (v) **Insure South Africa:** offers a range of personal line insurance (motor, building, household content and portable possessions) to the Group's clients against the financial impact of loss or damage. The segment also includes Discovery's interest in Cambridge Mobile Telematics (CMT).
- (vi) **Bank South Africa:** offers retail banking solutions, including deposits and loans and advances, to clients in the South African market. The Bank is still in a start-up phase. It also includes DiscoveryCard.
- (vii) **Health United Kingdom:** offers consumer-engaged private medical insurance products to employer groups and individuals in the UK. All contracts in this segment are short-term insurance contracts.
- (viii) **Life United Kingdom:** offers a risk-only life assurance product. All contracts in this segment are long-term assurance contracts offered to both employer groups and individuals in the UK.
- (ix) **All other segments:** includes those segments that do not meet the quantitative thresholds set out in IFRS 8 *Operating Segments* and cannot be aggregated with another reportable segment. It includes the following operating segments:
 - Insure South Africa commercial: provides commercial short-term risk insurance products to the South African market.
 - SA Distribution: provides sales and distribution services in respect of all SA products.
 - Vitality Group: provides a Vitality platform to international insurance businesses.
 - Other new business development costs: expenses incurred to investigate new products and markets.
 - UK, United States of America (USA), SA and Singapore head office costs, where not allocated to another segment.
 - Invest UK: includes investment products to individuals in the UK and is currently in wind-down.



Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

1. SEGMENT INFORMATION *continued*

The Chief Executive Officers assess the performance of the reportable segments based on normalised profit/loss from operations. Items which are excluded from the normalised profit/loss from operations are separately disclosed in the segment information to reconcile back to the segment results.

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

- (i) The VitalityLife results are reclassified to account for the contractual arrangement in respect of the business written on the Prudential Assurance Company (PAC) license, as an insurance contract which Discovery issues under IFRS 4 *Insurance Contracts*;
- (ii) Unit trusts which the Group controls in terms of IFRS 10 *Consolidated Financial Statements* are consolidated into Discovery's results for IFRS purposes. The IFRS reporting adjustments include the effects of consolidating the unit trusts into Discovery's results, effectively being the income and expenses relating to units held by third parties;
- (iii) The effects of eliminating intercompany transactions on consolidation and normalised operating profit adjustments; and
- (iv) The effects of reclassifying items to align to IFRS results.



Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

1. SEGMENT INFORMATION *continued*

R million	SA Health	SA Life	SA Invest	SA Insure ²	SA Vitality	SA Bank	UK Health	UK Life	All other segments	Segment total	IFRS reporting adjustments ³	IFRS total
30 June 2023												
Income statement												
Insurance premium revenue	245	16 620	15 104	5 177	-	-	13 670	7 835	1 808	60 459	(788)	59 671
Reinsurance premiums	(1)	(3 852)	-	(414)	-	-	(2 149)	(4 277)	(231)	(10 924)	788	(10 136)
Net insurance premium revenue	244	12 768	15 104	4 763	-	-	11 521	3 558	1 577	49 535	-	49 535
Fee income from administration businesses	8 571	-	3 099	17	-	-	46	-	3 024	14 757	-	14 757
Vitality income	-	-	-	-	2 573	-	462	238	618	3 891	-	3 891
Net banking fee and commission income	-	-	-	-	-	943	-	-	22	965	-	965
Banking fee and commission income	-	-	-	-	-	1 292	-	-	-	1 292	-	1 292
Banking fee and commission expense	-	-	-	-	-	(349)	-	-	22	(327)	-	(327)
Net bank interest and similar income	-	-	-	-	-	574	-	-	-	574	-	574
Bank interest and similar income using the effective interest rate	-	-	-	-	-	1 318	-	-	-	1 318	-	1 318
Bank interest and similar expense using the effective interest rate	-	-	-	-	-	(744)	-	-	-	(744)	-	(744)
Investment income earned on assets backing policyholder liabilities	-	8	-	159	-	-	81	199	15	462	(462)	-
Net fair value gains on financial assets at fair value through profit or loss	(6)	678	10 904	-	(1)	-	-	(1 213)	1 839	12 201	2 172	14 373
Other income	1 395	3	-	-	1	-	48	-	97	1 544	-	1 544
Finance income/(charge) on negative reserve funding	-	-	-	-	-	-	-	1 098	-	1 098	(1 098)	-
Intersegment funding ¹	-	(492)	492	-	-	-	-	-	-	-	-	-
Net income	10 204	12 965	29 599	4 939	2 573	1 517	12 158	3 880	7 192	85 027	612	85 639
Net claims and policyholders' benefits	(74)	(8 182)	(13 304)	(2 810)	-	-	(5 370)	(973)	(9 422)	(40 135)	-	(40 135)
Claims and policyholders' benefits	(75)	(11 452)	(13 304)	(3 153)	-	-	(7 138)	(2 514)	(9 668)	(47 304)	558	(46 746)
Insurance claims recovered from reinsurers	1	3 270	-	343	-	-	1 768	1 541	246	7 169	(558)	6 611
Acquisition costs	(35)	(1 833)	(1 262)	(784)	(119)	-	(1 146)	(2 449)	317	(7 311)	1 098	(6 213)
Expected credit losses	-	-	-	-	-	(139)	-	-	-	(139)	-	(139)
Marketing and administration expenses	(140)	(6)	(12)	(64)	(9)	(314)	(420)	(49)	(794)	(1 808)	(169)	(1 977)
- depreciation and amortisation	(4)	-	-	(3)	-	-	(241)	(19)	(57)	(324)	-	(324)
- derecognition of intangible assets and property and equipment	-	-	-	-	-	-	(45)	-	-	(45)	-	(45)
- impairment of property and equipment	(6 097)	(2 347)	(1 267)	(1 100)	(2 429)	(1 831)	(4 998)	(2 453)	(3 937)	(26 459)	(100)	(26 559)
- other expenses	-	-	-	-	-	-	1 320	2 272	1	3 593	-	3 593
Recovery of expenses from reinsurers	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from assets/liabilities under insurance contracts	-	4 412	-	-	-	-	-	768	-	5 180	680	5 860
- change in assets arising from insurance contracts	-	49	-	-	-	-	61	18	10	138	(3)	135
- change in assets arising from reinsurance contracts	-	(230)	(10 868)	(100)	-	-	(226)	(31)	7 376	(4 079)	87	(3 992)
- change in liabilities arising from insurance contracts	-	(18)	-	-	-	-	-	73	-	55	(383)	(328)
- change in liabilities arising from reinsurance contracts	-	(3)	(1 326)	-	-	-	-	-	(1 264)	(2 593)	(2 979)	(5 572)
Fair value adjustment to liabilities under investment contracts	-	-	-	(16)	-	-	1	2	574	561	(46)	515
Share of net profits from equity-accounted investments	-	-	-	-	-	-	-	-	-	-	-	-
Normalised profit/(loss) from operations	3 854	4 807	1 560	62	16	(767)	1 094	1 039	(4)	11 661	(1 203)	10 458
Economic assumptions adjustments net of discretionary margins and interest rate derivatives	-	(2 811)	-	-	-	-	-	147	-	(2 664)	667	(1 997)
Economic assumptions adjustments net of discretionary margins	-	(2 811)	-	-	-	-	-	1 120	-	(1 691)	(306)	(1 997)
Fair value losses on VitalityLife interest rate derivatives	-	-	-	-	-	-	-	(973)	-	(973)	973	-
Investment income earned on shareholder investments and cash	89	20	71	-	32	-	9	28	75	324	448	772
Intercompany investment income	-	-	-	-	-	-	-	-	1 184	1 184	(1 184)	-
Net fair value gains/(losses) on financial assets at fair value through profit or loss	-	122	95	-	-	-	-	(204)	(3)	10	(10)	-
Gains from dilution of equity-accounted investments	-	-	-	(5)	-	-	-	-	-	(5)	-	(5)
Impairment of goodwill	-	-	-	-	-	-	-	-	(9)	(9)	-	(9)
Expenses related to PAC book transfer	-	-	-	-	-	-	-	(177)	-	(177)	177	-
Amortisation of intangibles from business combinations	-	-	-	(46)	-	-	-	-	(56)	(102)	46	(56)
Market rentals related to Head Office building adjusted for finance costs and depreciation	-	-	-	-	-	-	-	-	(134)	(134)	134	-
Finance costs	(2)	(1)	-	-	-	-	(8)	(216)	(1 423)	(1 650)	(291)	(1 941)
Intercompany finance costs	(362)	-	-	-	-	-	-	(316)	(520)	(1 198)	1 198	-
Foreign exchange (loss)/gains	(4)	33	36	-	-	-	1	-	84	150	-	150
Profit/(loss) before tax	3 575	2 170	1 762	11	48	(767)	1 096	301	(806)	7 390	(18)	7 372
Income tax expense	(972)	(576)	(573)	(21)	4	226	(267)	53	56	(2 070)	18	(2 052)
Profit/(loss) for the year	2 603	1 594	1 189	(10)	52	(541)	829	354	(750)	5 320	-	5 320

¹ The intersegment funding of R492 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.

² This segment relates to SA Insure - Personal lines.



Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

1. SEGMENT INFORMATION *continued*

R million	SA Health	SA Life	SA Invest ⁴	SA Insure ²	SA Vitality	SA Bank	UK Health	UK Life	All other segments	Segment total ⁴	IFRS reporting adjustments	IFRS total ⁴
30 June 2022 Restated⁴												
Income statement												
Insurance premium revenue	189	15 041	14 029	4 657	-	-	11 299	6 750	7 035	59 000	(688)	58 312
Reinsurance premiums	-	(3 523)	-	(103)	-	-	(1 556)	(3 600)	(168)	(8 950)	688	(8 262)
Net insurance premium revenue	189	11 518	14 029	4 554	-	-	9 743	3 150	6 867	50 050	-	50 050
Fee income from administration businesses	7 910	-	2 834	15	-	-	30	-	1 975	12 764	(12)	12 752
Vitality income	-	-	-	-	2 338	-	392	227	538	3 495	-	3 495
Net banking fee and commission income	-	-	-	-	-	633	-	-	12	645	-	645
Banking fee and commission income	-	-	-	-	-	853	-	-	-	853	-	853
Banking fee and commission expense	-	-	-	-	-	(220)	-	-	12	(208)	-	(208)
Net bank interest and similar income	-	-	-	-	-	318	-	-	-	318	-	318
Bank interest and similar income using the effective interest rate	-	-	-	-	-	811	-	-	-	811	-	811
Bank interest and similar expense using the effective interest rate	-	-	-	-	-	(493)	-	-	-	(493)	-	(493)
Investment income earned on assets backing policyholder liabilities	-	3	-	118	-	-	9	27	7	164	(164)	-
Net fair value gains/(losses) on financial assets at fair value through profit or loss	10	485	913	1	1	-	(52)	(1 390)	(1 195)	(1 227)	(598)	(1 825)
Other income	1 241	12	-	-	-	-	32	-	56	1 341	-	1 341
Finance income/(charge) on negative reserve funding	-	-	-	-	-	-	-	1 368	-	1 368	(1 368)	-
Intersegment funding ¹	-	(628)	628	-	-	-	-	-	-	-	-	-
Net income	9 350	11 390	18 404	4 688	2 339	951	10 154	3 382	8 260	68 918	(2 142)	66 776
Net claims and policyholders' benefits	(49)	(9 222)	(12 075)	(3 029)	-	-	(4 331)	(877)	(1 132)	(30 715)	-	(30 715)
Claims and policyholders' benefits	(49)	(14 013)	(12 075)	(3 151)	-	-	(5 652)	(2 231)	(1 346)	(38 517)	495	(38 022)
Insurance claims recovered from reinsurers	-	4 791	-	122	-	-	1 321	1 265	214	7 713	(495)	7 218
Recapture of reinsurance	-	-	-	-	-	-	-	89	-	89	-	89
Acquisition costs	(27)	(1 605)	(1 128)	(702)	(111)	-	(963)	(1 884)	294	(6 126)	1 368	(4 758)
Expected credit losses	-	-	-	-	-	(67)	-	-	-	(67)	-	(67)
Marketing and administration expenses												
- depreciation and amortisation	(106)	(7)	(11)	(60)	(12)	(277)	(458)	(63)	(739)	(1 733)	(169)	(1 902)
- derecognition of intangible assets and property and equipment	-	-	-	(18)	-	-	(1)	(14)	(17)	(50)	-	(50)
- other expenses	(5 568)	(2 147)	(1 156)	(988)	(2 207)	(1 597)	(4 091)	(2 047)	(3 032)	(22 833)	(424)	(23 257)
Recovery of expenses from reinsurers	-	-	-	-	-	-	1 041	1 818	-	2 859	-	2 859
Transfer from assets/liabilities under insurance contracts												
- change in assets arising from insurance contracts	-	5 299	-	-	-	-	-	3 606	(101)	8 804	(3 018)	5 786
- change in assets arising from reinsurance contracts	-	11	-	1	-	-	40	11	1	64	(1)	63
- change in liabilities arising from insurance contracts	-	662	(3 050)	(41)	-	-	(65)	(17)	(4 488)	(6 999)	261	(6 738)
- change in liabilities arising from reinsurance contracts	-	(351)	-	-	-	-	-	(3 244)	-	(3 595)	3 018	(577)
Fair value adjustment to liabilities under investment contracts	-	(2)	220	-	-	-	-	-	42	260	(228)	32
Share of net profits from equity-accounted investments	-	-	-	(13)	-	-	2	-	474	463	(41)	422
Reversal of impairment of equity-accounted investment	-	-	-	-	-	-	-	-	134	134	-	134
Normalised profit/(loss) from operations	3 600	4 028	1 204	(162)	9	(990)	1 328	671	(304)	9 384	(1 376)	8 008
Economic assumptions adjustments net of discretionary margins and interest rate derivatives	-	(651)	-	-	-	-	-	567	-	(84)	253	169
Economic assumptions adjustments net of discretionary margins	-	(651)	-	-	-	-	-	820	-	169	-	169
Fair value losses on VitalityLife interest rate derivatives	-	-	-	-	-	-	-	(253)	-	(253)	253	-
Investment income earned on shareholder investments and cash	37	11	38	-	28	-	-	8	18	140	156	296
Intercompany investment income	-	-	-	-	-	-	-	5	913	918	(918)	-
Net fair value gains/(losses) on financial assets at fair value through profit or loss	-	51	27	-	-	-	-	(454)	(1)	(377)	377	-
Loss on dilution of equity-accounted investments	-	-	-	19	-	-	-	-	14	33	-	33
Expenses related to PAC book transfer	-	-	-	-	-	-	-	(182)	-	(182)	182	-
Covid-19 vaccination programme	-	-	-	-	-	-	-	-	(157)	(157)	157	-
Amortisation of intangibles from business combinations	-	-	-	(41)	-	-	-	-	(59)	(100)	41	(59)
Market rentals related to Head Office building adjusted for finance costs and depreciation	-	-	-	-	-	-	-	-	(158)	(158)	158	-
Finance costs ³	(1)	25	-	-	-	-	(6)	(104)	(1 290)	(1 376)	(282)	(1 658)
Intercompany finance costs	(297)	-	-	-	-	-	(4)	(230)	(396)	(927)	927	-
Foreign exchange gains/(losses)	4	25	37	-	-	-	-	-	89	155	-	155
Profit/(loss) before tax	3 343	3 489	1 306	(184)	37	(990)	1 318	281	(1 331)	7 269	(325)	6 944
Income tax expense	(951)	(718)	(438)	43	(30)	218	(285)	224	147	(1 790)	325	(1 465)
Profit/(loss) for the year	2 392	2 771	868	(141)	7	(772)	1 033	505	(1 184)	5 479	-	5 479

¹ The intersegment funding of R628 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.

² This segment relates to SA Insure – Personal lines.

³ Finance costs in Discovery Life includes a reversal of interest payable to the South African Revenue Services provided for in the prior year.

⁴ The comparative information has been restated. Refer to note 45 for detail.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF INSURANCE RISK

Discovery's accounting policy to recognise and measure insurance contracts can be viewed in Annexure B, accounting policy 13.

Discovery issues both short-term and long-term contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. An insurance contract is a contract in which Discovery as issuer and/or insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. A significant insurance risk is the possibility of having to pay benefits, on the occurrence of an insured event, that are significantly more than the benefits payable if the insured event did not occur. There is uncertainty around the timing and/or the value of the resulting claim.

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

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

Discovery classifies its insurance contracts into five main categories, depending on the duration of the risk and the type of risk insured. These are:

Contracts which are long term in nature

- Individual life insurance: These contracts insure against a comprehensive spectrum of risks, including life cover, severe illness, disability and income continuation cover.
- Investment products with insurance risk: These contracts attract insurance risk arising from additional benefits offered which mostly insure against mortality or morbidity risks.

Contracts which are short term in nature

- Health insurance: These contracts insure policyholders against healthcare-related claims.
- Short-term insurance: These monthly contracts insure policyholders against a comprehensive spectrum of short-term risks including, but not limited to, motor vehicle, household, business, property and liability cover.
- Group life insurance: These contracts insure against a comprehensive spectrum of protection benefits on a group basis. Life cover, severe illness, disability and income continuation benefits are offered.

Refer to note 1 segment information for premium revenue per segment.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF INSURANCE RISK *continued*

Discovery manages its insurance risk in terms of its risk management framework and holds regulatory and economic capital for protection against adverse experience. The following summarises the insurance risk associated with the various contracts offered by Discovery, and how Discovery manages these risks.

Insurance risk	Description	How Discovery manages the risk
Risks significant to all insurance business lines		
<p>Lapse and surrender risk</p>	<p>Policyholders have the option to discontinue or reduce contributions at any time.</p> <p>Accordingly, there is a risk of financial loss due to the withdrawal rate, lapses or premium reductions (with associated reduced cover) being higher than expected. The risk is highest during the early duration of the policy since the acquisition costs and commission incurred at the inception of the policy would not yet have been recouped.</p> <p>Contracts that are long term in nature For individual life insurance products there is a risk:</p> <ul style="list-style-type: none"> - of reduced profits arising from lower than expected withdrawals at later durations of certain policies in cases where the reserves have turned positive. This is since withdrawals on such policies allow the reserves to be released as profits in the absence of surrender values being offered; and - that withdrawals are selective from a claims experience point of view. For example, healthy lives may find it easier to obtain cover elsewhere compared to less healthy lives. <p>Future earnings on individual life plans are dependent on the number of policies remaining in future years and thus future earnings are dependent on the lapse rate. The future expected earnings vary by the premium funding method chosen by the policyholder. In general, the higher the increases, the higher the withdrawal risk to future earnings.</p> <p>For investment products with insurance risk, there is a risk:</p> <ul style="list-style-type: none"> - that the surrender value may exceed the policy value, net of expenses, at early durations; and - that withdrawals are higher than expected. Future earnings arising from Invest plans are dependent on the value of assets under management and thus future earnings are dependent on the withdrawal and surrender rate. <p>Contracts that are short term in nature For Discovery Insure there is a risk of reduced profits arising from higher than expected withdrawals at early durations of policies, resulting in acquisition costs not being recovered.</p>	<p>Lapse risk is managed as follows:</p> <p>Product design Products are designed to be sustainable in the long term. New product offerings are made available to existing policyholders as far as possible to prevent lapse and re-entry risk.</p> <p>Integration between different product offerings across Discovery enhances the value proposition of the overall package of products from Discovery.</p> <p>For example, Discovery provides unique rewards and benefits as well as integration to members which has proven to be a credible risk differentiator. Premium discounts or cover increases are available to policyholders who actively engage in a healthier lifestyle and utilise the Vitality benefits. Better terms are thus offered to healthy lives compared to less healthy lives.</p> <p>No surrender benefit is offered on risk benefits and thus the loss on withdrawal is reduced.</p> <p>Commission claw back Discovery predominantly distributes via independent brokers, intermediaries and tied agents.</p> <p>Commissions are clawed back from intermediaries where a policy lapses within a specified timeframe since inception. The amount of commission clawback depends on the duration of the policy in months and gradually reduces from 100% to 0% over a specified period, depending on product sold.</p> <p>Experience monitoring Lapse experience is monitored on a monthly basis and data is analysed to establish possible trends for which management action can be taken.</p> <p>Where there is insufficient historic data to provide credible results, for example within VitalityLife Whole of Life, reliance is placed on reinsurers' advice, industry experience as well as experience from Discovery Life.</p> <p>Proactive conservation Targeted conservation campaigns are run proactively. For example, financial advisors are notified of clients that do not have certain features on their policies that are correlated with good persistency. Financial advisors are thus encouraged to add such features.</p>

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF INSURANCE RISK *continued*

Insurance risk	Description	How Discovery manages the risk
Modelling and data risk	<p>Actuarial liabilities are calculated using complex discounted cash flow models. There is a risk that the models do not accurately project the policy cash flows in the future.</p> <p>The models rely on data from the administration system and there is thus a further risk that the data does not accurately reflect the policies being valued.</p> <p>Contracts that are short term have simplified models reducing modelling risk.</p>	<p>The risk is controlled using specialist actuarial software that is widely used and accepted in the life insurance industry throughout the world. This is tailored for Discovery.</p> <p>The original actuarial models were tested and verified using an independent but identical parallel model. Any changes made are externally and independently reviewed. Parallel models are developed to test any modelling changes.</p> <p>The data for the model is extracted from modern administration systems and subjected to detailed checks together with high-level reasonability checks. Data is checked at each valuation date.</p>
Capital adequacy requirements and protection against adverse experiences	<p>There is a risk that future premiums, investment returns and estimates used to calculate liabilities are insufficient to provide for variations in actual future experience. Insurance liabilities are calculated using best estimates plus the addition of various margins to avoid premature recognition of profits and to provide for a buffer against future adverse experience. In addition, Discovery maintains shareholder capital to meet substantial deviations in experience beyond those provided for in the liability calculations.</p>	<p>For discussion on how Discovery manages its capital adequacy requirements, refer to note 2.1.</p>
Liquidity risk	<p>Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with insurance liabilities due to insufficient cash being available to meet commitments as and when they become due. This is exacerbated by timing mismatches between assets and liabilities.</p>	<p>Discovery maintains sufficient liquid assets to meet short-term liabilities under base and stress assumptions. Sufficient liquid assets are held to allow for the initial cash flow strain when writing new business.</p> <p>Contracts that are long term in nature</p> <p>Currently, Discovery Life's and VitalityLife's expected outflows are mostly long term and the main liquidity requirement is to fund acquisition expenses on new business and unexpected fluctuations in benefit payments. As discussed in note 3.4.3, Discovery invests primarily in liquid financial assets.</p> <p>For Discovery Life, large sums assured above a defined retention level are reinsured, providing stability in claims experienced and further reducing liquidity risk.</p>



Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF INSURANCE RISK *continued*

Insurance risk	Description	How Discovery manages the risk
Liquidity risk continued		<p>There is a need to meet liquidity requirements arising from Discovery Invest's Guaranteed Plan book. Liquidity requirements are managed to ensure a liquidity buffer is maintained to meet potential outflows if exit rates are higher than expected. The liquidity risk on the existing portfolio is thus relatively small.</p> <p>VitalityLife also receives partial financing for new business strain from financing reinsurance treaties with reinsurers.</p> <p>For discussion on managing liquidity risk, refer to note 2.2.</p> <p>Contracts that are short term in nature</p> <p>VitalityHealth mostly has expected outflows which are short term in nature as the vast majority of claims are expected to be settled within 12 months of reporting. The existing book is mature and is cash generative which covers liquidity required for the cash flow strain of writing consistent levels of new business.</p> <p>Discovery Insure holds the majority of working and solvency capital in cash or near cash instruments to minimise liquidity risk. Large sums assured above a defined retention level are reinsured, providing stability in claims experience and further reducing the liquidity risk. Catastrophe reinsurance further reduces this risk.</p>
Concentration risk	<p>Claims experience risk</p> <p>There is a risk that a concentration of risk can lead to worse than expected experience. The concentration risk is the highest in group business, since assured lives live in the same geographical location and generally work in the same industry or at the same location.</p> <p>Withdrawal concentration risk</p> <p>There is a financial risk of the withdrawal of a block of policies written by a single independent intermediary.</p>	<p>Discovery has a well-diversified book of business by source of new business and spread across brokers and agents.</p> <p>Furthermore, the claims experience risk is mitigated through catastrophe reinsurance.</p> <p>For details of diversification refer to note 2.3.</p>
Operational and implementation risk	<p>Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. Discovery offers a wide product range, which grows over time due to further product enhancements and development.</p>	<p>In order to mitigate operational risk, Discovery maintains and follows a set of documented processes and procedures which are reviewed internally and externally to be in line with industry best practice. Testing protocols are implemented prior to launching new systems/products or businesses. Embedded in Discovery's processes is the concept of segregation of duties which ensures that there are multiple checks on outputs by different areas within the business and protects against operational and implementation risk.</p>
Policy wording/ legal risk	<p>There is a risk that Discovery could be financially exposed to obligations that differ from expectations and are not adequately provided for. The risk could also arise from legal proceedings.</p>	<p>The risk is managed when new products are developed and all policy wording is reviewed by legal advisors and external advice is obtained where necessary to ensure that terms and conditions are clearly defined and unambiguous.</p>

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF INSURANCE RISK *continued*

Insurance risk	Description	How Discovery manages the risk
Regulatory risk	<p>Discovery operates in a highly regulated environment which is continuously being scrutinised and questioned by both consumers and regulators. This has resulted in the constant review of the in-force regulations and the interpretation thereof.</p> <p>The regulatory risk can thus be defined as the potential detrimental impact unexpected changes in regulations, or the interpretation thereof, may have on Discovery.</p> <p>Although Discovery endeavours to design insurance and financial solutions which meet the requirements of the current regulations in force, the risk does exist that changes in the regulations or the interpretation of the regulations, over time may result in the current products not fully complying with the regulations in force in future.</p>	<p>This risk is managed through constantly seeking legal advice on new product developments. Further, all insurance products issued by Discovery have to be approved, including approval from a market conduct perspective. Depending on the business line, these are approved either by the Head of the Actuarial Function or Actuarial Committee.</p> <p>Discovery is a member of industry-wide bodies that engage in discussions with policymakers and regulators.</p> <p>Discovery's compliance department enhances regulatory compliance through audits and by monitoring developments in the regulatory environment.</p>
Tax risk	<p>Tax risk is the risk that the actual future tax liability is different to what is currently expected. This could be as a result of an incorrect interpretation or application of tax legislation or as a result of changes to tax legislation.</p>	<p>Clear understanding and close monitoring of tax changes, with appropriate tax allowance in product design and pricing.</p> <p>VitalityLife specific Tax relief on expenses does not apply to protection business sold from January 2013 onwards.</p>
Expense risk	<p>Expense risk is the risk of actual expenses being higher than expected. Expenses could exceed expectations due to an increase in expense inflation or due to a reduction in the number of in-force policies. A reduction in the assets under management could be an expense risk due to the value of fixed costs.</p>	<p>Expenses are monitored on a monthly basis against budgeted expenses. Any deviation from the budget is investigated, reported and where necessary, remedial action is taken.</p>
Reputational risk	<p>Reputational risk is the risk of negative market reaction towards Discovery. Discovery may thus not be able to apply management policies to reduce risk.</p> <p>Discovery Life offers policies that integrate with the product offerings within the Discovery Group. The reputational risk to Discovery Life is thus extended to the reputational risk of the entire Discovery Group.</p> <p>Reputational risk may also arise on investment products with insurance risk, if these products experience worse investment returns than competitors. This may lead to lower future new business and higher surrenders.</p>	<p>Reputational risk is carefully monitored. Decisions to repudiate claims are reviewed by a review committee comprising of a senior underwriter and claims assessor, representatives of the legal department and the medical team, as well as a compliance officer.</p> <p>Marketing material and policy wording are reviewed and designed to be clear and unambiguous to avoid creating unreasonable policyholder expectations.</p> <p>All products are approved prior to launch, by either the Head of the Actuarial Function or Actuarial Committee, depending on the business line. Approval is obtained prior to launch from a market conduct perspective.</p> <p>For investment products with insurance risk, the risk on investment returns is mitigated through the use of reputable experienced fund managers and unique, innovative products covering specific risks.</p>

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF INSURANCE RISK *continued*

Insurance risk	Description	How Discovery manages the risk
Risks significant to long-term insurance		
Mismatching and market risk	<p>Mismatching is the risk that insurance-related cash outflows (e.g. benefit payments, administration expenses) do not match expected future cash inflows (predominately future premiums).</p> <p>Mismatching risk can also arise when movements in assets and liabilities are out of line given changes in market risk, i.e. equity price risk, interest rate risk or currency risk.</p> <p>The value of assets and liabilities arising from insurance contracts are subject to interest rate risk, thus a risk exists that a change in the discount rate could cause a change in the value of the assets and liabilities arising from insurance contracts.</p>	<p>For assets arising from insurance contracts, Discovery covers the insurance related outflows by expected future cash inflows (predominately future premiums).</p> <p>For liabilities arising from insurance contracts, the insurance related cash outflows are matched with a combination of a release of policyholder assets (net of retained fees), investment return on these assets and cash inflows.</p> <p>For further discussion on how Discovery manages this risk, refer to note 2.4 more specifically:</p> <ul style="list-style-type: none"> - For mismatching risk, refer note 2.4.1 and 2.4.2; - For interest rate risk, refer note 2.4.3; and - For currency risk, refer note 2.4.4
Underwriting experience risk – Individual life plans and investment products with insurance risk	<p>For individual life plans, there is a risk that actual mortality and morbidity experience is higher than expected. This could arise as a result of the number of claims or the value of claims being higher than expected. In addition, there is a risk that the emergence of a new disease or epidemic can increase the number of claims.</p> <p>On guaranteed annuities there is a risk that mortality experience is lower than expected and thus income payments continue for longer than expected.</p> <p>Investment products with insurance risk may also carry mortality and morbidity risks.</p> <p>Selection risk is the risk that worse risks than expected are attracted and these risks are then charged inadequate premiums. Selection risk could also lead to higher than expected mortality and morbidity experience on individual life plans or lower mortality on guaranteed annuity policies.</p>	<p>The risks are managed through various mechanisms:</p> <p>Product design and pricing</p> <p>Products are carefully designed to minimise adverse selection. Rating factors are applied to standard premium rates to differentiate between different levels of risk. For example, premiums are differentiated by income, education level, smoker status, gender, medical history and age.</p> <ul style="list-style-type: none"> - From January 2013 onwards, no differentiation of premiums or benefits on the basis of gender is allowed in the UK. - Discovery Life has the unique ability to take additional rating factors into account for example the current medical scheme claims and lifestyle factors. <p>All new premium rates are reviewed and approved by either the Head of Actuarial Function or Actuarial Committee. Product integration between the different product offerings in Discovery helps to attract healthier lives than average in the market, leading to positive selection. The product integration incentivises engagement in the Vitality programme, which has a positive impact on risk experience.</p> <p>For certain of the product options offered under the individual life plans, Discovery has retained the option to review premium rates annually throughout the life of the contract because of uncertainties underlying the value of the benefits offered. Only premiums that can be predicted with confidence are guaranteed longer periods. The guarantee provided to the policyholder will, however, be strengthened based on the policyholder's actual annual historic Vitality status.</p> <p>Discovery Life predominantly operates in the high end of the South African insurance market where the risk of HIV/AIDS is lower than for the South African market as a whole. The impact of HIV/AIDS is considered and allowed for during the product development and pricing.</p>

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF INSURANCE RISK *continued*

Insurance risk	Description	How Discovery manages the risk
<p>Underwriting experience risk – Individual life plans and investment products with insurance risk <i>continued</i></p>		<p>Underwriting</p> <p>Underwriting ensures that only insurable risks are accepted and that premiums reflect the unique circumstances of each risk.</p> <p>Financial underwriting is applied to ensure that the policyholder can justify the amount of cover applied for. Premium loadings and exclusions are applied where high risks are identified.</p> <p>For integrated policies, Discovery Life can dynamically adjust certain premiums using the information from the health claims experience of a policyholder who is also a member of the Discovery Health Medical Scheme and Vitality. This provides Discovery Life with an advantageous position in the market.</p> <p>Monthly internal quality assurance audits are performed on underwriting to minimise the risk of incorrect underwriting decisions.</p> <p>Reinsurance</p> <p>Reinsurance protects against volatility in claims experience and against an accumulation of risk. Reinsurance is further utilised on a facultative basis if uncertainty exists over the terms that should be offered to a particular risk.</p> <p>In addition, reinsurers provide specialist advice when designing new products.</p> <p>Discovery Life utilises surplus and facultative reinsurance to reinsure amounts in excess of defined retention levels. Discovery Life is thus protected against large individual claims.</p> <p>In addition, catastrophe reinsurance reduces the risk of an accumulation of risk due to a single event. Both individual life are covered by catastrophe reinsurance which covers man-made or natural catastrophe events.</p> <p>For VitalityLife, the life, serious illness, disability and income protection benefits are reinsured with a maximum retention of GBP150 000. The unemployment benefit offered as part of the VitalityLife product is fully reinsured.</p> <p>Experience monitoring</p> <p>Experience investigations are conducted and corrective action is taken where adverse experience is noted. Experience monitoring is done on at least a quarterly basis, and in some business lines monthly.</p> <p>Where there is insufficient historic data to provide credible results, such as VitalityLife, reliance is placed on reinsurers’ advice, industry experience as well as experience from Discovery Life.</p>



Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF INSURANCE RISK *continued*

Insurance risk	Description	How Discovery manages the risk
Risks significant to short-term insurance		
<p>Underwriting experience risk</p>	<p>The risk that claims experience turns out to be worse than anticipated in the pricing of the product and that claims reserves are insufficient to meet insurance liabilities as they fall due.</p> <p>The principal risk is that the frequency and/or severity of claims are greater than expected. Insurance events are, by their nature, random and the actual number and size of events during any one year may vary from those estimated and experienced in prior periods.</p> <p>Frequency of claims can vary depending on, for instance, the levels of engagement with the Vitality programme, and severity of claims can be influenced by new treatments or changes in medical inflation.</p>	<p>Group Life</p> <p>Group Life business is reviewed on a contract by contract basis, with the review period never exceeding two years. HIV/AIDS risk is specifically allowed for in the pricing of individual groups.</p> <p>Group business is underwritten on an employer by employer basis and additional allowance is made for the impact of industry class, income and geographic location on expected claims experience. The free cover limit is the sum assured that will be given automatically to a specific life without further specific underwriting. The free cover limits are set separately for each scheme depending on the size and cover chosen by the specific scheme.</p> <p>In addition to renewal pricing changes, standard terms and conditions applicable to the company's products mitigate the risk of late reporting of claims.</p> <p>VitalityHealth</p> <p>New business is written in accordance with approved pricing assumptions. Underwriting criteria is defined and aligned to the approved pricing assumptions.</p> <p>VitalityHealth's overall premium levels are determined by its pricing and lapse experience, as well as the level of new business written.</p> <p>VitalityHealth can manage the risk of new business policies through the ability to underwrite policies at inception or at the point of claim. Aside from large corporate clients, all other lives covered were underwritten through either full medical underwriting, continuation of previous exclusions (if the policy is moving from another UK health insurer), or moratorium conditions which limit claims for a specified period relating to previous conditions.</p> <p>VitalityHealth is able to manage the insurance risk in existing business premiums through the annual repricing of policies at renewal on a risk-related basis; this is a key differentiator as to why the UK market is less susceptible to volatility from insurance risk than South Africa. Whilst policyholders can choose to cancel their contract mid-term between renewals, this is not experienced in the SME or corporate products as the terms and conditions of the contract do not permit cancellation mid-term unless the customer is going into administration. Individual contracts can and do cancel between renewals however retaining these policies is a key activity for the business. VitalityHealth is only obligated to continue to pay for any authorised treatment whilst premiums are being received from the policyholder.</p>

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF INSURANCE RISK *continued*

Insurance risk	Description	How Discovery manages the risk
<p>Underwriting experience risk <i>continued</i></p>		<p>Discovery Insure</p> <p>Discovery Insure aims to manage risk through diversifying the pool of insured risks by establishing a balanced portfolio of insurance risks over a wide geographical area. Short-term insurance risks are priced on an individual basis, therefore a minimal cross subsidy exists between risks.</p> <p>Premiums are calculated using statistical regression techniques. Insurance risk factors identified would typically include past insurance history, type and value of asset covered, measures taken to protect the asset, primary use of covered item and various other pertinent factors.</p> <p>Discovery Insure's quotation and administration system calculates risk on an individual basis based on information captured by brokers and agents for each risk. Individual risks are accepted automatically up to cut-off limits which vary by risk type. Insurance conditions and exclusions are also automatically set at an individual risk level.</p> <p>Individual risks greater than the limit are automatically referred and underwritten by the underwriting department. No risks are accepted which exceed the upper limits of the reinsurance contracts without the necessary facultative cover being arranged.</p> <p>Discovery Insure uses telematic devices to manage risks related to motor vehicle cover. The telemetry received in respect of vehicles in which the devices are installed, highlights speeding, harsh breaking, harsh cornering and other risk related incidents. By informing the driver of how they are driving and in turn rewarding them for driving well, the risk of an accident is reduced. The 'deep install' device is also equipped with a stolen vehicle recovery transponder that increases the probability of recovering a vehicle should it be stolen.</p> <p>Reinsurance – VitalityHealth</p> <p>VitalityHealth currently utilises reinsurance to better match the high upfront costs of acquisition with the profit emergence across the lifetime of the policies written. VitalityHealth currently has quota share agreements in place with two reinsurers with an outstanding balance of GBP246.0 million (R5 902 million) at year end (2022: GBP198.5 million (R3 971 million)).</p>

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF INSURANCE RISK *continued*

Insurance risk	Description	How Discovery manages the risk
<p>Underwriting experience risk <i>continued</i></p>		<p>Reinsurance – Discovery Insure</p> <p>Discovery Insure mitigates its insurance risk through its reinsurance programme which is structured to protect the company against material losses to either a single insured risk, or group of insured risks in the case of a catastrophe where there would tend to be a concentration of insured risks.</p> <p>Furthermore, Discovery Insure reinsures a portion of the risk it underwrites to protect the profitability and the capital of the company. A variety of treaties are entered into in order to limit losses resulting from individual and collective insurance risks.</p> <p>Additional facultative reinsurance is purchased for certain individual risks that are in excess of the relevant treaty limits. Discovery Insure only enters into reinsurance arrangements with reinsurers that have adequate credit ratings.</p> <p>Experience monitoring</p> <p>Across both premiums and claims, recent actual experience is compared against financial forecasts, with any deviations investigated. The results provide a feedback loop into the overall pricing approach, enabling Discovery to react quickly to any changes in behaviour.</p>

2.1 Capital adequacy requirements and protection against adverse experience

Refer to the Directors' report for a breakdown of Statutory Capital Requirement cover ratios. Discovery manages its capital requirements in line with the statutory requirements of the relevant Prudential Authorities. During the period Discovery met the Statutory Capital Requirements.

2.1.1 Discovery Life

Discovery Life is required to demonstrate solvency to the PA in South Africa in accordance with the Insurance Act 18 of 2017 (Insurance Act). Discovery Life thus needs to maintain sufficient shareholder assets (Own Funds), over and above the assets required to meet policyholder liabilities (best-estimate liabilities plus a prescribed risk margin), to support a multiple of the Solvency Capital Requirement (SCR). Discovery Life is required to undertake an internal assessment of its risks and capital needs, in addition to meeting the minimum capital requirements set by the PA. The SCR is calculated in accordance with the Prudential Standards as issued by the PA. The SCR calculation is intended to approximate a risk-based capital measure and covers the major areas of insurance risk. It explicitly covers the following key areas of risk to Discovery Life:

- Lapse and withdrawal risk
- Fluctuations in mortality and morbidity experience including catastrophe risk
- Interest rate risk
- Equity and property risk
- Expense risk
- Operational risk
- Spread and counterparty default risk
- Currency risk
- Concentration risk.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF INSURANCE RISK *continued*

2.1 Capital adequacy requirements and protection against adverse experience *continued*

2.1.1 Discovery Life *continued*

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

Discovery Life has calculated its solvency position in accordance with the Insurance Act and related Prudential Standards since 30 June 2013. A consistent level of solvency cover, comfortably in excess of the statutory minimum, was observed at all valuation dates.

2.1.2 VitalityLife

The Vitality Life business comprises business underwritten directly by VitalityLife (from 1 January 2016) and business underwritten on behalf of VitalityLife on PAC's life insurance license (up to 31 December 2015).

Through a number of contractual and loan arrangements, Discovery retains 100% of the insurance risk associated with the VitalityLife policies underwritten on the PAC life insurance license. All policies are administered by VitalityLife, and they are managed as a single portfolio. The arrangement with the PAC is accounted for in substance under IFRS as an insurance contract that Discovery issues.

Accordingly, all information for VitalityLife is presented on a combined basis comprising both the business underwritten by VitalityLife and underwritten on behalf of VitalityLife on the PAC life insurance license.

The business that was underwritten on PAC life insurance license will, as per contractual agreement with PAC, still be valued under the Solvency I or old capital requirement rules described below until it is transferred to the Vitality Life Limited (VLL) license. After this date, this business would need to be fully Solvency II compliant. During the financial period ended 30 June 2022, Discovery and PAC have finalised a contractual agreement to a long-term deferral of the transfer to the VLL license (the Part VII transfer). The agreement is such that the Part VII transfer is now deferred for the long term with options to extend further and for all intents and purposes should be viewed as an indefinite deferral.

The business written on its own life insurance license within VitalityLife needs to be fully Solvency II compliant. VitalityLife obtained its own life insurance license at the end of the calendar year 2015. This significant milestone, together with the implementation of Solvency II in the UK from 1 January 2016, required a change to the capital requirements of VitalityLife.

SOLVENCY I

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

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

- Pillar 1, which covers public solvency information that appears within the regulatory returns on the basis of prescriptive rules. This includes the statutory valuation of liabilities together with a prescribed measure of additional capital, the Long-term Insurance Capital Requirement (LTICR); and
- Pillar 2, the Individual Capital Assessment (ICA), which covers a confidential company-specific assessment of solvency. This assessment is done on a realistic basis with the aim to protect against risks up to the 99.5 percentile over a one-year period.

The LTICR is a minimum required margin for solvency on the statutory valuation basis and covers the following basic risks:

- Mortality risk;
- Expense risk;
- Market risk; and
- Health risk.

The amount of capital that ultimately needs to be held by a life insurance company in the UK is the larger of the Pillar 1 and Pillar 2 result. VitalityLife is required to provide capital to the PAC equal to one times the Pillar 1 capital requirement, increasing to one and a half times from the Pillar 1 capital requirements from March 2024 onwards. The cover requirements were observed at all valuation dates.



Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF INSURANCE RISK *continued*

2.1 Capital adequacy requirements and protection against adverse experience *continued*

2.1.2 VitalityLife *continued*

SOLVENCY II

Capital requirements under Solvency II are calculated using the regulations and guidance originally published by the European Insurance and Occupational Pensions Authority (EIOPA) and enforced by the PRA in the UK. A Solvency Cover ratio is calculated which has several components, the key ones are discussed below:

- Best estimate liabilities (BEL): policyholder liabilities are calculated on a best estimate basis (excluding any margins) and discounted at the latest swap curve published by Bank of England;
- SCR: 1-in-200 year stresses to the key assumptions are applied to the BEL and the impacts aggregated using specified correlation matrices;
- Risk Margin (RM): 6% of the SCR run-off over time is discounted at the latest swap curve;
- Technical Provisions (TP): the sum of the BEL and the RM;
- Eligible Own Funds: the net assets of the company available to cover the SCR; negative TP can be included in the eligible Own Funds ; and
- Solvency cover ratio: Eligible Own funds divided by SCR

2.1.3 VitalityHealth

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

The objective of VitalityHealth's capital management policy is to define the principles and guiding philosophy for capital management that ensures capital and solvency levels are managed effectively in line with the defined risk appetites. The policy and objectives are reviewed at least annually. Alongside ensuring VitalityHealth complies with capital requirements imposed by its regulator (the PRA), the guiding principles for the policy are to:

- Foster an environment of regulatory compliance within the Group's culture, strategy and decision making;
- Continually develop and enhance the Group's regulatory compliance capability;
- Actively communicate the effectiveness and benefits of compliance management to all stakeholders; and
- To provide reasonable and independent assurance to the Group's key management, board and regulator.

VitalityHealth is required to hold sufficient capital (measured in accordance with PRA Rulebook) to meet the PRA capital requirements. The capital requirements were met at all valuation dates.

With effect from 1 January 2016 the insurance regulatory regime Solvency II was implemented in the UK. Refer to 2.1.2 for discussion on Solvency II. Under this solvency regime, insurers have the opportunity to either follow the standard formula approach, or apply to the regulators to move away from this. VitalityHealth follows a standard formula, and as such has a SCR in line with that prescribed. Annually, the business publicly discloses a Solvency and Financial Condition Report (SFCR) alongside private disclosures to the regulators on its Own Risk and Solvency Assessment (ORSA). The standard formula approach is also annually reviewed to determine its appropriateness for the business and as at 30 June 2023 the standard formula review determined it was not an inappropriate assessment of the risks present in VitalityHealth.

The actual and projected capital position of VitalityHealth is monitored on a regular basis through a number of forums and governance committees including the Board of Directors as well as through VitalityHealth's ORSA. In the event that sufficient capital is not projected to be available, actions would be taken to obtain additional capital or to reduce the amount of risk accepted and therefore reduce the capital requirement through, for example, reinsurance or investment strategy.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF INSURANCE RISK *continued*

2.1 Capital adequacy requirements and protection against adverse experience *continued*

2.1.4 Discovery Insure

Similar to Discovery Life, Discovery Insure is required to demonstrate solvency to the PA in accordance with the Insurance Act. Discovery Insure thus needs to maintain sufficient shareholder assets (Own Funds), over and above the assets required to meet policyholder liabilities (BEL plus a prescribed risk margin), to support a multiple of the SCR. In addition, Discovery Insure is required to undertake an internal assessment of its risks and capital needs, in addition to meeting the minimum capital requirements set by the PA. The SCR is calculated in accordance with the Prudential Standards as issued by the PA. The SCR calculation is intended to approximate a risk-based capital measure and covers the major areas of short-term insurance risk. It explicitly covers the following key areas of risk to Discovery Insure:

- Catastrophe risk
- Premium and reserve risk
- Lapse risk
- Interest rate risk
- Equity and property risk
- Expense risk
- Operational risk
- Spread and counterparty default risk
- Currency risk
- Concentration risk.

The internal assessment of risks and capital needs usually considers, amongst others, the following risks:

- Lapse risk not captured in the SCR
- New business volume risk
- Expense risk over and above allocated loss adjustment expense (ALAE) risk

Discovery Insure regularly reviews the capital position and considers various new business scenarios. Typically, a five-year new business projection horizon is allowed for and the capital position is assessed at each financial year during the projection to ensure an acceptable capital cover is maintained. The solvency cover was observed at all valuation dates.

2.2 Liquidity risk

2.2.1 Contracts that are long term in nature

DISCOVERY LIFE, DISCOVERY INVEST AND VITALITYLIFE

For Discovery Life, Discovery Invest and VitalityLife, the discounted expected embedded value cash flows arising from in-force contracts after policyholder liabilities have been met, net of tax, as at 30 June were as follows:

Gross of reinsurance

R million	Total	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2023						
Discovery Life	28 547	1 651	6 274	6 799	8 219	5 604
Discovery Invest	9 469	735	3 417	2 747	2 112	458
VitalityLife	17 698	3 304	7 971	5 607	2 133	(1 317)
2022						
Discovery Life	28 101	1 690	5 618	6 382	8 221	6 190
Discovery Invest	8 602	547	2 640	2 677	2 354	384
VitalityLife	12 830	2 436	6 194	4 597	1 581	(1 978)

Net of reinsurance

R million	Total	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2023						
Discovery Life	23 834	1 072	4 566	5 463	7 454	5 279
VitalityLife	11 822	1 193	3 606	4 484	2 259	280
2022						
Discovery Life	23 473	1 298	4 003	4 994	7 367	5 811
VitalityLife	8 818	743	2 292	3 723	1 705	355

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF INSURANCE RISK *continued*

2.2 Liquidity risk *continued*

2.2.1 Contracts that are long term in nature *continued*

The cash flows in the tables above differ from those disclosed in notes 2.4.1 and 2.4.2 since the cash flows in the tables above are based on best estimate free cash flows after meeting policyholder liabilities, are discounted at the risk discount rate and are capped at 40 years as per the Discovery Life and Discovery Invest embedded value methodology. Cash flows arising from investment management contracts are also included. No allowance has been made for new business and related expenses.

2.2.2 Contracts that are short term in nature

VITALITYHEALTH

VitalityHealth maintains sufficient liquid assets to meet short-term liabilities and to allow for the initial cash flow strain when writing new business. Currently, VitalityHealth's expected liabilities are mostly short term and the main liquidity requirement is to fund acquisition expenses on new business, with the existing book mature enough to generate sufficient liquidity to cover cash flow strain of writing consistent levels of new business.

DISCOVERY INSURE

Discovery Insure holds the majority of working and solvency capital in cash or near cash instruments to minimise liquidity risk. Large sums assured above a defined retention level are reinsured, providing stability in claims experience and further reducing the liquidity risk. Catastrophe reinsurance further reduces this risk.

2.3 Concentration risk

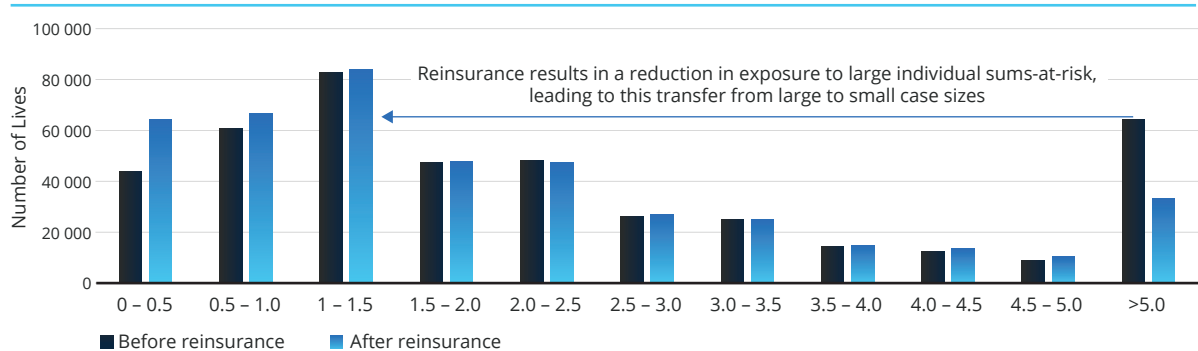
2.3.1 Claims experience risk

DISCOVERY LIFE

Discovery Life maintains a well-diversified portfolio of policies. Reinsurance is further used to protect against the concentration of risk. Catastrophe reinsurance protects against the accumulation of claims from a single event, for example an airplane crash. The catastrophe reinsurance for Discovery Life covers single event disasters for up to R975 million where the net of reinsurance impact is greater than R52 million. For its biggest four group schemes, a further layer of catastrophe reinsurance cover of R3 750 million in excess of R1 027 million is in place.

Reinsurance removes the exposure to large individual claims. The following graph demonstrates that the distribution of policies by sum assured is shifted towards lower sum assured due to the reinsurance cover.

2023 Distribution of Sums Retained: before and after reinsurance (Sum retained – Rm)



Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

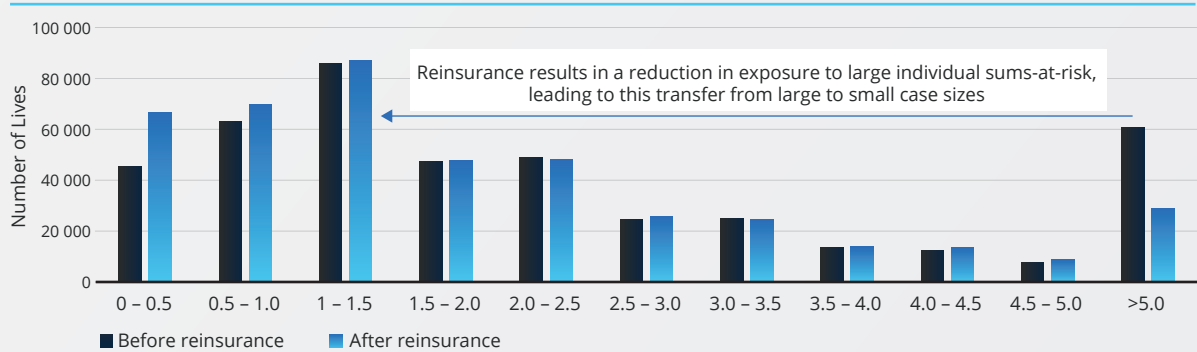
2. MANAGEMENT OF INSURANCE RISK *continued*

2.3 Concentration risk *continued*

2.3.1 Claims experience risk *continued*

DISCOVERY LIFE *CONTINUED*

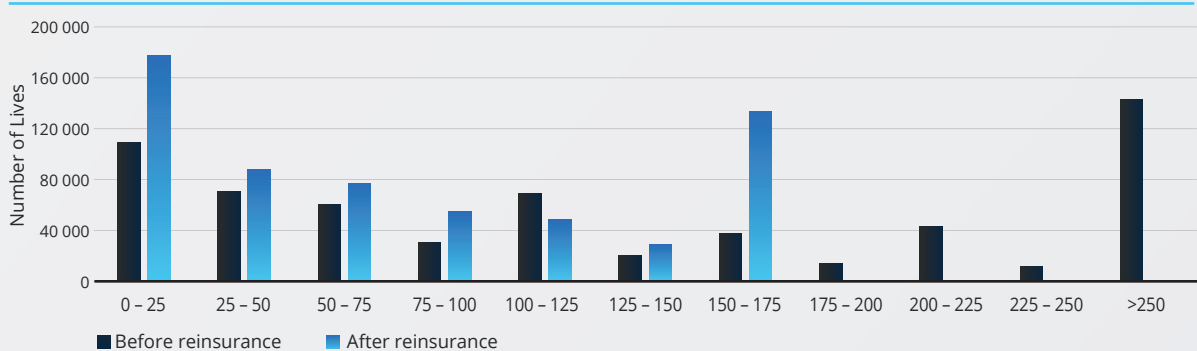
2022 Distribution of Sums Retained: before and after reinsurance (Sum retained – Rm)



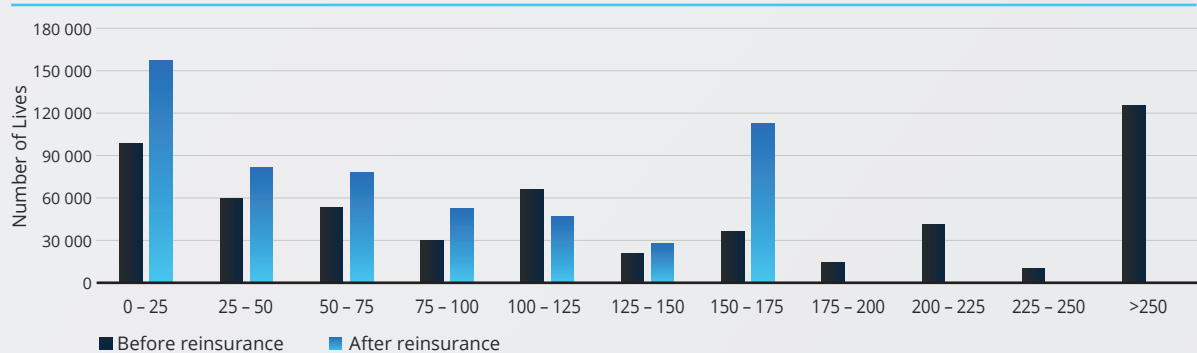
VITALITYLIFE

VitalityLife maintains a well-diversified portfolio of policies. Reinsurance removes the exposure to large individual claims. The following graph demonstrates that the distribution of policies by sum assured is shifted towards lower sum assured due to the reinsurance cover. The profile is largely the same as the prior period, although a shift towards higher sums assured due to annual benefit increases and inflationary impacts on new business was observed as expected.

2023 Distribution of Sums Retained: before and after reinsurance (Sum retained – GBP'000)



2022 Distribution of Sums Retained: before and after reinsurance (Sum retained – GBP'000)



Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF INSURANCE RISK *continued*

2.3 Concentration risk *continued*

2.3.1 Claims experience risk *continued*

VITALITYHEALTH

VitalityHealth has the risk of single large medical expense claims arising abroad, or multiple small travel claims due to a single event which could cause losses. In order to manage these risks VitalityHealth holds a reinsurance policy specifically on travel benefits which can help to cover the concentration risks from these events. The threshold for a potential claim on the reinsurance for either of these reasons is GBP250 000.

DISCOVERY INSURE

There is a risk that a concentration of risk can lead to a worse than expected claims experience. In order to manage this concentration of insurance risk, Discovery has entered into a catastrophe excess of loss reinsurance treaty that would limit the loss of the Group to pre-determined levels following the occurrence of a localised catastrophe in that area.

Discovery Insure has concentration of policyholders in the main metropolitan areas such as Johannesburg, Pretoria, Cape Town and Durban. A catastrophic flood, hail, fire or earthquake would result in disproportionate losses in these areas given the accumulation of risk. Catastrophe reinsurance is used to limit the size of such losses and their impact on the underwriting result.

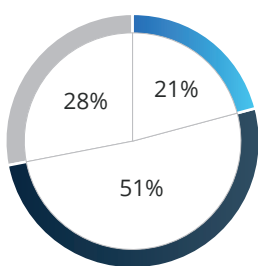
2.3.2 Withdrawal concentration risk

DISCOVERY LIFE AND VITALITYLIFE

There is a financial risk of the withdrawal of a block of policies written by a single independent intermediary. In order to manage these risks, Discovery diversifies its book of business by source of new business and spread across its brokers and agents.

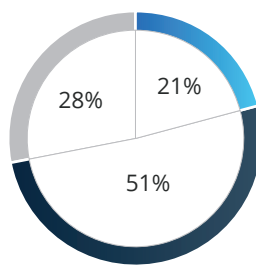
	Brokers and agents		Maximum exposure to single intermediary % of total premium income	
	2023	2022	2023	2022
Long-term insurance				
- Discovery Life	7 800	7 500	1.2%	1.2%
- VitalityLife	31 443	30 199	3.2%	2.9%

2023 API concentration by intermediary - Discovery Life



- Small concentration (0 - 99 policies)
- Medium concentration (100 - 999 policies)
- Large concentration (1 000+ policies)

2022 API concentration by intermediary - Discovery Life



- Small concentration (0 - 99 policies)
- Medium concentration (100 - 999 policies)
- Large concentration (1 000+ policies)

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF INSURANCE RISK *continued*

2.4 Mismatching and market risk

2.4.1 Assets arising from insurance contracts

Assets arising from insurance contracts in the Statement of financial position include assets for Discovery Life and VitalityLife. The reconciliation of the assets arising from insurance contracts disclosed in the cash flows below, to the Statement of financial position (refer to note 5) is as follows:

R million	2023	2022
Assets arising from insurance contracts relating to:		
- Discovery Life	41 263	39 661
- VitalityLife	22 602	16 984
Total	63 865	56 645

Cash flows are calculated in accordance with the accounting policies. Contractual premium and benefit increases are recognised in the cash flow projections.

The expected discounted future cash flows utilised in the calculation of assets arising from insurance contracts are disclosed in the table below. Discounting is performed using:

- the prevailing risk-free SA and US yield curve for Discovery Life; and
- a modified passive rate for VitalityLife whereby the one-year average of the risk-free gilt yield is used. The assumption is only changed if the one-year average changes by more than a pre-determined range around the set passive rate.

R million	Total	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2023						
Discovery Life	41 263	2 787	10 210	9 464	10 773	8 029
VitalityLife	22 602	4 375	12 330	9 413	9 239	(12 755)
2022						
Discovery Life	39 661	2 403	9 267	8 761	10 662	8 568
VitalityLife	16 984	3 746	10 523	7 587	7 012	(11 884)

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF INSURANCE RISK *continued*

2.4 Mismatching risk *continued*

2.4.2 Liabilities arising from insurance contracts *continued*

Refer to page 52 for a breakdown of the assets backing these liabilities. The reconciliation of the liabilities arising from insurance contracts disclosed in the cash flows below, to the Statement of financial position (refer to note 18) is as follows:

R million	2023	Restated ¹ 2022
Long-term insurance contract liabilities with fixed and guaranteed terms (note 18)	22 087	21 273
Long-term insurance contract liabilities with fixed and guaranteed terms: VitalityInvest	(34)	(5)
Long-term insurance contract liabilities with fixed and guaranteed terms	22 053	21 268
Negative insurance liability included in unit-linked insurance contracts (note 18)	(5 770)	(5 541)
Discovery Invest value of liabilities arising from insurance contracts	16 283	15 727

The expected discounted future cash flows in the calculation of liabilities arising from insurance contracts are disclosed in the table below, allowing for compulsory and discretionary margins. Discounting is performed using the prevailing risk free SA gilt yield curve.

R million	Total	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2023						
Discovery Invest						
Long-term insurance contract liabilities with fixed and guarantee terms	(22 053)	(5 608)	(14 655)	(800)	(682)	(308)
Negative insurance liability included in unit-linked insurance contracts	5 770	(41)	2 121	2 278	1 909	(497)
2022 Restated¹						
Discovery Invest						
Long-term insurance contract liabilities with fixed and guarantee terms	(21 268)	(4 460)	(15 450)	(540)	(554)	(264)
Negative insurance liability included in unit-linked insurance contracts	5 541	29	1 667	2 055	1 911	(121)

¹ The comparative information has been restated. Refer to note 45 for detail.

2.4.3 Market risk – Interest rate risk

DISCOVERY LIFE

For Discovery Life, increased nominal or real interest rates would result in an adverse impact on the present value of future profits. Cash flows on a material segment of the book are linked to inflation. While this retains cash flows in real terms, this segment is exposed to real interest rate movements. The balance of the book is exposed to changes in the nominal rates.

VITALITYLIFE

As a long-term insurance provider in the UK, VitalityLife has significant exposure to long-term interest rate risk, given the impact on reserves of lower investment rate assumptions related to fixed future premium receipts to meet policy obligations. Accordingly, lower long-term interest rates and yield assumptions may negatively impact on the valuation of future policy obligations and result in a valuation loss.

Interest rates in the UK have displayed significant volatility in recent years and after a period of decline have risen sharply in the last 12 months. In recent years, VitalityLife has implemented an interest rate risk mitigation strategy to protect itself against volatility in interest rates by entering into derivative contracts. This strategy ensures that the VitalityLife business operates well within its pre-determined risk appetite and removes a large amount of volatility from its earnings and cash flows.

A number of the VitalityLife swaps were removed just before the end of the period under review. In addition, the swaption purchased in June 2022 was sold. VitalityLife continues to hold interest rate swaps to manage the interest rate risk on the legacy PAC book of business. At 30 June 2023 the derivative instruments comprised of interest rate swaps, with a nominal value of GBP226.8 million (R5 441 million). This interest rate swap derivative swaps exposure to variable interest rates in return for a fixed interest rate reference to the 50-year UK SONIA swap rate (VitalityLife receives the fixed rate and pays the variable rate). The weighted average (by nominal value) fixed interest rate is 2.248%. The interest rate swap derivative is in place for an extended period of time.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF INSURANCE RISK *continued*

2.4 Mismatching risk *continued*

2.4.3 Market risk – Interest rate risk *continued*

VITALITYLIFE *continued*

Due to the nature of the underlying exposures, the hedge accounting requirements of IFRS were not met. Therefore, these derivative instruments were classified at fair value with changes recognised in profit or loss throughout the term which may result in volatility in the reported IFRS earnings of VitalityLife. As at 30 June, the following mark-to-market positions were recorded:

Line item in financial statements		GBP/Rand million			
		June 2023		June 2022	
		GBP	R	GBP	R
Statement of financial position		(65.1)	(1 562)	19.8	395
Interest rate swap valuation	Financial liabilities:				
	Derivative – financial instruments at fair value through profit or loss	-	-	(3.9)	(79)
	Other payables:				
	VitalityLife working capital funding ¹	(65.1)	(1 562)	12.9	258
Swaption valuation	Financial assets:				
	Derivative – financial instruments at fair value through profit or loss	-	-	10.8	216
Income statement		(54.9)	(1 177)	(34.9)	(707)
Fair value remeasurement	Net fair value losses on financial assets at fair value through profit or loss	(54.9)	(1 177)	(47.8)	(968)
	Marketing and administration expenses ¹	-	-	12.9	261

¹ The VitalityLife results are reclassified to account for the contractual arrangement in respect of the business written on the PAC license, as on insurance contract which Discovery issues under IFRS 4 Insurance Contracts.

DISCOVERY LIFE AND DISCOVERY INVEST

The outstanding claims and incurred but not reported claims are mostly short term in nature and have consequently been matched with cash. Reserves backing income contribution benefits in payment are backed by a combination of cash, money market, gilts and negative Rand reserves of appropriate duration.

The risk arising from the global linkage benefit is fully reinsured and Discovery does not face any net direct market risk.

For Discovery Invest, guaranteed return plan liabilities are backed by a combination of negative Rand reserves and bonds of appropriate duration. As maturity approaches, cash flows from negative reserves are invested in bonds and therefore a reinvestment risk exists. Furthermore, investment policy fee income is dependent on the underlying value of policyholders' investments, which may be interest rate sensitive.

2.4.4 Market Risk – Currency risk

All of VitalityLife's insurance benefits and premiums are Pound Sterling denominated as all business is sold in the UK market. A significant part of operational expenses are Rand denominated as systems and administration are based in South Africa. This creates a potential mismatching risk.

The Dollar Life Plan, offered by Discovery Life provides a sum insured in US Dollars. Premiums are paid in Rands but linked to the Rand/USD exchange rate. Certain versions of the Dollar Life Plan provide guarantees on the Rand/USD exchange rate for a specified period, thereby exposing Discovery Life to currency risk.

Other insurance business lines do not have significant currency risk.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF INSURANCE RISK *continued*

2.5 Sensitivity analysis

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

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

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

The ranges of sensitivity were chosen for illustration purposes and do not represent the extremes of possible experience. The sensitivities shown under insurance risks consider a change in the long-term assumption used in the projection model. The following sensitivities are provided under insurance risk:

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

2.5.1 Discovery Life

	Gross exposure		Net of reinsurance	
	Assets arising from insurance contracts R million	Change from base assumption %	Assets arising from insurance contracts R million	Change from base assumption %
Base: June 2023 assumptions	41 263		37 746	
Lapses +10% (e.g. from x% to 1.1x%)	36 791	(10.8)	33 404	(11.5)
Lapses -10% (e.g. from x% to 0.9x%)	46 603	12.9	42 951	13.8
Investment return and inflation -1% (e.g. from 5% to 4%)	42 574	3.2	39 003	3.3
Investment return and inflation +1% (e.g. from 5% to 6%)	40 002	(3.1)	36 533	(3.2)
Expense assumption +10%	40 686	(1.4)	37 169	(1.5)
Expense assumption -10%	41 840	1.4	38 323	1.5
Mortality and morbidity +10%	33 724	(18.3)	31 967	(15.3)
Mortality and morbidity -10%	49 011	18.8	43 728	15.8
Real curve -1% and inflation +1%	44 414	7.6	40 664	7.7
Real curve +1% and inflation -1%	38 755	(6.1)	35 440	(6.1)
Base: June 2022 assumptions	39 661		36 182	
Lapses +10% (e.g. from x% to 1.1x%)	34 937	(11.9)	31 602	(12.7)
Lapses -10% (e.g. from x% to 0.9x%)	45 366	14.4	41 735	15.3
Investment return and inflation -1% (e.g. from 5% to 4%)	40 928	3.2	37 388	3.3
Investment return and inflation +1% (e.g. from 5% to 6%)	38 434	(3.1)	35 006	(3.3)
Expense assumption +10%	39 094	(1.4)	35 614	(1.6)
Expense assumption -10%	40 230	1.4	36 750	1.6
Mortality and morbidity +10%	32 044	(19.2)	30 321	(16.2)
Mortality and morbidity -10%	47 459	19.7	42 212	16.7
Real curve -1% and inflation +1%	42 977	8.4	39 251	8.5
Real curve +1% and inflation -1%	37 050	(6.6)	33 782	(6.6)

The above sensitivities reflect the impact on profit or loss if there are no discretionary margins.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF INSURANCE RISK *continued*

2.5 Sensitivity analysis *continued*

2.5.1 Discovery Life *continued*

Liabilities arising from insurance contracts consist of outstanding reported claims, Incurred But Not Reported (IBNR) claims and long-term liabilities relating to fixed and guaranteed contracts and unit-linked contracts. For outstanding reported claims and IBNR claims any deviation from the best estimate liabilities would have a direct impact on profit.

For long-term insurance liabilities relating to fixed and guaranteed contracts and unit-linked contracts (refer to reconciliation on note 2.4.2), the sensitivities are detailed in the table below:

	Liabilities under insurance contracts R million	Change from base assumption %
Base: June 2023 assumptions		
Lapses +10% (e.g. from x% to 1.1x%)	16 283	
Lapses -10% (e.g. from x% to 0.9x%)	16 391	0.7
Investment return and inflation -1% (e.g. from 5% to 4%)	16 217	(0.4)
Investment return and inflation +1% (e.g. from 5% to 6%)	16 824	3.3
Expense assumption +10%	15 778	(3.1)
Expense assumption -10%	16 438	1.0
Mortality and morbidity +10%	16 128	(1.0)
Mortality and morbidity -10%	16 279	(0.0)
Real curve -1% and inflation +1%	16 288	0.0
Real curve +1% and inflation -1%	16 647	2.2
	15 969	(1.9)
Base: June 2022 assumptions Restated¹		
Lapses +10% (e.g. from x% to 1.1x%)	15 727	
Lapses -10% (e.g. from x% to 0.9x%)	15 749	0.1
Investment return and inflation -1% (e.g. from 5% to 4%)	15 784	0.4
Investment return and inflation +1% (e.g. from 5% to 6%)	16 276	3.5
Expense assumption +10%	15 212	(3.3)
Expense assumption -10%	15 868	0.9
Mortality and morbidity +10%	15 587	(0.9)
Mortality and morbidity -10%	15 736	0.1
Real curve -1% and inflation +1%	15 719	(0.1)
Real curve +1% and inflation -1%	15 945	1.4
	15 547	(1.1)

¹ The comparative information has been restated. Refer to note 45 for detail.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF INSURANCE RISK *continued*

2.5 Sensitivity analysis *continued*

2.5.2 VitalityLife

	Gross exposure		Net of reinsurance	
	Assets arising from insurance contracts R million	Change from base assumption %	Assets arising from insurance contracts R million	Change from base assumption %
Base: June 2023 assumptions	22 602		14 014	
Lapses +10% (e.g. from x% to 1.1x%)	21 951	(2.9)	13 363	(4.6)
Lapses -10% (e.g. from x% to 0.9x%)	23 275	3.0	14 726	5.1
Investment return and inflation -1% (e.g. from 5% to 4%)	21 484	(4.9)	12 774	(8.8)
Investment return and inflation +1% (e.g. from 5% to 6%)	23 260	2.9	14 800	5.6
Expense assumption +10%	22 116	(2.2)	13 528	(3.5)
Expense assumption -10%	23 089	2.2	14 500	3.5
Mortality and morbidity +10%	18 217	(19.4)	12 154	(13.3)
Mortality and morbidity -10%	27 039	19.6	15 872	13.3
Real curve -1% and inflation +1%	22 764	0.7	14 200	1.3
Real curve +1% and inflation -1%	22 356	(1.1)	13 749	(1.9)
Base: June 2022 assumptions	16 984		9 853	
Lapses +10% (e.g. from x% to 1.1x%)	16 525	(2.7)	9 413	(4.5)
Lapses -10% (e.g. from x% to 0.9x%)	17 451	2.7	10 297	4.5
Investment return and inflation -1% (e.g. from 5% to 4%)	15 487	(8.8)	8 382	(14.9)
Investment return and inflation +1% (e.g. from 5% to 6%)	17 919	5.5	10 809	9.7
Expense assumption +10%	16 595	(2.3)	9 465	(3.9)
Expense assumption -10%	17 374	2.3	10 244	4.0
Mortality and morbidity +10%	13 646	(19.7)	8 397	(14.8)
Mortality and morbidity -10%	20 361	19.9	11 302	14.7
Real curve -1% and inflation +1%	17 790	4.7	10 713	8.7
Real curve +1% and inflation -1%	15 466	(8.9)	8 348	(15.3)

The above sensitivities reflect the impact on profit or loss if there are no discretionary margins.

2.5.3 VitalityHealth – IBNR Reserves

VitalityHealth's reserves are set based on the results of a frequency and severity model which looks at the expected cost of each claim which is authorised for treatment. Historical costs per type of claim and the expected shape of emergence of each claims costs are compared to the amounts already paid to help determine the appropriate reserve for the business. Within the monthly reserving process, adjustments to the model results are made where evidence arises that there are changes in development patterns.

The Reserving Committee considers both the model results and other business indicators when setting the actual reserves and it is attended by colleagues from across the relevant business areas including operational, clinical and risk specialists.

The IBNR is GBP53.5 million (R1 284 million) at 30 June 2023 (2022: GBP43.0 million (R860 million)), which approximates 1.7 months' worth of claims – which is the expected delay in claims reporting discussed above. Claims provisions at 30 June 2023 include a supplier settlement. The total of such provisions is GBP2.3 million (R55 million) (2022: GBP2.9 million (R58 million)).

VitalityHealth's IBNR reserves are sensitive to changes in the business's invoice processing speeds – which has seen significantly improved stability over recent years. Currently the IBNR is set using the average expected cost of each claim (in the prior period the IBNR was set as an 80th percentile reserve in recognition of the volatility in the reserving environment). A 50th and 95th percentile reserve would result in the following:

Million	2023 Rand	2022 Rand	2023 GBP	2022 GBP
Base case	1 265.2	846.5	52.7	42.3
50th percentile	1 222.5	775.4	50.9	38.8
95th percentile	1 395.5	933.1	58.2	46.6

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF INSURANCE RISK *continued*

2.5 Sensitivity analysis *continued*

2.5.4 Discovery Insure – IBNR Reserves

Discovery Insure’s IBNR reserves are set based on the Bornhuetter-Ferguson model – a reserving model widely used in the short-term insurance industry. As with other traditional chain ladder models, the model assumes stability in the reporting and settlement delays and an expected loss ratio to arrive at a view of ultimate claims. In contrast, the outstanding claims reserve (OCR) is set predominantly by claims assessors.

The claims reserve for the personal lines business, made up of both the IBNR and OCR reserves, is R428 million at 30 June 2023 (2022: R480 million). Sensitivity tests were performed with the results as outlined below (in the prior period the IBNR reserve was set at the 71st percentile level). Given the OCR is not probabilistic in nature, the sensitivity tests are performed purely on the IBNR reserve.

R million	2023	2022
Base case	428.2	479.8
50th percentile	426.8	469.0
95th percentile	444.4	505.5

3. MANAGEMENT OF FINANCIAL RISK

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

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

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

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

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

Financial risks are managed by Discovery as follows:

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

Discovery’s approach in monitoring credit risk

Discovery’s credit risk rating systems and processes differentiate and quantify credit risk across counterparties and asset classes. Discovery uses different credit rating approaches to monitor credit risk dependent on the financial assets. For financial assets with externally rated ratings, e.g. Moody’s, the external rating is always used. For non-Moody’s rated instruments, the following approaches will apply:

RATING SCALES FOR FUNDS

A credit rating, being a ranking of creditworthiness, is allocated to the obligor. Where external ratings are unavailable, internal rating assessments are conducted through analysis of the latest financial and other relevant information, in a consistent and systematic manner. Where external ratings are available, the standard rating classifications used by the external rating agencies have been applied and is mapped to the internal categories per the Group’s internal rating scale. The internal rating scale is based on internal definitions and influenced by definitions published by the external ratings agency, Moody’s. Where applicable, internal ratings are mapped to equivalent external Moody’s rating scales.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

Discovery's approach in monitoring credit risk *continued*

The Group's Internal Rating Scale categories for disclosure purposes are defined below:

Group internal grading for disclosures	Moody's Investors Service equivalent of internal rating	S&P Global Ratings equivalent of internal rating	Discovery internal risk weighting (RW) grading for internal credit risk assessment ¹
Investment grade			
Grade Aaa	Aaa	AAA	RW1
Grades Aa1, Aa2, Aa3	Aa1, Aa2, Aa3	AA+, AA, AA-	RW2-RW4
Grades A1, A2, A3	A1, A2, A3	A+,A,A-	RW5-RW7
Grades Baa1, Baa2, Baa3	Baa, Baa1, Baa2, Baa3	BBB+,BBB,BBB-	RW8-RW10
Sub-investment grade			
Grades Ba1, Ba2, Ba3	Ba1, Ba2, Ba3	BB+, BB, BB-	RW11-RW14
Grades B1, B2, B3	B1, B2, B3	B+, B, B-	RW16-RW19
Grades Caa1, Caa2, Caa3	Caa1, Caa2, Caa3	CCC+, CCC, CCC-	RW22-RW23
Grades Ca1, Ca2, Ca3	Ca1, Ca2, Ca3	CC	RW24
Default			
Grade C	C	RD	RW25

¹ Discovery utilises an internal risk weighting (RW) scale, calibrated to external rating agencies to develop internal credit ratings for financial guarantee contracts and its internal borrowings amongst Discovery Group entities. It is a 25 point rating scale. The ratings are mapped to their probability of default, which is then calibrated to a similar range of S&P Global Ratings and Moody's Investors Service ratings.

Where a short-term rating is available, e.g. short-term cash deposits, Discovery includes for the purposes of credit risk disclosures the financial instrument as per the respective entity's long-term credit rating.

Discovery's internal grading for disclosures aligns to Moody's Investors Service definitions of their respective ratings as follows:

Investment grade	Aaa	Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk
	Aa	Obligations rated Aa are judged to be of the highest quality, subject to the lowest level of credit risk
	A	Obligations rated A are judged to be upper-medium grade and are subject to low credit risk
	Baa	Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics
Sub-investment grade	Ba	Obligations rated Ba are judged to be speculative and are subject to substantial credit risk
	B	Obligations rated B are considered speculative and are subject to high credit risk
	Caa	Obligations rated Caa are judged to be speculative of poor standing and are subject to very high credit risk
	Ca	Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest
Default	C	Obligations rated C are the lowest rated and are typically in default, with little prospect for recovery of principal or interest

A numerical modifier may be added to each generic rating classification. Each modifier indicates the following:

- the modifier 1 indicates that the obligation ranks in the higher end of its generic rating category
- the modifier 2 indicates a mid-range ranking; and
- the modifier 3 indicates a ranking in the lower end of that generic rating category.

POOLED FUNDS

The Group invests in funds through which it is also exposed to credit risk of the underlying assets in which the funds are invested. The Group's exposure to risk is classified at fund level and not at the underlying asset level. Although funds are not rated, fund managers are required to invest in credit assets within the defined parameters stipulated in the fund's mandate. These rules limit the extent to which fund managers can invest in unlisted and/or unrated credit assets and generally restrict funds to the acquisition of local currency investment grade assets.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

Discovery's approach in monitoring credit risk *continued*

DISCOVERY BANK

Loans and advances to customers are categorised with Discovery Bank's own internally developed credit models. The Discovery Bank model uses a 10-point Discovery Risk Grade classification, with each point being in two decrements to further distinguish risk. The following table summarises how Discovery Bank classifies its loans:

Discovery Risk Category	Discovery Risk Grades	Risk of default assessment
Exceptional low risk	DRG1 – DRG2	Less than 0.4%
Low risk	DRG3 – DRG5	Less than 1.5%
Medium risk	DRG5 – DRG8	Less than 6%
High risk	DRG8 – DRG9	Less than 24%
Very high risk	DRG10	More than 24%

Categorisation of business in the analysis of financial risk

To assist in the analysis of the financial risks that Discovery and its policyholders are exposed to, the Statement of financial position has been divided into five categories, based on the nature of the products provided by Discovery and the nature of the financial assets held to back the policyholder liabilities.

- **Unit-linked investment contracts:** this category relates to contracts issued by Discovery where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. Discovery holds the assets on which the unit prices are based and as a result there is no mismatch. The market risk (including equity price, interest rate and currency risk) as well as the credit risk for these contracts is therefore borne by the policyholder and not the Discovery shareholders.
- **Unit-linked insurance contracts:** this category relates to insurance contracts issued by Discovery which have a component that is linked to the units of an underlying portfolio. For this component, Discovery holds the assets on which the unit prices are based. However, the gross unit liabilities are reduced by the present value of future charges less the present value of future expenses and risk claims. Under IFRS, the unit-linked component is not accounted for separately from the host insurance contract. These contracts expose both Discovery shareholders and policyholders to financial risks.
- **Insurance contracts:** this category relates to insurance contracts issued by Discovery which Discovery funds with a portfolio of matching assets, exposing the Discovery shareholders to financial risk. The financial assets in this category include those financial assets held within specific portfolios matched to specific liabilities, for example claims reserves and IBNR.
- **Shareholder financial assets and liabilities:** this category includes the financial assets and financial liabilities that expose the Discovery shareholders to financial risks, including financial assets and cash backing insurance reserves and statutory capital. This category includes those financial assets that are not held in specific portfolios matched to insurance related liabilities.
- **Shareholder non-financial assets and liabilities:** No financial risk disclosures are required for these items.

The financial assets at fair value in each of these categories are sub-categorised into a second tier of classification, namely:

- Equity portfolios
- Debt portfolios
- Money market portfolios
- Multi-asset portfolios

In applying the definitions below, reliance is placed on the classifications by asset managers.

Equity portfolios

The following have been defined as equity portfolios:

- Portfolios that invest a minimum of circa 75% of the market value of the portfolio in equities and generally seek maximum capital appreciation as their primary goal. These portfolios invest in selected shares across the range of large, mid, and smaller cap shares. While the managers of these portfolios may subscribe to different investment styles or approaches, their intent is to produce a risk/return profile that is comparable with the risk/return profile of the overall equities market. The portfolios in this category offer medium to long-term capital growth as their primary investment objective.
- Investments or portfolios of equity linked notes.

Debt (interest-bearing) portfolios

Interest-bearing portfolios are portfolios that invest exclusively in bond, money market investments and other interest earning securities. These portfolios may not include equity securities, real estate securities or cumulative preference shares.

In addition to the above the inflation-linked bonds have been defined as Debt portfolios. Inflation-linked bonds are essentially loans where the principal and interest payments are contractually linked to an inflation measure.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

Money market portfolios

Money market portfolios are portfolios that seek to maximise interest income, preserve the portfolio's capital, and provide immediate liquidity. This is achieved by investing in money market instruments with a maturity of less than 13 months while the average duration of the underlying assets may not exceed 90 days and a weighted average legal maturity of 120 days. The portfolios are typically characterised as short term, highly liquid vehicles.

Multi-asset portfolios

Multi-asset portfolios are portfolios that invest in a wide spread of investments in the equity, bond, money, and property markets to maximise total returns, comprising capital and income growth over the long term. These portfolios do not fall within the thresholds that have been determined for the Equity portfolios or the Debt portfolios.

The following tables reconcile the Group Statement of financial position to the classes of risks and the categories listed on the previous pages.

Group R million	Shareholder					
	Total	Unit-linked investment contracts	Unit-linked insurance contracts	Insurance contracts	Financial assets and liabilities	Other assets and liabilities
30 June 2023						
Assets arising from insurance contracts	63 865	-	-	63 865	-	-
Loans and advances to customers at amortised cost	4 702	-	-	-	4 702	-
Investments at amortised cost						
Unlisted:						
- Debt	6 856	-	-	-	6 856	-
- Fixed deposits	3 054	-	-	-	3 054	-
Financial instruments mandatorily at fair value through profit or loss:						
Listed:						
- Equity portfolios	50 204	22 218	27 425	361	200	-
- Debt portfolios	42 172	8 960	18 303	13 521	1 388	-
- Money market portfolios	11 721	1 685	2 884	3 677	3 475	-
- Multi-asset portfolios	33 535	12 946	20 247	246	96	-
Unlisted:						
- Equity portfolios	6 321	387	5 884	-	50	-
- Debt portfolios	401	1	262	-	138	-
- Money market portfolios	10 935	1 034	1 908	6 382	1 611	-
- Multi-asset portfolios	137	-	137	-	-	-
Derivative financial instruments at fair value:						
- used as cash flow hedges	59	-	-	-	59	-
- not designated as hedging instruments	60	-	-	-	60	-
Receivables:						
- Insurance receivables	10 316	-	-	-	10 316	-
- Contract receivables	1 268	-	-	-	1 268	-
- Other receivables	4 475	200	920	28	1 916	1 411
Reinsurance contracts	709	-	-	709	-	-
Cash and cash equivalents	20 370	1 158	4 202	639	14 371	-
Other non-financial assets	30 767	-	979	-	-	29 788
Total assets	301 927	48 589	83 151	89 428	49 560	31 199
Liabilities arising from insurance contracts	114 807	-	75 257	39 550	-	-
Liabilities arising from reinsurance contracts	14 669	-	-	14 669	-	-
Deposits from customers	14 333	-	-	-	14 333	-
Borrowings at amortised cost	20 586	11	21	1	20 553	-
Other payables	14 780	533	1 122	651	12 113	361
Investment contracts at fair value through profit or loss	48 044	48 044	-	-	-	-
Derivative financial instruments at fair value:						
- used as cash flow hedges	1	-	-	-	1	-
- not designated as hedging instruments	19	1	2	-	16	-
Other non-financial liabilities	10 714	-	-	-	-	10 714
Total liabilities	237 953	48 589	76 402	54 871	47 016	11 075

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

Group R million	Restated ¹ Total	Restated ¹ Unit-linked investment contracts	Restated ¹ Unit-linked insurance contracts	Insurance contracts	Shareholder	
					Financial assets and liabilities	Other assets and liabilities
30 June 2022						
Assets arising from insurance contracts	56 645	-	-	56 645	-	-
Loans and advances to customers at amortised cost	3 944	-	-	-	3 944	-
Investments at amortised cost:						
Unlisted:						
- Debt	5 205	-	-	-	5 205	-
- Fixed deposits	1 956	-	-	-	1 956	-
Financial instruments mandatorily at fair value through profit or loss:						
Listed:						
- Equity portfolios	53 947	16 270	37 265	252	160	-
- Debt portfolios	47 012	8 594	18 953	18 714	751	-
- Money market portfolios	8 052	415	830	327	6 480	-
- Multi-asset portfolios	21 179	11 330	9 689	93	67	-
Unlisted:						
- Equity portfolios	4 001	171	3 784	-	46	-
- Debt portfolios	580	80	485	-	15	-
- Money market portfolios	6 628	1 180	2 121	2 131	1 196	-
- Multi-asset portfolios	95	-	87	-	8	-
Derivative financial instruments at fair value:						
- used as cash flow hedges	17	-	-	-	17	-
- not designated as hedging instruments	259	9	12	-	238	-
Non-current asset held for sale	171	-	-	-	-	171
Receivables:						
- Insurance receivables	7 887	-	-	-	7 887	-
- Contract receivables	1 209	-	-	-	1 209	-
- Other receivables	4 017	370	890	13	1 369	1 375
Reinsurance contracts	511	-	-	511	-	-
Cash and cash equivalents	19 775	1 142	3 533	333	14 767	-
Other non-financial assets	28 277	-	834	-	-	27 443
Total assets	271 367	39 561	78 483	79 019	45 315	28 989
Liabilities arising from insurance contracts	108 067	-	70 869	37 198	-	-
Liabilities arising from reinsurance contracts	13 192	-	-	13 192	-	-
Deposits from customers	10 881	-	-	-	10 881	-
Borrowings at amortised cost	20 584	22	132	-	20 430	-
Other payables	15 123	902	1 107	438	12 264	412
Investment contracts at fair value through profit or loss	38 637	38 637	-	-	-	-
Derivative financial instruments at fair value:						
- used as cash flow hedges	56	-	-	-	56	-
- not designated as hedging instruments	146	-	-	-	146	-
Other non-financial liabilities	11 126	-	-	-	-	11 126
Total liabilities	217 812	39 561	72 108	50 828	43 777	11 538

¹ The comparative information has been restated. Refer to note 45 for detail.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

The financial risks associated with each category are discussed below.

3.1 Unit-linked investment contracts

Unit-linked investment contracts relate to contracts where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract.

R million	Investments held at risk of policyholders	
	Group 2023	Restated ¹ Group 2022
Financial instruments mandatorily at fair value through profit or loss:		
Listed:		
- Equity portfolios	22 218	16 270
- Debt portfolios	8 960	8 594
- Money market portfolios	1 685	415
- Multi-asset portfolios	12 946	11 330
Unlisted:		
- Equity portfolios	387	171
- Debt portfolios	1	80
- Money market portfolios	1 034	1 180
Derivative financial instruments at fair value:		
- not designated as hedging instruments	-	9
Receivables:		
Other receivables at amortised cost	200	370
Cash and cash equivalents	1 158	1 142
Total assets	48 589	39 561
Borrowings at amortised cost	11	22
Other payables	533	902
Investment contracts at fair value through profit or loss	48 044	38 637
Derivative financial instruments at fair value:		
- not designated as hedging instruments	1	-
Total liabilities	48 589	39 561

¹ The comparative information has been restated. Refer to note 45 for detail.

3.1.1 Market risk

EQUITY AND INTEREST RATE RISK

Discovery's primary exposure to market risk from these contracts is the volatility in asset management fees earned by Discovery, due to the impact of interest rate, equity price and currency movements on the fair value of the assets held in the linked funds, on which the investment management fees are based. An increase of 10% in the value of the assets would increase the asset management fees by R78 million per annum (2022: R60 million). A decrease of 10% in the value of the assets would reduce the asset management fees by R78 million per annum (2022: R60 million).

In respect of IFRS-defined investment management contracts there may be an associated asset for the costs of obtaining contracts. There is a risk that in the event of adverse market movements, future expected management fees may reduce and consequently this asset may not be realised and therefore necessitate impairment. There were no impairments necessary in the current or previous financial year.

CURRENCY RISK

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

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.1 Unit-linked investment contracts *continued*

3.1.2 Credit risk

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

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

3.1.3 Liquidity risk

Certain contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. This surrender value is equal to or less than the carrying amount of the contract liabilities. If all the contracts with this option were surrendered at the financial year-end, a loss of R1 034 million (2022: R935 million) would have been recorded in profit or loss. This loss would result from an impairment to the asset raised for costs of obtaining contracts, but the impact is reduced by the surrender penalties receivable. A maturity analysis based on the earliest contractual repayment date would present 100% (2022: 100%) of the policyholder liabilities due within one year. The assets held to match these policyholder liabilities are realisable in the short term.

3.2 Unit-linked insurance contracts

A unit-linked insurance contract is an IFRS-defined insurance contract with a component that is linked to the units of an underlying portfolio.

R million	Investments held at risk of policyholders	
	Group 2023	Restated ¹ Group 2022
Financial instruments mandatorily at fair value through profit or loss:		
Listed:		
- Equity portfolios	27 425	37 265
- Debt portfolios	18 303	18 953
- Money market portfolios	2 884	830
- Multi-asset portfolios	20 247	9 689
Unlisted:		
- Equity portfolios	5 884	3 784
- Debt portfolios	262	485
- Money market portfolios	1 908	2 121
- Multi-asset portfolios	137	87
Derivative financial instruments at fair value:		
- not designated as hedging instruments	-	12
Receivables:		
- Other receivables	920	890
Cash and cash equivalents	4 202	3 533
Other assets	979	834
Total assets	83 151	78 483
Liabilities arising from insurance contracts	75 257	70 869
Borrowings at amortised cost	21	132
Other payables	1 122	1 107
Derivative financial instruments at fair value:		
- not designated as hedging instruments	2	-
Total liabilities	76 402	72 108

¹ The comparative information has been restated. Refer to note 45 for detail.

The assets are greater than the liabilities as a result of the Negative insurance liability of R5 770 million (2022: R5 541 million) included in unit-linked insurance contracts (refer to note 18) and the deferred tax asset of R979 million (2022: R834 million) in relation to the Individual Policyholder Fund.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.2 Unit-linked insurance contracts *continued*

3.2.1 Market risk

Discovery's primary exposure to market risk from these contracts is the volatility in asset management fees due to the impact of interest rate, equity price and currency movements on the fair value of the assets held in the linked funds, on which the investment management fees are based. An increase of 10% in the value of the assets would increase the asset management fees by R183 million per annum (2022: R147 million). A decrease of 10% in the value of the assets would reduce the asset management fees by R183 million per annum (2022: R148 million).

3.2.2 Credit risk

The credit risk for the unit-linked insurance contracts is similar to the credit risk for the unit-linked investment contracts. Refer to section 3.1.2 on the detail for the exposure to the credit risk.

3.2.3 Liquidity risk

All contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. This surrender value is equal to or less than the carrying amount of the contract liabilities. If all the contracts with this option were surrendered at the financial year-end, a loss of R6 234 million (2022: R5 805 million) would have been recorded in profit or loss. This loss results from the impairment of assets arising from insurance contracts relating to these contracts, but the impact is reduced by the surrender penalties receivable.

The assets held to match these policyholder liabilities are highly liquid and are realisable in the short term. A maturity analysis based on the earliest contractual repayment date is as follows:

Group R million	Restated ¹			
	Total	<1 Year	1 – 2 Years	3 – 5 Years
30 June 2023				
Unit-linked insurance contracts	81 031	80 624	177	230
30 June 2022				
Unit-linked insurance contracts	76 448	76 231	98	119

¹ The comparative information has been restated. Refer to note 45 for detail.

3.3 Insurance contracts

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

R million	Group 2023	Group 2022
Assets arising from insurance contracts	63 865	56 645
Financial instruments mandatorily at fair value through profit or loss:		
Listed:		
– Equity portfolios	361	252
– Debt portfolios	13 521	18 714
– Money market portfolios	3 677	327
– Multi-asset portfolios	246	93
Unlisted:		
– Money market portfolios	6 382	2 131
Receivables:		
– Other receivables	28	13
Reinsurance contracts	709	511
Cash and cash equivalents	639	333
Total assets	89 428	79 019
Liabilities arising from insurance contracts	39 550	37 198
Liabilities arising from reinsurance contracts	14 669	13 192
Borrowings at amortised cost	1	–
Other payables	651	438
Total liabilities	54 871	50 828

3.3.1 Market risk

When calculating the liabilities arising from insurance contracts, an increase/decrease in the investments would result in an increase/decrease in the liability but it may not be an equal Rand value movement, resulting in the difference being accrued to the shareholders. Discovery aims to closely match liabilities with appropriate assets and maintains sufficient assets to protect against residual mismatches between assets and liabilities at a 99.5% confidence interval over a one-year time horizon.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.3 Insurance contracts *continued*

3.3.2 Credit risk

Discovery is exposed to credit risk through financial investments comprising of money market portfolios and debt portfolios entered into to match policyholders' insurance contract liabilities. Discovery is exposed to the issuer's credit standing on these instruments which is monitored by the CCIC by setting a minimum credit rating. Discovery has appointed reputable asset managers to manage these instruments.

Group R million	Total	Aaa1 Aaa2 Aaa3	Aa1 Aa2 Aa3	A1 A2 A3	Ba1 Ba2 Ba3	Govt ¹	Pooled funds
30 June 2023							
Financial instruments mandatorily at fair value through profit or loss:							
Listed:							
- Debt portfolios	13 521	-	28	2	753	12 727	11
- Money market portfolios	3 677	-	-	-	3 677	-	-
Unlisted:							
- Money market portfolios	6 382	-	372	199	5 811	-	-
Reinsurance contracts	709	-	370	339	-	-	-
Cash and cash equivalents	639	-	6	10	623	-	-
Total	24 928	-	776	550	10 864	12 727	11
30 June 2022							
Financial instruments mandatorily at fair value through profit or loss:							
Listed:							
- Debt portfolios ²	18 714	1	2	-	588	18 085	38
- Money market portfolios	327	-	-	-	325	-	2
Unlisted:							
- Money market portfolios	2 131	-	146	-	1 967	18	-
Reinsurance contracts	511	-	321	166	24	-	-
Cash and cash equivalents	333	-	-	1	332	-	-
Total	22 016	1	469	167	3 236	18 103	40

¹ These instruments are issued by the South African government.

² In the prior period, SA Government bonds of R11 619 million were disclosed under Ba rating. The correct classification should have been Govt. The classification has been corrected in the table above.

3.3.3 Liquidity risk

The liquidity risk for assets and liabilities arising from insurance contracts are discussed in insurance risks in note 2 Management of Insurance Risk. The financial investments held at fair value through profit or loss are realisable in the short term.



Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities

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

R million	Investments held at risk of shareholders	
	Group 2023	Group 2022
Loans and advances to customers at amortised cost	4 702	3 944
Investments at amortised cost:		
Unlisted:		
- Debt	6 856	5 205
- Fixed deposits	3 054	1 956
Financial instruments mandatorily at fair value through profit or loss:		
Listed:		
- Equity portfolios	200	160
- Debt portfolios	1 388	751
- Money market portfolios	3 475	6 480
- Multi-asset portfolios	96	67
Unlisted:		
- Equity portfolios	50	46
- Debt portfolios	138	15
- Money market portfolios	1 611	1 196
- Multi-asset portfolios	-	8
Derivative financial instruments at fair value:		
- used as cash flow hedges	59	17
- not designated as hedging instruments	60	238
Receivables:		
- Insurance receivables	10 316	7 887
- Contract receivables	1 268	1 209
- Other receivables at amortised cost	1 916	1 369
Cash and cash equivalents	14 371	14 767
Total assets	49 560	45 315
Deposits from customers	14 333	10 881
Borrowings at amortised cost	20 553	20 430
Other payables	12 113	12 264
Derivative financial instruments at fair value:		
- used as cash flow hedges	1	56
- not designated as hedging instruments	16	146
Total liabilities	47 016	43 777

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

3.4.1 Market risk

EQUITY PRICE RISK

Investments

Discovery is exposed to equity price risk through its equity investments held that have been classified as investments at fair value through profit or loss (FVTPL), on the Statement of financial position. To manage its equity risk arising from investments in Equity portfolios of R250 million (2022: R206 million), the Group diversifies its portfolio and uses experienced asset managers.

For shareholder investments, a reasonable increase of 10% in the equity markets would result in a profit of R20 million before tax (2022: R16 million). A reasonable decrease of 10% in the equity markets would result in a loss of R20 million before tax (2022: R16 million). This impact would be recognised in profit or loss and equity. The sensitivity assumes that the equity markets had increased/decreased by 10% with all other variables held constant.

Discovery is also exposed to equity price risk through its cash-settled share incentive schemes, namely the Phantom share scheme and the Acquisition share scheme, the details of which are described in note 32. This liability has been included in Other payables at amortised cost in the Statement of financial position. To manage this risk, Discovery has purchased total return equity swaps (TRS) from Ba2 and Ba3 (2022: Ba1) South African banks to hedge a portion of its exposure to changes in the Discovery share price.

With effect from 1 July 2022 the hedges became ineffective. Accordingly, Discovery discontinued hedge accounting under IFRS on these TRSs. Previously accumulated balances in the hedge reserve will be reclassified to profit or loss during the future service period.

INTEREST RATE RISK

Sensitivity to changes in interest rates is relevant to financial assets and financial liabilities bearing floating interest rates due to the risk that future cash flows will fluctuate. However, sensitivity will also be relevant to fixed-rate financial assets and financial liabilities that are remeasured to fair value. The table below details the specific interest rate risk that the Group is exposed to:

Group R million	Carrying amount	Fixed	Floating	Non-interest bearing
30 June 2023				
Loans and advances to customers at amortised cost	4 702	-	4 702	-
Investments at amortised cost:				
Unlisted:				
- Debt	6 856	6 856	-	-
- Fixed deposits	3 054	2 783	271	-
Financial instruments mandatorily at fair value through profit or loss:				
Listed:				
- Debt portfolios	1 388	1 012	376	-
- Money market portfolios	3 475	2 497	978	-
- Multi-asset portfolios	96	-	-	96
Unlisted:				
- Debt portfolios	138	116	22	-
- Money market portfolios	1 611	703	908	-
Derivative financial instruments at fair value:				
- used as cash flow hedges	59	59	-	-
- not designated as hedging instruments	60	-	31	29
Receivables:				
- Insurance receivables	10 316	-	-	10 316
- Contract receivables	1 268	-	-	1 268
- Other receivables at amortised cost	1 916	130	385	1 401
Cash and cash equivalents	14 371	224	13 387	760
Total financial assets	49 310	14 380	21 060	13 870
Deposits from customers	14 333	3 434	10 505	394
Borrowings at amortised cost	20 553	9 052	11 501	-
Other payables at amortised cost	12 113	8	3 105	9 000
Derivative financial instruments at fair value:				
- used as cash flow hedges	1	1	-	-
- not designated as hedging instruments	16	-	-	16
Total financial liabilities	47 016	12 495	25 111	9 410

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

3.4.1 Market risk *continued*

Group R million	Carrying amount	Fixed	Floating	Non-interest bearing
30 June 2022				
Loans and advances to customers at amortised cost	3 944	-	3 944	-
Investments at amortised cost:				
Unlisted:				
- Debt	5 205	5 205 ¹	-	-
- Fixed deposits	1 956	1 610	346	-
Financial instruments mandatorily at fair value through profit or loss:				
Listed:				
- Debt portfolios	751	620	131	-
- Money market portfolios	6 480	2 470	3 993	17
- Multi-asset portfolios	67	1	-	66
Unlisted:				
- Debt portfolios	15	3	12	-
- Money market portfolios	1 196	26	1 170	-
- Multi-asset portfolios	8	-	-	8
Derivative financial instruments at fair value:				
- used as cash flow hedges	17	17	-	-
- not designated as hedging instruments	238	-	216	22
Receivables:				
- Insurance receivables	7 887	-	-	7 887
- Contract receivables	1 209	-	-	1 209
- Other receivables at amortised cost	1 369	259	10	1 100
Cash and cash equivalents	14 767	122	14 580	65
Total financial assets	45 109	10 333	24 402	10 374
Deposits from customers	10 881	3 372	7 360	149
Borrowings at amortised cost	20 430	9 859	10 571	-
Other payables at amortised cost	12 264	7 381	26	4 857
Derivative financial instruments at fair value:				
- used as cash flow hedges	56	56	-	-
- not designated as hedging instruments	146	-	79	67
Total financial liabilities	43 777	20 668	18 036	5 073

¹ In the prior period unlisted debt was incorrectly disclosed under Floating, instead of Fixed. This has been corrected in the table above.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

3.4.1 Market risk *continued*

Investments

For shareholder investments with a floating rate at amortised cost a 1% increase/decrease in the local interest rate would result in an impact on profit or loss (investment income) and equity before tax of R2 million (2022: R67 million). The sensitivity assumes that the interest rate had increased/decreased by 1% with all other variables held constant.

Borrowings at amortised cost and related hedges

For the floating interest rate borrowings at amortised cost, a 1% increase/decrease in the local interest rate would result in an impact on profit or loss (finance costs) and equity before tax of R67 million (2022: R65 million). The sensitivity assumes that the interest rate had increased/decreased by 1% with all other variables held constant.

Discovery is exposed to interest rate risk through long-term borrowings held with various financial institutions. Refer to note 20 Borrowings at amortised costs for a breakdown of the borrowings, including details of fixed rate and floating rate facilities.

Group R million	Ref	2023		2022	
		Carrying value	Facility value	Carrying value	Facility value
Interest rate risk from borrowings from banks					
Fixed interest rate loan facilities		4 827	4 999	5 737	5 850
Floating interest rate facilities with floating-to-fixed interest rate swap	i	4 569	4 518	5 038	5 000
Floating interest rate facilities		3 250	5 341	2 411	5 109
Foreign floating interest rate facilities		3 682	3 080	3 122	4 281
Total bank borrowings (refer to note 20)		16 328	17 938	16 308	20 240

i. During prior years and in the current financial year, Discovery entered into long-term borrowing facilities at floating interest rates, which expose Discovery to cash flow interest rate risk. This risk has been managed by using floating-to-fixed interest rate swaps. These interest rate swaps have the economic effect of converting the borrowings from floating to fixed rates. Interest is payable quarterly in arrears, with capital repayable on maturity. The hedge ratio is 1:1.

The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities, and notional amount. As all critical terms matched during the year, there is an economic relationship.

Under the Group's policy, the critical terms of the hedging instrument, such as the settlement dates, maturity dates and notional amount, are matched with the interest rate risk of the hedged item.

Hedge ineffectiveness for interest rate swaps can arise from:

- day one fair value of the swap;
- events leading to mismatch in terms; and
- the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan.

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

Group R million	2023	2022
Balance at beginning of the year	39	335
Unrealised gains accumulated in equity	(76)	(296)
Recycled to profit or loss during the current year ¹	(4)	-
Balance at end of the year	(41)	39
The cash flow hedge will be recycled to profit or loss as follows:		
Recycled to profit or loss within one year	(9)	20
Recycled to profit or loss within two to five years	(32)	19
	(41)	39

¹ Disclosed as finance costs in profit or loss.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

3.4.1 Market risk *continued*

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

Group R million	2023		2022	
	Nominal value	Fair value asset	Nominal value	Fair value liability
Maturity date:				
21 November 2022	-	-	500	(7)
2 March 2023	-	-	1 000	(14)
21 August 2023	500	5	500	13
21 November 2024	800	1	800	1
21 November 2024	1 200	21	1 200	(19)
21 August 2026	300	7	300	3
21 August 2026	700	(1)	700	(16)
21 May 2027	509	9	-	-
21 May 2027	509	16	-	-
	4 518	58	5 000	(39)

Deposits from customers

For the floating interest rate deposits measured at amortised cost a 1% increase/decrease in the local interest rate would result in an impact on profit or loss (finance cost) and equity before tax of R14.3 million (2022: R10.5 million). The sensitivity assumes that the interest rate had increased/decreased by 1% with all other variables held constant.

Group R million	2023 Carrying value	2022 Carrying value
Term deposits from customers – fixed rate	3 434	3 372
Term deposits from customers – variable rates	3 232	1 807
On demand deposits from customers – non-rate sensitive	394	149
On demand deposits from customers – variable rate	7 273	5 249
Wholesale Negotiable Certificates of Deposit (NCDs) – variable rate	-	304
Total customer deposits Discovery Bank	14 333	10 881

Non-hedge derivative financial instruments

i. Interest rate swap

VitalityLife has significant exposure to long-term interest rate risk, given the impact on reserves of lower investment rate assumptions related to fixed future premium receipts to meet policy obligations. Accordingly, lower long-term interest rates and yield assumptions may negatively impact on the valuation of future policy obligations and result in a valuation loss. Refer to note 2.4.3 for details of the interest rate mitigation strategy implemented.

In addition to the above, VitalityLife has an exposure to the 'FTSE' Actuaries UK Conventional Gilts over 15 Year Index ('the index') because of products underwritten by the PAC on behalf of VitalityLife. To economically hedge the Vitality UK group's exposure to the index, Discovery Holdings Europe Limited (DHEL) has previously been party to a number of over-the-counter total return interest rate swap derivatives. These derivatives provided DHEL with the capital depreciation/appreciation and coupon payments on a basket of gilts designed to closely match that of the index in return for a payment of fixed interest to the counterparty. By 30 June 2022 these derivatives had been exited in DHEL and the associated index risk is now managed directly on the balance sheet of the PAC.

As at 30 June 2023 the mark-to-market position recorded on the PAC balance sheet was a liability of GBP 12.6 million (R302 million) (2022: asset of GBP 9 million (R180 million)). These derivatives have been presented in Other payables, VitalityLife working capital funding.

Although the derivative instruments held during the year reduce the exposure to the volatility of the index, they do not qualify for hedge accounting. Accordingly, these derivatives were classified as financial assets or liabilities carried at fair value through profit or loss.

Fair value adjustments of GBP 56.6 million (net loss) (R1 213 million) have been recognised in Net fair value gains on financial assets at fair value through profit or loss (2022: GBP 77.6 million (net loss) (R1 572 million)).

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

3.4.1 Market risk *continued*

Non-hedge derivative financial instruments *continued*

ii. Derivative instruments used by Discovery's asset managers

Discovery also has interest rate swap agreements and the value of exposure towards these parties was calculated by taking into consideration the International Swaps and Derivatives Association (ISDA) agreements in place which allow for netting off between positive and negative exposures.

The table below details Discovery's derivative exposure:

Group R million	Notional amount	Fair value asset	Fair value liability
June 2023			
Interest rate contracts:			
- floating for fixed swaps	4 518	59	(1)
	4 518	59	(1)
June 2022			
Interest rate contracts:			
- floating for fixed swaps	5 000	17	(56)
	5 000	17	(56)

CURRENCY RISK

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

Group R million	Total	Rand	GBP in UK subsidiary	GBP other	USD in US subsidiary	USD other	Other currencies
30 June 2023							
Loans and advances to customers at amortised cost	4 702	4 702	-	-	-	-	-
Investments at amortised cost:							
Unlisted:							
- Debt	6 856	6 856	-	-	-	-	-
- Fixed deposits	3 054	1 744	1 205	-	-	105	-
Financial instruments mandatorily at fair value through profit or loss:							
Listed:							
- Equity portfolios	200	118	8	1	-	63	10
- Debt portfolios	1 388	786	583	-	-	16	3
- Money market portfolios	3 475	829	2 640	-	-	6	-
- Multi-asset portfolios	96	23	-	-	-	73	-
Unlisted:							
- Equity portfolios	50	50	-	-	-	-	-
- Debt portfolios	138	138	-	-	-	-	-
- Money market portfolios	1 611	1 339	272	-	-	-	-
Derivative financial instruments at fair value:							
- used as cash flow hedges	59	59	-	-	-	-	-
- not designated as hedging instruments	60	57	-	-	-	3	-
Receivables:							
- Insurance receivables	10 316	3 110	7 118	-	47	41	-
- Contract receivables	1 268	913	-	-	348	-	7
- Other Receivables	1 916	1 272	332	3	217	90	2
Cash and cash equivalents	14 371	6 213	5 806	438	380	1 371	163
Total financial assets	49 560	28 209	17 964	442	992	1 768	185
Deposits from customers	14 333	13 939	-	88	-	203	103
Borrowings at amortised cost	20 553	16 383	3 958	-	212	-	-
Other payables	12 113	4 370	7 391	7	161	141	43
Derivative financial instruments at fair value:							
- used as cash flow hedges	1	1	-	-	-	-	-
- not designated as hedging instrument	16	16	-	-	-	-	-
Total financial liabilities	47 016	34 709	11 349	95	373	344	146

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

3.4.1 Market risk *continued*

CURRENCY RISK *continued*

Group R million	Total	Rand	GBP in UK subsidiary	GBP other	USD in US subsidiary	USD other	Other currencies
30 June 2022							
Loans and advances to customers at amortised cost	3 944	3 944	-	-	-	-	-
Investments at amortised cost:							
Unlisted:							
- Debt	5 205	5 205	-	-	-	-	-
- Fixed deposits	1 956	1 747	209	-	-	-	-
Financial instruments mandatorily at fair value through profit or loss:							
Listed:							
- Equity portfolios	160	66	12	1	-	65	16
- Debt portfolios	751	130	613	-	-	3	5
- Money market portfolios	6 480	2 665	3 815	-	-	-	-
- Multi-asset portfolios	67	15	1	-	-	51	-
Unlisted:							
- Equity portfolios	46	46	-	-	-	-	-
- Debt portfolios	15	15	-	-	-	-	-
- Money market portfolios	1 196	1 196	-	-	-	-	-
- Money market portfolios	8	-	8	-	-	-	-
Derivative financial instruments at fair value:							
- used as cash flow hedges	17	17	-	-	-	-	-
- not designated as hedging instruments	238	22	216	-	-	-	-
Receivables:							
- Insurance receivables	7 887	3 095	4 755	-	3	34	-
- Contract receivables	1 209	886	-	-	322	-	1
- Other Receivables	1 369	936	320	-	58	53	2
Cash and cash equivalents	14 767	5 721	7 659	164	295	822	106
Total financial assets	45 315	25 706	17 608	165	678	1 028	130
Deposits from customers	10 881	10 732	-	32	-	72	45
Borrowings at amortised cost	20 430	17 027	3 272	-	131	-	-
Other payables	12 264	5 289	6 661	-	85	123	106
Derivative financial instruments at fair value:							
- used as cash flow hedges	56	56	-	-	-	-	-
- not designated as hedging instrument	146	68	78	-	-	-	-
Total financial liabilities	43 777	33 172	10 011	32	216	195	151

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

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

	USD	GBP
30 June 2023	18.87	23.99
30 June 2022	16.47	20.00

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

3.4.1 Market risk *continued*

CURRENCY RISK *continued*

Sensitivity analysis

The Group determined that a 10% change is a reasonable expected strengthening/(weakening) of the US dollar and the UK Pound against the other functional currencies, most notably South African Rand, US Dollar and Pound Sterling. The impact on profit or loss and equity at 30 June is shown below. For the purpose of the analysis, the foreign exchange impact of intergroup balances which eliminate on consolidation has been excluded. The effect of translation differences which are recognised separately in other comprehensive income has also been excluded. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

R million	Profit or loss		Equity	
	Strengthening	Weakening	Strengthening	Weakening
30 June 2023				
USD	194	(194)	194	(194)
GBP	28	(28)	28	(28)
30 June 2022				
USD	278	(278)	278	(278)
GBP	14	(14)	14	(14)

Investments

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

Currency derivative contracts

To manage its foreign exchange risk arising from future commercial transactions, Discovery enters into various currency derivative contracts. Discovery entered into these contracts with third party banks which have short-term rated risks of P-2 and P-1, as rated by Moody's. The fair value of these contracts have been included in financial assets and liabilities. (Refer to note 13).

Discovery entered into these contracts as an economic hedge against foreign currency risk for expenses to be paid in the future. These transactions are not designated as hedges and as a result gains and losses are recognised in profit or loss. The amount recognised in profit or loss for the current year was a gain of R11 million (2022: R78 million), with a corresponding derivative asset of R3 million (2022: Derivative asset and liability of R2 million and R1 million respectively). The notional value of these contracts are USD2 million (2022: USD5.3 million).

Currency risk for foreign exchange contracts (FECs) are determined with reference to the designated pricing (settlement) currency of each respective contract. The pricing currency is usually the functional currency of the entity taking out the contract. For the purposes of currency risk, Discovery discloses FEC contracts using the pricing currency.

Borrowings

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

Deposits from customers

Discovery Bank offers its customers the option to hold deposits in foreign currency of GBP, USD and EUR. These risks are managed by aligning the currency exposure to the underlying assets. Discovery Bank does so by holding deposits in foreign currency of GBP, USD and EUR. The currency risk is therefore matched in a 1:1 ratio to not transfer foreign currency risk to the Group.



Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

3.4.2 Credit risk

Key areas where Discovery is exposed to credit risk are:

- **Financial investments comprising money market and debt instruments entered into to invest surplus shareholder funds:** Discovery is exposed to the issuer's credit standing on these instruments which is monitored by the CCIC by setting a minimum credit rating and maximum exposures per issuer. Discovery has appointed reputable asset managers to manage these instruments. Information regarding the aggregated credit risk exposure for debt and money market instruments categorised by credit ratings is provided below.
- **Cash and cash equivalents:** This risk is managed by monitoring exposure to external financial institutions against approved limits per institution. Credit ratings are provided below.
- **Certain accounts within the Statement of financial position category of 'Insurance receivables, contract receivables and other non-financial receivables'.**
- **Reinsurance assets comprising receivables raised for expected recoveries on projected claims (Discovery's liability as primary insurer is not discharged) and amounts due from reinsurers in respect of claims already paid:** This risk is limited as risk premiums are paid monthly to reinsurers and claims can be offset against risk premiums. Further, it is expected that there will be little build-up of actuarial liability on the reinsurers' side. The risk thus mainly arises following a period of higher than expected claims. Credit ratings of reinsurers are considered in reinsurance placement decisions. Credit exposure to reinsurers is also limited through the use of several reinsurers. Reinsurance is placed with reputable international companies directly or through their national offices. The reinsurance companies used by Discovery are rated A or higher by A.M. Best, a rating agency with an exclusive insurance industry focus. Refer to www.ambest.com for further detail. VitalityHealth makes use of cashless financial reinsurance as a financing tool for new business acquisition costs. The credit ratings of these reinsurers are Aa3.
- **Loans and advances to customers at amortised cost,** which arises from credit extended to Discovery Bank customers.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

3.4.2 Credit risk *continued*

The following table details the aggregated credit risk exposure that the Group is exposed to, categorised by the rating scale noted in section 3 'Discovery's approach in monitoring credit risk'.

Group R million	Total	Aaa	Aa1 Aa2 Aa3	A1 A2 A3	Baa1 Baa2 Baa3	Ba1 Ba2 Ba3	Govt ¹	Inter- nally rated	Pooled funds
30 June 2023									
Loans and advances to customers at amortised cost	4 702	-	-	-	-	-	-	4 702	-
Investments at amortised cost:									
Unlisted:									
- Debt	6 856	-	-	-	-	-	6 856	-	-
- Fixed deposits	3 054	-	-	1 300	-	1 744	-	-	10
Financial instruments mandatorily at fair value through profit or loss:									
Listed:									
- Debt portfolios	1 388	-	30	313	243	517	239	-	46
- Money market portfolios	3 475	700	11	94	1 940	459	70	-	201
Unlisted:									
- Debt portfolios	138	-	-	-	-	138	-	-	-
- Money market portfolios	1 611	25	-	247	-	1 322	17	-	-
Derivative financial instruments at fair value:									
- used as cash flow hedges	59	-	-	-	-	59	-	-	-
- not designated as hedging instruments	60	-	-	-	-	60	-	-	-
Cash and cash equivalents	14 371	-	1 123	5 848	464	3 856	3 078	2	-
	35 714	725	1 164	7 802	2 647	8 155	10 260	4 704	257
30 June 2022									
Loans and advances to customers at amortised cost	3 944	-	-	-	-	-	-	3 944	-
Investments at amortised cost:									
Unlisted:									
- Debt	5 205	-	-	-	-	-	5 205	-	-
- Fixed deposits	1 956	-	91	574	208	1 083	-	-	-
Financial instruments mandatorily at fair value through profit or loss:									
Listed:									
- Debt portfolios	751	2	42	224	366	116	1	-	-
- Money market portfolios	6 480	745	1 348	1 752	64	2 447	124	-	-
Unlisted:									
- Debt portfolios	15	-	-	-	-	13	2	-	-
- Money market portfolios	1 196	-	-	-	-	1 184	12	-	-
Derivative financial instruments at fair value:									
- used as cash flow hedges	17	-	-	-	17	-	-	-	-
- not designated as hedging instruments	238	-	-	216	2	20	-	-	-
Cash and cash equivalents	14 767	-	7 852	1 800	1 011	1 575	2 529	-	-
	34 569	747	9 333	4 566	1 668	6 438	7 873	3 944	-

¹ These instruments are issued by the South African government.

Financial instruments included in cash and cash equivalents, fixed deposits and treasury bills have high credit quality based on the rating of counterparties and/or have relatively short-term maturities. Impairment based on the expected credit loss approach was assessed and considered immaterial. There are no amounts within these balances which are credit impaired or where there has been a significant increase in credit risk since initial recognition.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

3.4.2 Credit risk *continued*

CREDIT RISK RELATING TO RECEIVABLES

The table below summarises Discovery's shareholder insurance receivables, contract receivables and other receivables, at 30 June. This table only relates to shareholder's credit exposure and will therefore not agree to note 14.

R million	Group 2023	Group 2022
Receivables arising from insurance and reinsurance contracts:		
- Premium debtors	1 070	801
- Less provision for impairment of premium debtors	(97)	(81)
- Reinsurance debtors	9 343	7 167
Contract receivables:		
- Closed scheme debtors	120	107
- Discovery Health Medical Scheme	775	724
- Other contract receivables	377	382
- Less allowance for expected credit losses	(4)	(4)
Other loans and receivables:		
- Agents and brokers	521	439
- Cash-in-transit debtors	8	7
- Consolidated unit trust debtors	2	2
- Loans to BEE initiatives	309	256
- Security deposit on derivatives ¹	27	72
- Vitality partner debtors	171	148
- Other financial receivables	1 288	837
- Less allowance for expected credit losses	(410)	(392)
	13 500	10 465

¹ Refer to note 3.7 for an explanation of the nature of the security deposit (cash collateral).

Credit risk relating to receivables is managed as follows:

- i. Premium debtors are not rated by Discovery as exposure to any single customer is insignificant. The premium debtors comprise amounts receivable from individuals and corporates. In addition, Discovery suspends benefits when contributions are not received. Premium debtors that are past due are handled by a specialist area in business. Where amounts remain uncollected for more than six months, the debtors are then handed to specialist debt collection agencies.
- ii. VitalityHealth makes use of financial reinsurance as a financing tool for new business acquisition costs. The receipt from the reinsurer is recognised in profit or loss upfront in the year received. GBP246 million (R5 902 million) (2022: GBP199 million (R3 981 million)) is outstanding in respect of cashless reinsurance treaties. The credit ratings of these reinsurers are Aa3.

Refer to introduction to note 3.4.2 for detail regarding the management of risk in respect of reinsurance receivables raised for expected recoveries on projected claims and amounts due from reinsurers in respect of claims already paid. Discovery's liability as primary insurer is not discharged.

- iii. The Discovery Health Medical Scheme (DHMS) has been rated AAA(za) by Global Credit Ratings. The closed schemes have not been rated. Payments by DHMS and the other closed schemes are managed by Discovery and are paid by the seventh of the following month.
- iv. Agents and brokers are subject to a comprehensive relationship management programme including credit assessment. Agents and brokers are not rated by Discovery as exposure to any single intermediary is insignificant. The widespread nature of the individual amounts combined with this close management relationship reduces credit risk. Most commission claw backs are offset against future payments and hence the risk of outstanding commission clawbacks is reduced.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

3.4.2 Credit risk *continued*

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

Group R million	Gross 2023	Impairment 2023	Gross 2022	Impairment 2022
Not past due (current)	11 760	(121)	9 294	(111)
30 days	447	(33)	267	(38)
60 days	211	(13)	179	(23)
90 days	365	(8)	131	(10)
120 days	155	(29)	95	(20)
150 days	189	(13)	91	(10)
>150 days	884	(294)	885	(265)
	14 011	(511)	10 942	(477)

Discovery establishes an allowance for expected credit losses that represents its estimate of expected losses in respect of receivables that are financial assets. The allowance comprises of a specific loss component that relates to individually significant exposures, and a collective loss component, established for groups of similar assets. The loss allowance is determined based on historical data of payment statistics for similar financial assets, and where available without undue cost or effort, incorporates forward-looking information.

For an analysis of the movement in the allowance for expected credit losses as well as provision for impairment of premium debtors during the year, refer to note 12 Financial assets and note 14 Insurance receivables, contract receivables and other financial receivables.

3.4.3 Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities (refer to note 20). Such forecasting takes into consideration the Group's debt financing plans, covenant compliance and, if applicable, external regulatory or legal requirements – such as capital requirements.

Cash held by the operating entities is managed by Group treasury. Group treasury invests it in interest-bearing accounts, time deposits and money market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. For information on the liquidity risk management of contracts with insurance risk, refer to note 2.2 Liquidity risk.

Discovery Bank manages its liquidity risk by comparing the credit utilisation and expected future utilisation of committed facilities on its loans and advances against the deposits it holds. Discovery Bank performs normal stresses as well as additional stresses to ensure that it can meet its obligations continuously.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.4 Shareholder financial assets and liabilities *continued*

3.4.3 Liquidity risk *continued*

The table below analyses the Group's financial assets and liabilities and net-settled interest rate swap derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts are the undiscounted contractual payments and will therefore not agree to the Statement of financial position.

Group R million	Total	<1 year	1 - 2 years	3 - 5 years	6 - 10 years	>10 years
30 June 2023						
Loans and advances to customers at amortised cost	6 794	4 076	2 718	-	-	-
Investments at amortised cost	10 168	6 497	679	1 916	1 076	-
Investments at fair value through profit or loss	6 958	5 743	614	382	75	144
Derivative financial instruments at fair value:						
- not designated as hedging instruments	60	26	24	10	-	-
Receivables	13 505	8 950	930	2 612	971	42
Cash and cash equivalents	14 371	14 371	-	-	-	-
Total financial assets	51 856	39 663	4 965	4 920	2 122	186
Deposits from customers	14 718	13 233	605	880	-	-
Borrowings net of interest rate swap						
- Borrowings	16 723	3 403	5 752	7 320	248	-
- Interest rate swap	(58)	(5)	(22)	(31)	-	-
Lease liabilities	6 761	666	662	1 990	3 351	92
Other payables at amortised cost	12 113	11 729	77	295	12	-
Derivative financial instruments at fair value:						
- not designated as hedging instruments	16	16	-	-	-	-
Total financial liabilities	50 273	29 042	7 074	10 454	3 611	92
30 June 2022						
Loans and advances to customers at amortised cost	3 944	2 367	1 577	-	-	-
Investments at amortised cost	7 161	6 927	234	-	-	-
Investments at fair value through profit or loss	8 723	7 651	149	393	114	416
Derivative financial instruments at fair value:						
- not designated as hedging instruments	238	14	224	-	-	-
Receivables	10 465	6 338	1 412	2 006	668	41
Cash and cash equivalents	14 767	14 767	-	-	-	-
Total financial assets	45 298	38 064	3 596	2 399	782	457
Deposits from customers	10 881	9 381	1 133	367	-	-
Borrowings net of interest rate swap						
- Borrowings	15 695	4 445	3 883	7 110	257	-
- Interest rate swap	311	117	90	104	-	-
Lease liabilities	6 723	190	1 709	1 866	2 487	471
Other payables at amortised cost	12 264	11 970	117	44	7	126
Derivative financial instruments at fair value:						
- not designated as hedging instruments	146	41	26	-	-	79
Total financial liabilities	46 020	26 144	6 958	9 491	2 751	676

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.5 Capital management

The Group's capital is defined as capital and reserves attributable as presented on the consolidated statement of financial position. The Group's objectives when managing capital are:

- To comply with the statutory capital requirements required by the regulators of the insurance markets where the Group operates; refer to Capital section of the directors' report for the statutory capital requirements.
- To maintain a capital buffer in excess of the statutory capital requirements in order to reduce the risk of breaching the statutory requirement in the event of deviations from the main assumptions affecting the Group's insurance businesses.
- To ensure that sufficient capital is available to fund the Group's working capital and strategic capital requirements.
- To achieve an optimal and efficient capital funding profile; and
- To consider capital management needs both in the short term and over a five-year planning horizon.

Discovery has a Finance and Capital Committee that ensures alignment in strategic financial management between the centre and subsidiaries within SA, UK and US. The committee is the governance body for all capital allocation activities across the Group.

A range of capital raising options are available to manage the capital structure of the Group, which includes the issue of new shares, debt, reinsurance arrangements and other hybrid instruments.

FINANCIAL LEVERAGE RATIO

As part of the capital management process, the Group monitors its capital structure utilising the Financial Leverage Ratio (FLR). This ratio is calculated as total debt¹ divided by total debt plus total equity. The Group's strategy is to maintain a prudent FLR of 28% per the Group Risk Appetite statement. However, the 28% is merely a risk appetite indicator, and not a hard line to indicate any form of a breach in terms of regulatory or covenant restrictions. The table below summarises the FLR as at 30 June.

R million	Group 2023	Group 2022
- Borrowings at amortised cost (refer to note 20) ¹	16 361	16 464
- Guaranteed deposit facilities	-	300
Total debt and guarantees¹	16 361	16 764
Total equity	63 974	53 555
Financial Leverage Ratio (%)	20.4%	23.8%

¹ Excluding all IFRS 16 lease liabilities of R4 225 million (2022: R4 120 million).

The FLR at 30 June 2023 is in line with Discovery's risk appetite.

Minimum capital requirements

For Group subsidiaries that operate in the insurance and financial services sectors, the regulator specifies the minimum amount and type of capital that must be held by each of the subsidiaries in addition to their insurance liabilities. The minimum required capital must be maintained at all times throughout the period.

With effect from 1 July 2018, the Insurance Act 18 of 2017 and the related Prudential Standards were implemented in South Africa. Discovery Life and Discovery Insure are regulated under the Insurance Act, while VitalityHealth and VitalityLife are regulated under the European Solvency II regulatory regime, which was implemented from 1 January 2016.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.5 Capital management *continued*

Debt covenants

The following are the key debt covenant ratios and their proximity to breaching the covenant triggers:

Debt covenant and explanation	Minimum requirement	Group 2023	Group 2022
Group Debt to EBITDA Ratio: <ul style="list-style-type: none"> - Group debt is contractually defined and means the aggregate consolidated financial indebtedness of the Group and excludes items such as the 1 Discovery Place ('1 DP') lease and includes guarantees issued to third parties. - EBITDA is contractually defined and specifically includes items such as dividends from associates, rental paid on 1 DP and excludes such items deemed extraordinary, such as economic assumption adjustments, and specified FinRe arrangements. 	Less than 2.5 times	1.30	1.83
Group financial indebtedness to embedded value <ul style="list-style-type: none"> - Group financial indebtedness is as per Group Debt in the calculation. 	Less than 30% of Group embedded value	17.6%	20.3%
Discovery Life SCR Cover	SCR cover must be more than 1.1	1.88 times	1.74 times
Group embedded value	Greater than R30 billion	R98 176 million	R86 258 million
New business embedded value must not be negative	Positive value of new business for 3 consecutive 6-month periods	June 2023: R463 million Dec 2022: R940 million June 2022: R1 124 million	June 2022: R1 124 million Dec 2021: R937 million June 2021: R946 million

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.6 Fair value hierarchy of financial instruments

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

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

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

- (a) quoted prices for similar instruments or identical instruments in markets which are not considered to be active; or
- (b) valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

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

R million	Level 1	Level 2	Level 3	Total
30 June 2023				
Financial assets				
Financial instruments mandatorily at fair value through profit or loss:				
- Equity portfolios	50 204	6 321	-	56 525
- Debt portfolios	40 852	1 721	-	42 573
- Money market portfolios	-	22 656	-	22 656
- Multi-asset portfolios	-	33 672	-	33 672
Derivative financial instruments at fair value:				
- used as cash flow hedges	-	59	-	59
- not designated as hedging instruments	-	60	-	60
Total financial assets	91 056	64 489	-	155 545
Financial liabilities				
Investment contracts at fair value through profit or loss	-	48 044	-	48 044
Derivative financial instruments at fair value:				
- used as cash flow hedges	-	1	-	1
- not designated as hedging instruments	-	19	-	19
Total financial liabilities	-	48 064	-	48 064

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

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.6 Fair value hierarchy of financial instruments *continued*

R million	Level 1	Restated ¹ Level 2	Level 3	Restated ¹ Total
30 June 2022				
Financial assets				
Financial instruments mandatorily at fair value through profit or loss:				
- Equity portfolios	54 271	3 677	-	57 948
- Debt portfolios	46 672	920	-	47 592
- Money market portfolios	-	14 680	-	14 680
- Multi-asset portfolios	-	21 274	-	21 274
Derivative financial instruments at fair value:				
- used as cash flow hedges	-	17	-	17
- not designated as hedging instruments	-	259	-	259
Total financial assets	100 943	40 827	-	141 770
Non-financial assets				
Non-current assets held for sale	-	-	171	171
Financial liabilities				
Investment contracts at fair value through profit or loss	-	38 637	-	38 637
Derivative financial instruments at fair value:				
- used as cash flow hedges	-	56	-	56
- not designated as hedging instruments	-	146	-	146
Total financial liabilities	-	38 839	-	38 839

¹ The comparative information has been restated. Refer to note 45 for detail.

There were no transfers between level 1 and 2 during the current financial year. During the year under review, management reassessed the observability of significant inputs into fair value determination of money markets and multi-asset portfolios from level 1 to level 2. The prior period was restated accordingly.

Non-financial assets measured at fair value

During the prior financial period there was a non-recurring fair value measurement for the investment in an associate that has been categorised as a level 3 fair value. Refer to note 11.2.1 for details on the fair value.

Specific valuation techniques used to value financial instruments in level 2

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

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.6 Fair value hierarchy of financial instruments *continued*

Valuation techniques used in determining the fair value of assets and liabilities:

Instruments	Valuation technique	Main inputs and assumptions
Within equity portfolios, Equity-linked notes	The calculation of the daily value of the equity linked investments is made by the provider of the note. Discovery has procedures in place to ensure that these prices are correct. Aside from the daily reasonableness checks versus similar funds and movement since the prior day's price, the fund values are calculated with reference to a specific formula or index, disclosed to the policyholders, which is recalculated by Discovery in order to check if the price provided by the provider is correct.	For level 2 fair value hierarchy items: <ul style="list-style-type: none"> - discount rate - spot prices of the underlying
Multi-assets	The fair values of third-party financial liabilities arising on the consolidation of mutual funds are determined using the quoted put (exit) price provided by the fund manager and discounted for the applicable notice period. The fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.	For level 2 fair value hierarchy items: <ul style="list-style-type: none"> - discount rate
Debt portfolios and Money market instruments	Discounted cash flow techniques are most commonly used for the valuation of debt securities (included in the debt portfolios) and money market instruments. The future cash flows are discounted using a risk-adjusted rate.	For level 2 fair value hierarchy items: <ul style="list-style-type: none"> - discount rate, credit spread
Investment contracts at fair value through profit or loss	Unit-linked policies: assets which are linked to the investment contract liabilities are owned by the Group. The investment contract obliges the Group to use these assets to settle these liabilities. Therefore, the fair value of investment contract liabilities is determined with reference to the fair value of the underlying assets (i.e., amount payable on surrender of the policies). Annuity: certain discounted cash flow models are used to determine the fair value of the stream of future payments.	For level 2 fair value hierarchy items: <ul style="list-style-type: none"> - discount rate - spot price of underlying
Derivatives	Standard derivative contracts are valued using market accepted models and quoted parameter inputs. More complex derivative contracts are modelled using more sophisticated modelling techniques applicable to the instrument. Techniques include: <ul style="list-style-type: none"> - Discounted cash flow model - Black-Scholes model - Combination technique models 	For level 2 fair value hierarchy items: <ul style="list-style-type: none"> - discount rate - spot prices of the underlying - correlation factors - volatilities - earnings yield - valuation multiples

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

3. MANAGEMENT OF FINANCIAL RISK *continued*

3.7 Offsetting financial assets and financial liabilities *continued*

Financial assets

The following financial assets are subject to offsetting:

Group R million	Gross financial assets	Gross offsetting financial liabilities	Net amount presented
30 June 2023			
Cash and cash equivalents	20 827	(457)	20 370
30 June 2022			
Cash and cash equivalents	19 807	(32)	19 775

Offsetting of cash and cash equivalents takes place as a result of sweeping arrangements that Discovery has in force with various financial institutions. No other amounts presented on the financial statements are subject to netting arrangements.

Cash collateral

To reduce the credit risk exposure from derivative instruments purchased (refer to note 3.4.1), Discovery has entered into collateral agreements with the relevant financial institutions to post cash collateral periodically, equal to the fair value of the derivatives. A total of R27 million (2022: R72 million) cash collateral was being held by the various financial institutions and R39 million (2022: R245 million) was held by Discovery at 30 June 2023.

The posting of the collateral does not result in legal settlement of the outstanding derivative balance. The collateral will only be used to settle the derivative upon default or bankruptcy of either party. The offsetting requirements of IAS 32 *Financial Instruments: Presentation* are therefore not met.



Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In preparing the Annual Financial Statements, estimates, assumptions and judgements are made that could materially affect the reported amounts of assets and liabilities within the next financial year. Accounting estimates and judgements are regularly reviewed and are based on historical experience, current best estimates and expectations of future outcomes as well as anticipated changes in the environment. The following represents the most material key management assumptions applied by management in preparing these Annual Financial Statements.

4.1 Policyholder liabilities assumptions and estimates, including assets arising from insurance contracts

Discovery Life and VitalityLife

Discovery values its insurance policies issued by Discovery Life and VitalityLife using various methodologies and assumptions. Accounting policy 13.1 sets out the methodology used in its valuation of the policyholder liabilities, including the use of available discretionary margins in accounting policy 13.1.1.

The assumptions used are best estimate assumptions, with the addition of explicit compulsory margins required by:

- SAP 104 of the Actuarial Society of South Africa for Discovery Life; and
- INSPRU of the PRA, SAP 104 and Benchmarking information in the UK

Per the accounting policy, the best estimate assumptions and margins are reset at every valuation date to reflect the underlying profitability of the portfolio. The most recent valuation date is 30 June 2023.

MORTALITY AND MORBIDITY

Assumptions of future mortality and morbidity experience are derived from reinsurers and industry data and compared to actual past experience. Where appropriate, the assumptions are adjusted to reflect actual past experience or for expected changes in future experience.

The assumptions are modified for each policy based on actual data from underwriting performed on the policy and compared against standard industry tables for reasonability. The key mortality and morbidity assumptions are reviewed and benchmarked against the industry by independent actuarial consultants to ensure that the assumptions are reasonable upon implementing significant new products for Discovery Life. An adjustment to the standard mortality and morbidity assumptions is made to reflect the expected impact of engagement in the Vitality programme. It has been observed that higher rates of engagement result in lower mortality and morbidity claims.

An allowance is made for the impact of AIDS on South African mortality rates. For individual life South African business, a fixed loading is applied to the expected best estimate mortality rates to allow for the expected effect of AIDS. The loading varies based on socio-economic class. Discovery Life further operates in the high end of the market, where the AIDS risk is lower than the full market. The additional loading for AIDS is set in consultation with external independent actuaries and reinsurers.

For Group Life policies, a loading is applied at the underwriting stage to allow for the expected effect of AIDS. The loading varies based on the industry and geographic area and composition of the group and is derived from advice received from the reinsurers. The loading then forms the AIDS assumption for Group policies.

The sensitivity of the policyholder liabilities due to changes in mortality and morbidity assumptions are set out in note 2.5.1 for Discovery Life and note 2.5.2 for VitalityLife.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES *continued*

4.1 Policyholder liabilities assumptions and estimates, including assets arising from insurance contracts *continued*

Discovery Life and VitalityLife *continued*

SURRENDER AND LAPSE RATES

Lapse rates are based on actual past experience where available. The lapse analysis is done by considering the in-force duration of policies. For durations longer than actual data, lapse rates are set based on expectations of future experience based on internal and external expert advice as well as available industry benchmarking. The lapse experience investigation covers at least the last two years of lapse experience to identify trends.

Lapse assumptions are varied between different types of policies where the lapse experience is expected to differ significantly. Allowance is made for the estimated impact of the economic environment. For Discovery Life and VitalityLife, an adjustment is made to the lapse assumptions to reflect the expected impact of engagement in the Vitality programme because it has been observed that higher rates of engagement result in lower lapses.

For Discovery Life, the surrender rates are also based on actual past experience where available.

The sensitivity of the policyholder liabilities due to changes in lapse rate assumptions are set out in note 2.5.1 for Discovery Life and note 2.5.2 for VitalityLife.

ECONOMIC ASSUMPTIONS/INVESTMENT RETURNS

Discovery Life

The discount rate for Discovery Life and Discovery Invest is based on the risk-free rates at 30 June 2023. The real rate assumption is based on the average of the real rate curves for the preceding twelve months. This real rate assumption will remain unchanged over time unless the equivalent single rate, derived based on the weighted duration of the cash flows, moves by more than 25 basis points since the preceding valuation. The inflation assumption is set as the differential between the assumed nominal and real interest rates.

For comparison purposes, it is noted that the single risk-free rate at 30 June 2023 would have increased to 13.2% (2022: increased to 12.3%). The implied single real interest rate has also increased to 4.7% in June 2023 (2022: decreased to 4.2%).

Other investment returns and economic assumptions are set relative to this yield curve. The assumptions for Discovery Life are as follows:

Cash:	Risk-free – 1.5%
Fixed interest:	Risk-free
Equity:	Risk-free + 3.5%
Property:	Risk-free +1%

The sensitivity of the policyholder liabilities due to changes in real curve assumptions are set out in note 2.5.1.

VitalityLife

For the PAC book the nominal investment return is set as the active market rate on UK long-term swap rates plus a fixed adjustment (based on long-term averages) for liquidity premium, the gilt/swap spread and cash flow weighting. For the VitalityLife book, the nominal investment return is set with reference to the UK gilt yield curve plus a fixed adjustment (based on long-term averages) for liquidity premium. The best estimate inflation assumption is set in line with long-term UK inflation expectations and observed real yields consistent with the term of the liabilities. The risk-free rate at 30 June 2023 was set at 4.4% (2022: 2.3%).

The investment fees and tax rates are taken into account in setting the economic assumptions.

The sensitivity of the policyholder liabilities due to changes in real curve assumptions are set out in note 2.5.2.

EXPENSE ASSUMPTIONS

Renewal expense assumptions are based on the results of the latest expense and budget information. Expenses are considered non-recurring when they relate to the start-up of a new business area or when they are material and are specific to an event that is not expected to occur in the future.

The allocation of expenses between initial and renewal is based on the latest expense analysis, where expenses are directly allocated based on the function performed. Where an expense could relate to both initial and renewal functions, the expenses are allocated proportionately based on estimates of the functions performed.

Per Discovery's policy, expenses are projected to increase in line with consumer price inflation.

Non-recurring expenses are excluded from the expense analysis used to derive the assumption.

The sensitivity of the policyholder liabilities due to changes in expense assumptions are set out in note 2.5.1 for Discovery Life and note 2.5.2 for VitalityLife.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES *continued*

4.1 Policyholder liabilities assumptions and estimates, including assets arising from insurance contracts *continued*

Discovery Life and VitalityLife *continued*

POLICY ALTERATIONS AND AUTOMATIC PREMIUM INCREASES

In calculating policyholder liabilities, allowance is made for overall negative policy alterations over time.

Automatic premium increases could include both contractual and voluntary increases. No allowance is made for voluntary premium increases when calculating liabilities under insurance contracts.

Contractual premium increases are defined as increases that the policyholder cannot cancel without altering the terms of the benefits provided under the policy. Contractual increases are included in the calculation of policyholder liabilities.

CHANGES IN ASSUMPTIONS

Expected profits regarding future options on products are not recognised, but expected losses in respect of such options are allowed for, in line with actuarial guidance.

Modelling and assumptions changes were made to the valuation at 30 June 2023 to ensure that assumptions are in line with the best estimate of future experience. For Discovery Life, the total effect of these changes on the Assets arising from insurance contracts was a decrease in the assets on the Financial Soundness Valuation basis of R3 464 million (2022: R1 760 million decrease). For VitalityLife, the total effect of these changes was an increase in the assets of R745 million (2022: R596 million increase).

In addition to this, for Discovery Life, discretionary margins were reset to reflect the underlying profitability of the overall portfolio. The reset of margins increased the assets on the Financial Soundness Valuation basis by R194 million (2022: R377 million increase). Refer to note 5 for an analysis of these changes.

TAXATION

Future tax is allowed according to the current tax legislation and current tax rates. It is assumed that future tax on statutory profits will be payable at the prevailing company tax rate of 27% (2022: 28%) in South Africa. South Africa's National Treasury announced that the corporate tax rate should reduce to 27% for tax years commencing ending on or after 31 March 2023. The rate is deemed substantively enacted, and deferred tax has been appropriately adjusted. The prevailing tax rate in the UK is 25% (2022: 19%). The UK has enacted an increase in the tax rate to 25% effective from 1 April 2023.

Tax amendments for Life Insurance companies introduced a Risk Policy Fund for all new risk business written after 1 July 2016. In terms of this legislation, Discovery Life elected to move existing risk business to this Fund. As a result of these changes, the assessed loss in the Individual Policyholder Fund is expected to stop increasing and be utilised over time. Therefore, in terms of IAS 12 *Income Taxes*, a value of R979 million (2022: R834 million), which was previously implicit in the valuation of insurance contract liabilities, was recognised explicitly as a deferred tax asset. The value is net of deferred capital gains tax liabilities.

To calculate this value, Discovery Life performed a probability-weighted cash flow forecast of the annual cash flows expected to arise from the utilisation of the assessed loss. The primary factors that management has considered when arriving at the probability are the expected market growth and withdrawal rate of the Linked Asset and Guaranteed Endowment book. For Linked Assets, given the uncertainty inherent in market growth assumptions and the fact that discounting of cash flows is not permitted by IAS 12, future market growth was assumed to be 0% to calculate the deferred tax asset. The expected income on the debt portfolio held to match policyholder liabilities has been fully allowed for at current rates. For both the linked and debt portfolio, cash flows arising from the tax asset were further reduced to account for the uncertainty of future lapse rates and product mix as well as the broader economic and legislative environment.

REINSURANCE

All prospective liabilities are valued gross of reinsurance and then adjusted for the expected effect of reinsurance. For outstanding reported claims and IBNR, a specific allowance is made for reinsurance recoveries.

The Global Linkage Benefit is fully reinsured. The cost of the future reinsurance is dependent on the cost at which the reinsurer can buy assets to match the liability under this benefit. Assumptions are made around the cost at which the reinsurer can purchase these benefits based on the current and historical costs of these assets.

FINANCIAL SOUNDNESS VALUATION

The sensitivity of the policyholder liabilities on the Financial Soundness Valuation basis is set out in note 2.5.1. The sensitivity of the policyholder liabilities on the INSPRU basis is set out in note 2.5.2.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES *continued*

4.2 Annual assessment of goodwill impairment

Refer to note 10 Goodwill for a breakdown of business acquisitions resulting in goodwill.

Discovery annually assesses goodwill allocated to the respective businesses as set out in note 10.

Based on the work performed for the financial years ended 30 June 2023 and 30 June 2022, management considered that there is a very low risk of material adjustment to the carrying amount of goodwill allocated to VitalityHealth and VitalityLife within the next financial year. Accordingly, no further information is included within this note, as this no longer meets the requirement of significant estimation uncertainty under IAS 1 *Presentation of Financial Statements*.

Discovery Bank

The Discovery Bank Cash Generating Unit (CGU) comprise the various assets that collectively produce independent cash flows for Discovery Bank. Discovery Bank's income streams comprise interest earned on loans to customers, interest on excess cash invested, fees (e.g. banking fees, interchange fees and transaction fees) from banking. For the financial years ended 30 June 2023 and 30 June 2022, the recoverable amount of the Discovery Bank CGU was determined based on fair value less costs to sell. Inherent in the determination of fair value less costs to sell is estimation uncertainty. The recoverable amount is the fair value less costs to sell using the income approach.

In determining the assets to attribute to the Discovery Bank CGU, Discovery considered the assets required to perform banking operations, including the banking license costs, the internally developed software in use, and the goodwill associated with the DiscoveryCard business acquisition and related assets and liabilities. Therefore, the valuation also supports the recoverability of goodwill, intangible assets and deferred tax.

Management has reviewed its business forecast, which comprises:

- A detailed 10-year business plan. The 10-year plan considers regulatory capital requirements, macro-economic forecasts and customer behaviour assumptions when forecasting a Statement of financial position, income statement and resultant equity cash flows to/from shareholders. The 10-year period used to assess the impairment is longer than the standard 5-year forecast model generally applied in Discovery's impairment testing. The business is still in the start-up phase, resulting in a 5-year forecast not adequately reflecting the business plan. Management can project beyond the 5 years due to the insights from the DiscoveryCard business it acquired.
- The terminal value was calculated using an extended cash flow forecasting method until the growth in earnings has stabilised in year 20 and a final value considering perpetual terminal growth. This terminal value was discounted to year 10.
- As a reasonability check, Discovery Bank translates the value of the business at year 10 into a Price-Earnings (PE) multiple, which it benchmarks against Discovery's PE ratio and other emerging banks within the South African environment. The ratio was determined to be within range.

The key assumptions used by Discovery in the estimation are as follows:

- Conservative customer growth, targeting an achievable level of customers in year 10. After that, the customer base is treated as stable. From the point of stability in year 20, the projected growth in profits is estimated at a conservative 5.65% (2022: 5.55%) considering long-term inflation and long-term nominal GDP estimations. The increase in growth projections is based on the growth over the past financial year. System-build costs and intangible assets acquired in the business combination have been amortised over 10 years (2022: 10 years). The useful lives of these assets are determined as 10 years.
- The discount rate applied to the cashflows comprises the following:

	Group 2023	Group 2022
Risk-free rate based on 10-year SA bond curve	11.59%	10.60%
Beta factor: The beta factor is a weighted average of large SA banks and Discovery	0.86	1.07
Discount rate applied	17.80%	17.97%

For the year ended 30 June 2023, management has engaged independent external valuation experts to benchmark the key assumptions and ratios within the South African market. This exercise determined that the assumptions are within acceptable ranges.

Management has further performed stress tests by increasing the discount rate to 21% while simultaneously decreasing the terminal growth rate to 4.5%. Again, no impairment was triggered with these stressed scenarios.

Based on management's assessment, Discovery did not identify any impairments in respect of the Discovery Bank CGU.



Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

5. ASSETS ARISING FROM INSURANCE CONTRACTS

Group R million	2023			2022 Restated ²		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Movement in assets arising from insurance contracts						
Balance at beginning of the year	56 645	(10 610)	46 035	50 483	(10 143)	40 340
Expected movement in policyholder liabilities	(5 196)	2 311	(2 885)	(2 659)	1 297	(1 362)
Unwinding of discount rate	5 032	(859)	4 173	3 748	(640)	3 108
New business written	6 064	(2 567)	3 497	5 389	(2 019)	3 370
Experience variances	990	275	1 265	1 200	150	1 350
– Economic	1 086	(64)	1 022	332	(147)	185
– Operational	(96)	339	243	868	297	1 165
Modelling and method changes	2	(20)	(18)	(202)	23	(179)
Changes in assumptions	(3 495)	794	(2 701)	(1 914)	828	(1 086)
– Economic	(2 265)	277	(1 988)	88	81	169
– Operational	(1 230)	517	(713)	(2 002)	747	(1 255)
Changes in margins ¹	198	(4)	194	394	(17)	377
Translation differences	3 625	(1 425)	2 200	206	(89)	117
Balance at end of the year	63 865	(12 105)	51 760	56 645	(10 610)	46 035
Current	7 891	(2 572)	5 319	7 178	(2 051)	5 127
Non-current	55 974	(9 533)	46 441	49 467	(8 559)	40 908
Total assets arising from insurance contracts	63 865	(12 105)	51 760	56 645	(10 610)	46 035

¹ In line with accounting policy 13.1.1, the best estimate assumptions and margins are reset at every valuation date to reflect the underlying profitability of the overall portfolio. Assumptions and margins are not set on new business in isolation but on a portfolio level.

² The comparative period has been restated to present the assets arising from insurance contracts on a gross basis.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

6. PROPERTY AND EQUIPMENT

Group R million	Land and buildings	Furniture, fittings and equipment	Computer equipment and operating systems	Leasehold improve- ments	Motor Vehicles	Telematics devices ¹	Total
Year ended 30 June 2023							
Opening carrying amount	2 741	35	368	556	11	100	3 811
Additions	219	42	325	155	12	61	814
Disposals							
– Cost	(76)	–	–	–	(7)	(21)	(104)
– Accumulated depreciation	76	–	–	–	4	14	94
Derecognition							
– Cost	(59)	(78)	(67)	(93)	–	(48)	(345)
– Accumulated depreciation	59	77	67	91	–	17	311
Impairment							
– Accumulated depreciation	(45)	–	–	–	–	–	(45)
Acquisition of subsidiary							
– Cost	–	1	–	–	–	–	1
Depreciation charge	(293)	(19)	(194)	(103)	(8)	(41)	(658)
Lease termination	(81)	–	–	–	–	–	(81)
Translation differences	74	4	16	17	–	1	112
Closing carrying amount	2 615	62	515	623	12	83	3 910
Year ended 30 June 2023							
Cost	4 076	154	1 191	1 112	69	260	6 862
Accumulated depreciation	(1 461)	(92)	(676)	(489)	(57)	(177)	(2 952)
Carrying amount	2 615	62	515	623	12	83	3 910
Year ended 30 June 2022							
Opening carrying amount	3 071	45	324	638	18	92	4 188
Additions	95	5	211	39	4	59	413
Disposals							
– Cost	(24)	–	–	(10)	(12)	(3)	(49)
– Accumulated depreciation	9	–	–	1	9	2	21
Derecognition							
– Cost	(12)	(10)	(302)	(38)	(11)	(60)	(433)
– Accumulated depreciation	10	10	302	37	11	51	421
Depreciation charge	(299)	(15)	(171)	(116)	(8)	(41)	(650)
Lease modification	(125)	–	–	–	–	–	(125)
Translation differences	16	–	4	5	–	–	25
Closing carrying amount	2 741	35	368	556	11	100	3 811
Year ended 30 June 2022							
Cost	3 969	168	875	1 018	63	269	6 362
Accumulated depreciation	(1 228)	(133)	(507)	(462)	(52)	(169)	(2 551)
Carrying amount	2 741	35	368	556	11	100	3 811

¹ In Discovery Insure, when policies relating to motor vehicle insurance lapse, the telematics devices installed in those vehicles are not always recovered. The value of these unrecovered units are derecognised.

Impairment

The R45 million impairment pertains to a property in the UK Composite. UK commercial property values have come under pressure during the last year as interest rates have increased. Rent levels in certain areas have also been under pressure, with several buildings having significant vacant space. Consequently, rent levels have not experienced the growth needed to offset the impact of interest rates on yields. An external valuation ascertained that the recoverable amount, being fair value less cost to sell, was R45 million lower than the carrying value of the building.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

6. PROPERTY AND EQUIPMENT *continued*

LEASED ASSETS

Property and equipment includes the following assets which are leased under a finance lease:

R million	Group 2023	Group 2022
Land and buildings	2 372	2 480
Computer equipment and operating systems	45	11
Leasehold improvements	71	23
Motor vehicles	1	2
Total leased assets	2 489	2 516

7. INTANGIBLE ASSETS

Group R million	Software development	Business acquisitions: Identifiable intangibles	Banking license	Total
Year ended 30 June 2023				
Opening carrying amount	6 133	377	29	6 539
Additions	1 760	-	-	1 760
Amortisation charge	(1 319)	(56)	-	(1 375)
Derecognition				
- Cost	(1 873)	(37)	-	(1 910)
- Accumulated amortisation	1 583	37	-	1 620
Translation differences	298	50	-	348
Closing carrying amount	6 582	371	29	6 982
Year ended 30 June 2022				
Cost	11 207	2 548	29	13 784
Accumulated amortisation	(4 625)	(2 177)	-	(6 802)
Carrying amount	6 582	371	29	6 982

Business acquisitions

Intangibles identified in the acquisition of business combinations are amortised over their remaining useful lives and only tested for impairment if an indication of impairment arises. There was no indication of impairment for the current reporting period.

Included in the value of business acquisitions are:

- Customer contracts represented by value of in-force business acquired in the Standard Life Healthcare and PrimeMed business combinations. The carrying amount as at 30 June 2023 is R286 million (2022: R277 million); and
- Client relationships and Core Deposit Funding Benefit acquired in the DiscoveryCard business combination. The carrying amounts as at 30 June 2023 are R74 million and R11 million respectively (2022: R87 million and R13 million).

Banking license

- During the 2018 financial year, Discovery incurred costs of R29 million in respect of the application for a banking license. Discovery has capitalised these costs in terms of IAS 38 Intangible Assets. This asset has an indefinite useful life.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

7. INTANGIBLE ASSETS *continued*

Group R million	Software development	Business acquisitions: Identifiable intangibles	Banking license	Total
Year ended 30 June 2022				
Opening carrying amount	5 911	431	29	6 371
Additions	1 567	-	-	1 567
Amortisation charge	(1 252)	(59)	-	(1 311)
Impairment				
- Cost	(49)	-	-	(49)
- Accumulated amortisation	49	-	-	49
Derecognition ¹				
- Cost	(546)	-	-	(546)
- Accumulated amortisation	344	-	-	344
Translation differences	109	5	-	114
Closing carrying amount	6 133	377	29	6 539
Year ended 30 June 2022				
Cost	10 663	1 872	29	12 564
Accumulated amortisation	(4 530)	(1 495)	-	(6 025)
Carrying amount	6 133	377	29	6 539

¹ Included in derecognition for the year is an amount of R164 million resulting from the IFRIC interpretation on capitalisation of costs associated with configuration or customisation costs in a cloud arrangement. R75 million has been recognised in profit and loss and presented in salaries, wages and allowances (refer to note 31) and R89 million was recognised in prepayments (refer to note 14) of which R45 million has been expensed at 30 June 2022. Accordingly, the headline earnings per share has not been adjusted to reflect the derecognition as a result of this interpretation.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

8. DEFERRED ACQUISITION COSTS

R million	Group 2023	Group 2022
Balance at beginning of the year	640	585
Additions	2 297	1 524
Deferred acquisition costs amortised	(2 255)	(1 475)
Translation differences	117	6
Balance at the end of the year	799	640

9A. ASSETS ARISING FROM CONTRACTS WITH CUSTOMERS AND CONTRACT LIABILITIES TO CUSTOMERS

Where either party to a contract has performed, Discovery presents either a contract asset or contract liability, depending on the relationship between Discovery's performance and the customer's payment. Unconditional rights to consideration is presented separately as a receivable.

Group R million	Assets arising from contracts with customers ¹	Costs of obtaining contracts ¹	Contract liabilities	Contract receivables ²
Year ended 30 June 2023				
Balance at beginning of the year	256	1 436	(944)	1 209
Accrued income recognised during the year	313	-	-	-
Payments received	(57)	-	-	(13 614)
Costs of obtaining new contracts	-	550	-	-
Amortised during the year	-	(341)	-	-
Contract liabilities recognised in the current year	-	-	(426)	-
Revenue recognised in the year	-	-	747	13 629
Provision of impairment of contract receivables	-	-	-	(4)
Foreign exchange revaluations	(21)	13	-	-
Translation differences	51	1	(33)	48
Balance at end of the year	542	1 659	(656)	1 268
Year ended 30 June 2022 Restated³				
Balance at beginning of the year	162	1 213	(776)	1 217
Accrued income recognised during the year	111	-	-	-
Payments received	(45)	-	-	(12 100)
Costs of obtaining new contracts	-	465	-	-
Amortised during the year	-	(253)	-	-
Contract liabilities recognised in the current year	-	-	(534)	-
Revenue recognised in the year	-	-	404	12 016
Provision of impairment of contract receivables	-	-	-	24
Foreign exchange revaluations	-	8	-	7
Translation differences	28	3	(38)	45
Balance at end of the year	256	1 436	(944)	1 209

¹ Presented as Assets arising from contracts with customers.

² Presented as part of insurance receivables, contract receivables and other receivables.

³ The comparative information has been restated. Refer to note 45 for detail.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

9A. ASSETS ARISING FROM CONTRACTS WITH CUSTOMERS AND CONTRACT LIABILITIES TO CUSTOMERS *continued*

The contract liability primarily relates to the advance consideration received from customers for the initial advisor fees, for which revenue will be recognised over the expected terms of the arrangement. It further includes the Discovery Miles liability on the Vitality programme.

Discovery has unsatisfied performance obligations relating to providing intellectual property services for the VitalityOne System. The transaction price relating to unsatisfied performance obligations is expected to be recognised as revenue as follows:

R million	Group 2023	Group 2022
Provision of stand-ready Intellectual Property services		
- <1 year	519	439
- 2 - 3 years	1 042	910
- 4 - 5 years	584	675
- >5 years	1 004	1 124
Total contract amount for future services	3 149	3 148

Where performance obligations are discharged within 12 months or where contracts are cancellable giving 12 months or less notice, without the payment of a significant penalty, a practical expedient has been applied. Discovery has excluded these contracts from the disclosures above. Contracts that include variable considerations have also not been included in the table above.

9B. REVENUE

Discovery Group's Revenue includes 'Fee income from administration business', 'Vitality income' and 'Banking fee and commission income'. Also refer to accounting policy 20 Revenue recognition.

The split of revenue per geographical region and reportable segment can be viewed in note 1 Segment information.

The split of revenue according to the timing of satisfaction of performance obligation, i.e. 'over time' or a 'point-in-time' is as follows:

R million	Group 2023	Group 2022
Fee income from administration business: Health income	11 959	10 971
- Over time	11 932	10 548
- Point-in-time	27	423
Fee income from administration business: Intellectual Property fees	2 798	1 781
- Over time	2 798	1 781
Vitality income	3 891	3 495
- Over time	2 660	2 348
- Point-in-time	1 231	1 147
Banking fee and commission income	1 292	853
- Over time	687	389
- Point-in-time	605	464

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

10. GOODWILL

Goodwill is not amortised, but is tested on an annual basis for impairment. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

The table below sets out the goodwill allocated to the respective CGUs which is expected to benefit from the synergies of the combination. Impairment of goodwill is assessed at this CGU level.

Goodwill per CGU	Value in functional currency on date of acquisition	R million	
		Group 2023	Group 2022
Goodwill			
- VitalityHealth ^{1, 2, 5, 6}	GBP100.3 million	2 407	2 007
- VitalityLife ^{1, 5, 7}	GBP23.4 million	562	468
- Discovery Bank ³	R2 417 million	2 417	2 417
- Discovery Administration Services ⁴	R20 million	20	20
- Nanolabs ⁸	R9 million	-	-
Total		5 406	4 912

1 GBP96.7 million and GBP23.4 million of the goodwill was allocated to VitalityHealth and VitalityLife respectively as at 31 July 2010. The goodwill arose from the acquisition of Standard Life Healthcare and related capital restructure of the PAC joint venture.

2 GBP2.5 million goodwill from the acquisition of Insure Your Health (25 March 2013) and GBP1.1 million of goodwill from the acquisition of KYS Paid Limited (30 April 2014) were allocated to the VitalityHealth CGU.

3 R2 417 million goodwill from the acquisition of the DiscoveryCard business on 1 March 2019 was allocated to the Discovery Bank CGU.

4 In October 2020, Discovery acquired Liberty Health Administration, a wholly owned subsidiary, which performs medical aid administration for specified medical aids. Liberty Health Administration has been renamed to Discovery Administration Services Proprietary Limited as of 11 August 2021.

5 As part of the annual assessment of impairment, Discovery has done significant stresses on the goodwill of VitalityHealth and VitalityLife. The value-in-use considers the value of in-force business as well as new business. The value-in-use is calculated as the present value of the best-estimate pre-tax cash flows of the CGU for the in-force policies at the valuation date and 10 years of new business. The outcome of the working indicated that the recoverable amount significantly exceeds the carrying amount of the CGUs, with little risk of impairment.

6 Net exchange rate differences of R400 million (2022: R27 million) were recognised in the financial year ended 30 June 2023.

7 Net exchange rate differences of R94 million (2022: R6 million) were recognised in the financial year ended 30 June 2023.

8 At the beginning of July 2022 Discovery acquired a controlling stake in Nanolabs Health Solutions Proprietary Limited (Nanolabs) with Point of Care Testing technology. Subsequent to the acquisition this goodwill was fully impaired.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

11. INVESTMENT IN EQUITY-ACCOUNTED INVESTEES

R million	Group 2023	Group 2022
Carrying value of material interest in associates and joint ventures – Ping An Health Insurance	5 380	4 499
Carrying value of material interest in associates and joint ventures – CMT	1 400	1 263
Carrying value of individually immaterial interest in associates	148	112
Carrying value of individually immaterial interest in joint ventures	96	134
Investment in equity-accounted investees	7 024	6 008

11.1 Material interests in associates and joint ventures

The table below provides summarised financial information for the Group's material joint ventures and associates. The information disclosed reflects the amounts presented in the financial statements of the relevant associates and joint ventures and not Discovery's share of those amounts.

Ping An Health Insurance Company of China, Limited (PAHI)

Ping An Health Insurance offers policyholders in China cover for a range of private healthcare-related claims. PAHI is a strategic partnership for the Group, providing access to new clients and markets in China.

Cambridge Mobile Telematics Inc. (CMT)

A United States of America based leading telematics technology provider. This partnership provides the Group with expertise in the telematics environment that Discovery Insure harnesses to manage its insurance risk.

Ownership structure Nature Place of business	Ping an Health Insurance		CMT	
	Equity-accounted associate Insurance China	Insurance China	Equity-accounted associate Telematics technology USA	Telematics technology USA
R million	2023	2022	2023	2022
% of ownership interest at end of the year	24.99%	24.99%	8.76%	8.85%
Summarised statement of comprehensive income				
Revenue	36 300	29 540	3 292	2 285
Net profit/(loss) for the year	2 604	1 637	(461)	(521)
Other comprehensive (loss)/income	(62)	69	-	-
Total comprehensive income/(loss)	2 542	1 706	(461)	(521)
Summarised statement of financial position				
Current assets	19 971	19 048	4 264	3 852
Non-current assets	53 046	39 144	12 929	11 686
Current liabilities	(9 169)	(6 526)	(1 204)	(1 054)
Non-current liabilities	(43 543)	(34 833)	(460)	(604)
Net assets	20 305	16 833	15 529	13 880
Reconciliation to carrying amounts:				
Opening net assets	16 833	7 725	13 880	12 270
Net profit/(loss) for the year	2 604	1 637	(461)	(521)
Other comprehensive (loss)/income	(62)	69	-	-
Increase in share capital and share premium	-	5 950	110	267
Foreign exchange gains	930	1 452	2 000	1 864
Closing net assets	20 305	16 833	15 529	13 880
Group's share of net assets	5 074	4 207	1 360	1 228
Goodwill	306	292	40	35
Carrying value at 30 June	5 380	4 499	1 400	1 263

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

12. FINANCIAL ASSETS

The Group's investment in financial assets are summarised by measurement category in the table below:

R million	Notes	Group 2023	Group 2022
Financial assets at fair value through profit or loss – mandatorily:		155 426	141 494
– Equity portfolios		56 525	57 948
– Debt portfolios		42 573	47 592
– Money market portfolios		22 656	14 680
– Multi-asset portfolios		33 672	21 274
Financial assets at amortised cost ¹		14 612	11 105
Investments at amortised cost		9 910	7 161
– South African Treasury Bills		6 856	5 205
– Deposits		3 054	1 956
Loans and advances to customers at amortised cost	12.1	4 702	3 944
Total investments		170 038	152 599
Listed		137 632	130 192
Unlisted		32 406	22 407
		170 038	152 599
Shareholder investments:		21 570	19 828
– Investments at amortised cost	3	14 612	11 105
– Investments at fair value through profit and loss – mandatorily		6 958	8 723
Policyholder investments:		148 468	132 771
– Investments at fair value through profit and loss – mandatorily		148 468	132 771
Total investments		170 038	152 599

¹ The fair value of instruments at amortised cost approximates the carrying amount due to the relatively short-term nature of the instrument.



Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

12. FINANCIAL ASSETS *continued*

12.1 Loans and advances to customers at amortised cost

R million	Notes	Group 2023	Group 2022
Gross loans and advances (unsecured)		5 113	4 308
Accrued interest		58	39
Total gross loans and advances		5 171	4 347
Less: IFRS9 Expected credit losses (ECL)	12.1.2	(469)	(403)
Total net loans and advances		4 702	3 944

12.1.1 Loans and advances per credit risk rating

R million	DRG 1 – 4	DRG 5 – 7	DRG 8 – 10	Not rated	Total
As at 30 June 2023					
Stage 1	2 617	1 468	352	-	4 437
Stage 2: SICR ¹	3	12	323	-	338
Stage 2: Arrears	2	11	69	-	82
Stage 3	1	8	247	-	256
Gross loans and advances	2 623	1 499	991	-	5 113
As at 30 June 2022					
Stage 1	2 166	1 272	309	-	3 747
Stage 2: SICR ¹	4	24	271	5	304
Stage 2: Arrears	-	1	2	62	65
Stage 3	2	4	10	176	192
Gross loans and advances	2 172	1 301	592	243	4 308

¹ Significant increase in credit risk.

Discovery risk grade (DRG), is an internal client rate allocated on the basis of their risk profile. An adjusted DRG is allocated for the purposes of calculating the expected credit losses.

In the prior year, Loans and advances classified as 'not rated' pertained to loans and advances migrated from DiscoveryCard which had not been through Discovery Bank credit assessment, and assigned a DRG. To determine the ECL on these customers in the prior year, information from the DiscoveryCard back book was used. In the current financial year, these loans and advances have now been through Discovery Bank credit assessment and assigned a DRG.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

12. FINANCIAL ASSETS *continued*

12.1.2 Reconciliation of the expected credit losses (ECL)

Group R million	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL, but not missed payments)	Stage 2 (Lifetime ECL, and missed payments)	Stage 3 (Lifetime ECL, and credit impaired, default)	Total
30 June 2023					
Balance at beginning of the year	167	37	35	164	403
Total changes in ECL due to changes in balances of advances	(8)	7	5	(90)	(86)
- New loans originated and acquired ¹	4	-	-	-	4
- Repayments and other movements	(10)	7	5	21	23
- Change in ECL due to derecognition other than write-off	(2)	-	-	(3)	(5)
- Change in ECL due to write-off ³	-	-	-	(108)	(108)
	159	44	40	74	317
Transfers between stages ¹	(3)	10	6	139	152
- Transfer (to)/from stage 1	-	12	18	85	115
- Transfer (to)/from stage 2: SICR	1	-	1	22	24
- Transfer (to)/from stage 2: Arrears	(1)	-	-	32	31
- Transfer (to)/from stage 3	(3)	(2)	(13)	-	(18)
Balance at end of the year	156	54	46	213	469
30 June 2022					
Balance at beginning of the year	192	41	24	208	465
Total changes in ECL due to changes in balances of advances	(16)	2	10	(134)	(138)
- New loans originated and acquired	3	1	-	-	4
- Repayments and other movements ²	(16)	2	10	30	26
- Change in ECL due to derecognition other than write-off	(3)	(1)	-	(6)	(10)
- Change in ECL due to write-off ³	-	-	-	(158)	(158)
	176	43	34	74	327
Transfers between stages ¹	(9)	(6)	1	90	76
- Transfer (to)/from stage 1	-	(4)	11	51	58
- Transfer (to)/from stage 2: SICR	(3)	-	1	10	8
- Transfer (to)/from stage 2: Arrears	(2)	-	-	29	27
- Transfer (to)/from stage 3	(4)	(2)	(11)	-	(17)
Balance at end of the year	167	37	35	164	403

¹ Discovery Bank's policy is to transfer accounts between stages based on the ECL stage at the end of the reporting period. Therefore, exposures can be transferred directly from stage 3 to stage 1 as the curing requirements would have been satisfied during the reporting period. The expected credit loss recognised on new exposures originated during the reporting period (which are not included in opening balances) are recognised in new loans originated and acquired based on the exposures' ECL stage as at the end of the month the account comes on book. Any change in status will be reflected in the transfers between stages as described above.

² For the year ended 30 June 2022, management had increased the ECL by R28.6 million for the effects of COVID-19 in considering forward looking macroeconomic factors. These factors are no longer applicable and therefore no adjustment is required for June 2023.

³ The contractual amount outstanding on financial assets that were written off during the year ended 30 June 2023 and that are still subject to enforcement activity is R113 million (2022: R158 million).

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

13. DERIVATIVE FINANCIAL INSTRUMENTS

R million	Group 2023 Assets	Group 2023 Liabilities	Group 2022 Assets	Group 2022 Liabilities
Derivatives used as cash flow hedges:				
Interest rate derivatives ¹	59	(1)	17	(56)
Derivatives not designated as hedging instruments:				
Equity price risk derivatives	26	(16)	19	(66)
Interest rate swaps	31	-	-	(79)
Swaptions	-	-	216	-
Currency derivative contracts	3	(3)	24	(1)
Total derivative financial instruments	119	(20)	276	(202)
Current	31	(19)	36	(62)
Non-current	88	(1)	240	(140)
Total derivative financial instruments	119	(20)	276	(202)

¹ The interest rate derivative portfolio consists of both interest rate swaps and interest rate caps.

The effects of the derivatives used in cash flow hedges on the Group's financial position and performance are as follows:

Year ended 30 June 2023

Group R million	Notional amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the Statement of financial position where the hedging instrument is presented	Changes in value of hedging instrument used for calculating hedge ineffective- ness	Ineffective- ness recognised in profit or loss	Line item in which hedge ineffectiveness is presented in profit or loss
		Assets	Liabilities				
Interest rate risk	4 518	59	(1)		(76)	-	
Interest rate derivatives	4 518	59	(1)	Financial Asset- Derivative/ Financial Liability- Derivative	(76)	-	Net fair value gains on financial assets at fair value through profit and loss

Refer to note 3.4.1 for a detailed description of the derivative financial instruments listed above.

Group R million	Changes in the value of the hedging instrument recognised in other comprehen- sive income	Amount reclassified from the cash flow hedge reserve to profit or loss	Line item in which the recycled amount is presented in profit or loss	Carrying amount of the hedged item		Changes in value of hedged item used for calculating hedge ineffective- ness	Cash flow hedge reserve
				Assets	Liabilities		
Interest rate risk¹	76	4		-	(4 569)	63	41
Interest rate derivatives	76	4	Cash flow hedges-gains recycled to profit or loss	-	(4 569)	63	41

¹ The interest rate risk derivatives have been recycled to the 'Cash flow hedges – gains recycled to profit or loss' line item in the Statement of other comprehensive income (SOI).

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

13. DERIVATIVE FINANCIAL INSTRUMENTS *continued*

Year ended 30 June 2022

Group R million	Notional amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the Statement of financial position where the hedging instrument is presented	Changes in value of hedging instrument used for calculating hedge ineffective- ness	Ineffective- ness recognised in profit or loss	Line item in which hedge ineffectiveness is presented in profit or loss
		Assets	Liabilities				
Interest rate risk	5 000	17	(56)		(295)	-	
Interest rate derivatives	5 000	17	(56)	Financial Asset- Derivative/ Financial Liability- Derivative	(295)	-	Net fair value gains on financial assets at fair value through profit or loss

Refer to note 3.4.1 for a detailed description of the derivative financial instruments listed above.

Group R million	Changes in the value of the hedging instrument recognised in other comprehen- sive income	Amount reclassified from the cash flow hedge reserve to profit or loss	Line item in which the recycled amount is presented in profit or loss	Carrying amount of the hedged item		Changes in value of hedged item used for calculating hedge ineffective- ness	Cash flow hedge reserve
				Assets	Liabilities		
Interest rate risk¹	295	-	-	-	(5 038)	(185)	(40)
Interest rate derivatives	295	-	-	-	(5 038)	(185)	(40)

¹ The interest rate risk derivatives have been recycled to the Cash flow hedges – gains recycled to profit or loss' line item in the SOCI.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

14. INSURANCE RECEIVABLES, CONTRACT RECEIVABLES AND OTHER RECEIVABLES

R million		Group 2023	Group 2022
Receivables arising from insurance and reinsurance contracts:		10 316	7 887
- Premium debtors		1 070	801
- Less provision for impairment of premium debtors	14.1	(97)	(81)
- Reinsurance debtors		9 343	7 167
Contract receivables:	9A	1 268	1 209
- Closed scheme debtors		120	107
- Discovery Health Medical Scheme		775	724
- Other contract receivables		377	382
- Less allowance for expected credit losses	14.2	(4)	(4)
Other financial receivables:		3 064	2 642
- Agents and brokers		534	439
- Cash-in-transit debtors		544	443
- Consolidated unit trust debtors		628	770
- Loans to BEE initiatives		309	256
- Security deposit on derivatives ²		27	72
- Vitality partner debtors		171	148
- Other debtors		1 261	906
- Less allowance for expected credit losses	14.2	(410)	(392)
Other non-financial receivables ¹		1 411	1 375
- Prepayments		1 204	1 022
- Value-added tax asset		48	158
- Other debtors		159	195
Total insurance receivables, contract receivables and other receivables		16 059	13 113
Current		11 404	8 822
Non-current		4 655	4 291
Total insurance receivables, contract receivables and other receivables		16 059	13 113

¹ These non-financial assets have been excluded from the risk disclosures presented in note 3.

² To reduce the credit risk exposure from the hedge derivative instruments purchased, Discovery has entered into collateral agreements with the relevant financial institutions to post cash collateral periodically, equal to the fair value of the derivatives. The posting of the collateral does not result in legal settlement of the outstanding derivative balance. The collateral will only be used to settle the derivative upon default or bankruptcy of either party.

The fair value of short-term receivables approximates the carrying value. Long-term receivables are interest bearing at market rates and fully secured.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

14. INSURANCE RECEIVABLES, CONTRACT RECEIVABLES AND OTHER RECEIVABLES *continued*

14.1 Provision for impairment of premium debtors

Group R million	<30 days	30 – 60 days	60 – 120 days	more than 120 days	Total
Year ended 30 June 2023					
Balance at beginning of the year	25	22	26	7	80
Increase in provision	14	10	17	2	43
Amount utilised during the period	(3)	(10)	(19)	–	(32)
Translation differences	1	2	3	–	6
Balance at end of the year	37	24	27	9	97
Year ended 30 June 2022					
Balance at beginning of the year	26	16	16	6	64
Increase in provision	2	25	22	7	56
Amount utilised during the period	(3)	(19)	(11)	(6)	(39)
Translation differences	*	*	(1)	*	(1)
Balance at end of the year	25	22	26	7	80

* Amount is less than R500 000.

14.2 Reconciliation of expected credit losses (ECL)

Group R million	General model			Simplified model		Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL/credit impaired)	Not Credit impaired	90 days past due/ credit impaired	
Year ended 30 June 2023						
Balance at beginning of the year	8	10	228	107	43	396
Increase in provision	(1)	(7)	29	8	5	34
Amount utilised during the period	–	–	–	(12)	(10)	(22)
Translation differences	–	–	–	5	1	6
Balance at end of the year	7	3	257	108	39	414
Year ended 30 June 2022						
Balance at beginning of the year	11	8	230	98	143	490
Increase in provision	1	2	2	33	39	77
Amount utilised during the period	(4)	–	(4)	(26)	(140)	(174)
Translation differences	*	*	*	2	1	3
Balance at end of the year	8	10	228	107	43	396

* Amount is less than R500 000.

15. REINSURANCE CONTRACTS

R million	Group 2023	Group 2022
Reinsurers' share of insurance contract liabilities	709	511
Current	709	511

Amounts due from reinsurers in respect of claims paid and reported by the Group on the contracts that are reinsured are included in Insurance receivables, contract receivables and other receivables (refer to note 14).

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

16. CASH AND CASH EQUIVALENTS

R million	Group 2023	Group 2022
Cash at bank and in hand	19 113	17 625
Short-term deposits	1 257	2 150
Total cash and cash equivalents	20 370	19 775

The fair value of cash and cash equivalents approximates the carrying amount due to the relatively short-term nature of the instrument.

17. SHARE CAPITAL AND SHARE PREMIUM

17.1 Ordinary share capital and share premium

Group R million	Issued		Treasury shares			Total outstanding
	Share capital	Share premium	Discovery Health	BEE share trust	LTIP	
At 1 July 2021	1	11 121	(14)	(50)	(907)	10 151
Share movements:						
- new issue	-	443	-	-	-	443
- treasury shares delivered	-	24	-	3	-	27
- treasury shares purchased	-	-	-	-	(443)	(443)
At 30 June 2022	1	11 588	(14)	(47)	(1 350)	10 178
Share movements:						
- new issue	-	514	-	-	-	514
- treasury shares delivered	-	-	-	3	170	173
- treasury shares purchased	-	-	-	-	(514)	(514)
At 30 June 2023	1	12 102	(14)	(44)	(1 694)	10 351

Number of shares	Company	Treasury shares			Total outstanding
		Discovery Health	BEE share trust	LTIP	
At 1 July 2021	665 768 601	(680 268)	(805 961)	(7 477 865)	656 804 507
Share movements:					
- new issue	3 194 870	-	-	-	3 194 870
- treasury shares delivered	-	-	152 104	-	152 104
- treasury shares purchased	-	-	-	(3 194 870)	(3 194 870)
At 30 June 2022	668 963 471	(680 268)	(653 857)	(10 672 735)	656 956 611
Share movements:					
- new issue	4 182 946	-	-	-	4 182 946
- treasury shares delivered	-	-	64 714	1 402 275	1 466 989
- treasury shares purchased	-	-	-	(4 182 946)	(4 182 946)
At 30 June 2023	673 146 417	(680 268)	(589 143)	(13 453 406)	658 423 600

The total authorised number of ordinary shares is 1 billion (2022: 1 billion), with a par value of 0.1 cent per share.

Share issue in 2023 financial reporting period

Discovery issued 4 182 946 shares for a cash consideration of R514 189 249. This was a specific issuance, to the Discovery Long-term Incentive Plan Trust. As approved at the AGM of 28 November 2019, Discovery is authorised pursuant to section 41 of the Companies Act, as amended, and the requirements of the memorandum of incorporation to allot and issue, and representing cumulatively the maximum allotment over the multiple year duration of the Discovery Long Term Incentive Plan (LTIP) (also see note 32 Share-based payments and long-term incentives), a maximum of 32 914 537 ordinary shares in the authorised share capital of the Discovery.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

17. SHARE CAPITAL AND SHARE PREMIUM *continued*

17.2 Preference share capital

R million	Group 2023	Group 2022
Authorised		
40 000 000 A no par value preference shares	-	-
20 000 000 B preference shares of R100 each	2 000	2 000
20 000 000 C no par value preference shares	-	-
	2 000	2 000
Issued		
8 000 000 B preference shares of R100 each	800	800
Share issue costs	(21)	(21)
At 30 June	779	779

The B preference shares are non-compulsory, non-cumulative, non-participating, non-convertible, voluntarily redeemable (at option of Discovery) preference shares and were issued at a coupon rate of 85% of prime rate. With the introduction of dividend withholding tax on 1 April 2012, the coupon rate on the preference shares was increased to 100% of the prime rate.

18. LIABILITIES ARISING FROM INSURANCE CONTRACTS

R million	Group 2023	Restated ² Group 2022
Gross		
- claims reported and loss adjustment expenses	13 559	12 662
- claims incurred but not reported	2 938	2 118
- IFA liability	129	100
- unearned premiums	833	1 007
- unit-linked insurance contracts	75 261	70 907
- with fixed and guaranteed terms	22 087	21 273
Total liabilities arising from insurance contracts, gross	114 807	108 067
Recoverable from reinsurers		
- claims incurred but not reported	(699)	(501)
- unearned premiums	(10)	(10)
Total reinsurers' share of liabilities arising from insurance contracts (refer to note 15)	(709)	(511)
Net		
- claims reported and loss adjustment expenses	13 559	12 662
- claims incurred but not reported	2 239	1 617
- IFA liability	129	100
- unearned premiums	823	997
- unit-linked insurance contracts	75 261	70 907
- with fixed and guaranteed terms	22 087	21 273
Total liabilities arising from insurance contracts, net	114 098	107 556
Current ¹	98 513	91 784
Non-current	15 585	15 772
	114 098	107 556

¹ Includes R81 031 million (2022: R76 448 million) which is repayable to policyholders on demand. For contractual maturity refer to note 3.2.3.

² The comparative information has been restated. Refer to note 45 for detail.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

18. LIABILITIES ARISING FROM INSURANCE CONTRACTS *continued*

Movements in the liabilities are as follows:

Group R million	2023			2022		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Claims reported and loss adjustment expenses and IBNR						
Notified claims	12 662	-	12 662	11 234	-	11 234
Incurred but not reported	2 118	(501)	1 617	2 074	(439)	1 635
Balance at beginning of the year	14 780	(501)	14 279	13 308	(439)	12 869
Cash paid for claims settled in the year	(15 438)	76	(15 362)	(13 601)	73	(13 528)
Increase/(decrease) in liabilities:						
- arising from current year claims	18 919	(316)	18 603	16 545	(183)	16 362
- arising from prior year claims	(2 050)	104	(1 946)	(1 500)	50	(1 450)
Economic assumptions movement ¹	(306)	-	(306)	-	-	-
Translation differences	592	(62)	530	28	(2)	26
Balance at end of the year	16 497	(699)	15 798	14 780	(501)	14 279
Notified claims	13 559	-	13 559	12 662	-	12 662
Incurred but not reported	2 938	(699)	2 239	2 118	(501)	1 617
Balance at end of the year	16 497	(699)	15 798	14 780	(501)	14 279
IFA liability						
Balance at beginning of the year	100	-	100	82	-	82
Increase in the year	64	-	64	42	-	42
Cash paid	(35)	-	(35)	(24)	-	(24)
Balance at end of the year	129	-	129	100	-	100
Provisions for unearned premiums						
Balance at beginning of the year	1 007	(10)	997	1 091	(6)	1 085
Increase in the year	2 008	(10)	1 998	1 625	(10)	1 615
Release in the year	(2 313)	10	(2 303)	(1 725)	6	(1 719)
Translation differences	131	-	131	16	-	16
Balance at end of the year	833	(10)	823	1 007	(10)	997
Additional unexpired risk reserve						
Balance at beginning of the year	-	-	-	300	-	300
Decrease in the year	-	-	-	(300)	-	(300)
Balance at end of the year	-	-	-	-	-	-

¹ Presented as Claims and policyholders' benefits in the Income statement.

R million	Group 2023	Restated ¹ Group 2022
Unit-linked insurance contracts		
Balance at beginning of the year	70 907	63 496
Premiums received	12 059	17 256
Fair value adjustment	8 833	(536)
Withdrawals	(16 797)	(7 440)
Fees	(1 534)	(1 400)
Movement in negative insurance liability	(229)	(551)
Translation differences	2 022	82
Balance at end of the year	75 261	70 907
Balance is made up as follows:		
Unit-linked liabilities	81 031	76 448
Negative insurance liability	(5 770)	(5 541)
	75 261	70 907
With fixed and guaranteed terms		
Balance at beginning of the year	21 273	21 764
Expected movement in policyholder liabilities	(4 226)	(4 324)
Unwinding of discount rate	1 297	968
New business written	3 993	3 187
Experience variances	(263)	(322)
Economic assumptions movement	9	-
Translation differences	4	-
Balance at end of the year	22 087	21 273

¹ The comparative information has been restated. Refer to note 45 for detail.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

19. LIABILITIES ARISING FROM REINSURANCE CONTRACTS

R million	Group 2023	Group 2022
Financial reinsurance	2 564	2 582
Reinsurance recoveries relating to assets arising from insurance contracts (refer to note 5)	12 105	10 610
	14 669	13 192
Balance at beginning of the year	13 192	12 525
Increase in liability ¹	53	577
– gross increase/(decrease) in liability	700	(458)
– receipt arising from reinsurance contracts	3 272	2 597
– reinsurance premiums paid	(3 919)	(1 562)
Translation differences	1 424	90
Balance at end of the year	14 669	13 192
Current	2 927	2 131
Non-current	11 742	11 061
	14 669	13 192

¹ The increase in liability of R53 million for the current year includes economic assumptions gains of R277 million, which has been presented in Economic assumptions adjustments net of discretionary margins in the Income statement.

The liabilities arising from reinsurance contracts releases with the associated underlying insurance contracts.

20. BORROWINGS AT AMORTISED COST

R million		Group 2023	Group 2022
Borrowings from banks	20.1	16 328	16 308
Lease liabilities	20.2	4 225	4 120
Bank overdraft		33	156
Balance at end of the year		20 586	20 584
Current		2 490	3 940
Non-current		18 096	16 644
Balance at end of the year		20 586	20 584

For variable rate loans, the fair value approximates the carrying amount because the variable rate is set on market related terms. For fixed rate loans, the fair value is R4 806 million (2022: R6 122 million) relative to the carrying value of R4 827 million (2022: R 5 737 million).

20.1 Borrowings from banks

Movement analysis of borrowings

R million	Group 2023	Group 2022
Balance at beginning of the year	16 308	15 230
Loans raised	7 450	3 261
Loans repaid	(8 038)	(2 087)
Interest accrued	1 335	1 037
Interest paid	(1 335)	(1 188)
Raising fees capitalised	(8)	(3)
Translation differences	616	58
Balance at end of the year	16 328	16 308

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

20. BORROWINGS AT AMORTISED COST *continued*

20.1 Borrowings from banks *continued*

SA borrowing facilities

DISCOVERY LIMITED

Facility amount R million	Variable rate	Interest per annum	Capital repayment and maturity date	Carrying value R million	
				Group 2023	Group 2022
Listed DMTN ⁴					
500	3-month Jibar + 161bps	8.10% ^{1,3}	At maturity – 21 November 2022	–	503
500	3-month Jibar + 205bps	4.25% ^{1,3}	At maturity – 21 August 2023	505	503
200	–	10.46% ²	At maturity – 21 November 2024	202	202
800	3-month Jibar + 191bps	8.40% ^{1,3}	At maturity – 21 November 2024	808	805
1 200	3-month Jibar + 191bps	7.30% ^{1,3}	At maturity – 21 November 2024	1 218	1 217
700	3-month Jibar + 180bps	8.49% ^{1,3}	At maturity – 21 August 2026	707	704
300	3-month Jibar + 180bps	7.60% ^{1,3}	At maturity – 21 August 2026	304	303
792	3-month Jibar + 173bps	7.98% ^{1,3}	At maturity – 21 May 2027	799	792
226	3-month Jibar + 180bps	7.98% ^{1,3}	At maturity – 21 May 2029	228	226
Unlisted DMTN ⁵					
1 100	–	8.92% ³	At maturity – 10 March 2023	–	1 104
2 500	–	9.62% ³	At maturity – 22 February 2025	2 522	2 520
1 650	–	9.55% ³	At maturity – 10 March 2026	1 658	–
Other					
1 400	3-month Jibar + 125bps	–	At maturity – 12 October 2022	–	702
1 000	3-month Jibar + 245bps	7.83% ^{1,3}	At maturity – 02 March 2023	–	1 003
1 000	3-month Jibar + 190bps ³	–	At maturity – 02 March 2028	997	–
				9 948	10 584

1 The interest rate has been fixed through interest rate swaps.

2 Interest is payable semi-annually in arrears.

3 Interest payable quarterly in arrears.

4 DMTN refers to the R10 billion Discovery Domestic Medium Term Note (DMTN) program registered in 2017.

5 During the financial year ended 30 June 2020, Discovery Limited refinanced R3.6 billion bank syndicated loans through the issue of unlisted DMTN notes. The notes, although underwritten by a bank until maturity, are structured to enable short-term issuances into the commercial paper market on an ongoing basis.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

20. BORROWINGS AT AMORTISED COST *continued*

20.1 Borrowings from banks *continued*

SA borrowing facilities

DISCOVERY CENTRAL SERVICES

Facility amount R million	Interest rate per annum	Capital repayment and maturity date	Carrying value R million	
			Group 2023	Group 2022
1 400	3-month Jibar + 2.05% ^{1,2}	Instalments – 29 October 2027	1 408	1 417
650	11.56% ³	At maturity – 29 October 2027	445	494
691	3-month Jibar + 1.9%	At maturity – 30 June 2027	694	691
1 500	3-month Jibar + 1.45%	At maturity – 8 June 2024	151	–
			2 698	2 602

1 Interest payable quarterly in arrears.

2 During the financial year, the rate was renegotiated from a fixed rate of 10.60%, to a floating interest rate.

3 Instalments of interest and capital is monthly.

UK borrowing facilities

UK BORROWINGS

Facility amount GBP million	Variable rate	Capital repayment and maturity date	Carrying value GBP (Rand) million			
			Group 2023		Group 2022	
			GBP	R	GBP	R
25	SONIA + 2.75% ¹	At maturity – 23 December 2025 ²	25	597	–	–
75	SONIA + 3.00% ¹	At maturity – 21 December 2024 ^{2,3}	75	1 793	–	–
55	SONIA + 2.85% ¹	At maturity – 12 December 2025 ⁴	54	1 292	–	–
100	SONIA + 2.38% ¹	At maturity – 31 July 2023 ²	–	–	100	1 999
80	SONIA + 2.73% ¹	Instalments – 31 July 2023 ⁴	–	–	42	847
34	SONIA + 1.31% ¹	At maturity – 19 October 2022 ⁴	–	–	14	276
			154	3 682	156	3 122

1 Interest payable quarterly in arrears.

2 The GBP100 million facility drawn down at 30 June 2022, was refinanced in December 2022.

3 One year extension option available at discretion of lender.

4 The GBP80 million and GBP30 million facilities, of which GBP56 million was drawn down at 30 June 2022 in total, was refinanced in December 2022.

20.2 Leases

R million	Group 2023	Group 2022
Balance at beginning of the year	4 120	4 263
New leases entered into	260	138
Lease incentive payment received	58	–
Interest accrued	432	426
Repayments	(627)	(600)
Modifications	(81)	(126)
Translation differences	63	19
Balance at end of the year	4 225	4 120

Total payments for leases for the year is R924 million (2022: R825 million).

During the 2018 financial year Discovery took occupation of a new head office building under a finance lease. A lease liability and related asset (refer to note 6) of R3 155 million was raised. At year end, R3 326 million (2022: R3 373 million) remained outstanding. Finance charges of R361 million (2022: R366 million) have been recognised in profit or loss and repayments of R408 million (2022: R381 million) have been made.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

21. INVESTMENT CONTRACTS AT FAIR VALUE THROUGH PROFIT OR LOSS

R million	Group 2023	Restated ² Group 2022
The movements during the year were as follows:		
Balance at beginning of the year	38 637	33 354
Deposits received	10 719	12 239
Account balances paid on withdrawal and other terminations in the year	(6 884)	(6 924)
Fair value adjustment	5 572	(32)
Balance at end of the year	48 044	38 637
Current ¹	48 044	38 637

¹ There is no maturity profile for these liabilities as this will depend on policyholder behaviour. Contractually, policyholders may disinvest on demand.

² The comparative information has been restated. Refer to note 45 for detail.

The benefits offered under the Group's unit-linked investment contracts are based on the return of selected equities, debt securities and money market securities. The Group communicates the actual performance of these contracts to its contract holders.

Investment contracts at fair value through profit or loss are exactly matched with related assets and managed collectively as a pool. Discovery's credit risk is not reflected in the measurement of the assets or consequently the liability, which is measured with reference to the underlying assets. Own credit risk has been assessed and determined to be immaterial.

22. OTHER PAYABLES

R million	Group 2023	Group 2022
Commissions payable	322	251
Consolidated unit trust payables	482	512
Due to reinsurers	1 100	651
Expired hedge payables	3	6
Intermediary payables	192	130
Payables and accrued liabilities	4 335	3 672
Payroll creditors	1 097	987
Policyholder unallocated funds	1 531	1 180
Security deposits on derivatives	39	245
Unsettled trades	190	580
VitalityLife working capital funding ¹	4 097	5 477
Other financial payables	1 031	1 020
Other non-financial payables ²	361	412
- Value-added tax liability	189	258
- Premiums and fees received in advance	172	154
Balance at end of the year	14 780	15 123
Current	14 396	14 827
Non-current	384	296
Total other payables	14 780	15 123

¹ Includes the 'deposit back' of GBP108.9 million (R2 612 million) (2022: GBP236 million (R4 780 million)) related to the level premium reinsurance treaty in respect of business written on PAC's life license, payable to the reinsurer.

² Value-added tax liabilities and premiums received in advance are non-financial liabilities and have been excluded from the risk disclosures presented in note 3.



Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

23. DEPOSITS FROM CUSTOMERS

R million	Group 2023	Group 2022
Term deposits from customers – fixed rate	3 434	3 372
Term deposits from customers – variable rates	3 232	1 807
On demand deposits from customers – non-rate sensitive	394	149
On demand deposits from customers – variable rate	7 273	5 249
Wholesale NCDs – variable rate	-	304
Total customer deposits	14 333	10 881

24. DEFERRED TAX

R million	Group 2023	Group 2022
Deferred tax asset – non-current	4 404	4 455
Deferred tax liability – non-current	(9 559)	(9 335)
Total deferred tax	(5 155)	(4 880)

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

24. DEFERRED TAX *continued*

Deferred tax comprises:

Group R million	Charge for the year					Balance at end of the year
	Balance at beginning of the year	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	Translation differences	
Year ended 30 June 2023						
Assessed loss in Company Policyholders' Fund	160	(5)	-	-	-	155
Assessed loss in Individual Policyholders' Fund	834	145	-	-	-	979
Assessed loss in subsidiaries	2 700	98	-	-	218	3 016
Financial Instruments and share-based payments	(15)	(28)	1	8	6	(28)
Deferred acquisition costs	(206)	(3)	-	-	2	(207)
Contract liability	89	166	-	-	20	275
Difference between wear and tear and depreciation/amortisation and leases	(299)	86	-	-	(22)	(235)
Intangible asset recognised on acquisition of business	(2)	(11)	-	-	3	(10)
Prepayments	(3)	(6)	-	-	-	(9)
Provisions	386	96	-	-	2	484
Difference between accounting and tax balances arising from insurance contracts	(8 480)	(615)	-	-	-	(9 095)
Unrealised gains on revaluation of investments ¹	(282)	(36)	-	-	17	(301)
Other ¹	238	(389)	-	-	(28)	(179)
Total	(4 880)	(502)	1	8	218	(5 155)

Group R million	Charge for the year					Balance at end of the year
	Balance at beginning of the year	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	Translation differences	
Year ended 30 June 2022						
Assessed loss in Company Policyholders' Fund	185	(25)	-	-	-	160
Assessed loss in Individual Policyholders' Fund	1 134	(300)	-	-	-	834
Assessed loss in subsidiaries	2 439	158	-	-	103	2 700
Financial Instruments and share-based payments	169	(181)	(3)	-	-	(15)
Deferred acquisition costs	(227)	19	-	-	2	(206)
Contract liability	70	10	-	-	9	89
Difference between wear and tear and depreciation and leases	(276)	(11)	-	-	(12)	(299)
Intangible asset recognised on acquisition of business	(57)	53	-	-	2	(2)
Prepayments	(14)	11	-	-	-	(3)
Provisions	340	26	-	17	3	386
Difference between accounting and tax balances arising from insurance contracts	(8 929)	449	-	-	-	(8 480)
Other	300	(141)	-	-	(203)	(44)
Total	(4 866)	68	(3)	17	(96)	(4 880)

¹ The value of 'unrealised gains on revaluations of investments' has been separated out from 'other' during the year ended 30 June 2023 in order to provide better disclosure and disaggregate the 'other' category which, without this change, would have had a material closing value as at 30 June 2023.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

24. DEFERRED TAX *continued*

Assessed losses

Discovery did not recognise deferred tax assets in respect of the following assessed losses:

R million	Group 2023	Group 2022
Better Health Insurance Advice Limited	40	37
Cogence Proprietary Limited	33	2
Discovery Central Services Proprietary Limited	4 806	4 062
Discovery Group Europe Limited	1	52
Discovery Life Limited – Individual Policyholders' Fund	5 194	7 907
Discovery Partner Market Services Private Limited	-	33
Discovery Vitality Australia Proprietary Limited	306	47
Grove Nursing Services Proprietary Limited	43	43
Medical Services Organisation International Proprietary Limited	10	3
Southern Rx Proprietary Limited	96	109
Vitality Healthy Workplace Limited	-	17
	10 529	12 312

A deferred tax asset has been partly recognised on assessed losses in the Discovery Life Limited – Individual Policyholders' Fund. Refer to note 4.1.

The Group recognises deferred tax assets on carried forward losses to the extent that there are sufficient estimated future taxable profits and/or taxable temporary differences against which the tax losses can be utilised.

25. EMPLOYEE BENEFITS

R million	Group 2023	Group 2022
Leave pay		
Balance at beginning of the year	320	315
Additional provisions raised	325	299
Used during the year	(282)	(262)
Paid to terminated employees	(33)	(32)
Translation differences	4	-
Balance at end of the year	334	320
Current	280	269
Non-current	54	51
Total employee benefits	334	320



Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

26. NET INSURANCE PREMIUM REVENUE

R million	Group 2023	Restated ² Group 2022
Health	11 527	9 744
Recurring premiums	13 667	11 299
Reinsurance premiums	(2 140)	(1 555)
Individual life and invest	29 767	32 955
Recurring premiums	26 719	29 832
Single premiums	10 109	9 335
Reinsurance premiums ¹	(7 061)	(6 212)
Group life	2 885	2 411
Recurring premiums	3 164	2 634
Reinsurance premiums	(279)	(223)
Short-term insurance	5 356	4 940
Recurring premiums	6 012	5 212
Reinsurance premiums ¹	(656)	(272)
	49 535	50 050
Insurance premium revenue	59 671	58 312
Outward reinsurance premiums	(10 136)	(8 262)
Net insurance premium revenue	49 535	50 050

¹ For June 2022, R230 million has been reclassified from Individual life and Invest reinsurance premiums to Short-term insurance reinsurance premiums, to better reflect the nature of these reinsurance premiums.

² The comparative information has been restated. Refer to note 45 for detail.

27. INVESTMENT INCOME

R million	Group 2023	Group 2022
At amortised cost interest income using the effective interest rate method	151	17
Cash and cash equivalents interest income using the effective interest rate method	621	279
	772	296
Attributable to:		
- Shareholders	310	164
- Policyholders	462	132
Total investment income	772	296

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

28. NET FAIR VALUE GAINS/(LOSSES) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

R million	Group 2023	Group 2022
Investment income	3 815	3 128
– Interest	3 087	2 528
– Dividends	728	600
Mutual fund distributions	2 124	1 371
Net fair value gains/(losses)	8 434	(6 324)
	14 373	(1 825)

29. NET CLAIMS AND POLICYHOLDERS' BENEFITS

R million	Group 2023	Restated ³ Group 2022
Health insurance claims	5 364	4 322
Gross claims	7 134	5 644
Less: Reinsurance recoveries	(1 770)	(1 322)
Individual life insurance claims	6 897	7 502
Death	4 274	6 499
Disability	4 544	4 484
Payback benefits	2 145	1 930
Less: Recapture of reinsurance	–	(89)
Less: Reinsurance recoveries	(4 066)	(5 322)
Group life insurance claims	2 256	2 594
Death	996	1 747
Disability	1 425	1 076
Payback benefits	20	10
Less: Reinsurance recoveries	(185)	(239)
Individual investment benefits	22 532	13 099
Surrenders ¹	21 784	12 405
Guaranteed payments	117	65
Annuity payments	631	629
Short-term insurance claims	3 086	3 198
Gross claims	3 676	3 533
Less: Reinsurance recoveries	(590)	(335)
	40 135	30 715
Claims and policyholders' benefits ²	46 746	38 022
Insurance claims recovered from reinsurers	(6 611)	(7 218)
Recapture of reinsurance	–	(89)
Net claims and policyholders' benefits	40 135	30 715

¹ Includes surrenders in respect of the wind down of VitalityInvest following the decision to exit the UK investment market.

² Includes R306 million of economic assumption movements in respect of Discovery Life.

³ The comparative information has been restated. Refer to note 45 for detail.

30. ACQUISITION COSTS

R million	Group 2023	Restated ¹ Group 2022
Commission and other costs of obtaining contracts	6 255	4 807
Movement in deferred acquisition costs (refer to note 8)	(42)	(49)
Total acquisition costs	6 213	4 758

¹ The comparative information has been restated. Refer to note 45 for detail.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

31. MARKETING AND ADMINISTRATION EXPENSES

R million	Group 2023	Group 2022
Auditors remuneration		
Audit fees	130	113
Fees for other services	4	1
Prior year	13	(8)
	147	106
Lease charges		
Short-term leases	80	69
Low-value item leases	217	156
	297	225
Staff costs including executive directors¹		
Salaries, wages and allowances	9 319	8 456
Medical aid fund contributions	529	482
Defined contribution provident fund contributions	444	401
Social security levies	397	304
Share-based payment expenses		
– equity-settled	545	326
– cash-settled	95	93
– (gains)/losses on cash flow hedge	(1)	22
Staff training	89	69
Recruitment fees	64	51
Temporary staff	694	537
Provision for leave pay	43	37
Other	233	168
	12 451	10 946
Other operating costs		
Amortisation of software ² (note 7)	1 319	1 252
Building related and office costs	530	518
Depreciation of property and equipment (note 6)	307	229
Depreciation of right of use assets (note 6)	351	421
Loss on derecognition of property and equipment and intangible assets	324	50
Loss on disposal of property and equipment	8	3
Gain on disposal of intangible assets	–	(131)
Impairment of property and equipment (note 6)	45	–
Allowance for expected credit losses on receivables	77	(79)
Insurance	75	51
IT systems and consumables	2 663	2 183
Marketing and distribution costs	2 101	1 743
Non-executive directors fees	47	37
Professional fees	964	895
Vitality benefit expenses	4 340	3 694
Other operating expenses	2 859	3 066
	16 010	13 932
Total marketing and administration expenses	28 905	25 209

¹ Executive directors' and prescribed officers' remuneration is included in employee costs. Refer to Annexure C - Directorate for detailed disclosure.

² The transactions relating to business combinations are not included in marketing and administration expenses as it is disclosed separately in the Income statement.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

32. SHARE-BASED PAYMENTS AND LONG-TERM INCENTIVES

Incentive schemes

Discovery operates various share-based payment and long-term incentive arrangements. The details of these arrangements are described below:

1. BEE STAFF SHARE TRUST

In 2005, 5 290 000 shares in Discovery Limited's shares were issued to the BEE staff share trust for current and future employees. These shares had all been allocated during prior years. Additional shares have been purchased in prior years, for future allocation to employees. 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 two, three, four and five years after allocation at a rate of 25% per annum. On each vesting date, the trustees shall distribute to the employees the allocated shares to which the employees may be entitled.

OPTION SCHEME

Options granted to black employees may be exercised two, three, four and five years after the option is granted at a rate of 25% per annum. Any options not exercised by the end of the fifth year from the grant date shall lapse. On exercise of the option, the employee pays cash to the trust for the full purchase price of the option.

2. DISCOVERY'S PHANTOM SCHEME

Participants earn a cash bonus based on allocation of bonus scheme units which in turn are linked to the performance of the Discovery Limited share price. The bonus is earned if the participant is employed on each vesting date, with the vesting dates ranging between one and five years after allocation of the bonus units. The bonus may not be carried forward.

3. DISCOVERY'S LONG-TERM INCENTIVE PLANS (EQUITY SETTLED)

DISCOVERY LONG-TERM INCENTIVE PLAN (LTIP)

The LTIP was introduced in the financial year ended 30 June 2020 and replaced the cash-settled Discovery Phantom scheme (see point 2 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. For LTIP awards granted prior to the introduction of the Single Incentive Plan (SIP), the performance conditions are aligned to the organic growth methodology of the Group and will vest from between the third and fifth anniversary of these awards.

SINGLE INCENTIVE PLAN

During the financial year ended 30 June 2022, Discovery replaced its management short-term incentive scheme and long-term incentive schemes with a single incentive scheme called SIP, consisting of a cash incentive (short-term incentive) and deferred share awards (long-term incentive). The SIP is based on the annual award of a single total incentive relating to the performance of the Group, business unit and the individual, and is assessed against financial and non-financial measures as outlined by the Group scorecard as well as business unit and individual scorecards.

The first deferred share awards were granted in November 2022. These shares will vest between one and three years after allocation of the shares for senior management and between three and five years for executive directors and prescribed officers.

4. ACQUISITION SCHEMES

There are various schemes offered to franchise directors, agents and employees where participants are allocated share units which replicate the economics of a Discovery Limited share. The share units are settled as a cash bonus on vesting. The bonus is earned if the participant is employed by Discovery or Discovery's contracted affiliates on the vesting date. The vesting periods on the schemes vary from two to five years. The bonus may not be carried forward.

5. DISCOVERY BANK SCHEME

Participants will receive Discovery Limited shares subject to the 'Value Created', which references the growth in the value of Discovery Bank business after capital invested and interest. These awards vest from between the 3rd and 7th anniversary of the market launch date of Discovery Bank, and each vesting is settled in three equal instalments over three years, if the participant is employed on each vesting date.

Other long-term incentive schemes

The following schemes are long-term staff incentives where the value is determined with reference to something other than the Discovery Limited share price. These schemes are accounted for in terms of IAS 19: *Employee benefits*.

6. THE VITALITYHEALTH AND VITALITYLIFE PHANTOM SHARE SCHEME

Participants earn a cash bonus based on allocation of bonus scheme units which in turn are linked to the performance of VitalityLife and VitalityHealth, and more specifically the value of in-force (ViF) of VitalityLife and the Embedded Value (EV) of VitalityHealth. The bonus is earned if the participant is employed on each vesting date. For units issued, the vesting of the units is two, three and four years after allocation of the bonus units. The bonus may not be carried forward.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

32. SHARE-BASED PAYMENTS AND LONG-TERM INCENTIVES *continued*

7. OTHER DEVELOPMENT SEGMENT SCHEMES

Various other long-term incentive schemes exist in the Discovery Group in the development segments. These schemes are individually and in aggregate immaterial and as a result no further information is disclosed.

The share/option schemes mentioned in bullet 1, 3 and 5 have been classified as equity-settled schemes and therefore a share-based payment reserve has been recognised. The schemes mentioned in bullets 2 and 4 have been classified as cash-settled schemes and a liability is raised in terms of IFRS 2 *Share-based Payment*. The other long-term incentive schemes, have been accounted for in terms of IAS 19 *Employee Benefits*.

The following is a summary of the terms and conditions of the units granted:

Date granted	Share/ Option price	Final vesting date	Shares under option at beginning of year	Share/ Options granted during year	Share/ Options vested during year	Share/ Options cancelled or adjusted during year	Shares under option at end of year
1. BEE staff share trust							
01/07/2016 – 30/06/2017	R122.5	30/09/2021	1 722	–	–	–	1 722
01/07/2016 – 30/06/2017	R0.00	30/09/2021	287	–	–	–	287
01/07/2016 – 30/06/2017	R0.00	22/05/2023	4 655	–	(4 655)	–	–
01/07/2018 – 30/06/2019	R0.00	31/03/2024	5 954	–	(2 976)	(967)	2 011
01/07/2019 – 30/06/2020	R0.00	30/09/2025	47 194	–	(22 423)	(1 961)	22 810
01/07/2020 – 30/06/2021	R0.00	31/03/2026	21 596	–	(5 339)	(1 174)	15 083
01/07/2021 – 30/06/2022	R0.00	30/09/2027	115 628	–	(18 112)	(27 308)	70 208
01/07/2022 – 30/06/2023	R0.00	30/04/2028	–	14 604	–	–	14 604
2. The Discovery Limited phantom scheme							
01/07/2016 – 30/06/2017	R0.00	30/09/2022	58 897	–	(52 782)	(6 115)	–
01/07/2017 – 30/06/2018	R141.65	30/09/2022	163 558	–	(163 346)	(212)	–
01/07/2017 – 30/06/2018	R0.00	31/03/2023	640 818	–	(610 489)	(28 990)	1 339
01/07/2018 – 30/06/2019	R0.00	31/03/2024	887 316	–	(429 076)	(44 064)	414 176
01/07/2022 – 30/06/2023	R0.00	30/09/2027	–	333 737	–	(6 447)	327 290
3. Discovery LTIP and SIP							
01/07/2019 – 30/06/2020	R0.00	30/09/2024	3 049 840	–	(1 402 275)	(138 010)	1 509 555
01/07/2020 – 30/06/2021	R0.00	30/09/2025	3 656 145	–	–	(107 536)	3 548 609
01/07/2021 – 30/06/2022	R0.00	30/09/2026	3 352 235	–	–	(118 790)	3 233 445
01/07/2022 – 30/06/2023	R0.00	30/09/2027	–	5 050 816	–	(94 065)	4 956 751
4. Acquisition schemes							
01/07/2017 – 30/06/2018	R0.00	30/06/2023	24 903	–	(23 791)	(1 112)	–
01/07/2018 – 30/06/2019	R0.00	30/06/2024	63 728	–	(35 133)	(1 587)	27 008
01/07/2019 – 30/06/2020	R0.00	30/06/2025	658 068	–	(557 635)	(12 033)	88 400
01/07/2020 – 30/06/2021	R0.00	30/06/2026	767 414	–	(40 870)	(19 695)	706 849
01/07/2021 – 30/06/2022	R0.00	30/06/2027	717 351	–	(6 979)	(7 007)	703 365

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

32. SHARE-BASED PAYMENTS AND LONG-TERM INCENTIVES *continued*

The VitalityHealth and VitalityLife phantom share scheme is cash-settled and thus repriced at each reporting date. The value of the shares and options allocated are dependent on the performance of VitalityLife and VitalityHealth, more specifically the VIF of VitalityLife and the EV of VitalityHealth.

The Discovery Limited phantom scheme and Acquisition schemes are cash-settled and are thus repriced at each reporting date. The closing share price at 30 June 2023 was R145.85.

Discovery determines the grant date fair value of its equity-settled schemes at the date of allocating the grant to the employee. The grant date fair value is then recognised over the vesting period. The significant assumptions in determining the grant date fair value were as follows:

	Spot price	Risk free interest rate	Vesting period	Dividend yield
Discovery LTIP and SIP				
01/07/2019 – 30/06/2020	R113.81	6.68% – 7.01%	3 – 5 years	2.21% – 2.52%
01/07/2020 – 30/06/2021	R125.52 – R153.54	3.90% – 5.02%	3 – 5 years	2.26% – 2.57%
01/07/2021 – 30/06/2022	R135.94	5.76% – 6.57%	3 – 5 years	2.29% – 2.46%
01/07/2022 – 30/06/2023	R127.58 – R149.05	5.96% – 8.01%	1 – 5 years	0.00% – 1.08%
BEE Staff share trust				
01/07/2018 – 30/06/2019	R139.49 – R170.16	7.32% – 7.98%	2 – 5 years	1.46% – 2.01%
01/07/2019 – 30/06/2020	R86.00 – R133.76	4.85% – 7.54%	2 – 5 years	2.01% – 3.54%
01/07/2020 – 30/06/2021	R127.60 – R148.89	3.85% – 5.96%	3 – 5 years	2.34% – 2.78%
01/07/2021 – 30/06/2022	R136.00 – R181.49	4.91% – 7.49%	2 – 5 years	0.81% – 2.70%
01/07/2022 – 30/06/2023	R120.00 – R143.77	7.63% – 8.53%	2 – 5 years	0.85% – 1.47%

33. FINANCE COSTS

R million	Group 2023	Group 2022
Interest expense on:		
– Borrowings measured at amortised cost using the effective interest method	1 437	1 037
– Release from other comprehensive income	4	–
– Lease liabilities (IFRS 16)	432	426
– Interest on other payables using the effective interest method	49	195
– Other	19	–
Total	1 941	1 658

34. FOREIGN EXCHANGE GAINS

R million	Group 2023	Group 2022
Net foreign exchange gains	150	155

The net foreign exchange gains and losses arised primarily from foreign denominated loans, some which are internal.

The total amount of foreign exchange gains recognised in profit or loss is R292 million (2022: R221 million) presented within various lines associated with the underlying transaction.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

35. TAXATION

R million	Group 2023	Group 2022
Charge for the year:		
Current taxation	1 550	1 533
Normal taxation		
– prior year over provision	–	(22)
– current year charge	1 524	1 550
Capital gains taxation	26	5
Deferred taxation	502	(68)
Total income tax expense recognised in profit or loss	2 052	1 465
	%	%
<i>Taxation rate reconciliation</i>		
Statutory rate	27.0	28.0
Non-taxable income: Equity-accounted profit or loss and dividend income	(2.5)	(2.7)
Non-taxable income: Other individually immaterial	(0.1)	(0.3)
Non-deductible expenditure: Including items of a capital nature and non-deductible provisions	0.6	4.0
Non-deductible expenditure: Other individually immaterial	*	*
Subsidiary current period losses for which no deferred tax asset was recognised, net of deferred tax assets on losses recognised for prior period losses	3.5	3.1
PAC arrangement	0.1	(7.4)
Insurance policyholder funds I-E taxes and related DTA recognitions	(0.1)	2.0
Accounting gains and losses taxable at CGT rates	(0.2)	0.1
CFC imputations and WHT not recovered	0.9	0.7
Additional tax allowances	(0.1)	(0.3)
Prior year under provision	*	0.1
Tax rate changes	(0.5)	(4.6)
Tax rate differences	(0.8)	(1.6)
Effective taxation rate	27.8	21.1

* Amount is less than 0.1%.

The current tax rate for South African entities in a tax paying position is 27%. Discovery, a holding company listed on the JSE, uses the South African tax rate for its tax rate reconciliation since it is based in South Africa and the most significant operations are in South Africa. The South African life insurance operations tax rate is determined based on the rates and basis applicable to section 29A of the Income Tax Act 58 of 1962 at the reporting date.

Vitality Group International Inc, a subsidiary of Discovery Limited in the US, is subject to taxation under section 11(b) of the Internal Revenue Code 1986. The applicable current tax rate for all of Vitality Group International Inc's taxable profit is 21%. Discovery Group Europe Limited, incorporated and operating in the UK, is governed by the Corporation Tax Act 2010 Chapter 2, which sets the main corporation tax rate on taxable profit at 25%.

As of 23 May 2023, the UK has enacted the Finance (No.2) Act 2023. This new legislation establishes a minimum global effective tax rate of 15%. It also enforces a top-up tax for domestic and multinational entities, which will apply for accounting periods beginning on or after 1 January 2023. Discovery has utilised the IAS 12 amendment exception to recognise and disclose deferred tax assets and liabilities for top-up income taxes.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

36. EARNINGS, HEADLINE EARNINGS AND NORMALISED HEADLINE EARNINGS

Basic earnings per share is the profit or loss attributable to the ordinary shareholders of the Company for the period, divided by the weighted-average number of ordinary shares outstanding during the period.

To calculate diluted earnings per share, the Group adjusts the profit or loss attributable to the ordinary shareholders of the Company for the period and the weighted-average number of shares outstanding during the period for the effects of all dilutive potential ordinary shares.

	Note	Group 2023	Group 2022
Number of shares used in calculation			
Weighted average number of shares in issue ('000)	36.1	658 045	656 901
Diluted weighted average number of shares ('000)		661 328	663 082
Earnings per share (cents):	36.2		
- basic		785.4	825.5
- diluted		781.5	817.8
Headline earnings per share (cents):	36.3		
- basic		834.3	792.4
- diluted		830.1	785.0
Normalised headline earnings per share (cents):	36.4		
- basic		1 166.7	885.5
- diluted		1 160.9	877.3

36.1 Weighted average number of ordinary shares

'000	Group 2023	Group 2022
Issued ordinary shares at 1 July	656 957	656 805
Effect of treasury shares vested	1 052	-
Effect of share options exercised and vesting of share awards	36	96
Weighted average number of ordinary shares at 30 June (basic)	658 045	656 901
Effect of share options exercised and vesting of share awards	3 283	6 181
Weighted average number of ordinary shares at 30 June (diluted)	661 328	663 082

36.2 Earnings reconciliation

R million	Group 2023	Group 2022
Profit attributable to the ordinary shareholders	5 258	5 422
Adjusted for:		
- Profit attributable to non-forfeitable dividend share plan	(90)	-
Profit attributable to ordinary shareholders of the Company (basic and diluted)	5 168	5 422

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

36. EARNINGS, HEADLINE EARNINGS AND NORMALISED HEADLINE EARNINGS *continued*

36.3 Headline earnings reconciliation

Headline earnings per share is disclosed per the JSE Limited's Listings Requirements and is calculated in accordance with the circular titled Headline Earnings issued by SAICA, as amended from time to time. Headline earnings per share is based on the net profit after tax attributable to ordinary shareholders adjusted for items of a capital nature and the weighted average number of ordinary shares in issue.

R million	Group 2023			Group 2022		
	Gross	Tax	Net	Gross	Tax	Net
Profit attributable to the ordinary shareholders			5 168			5 422
Adjusted for:						
- IAS 38 Intangible assets: Gain on disposal of intangible assets	-	-	-	(131)	29	(102)
- IAS 38 Intangible assets: Loss on derecognition of intangible assets	290	(60)	230	37	(5)	32
- IAS 16 Property, plant and equipment: Loss on derecognition of property and equipment	34	(7)	27	13	(1)	12
- IAS 16 Property, plant and equipment: Loss on disposal of property and equipment	8	(1)	7	3	-	3
- IFRS 3 Business Combinations: Impairment of goodwill	9	-	9	-	-	-
- IAS 36 Impairment of Assets: Impairment of property and equipment	45	-	45	-	-	-
Adjustments attributable to equity-accounted investments:						
- IAS 28 Investments in Associates and Joint Ventures: Loss/(gain) on dilution and disposal of equity-accounted investments	5	(1)	4	(33)	4	(29)
- IAS 28 Investments in Associates and Joint Ventures: Reversal of impairment of equity-accounted investments ¹	-	-	-	(134)	-	(134)
Headline earnings (basic and diluted)			5 490			5 204

¹ Impairment reversal was supported by a firm offer to purchase the equity accounted investment.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

36. EARNINGS PER SHARE *continued*

Earnings, Headline earnings and Normalised Headline Earnings

36.4 Normalised headline earnings reconciliation

Normalised headline earnings is calculated per Discovery's policy as set out in the Accounting Policy 29.

R million	Group 2023			Group 2022		
	Gross	Tax	Net	Gross	Tax	Net
Headline earnings			5 490			5 204
Adjusted for:						
- Economic assumption adjustments net of discretionary margins and interest rate derivatives	2 664	(728)	1 936	84	(74)	10
- Loss/(gain) on economic assumption adjustments net of discretionary margins	1 691	(529)	1 162	(169)	(26)	(195)
- Loss on fair value changes on VitalityLife interest rate derivative	973	(199)	774	253	(48)	205
- Loss on fair value changes in the time value of swaption contract in VitalityLife	204	(42)	162	454	(87)	367
- Other	102	(12)	90	233	2	235
- Amortisation of intangible assets arising from business combinations	56	(12)	44	59	(13)	46
- Gain on disposal of intangible assets	-	-	-	131	(29)	102
- Recognition of deferred tax assets on assessed losses not recognised in previous periods	-	-	-	-	(14)	(14)
- Loss on fair value changes on foreign exchange contracts not designated as hedges	-	-	-	2	(1)	1
- Increase or decrease in deferred tax balances resulting from use of different tax rates on items that were excluded from normalised headline earnings	-	-	-	-	59	59
Adjustments attributable to equity-accounted investments:						
- Amortisation of intangible assets arising from business combinations	46	-	46	41	-	41
Normalised headline earnings (basic and diluted)			7 678			5 816



Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

37. CASH FLOW INFORMATION

37.1 Cash generated by operations

R million	Group 2023	Restated ¹ Group 2022
Cash generated by operations		
Profit before taxation	7 372	6 944
Adjusted for:		
Investment income	(4 587)	(4 795)
Realised (gains)/losses on financial assets	(604)	3 574
Finance costs	1 941	1 658
Premiums, claims and investment charges for liabilities under investment contracts	3 836	5 315
Non-cash items:		
Allowance for expected credit losses	146	96
Allowance for expected credit losses on receivables	77	(79)
Amortisation of intangibles from business combinations	56	59
Amortisation of software	1 319	1 252
Assets arising from contracts with customers	28	125
Cash flow hedge gains recycled to profit or loss	(1)	-
Contract liabilities movement	(321)	130
Deferred acquisition costs	(42)	(49)
Depreciation	658	650
Derecognition and impairment of intangible assets	290	170
Derecognition and impairment of property and equipment	79	12
Finance (income)/charge on negative reserve funding	(1 098)	(1 368)
Gain on disposal of intangible assets	-	(131)
Impairment of goodwill	9	-
Losses/(gains) from derivatives	-	(89)
Losses/(gains) on dilution and disposal of equity-accounted investments	5	(33)
Losses on disposal of property and equipment	8	3
Provision for employee benefits	43	37
Reversal of impairment of equity-accounted investment	-	(134)
Share-based payment expenses – cash settled	95	93
Share-based payment expenses – equity settled	545	326
Share of profits from equity-accounted investments	(515)	(422)
Transfer to assets under insurance contracts	(5 860)	(5 786)
Transfer to assets under reinsurance contracts	(135)	(63)
Transfer to liabilities under insurance contracts	3 992	6 738
Transfer to liabilities under reinsurance contracts	328	577
Economic assumptions adjustments net of discretionary margins	1 997	(169)
Fair value adjustment to liabilities under investment contracts	5 572	(32)
Translation differences	(142)	(166)
Unearned premiums	(305)	(100)
Unrealised (gains)/losses on investments at fair value through profit or loss	(4 073)	2 860
Working capital changes ² :		
Deposits from customers	3 451	1 897
Loans and advances to customers	(897)	(679)
Loans and receivables including insurance receivables	(2 297)	(2 457)
Trade and other payables	(2 662)	4 979
Cash generated by operations	8 308	20 943

¹ The comparative information has been restated. Refer to note 45 for detail.

² The comparatives for Working capital changes have been restated to separately present R96 million of Allowance for expected credit losses and R1 368 million of Finance (income)/charge on negative reserve funding, in line with the current year presentation.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

37. CASH FLOW INFORMATION *continued*

37.2 Taxation paid

R million	Group 2023	Group 2022
Balance at beginning of the year	(307)	22
Taxation charged for the year in the income statement	(2 052)	(1 465)
Adjustment for movement in deferred taxation	502	(68)
Reallocation to separately disclosable items	(115)	20
Translation differences	9	3
Balance at end of the year	124	307
Taxation paid	(1 839)	(1 181)

37.3 Movement in borrowings

R million	Group 2023	Group 2022
Balance at beginning of the year excluding bank overdraft	20 428	19 493
Leased assets acquired	260	138
Increase in borrowings	7 450	3 261
Raising fees capitalised	(8)	(3)
Interest accrued on borrowings	1 767	1 463
Interest paid on borrowings	(1 335)	(1 188)
Repayment of borrowings	(8 607)	(2 687)
Modification to lease assets	(81)	(126)
Translation differences	679	77
Balance at end of the year excluding bank overdraft	20 553	20 428

37.4 Interest paid

R million	Group 2023	Group 2022
Finance cost per the income statement	1 941	1 658
Adjusted for:		
- Lease liabilities interest accrual not paid	(432)	(426)
- Other payables or interest accrual	(8)	180
Interest paid	1 501	1 412

38. COMMITMENTS

Capital commitments

R million	Group 2023	Group 2022
Capital expenditure approved but not contracted for at the reporting date as follows:		
- Property and equipment	106	41
- Intangible assets	397	120
- Developments costs for Discovery Bank	328	394
	831	555

Also refer to Capital section of Directors' report.



Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

39. DIVIDENDS PER SHARE

39.1 Dividends per ordinary share

Due to the uncertain and potentially volatile environment caused by the COVID-19 pandemic, Discovery did not pay out any ordinary dividends for the year ended 30 June 2023.

39.2 Dividends per preference share

The dividends paid in 2023 totalled R69 million and comprised a final dividend of 382.26027 cents (305.80822 cents net of dividend withholding tax) per share paid on 26 September 2022 and an interim dividend of 476.91781 cents (381.53425 cents net of dividend withholding tax) per share paid on 13 March 2023.

The dividends paid in 2022 totalled R56 million and comprised a final dividend of 347.12329 (277.69863 net of withholding tax) cents per share paid on 27 September 2021 and an interim dividend of 355.75342 (284.60274 net of withholding tax) cents per share paid on 14 March 2022.

40. CONTINGENCIES

The Group is not exposed to material contingencies at 30 June 2023.

41. RELATED PARTIES

41.1 List of related parties as defined

Subsidiaries, associates and joint ventures

Details of subsidiaries directly and indirectly owned by Discovery Limited are contained in Company note 2. Details of the Discovery Group's material associates and joint ventures are contained in note 11. Annexure A sets out details of all subsidiaries, associates and joint ventures held within the Discovery Group.

Key management personnel

Key management personnel have been defined as directors of Discovery Limited, Discovery Health Proprietary Limited and Discovery Life Limited, as these businesses constitute the majority of the Discovery Group.

A list of the directors and prescribed officers of Discovery Limited can be found in the Directors' report. Also refer to Annexure C for Directorate remuneration.

To the extent specific transactions have occurred between Discovery and key management personnel, including close family members of key management, (as defined in IAS 24 Related Party Disclosures) the details are included in the aggregate disclosure contained below under key management and where significant, full details of all relationships and terms of the transactions are provided.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

41. RELATED PARTIES *continued*

41.2 Transactions with related parties

Cambridge Mobile Telematics Inc. (CMT)

Discovery Insure paid fees monthly to CMT for the collation and interpretation of data and the translating of driving behaviour into scorable events. Fees paid for the year totalled R17 million (2022: R16 million).

Key management personnel of Discovery Limited, families of key management (as defined in IAS 24) and entities significantly influenced or controlled by key management

INSURANCE CONTRACTS

R'000	Aggregated insured cover		Premiums received		Claims paid	
	2023	2022	2023	2022	2023	2022
Life insurance	1 259 392	1 098 794	9 673	8 419	-	-
Short-term insurance	692 874	882 273	2 639	3 327	1 034	1 300
Short-term health insurance	-	-	16	12	-	7

INVESTMENT CONTRACTS

R'000	Investment values		Premiums received		Withdrawal benefits		Investment returns	
	2023	2022	2023	2022	2023	2022	2023	2022
Investment contracts	81 237	86 526	7 359	13 461	2 959	11 902	9 344	6 778

VITALITY PROGRAMME

R'000	Premiums received		Amounts paid	
	2023	2022	2023	2022
Vitality benefits	190	272	2 789	4 460

Key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management accrued 360 431 Discovery miles as part of the Vitality Programme for the year ended 30 June 2023 (2022: 444 903).

DISCOVERY BANK

R'000	Loans		Savings		Fees	
	2023	2022	2023	2022	2023	2022
Discovery Bank	2 347	2 259	38 915	26 399	219	287

AGGREGATE SHAREHOLDING

Aggregate shareholdings of key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management, in Discovery Limited as at 30 June 2023 was 77 576 400 ordinary shares (2022: 78 169 727 ordinary shares).

ENTITIES SIGNIFICANTLY INFLUENCED OR CONTROLLED BY KEY MANAGEMENT

In the prior year, sponsorship and enterprise development grants to the value of R0.7 million were made to organisations where members of key management personnel have significant influence. No transactions occurred in the current year.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

41. RELATED PARTIES *continued*

41.3 Major customers and other Discovery entities not part of Discovery Group

Discovery Health Medical Scheme

Discovery Health administers Discovery Health Medical Scheme (DHMS) and provides managed care services for which it charges an administration fee and a managed healthcare fee respectively. These fees are determined on an annual basis and approved by the trustees of DHMS. The fees totalled R7 414 million (2022: R6 804 million). Discovery Health and its subsidiaries also provides wellness services to DHMS. The fees received for these services totalled R69 million (2022: R28 million).

Discovery Third Party Recovery Services (DTPRS) paid DHMS R20 million (2022: R15 million) to purchase all the risks and rewards of ownership to the claims due from the Road Accident Fund up to 7 February 2023 (2022: 14 January 2022). DTPRS also provides a service to DHMS to recover all claims that are due from the Compensation for Occupational Injuries and Diseases. DTPRS received R16 million (2022: R20 million) for this service. DTPRS owes DHMS R2 million (2022: R6 million) at year-end.

The Discovery Group offers the members of DHMS access to the Vitality programme. Discovery Vitality receives monthly contributions from DHMS members that have activated this benefit through various product integrations. The membership fees totalled R1 840 million for the year ended 30 June 2023 (2022: R1 686 million).

DHMS owes the Discovery Group R775 million (2022: R724 million) at year-end.

Discovery Central Services received rental income of R7 million (2022: R9 million) from DHMS for office space at 1 Discovery Place.

Closed schemes

Discovery Health administers the following restricted membership medical schemes:

- | | |
|-------------------------------------|--|
| - Anglo Medical Scheme | - Malcor Medical Scheme |
| - Anglovaal Group Medical Scheme | - Multichoice Medical Aid Scheme |
| - Bankmed Medical Scheme | - Netcare Medical Scheme |
| - BMW Employees Medical Aid Society | - Remedi Medical Scheme |
| - Engen Medical Benefit Fund | - Retail Medical Scheme |
| - Glencore Medical Scheme | - SAB Medical Aid Scheme (terminated effective 31 December 2023) |
| - LA Health Medical Scheme | - TFG Medical Scheme |
| - Libcare Medical Scheme | - Tsogo Sun Group Medical Scheme |
| - Lonmin Medical Scheme | - UKZN Medical Scheme |

Discovery Health charges these schemes administration fees which are determined on an annual basis and approved by the trustees of the respective closed schemes. The fees totalled R1 285 million (2022: R1 212 million). Discovery Health and its subsidiaries also provide wellness services to these schemes. The fees received for these services totalled R5 million (2022: R1 million).

DTPRS did not purchase any risks and rewards of ownership for the claims due from the Road Accident Fund during the current financial year from any of the closed schemes. During the prior financial year DTPRS paid Bankmed R2 million. DTPRS also provides a service to some of the closed schemes to recover all claims that are due from the Compensation for Occupational Injuries and Diseases. DTPRS received R0.3 million (2022: R0.5 million) for this service.

Discovery Vitality receives monthly contributions from the closed scheme members that have activated the Vitality Wellness programme through various product integrations. The membership fees totalled R95 million (2022: R86 million). Amounts due to the Discovery Group at year-end totalled R120 million (2022: R107 million).

Discovery Franchises

Discovery has established a network of 29 franchises in order to establish a national footprint for its products. Discovery has paid R254 million (2022: R229 million) in fees to the franchises.

The franchises participate in the Acquisition Scheme (refer to note 32 for further details). During the year, R21 million (2022: R15 million) was accrued for in terms of this scheme.

The Discovery Foundation

The Discovery Foundation, which is an independent shareholder of Discovery, received contributions of R12 million (2022: R3 million) from Discovery in the current year.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

41. RELATED PARTIES *continued*

41.3 Major customers and other Discovery entities not part of Discovery Group *continued*

The Discovery Fund

The Discovery Fund is a fund for sustainable non-governmental healthcare projects, especially in primary healthcare. These projects complement the delivery of primary and preventative care in the public sector and help to relieve the burden on state facilities.

The Discovery Fund received contributions from Discovery of R23 million during the year (2022: R24 million). Discovery also paid a management fee of R2 million (2022: R2 million).

Discovery Retirement Funds

The Discovery Life Pension Umbrella Fund and the Discovery Life Provident Umbrella Fund (the Funds) are underwritten and administered by Discovery Life and are the retirement funds used by all the Discovery staff employed by the Group in South Africa.

Contributions to the Funds by Discovery staff during the year amounted to R569 million (2022: R520 million). The Funds have R5 167 million (2022: R4 334 million) of assets under administration on behalf of Discovery staff – R4 974 million is invested in unit-linked insurance policies issued by Discovery Life (2022: R4 159 million) of which, R4 417 million (R3 732 million) of the unit-linked insurance policies are in turn linked to unit trusts managed by Discovery Life Collective Investments.

42. ACCELERATED REINSURANCE PREMIUMS – VITALITYHEALTH

VitalityHealth uses quota share reinsurance treaties as one of the mechanisms to manage initial acquisition cost strain and underwriting experience risk. During the 2021 financial year, VitalityHealth modified certain of its existing quota share reinsurance treaties to adjust the repayment profile thereof. The modification resulted in VitalityHealth making additional repayments of GBP39.7 million (R823 million) in 2021, with GBP19.8 million of reduced repayments in the financial year ended 30 June 2022 and 2023 respectively. The net impact in profit or loss over the three-year period to 30 June 2023, is nil.

43. DIVIDENDS PAID DURING THE CURRENT AND PRIOR FINANCIAL YEAR

B preference shares

Payment date	Nature and financial period	Dividend declared per share
13 March 2023	Interim dividend Financial year 2023	476.91781 cents (381.53425 cents net of dividend withholding tax)
26 September 2022	Final dividend Financial year 2022	382.26027 cents (305.80822 cents net of dividend withholding tax)
14 March 2022	Interim dividend Financial year 2022	355.75342 (284.60274 cents net of dividend withholding tax)
27 September 2021	Final dividend Financial year 2021	347.12329 cents (277.69863 cents net of dividend withholding tax)

Ordinary shares

In the current and prior financial years, no ordinary dividends were paid as a result of the considerable uncertainty arising from the COVID-19 pandemic and macro-economic risks. The Group followed a conservative approach to capital management – the dividend was suspended, a strategy of reducing financial leverage was pursued, and further structures were implemented to ensure that the Group remained protected from movements in interest rates. Importantly, the pursuit of growth was not curtailed most notably on the build of Discovery Bank.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

44. EVENTS AFTER REPORTING DATE

B preference share cash dividend declaration

The directors declared a final gross cash dividend of 548.49315 cents (438.79452 cents net of dividend withholding tax) per B preference share for the period 1 January 2023 to 30 June 2023, payable from the income reserves of the Company. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

The issued preference share capital at the declaration date is 8 million B preference shares.

The salient dates for the dividend will be as follows

Last day of trade to receive a dividend	Tuesday, 19 September 2023
Shares commence trading "ex" dividend	Wednesday, 20 September 2023
Record date	Friday, 22 September 2023
Payment date	Tuesday, 26 September 2023

B Preference share certificates may not be dematerialised or rematerialised between Wednesday, 20 September 2023 and Friday, 22 September 2023, both days inclusive.

Ordinary share cash dividend declaration:

The Board of Directors declared a final gross cash dividend of 110 cents (88 cents net of dividend withholding tax) per ordinary share, out of the income reserves of Discovery Limited. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

The number of ordinary shares in issue at the date of declaration is 673 146 417.

The salient dates for the dividend will be as follows

Last day of trade to receive a dividend	Tuesday, 10 October 2023
Shares commence trading "ex" dividend	Wednesday, 11 October 2023
Record date	Friday, 13 October 2023
Payment date	Monday, 16 October 2023

Share certificates may not be dematerialised or rematerialised between Wednesday, 11 October 2023 and Friday 13 October 2023, both days inclusive.

VitalityHealth termination of reinsurance based financing quota share treaty

VitalityHealth terminated all reinsurance based financing quota share treaties on 1 July 2023, after the end of the reporting period. The termination was in response to the impact of IFRS 17 on the Company's strategy to utilise reinsurance based financing to offset the total strain of writing new business. VitalityHealth holds the following reinsurance related balances under IFRS 4 which would have a net impact of £245.96m on the assets position as at 30 June 2023:

- Debtors arising out of reinsurance operations amounting to a GBP246 million asset (ZAR5 901.5 million).
- Reinsurers share of insurance contract liabilities, including UPR, amounting to a GBP94 million asset (ZAR2 255 million); and
- Creditors arising out of reinsurance operations amounting to a GBP 94 million liability (ZAR2 255 million).

The transition to IFRS 17 sees these assets and liabilities retrospectively revalued to nil upon implementation of IFRS 17 for the financial year commencing 1 July 2023. The termination on 1 July 2023, following the retrospective revaluation under IFRS 17, is expected to have a nil impact in the financial year commencing 1 July 2023.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2023

45. RESTATEMENT AS A RESULT OF PRIOR PERIOD ERROR – RECLASSIFICATION OF UNIT-LINKED INSURANCE CONTRACTS TO UNIT-LINKED INVESTMENT CONTRACTS

During its IFRS 17 project, Discovery performed a full reassessment of all its insurance contracts to ensure the products were correctly included in the scope of the IFRS 17 project. This full assessment and evaluation was necessary to determine whether the contracts transfer significant insurance risk, a prerequisite for the contract to be recognised under IFRS 17.

During the year, Discovery identified that certain offshore unit-linked policies do not transfer significant insurance risk as required under IFRS 17. Instead of being classified as unit-linked insurance contracts, these policies should have been accounted for as unit-linked investment contracts under IFRS 9 *Financial Instruments*.

Discovery noted that the definition of significant insurance risk under IFRS 17 and IFRS 4 is the same. Accordingly, the change in treatment did not constitute a change because of the transition to IFRS 17. Instead, a correction would be required under IFRS 4 of the previously published information. The error was rectified as a reclassification from IFRS 4 to IFRS 9.

Accordingly, these policies were reclassified from unit-linked insurance contracts as disclosed in note 18 Liabilities arising from insurance contracts to note 21 Investment contracts at fair value through profit or loss which includes unit-linked investment products. The unit priced component of the fair value measurement of the policyholder liability remained unchanged. The negative rand reserve that was previously recognised under IFRS 4 was derecognised. The incremental costs to obtain the contracts have also been recognised accordingly in note 9A Assets arising from contracts with customers and contract liabilities.

The change in presentation of the unit-linked policies also affected the Income statement but did not affect the previously reported earnings.

The tables below summarise the restatement's impact on the Statement of financial position and the Income statement.

STATEMENT OF FINANCIAL POSITION R million	Group 30 June 2021 (previously reported)	Correction	Group 1 July 2021 (as restated)
	Assets arising from contracts with customers		1 248
Liabilities arising from insurance contracts	(100 977)	936	(100 041)
Investment contracts at fair value through profit or loss	(32 291)	(1 063)	(33 354)

STATEMENT OF FINANCIAL POSITION R million	Group 30 June 2022 (previously reported)	Correction	Group 30 June 2022 (as restated)
	Assets arising from contracts with customers		1 549
Liabilities arising from insurance contracts	(109 200)	1 133	(108 067)
Investment contracts at fair value through profit or loss	(37 361)	(1 276)	(38 637)

INCOME STATEMENT R million	Group 30 June 2022 (previously reported)	Correction	Group 30 June 2022 (as restated)
	Insurance premium revenue		58 782
Claims and policyholders' benefits	(38 207)	185	(38 022)
Acquisition cost	(4 774)	16	(4 758)
Net transfer to/from assets and liabilities under insurance contracts	(6 935)	197	(6 738)
Fair value adjustment to liabilities under investment contracts	(40)	72	32
Profit from operations	7 858	-	7 858

The restatement has had no change to operating, investing, and financing cash flows and no changes to the Statement of changes in equity. There is no impact on Discovery's Profit from operations; consequently, basic or diluted earnings per share remain unchanged.



DISCOVERY

COMPANY ANNUAL
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE

2023





Company statement of financial position

at 30 June 2023

R million	Notes	Company 2023	Company 2022
Assets			
Deferred tax asset	12	5	82
Investments in subsidiaries	2	30 579	29 027
Investment in associate	3	2 584	2 584
Financial assets			
- Loans to subsidiaries	5	9 614	8 397
- Loans to BEE partners	6	219	186
- Other receivables	7	229	185
- Derivatives at fair value through profit or loss	4	59	18
Cash and cash equivalents	19.5	282	607
Total assets		43 571	41 086
Equity			
Capital and reserves			
Ordinary share capital and share premium	8.1	10 467	10 293
Perpetual preference share capital	8.2	779	779
Other reserves		1 601	1 129
Retained earnings		11 315	8 003
Total equity		24 162	20 204
Liabilities			
Financial liabilities			
- Borrowings at amortised cost	9	9 948	10 584
- Financial guarantee contracts	20	12	25
- Trade and other payables	11	9 403	10 216
- Derivatives at fair value through profit or loss	10	1	56
Current tax liability	19.2	45	1
Total liabilities		19 409	20 882
Total liabilities and equity		43 571	41 086



Company Income statement

for the year ended 30 June 2023

R million	Notes	Company 2023	Company 2022
Investment income	13	4 056	1 049
At amortised cost interest income, using the effective interest rate		863	688
Dividends received from subsidiaries		3 193	361
Other income	14	36	57
Net fair value losses on financial instruments at fair value through profit or loss	15	(2)	(2)
Marketing and administration expenses	16	(16)	(19)
Movement in allowance for expected credit losses	17	8	*
Profit from operations		4 082	1 085
Finance costs		(943)	(937)
Foreign exchange gains		386	16
Profit before tax		3 525	164
Taxation	18	(124)	(31)
Profit for the year		3 401	133
Attributable to:			
– Ordinary shareholders		3 332	77
– Preference shareholders		69	56
		3 401	133

* Amount is less than R500 000.

Company statement of other comprehensive income

for the year ended 30 June 2023

R million	Company 2023	Company 2022
Profit for the year	3 401	133
Items that are or may be reclassified subsequently to profit or loss:		
Cash flow hedges	80	295
– Unrealised gains	76	295
– Tax on unrealised gains	–	–
– Losses recycled to profit or loss	4	–
– Tax on recycled losses	–	–
Other comprehensive income for the year, net of tax	80	295
Total comprehensive income for the year	3 481	428
Attributable to:		
– Ordinary shareholders	3 412	372
– Preference shareholders	69	56
	3 481	428



Company statement of cash flows

for the year ended 30 June 2023

R million	Notes	Company 2023	Company 2022
Cash flow from operating activities		1 600	492
Cash generated by operations	19.1	1 864	1 067
Dividends received		425	237
Interest received	19.6	231	102
Interest paid		(917)	(914)
Taxation paid	19.2	(3)	*
Cash flow from investing activities		(1 713)	(2 078)
Increase investment in subsidiaries	19.3	(1 493)	(1 559)
Increase investment in associate		-	(1 487)
Increase in loans granted to subsidiaries	5	(4 686)	(1 789)
Proceeds from settlement of subsidiary loans	5	4 466	2 757
Cash flow from financing activities		(230)	2 106
Proceeds from treasury shares		*	9
Proceeds from issuance of ordinary shares		514	443
Proceeds from long-term borrowings	19.4	2 650	2 410
Repayment of long-term borrowings	19.4	(3 304)	(700)
Premium paid on interest rate swap		(21)	-
Dividends paid to preference shareholders		(69)	(56)
Net (decrease)/increase in cash and cash equivalents		(343)	520
Cash and cash equivalents at beginning of the year		607	93
Exchange gains/(losses) on cash and cash equivalents		18	(6)
Cash and cash equivalents at end of the year	19.5	282	607

* Amount is less than R500 000.



Company statement of changes in equity

for the year ended 30 June 2023

Company R million	Share capital and share premium	Preference share capital	Hedging reserve	Share- based payment reserve	Retained earnings	Total
Year ended 30 June 2022						
At beginning of the year	10 281	779	(334)	844	7 926	19 496
Total comprehensive income for the year	-	56	295	-	77	428
Profit for the year	-	56	-	-	77	133
Other comprehensive income	-	-	295	-	-	295
Transactions with owners	12	(56)	-	324	-	280
Issue of shares	443	-	-	-	-	443
Increase in treasury shares	(443)	-	-	-	-	(443)
Delivery of treasury shares	3	-	-	(3)	-	-
Proceeds from treasury shares	9	-	-	-	-	9
Employee share option schemes:						
- Value of employee services	-	-	-	327	-	327
Dividends paid to preference shareholders	-	(56)	-	-	-	(56)
Balance at 30 June 2022	10 293	779	(39)	1 168	8 003	20 204
Year ended 30 June 2023						
At beginning of the year	10 293	779	(39)	1 168	8 003	20 204
Total comprehensive income for the year	-	69	80	-	3 332	3 481
Profit for the year	-	69	-	-	3 332	3 401
Other comprehensive income	-	-	80	-	-	80
Transactions with owners	174	(69)	-	392	(20)	477
Issue of shares	514	-	-	-	-	514
Increase in treasury shares	(514)	-	-	-	-	(514)
Delivery of treasury shares	171	-	-	(171)	-	-
Proceeds from treasury shares	3	-	-	(3)	-	-
Employee share option schemes:						
- Value of employee services	-	-	-	546	-	546
Transfer of vested shares	-	-	-	20	(20)	-
Dividends paid to preference shareholders	-	(69)	-	-	-	(69)
Balance at 30 June 2023	10 467	779	41	1 560	11 315	24 162



COMPANY ACCOUNTING POLICIES

for the year ended 30 June 2023

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these separate financial statements are consistent with those set out in Annexure B. In addition to those policies, the following policies apply specifically to these separate financial statements.

1. Investment in subsidiaries and associates

The company is directly and indirectly the holding company of subsidiaries and investments as set out in Annexure A. Investments in subsidiaries and associates are accounted for at cost less impairment. Cost includes the fair value of any asset or liability resulting from a contingent consideration arrangement on initial recognition.

Discovery assesses at each reporting date whether there is objective evidence that the investment in subsidiaries and associates are impaired. If such evidence of impairment exists, Discovery calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value.

1.1 Common control transactions

Common control transactions refer to business combinations in which all the combining entities or businesses are ultimately controlled by the same party (or parties) before and after the combination. This includes businesses which are associates and joint ventures. Discovery Limited applies book value accounting to account for common control transactions. Discovery Limited will dispose of its investment at the carrying amount. Any difference between the consideration received and the carrying amount of the investment disposed of is recognised as an equity transaction with shareholders in equity. No gain or loss is recognised in profit or loss on disposal.

2. Financial guarantee contracts

The Company accounts for financial guarantee contracts (FGCs) in accordance with IFRS 9 *Financial Instruments* (IFRS 9). The Company issues FGCs to assist in securing funding for its subsidiaries.

FGCs are contracts which require the Company, 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.

The Company measures the FGC:

- Initially at fair value; and
- Subsequently at the higher of:
 - The amount of expected credit losses determined under IFRS 9 (calculation 1); 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* (calculation 2).

2.1 Initial recognition

In instances where the Company issues FGCs for the debt of a related entity in the Discovery Group, the Company determines the fair value. These FGCs are seen as transactions in a capacity as shareholder and are treated as capital contributions.

In some instances, the other Discovery Group entity can also pay a premium to the issuer of the FGCs. The Company then determines if the price represents the fair value, or whether there is still an additional cost of the FGC that the Company should recognise.

In the instance where the Company does not receive all the premiums upfront, it recognises the FGC using a net approach. The net approach requires that the Company presents the financial guarantee as its fair value less all future premiums.

COMPANY ACCOUNTING POLICIES *continued*

for the year ended 30 June 2023

2. Financial guarantee contracts *continued*

2.2 Subsequent measurement

The Company recognises financial guarantee fee income as follows:

- Amortises the fair value recognised on initial recognition over the period that the FGC is outstanding, being generally the period of the underlying debt;
- Recognises any premiums received for issuing the FGC as financial guarantee fee income; and
- Where the Company has applied the net approach, the Company adjusts for the premiums subsequently received to ensure it takes into account all premiums in using calculation 2.

The Company calculates the lifetime expected credit losses for purposes of calculation 1.

Where the outcome is such that calculation 1 is more than calculation 2, differences are recognised and presented as part of expected credit losses.

Where the outcome is such that calculation 2 is more than calculation 1, no adjustments are required. Any previously recognised expected credit losses can be reversed, but limited to the total value previously recognised.

2.3 Derecognition

The Company derecognises FGCs when the FGC is extinguished, expires or the underlying debt is extinguished.

At the date of derecognition:

- Where the FGC is extinguished in exchange for a new FGC to the same holder and in respect of the same guaranteed entity, the FGC derecognised is seen as compensation for the new FGC; or
- In all other instances, the FGC is derecognised with an associated gain or loss in profit or loss.

3. Share based payments

Also refer to Accounting Policies 17 Employee benefits set out in Annexure B and Group note 32 Share-based payments and long-term incentives.

Two of the schemes that Discovery operates, namely the BEE staff share trust and Discovery long-term incentive plan (LTIP) (equity settled), are both equity-settled share-based payment arrangements in accordance with the requirements of IFRS 2 *Share-based Payment*. In these schemes, Discovery Limited grants the awards to the employees within the Discovery Group of entities. Discovery classifies the share-based payment transaction according to whether the entity has the obligation to settle. As it is Discovery Limited's shares being awarded to employees, Discovery classifies the transaction as equity-settled.

Under IFRS, Discovery does not consider any repayment or recharge arrangements in determining the classification of these group share-based payments. Any recharge payments Discovery receives from its subsidiaries is treated as a return on capital from the subsidiary. Any excess of recharge above the carrying amount of investment in subsidiary is recognised immediately as dividend income.

Discovery manages two share trusts. Discovery treats the share trusts set up to facilitate the share-based payment arrangements as an agent, i.e., an extension of Discovery Limited. In other words, shares held by the trust is treated as treasury shares of Discovery Limited.

- BEE Staff Share Trust: Shares and option to acquire shares have been allocated to senior black employees based on level of seniority and length of past service. The trust will hold shares until the date of vesting of the shares to the employee or exercise date of the option.
- Discovery LTIP Trust: Participants will receive Discovery Limited shares subject to performance criteria and if the participant is employed on each vesting date. The trust will hold shares until the date of vesting of the shares to the employee. Per the LTIP Trust deed, the LTIP Trust recharges the costs of the shares acquired for the employees to the relevant subsidiary whose employees are awarded the shares. The recharge is upfront.

Notes to the Company annual financial statements

for the year ended 30 June 2023

1. MANAGEMENT OF FINANCIAL RISK

The Company's activities expose it to a variety of financial risks. Financial risks include market risk, credit risk and liquidity risk. Refer to Group note 3 Management of financial risk for a detailed explanation of financial risks and how they are managed.

1.1 Interest rate risk

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

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

Company R million	Carrying amount	Fixed	Floating	Non-interest bearing
At 30 June 2023				
Derivative financial instruments at fair value:				
- Used as cash flow hedges ¹	59	59	-	-
Loans to subsidiaries	9 614	2 453	7 161	-
Loans to BEE partners	219	-	193	26
Other receivables	226	-	-	226
Cash and cash equivalents	282	-	282	-
Total financial assets	10 400	2 512	7 636	252
Borrowings at amortised cost	9 948	4 382	5 566	-
Derivative financial instruments at fair value:				
- Used as cash flow hedges ¹	1	1	-	-
Financial guarantee contracts	12	-	-	12
Trade and other payables	9 403	-	-	9 403
Total financial liabilities	19 364	4 383	5 566	9 415
At 30 June 2022				
Derivative financial instruments at fair value:				
- Not designated as hedging instruments	1	-	-	1
- Used as cash flow hedges ¹	17	17	-	-
Loans to subsidiaries	8 397	2 216	6 181	-
Loans to BEE partners	186	-	184	2
Other receivables	176	-	-	176
Cash and cash equivalents	607	-	607	-
Total financial assets	9 384	2 233	6 972	179
Borrowings at amortised cost	10 584	3 826	6 758	-
Derivative financial instruments at fair value:				
- Used as cash flow hedges ¹	56	56	-	-
Financial guarantee contracts	25	-	-	25
Trade and other payables	10 216	-	-	10 216
Total financial liabilities	20 881	3 882	6 758	10 241

¹ For further information on the use of interest rate swaps to manage the interest rate risk of Discovery Limited, refer to the following notes in the Group financials, which equally apply to Discovery Limited:
- Note 3.4 Shareholder financial assets and liabilities, "Borrowings at amortised cost and related hedges", page 61.

For those financial assets at amortised cost, a change of 1% in the interest rate would result in an increase/decrease of R80 million (2022: R69 million) in interest income. The sensitivity is based on the assumption that the interest rate has increased/decreased by 1% with all other variables held constant.

Borrowings at amortised cost include facilities at floating interest rates, which expose Discovery Limited to cash flow interest rate risk. This risk has been managed by using floating-to-fixed interest rate swaps. These interest rate swaps have the economic effect of converting the borrowings from floating to fixed rates. Interest is payable quarterly in arrears, with capital repayable on maturity. The hedge ratio is 1:1. For borrowings at floating interest rates that have not been hedged, a change of 1% in the interest rate would result in an increase of R4 million (2022: R6 million) in finance costs. The sensitivity is based on the assumption that the interest rate has increased/decreased by 1% with all other variables held constant.

Notes to the Company annual financial statements *continued*

for the year ended 30 June 2023

1. MANAGEMENT OF FINANCIAL RISK *continued*

1.2 Currency risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the UK pound. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

The following table segregates the currency exposure by major currency:

Company R million	Total	Rand	GBP	USD
At 30 June 2023				
Derivative financial instruments at fair value:				
– Used as cash flow hedges	59	59	–	–
Loans to subsidiaries	9 614	7 456	2 158	–
Loans to BEE partners	219	219	–	–
Other receivables	226	191	35	–
Cash and cash equivalents	282	39	243	*
Total financial assets	10 400	7 964	2 436	*
Borrowings at amortised cost	9 948	9 948	–	–
Derivative financial instruments at fair value:				
– Used as cash flow hedges	1	1	–	–
Financial guarantee contracts	12	12	–	–
Other payables	9 403	9 400	3	–
Total financial liabilities	19 364	19 361	3	–
At 30 June 2022				
Derivative financial instruments at fair value:				
– Not designated as hedging instruments	1	1	–	–
– Used as cash flow hedges	17	17	–	–
Loans to subsidiaries	8 397	6 621	1 776	–
Loans to BEE partners	186	186	–	–
Other receivables	176	143	33	–
Cash and cash equivalents	607	526	59	22
Total financial assets	9 384	7 494	1 868	22
Borrowings at amortised cost	10 584	10 584	–	–
Derivative financial instruments at fair value:				
– Used as cash flow hedges	56	56	–	–
Financial guarantee contracts	25	17	8	–
Other payables	10 216	10 216	*	–
Total financial liabilities	20 881	20 873	8	–

* Amount is less than R500 000.

A 10% increase on respective foreign exchange rates of GBP: ZAR would result in additional gains of R226 million (2022: R186 million), or in the case of decrease, a loss of R226 million (R186 million), recognised in profit or loss.

1.3 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. The credit risk associated with Cash and cash equivalents is managed by monitoring exposure to external financial institutions against limits set by the CCIC.

Notes to the Company annual financial statements *continued*

for the year ended 30 June 2023

1. MANAGEMENT OF FINANCIAL RISK *continued*

1.3 Credit risk *continued*

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

The following table provides information regarding the credit risk exposure categorised as set out in the Group note 3 Management of financial risk. These assets are all in stage 1 for purposes of determining expected credit losses.

Company R million	Total	Aa1-3	Baa1-3	Ba1-3	B1-3	Internally rated/ assessed
At 30 June 2023						
Derivative financial instruments at fair value:						
- Used as cash flow hedges	59	-	-	59	-	-
Loans to subsidiaries	9 614	-	3 756	5 858	-	-
Loans to BEE partners	219	-	-	-	-	219
Other receivables	226	-	178	48	-	-
Cash and cash equivalents	282	1	-	281	-	-
Total financial assets	10 400	1	3 934	6 246	-	219
Financial guarantee contracts ¹	12	-	-	12	-	-

At 30 June 2022

Derivative financial instruments at fair value:						
- Not designated as hedging instruments	1	-	-	1	-	-
- Used as cash flow hedges	17	-	-	17	-	-
Loans to subsidiaries	8 397	-	-	8 397	-	-
Loans to BEE partners	186	-	-	-	-	186
Other receivables	176	-	-	158	18	-
Cash and cash equivalents	607	-	-	607	-	-
Total financial assets	9 384	-	-	9 180	18	186
Financial guarantee contracts ¹	25	-	-	25	-	-

¹ Financial guarantee contracts have been included and comparative information has been restated.

Long-term credit ratings were used in the credit risk analysis above. Refer to Group note 3 Management of financial risk, 'Discovery's approach in monitoring credit risk' for a summary of how credit ratings are aligned to external credit ratings.

Loans to BEE partners are not assigned formal credit ratings externally or internally. These loans are structured considering creditworthiness of the individual partners, and the purpose of the BEE relationship. These loans are managed and monitored on an individual basis, and ECL is accordingly recognised on an individual basis using management's best estimate.

Discovery Limited has issued financial guarantees as security for loans incurred by subsidiaries in the group. The maximum credit risk that Discovery Limited is exposed to on these contracts is the carrying amount, which amounted to R3 940 million (2022: R6 917 million). For majority of the issued financial guarantees, Discovery Limited is co-guarantor with Discovery Health (Pty) Ltd and Discovery Vitality (Pty) Ltd.

Loans to subsidiaries and financial guarantee contracts do not have external credit ratings. Credit ratings are internally assigned using the RW rating scale. Prior period Loans to subsidiaries have been restated to align to the new RW ratings.

Notes to the Company annual financial statements *continued*

for the year ended 30 June 2023

1. MANAGEMENT OF FINANCIAL RISK *continued*

1.4 Liquidity risk

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

Liquidity is managed through the Group Treasury Management function, which considers the liquidity position at the respective Company level as well as the overall Group position. As part of this assessment, the liquidity position in each entity is optimised and takes account of available credit facilities to the Group within the Board approved maximum financial leverage ratio. The Company is in the process of refinancing short-term borrowings as part of its ongoing debt capital management activities. The group structure is conducive for the Company to receive dividends and other forms of funding from underlying subsidiaries to enable it to meet its obligations.

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

Cash held by the Company is invested in interest-bearing accounts, term deposits and money market deposits with appropriate maturities or sufficient liquidity to provide headroom as determined by the above-mentioned forecasts. At the reporting date, the Company had money market funds and cash and cash equivalents of R282 million (2022: R607 million).

The table below analyses Discovery Limited's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. These amounts do not agree to the Statement of financial position as these are the undiscounted contractual payments.

Company R million	Total	<1 year	1 – 2 years	3 – 5 years	6 – 10 years
At 30 June 2023					
Borrowings	12 187	1 425	5 429	5 085	248
Derivative financial instruments:					
– Used as cash flow hedges	59	5	22	32	–
Trade and other payables	9 403	9 403	–	–	–
	21 649	10 833	5 451	5 117	248
Financial guarantees	3 940	3 940	–	–	–
	25 589	14 773	5 451	5 117	248
At 30 June 2022					
Borrowings	12 416	4 013	1 036	7 110	257
Derivative financial instruments:					
– Used as cash flow hedges	311	117	90	104	–
Trade and other payables	10 216	10 216	–	–	–
	22 943	14 346	1 126	7 214	257
Financial guarantees	6 917	6 917	–	–	–
	29 860	21 263	1 126	7 214	257

1.5 Fair value estimation

Discovery Limited's financial instruments measured at fair value have been disclosed using a fair value hierarchy. The hierarchy has three levels that reflect the significance of the inputs used in measuring fair value. Refer to Group note 3.6 Fair value estimation for more details on the valuation techniques.

These are as follows:

Level 1: includes financial instruments that are measured using unadjusted, quoted prices in an active market for identical financial instruments. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide information on an ongoing basis. Quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

- (a) Quoted prices for similar instruments or identical instruments in markets which are not considered to be active; or
- (b) Valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

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

Notes to the Company annual financial statements *continued*

for the year ended 30 June 2023

1. MANAGEMENT OF FINANCIAL RISK *continued*

1.5 Fair value estimation *continued*

Company R million	Total	Level 1	Level 2	Level 3
At 30 June 2023				
Derivative financial instruments at fair value:				
- Used as cash flow hedges	59	-	59	-
Total financial assets	59	-	59	-
Derivative financial instruments at fair value:				
- Used as cash flow hedges	1	-	1	-
Total financial liabilities	1	-	1	-
At 30 June 2022				
Derivative financial instruments at fair value:				
- not designated as hedging instruments	1	-	1	-
- Used as cash flow hedges	17	-	17	-
Total financial assets	18	-	18	-
Derivative financial instruments at fair value:				
- Used as cash flow hedges	56	-	56	-
Total financial liabilities	56	-	56	-

2. INVESTMENTS IN SUBSIDIARIES

	Issued ordinary capital R million		Effective percentage holding %		Investment in subsidiaries ³ R million	
	2023	2022	2023	2022	2023	2022
Cogence Proprietary Limited	*	*	100	100	*	*
Discovery Bank Holdings Limited	9 699	8 771	100	100	9 963	8 996
Discovery Connect Distribution Services Proprietary Limited	555	555	100	100	546	551
Discovery Central Services Proprietary Limited	*	*	100	100	34	34
Discovery Finance Company Europe Limited ¹	393	393	100	100	394	394
Discovery Group Europe Limited ¹	14 172	14 080	100	100	14 159	14 063
Discovery Health Proprietary Limited	271	271	100	100	253	216
Discovery Insure Limited	2 552	2 402	100	100	1 588	1 442
Discovery Life Limited	1 416	1 416	100	100	1 502	1 486
Discovery Life Collective Investments Proprietary Limited	15	15	100	100	15	15
Discovery Life Investment Services Proprietary Limited	203	203	100	100	204	203
Discovery Mauritius Asset Management	1	1	100	100	1	1
Discovery Vitality Proprietary Limited	*	*	100	100	-	-
Discovery Partner Markets Asia Private Limited ²	211	211	100	100	113	113
Vitality Group International Incorporated ⁴	3 643	3 319	100	100	1 807	1 513
Balance at the end of the year					30 579	29 027

* Amount is less than R500 000.

¹ Incorporated in England and Wales.

² Incorporated in Singapore.

³ Investments in subsidiaries include cost less impairments plus the value of share options issued to subsidiary staff.

⁴ Incorporated in the United States of America.

Refer to Company note 19.3 for a detailed movement analysis.

Notes to the Company annual financial statements *continued*

for the year ended 30 June 2023

3. INVESTMENT IN ASSOCIATE

R million	% ownership interest		Company 2023	Company 2022
	2023	2022		
Investment at cost:				
– Ping An Health Insurance Company in China, Limited	24.99%	24.99%	2 584	2 584

Refer to Group note 11 for disclosure of the investment in associate.

4. DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS

R million	Company 2023	Company 2022
Interest rate derivatives – used as cash flow hedges ¹	59	17
Derivatives not designated as hedging instrument	–	1
Total	59	18
Current	5	1
Non-current	54	17
Total	59	18

¹ The interest rate derivative portfolio consists of both interest rate swaps and interest rate caps.

Refer to the Group note 3.4.1 for a detailed description of the derivative financial instruments listed above.

5. LOANS TO SUBSIDIARIES¹

R million	Company 2023	Company 2022
Discovery Group Europe Limited	2 639	2 270
Discovery Health Proprietary Limited	3 758	3 410
Discovery Central Services Proprietary Limited	3 225	2 725
Total gross loans	9 622	8 405
Less: IFRS9 Expected credit losses (ECL) ²	(8)	(8)
Total net loans	9 614	8 397
Current	3 225	3 214
Non-current	6 389	5 183
	9 614	8 397
Balance at beginning of the year	8 397	8 758
Additional loan granted	4 686	1 789
Repayment of loans		
– capital portion	(4 466)	(2 757)
– interest portion	(198)	(93)
Interest receivable	836	676
Movement in allowance for expected credit losses	–	1
Exchange differences	359	23
Balance at end of the year	9 614	8 397

¹ All loans to subsidiaries are measured at amortised cost, which approximates to fair value, as the loans bear interest at market related terms

² The information is separately disclosed in the current period, and the comparative information has been restated accordingly.

Notes to the Company annual financial statements *continued*

for the year ended 30 June 2023

5. LOANS TO SUBSIDIARIES *continued*

GBP denominated

Discovery Limited has granted GBP denominated loans to Discovery Group Europe Limited, the terms are as follows:

Original loan value	Variable rate	Capital repayment and maturity date	Carrying value			
			Company 2023		Company 2022	
GBP million			R million	GBP million	R million	GBP million
11.9	Bank of England base rate + 400bps	At maturity – 31 July 2025	411	17.2	319	16.0
24.7	Bank of England base rate + 600bps	At maturity – 1 April 2027	591	24.6	493	24.6
6.0	Bank of England base rate + 600bps	At maturity – 1 November 2027	144	6.0	120	6.0
10.5	Bank of England base rate + 600bps	At maturity – 1 June 2028	252	10.5	210	10.5
9.0	Bank of England base rate + 600bps	At maturity – 21 August 2028	216	9.0	180	9.0
6.5	Bank of England base rate + 600bps	At maturity – 24 November 2028	156	6.5	130	6.5
2.8	Bank of England base rate + 615bps	At maturity – 1 March 2029	67	2.8	56	2.8
7.1	Bank of England base rate + 615bps	At maturity – 1 June 2029	170	7.1	142	7.1
6.5	Bank of England base rate + 615bps	At maturity – 31 July 2029	156	6.5	130	6.5
			2 163	90.2	1 780	89.0

ZAR denominated

Discovery Limited has granted ZAR denominated loans to subsidiaries, the terms are as follows:

Subsidiary the loan was granted to	Original loan value R million	Variable rate	Capital repayment and maturity date	Carrying value Rand million	
				Company 2023	Company 2022
Discovery Group Europe Limited	268	3-month Jibar + 200bps	At maturity – 31 July 2030	476	489
Discovery Health Proprietary Limited ¹	727	3-month Jibar + 240bps	At maturity – 30 June 2026	1 304	1 194
Discovery Health Proprietary Limited ^{1,2}	93		At maturity – 30 September 2026	185	167
Discovery Health Proprietary Limited ^{1,2}	282		At maturity – 30 September 2026	561	507
Discovery Health Proprietary Limited ^{1,2}	235		At maturity – 15 December 2026	458	414
Discovery Health Proprietary Limited ^{1,2}	173		At maturity – 28 March 2027	328	296
Discovery Health Proprietary Limited ^{1,2}	288		At maturity – 30 June 2027	531	480
Discovery Health Proprietary Limited ^{1,2}	212		At maturity – 3 July 2027	391	353
Discovery Central Services Proprietary Limited	2 932	South African prime lending rate	On demand	3 225	2 725
				7 459	6 625

¹ Interest payable quarterly in arrears, with the option available for Discovery Health to capitalise the interest to the value of the loan.

² Interest accrues at a fixed rate of 10.2% per annum.

For the loans to Discovery Group Europe Limited, interest of R208 million was earned in respect of these loans in the current financial year (2022: R136 million) and R359 million foreign exchange gain was recognised in profit and loss (2022: R23 million gain).

Notes to the Company annual financial statements *continued*

for the year ended 30 June 2023

6. LOANS TO BEE PARTNERS¹

R million	Company 2023	Company 2022
Balance at the beginning of the year	186	149
Interest receivable	15	9
Additional loan granted	39	35
Repayment of loans	(21)	(7)
Balance at the end of the year	219	186
Current	219	186
Balance at the end of the year	219	186

¹ All loans to BEE partners are measured at amortised cost, which approximates to fair value.

These loans are due from Mohau Equity Partners. R193 million (2022: R184 million) is a bridge loan that accrues interest at prime rate less 2%. R26 million (2022: R2 million) is an interest-free loan to provide empowerment financing towards a newly formed brokerage. There are no repayment terms for these loans.

7. OTHER RECEIVABLES

R million	Company 2023	Company 2022
Intercompany receivables	226	176
Prepayments	3	9
Less allowance for credit losses	*	*
Balance at the end of the year	229	185
Intercompany receivables include:		
Cogence Proprietary Limited	7	4
Discovery Bank Limited	-	29
Discovery Connect Distribution Services Proprietary Limited	-	6
Discovery Finance Company Europe Limited	32	14
Discovery Group Europe Limited	-	3
Discovery Holdings Europe Limited	3	19
Discovery Insure Limited	-	43
Discovery Life Investment Services Proprietary Limited	93	-
Discovery Vitality Proprietary Limited	85	58
Vitality Corporate Services Limited	6	-
Balance at the end of the year	226	176

* Amount is less than R500 000.

8. SHARE CAPITAL AND SHARE PREMIUM

8.1 Ordinary share capital and share premium

R million	Issued		Treasury Shares		Total Outstanding
	Share capital	Share premium	BEE Share Trust	Long-term incentive plan	
Issued					
At 1 July 2021	1	11 237	(51)	(906)	10 281
Share movements:					
- shares issued	*	443	-	-	443
- treasury shares delivered	-	8	4	-	12
- treasury shares purchased	-	-	-	(443)	(443)
At 30 June 2022	1	11 688	(47)	(1 349)	10 293
Share movements:					
- shares issued	*	514	-	-	514
- treasury shares delivered	-	171	3	-	174
- treasury shares purchased	-	-	-	(514)	(514)
At 30 June 2023	1	12 373	(44)	(1 863)	10 467

* Amount is less than R500 000.

Notes to the Company annual financial statements *continued*

for the year ended 30 June 2023

8. SHARE CAPITAL AND SHARE PREMIUM *continued*

8.1 Ordinary share capital and share premium *continued*

Number of shares	Company	Treasury Shares		Total Outstanding
		BEE Share Trust	Long-term incentive plan	
Issued				
At 1 July 2021	665 768 601	(805 961)	(7 477 865)	657 484 775
Share movements:				
- shares issued	3 194 870	-	-	3 194 870
- treasury shares delivered	-	152 104	-	152 104
- treasury shares purchased	-	-	(3 194 870)	(3 194 870)
At 30 June 2022	668 963 471	(653 857)	(10 672 735)	657 636 879
Share movements:				
- shares issued	4 182 946	-	-	4 182 946
- treasury shares delivered	-	64 714	1 402 275	1 466 989
- treasury shares purchased	-	-	(4 182 946)	(4 182 946)
At 30 June 2023	673 146 417	(589 143)	(13 453 406)	659 103 868

The total authorised number of ordinary shares is 1 billion (2022: 1 billion), with a par value of 0.1 cent per share.

8.2 Preference share capital

R million	Company 2023	Company 2022
Authorised		
40 000 000 A no par value preference shares	-	-
20 000 000 B preference shares of R100 each	2 000	2 000
20 000 000 C no par value preference shares	-	-
	2 000	2 000
Issued		
8 000 000 B preference shares of R100 each	800	800
Share issue costs	(21)	(21)
	779	779

The preference shares are non-compulsory, non-cumulative, non-participating, non-convertible, voluntarily redeemable (at option of Discovery Limited) preference shares and were issued at a coupon rate of 85% of prime rate. With the introduction of dividend withholding tax on 1 April 2012, the coupon rate on the preference shares was increased to 100% of the prime rate.

9. BORROWINGS AT AMORTISED COST

R million	Company 2023	Company 2022
Borrowings from banks ¹	9 948	10 584
Current	587	3 312
Non-current	9 361	7 272
Balance at the end of the year	9 948	10 584

¹ Financial guarantees were provided by Discovery Health Proprietary Limited, Discovery Vitality Proprietary Limited and Discovery Central Services Proprietary Limited has been given to secure these borrowings.

The borrowings were acquired for general corporate purposes in order to fund the various growth initiatives within the Group.

Credit rating

In January 2023 Moody's Investors Service ("Moody's") reaffirmed Discovery Limited's Global scale long-term issuer rating of Ba3 and the national scale long-term issuer rating at A1.za. The outlook was unchanged as stable, aligned to the outlook of the country.

Notes to the Company annual financial statements *continued*

for the year ended 30 June 2023

9. BORROWINGS AT AMORTISED COST *continued*

Facility amount R million	Variable rate	Interest per annum	Capital repayment and maturity date	Carrying value R million	Company 2023	Company 2022
Listed DMTN⁴						
500	3-month Jibar + 161bps	8.095% ^{1,3}	At maturity – 21 November 2022	-	-	503
500	3-month Jibar + 205bps	4.253% ^{1,3}	At maturity – 21 August 2023	505	505	503
200	-	10.46% ²	At maturity – 21 November 2024	202	202	202
800	3-month Jibar + 191bps	8.4% ^{1,3}	At maturity – 21 November 2024	808	808	805
1 200	3-month Jibar + 191bps	7.295% ^{1,3}	At maturity – 21 November 2024	1 218	1 218	1 217
700	3-month Jibar + 180bps	8.49% ^{1,3}	At maturity – 21 August 2026	707	707	704
300	3-month Jibar + 180bps	7.60% ^{1,3}	At maturity – 21 August 2026	304	304	303
792	3-month Jibar + 173bps	7.98% ^{1,3}	At maturity – 21 May 2027	799	799	792
226	3-month Jibar + 180bps	7.98% ^{1,3}	At maturity – 21 May 2029	228	228	226
Unlisted DMTN⁵						
1 100	-	8.915% ³	At maturity – 10 March 2023	-	-	1 104
2 500	-	9.615% ³	At maturity – 22 February 2025	2 522	2 522	2 520
1 650	-	9.55% ³	At maturity – 10 March 2026	1 658	1 658	-
Other						
1 400	3-month JIBAR + 125bps	-	At maturity – 12 October 2022	-	-	702
1 000	3-month JIBAR + 245bps	7.83% ^{1,3}	At maturity – 02 March 2023	-	-	1 003
1 000	3-month JIBAR + 190bps	-	At maturity – 02 March 2028	997	997	-
				9 948	9 948	10 584

1 The interest rate has been fixed through interest rate swaps.

2 Interest is payable semi-annually in arrears.

3 Interest payable quarterly in arrears.

4 DMTN refers to the R10 billion Discovery Domestic Medium Term Note (DMTN) program registered in 2017.

5 During the financial year ended 30 June 2020, Discovery Limited refinanced R3.6 billion bank syndicated loans through the issue of unlisted DMTN notes. The notes, although underwritten by a bank until maturity, are structured to enable short-term issuances into the commercial paper market on an ongoing basis.

The borrowings are unsecured senior debt and are not callable or convertible. Interest is payable quarterly in arrears other than footnote 2 in the table above. Refer to company note 19.4 for movement analysis and Group note 20.

10. DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS

R million	Company 2023	Company 2022
Interest rate swaps – used as cash flow hedges ¹	1	56
Total	1	56
Current	-	21
Non-current	1	35
Total	1	56

1 For further information, refer to Group note 13, which sets out information on the 'Interest Rate Swaps' which equally apply to the Company.



Notes to the Company annual financial statements *continued*

for the year ended 30 June 2023

11. TRADE AND OTHER PAYABLES

R million	Company 2023	Company 2022
Accrued expenditure	10	11
Dividends due to shareholders	9	10
Intercompany payables	9 384	10 195
	9 403	10 216
Intercompany payables include:		
Discovery Bank Limited	*	-
Discovery Health Proprietary Limited	4 615	5 430
Discovery Insure Limited	1	-
Discovery Life Limited	4 768	4 765
	9 384	10 195

* Amount is less than R500 000.

Discovery Limited receives funds from its subsidiaries through intercompany loan accounts, to assist with operational requirements. The loans are interest free and are settled as and when sufficient cash becomes available.

The amortised cost of the trade and other payables approximate the fair value due to the short-term nature of these payables.

12. DEFERRED TAX ASSET

R million	Company 2023	Company 2022
Deferred tax asset – non-current	5	82
Movement summary:		
Balance at beginning of the year	82	113
Income statement charge	(77)	(31)
Balance at end of the year	5	82
Deferred taxation comprises:		
Assessed losses	-	67
Section 6 quat credits	3	15
Unrealised gains on financial instruments	-	(1)
Realised capital losses	2	1
	5	82

Notes to the Company annual financial statements *continued*

for the year ended 30 June 2023

13. INVESTMENT INCOME¹

R million	Company 2023	Company 2022
At amortised cost interest income, using the effective interest rate	863	688
Dividends received from subsidiaries	3 193	361
	4 056	1 049
Dividends received from subsidiaries include:		
– Discovery Central Services Proprietary Limited	23	117
– Discovery Health Proprietary Limited ²	2 740	–
– Discovery Insure Limited	–	30
– Discovery Life Collective Investments Proprietary Limited	408	–
– Discovery Mauritius Asset Management	17	7
– Discovery Vitality Proprietary Limited	1	207
– Vitality Corporate Services Limited	4	–
	3 193	361

¹ Investment income for Discovery Limited is seen as Revenue.

² The dividend received settled the loan due to Discovery Health Proprietary Limited and was not received in cash.

14. OTHER INCOME

R million		Company 2023	Company 2022
Guarantee fees	i	31	53
Amortisation of financial guarantee contracts	ii	5	3
Other income		–	1
		36	57

i Discovery Limited issued guarantees in respect of Discovery Finance Company Europe Limited and Discovery Holdings Europe Limited obligations. A guarantee fee is charged by Discovery Limited to Discovery Finance Company Europe Limited of R13 million (2022: R25 million) and Discovery Holdings Europe Limited of R18 million (2022: R28 million).

ii Amortisation of initial financial guarantee contracts over the term of the loan. Refer to Company note 20 for a list of all the guarantees that Discovery Limited has issued.

15. NET FAIR VALUE LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

R million	Company 2023	Company 2022
Net fair value losses/(gains) on non-hedge derivatives	2	2
	2	2

16. MARKETING AND ADMINISTRATION EXPENSES

R million	Company 2023	Company 2022
Marketing and administration expenses comprises:		
– Audit fees	6	6
– Professional fees	7	11
– Other	3	2
	16	19

Notes to the Company annual financial statements *continued*

for the year ended 30 June 2023

17. MOVEMENT IN ALLOWANCE FOR EXPECTED CREDIT LOSSES¹

R million	Company 2023	Company 2022
Financial guarantee contracts:		
- Discovery Bank Limited	1	(*)
- Discovery Central Services Proprietary Limited	*	(*)
- Discovery Finance Company Europe Limited	7	-
	8	(*)

* Amount is less than R500 000.

1 In determining the expected credit loss, credit ratings are internally assigned using the RW rating scale. Refer to note 1.3 Credit risk, for more information.

	12 month credit losses	Lifetime credit losses	Total
30 June 2023			
Balance at beginning of the year	(16)	-	(16)
Decrease in allowance	8	-	8
Balance at end of the year	(8)	-	(8)
30 June 2022			
Balance at beginning of the year	(16)	-	(16)
Increase in allowance	(*)	-	(*)
Balance at end of the year	(16)	-	(16)

* Amount is less than R500 000.

18. TAXATION

R million	Company 2023	Company 2022
Charge for the year:		
Current taxation	47	*
Normal taxation		
- prior year under/(over) provision	*	(*)
- current year charge	47	*
Deferred taxation	77	31
- prior year under/(over) provision	*	(*)
- current year charge	77	31
Total income tax expense recognised in profit or loss	124	31

* Amount is less than R500 000.

	%	%
Taxation rate reconciliation		
Effective taxation rate	3.5	18.8
Capital profits and dividend income	24.2	61.0
Exempt income	0.2	-
Disallowed expenditure: Capital in nature	(0.6)	(44.1)
Prior year over provision	-	0.5
Taxable Income: International tax adjustments	(0.3)	(6.5)
Change in tax rate	-	(1.5)
Difference in tax rate	*	(0.2)
Standard rate of taxation	27.0	28.0

The current tax rate for South African entities in a tax paying position is 27% (2022: 28%). Discovery, a holding company listed on the JSE, uses the South African tax rate for its tax rate reconciliation since it is based in South Africa and the most significant operations are in South Africa.

Notes to the Company annual financial statements *continued*

for the year ended 30 June 2023

19. CASH FLOW INFORMATION

19.1 Cash generated by operations

R million	Company 2023	Company 2022
Profit before taxation	3 525	164
Adjusted for:		
Interest received	(863)	(688)
Dividends received	(3 193)	(361)
Finance costs	943	937
Non-cash items:		
Movement in expected credit losses	(8)	*
Amortisation of financial guarantee contracts	(5)	(3)
Fair value losses/(gains) on derivatives not designated as hedging instruments	2	(73)
Unrealised foreign exchange gain	(386)	(16)
Working capital changes:		
Loans and receivables	(78)	1 105
Trade and other payables and loans from subsidiaries	1 927	2
	1 864	1 067

19.2 Taxation paid

R million	Company 2023	Company 2022
Balance at beginning of the year	(1)	*
Current taxation charged for the year in the income statement	(47)	*
Balance at end of the year	45	1
	(3)	*

19.3 Increase in investments in subsidiaries

R million	Company 2023	Company 2022
Balance at beginning of the year	29 027	27 458
Value of share options issued to subsidiary staff	546	327
Financial guarantee contracts raised	-	1
Deemed dividends	27	125
Long-term incentive plan share recharges	(514)	(443)
Balance at end of the year	(30 579)	(29 027)
Increase in investment in subsidiary	(1 493)	(1 559)

19.4 Long-term borrowings

R million	Company 2023	Company 2022
Balance at beginning of the year	10 584	8 858
Interest accrued	860	686
Interest paid	(840)	(683)
Increase in borrowings	2 650	2 418
Raising fees capitalised	(9)	(8)
Raising fees amortised	7	13
Repayment of borrowings	(3 304)	(700)
Balance at end of the year	9 948	10 584

19.5 Cash and cash equivalents

R million	Company 2023	Company 2022
Cash at bank and in hand	256	93
Short-term deposits	26	514
	282	607

* Amount is less than R500 000.

Notes to the Company annual financial statements *continued*

for the year ended 30 June 2023

19. CASH FLOW INFORMATION *continued*

19.6 Interest received

R million	Company 2023	Company 2022
At amortised cost interest income, using the effective interest rate	863	688
Interest received from Loans to subsidiaries (note 5)	(638)	(583)
- accrued	(836)	(676)
- received	198	93
Interest received from Loans to BEE partners (note 6)	6	(3)
- accrued	(15)	(9)
- received	21	6
	231	102

20. FINANCIAL GUARANTEE CONTRACTS

R million	Company 2023	Company 2022
Discovery Limited has provided guarantees for the following subsidiaries:		
Discovery Finance Company Europe Limited	i -	3
Discovery Central Services Proprietary Limited	ii 12	16
Discovery Holdings Europe Limited	iii -	5
Discovery Bank Limited	iv -	1
Total	12	25

- i Discovery Limited has issued guarantees for 2 facilities in respect of the obligations of Discovery Finance Company Europe Limited for the amounts of GBP80 million and GBP34 million. Both these facilities were repaid during the current financial year. In December 2022, a new facility of GBP56 million was entered into and Discovery Limited has guaranteed this loan. As at 30 June 2023, Discovery Finance Company Europe Limited owed GBP54 million (2022: GBP56 million) in respect of these borrowing facilities.
- ii Discovery Limited has guaranteed the following borrowing facilities of Discovery Central Services Proprietary Limited:
 - R650 million facility to fund the systems build of Discovery Bank. The full amount has been drawn down and the balance outstanding at 30 June 2023 is R445 million (2022: R494 million).
 - a 5-year borrowing facility for an amount of R1.4 billion. These funds were acquired for general corporate purposes and the full amount has been drawn down and the balance outstanding at 30 June 2023 is R1 408 million (2022: R1 417 million).
 - a R1.5 billion Financial Credit Facility. The balance outstanding at 30 June 2023 is R151 million (2022: Rnil).
 - a R691 million facility and the full amount has been drawn down. The balance outstanding at 30 June 2023 is R694 million (2022: R691 million).
 - a R750 million facility, undrawn at 30 June 2023. This facility expired subsequent to year end on 31 July 2023 and was renewed for a further 12 months to 31 July 2024.
- iii During 2020, Discovery Holdings Europe Limited entered into borrowing facilities for an amount of GBP100 million to fund its operations. In December 2022, GBP25 million was refinanced. This facility has been guaranteed by Discovery Limited.
- iv In the prior year, Discovery Limited issued a guarantee for a facility in respect of the obligations of Discovery Bank Limited for the amount of R300 million. This facility was settled during the current financial year.

21. EVENTS AFTER REPORTING DATE

Refer to Group note 44 for a list of the events after reporting date.



DISCOVERY
ANNEXURES





Annexure A – Group structure

for the year ended 30 June 2023

Discovery is directly and indirectly the holding company of:

Audited information	Classification	Percentage Holding at 30 June 2023	Country
Discovery Limited which holds the interest in:			
Cogence Proprietary Limited	<i>Subsidiary</i>	100%	South Africa
Discovery Bank Holdings Limited which holds the interest in:	<i>Subsidiary</i>	100%	South Africa
– Discovery Bank Limited	<i>Subsidiary</i>	100%	South Africa
Discovery Central Services Proprietary Limited which holds the interest in:	<i>Subsidiary</i>	100%	South Africa
– Glucose Proprietary Limited	<i>Associate</i>	25%	South Africa
Discovery Connect Distribution Services Proprietary Limited	<i>Subsidiary</i>	100%	South Africa
Discovery Finance Company Europe Limited	<i>Subsidiary</i>	100%	United Kingdom
Discovery Group Europe Limited which holds the interest in:	<i>Subsidiary</i>	100%	United Kingdom
– Discovery Holdings Europe Limited which holds the interest in:	<i>Subsidiary</i>	100%	United Kingdom
◦ Better Health Insurance Advice Limited	<i>Subsidiary</i>	100%	United Kingdom
◦ Healthcode Limited	<i>Associate</i>	20%	United Kingdom
◦ Vitality Corporate Services Limited which holds an interest in:	<i>Subsidiary</i>	100%	United Kingdom
– Healthcare Purchasing Alliance Limited	<i>Joint venture</i>	50%	United Kingdom
– Vitality Healthy Workplace Limited	<i>Subsidiary</i>	100%	United Kingdom
◦ Vitality Invest Trustee Company Limited	<i>Subsidiary</i>	100%	United Kingdom
◦ Vitality Life Limited which holds the interest in:	<i>Subsidiary</i>	100%	United Kingdom
– Vitality Health Insurance Limited which holds the interest in:	<i>Subsidiary</i>	100%	United Kingdom
◦ Vitality Health Limited	<i>Subsidiary</i>	100%	United Kingdom
– Discovery Offshore Holdings No.2 Limited	<i>Subsidiary</i>	100%	United Kingdom
Discovery Health Proprietary Limited, which holds the interest in:	<i>Subsidiary</i>	100%	South Africa
– Discovery Administration Services Proprietary Limited	<i>Subsidiary</i>	100%	South Africa
– Discovery Third Party Recovery Services Proprietary Limited	<i>Subsidiary</i>	100%	South Africa
– Discovery Healthcare Service Proprietary Limited which holds the interest in:	<i>Subsidiary</i>	100%	South Africa
◦ Discovery Medical Suppliers Proprietary Limited	<i>Subsidiary</i>	100%	South Africa
◦ Grove Nursing Services Proprietary Limited	<i>Subsidiary</i>	100%	South Africa
◦ Southern Rx Distributors Proprietary Limited	<i>Subsidiary</i>	100%	South Africa
– Medical Services Organisation International Proprietary Limited which holds an interest in:	<i>Subsidiary</i>	70%	South Africa
◦ Mediguide Africa Proprietary Limited	<i>Associate</i>	25%	South Africa
◦ Medical Services Organisation Proprietary Limited	<i>Subsidiary</i>	51%	Swaziland
– Medical Services Organisation International Limited which holds an interest in:	<i>Subsidiary</i>	70%	Isle of Man
◦ Medical Services Organisation S.A (previously Global Access Health Network SARL)	<i>Subsidiary</i>	80%	Democratic Republic of Congo
◦ MSOI Health Risk Managers Limited	<i>Subsidiary</i>	85%	Nigeria
– Quantum Health SA Proprietary Limited	<i>Joint venture</i>	50%	South Africa
– Nanolabs Health Solutions Proprietary Limited	<i>Subsidiary</i>	52%	South Africa
Discovery Insure Limited which holds an interest in:	<i>Subsidiary</i>	100%	South Africa
– Discovery Telematics Services Proprietary Limited which holds an interest in:	<i>Subsidiary</i>	100%	South Africa
◦ Bi-Me Proprietary Limited	<i>Associate</i>	33%	South Africa
◦ ZeroG Network Proprietary Limited	<i>Associate</i>	19%	South Africa
Discovery Life Limited	<i>Subsidiary</i>	100%	South Africa
Discovery Life Collective Investments Proprietary Limited	<i>Subsidiary</i>	100%	South Africa
Discovery Life Investment Services Proprietary Limited which holds an interest in:	<i>Subsidiary</i>	100%	South Africa
– Discovery Life Nominees Proprietary Limited	<i>Subsidiary</i>	100%	South Africa
Discovery Mauritius Asset Management which holds an interest in:	<i>Subsidiary</i>	100%	Mauritius
– Discovery International Collective Investments PLC	<i>Subsidiary</i>	100%	Mauritius
Discovery Partner Markets Asia Private Limited which holds an interest in:	<i>Subsidiary</i>	100%	Singapore
– Discovery Partner Market Services Private Limited which holds an interest in:	<i>Subsidiary</i>	100%	Singapore
◦ Vitality (Shanghai) Business Consulting Services Company Limited	<i>Subsidiary</i>	100%	China
Discovery Vitality Proprietary Limited	<i>Subsidiary</i>	100%	South Africa
Ping An Health Insurance Company of China Limited	<i>Associate</i>	25%	China
Vitality Group International Incorporated which holds an interest in:	<i>Subsidiary</i>	100%	United States
– AIA Vitality (Hong Kong) Limited	<i>Joint venture</i>	44%	Hong Kong
– Amplify Health Asia Private Limited	<i>Associate</i>	25%	Singapore
– Cambridge Mobile Telematics Incorporated	<i>Associate</i>	9%	United States
– Discovery Vitality Australia Proprietary Limited which holds an interest in:	<i>Subsidiary</i>	100%	Australia
◦ Quantum Health Proprietary Limited which holds an interest in:	<i>Joint venture</i>	50%	Australia
– Health Outcomes Australia Proprietary Limited	<i>Joint venture</i>	100%	Australia
– Quantum Health Hong Kong Proprietary Limited	<i>Joint venture</i>	100%	Hong Kong
◦ Quantum Health Limited UK	<i>Joint venture</i>	50%	United Kingdom
– The Vitality Group Incorporated which holds an interest in:	<i>Subsidiary</i>	100%	United States
◦ The Vitality Group Limited Liability Company	<i>Subsidiary</i>	100%	United States
– Vitality International Health Insurance Company Limited	<i>Subsidiary</i>	100%	Isle of Man
– Vitality Management Company Limited Liability Company	<i>Subsidiary</i>	100%	United States

Vitality Green Proprietary Limited was registered in South Africa in 2023. No shares have been issued yet.



Annexure A – Group structure *continued*

for the year ended 30 June 2023

In addition to the above subsidiaries, Discovery consolidates unit trusts which are deemed to be under the Group's control in terms of IFRS 10 *Consolidated Financial Statements*. The consolidated unit trusts include:

Discovery Aggressive Dynamic Asset Optimiser Fund of Funds

Discovery Balanced Fund

Discovery Cautious Balanced Fund

Discovery Conservative Dynamic Asset Optimiser Fund of Funds

Discovery Diversified Income Fund

Discovery Equity Fund

Discovery Flexible Property Fund

Discovery Global Equity Feeder Fund

Discovery Global Real Estate Securities Feeder Fund

Discovery Global Value Equity Feeder Fund

Discovery Moderate Balanced Fund

Discovery Moderate Dynamic Asset Optimiser Fund of Funds

Discovery Money Market Fund

Discovery Target Retirement 2015 Fund

Discovery Target Retirement 2020 Fund

Discovery Target Retirement 2025 Fund

Discovery Target Retirement 2030 Fund

Discovery Target Retirement 2035 Fund

Discovery Target Retirement 2040 Fund

Discovery Target Retirement 2045 Fund

Discovery Target Retirement 2050 Fund

Discovery Target Retirement 2055 Fund

Discovery Target Retirement 2060 Fund

Discovery Global Multi Asset Fund (previously named
Discovery Worldwide Best Ideas Fund)

Discovery Strategic Bond Fund

Discovery Global Conservative Fund (Mauritius)

Discovery Global Moderate Fund (Mauritius)

Discovery Global Growth Portfolio Fund (Mauritius)

Annexure B – Group accounting policies

for the year ended 30 June 2023

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented. Other interpretations, amendments and annual improvements effective for the first time in the current year have been considered and have no impact on the current reporting period.

1. Basis of presentation

The consolidated and separate Annual Financial Statements have been prepared in accordance with IFRS Accounting Standards, IFRIC Interpretations, the South African Institute of Chartered Accountants (SAICA), Financial Reporting Guides as issued by the Accounting Practices Committee, the JSE Limited Listings and Debt Listings Requirements as well as the South African Companies Act. They have been prepared in accordance with the going concern principle using the historical cost basis except where otherwise stated in the accounting policies below.

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

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

New standards and amendments which became effective during the financial year

Discovery has elected to early adopt the requirements of IFRS 9 general hedge accounting. Refer to accounting policy 10 Derivative financial instruments. There were no other new standards, amendments, and interpretations which became effective during the year that had a material impact on recognised amounts.

New standards and amendments to published standards not yet effective

- Discovery 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 Discovery'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.
- For IFRS 17, please refer to accounting policy note 30.

2. Consolidation

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

2.1 Business combinations

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a business is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, Discovery recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, being the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired, is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

2. Consolidation *continued*

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

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

Discovery controls these unit trusts as it has the right to the variable returns in the form of fund management fees that it receives from its involvement with the funds. Furthermore, Discovery exercises control over these unit trusts through the setting of the mandates as well as the appointment of the independent trustees. Discovery can, within the regulatory framework, also amend the mandates and change the independent trustees.

Of the 27 (2022: 27) Discovery Unit Trusts consolidated at 30 June 2023, Discovery holds less than a 50% economic interest in 1 (2022: 1) of these funds. Refer to Annexure A for a list of consolidated unit trustees.

2.3 Subsidiaries

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

Intra-group transactions, balances and unrealised gains or losses on intra-group transactions are eliminated. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by Discovery. Intra-group foreign exchange gains or losses arising on intra-group balances do not eliminate.

2.4 Associates and joint arrangements

ASSOCIATES AND JOINT VENTURES

Associates are entities over which Discovery has the ability to exercise significant influence but not control over the financial and operational policies. Significant influence is determined based primarily on the percentage of voting rights, generally between 20% and 50%, together with other factors such as board participation and participation in the policy-making process. In certain instances, Discovery holds less than 20% equity interests, but holds rights that still give it significant influence. These rights include activities such as board representation and material transactions. These are equity accounted.

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

Discovery recognises its interest in an associate or a joint venture as an investment and accounts for that investment using the equity method. Under the equity method, on initial recognition, the investment in an associate or a joint venture is recognised at cost. The carrying amount is adjusted to recognise Discovery's share of the post-acquisition profit or loss of the investee and is recognised in profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Dividends received from the investee are presented as part of investing activities in the Statement of cash flows. Adjustments to the carrying amount may also be necessary for changes in Discovery's proportionate interest in the investee arising from changes in the investee's other comprehensive income. Such changes include those arising from foreign exchange translation differences. Discovery's share of those changes is recognised in other comprehensive income. Discovery will discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture.

Discovery discontinues equity accounting when the carrying amount of the investment in an associate or a joint venture reaches zero, unless it has incurred obligations, guaranteed obligations or made payments on behalf of the associate or the joint venture. Discovery resumes equity accounting only after its share of the profits equals the share of losses not recognised. Discovery increases the carrying amount of investments with its share of the associate's or joint venture's income when equity accounting is resumed.

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

Unrealised gains or losses on transactions between Discovery and its associates or joint ventures are eliminated to the extent of the Group's interest in these entities unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group. The carrying amounts of the equity-accounted investments are tested for impairment.



Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

2. CONSOLIDATION *continued*

FINANCIAL GUARANTEE CONTRACTS (FGCs) ISSUED OVER THE DEBT OF AN EQUITY ACCOUNTED INVESTMENT

Discovery accounts for financial guarantee contracts (FGCs) under IFRS 9 *Financial Instruments* (IFRS 9) when Discovery becomes a party to the contract.

FGCs are contracts which require Discovery, 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. Discovery may issue FGCs over the debt of an equity accounted investment. Discovery measures the FGC:

- Initially at fair value, and
- Subsequently, at the higher of:
 - The amount of expected credit losses determined under IFRS 9 (calculation 1), 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* (calculation 2).

In instances where Discovery issues FGCs over the debt of a related entity that is equity accounted in accordance with the provisions of IAS 28 *Investments in Associates and Joint Ventures*, Discovery determines the fair value of the FGCs. These FGCs issued over the debt of an associate entity are seen as transactions in the capacity as shareholder and are treated as capital contributions.

In some instances, the other associate entity can also pay a premium to the issuer of the FGCs. Discovery then determines if the price represents the fair value or whether there is still an additional cost of the FGC that Discovery should recognise.

In the instance where Discovery does not receive all the premiums upfront, it recognises the FGC using a net approach. The net approach requires that Discovery presents the financial guarantee as its fair value less all future premiums.

Discovery subsequently recognises financial guarantee fee income as follows:

- Amortises the fair value recognised on initial recognition over the period that the FGC is outstanding, being generally the period of the underlying debt.
- Recognises any premiums received for issuing the FGC as financial guarantee fee income, and
- Where Discovery has applied the net approach, Discovery adjusts for the premiums subsequently received to ensure it takes into account all premiums in using calculation 2.

Discovery calculates the lifetime expected credit losses for purposes of calculation 1.

Where the outcome is such that calculation 1 is more than calculation 2, differences are recognised and presented as part of expected credit losses.

Where the outcome is such that calculation 2 is more than calculation 1, no adjustments are required. Any previously recognised expected credit losses can be reversed but limited to the total value previously recognised.

Discovery derecognises FGCs when the FGC is extinguished, expires, or the underlying debt is extinguished.

At the date of derecognition:

- Where the FGC is extinguished in exchange for a new FGC to the same holder and in respect of the same guaranteed entity, the FGC derecognised is seen as compensation for the new FGC, or
- In all other instances, the FGC is derecognised with an associated gain or loss in profit or loss.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

2. Consolidation *continued*

2.4 Associates and joint arrangements *continued*

ASSOCIATES AND JOINT VENTURES *continued*

A decrease in interest while an investment continues to be classified as an associate can also result from a dilution. The gain or loss on the dilution of an equity-accounted investee is calculated as the difference between:

- the entity's ownership interest in the new assets received by the investee for the subscription of the new shares (e.g. the cash paid by the other party); and
- the reduction in ownership interest in the previous carrying amount

JOINT OPERATIONS

A joint operation is a joint arrangement whereby the parties have joint control of an arrangement and rights to the assets and obligations for the liabilities relating to the arrangement.

Discovery recognises its share of those assets, liabilities, revenues and expenses that the operators incur jointly.

3. Foreign currency translation

3.1 Functional and presentation currency

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

3.2 Transactions and balances

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

- The settlement of trading transactions is included in the results of operating activities in profit or loss,
- The settlement of financing transactions and 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, and
- Qualifying cash flow hedges are deferred in the Statement of other comprehensive income and are recycled to profit or loss in the periods in which the hedged item affects profit or loss.

3.3 Group companies

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognised in the foreign currency translation reserve in the Statement of other comprehensive income. When a foreign operation is partially disposed of or sold, such exchange differences are recognised in profit or loss as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

4. Property and equipment

Items of property and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses.

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

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment. Property and equipment are depreciated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Owner occupied property	40 years
Leasehold improvements	Shorter of estimated life or period of lease
Leased asset	3 – 15 years
Computer equipment	3 – 7 years
Furniture, fittings and building fit out	5 – 15 years
Motor vehicles	4 years
Telematics devices	2 – 5 years

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

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

5. Intangible assets

5.1 Computer software development costs

Items of computer software development costs are measured at cost, less accumulated amortisation and any accumulated impairment losses.

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

- It is technically feasible to complete the software product so that it will be available for use.
- Management intends to complete the software product and use or sell it.
- There is an ability to use or sell the software product.
- It can be demonstrated how the software product will generate probable future economic benefits.
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available, and
- 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. For cloud computing arrangements, implementation costs that do not meet the requirements to be capitalised as an asset are expensed as incurred.

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

Computer software development costs are recognised as assets from the point where the recognition criteria above are satisfied and are amortised once the asset is ready for use over their useful lives. The amortisation is reflected under marketing and administration expenses in profit or loss.

If significant parts of computer software development costs have different useful lives, then they are accounted for as separate items (major components) of computer software development costs. Computer software development costs recognised as assets are amortised over their useful lives.

Software applications	3 – 7 years
Core Systems	16 years (2022: 15 years)

An intangible asset is derecognised:

- On disposal, or
- When no future economic benefits are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. Discovery recognises such gains or losses in profit or loss when the intangible asset is derecognised.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

5. Intangible assets *continued*

5.2 Other intangible assets

Discovery does not recognise costs incurred to internally develop trademarks, patents and similar rights and assets, including franchises and management contracts. These costs are recognised in profit or loss in the period in which they are incurred.

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

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

6. Deferred acquisition costs

The direct costs of acquiring new business, which are expected to be recovered out of future revenue margins, are deferred over the period in which the related performance obligations are satisfied and recognised as an asset in the Statement of financial position. The accounting policies relating specifically to deferred acquisition costs for insurance contracts are detailed in accounting policies 13.

7. Goodwill

Goodwill arises on the acquisition of businesses and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired.

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

The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value-in-use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

8. Impairment of non-financial assets

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that goodwill may be impaired.

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

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

Other assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

9. Financial instruments

Discovery initially recognises financial instruments when it becomes a 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. For instruments classified at fair value through profit or loss attributable transaction costs are immediately expensed.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

9. Financial instruments *continued*

9.1 Financial assets

9.1.1 RECOGNITION, CLASSIFICATION, MEASUREMENT AND DERECOGNITION

At initial recognition, the Group considers the appropriate classification as at Amortised cost (AC), Fair value through profit or loss (FVTPL) or Fair value through other comprehensive income (FVOCI) for debt instruments. Discovery considers:

- Whether the contractual cash flows of the financial asset are solely payments of principal and interest (SPPI). Such contractual cash flows are consistent with a basic lending arrangement and compensate Discovery for the elements of time value of money, credit risk and other basic lending risks and a profit margin. Examples of such instruments include Treasury Bills, Government Bonds, cash and fixed-term deposits. It excludes instruments such as equity-linked financial assets or puttable investments in unit trusts, and
- The business model for holding the financial assets.

Based on the criteria above, Discovery will classify a debt instrument as:

- Amortised cost, if the financial asset meets the SPPI criterion and is held for the purpose to collect the contractual cash flows. Examples of this include loans and advances to customers (e.g. credit card advances) and fixed-term deposits;
- Fair value with changes in other comprehensive income (debt instruments), if the financial asset meets the SPPI criterion and is held either to collect contractual cash flows or for sale. Discovery currently does not hold financial assets in this category. However, specified associates do have certain of their debt instruments in the category.
- Fair value through profit or loss, for all other financial assets that do not meet the criteria above (mandatorily). In addition, Discovery can irrevocably designate financial assets into this category if this will reduce measurement inconsistencies (i.e. 'accounting mismatch') (designated). Discovery's business includes, amongst others, providing unit-linked insurance, unit-linked investment and non-linked insurance products to customers. Financial assets and liabilities in these portfolios are managed to achieve the objectives of the portfolio and to ensure that liabilities are appropriately matched with assets. In considering whether the objective of a portfolio is to collect contractual cash flows or to trade in financial instruments, Discovery considers the purpose for which instruments are held, the methods of risk management in a portfolio, the manner of performance reporting on a portfolio and the basis for determining compensation to managers for asset performance. For those financial assets backing insurance contracts, Discovery measures these financial assets at fair value through profit or loss. Unit-linked investment contracts are also mandatorily classified at fair value through profit or loss.

For equity instruments Discovery is permitted to make the irrevocable election to present changes in fair value in other comprehensive income. However cumulative gains or losses recognised cannot be reclassified to profit or loss on disposal. This election is available on an instrument-by-instrument basis. This election has only been made in the accounting records of specified associates. All other equity instruments are measured at FVTPL.

	Subsequent measurement
Amortised cost (AC)	These instruments are measured at amortised cost using the effective interest method. Movements in the balance of the instrument relate to expected credit losses, interest income and foreign exchange gains and losses, which are recognised on profit or loss.
Fair value through profit or loss (FVTPL)	These instruments are measured at fair value with gains and losses recognised in profit or loss. Movements in this balance are due to fair value gains or losses, interest or dividends, and foreign exchange gains or losses. Dividends are recognised in profit or loss.
Fair value through other comprehensive income (FVOCI) – equity	These instruments are measured at fair value with gains and losses recognised in other comprehensive income. On derecognition, gains and losses accumulated in OCI are not reclassified to profit or loss. Dividends are recognised in profit or loss.
Fair value through other comprehensive income (FVOCI) – debt	These instruments are measured at fair value with changes in fair value recognised in other comprehensive income. Discovery recognises interest using effective interest method, movements in the balance related to expected credit losses, interest income and foreign exchange gains and losses in profit or loss. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

There are no financial assets that have been designated at fair value through profit or loss.

The business model for managing a group of financial instruments is expected to remain stable. In rare instances where the business model changes, there can be a reclassification of the business model. Any reclassifications are applied prospectively from the first day of the first reporting period after the change in business model, with no restatement of any previously recognised gains, losses or interest. Discovery has not had any changes in business models in the current reporting period and consequently there have been no reclassifications.

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and Discovery has also transferred substantially all risks and rewards of ownership with no retention of control of the financial asset.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

9. Financial instruments *continued*

9.1 Financial assets *continued*

9.1.2 EXPECTED CREDIT LOSSES

Expected credit losses are recognised on the following items:

- Debt instruments at amortised cost or fair value with changes in other comprehensive income (FVOCI), which includes treasury bills, banking loans and advances and fixed deposits. This also includes loan commitment for undrawn credit facilities,
- Lease receivables
- Financial guarantee contracts
- Other receivables which are financial assets at amortised cost, and
- Contract receivables and contracts assets with non-insurance customers and cash and cash equivalents.

Discovery has a multitude of different debtors and loans included in other receivables as financial assets, which do not represent a homogeneous group of assets. The approach to determining credit losses varies according to the asset type, past bad debt experience and the potential to incorporate forward-looking information. In certain instances, financial assets have been grouped based on shared characteristics (i.e. debt payment pattern similarities, financial instruments with collateral, debtor type) and expected credit losses determined on a collective basis.

The general expected credit loss approach requires that Discovery assesses the credit risk of the instrument and determine whether there has been a significant increase in credit risk since initial 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. These are referred to as Stage 1 financial assets.
- Where there has been a significant increase in credit risk, expected credit losses are recognised as the lifetime credit losses. These are referred to as Stage 2 or Stage 3 financial assets.

Discovery measures expected credit losses on:

- Financial assets that are not credit-impaired after the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that Discovery expects to receive)
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows, and
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to Discovery if the commitment is drawn down and the cash flows that Discovery expects to receive (adjusted using a credit conversion factor).

Discovery measures assets that are trade receivables, contract assets, and lease receivables using the simplified approach when there is no significant financing component.

The simplified approach does not require Discovery to track the changes in credit risk, but instead requires it to recognise a loss allowance based on lifetime expected credit loss at each reporting date.

Discovery does not recognise expected credit losses on Treasury Bills issued by the South African Reserve Bank as well as cash and cash equivalents receivable on demand due to the assessment that it is immaterial.

SIGNIFICANT INCREASE IN CREDIT RISK

At each reporting date, Discovery assesses whether the credit risk on a financial asset has increased significantly since initial recognition. When making the assessment, an entity uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses.

Qualitative	Quantitative
<ul style="list-style-type: none"> ■ When contractual payments are more than 30 days past due, the presumption is applied in conjunction with Discovery Risk Grade (DRG). ■ The eligibility rules used in the credit underwriting and account management strategies are considered as triggers of a significant increase in credit risk, since they provide a view in terms of how the client performs on their other credit facilities outside Discovery Bank. The rules comprise of a list of statuses at the bureau such as: judgements, adverse, deceased, and debt counselling statuses. ■ Performing (up-to-date and current) accounts that have shown deterioration with respect to Discovery Bank risk grades will also be regarded as a significant increase in credit risk. 	<p>Currently Discovery Bank is not considering the quantitative triggers of a significant increase in credit risk due to lack of origination data on the back book (i.e. DiscoveryCard joint venture data). As the book in Discovery Bank matures, it will be in a position to perform the assessment.</p>

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

9. Financial instruments *continued*

9.1 Financial assets *continued*

CREDIT IMPAIRED AND DEFAULT

Discovery considers a financial instrument to be credit-impaired where current circumstances and economic conditions indicate that the expected future cash flows from a financial instrument may not be recoverable. These circumstances include but are not limited to evidence of financial or operational challenges for the debtor and missed contractual payments.

Default is defined on a facility level and considers both quantitative and qualitative factors as provided in the Basel capital framework. The qualitative criterion requires banks to identify credit deterioration before the exposure becomes delinquent “unlikeliness to pay” events, while the quantitative criterion requires banks to look at the material delinquency status.

The following factors are what constitutes default from a qualitative and quantitative perspective, and it is in line with the South African Reserve Bank definition.

Qualitative	Quantitative
<ul style="list-style-type: none"> ■ The borrower is placed in debt counselling/debt review. ■ The borrower is deceased. ■ The facility has undergone a distressed restructure/special arrangement. ■ The facility has been transferred to charge-off/legal status. ■ The client is under debt review. ■ The client is insolvent, or ■ The facility is written off. 	<p>A material amount on the facility is 90 days or more in arrears, whereby material is set to avoid technical defaults.</p>

WRITE-OFF

Discovery Bank will reduce the gross carrying amount of a financial asset when it has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. Currently the write-off point is based on time in default and is set as 12 months in default. To ensure the appropriateness of the write-off point, the proposed write-off point will be assessed on an annual basis and both time in default and recency of repayments will be considered.

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

9.2 Financial liabilities

At initial recognition, the Group considers the appropriate classification as at Amortised costs (AC) or Fair value through profit or loss (FVTPL).

Financial liabilities are measured at FVTPL if:

- It is held for trading, or
- The financial liabilities are part of a group of financial assets and financial liabilities, which are managed and performance evaluated on a fair value basis. These include financial liabilities held within the portfolios of unit-linked insurance and unit-linked investments.

All other financial liabilities in Discovery, which are in the scope of IFRS 9, are measured at amortised cost.

Qualitative	Subsequent measurement
Amortised cost (AC)	These instruments are measured at amortised cost using the effective interest method. Interest and foreign exchange gains and losses are recognised in profit or loss.
Fair value through profit or loss (FVTPL)	These instruments are measured at fair value with gains and losses and any interest recognised in profit or loss.

Discovery has investment contracts which have financial risk and are consequently recognised and measured in terms of IFRS 9 rather than IFRS 4 *Insurance Contracts*. These contracts are classified at fair value through profit or loss. The policies are linked to the return on underlying financial assets and are directly matched. The movement on Discovery’s own credit risk is considered immaterial. The remaining financial liabilities are carried at amortised cost.

Financial liabilities are derecognised when the obligation is extinguished.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

9. Financial instruments *continued*

9.3 Offset

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

9.4 Modifications

Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability at fair value, including calculating a new effective interest rate, with the difference in the respective carrying amounts being recognised in other gains and losses on financial instruments within non-interest revenue. The date of recognition of a new asset is consequently considered to be the date of initial recognition for impairment calculation purposes.

If the terms are not substantially different for financial assets or financial liabilities, the group recalculates the new gross carrying amount by discounting the modified cash flows of the financial asset or financial liability using the original effective interest rate. The difference between the new gross carrying amount and the original gross carrying amount is recognised as a modification gain or loss within credit impairments (for distressed financial asset modifications) or in other gains and losses on financial instruments within non-interest revenue (for all other modifications).

In assessing whether a financial asset was substantially modified, Discovery performs a qualitative assessment to determine if the terms were substantially modified. In assessing whether a financial liability has been substantially modified, Discovery performs both a qualitative and quantitative (10% threshold) assessment to determine if the terms were substantially modified. For discussion on modifications as a result of the interbank offered rates (IBOR) reforms, refer to accounting policy 10.5.

10. Derivative financial instruments

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

Discovery initially recognises derivative financial instruments in the Statement of financial position at fair value on the date on which a derivative contract is entered into (the best evidence of fair value on day one is the transaction price). Discovery subsequently remeasures these instruments to 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 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 the fair value is positive and as liabilities when the fair value is negative.

10.1 Hedge accounting

HEDGE ACCOUNTING PRIOR TO 1 JULY 2022

Discovery applied IAS 39 for its hedging relationships that met IAS 39 hedging accounting requirements for the financial year ended 30 June 2022 and prior periods.

Where Discovery held derivatives for risk management purposes, and the transactions met the IAS 39 required criteria for documentation and hedge effectiveness, Discovery applied cash flow hedge accounting to the risks being hedged. Discovery assessed on an ongoing basis whether the hedge(s) had been highly effective. A hedge under IAS 39 is regarded as highly effective only when offsetting changes in fair value or cash flows attributable to the hedged risk during the period are within a range of between 80% and 125%.

Discovery duly documented the following as required in IFRS under IAS 39 Financial Instruments: Recognition and Measurement for hedge accounting purposes:

- Relationship between hedging instruments and hedged items
- Risk management objective and strategy for undertaking various hedge transactions, and
- Assessments, 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.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

10. Derivative financial instruments *continued*

10.1 Hedge accounting *continued*

HEDGE ACCOUNTING AFTER 1 JULY 2022

Discovery has elected to adopt and transition to IFRS 9 general hedge accounting prospectively from 1 July 2022. The revised general hedge accounting requirements closer aligned with Discovery's risk management activities. Discovery currently applies hedge accounting to certain cash flow hedges of interest rate risk. The total hedge reserve remains unchanged on transition to IFRS 9 general hedge accounting. The impact on the Group financial results, disclosures or comparative information as a result of these amendments is immaterial.

Under general hedge accounting, Discovery has ensured that derivatives that qualify for cash flow hedge accounting are those derivatives designated as hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction. Discovery applies hedge accounting when the hedging relationship meets the following requirements:

- There is an economic relationship between the hedged item and the hedging instrument.
- The effect of credit risk does not dominate the value changes that result from that economic relationship, and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

Discovery documents at inception of the transaction, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedging relationships. Discovery also documents its assessment, both at the inception of the hedge 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. As of 1 July 2022, the hedge documentation for all Discovery interest rate micro hedges has been updated to comply with the requirements of IFRS 9 general hedge accounting.

10.2 Cash flow hedge

Discovery recognises the effective portion of fair value changes of derivatives that are designated as cash flow hedges in the cash flow hedging reserve in the Statement of other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within Net fair value gains on financial assets at fair value through profit or loss in the Income statement.

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in 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.

10.3 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 Income statement.

10.4 Hedging reserve

The hedging reserve includes the cash flow hedge reserve. The cash flow hedge reserve is used to recognise the effective portion of gains or losses on derivatives that are designated and qualify as cash flow hedges. Amounts are subsequently recycled to profit or loss as follows:

- For the effective portion recycled for hedges relating to share-based payments, as part of marketing and administration expenses (staff costs), and
- For the effective portion recycled for hedges relating to interest rate risk, as part of finance costs.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

10. Derivative financial instruments *continued*

10.5 Interbank offered rates (IBOR) reforms

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some IBORs with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group has exposures to IBORs on its financial instruments, which have been or will be replaced or reformed as part of these market-wide initiatives, such as Libor and Jibar.

The United Kingdom has seen a change from the GBP Libor to the Reformed Sterling Overnight Index Average (SONIA). The South African Reserve Bank has indicated its intention to move away from Jibar and to create an alternative reference rate for South Africa. However, there is currently no indication when the designated successor rate will be made available.

The IBOR reforms will generally result in changes in the basis for determining the contractual cash flows of financial assets and financial liabilities, including derivatives.

For financial assets and liabilities measured at amortised cost, an entity will update the effective interest rate only if:

- The change is necessary as a direct consequence of reform, and
- The new basis for determining the contractual cash flows is economically equivalent to the previous basis.

For the purpose of cash flow hedges (see accounting policy 10.2), in determining whether a forecast transaction is highly probable, an entity will assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of IBOR reforms. The Group anticipates that IBOR reform will impact some of its Jibar risk management and hedge accounting relationships in the longer term. However, as noted, there is no indication of a designated successor rate for Jibar.

11. Cash and cash equivalents

Cash and cash equivalents comprise:

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

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

Due to Discovery's sweeping arrangements in force with various financial institutions, positive and negative cash balances are presented on a net basis for the purpose of presenting cash and cash equivalents in the statement of cash flows.

12. Share capital

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

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

13. Insurance contracts

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

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

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

13. Insurance contracts *continued*

13.1 Recognition and measurement

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

13.1.1 INDIVIDUAL LIFE INSURANCE

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

VALUATION OF POLICYHOLDER LIABILITIES

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

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

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

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

- All margins are at least equal to the compulsory margins prescribed by regulations.
- For the discount rate and lapse rate margins, the direction of the margins may vary based on policy type and duration to ensure that the margin is in the conservative direction, overall.
- Given the level of uncertainty in the best estimate assumptions for lapse, mortality and morbidity, margins are added to protect against future possible adverse experience.
- Additional margins are added to allow for the release of profit over the term of the policy.
- Margins are released over the term of a policy in line with the risk borne.
- The best estimate assumptions and margins are reset at every valuation date to reflect the underlying profitability of the portfolio. Changes to assumptions, models and benefits are therefore offset at the portfolio level through an increase in discretionary margin (or release if sufficient discretionary margin exists). The impact of experience variances (with the exception of lapse and mortality experience) on the end-of-period prospective liability recognised in respect of in-force policies is offset at the portfolio level against an increase in discretionary margin (or release if sufficient discretionary margin exists). The impact of experience variances on the in-period cash flows is accounted for in profit or loss for the period and not offset through changes in discretionary margins.
- Where insurance contracts are backed by assets, other than negative reserves, changes in economic assumptions are recognised directly in profit or loss.
- Discovery has established a procedure to utilise the available discretionary margin in a specified order. First, Discovery will utilise available discretionary margins to absorb all experience items on in-force policies. This is after in-period experience variances which are recognised immediately in profit or loss as noted above. Secondly, Discovery utilises available discretionary margins to offset non-economic assumption variances, model, and benefit changes. Lastly, the discretionary margins are utilised to offset economic assumption changes.
- Where there are insufficient discretionary margins to offset losses arising from negative changes in non-economic assumptions, models and benefit and or negative changes in economic assumptions, those losses in excess of the discretionary margin are recognised immediately in profit or loss; and
- In subsequent periods, positive changes in economic assumptions and positive variance in non-economic assumptions, models and benefits are first recognised separately in profit or loss to extent that it reverses related losses previously recognised in profit or loss. This is in the reversed sequence in which the negative variances were utilised against discretionary margin and any excess previously recognised in profit or loss.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

13. Insurance contracts *continued*

13.1 Recognition and measurement *continued*

13.1.1 INDIVIDUAL LIFE INSURANCE *continued*

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

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

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

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

PREMIUM REVENUE

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

INSURANCE BENEFITS AND CLAIMS

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

ACQUISITION COSTS

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

13.1.2 GROUP LIFE INSURANCE

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

PREMIUM REVENUE

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

INSURANCE BENEFITS AND CLAIMS

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

ACQUISITION COSTS

Acquisition costs for group life insurance contracts comprise all direct costs arising from the sale of insurance contracts. Commission expenses are expensed.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

13. Insurance contracts *continued*

13.1 Recognition and measurement *continued*

13.1.3 HEALTH INSURANCE

These contracts insure policyholders against healthcare-related claims.

PREMIUM REVENUE

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

INSURANCE BENEFITS AND CLAIMS

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

DEFERRED ACQUISITION COSTS

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

FINANCIAL REINSURANCE

Where a financial reinsurance contract is taken out to protect against lapses, all acquisition costs related to the policy are effectively deferred over the period of the reinsurance contract.

13.1.4 SHORT-TERM INSURANCE

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

PREMIUM REVENUE

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

UNEARNED PREMIUM PROVISION

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

REINSURANCE COMMISSION INCOME

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

INSURANCE BENEFITS AND CLAIMS

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

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

SALVAGE AND SUBROGATION RECOVERIES

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

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

ACQUISITION COSTS

Acquisition costs for these contracts comprise all direct costs arising from the sale of insurance contracts and are recognised in profit or loss for monthly policies. For the remainder of the policies, the acquisitions costs are deferred and amortised over the term of the contract.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

13. Insurance contracts *continued*

13.1 Recognition and measurement *continued*

13.1.4 SHORT-TERM INSURANCE *continued*

INSURE FUNDER ACCOUNT (IFA)

This relates to a benefit on a short-term insurance product. A fuel cash back can be used to either reduce the premium that the policyholder is required to pay for the month in question or can be doubled and paid into an IFA.

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

If the policyholder has elected to double the fuel cash back and paid it into an IFA, an IFA liability is raised. The IFA liability is calculated using a discounted cash flow approach and is disclosed in liabilities arising from insurance contracts in the Statement of financial position, and the movement is disclosed in the transfer to liabilities under insurance contracts.

When the member uses funds in the IFA to pay for his excess or other costs, the excess is paid by Discovery, and an expense is included in claims in the income statement.

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

13.2 Embedded derivatives arising from insurance contracts

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

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

13.3 Liability adequacy test

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

13.4 Reinsurance contracts

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

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

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

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

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

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

A reinsurance asset is impaired if, and only if:

- there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the cedant may not receive all amounts due to it under the terms of the contract, and
- that event has a reliably measurable impact on the amounts that the cedant will receive from the reinsurer.

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

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

13. Insurance contracts *continued*

13.5 Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. Amounts due are measured consistently and where applicable, provisions for impairments are recognised.

13.6 Derecognition of insurance contracts

An insurance liability, or a part of such a liability, can be removed from the statement of financial position (derecognised) when, and only when, it lapses or is extinguished i.e., when the obligation specified in the contract is discharged, cancelled or expires.

14. Investment contracts

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

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

Valuation of policyholder liabilities

Investment contracts without fixed benefits are financial liabilities whose fair value is dependent on the fair value of the underlying financial assets and derivatives (unit-linked) which are classified at fair value through profit or loss. Discovery designates these investment contracts to be measured at fair value through profit or loss because it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. See accounting policy 9 for the accounting treatment of the financial assets backing these liabilities.

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

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

Premium revenue

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

Fees on investment contracts

Service fee income on investment management contracts is recognised over time as and when the related performance obligation is satisfied. Refer to accounting policy note 20 Fees on investment contracts are included in fee income from administration business.

A deferred revenue liability (DRL) is recognised as a contract liability to contracts with customers in respect of upfront fees for financial advice, investment management and other services which are directly attributable to a contract that is charged for securing the investment management service contract. The DRL is then released to revenue when the performance obligations are satisfied, which corresponds to the underlying expected profit signature of the contract.

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

Costs of obtaining contracts

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

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

15. Borrowings

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

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

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

16. Income Tax

16.1 Current tax

Discovery calculates and measures current tax at the amount expected to be paid to or recovered from the taxation authorities. Discovery uses the tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

16.2 Deferred tax

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

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

Temporary differences arise primarily from the difference between accounting and tax balances arising from insurance contracts, depreciation of property and equipment, effect of accounting for leases, revaluation of certain financial assets and liabilities, provisions for leave pay, provisions for share-based payments and tax losses carried forward. For leases, Discovery assesses the lease asset and lease liability together as a single transaction and assesses the temporary difference on a net basis.

Deferred tax is not accounted for if it arises from initial recognition of goodwill, or 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 at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.

Deferred tax related to cash flow hedges, which are charged or credited directly to the statement of other comprehensive income, is also credited or charged directly to the statement of other comprehensive income and is subsequently recognised in profit or loss when the gain or loss is realised.

Deferred 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 tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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

17. Employee benefits

17.1 Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if Discovery has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

17.2 Post-employment benefits

Discovery operates defined contribution schemes, the assets of which are held in separate private trustee-administered funds. Discovery pays contributions to these funds on a mandatory basis. These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Discovery employees. Qualified actuaries perform annual valuations. Discovery has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

17.3 Share-based compensation

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

EQUITY-SETTLED SHARE-BASED COMPENSATION PLANS

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

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

CASH-SETTLED SHARE-BASED COMPENSATION PLANS

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

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

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

17. Employee benefits *continued*

17.4 Leave pay

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

17.5 Profit share and bonus plan

Discovery operates several other profit-sharing and bonus compensation arrangements and recognises these when a constructive obligation has been created by past practice. These are calculated with reference to predetermined formulae. The Group has other deferred compensation schemes in place where employees are incentivised based on a variable other than the share price of Discovery Limited, such as embedded value, value of in-force and earnings multiples. Discovery recognises a liability and the related expense is included in employee costs in profit or loss.

18. Trade and other payables

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

Trade payables are recognised initially at fair value net of directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

19. Contingent liabilities

Discovery discloses a contingent liability when:

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

20. Revenue recognition

The Group's primary source of revenue arises on the sale of insurance contracts which are accounted for under IFRS 4 *Insurance Contracts* and are excluded from the scope of IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 is applicable to the Group's revenue from administration business, Vitality income and banking fee and commission income.

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 Group, most 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, the Group considers whether the customer benefits as the entity performs. For most revenue types, Group entities provide stand-ready services to customers, where customers benefit as the entity's 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, the Group 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 probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty is resolved. The Group 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 the Group's contracts routinely include single performance obligations, there is limited complexity in allocating transaction prices to performance obligations.

Payment terms vary across the different revenue types earned by the Group.

Where contracts with customers involve a third party, the Group 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 the Group controls the goods or services before it is transferred to the customer.

For certain contracts with customers, Discovery 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. Discovery considers whether there are costs incurred for the acquisition or 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.

Where the transaction price included in a contract is payable less than 12 months from the date of satisfying the related performance obligation, the practical expedient is applied in that a significant financing component is not recognised. Similarly, where costs of obtaining a contract would be amortised over 1 year or less, the costs are not recognised as a separate asset.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

20. Revenue recognition *continued*

	Fee income from administration business	Vitality income	Banking fee and commission income
Nature of performance obligations	Fee income is recognised on health administration and managed care services rendered. Fee income is also generated on asset administration and fees earned on use of intellectual property. In the respective business, these are considered revenue and are seen as single performance obligations in the respective legal entities. These are presented per reporting entity in the segment report shown in note 1.	Vitality income includes the fee income that members pay to access the Vitality benefit, as well as various activation fees for activating additional benefits. The performance obligation relates to access to the Vitality programme and partner benefits provided to members.	Banking fee and commission income includes banking service fees for banking services. The performance obligation relates to the access to banking and banking services rendered. Commission income relates to the interchange fees which Discovery Bank earns on transactions using debit or credit cards. The performance obligation relates to settlement of transactions via the card network.
When does control pass – Point in time (PIT) vs over time	Performance obligations to provide administration services are considered stand-ready services. The customer obtains control over the service as the entity makes its services available on an “as and when” basis. As a result, revenue is recognised over time, as the respective entity makes the services available based on the passage of time.	Performance obligations to provide access to benefits are considered stand-ready services. The customers obtain benefits when required, over the duration of the contract. As a result, revenue is recognised over time based on the passage of time.	The performance obligation associated with the banking fee and commission income passes over time because the client obtains substantially all of the remaining benefits from the service over the period of the month for which the banking fee was charged.
When are amounts payable	Amounts are billed on health administration and managed care business at the end of the respective month with amounts paid within 30 days. For fees on asset administration business, amounts are disinvested for the units held at the end of the related month. Certain fees, for example, advisor fees are received upfront but are deferred as a contract liability over the expected term of the entity’s performance.	Amounts are billed either monthly, payable within 30 days, or billed on activation of the benefit, payable immediately.	Banking fees are charged monthly, and payment is immediate. Interchange income is charged at a point of payment and settled daily in batch format.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

20. Revenue recognition *continued*

	Fee income from administration business	Vitality Income	Banking fee and commission income
Variable consideration and estimates	<p>There is no potential for amounts of revenue to vary relating to discounts or rebates on the health administration business.</p> <p>For the asset administration business, fees are determined with reference to assets under management at a point in time. There are no benchmark performance-based fees. The nature of the integrated products that Discovery sells related to the invest business allows for fee discounts and rebates to be determined based on client behaviour.</p> <p>Revenue is estimated and recognised in line with the constraint on variable consideration, only to the extent that it is highly probable that there will not be a significant reversal of revenue already recognised once the uncertainty is resolved.</p> <p>The fee discounts and rebates are determined according to a fixed methodology incorporating policyholder specific information including Vitality status. Discovery has experience in estimating these amounts, which are based on a limited number of outcomes. There is no financing component.</p>	<p>There are no adjustments to the transaction price as a result of any variable consideration. There is no significant financing component.</p>	<p>There are no adjustments to the transaction price as a result of any variable consideration. There is no significant financing component.</p>
Costs to capitalise	<p>Where costs are incurred directly to secure a new health administration customer, and the contract is expected to exceed 12 months, the costs are capitalised and amortised over the expected term of the contract. Costs are routinely incurred on the asset administration business related to commission and other incremental costs of entering into the contract. These are capitalised and recognised over the expected duration of the customer relationship. These assets are tested for impairment to the extent that the carrying amount of the asset exceeds the expected remaining net cash inflows from the customer contract.</p>	<p>In respect of the Apple watch benefit, Discovery incurs costs upfront to purchase the device and provide it to the customer. These costs are deferred and recognised over the two-year term of the benefit.</p>	<p>None.</p>

Discovery presents any unconditional rights to consideration separately as a receivable. Discovery assesses a contract asset for impairment in accordance with IFRS 9. An impairment of a contract asset is measured, presented and disclosed on the same basis as a financial asset that is within the scope of IFRS 9. Any impairment losses recognised on any receivables or contract assets arising from Discovery’s contracts with customers, is disclosed separately from impairment losses from other contracts.

Insurance premium revenue

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

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

21. Other non-revenue income

21.1 Investment income

Investment income comprises dividends and interest received from assets held at amortised cost and cash and cash equivalents.

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

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

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

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

22. Leases

IDENTIFICATION OF A LEASE

At inception of a contract, Discovery assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, Discovery uses the definition of a lease in IFRS 16.

Contracts where the service provider has a substantive right to substitute the asset for an alternative asset during the lease term is not regarded as a lease, but instead a service contract. Accordingly, these contracts are not accounted for in accordance with IFRS 16. For Discovery, such contracts include items such as vending machines.

22.1 As a lessee

At commencement or on modification of a contract that contains a lease component, Discovery allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property Discovery has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Discovery recognises a right-of-use asset and a lease liability at the lease commencement date. Discovery presents right-of-use assets in 'Property and equipment' and lease liabilities in 'Borrowings at amortised cost' in the Statement of financial position.

Discovery leases the following assets with a range of lease terms:

- Large offices	5 – 15 years
- Small offices/Franchise offices (SA only)	1 – 3 years
- Computer equipment (e.g. servers) (SA only)	3 – 4 years
- Motor vehicles (UK only)	3 years

MEASUREMENT

LEASE LIABILITY

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. Generally, Discovery uses its incremental borrowing rate as the discount rate.

Discovery determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased. The incremental borrowing rates were calculated for each legal entity within Discovery that entered into lease arrangements. The incremental borrowing rate considers a base interest rate reflective of the jurisdiction in which the legal entity operates (South Africa, United Kingdom and United States of America), the term of the lease arrangement and the nature of the assets.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

22. Leases *continued*

22.1 As a lessee *continued*

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments, less any lease incentives receivable.
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.
- Amounts expected to be payable under a residual value guarantee, and
- The exercise price under a purchase option that Discovery is reasonably certain to exercise, lease payments in an optional renewal period if Discovery is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless Discovery is reasonably certain not to terminate early.

Extension or termination options are included in a number of the building leases across Discovery. These terms are used to maximise operational flexibility in terms of managing contracts. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are considered in the lease term when there is reasonable certainty that those options will be exercised.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in Discovery's estimate of the amount expected to be payable under a residual value guarantee, if Discovery changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

RIGHT-OF-USE ASSET

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, including lease incentives received, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, less any lease incentives received. Discovery receives incentives such as reimbursements for installations or rent-free periods.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to Discovery by the end of the lease term or the cost of the right-of-use asset reflects that Discovery will exercise a purchase option.

In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

SHORT-TERM LEASES AND LOW-VALUE ITEMS

Discovery has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. Discovery recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Leases of low-value assets relate to those categories of assets which at inception of the lease typically have a value, if bought new, of no more than approximately R70 000. For Discovery, these categories include computer equipment such as desktops, laptops, monitors and related IT peripherals.

Short-term leases are those leases with a lease term of less than 12 months.

22.2 As a lessor

At inception or on modification of a contract that contains a lease component, Discovery allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

CLASSIFICATION

To classify the lease, Discovery makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

As part of this assessment, Discovery considers indicators such as whether the lease is for the major part of the economic life of the asset, the specialised nature of the asset and the present value of lease payments.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

22. Leases *continued*

22.2 As a lessor *continued*

Discovery leases out portions of its leased property in the form of subleases. Discovery has classified these leases as operating leases.

MEASUREMENT

As Discovery is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying leased asset.

If an arrangement contains lease and non-lease components, Discovery applies IFRS 15 Revenue from Contracts with Customers to allocate the consideration in the contract.

Discovery recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.

23. Marketing and administration expenses

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

24. Finance costs

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

In addition, finance costs include any recycled gains or losses from other comprehensive income arising from cash flow hedges of interest rates, amortisation of financing related fees such as loan commitment fees and letter of credit fees as well as modification gains and losses on borrowings.

25. Direct and indirect taxes

Direct taxes include South African and foreign jurisdiction corporate tax payable and are disclosed as taxation in profit or loss. Refer to accounting policy 16.

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

26. Dividend distribution

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

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

27. Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held for sale or held for distribution and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held for sale, intangible assets and property and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity-accounted. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets and liabilities classified as held for sale are presented separately from the other assets and liabilities in the Statement of financial position.

28. Government grants

Discovery obtains government grants, e.g. from the Sector Education and Training Authority (SETA) to access the Skills Development Levies imposed on Discovery's employees to encourage learning and development in South Africa. Discovery includes government grants in profit or loss using the income approach, including costs for skills programs and deducting these from grants that cover specific expenses in profit or loss.

Discovery recognises government grants as income only if they are reasonably assured of receiving them and fulfilling all associated conditions. There are no other forms of government grants from which Discovery has directly benefited, and there are no conditions that Discovery has not fulfilled in recognition of the government grants recognised.

29. Normalised headline earnings

Discovery assesses its performance using Normalised Headline Earnings, an alternative non-IFRS profit measure, alongside its IFRS profit. Management considers that Normalised Headline Earnings Per Share (NHEPS) is an appropriate alternative performance measure to enhance the comparability and understanding of the financial performance of Discovery.

Non-IFRS measures are not uniformly defined or used by all entities and may not be comparable with similarly labelled measures and disclosures provided by other entities. Discovery has set out its policy to calculate NHEPS below.

Discovery calculates headline earnings in accordance with the latest SAICA Circular 'Headline Earnings'. NHEPS is calculated by starting with headline earnings and adjusted to exclude material items that are not considered to be part of Discovery's normal operations as follows:

- Once-off transactions, for example restructuring costs, transaction costs related to interest rate derivatives and initial deferred tax assets raised on previously unrecognised assessed losses.
- Unusual items – Discovery considers items to be unusual when they have limited predictive value or it is reasonable that items of a similar nature would not necessarily arise for several future annual reporting periods. These adjustments include those gains or losses impacting profit or loss associated with changes in economic assumptions used by long-term insurers in the Group to the extent those are recognised in profit or loss, net of any gains or losses on derivatives to offset such changes in economic assumptions, or
- Income or expenses not considered to be part of Discovery's normal operations, for example, amortisation of intangibles from business combinations and fair value gains or losses on foreign exchange contracts not designated as hedges.

In addition, specified items may be included in NHEPS that may otherwise be included if the income is considered part of Discovery's normal operations, for example 'gains on disposal of intellectual property', if the sale arises from the monetisation of intellectual property rights. Management is responsible for the calculation of NHEPS and determining the inclusions and exclusions in accordance with the policy. The Discovery Limited Audit Committee (DLAC) reviews the normalised headline earnings for transparency and consistency.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

29. Normalised headline earnings *continued*

During the financial period, Discovery has made the following adjustments in the determination of NHEPS:

Adjustment	Explanation
Changes in economic assumptions in excess of available discretionary margin (in future, this will also include the reversals of economic assumptions recognised in profit or loss)	<p>Economic assumptions include changes associated with interest rates as well as currency exchange rates. The adjustment reflects changes in economic assumptions for the time value of money and forex rates and the effect on insurance contracts resulting from changes in the long-term interest rates as well as forex rates.</p> <p>Under IFRS, where there are insufficient discretionary margins to offset losses arising from negative changes in economic assumptions, those losses in excess of the discretionary margin are recognised immediately in profit or loss. In subsequent periods, positive changes in economic assumptions are first recognised separately in profit or loss to the extent that it reverses related losses previously recognised in profit or loss before it increases discretionary margins.</p> <p>The effect of these economic assumptions is unusual and provides little predictive value for future periods. This is because the value is dependent on available discretionary margins at a given point in time and the long-term interest rates which could vary period to period – thereby introducing volatility and inability to be predictive on results during future periods. These adjustments are therefore excluded in assessing the normal business operations of Discovery.</p>
Intrinsic fair value changes on specified derivatives to offset changes in economic assumptions	<p>Long-term insurance business lines, for example VitalityLife enters into interest rate derivative instruments to offset the impact of changes in economic assumptions on insurance contracts.</p> <p>The adjustment reflects the intrinsic value of fair value gains or losses on these derivative instruments. The intrinsic value of fair value gains or losses on these derivative instruments are excluded from NHEPS to be consistent with the treatment of the changes in economic assumptions recognised in profit or loss.</p>
Fair value (gains)/losses on foreign exchange contracts not designated as a hedge	<p>The adjustment reflects fair value gains or losses on foreign exchange contracts entered in anticipation of future capital injections in foreign operations, such as PAC book transfer or Ping An Capital injections. These derivative instruments are not designated as a hedge and as a result, the fair value adjustments are recognised in profit or loss.</p> <p>The fair value adjustments of these derivative instruments can result in volatility in profit or loss and is therefore excluded in assessing the normal business operations of Discovery as it relates specifically to a future once-off transaction.</p>
Amortisation of intangibles from business combinations	<p>The adjustment reflects the amortisation of intangible assets which arose from the purchase of various subsidiaries within Discovery and are recognised in accordance with IFRS 3 <i>Business Combinations</i>.</p> <p>Intangible assets recognised from business combinations provide little predictive value of the earnings from the business, as these assets will not be reacquired, renewed, or replaced once depleted. Discovery also infrequently acquires businesses. The amortisation of these assets is therefore excluded in assessing the normal business operations of Discovery.</p>

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

29. Normalised headline earnings *continued*

Adjustment	Explanation
Deferred tax assets raised on assessed losses	<p>The adjustment reflects the initial recognition of deferred tax assets in respect of assessed losses in prior financial periods, after evaluating that there is future taxable income that will arise in the respective business.</p> <p>The initial recognition of this deferred tax asset results in a once-off income recognised in profit or loss. It provides no predictive value in assessing the normal business operations of Discovery.</p>
Initial expenses related to the PAC book transfer	<p>The adjustment reflects professional fees and legal fees of the book transfer incurred in anticipation of the PAC book transfer.</p> <p>As these expenses relate to a future once-off transaction it provides no predictive value in assessing the normal business operations of Discovery and have therefore been excluded from earnings.</p>
Restructuring Costs	<p>The adjustment reflects restructuring costs which are once-off costs incurred to restructure specified business areas.</p> <p>These transaction costs are infrequent and therefore excluded in assessing the normal business operations of Discovery.</p>
Transaction costs related to interest rate derivatives	<p>Transaction costs paid to acquire specified derivative instruments to offset changes in economic assumptions excluded from NHEPS.</p> <p>These transaction costs are infrequent and therefore excluded in assessing the normal business operations of Discovery.</p>
Changes in tax balances as a result of use of different tax rates	<p>The adjustments reflect the changes in current and deferred tax balances resulting from the use of different tax rates related to items that were excluded from normalised headlines earnings in the current or prior periods.</p>
Gain on disposal of intangible assets – Vitality Group International	<p>The adjustments include those gains on disposal of intangible assets, e.g. in the AmplifyHealth deal, where Vitality Group International monetised a specified regional right to an initial component of its intellectual property rights via sale as opposed to a licensing arrangement.</p> <p>These gains are considered part of normal operations for Discovery.</p>

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

30. New Standards in Interpretation – IFRS 17 Insurance Contracts

Definitions and Abbreviations

The following abbreviations and terms are commonly used within the accounting policy:

Abbreviations	Meaning
CSM	Contractual Service Margin
DAC	Deferred Acquisition Costs
DISCOVERY	Discovery Group
DPF	Direct Participation Features
DRO	Discovery Retirement Optimiser
EFCF	Expected Fulfilment Cash Flows
FINANCIAL RISK	The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, currency exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.
GMM	General Measurement Model
IACF	Initial Acquisition Cash Flows
IFIE	Insurance finance income and expense comprises the change in the carrying amount of the group of insurance contracts arising from: <ul style="list-style-type: none"> ■ the effect of the time value of money and changes in the time value of money, and ■ the effect of financial risk and changes in financial risk
IFRS	IFRS® Accounting Standards
IFRS 4	IFRS 4 <i>Insurance Contracts</i> (effective for Discovery pre-1 July 2023)
IFRS 17	IFRS 17 <i>Insurance Contracts</i> (effective for Discovery post 1 July 2023)
IFRS 17 margins	IFRS 17 margins refers to the contractual service margin plus the risk adjustment
ISE	Insurance Service Expenses
LIC	Liability for Incurred Claims
LRC	Liability for Remaining Coverage
OCI	Other Comprehensive Income
PAA	Premium Allocation Approach
VFA	Variable Fee Approach

30.1 Introduction

The effective date of IFRS 17 *Insurance Contracts* is for reporting periods beginning on or after 1 January 2023, with comparative restatement of the preceding year. IFRS 17 is therefore mandatory for the Discovery Group, effective from 1 July 2023, with comparative restatement of the financial year ended 30 June 2023, including a restatement of the opening Statement of financial position as at 1 July 2022.

IFRS 17 is a new accounting standard for insurance contracts that provides guidelines on recognising, measuring, presenting, and disclosing insurance contracts. It was introduced by the International Accounting Standards Board (IASB) in May 2017. IFRS 17 replaces the previous standard, IFRS 4 *Insurance Contracts*, issued in 2005 as an interim standard with limited prescribed changes to pre-existing insurance accounting practices applied by insurers.

IFRS 17 represents a positive step towards enhancing transparency, comparability, and understanding of how insurers earn profits from insurance contracts, namely insurance service result and financial results. Consistent with the core objectives of IFRS 17, Discovery has taken the opportunity to align its financial reporting approach and processes across its various jurisdictions where insurance activities are undertaken.

The framework established by IFRS 17 outlines the specific requirements that companies must adhere to when reporting information related to both the insurance contracts they issue and the reinsurance contracts they hold. One of the noteworthy distinctions introduced by IFRS 17 pertains to the level of granularity at which insurance contracts are recognised and measured. Discovery is well-prepared to embrace this enhanced granularity, as it aligns with the Group's actuarial approach.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

30. New Standards in Interpretation – IFRS 17 Insurance Contracts *continued*

30.1 INTRODUCTION *continued*

IFRS 17 is not limited to insurance companies but also those companies that issue any contract that results in transfer of significant insurance risk. For Discovery, the contracts within the scope of IFRS 17 are almost entirely aligned with those recognised in IFRS 4.

Whilst the underlying contractual terms and economic risks and rewards of each insurance contract remain unaltered, IFRS 17 impacts the accounting treatment of insurance contracts and most notably the timing of recognition of insurance related profits and losses for accounting purposes. Importantly, it also separates the insurance related profit or losses between those arising from insurance service results and those arising from financial results.

IFRS 17 does not result in a change in the underlying business value of contracts, including:

- No direct change to cash flows or underlying risk and reward of contracts. Future tax cash flow impacts are expected to be immaterial.
- Immaterial impact on regulatory or economic solvency, capital position and capital management.
- The ability to pay dividends unaffected as cash flows and solvency remain unchanged.
- Immaterial impact on Embedded Value.

30.2 Transition to IFRS 17 and estimated impact

Upon first-time adoption, IFRS 17 requires the standard to be applied fully retrospectively as if the standard always applied unless impracticable. If impracticable to do so, the entity can elect to either apply a modified retrospective approach or use the fair value approach.

As noted, Discovery is in a position to apply a fully retrospective restatement from inception for all material groups of insurance contracts. Discovery did not measure any of its portfolios using the fair value approach. Note 30.10.1 below contains a summary of those less material instances where a modified retrospective approach was applied.

The fully retrospective approach requires that Discovery identify, recognise, and measure groups of insurance contracts as if IFRS 17 had always applied. While this approach brought about significant complexity to the transition project, it has provided Discovery with valuable historical insights as to how results will be impacted by model and assumption changes, changes in the discount rates and significant stress events such as the financial crisis of 2008/09 and the COVID-19 pandemic.

Based on the work completed, the restatement is much more pronounced for the long-term insurance business of Discovery Life in SA and VitalityLife in the UK. In contrast, the impact of the retrospective restatement is limited for the short-term businesses except for VitalityHealth where the impact is more significant due to change in the treatment of insurance acquisition costs.

Discovery has assessed the estimated impact that the initial application of IFRS 17 will have on its financial statements. The changes resulting from the transition to IFRS 17 can be summarised as follows:

- Those changes that result in differences to the IFRS 17 margins relative to the IFRS 4 margins. These changes result in concomitant temporary changes in equity. For example, to the extent that changes resulted in the strengthening of contractual service margins that will release to profit in future periods, such changes are mirrored by a reduction in shareholders' equity upon transition.
- Other changes, such as remeasurement basis of the expected future cash flows or recognised assets and liabilities from short-term insurance, e.g., deferred acquisition costs. These remeasurements would result in a change in equity on transition without a visible offset of insurance margins but similarly will indirectly result in higher or lower net profits in future periods (for a reduction or increase in equity respectively).

In the case of Discovery, increases in insurance margins, most notably CSM, have a far more material impact. Such resulting increases of additional IFRS 17 margins on transition will be available as future profit. The main cause for this significant increase in CSM margins is that Discovery has a more recent and rapidly growing history compared to very long-standing insurers. As Discovery businesses mature, there is a point of convergence where the annual profit recognition under IFRS 4 and IFRS 17 inevitably cross over.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

30. New Standards in Interpretation – IFRS 17 Insurance Contracts *continued*

30.2 Transition to IFRS 17 and estimated impact *continued*

The most significant changes that result in an increase in IFRS 17 margins relative to margins under IFRS 4 can be summarised as follows:

- The measurement under IFRS 17 includes only those cash inflows and outflows relating directly to the fulfilment of the group of insurance contracts, termed directly attributable expenses. In addition to claims and benefits, these may include certain directly attributable overhead expenses. However, non-directly attributable expenses such as general marketing and sponsorships, allocated group executive and group function costs and research and development activities of new products, are not included in the initial recognition value of the contract. Under IFRS 17, these non-directly attributable expenses are immediately expensed and are therefore not considered when determining the EFCF of the insurance contracts being measured. The immediate expensing of such non-directly attributable expenses increases the available margin on the portfolio compared to the IFRS 4 treatment where such expenses were brought into account when determining the available margins. It should be noted that such expenses are brought into consideration when determining the pricing of products and these increased IFRS 17 margins are therefore similarly available for recognition as profits in future or to absorb adverse changes.
- Contracts are measured at a more granular level where portfolios are established and as a minimum with annual business cohorts of no more than twelve months apart. Each of these cohorts is further categorised into separate groups based on expected profitability being profitable, profitable at risk, and onerous groups. Losses are immediately expensed when they arise on onerous contracts, effectively eliminating any cross-subsidisation or set-off applied within a portfolio. This immediate write-off of shortfalls on contracts effectively increases the available margin on the remainder of the portfolio, which will be recognised to profit in future.
- Other items, including, amongst others, the different treatment of certain basis changes and variances through the margin, the different rates at which interest is accreted on the margins, and small differences in the run-off of the margins over time are less material in the case of Discovery.
- Unlike IFRS 4, IFRS 17 separately recognises the finance related consequences of insurance contracts from the underlying insurance activities. Finance income and expense related to insurance contracts and the changes in the measurement of finance related items are recognised as IFIE either immediately in profit or loss or disaggregated and allocated using a systematic allocation to profit or loss with variances being recognised through OCI.
- As will be noted below, Discovery has elected to apply the OCI option to certain long-term insurance contracts. The exclusion of certain elements of IFIE from the profit or loss is largely aligned to the existing treatment where Discovery excludes the impact of economic assumptions, net of associated derivatives, from its normalised profit and normalised headline earnings. The use of OCI removes the need for this normalisation after adoption of IFRS 17.

Other changes, resulting in a change in equity on transition without a visible offset of insurance margins:

- The remeasurement of best estimates of the future fulfilment cash flows and measurement and accounting treatment of insurance acquisition cash flows, i.e., deferred acquisition costs, on the short-term business lines and
- Associated deferred tax and future tax impacts of the changes noted above.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

30. New Standards in Interpretation – IFRS 17 Insurance Contracts *continued*

30.2 Transition to IFRS 17 and estimated impact *continued*

IFRS 17 acknowledges that different companies may manage their insurance contracts differently. As a result, IFRS 17 is principle-based and permits several accounting policy elections. The following is a summary of these accounting elections and specific elections made by Discovery:

Election	Options	Discovery elections
Transition approach	<p>Three transition approaches</p> <ul style="list-style-type: none"> IFRS 17 requires full retrospective unless impracticable. If full retrospective is impracticable, then accounting election of modified retrospective, or fair value approach. 	<ul style="list-style-type: none"> Given the availability of reliable and accurate data and actuarial models, Discovery is required to apply IFRS 17 fully retrospective to all material groups of insurance contracts. For the remainder of portfolios, when full retrospective was impracticable, then modified retrospective was applied. Discovery has not applied the fair value approach to any groups of insurance contracts.
Changes in time value of money (Insurance finance income and expense presentation)	<p>Two alternatives:</p> <ul style="list-style-type: none"> Present all IFIE and IFIE changes in profit or loss. Include IFIE in profit or loss using systematic allocation. Remainder recognised in OCI. 	<ul style="list-style-type: none"> The use of the OCI removes the volatility from changes in IFIE (previously economic assumptions) in the measurement of the insurance contract. The amount recognised in OCI is then reclassified to profit or loss using a systematic allocation. Discovery has elected OCI on its long-term life-insurance business lines in Discovery Individual Life and VitalityLife. For the remainder of business lines, the change in measurement of the insurance contracts is offset by a change in the measurement of the assets backing those insurance contracts.
Risk adjustment	<p>No prescriptive approach is provided under IFRS 17.</p>	<ul style="list-style-type: none"> Discovery uses the confidence level approach. For its long-term businesses and group life insurance, Discovery sets the confidence level at 90%. For its short-term businesses, Discovery sets the confidence level at 75%.
Acquisition cost (for portfolios at PAA)	<p>Two alternatives:</p> <ul style="list-style-type: none"> The default under IFRS 17 for contracts with PAA is to defer the insurance acquisitions cash flows and allocate the expense to initial and renewal periods, i.e., Defer acquisition costs and amortise. Entity can elect to immediately expense insurance acquisition cash flows. 	<ul style="list-style-type: none"> VitalityHealth applies the default requirement of IFRS 17. This treatment results in a largely similar treatment to the FinRe arrangements VitalityHealth held under IFRS 4. For other insurance portfolios measured using the PAA, Discovery has elected to immediately expense in profit or loss the insurance acquisition cash flows as these are not significant.
Reflect time value of money (i.e., discount) in measuring coverage units	<p>Two alternatives:</p> <ul style="list-style-type: none"> Reflect time value of money in measuring coverage units. Don't reflect time value of money in measuring coverage units. 	<ul style="list-style-type: none"> Discovery elected to reflect time value of money in the measurement of coverage units. The discounting of coverage units provides the most reasonable emergence of profit, considering the projected level of future margins on retained business for Discovery.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

30. New Standards in Interpretation – IFRS 17 Insurance Contracts *continued*

30.2 Transition to IFRS 17 and estimated impact *continued*

ESTIMATED TRANSITIONAL IMPACT

Based on the restatement work undertaken to date, the transition change is primarily a result of the increased IFRS 17 margins, as represented by the CSM plus the risk adjustment. This adjustment, available for future profit release, falls within the range of R14.5 billion to R15.5 billion pre-tax. Other factors contributing to the change in equity include alterations in the methodology used to determine fulfilment cash flows, difference in short-term business lines such as risk adjustment for non-financial risks, and the tax effects of changes in the measurement of insurance contracts.

The concomitant net impact of transition adjustment (after tax) to the balance of the Group's shareholders' equity is estimated to be as follows:

	R million
Group total equity 30 June 2022 Audited and previously reported	53 555
IFRS 17 adjustment, net of tax Mainly resulting from the increases in the CSM and available for release to profit in future. Accumulated IFIE recognised in OCI is less than 10% of total impact of shareholders equity	(12 000 – 13 000)
Group total equity 1 July 2022 Restated	41 555 – 40 555

As mentioned above, the impact of the above reduction in equity is effectively offset by a significant increase in insurance margins, most notably CSM, that is available for release to profit in future years or to absorb any adverse changes.

On this basis, the total value created through the insurance activities of the Group remains largely unchanged, however, the timing of recognition of insurance related profits has been deferred. The strengthened IFRS 17 margins result in higher future release of profits and in less volatility due to its ability to absorb negative variances, while the election of OCI results in less volatility as a result of its ability to manage variances in financial risks.

The material recognition, measurement and presentation policies of insurance contracts under IFRS 17 are set out below.

30.3 Insurance contracts scope and grouping

30.3.1 DEFINITION AND CLASSIFICATION

Insurance contracts are contracts under which Discovery accepts significant insurance risk from a policyholder by agreeing to compensate the policyholder should a specified uncertain future event adversely affect the policyholder.

A reinsurance contract transfers significant risk if it transfers substantially all the insurance risk resulting from the insured portion of the underlying insurance contracts, even if it does not expose the reinsurer to the possibility of a significant loss.

Discovery determines whether it has assumed significant insurance risk by comparing benefits payable after an insured event with benefits payable if the insured event had not occurred. Insurance and reinsurance contracts can also expose Discovery to financial risk, which is not taken into account in the determination of significant insurance risk.

Significant judgements and estimates

IFRS 17 does not specify what significant insurance risk is. Discovery's policy defines significant insurance risk as follows: The possibility that the present value of losses arising on the insurance contract exceeds 10% of the present value of income and receipts collected when applying a worst-case scenario upon inception of the insurance contract.

30.3.2 SEPARATING COMPONENTS WITHIN INSURANCE CONTRACTS

IFRS 17 requires an analysis of whether the contract contains components that should be separated from the insurance contract and accounted for under different IFRS Accounting Standards. IFRS 17 requires that cash flows relating to embedded derivatives, cash flows relating to distinct investment components and promises to transfer distinct goods or distinct services, other than insurance contract services, be accounted for separately.

Discovery presently has no contracts requiring further separation or a combination of insurance contracts.

Annexure B – Group accounting policies *continued*

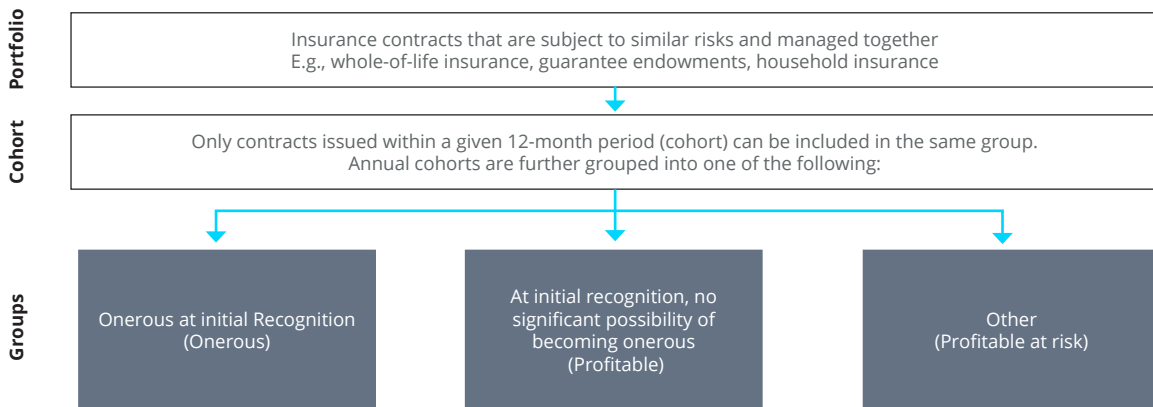
for the year ended 30 June 2023

30. New Standards in Interpretation – IFRS 17 Insurance Contracts *continued*

30.3 Insurance contracts scope and grouping

30.3.3 UNIT OF ACCOUNT, AGGREGATION AND RECOGNITION OF INSURANCE AND REINSURANCE CONTRACTS

Under IFRS 17, the unit of account is defined as a group of insurance contracts. The manner in which insurance contracts are grouped, affects the timing of profit recognition for insurance services but does not affect the measurement of the estimated cash flows to fulfil the insurance contracts. In terms of IFRS 17, the unit of account is determined by first establishing a portfolio of insurance contracts and then creating separate cohorts within the portfolio based on the date of origination. Each such cohort is further grouped into three groupings based on estimated profitability.



IFRS 17 Illustration of principles 1: Unit of account

At initial recognition, groups of insurance contracts issued are recognised from the earliest of the following:

- The beginning of the coverage period.
- The date when the policyholder's first payment is due or received if there is no due date.
- When Discovery determines that a group of insurance contracts become onerous.

Significant judgements and estimates

Discovery uses judgement to determine at what level of granularity Discovery has reasonable and supportable information that is sufficient to conclude that all contracts within a set are sufficiently homogeneous and will be allocated to the same group without performing an individual contract assessment.

Discovery performs stress testing on portfolios measured using GMM/VFA. The stresses may differ between portfolios but will correspond to the most significant non-financial stresses currently run as part of the risk appetite work. If any policy that was originally determined to be profitable becomes onerous under any of the three additional stresses calculated, that policy is classified as profitable-at-risk.

30.3.4 MEASUREMENT MODELS

IFRS 17 provides three possible measurement models.

1. The default model is the General Measurement Model (GMM). The GMM is typically used for measuring long-term insurance risk and annuity contracts. The basic principles of which are set out below.
2. The GMM is supplemented by the Variable Fee Approach (VFA) for contracts where policyholders have purchased investment-linked insurance contracts integrated with insurance coverage (i.e., insurance contracts with direct participating features).
3. The Premium Allocation Approach (PAA) is a simplified approach of the GMM for short-duration contracts such as group risk, personal lines and private medical insurance.

Direct participating contracts are contracts for which, at inception:

- the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items.
- Discovery expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; Discovery considers that a substantial share is a majority of returns, and
- Discovery expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. Discovery considers that a substantial proportion is a majority proportion of change on a present value probability-weight average of all scenarios.

Within Discovery the unit-linked products and Discovery Optimiser products offered by Discovery Life are examples of insurance contracts with DPFs.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

30. New Standards in Interpretation – IFRS 17 Insurance Contracts *continued*

30.4 Overview of discovery group portfolios, measurement models and accounting policy elections

The table below summarises the material insurance contracts Discovery issues and reinsurance contracts it holds. It sets out the measurement model applied and key assumptions and elections.

	Measurement Model	Risk adjustment confidence level ¹	Elections on IFIE	PAA only – election for treatment of initial acquisition cash flows (IACF)
Insurance contract issued and business lines				
Individual life insurance contracts: Discovery Life and VitalityLife	GMM	90%	Elected to present changes in IFIE in OCI	n/a
Insurance-linked investment contracts: General endowments in Discovery Invest			Elected to present changes in IFIE in profit or loss	
Investment contracts: Unit-linked and DRO in Discovery Invest	VFA			
Group life insurance contracts: Discovery Life	PAA	90%	Elected not to reflect interest for cash flows less than 12 months	Elected to immediately expense initial acquisition cash flows (IACF)
Car, household and business insurance: Discovery Insure		75%		
Health insurance: VitalityHealth		Consistent with default IFRS 17 requirement, defer IACF and amortise over the initial and renewal periods		
Reinsurance contracts held				
Individual life: quota share reinsurance for Discovery Individual Life and VitalityLife	GMM	90%	Elected to present changes in IFIE in OCI	n/a
Individual life: excess of loss reinsurance				
Group life insurance contracts: catastrophe, group continuation and mass lapse treaties	PAA	90%	Elected not to reflect interest for cash flows less than 12 months	Elected to immediately expense initial acquisition cash flows (IACF)
Car, household and business insurance: quota share reinsurance and excess of loss insurance		75%		
Health insurance: quota share reinsurance				

¹ Risk adjustment was determined using the confidence level technique unless otherwise stated.

Annexure B – Group accounting policies *continued*

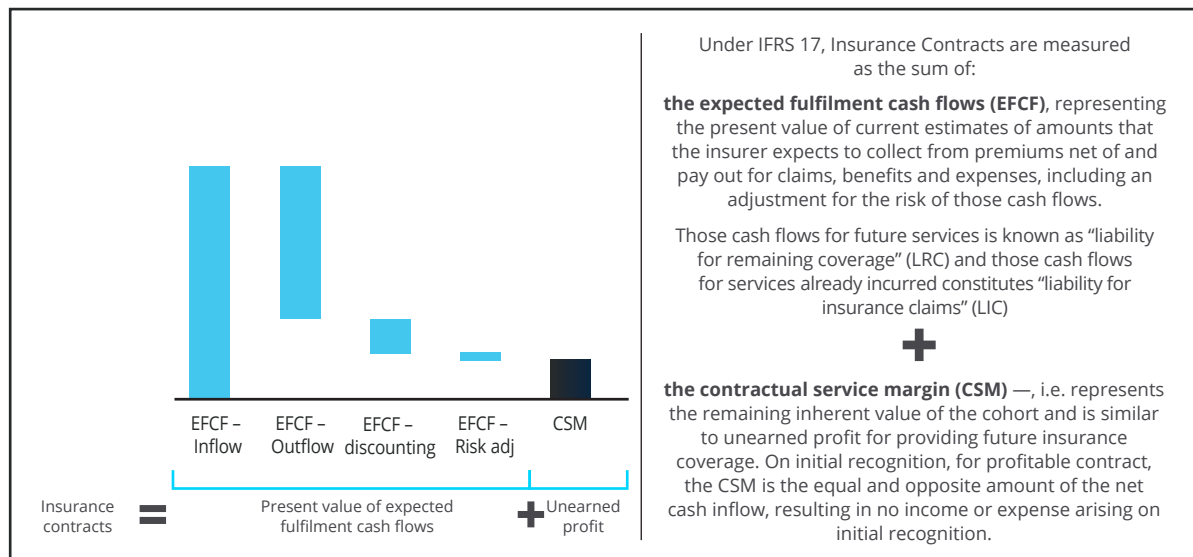
for the year ended 30 June 2023

30. New Standards in Interpretation – IFRS 17 Insurance Contracts *continued*

30.5 Contracts measured under the GMM and VFA

Under IFRS 17, any company that issues insurance contracts must report those contracts on the Statement of financial position as the total of

- The expected fulfilment cash flows (EFCF): the current estimates of amounts that the company expects to collect from premiums net of and payout for claims, benefits, and expenses, including an adjustment for the timing and risk of those amounts, and
- The CSM: the expected profit for providing insurance coverage recognised in profit or loss over the period of insurance coverage.



IFRS 17 Illustration of principles 2: General Measurement Model (GMM)

30.5.1 EXPECTED FULFILMENT CASH FLOWS (EFCF)

The measurement of a group of insurance contracts includes all future cash flows expected to arise within the contract boundary of each contract in the group. Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which Discovery can compel the policyholder to pay premiums or has a substantive obligation to provide services (including insurance coverage and any investment services).

EFCF include payments to (or on behalf) of policyholders, insurance acquisition cash flows and other costs incurred in fulfilling contracts. Other costs incurred to fulfil a group of contracts include direct costs and an allocation of fixed and variable overheads directly attributable to fulfilling the group of insurance contracts.

The estimates of these future cash flows are based on probability-weighted expected future cash flows. Discovery estimates which cash flows are expected and the probability that they will occur as at the measurement date. When estimating, Discovery uses information about past events, current conditions and forecasts of future conditions.

Significant judgements and estimates

Discovery applies judgement to determine which cash flows within the boundary of insurance contracts relate directly to the fulfilment of the contracts, including the extent to which fixed and variable overheads are directly attributable to fulfilling insurance contracts.

Discovery primarily uses deterministic projections to estimate the present value of future cash flows, and for some groups, it uses stochastic modelling techniques. The following assumptions were used when estimating future cash flows:

- Mortality and morbidity rates.
- Surrender and lapse rates.
- Economic assumptions/Investment returns.
- Vitality status assumptions.
- Expense assumptions.
- Policy alterations and automatic premium increases.

Insurance acquisition cash flows arise from activities of selling, underwriting and commencing a group of contracts that are directly attributable to the portfolio of contracts to which the group belongs.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

30. New Standards in Interpretation – IFRS 17 Insurance Contracts *continued*

30.5 Contracts measured under the GMM and VFA *continued*

30.5.2 REFLECTING THE TIME VALUE OF MONEY AND DISCOUNT RATES

Discounting adjusts the estimates of expected cash flows to reflect the time value of money and the financial risks associated with those cash flows to the extent that the financial risks are not already included in the cash flow estimates.

The following table shows which discount rate to apply throughout measuring a group of insurance contracts and the general objective of determining that discount rate.

GMM AND VFA

Element of measurement model	
Fulfilment cash flows	Current discount rates
CSM interest accretion for contracts without direct participation features (i.e., portfolios under GMM).	Discount rates are determined on initial recognition of the group, i.e., locked-in at inception.
Adjustments to the CSM for changes in the fulfilment cash flows for contracts without direct participation features (i.e., portfolios under GMM).	Discount rates are determined on initial recognition of the group, i.e., locked-in at inception.
Adjustments to the CSM for changes in the fulfilment cash flows for DPF contracts that do not vary based on the returns on underlying items (i.e., portfolios under VFA), excluding the change in the effect of the time value of money and financial risks.	Current discount rates.

The “bottom-up” approach is used to derive the discount rate for the cash flows. Under this approach, the discount rate is determined as the risk-free yield, adjusted for differences in liquidity characteristics of the insurance contracts sold. For portfolios of contracts where the insurance contract liability is materially matched with assets, a “top-down” approach is used to derive the discount rate for the cash flows.

For Discovery, the risk-free yield curve will be ‘current’ and reflect the risk-free yield curve derived on the last day of the reporting period. The nominal risk-free yield curve is used to discount nominal cash flows, while real cash flows are discounted using the real risk-free yield curve.

30.5.3 RISK ADJUSTMENT

The risk adjustment for non-financial risk for a group of insurance contracts, determined separately from the other estimates, is the compensation required for bearing uncertainty about the amount and timing of the cash flows that arise from non-financial risk as Discovery fulfils insurance contracts. It measures the compensation that the entity would require to make it indifferent between:

- Fulfilling a liability that has a range of possible outcomes arising from non-financial risk and
- Fulfilling a liability that will generate fixed cash flows with the same expected present value as the insurance contract.

A lower risk adjustment would be observed for those insurance contracts with shorter duration, high frequency and low severity type products and narrow probability of distributions. Higher risk adjustment would be observed for insurance contracts that are longer in duration, have a low frequency and high severity and have a wide probability of distributions.

IFRS 17 does not prescribe methods for determining the risk adjustment for non-financial risk. Therefore, management’s judgement is necessary to determine an appropriate risk adjustment technique.

When applying a confidence level technique, the first step in the process is to calculate the best estimate reserve, where there is an equal chance that the actual amount needed to pay future claims will be higher or lower than the calculated best estimate. The risk adjustment is then calculated such that there is a specified percentage probability that the reserves will be sufficient to cover future claims. For Discovery, the determination of specified percentage has been determined as follows:

Significant judgements and estimates		
Portfolio	Methodology	Confidence level
Life insurance contracts include Discovery LifePlan and VitalityLife whole-of-life and term-life policies	Confidence level	90%
Investment contracts with DPF include the unit-linked products and the Discovery Retirement Optimiser offered by Discovery Invest	Confidence level	90%

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

30. New Standards in Interpretation – IFRS 17 Insurance Contracts *continued*

30.5 Contracts measured under the GMM and VFA *continued*

30.5.4 CONTRACTUAL SERVICE MARGIN (CSM)

The CSM represents the future unearned profit. On initial recognition of a group of insurance contracts, if the total of the fulfilment cash flows, including insurance acquisition cash flows:

- is a net inflow, then the group is profitable. In this case, the CSM is measured as the equal and opposite amount of the net inflow, which results in no income or expenses arising on initial recognition.
- is a net outflow, then the group is onerous. In this case, the net outflow is recognised immediately as a loss in profit or loss. A loss component is created to depict the amount of the net cash outflow, which determines the amounts that are subsequently presented in profit or loss as reversals of losses on onerous contracts and are excluded from insurance revenue.

30.5.5 SUBSEQUENT MEASUREMENT

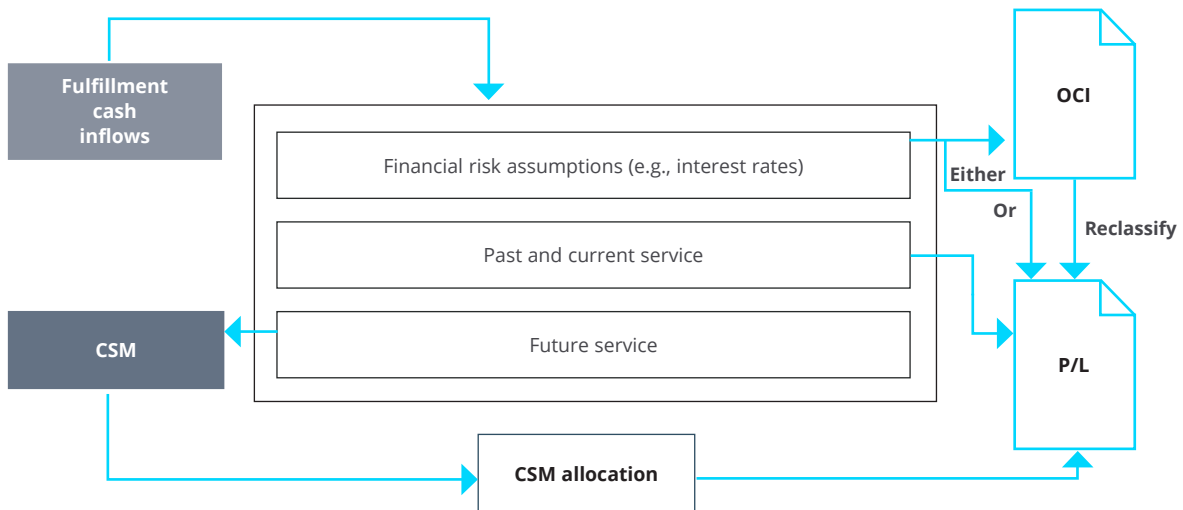
The carrying amount of a group of insurance contracts at each reporting date is the sum of the liability for remaining coverage (LRC) and the liability for incurred claims (LIC).

- The LRC comprises the fulfilment cash flows related to services that will be provided under the contracts in future periods and any remaining CSM at that date.
- The LIC includes the fulfilment cash flows for incurred claims and expenses that have not yet been paid, including claims that have been incurred but not yet reported.

IFRS 17 requires a company to update the EFCF at each reporting date, using current estimates of the amount, timing, and uncertainty of cash flows and discount rates. Discovery:

- accounts for changes to estimates of future cash flows from one reporting date to another, either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it; and
- chooses where to present IFIE either:
 - all in profit or loss, or
 - include IFIE in profit or loss using systematic allocation. The remainder of IFIE is recognised in OCI.

The treatment can be summarised as follows:



Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

30. New Standards in Interpretation – IFRS 17 Insurance Contracts *continued*

30.5 Contracts measured under the GMM and VFA *continued*

30.5.5 SUBSEQUENT MEASUREMENT

30.5.5.1 Changes in EFCF

Changes in expected fulfilment cash flows from the estimates at the previous reporting date or inceptions of the contracts are recognised as follows:

Nature of change	Treatment
Changes relating to current or past services	Recognised in the insurance service results in profit or loss.
Changes relating to future services	Adjusted against the CSM (or recognised in the insurance service results in profit or loss if the group is onerous).
Effects of the time value of money, financial risk and changes therein on estimated future cash flows	Recognised as insurance finance income or expenses.
Changes in the obligation to pay policyholders an amount equal to the fair value of the underlying items for a group of direct participating contracts (VFA)	Recognised in the insurance service results in profit or loss.

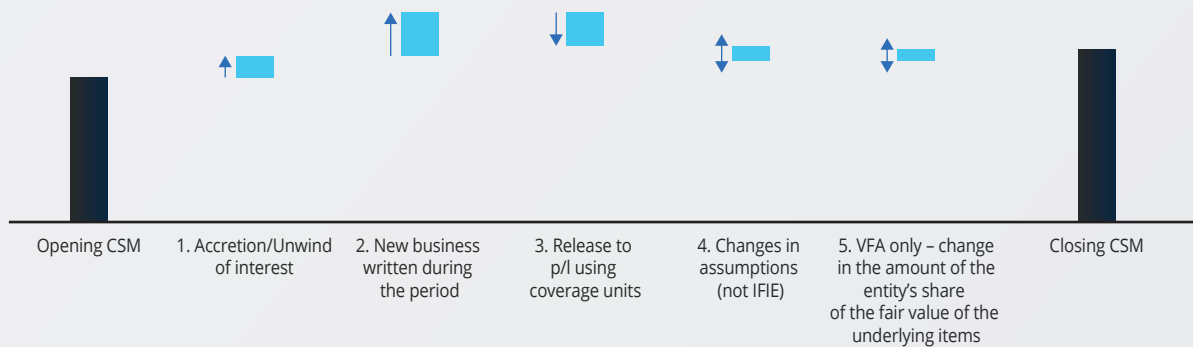
Accounting policy election: Presentation of IFIE

Discovery has elected to disaggregate IFIE for the period in OCI and present in profit or loss IFIE using a systematic allocation on its long-term life insurance business lines in Discovery Life and VitalityLife. For the remainder of business lines, the IFIE and changes therein relating to insurance contracts are presented in profit or loss, offset by the changes in the value of assets backing the insurance contracts.

Changes in CSM

As noted in policy 30.5.4, the CSM represents the future unearned profit. The movement in the CSM during a financial reporting period can be summarised as follows:

Movement in CSM during reporting period



IFRS 17 Illustration of principles 4: Subsequent changes in CSM

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

30. New Standards in Interpretation – IFRS 17 Insurance Contracts *continued*

30.5 Contracts measured under the GMM and VFA *continued*

30.5.5 SUBSEQUENT MEASUREMENT *continued*

30.5.5.1 Changes in EFCF *continued*

The carrying amount of the CSM at each reporting date is the carrying amount at the start of the financial year, adjusted for:

1. Interest accreted on the carrying amount of the CSM during the year. As noted in policy 30.7.4.2, discount rates are determined on initial recognition of the group, i.e., locked-in at inception.
2. The CSM of any new contracts added to the group in the year.
3. The amount recognised as insurance revenue because of the services provided in the year, i.e., release of CSM using coverage units. In determining the coverage units, Discovery has elected to reflect the time value of money in the coverage units using a real rate of return for insurance contracts measured using the GMM. For insurance contracts measured using the VFA, Discovery has elected to reflect the time value of money in the coverage units using a nominal rate of return.
4. The effect of any currency exchange differences on the CSM and changes in fulfilment cash flows that relate to future services, except to the extent that:
 - a. any increases in the fulfilment cash outflows exceed the carrying amount of the CSM, in which case the excess is recognised immediately in profit or loss.
 - b. any decreases in the fulfilment cash outflows are allocated to the loss component, reversing losses previously recognised in profit or loss.
5. For contracts measured using the VFA, the change in the amount of the insurer's share of the fair value of the underlying item.

30.6. Contracts measured under the PAA

As permitted in IFRS 17, Discovery has elected to apply the premium allocation approach (PAA) to measure a group of insurance contracts issued or reinsurance contracts held if, at the inception of the group:

- The coverage period of each contract in the group of insurance contracts is one year or less or
- Discovery reasonably expects that the PAA would produce a measurement of the LRC for a group of insurance contracts that would not differ materially from the measurement achieved by applying the GMM.

The PAA simplifies the general measurement model. At initial recognition, the insurance contract is measured as:

- The premiums, if any, received at initial recognition.
- Minus any insurance acquisition cash flows (applicable only if the group has elected to defer the insurance acquisition cash flows), and
- Plus/minus non-acquisition assets or liabilities previously recognised for cash flows related to the group of insurance contracts.

Where insurance acquisition cash flows are directly attributable to a group of contracts, Discovery allocates costs to that group and the groups that will include renewals of those contracts. Discovery expects to recover part of the related insurance acquisition cash flows through renewals of these contracts. The allocation to renewals is based on how Discovery expects to recover those cash flows.

At each reporting date, Discovery revises the amounts allocated to groups to reflect any changes in assumptions that determine the inputs to the allocation method used. Amounts allocated to a group are not revised once all contracts have been added to the group.

At each reporting date, if facts and circumstances indicate that an asset for insurance acquisition cash flows may be impaired, Discovery:

- Recognises an impairment loss in profit or loss so that the carrying amount of the asset does not exceed the expected net cash inflow for the related group and
- If the asset relates to future renewals, recognises an impairment loss in profit or loss to the extent that it expects those insurance acquisition cash flows to exceed the net cash inflow for the expected renewals, and this excess has not already been recognised as an impairment loss.

Discovery reverses any impairment losses in profit or loss and increases the asset's carrying amount to the extent that the impairment conditions have improved.

IFRS 17 permits an accounting policy election on a group-by-group basis:

- Not to adjust the components of the insurance contracts and onerous contracts for the time value of money (i.e., no discounting).
- An entity may elect to immediately expense insurance acquisition cash flows when incurred.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

30. New Standards in Interpretation – IFRS 17 Insurance Contracts *continued*

30.6. Contracts measured under the PAA *continued*

Accounting policy elections

For those contracts that apply the PAA, Discovery has elected not to reflect the time value of money in the measurement of the LRC and the LIC when:

- LRC: On initial recognition of the contract, the time between the insurance service and the related premium is less than a year.
- LIC: The cash flows are expected to be paid or received in less than one year from the date the claim is incurred. In some instances, claims might be disputed. If the claim is expected to be disputed and settlement deferred beyond 12 months, the exception would not apply.

Discovery has elected to immediately expense insurance acquisition cash flows for the following material portfolios:

- Group Life
- Discovery Insure – Discovery Insure has the following portfolios: Personal lines for motor and household, Business insurance, Medical gap, trauma cover and travel insurance.
- AfricaHealth portfolios.

Significant judgements and estimates

Discovery uses judgement in determining the initial and renewal periods for which the insurance acquisition cash flows are attributed to groups. For VitalityHealth, the initial and subsequent renewal period is set at ten years.

30.6.1 RISK ADJUSTMENT

Also refer to policy 30.5.3.

For contracts measured under the PAA, the explicit risk adjustment for non-financial risk is estimated to measure the LIC. The risk adjustment will be determined by applying a confidence level technique. For Discovery, the determination of specified percentage has been determined as follows:

Significant judgements and estimates

Portfolio	Methodology	Confidence level
Discovery Insure personal and business lines, VitalityHealth private medical insurance, AfricaHealth health insurance	Confidence level	75%
Group Life portfolio	Confidence level	90%

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

30. New Standards in Interpretation – IFRS 17 Insurance Contracts *continued*

30.7. Reinsurance contracts

Groups of reinsurance contracts are established such that each treaty is allocated to the applicable group of reinsurance contracts, which differs to the group to which the underlying insurance contract is included. Discovery concludes that the reinsurance contract's legal form of a single contract reflects the substance of Discovery's contractual rights and obligations.

A group of reinsurance contracts is recognised, as required under IFRS 17, on the following dates.

- Reinsurance contracts initiated by Discovery that provide proportionate coverage: The date on which any underlying insurance contract is initially recognised. This applies to Discovery's quota share reinsurance contracts.
- Other reinsurance contracts initiated by Discovery: The beginning of the coverage period of the group of reinsurance contracts. Where Discovery recognises an onerous group of underlying insurance contracts on an earlier date and the related reinsurance contract was entered into before that earlier date; in that case, the group of reinsurance contracts is recognised on that earlier date. This applies to Discovery's excess of loss and stop-loss reinsurance contracts.
- Reinsurance contracts acquired: The date of acquisition.

Discovery applies the same accounting policies to measure a group of reinsurance contracts, adapted where necessary to reflect features that differ from those of the underlying insurance contracts. When a loss-recovery component is created for a group of reinsurance contracts measured under the PAA, Discovery will adjust the asset's carrying amount for remaining coverage instead of adjusting the CSM.

30.8. Derecognition and modifications

Discovery derecognises a contract when it is extinguished – i.e., when the specified obligations in the contract expire or are discharged or the contract is cancelled.

Discovery also derecognises a contract if its terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed, in which case a new contract based on the modified terms is recognised. If a contract modification does not result in derecognition, Discovery treats the changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows.

On derecognition of a contract from within a group of contracts not measured under the PAA:

- The fulfilment cash flows allocated to the group are adjusted to eliminate those that relate to the rights and obligations derecognised.
- The CSM of the group is adjusted for the change in the fulfilment cash flows, except where such changes are allocated to a loss component.
- The number of coverage units for the expected remaining services is adjusted to reflect the coverage units derecognised from the group.

If a contract is derecognised because it is transferred to a third party, then the CSM is also adjusted for the premium charged by the third party unless the group is onerous.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

30. New Standards in Interpretation – IFRS 17 Insurance Contracts *continued*

30.9 Presentation and disclosure

30.9.1 OVERVIEW OF PRESENTATION AND DISCLOSURE

Portfolios of insurance contracts that are assets and liabilities and portfolios of reinsurance contracts that are assets and liabilities are presented separately in the Statement of financial position. Any assets or liabilities recognised for cash flows arising before the recognition of the related group of contracts (including any assets for insurance acquisition cash flows under 'Insurance acquisition cash flows') are included in the carrying amount of the related portfolios of contracts.

IFRS 17 requires a company to provide information that distinguishes two ways insurers earn profits from insurance contracts:

1. The insurance service result, which depicts the profit earned from providing insurance coverage and
2. The financial result, which captures the investment income from managing financial assets and insurance finance income and expenses (IFIE) resulting from the insurance rights and obligations. The IFIE reflects the effects of financial variables such as discount rates on the value of insurance rights and obligations.

Income and expenses from reinsurance contracts are presented separately from income and expenses from insurance contracts. Income and expenses from reinsurance contracts, other than insurance finance income or expenses, are presented on a net basis as 'net expenses from reinsurance contracts' in the insurance service result.

Discovery disaggregates changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. The insurance service result includes all changes in the risk adjustment for non-financial risk.

The result of insurance performance in the income statement can be summarised as follows:

Element	
Insurance Revenue – GMM/ VFA	Expected Insurance Service Expense plus CSM release plus release of risk adjustment.
Insurance Revenue - PAA	For contracts measured under the PAA, the insurance revenue for each period is the expected premium receipts for providing services in the period. Discovery allocates the expected premium receipts to each period based on the passage of time.
Insurance Service expenses	Actual claims and directly attributable costs, including past and in-period variances.
Net expenses from reinsurance contracts	Net expenses from reinsurance contracts comprise an allocation of reinsurance premiums paid less amounts recovered from reinsurers. Discovery has elected to present the income and expenses from a group of reinsurance contracts held as a single amount.
Insurance finance income and expense	<p>Discovery has elected to disaggregate changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses.</p> <p>Discovery has elected to disaggregate IFIE for the period in OCI and present in profit or loss IFIE using a systematic allocation on its long-term life insurance business lines in Discovery Life and VitalityLife. For the remainder of business lines, the change in IFIE of the insurance contracts is presented in profit or loss, offset by the changes in the value of assets backing the insurance contracts.</p>

Annexure B – Group accounting policies *continued*

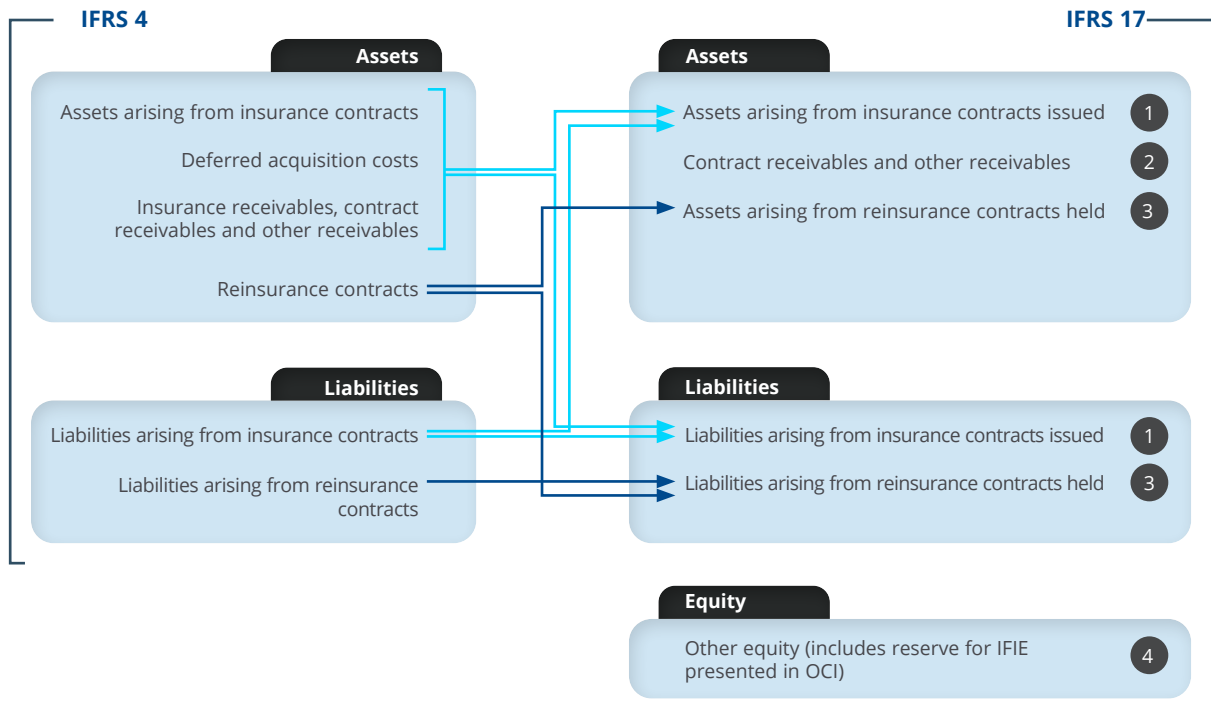
for the year ended 30 June 2023

30. New Standards in Interpretation – IFRS 17 Insurance Contracts *continued*

30.9 Presentation and disclosure

30.9.2 CHANGE IN PRESENTATION AND DISCLOSURE RELATIVE TO IFRS 4

Statement of financial position



Flowchart 1: Changes in Discovery's presentation in Statement of financial position from IFRS 4 to IFRS 17

- 1 All insurance cash flows (LRC + LIC), payables and receivables presented net either as a liability or an asset from insurance contracts.
- 2 Premium debtors are included in the measurement of insurance contracts.
- 3 All reinsurance cash flows, payables and receivables presented net either as a liability or an asset from reinsurance contracts.
- 4 New reserve for the cumulative insurance finance income and expense (IFIE) recognised in OCI.

Annexure B – Group accounting policies *continued*

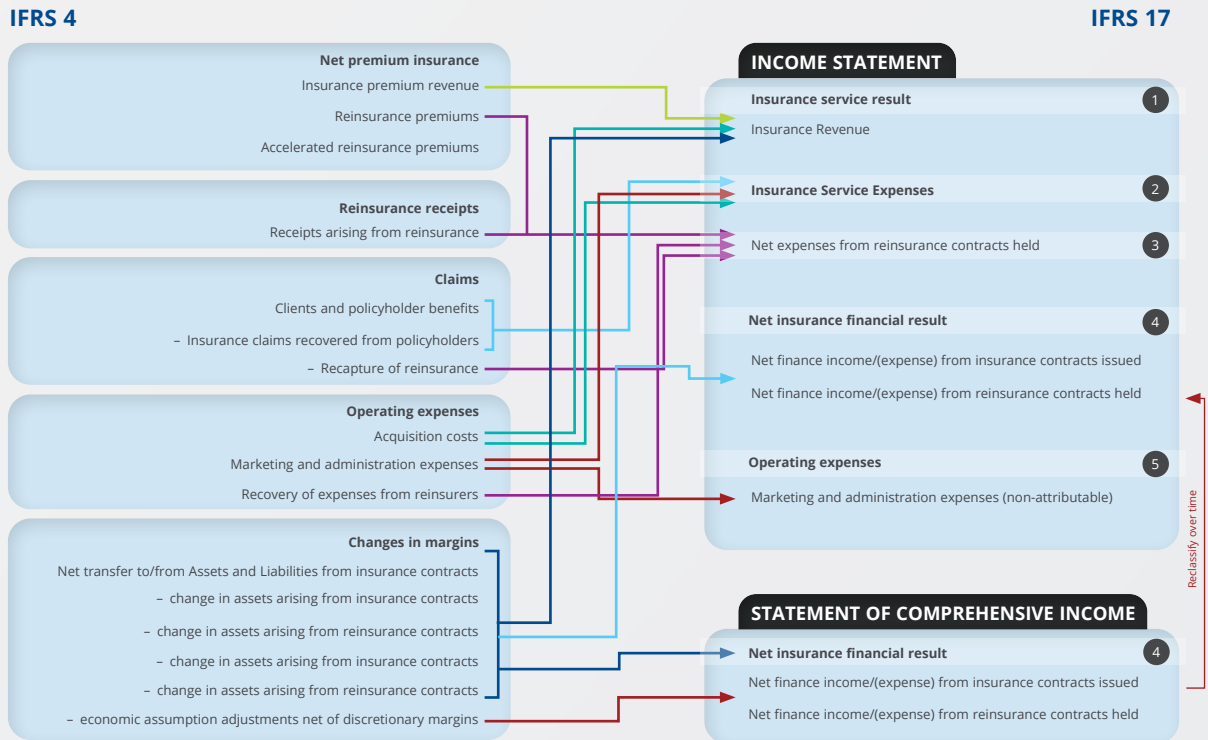
for the year ended 30 June 2023

Income statement and other comprehensive income

30. New Standards in Interpretation – IFRS 17 Insurance Contracts *continued*

30.9 Presentation and disclosure

30.9.2 CHANGE IN PRESENTATION AND DISCLOSURE RELATIVE TO IFRS 4



Flowchart 2: Changes in Discovery's presentation in Income statement from IFRS 4 to IFRS 17.

- For short-term insurance, the Insurance revenue includes earned revenues.
 - For long-term insurance, the Insurance revenue includes the recognition of CSM, release of risk adjustment and release of expected insurance service expenses (i.e., expected directly attributable costs)
- Insurance service expenses comprise of actual incurred claims and directly attributable expenses, the recognition of onerous contracts. Insurance acquisition cash flows are immediately expensed or amortised.
- The net expense of reinsurance expenses and reinsurance receipts
- Changes in assumptions for future services of time value of money, inflation index and foreign exchanges are recognised in period in OCI. The amount is reclassified to profit or loss on a systematic basis over the coverage period. In period, variances are recognised in profit or loss.
- Includes those expenses and costs not directly attributable to the insurance contract

30.10 Transition

IFRS 17 requires the standard to be applied fully retrospectively unless impracticable. If impracticable, the entity can elect to apply a modified retrospective approach or use the fair value approach. As discussed earlier, Discovery has applied the fully retrospective approach for all material groups of insurance contracts.

Given some constraints to the availability of reasonable and supportable data, Discovery has elected to apply IFRS 17 in certain circumstances by using the modified retrospective approach. The less material portfolios which applied modifications are noted below.

Annexure B – Group accounting policies *continued*

for the year ended 30 June 2023

30.10 Transition *continued*

30.10.1 EXCEPTIONS WHERE THE MODIFIED RETROSPECTIVE APPROACH WAS APPLIED

Discovery Individual life portfolio

Discovery has applied the modified retrospective approach within the Discovery Individual Life portfolio by aggregating contracts issued more than one year apart prior to 2003 into a single group of insurance contracts in respect of insurance contracts issued before June 2003. The application of the full retrospective approach on transition for these groups were determined to be impracticable as Discovery Life does not have the model used nor data of sufficient quality to either retrospectively model business sold before the June 2002 financial year or to identify new business policies sold in the June 2002 financial year. It should be noted that these portfolios or cohorts of business are immaterial in the context as Discovery Life only commenced business in 2000.

Discovery Invest portfolios - the unit-linked and DRO portfolio and the general endowments portfolio

Discovery has applied the modified retrospective approach within the Discovery Invest portfolios by aggregating contracts issued more than one year apart into a single group of insurance contracts issued before June 2016 for the DRO portfolio and groups of insurance contracts issued before June 2012 for the general endowments and unit-linked portfolio.

The application of the fully retrospective approach on transition for these portfolios was determined to be impracticable for Discovery Invest as it did not collect the data of policies sold with sufficient granularity in the periods prior to June 2012. Discovery Invest only commenced trading in 2007.

VitalityHealth private medical insurance contracts

Discovery applied the modified approach to identify, recognise, and measure assets arising from insurance acquisition cash flows for the VitalityHealth PMI portfolio as of 1 July 2022. It is impracticable to apply the full retrospective approach as eight years ago (of the ten years that DAC is being applied for), the data was not collected with sufficient granularity for the purposes of setting up a deferred acquisition cost reserve, and its omission has an immaterial impact on the equity.

30.11 Implementation progress

Work on the finalisation of key policy and methodology decisions is complete. Management has substantially finalised the financial impact assessment to enable the restatement of the comparative opening balance adjustments as at 1 July 2022 and the retrospective reporting periods leading up to the transitional Statement of financial position.

The IFRS 17 project has been managed as follows:

- The Group CFO heads up the IFRS 17 Executive Working Committee (EWC), which comprises the respective Insurance business CFOs, Chief Actuaries, and IT specialists. The IFRS 17 Executive Working Committee is supported by a Technical Advisory Group comprising IFRS Specialists, Actuaries, Financial Managers, and Tax specialists. The Committee also consults with external audit firms where necessary.
- The EWC is responsible for providing overall strategic direction to the project across the Group and for monitoring progress and interdependencies with other group initiatives. The EWC also provides policy guidance and technical support for the implementation in each of its subsidiaries.
- The EWC reports to the Group Finance and Capital Committee (FCC) as a sub-committee of the Group Executive Committee and recommends and suggests its final proposals to the IFRS 17 Governance Committee. The IFRS 17 Governance Committee comprises amongst others non-executive directors from the various Actuarial and Audit Committees within the insurance business lines and ultimately makes recommendations to the various Audit Committees and Actuarial Committees that, in turn, make recommendations to their respective Boards.

KPMG Inc., as the current joint auditor, and Deloitte & Touche, as the proposed joint auditor following the mandatory audit firm rotation of PwC Inc., have been engaged to provide the external audit assurance for IFRS 17 in their capacity as the external auditors for the financial year ending 30 June 2024, the first financial year that Discovery will apply IFRS 17. A combined assurance approach is being followed whereby group internal and external auditors incrementally test the new IFRS 17 landscape.

For the disclosures included within this audited set of Financial Statements, the external auditors, KPMG Inc. and PwC Inc., have performed procedures, including evaluating the decisions made by management and the results to date. These procedures include, but are not limited to, evaluating the transition methodology decisions, product classification, and other policy and methodology decisions relevant to the IFRS 17 results, as well as performing audit procedures over the valuation of portfolios considered material to the disclosures provided. The auditors have reported on the annual financial statements as a whole.

PROJECT FOCUS FOR THE NEXT FINANCIAL YEAR

Management will focus on the following key areas during the next financial year:

- Finalisation of the IFRS 17 transitional tax arrangements.
- Finalise and produce IFRS 17 compliant financial statements for the first interim reporting period for the six months ending 31 December 2023, including restated information for the financial year ended 30 June 2023 and interim reporting period for the six months ended 31 December 2022.
- External audit of restated balances, models and controls.
- Management reporting and, where applicable, key performance measures.
- Finalise business-as-usual future financial and data governance processes and financial reporting controls.
- Reporting to and educating financial analysts and investors about the application and impact from a Discovery Group perspective.

Annexure C – Directorate

REMUNERATION AND FEES

Payment to directors and prescribed officers for the year ended 30 June 2023 for services rendered are set out in the table below. It should be noted that these payments reflect cash payments made to directors and prescribed officers during the financial year and therefore all variable pay components are reflective of performance measurements relating to previous periods. The variable pay components relating to the current year under review are physically paid in the following financial year and are analysed in detail in the Group's annual remuneration report and are more reflective of the performance of the period under review.

Payments to directors and prescribed officers for the year ended 30 June 2023 for services rendered are as follows:

R'000	Services as directors	Basic salary	Performance bonus	LTIP ²	Provident fund contributions	Other benefits ¹	Total
Executive							
A Gore	-	7 987	9 603	8 692	1 198	422	27 902
B Swartzberg	-	5 592	13 032	2 522	586	265	21 997
DM Viljoen	-	5 995	6 358	4 417	945	303	18 018
HD Kallner ⁷	-	7 472	7 062	23 823	374	228	38 959
NS Koopowitz ⁸	-	21 255	22 734	10 816	118	563	55 486
Dr A Ntsaluba ⁹	-	4 999	5 811	4 961	375	316	16 462
A Pollard ¹⁰	-	8 968	9 368	6 677	225	388	25 626
Sub-total	-	62 268	73 968	61 908	3 821	2 485	204 450
Non-executive							
ME Tucker ³	7 541	-	-	-	-	-	7 541
HL Bosman ⁴	1 033	-	-	-	-	-	1 033
R Farber ⁵	3 713	-	-	-	-	4 010	7 723
M Hlahla	1 411	-	-	-	-	-	1 411
FN Khanyile	1 964	-	-	-	-	-	1 964
D Macready	2 087	-	-	-	-	-	2 087
Dr TV Maphai	1 651	-	-	-	-	-	1 651
T Mboweni	1 391	-	-	-	-	-	1 391
M Schreuder	2 033	-	-	-	-	-	2 033
B Van Kralingen ⁶	1 901	-	-	-	-	108	2 009
SV Zilwa	2 687	-	-	-	-	-	2 687
Sub-total	27 412	-	-	-	-	4 118	31 530
Total	27 412	62 268	73 968	61 908	3 821	6 603	235 980
Less: paid by subsidiaries	(27 412)	(62 268)	(73 968)	(61 908)	(3 821)	(6 603)	(235 980)
Paid by holding company	-	-	-	-	-	-	-

1 "Other benefits" comprise medical aid contributions, travel, other allowances and fees from group subsidiaries.

2 "LTIP" comprises cash-settled and equity-settled incentives.

3 Director's fees for services rendered are paid in GBP.

4 Director's fees for services rendered by HL Bosman (retired effective 1 December 2022) were paid to Rand Merchant Insurance Holdings Limited.

5 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.

6 Director's fees for services rendered are paid in USD.

7 Transitioned from Group Executive Director to Prescribed Officer with effect from 1 March 2023. The remuneration presented above is for the full financial year.

8 Salary and incentive are paid in GBP. Transitioned from Group Executive Director to Prescribed Officer with effect from 1 March 2023.

9 Stepped down as Executive Director with effect from 1 March 2023. Group Executive 1 March to 30 June 2023. The remuneration presented above is for the full financial year.

10 Salary and incentive are paid in USD. Stepped down as Executive Director with effect from 1 March 2023. Group Executive 1 March to 30 June 2023.

Annexure C – Directorate *continued*

REMUNERATION AND FEES *continued*

Payment to directors and prescribed officers for the year ended 30 June 2022 for services rendered are set out in the table below. It should be noted that these payments reflect cash payments made to directors and prescribed officers during the financial year and therefore all variable pay components are reflective of performance measurements relating to previous periods. The variable pay components relating to the current year under review are physically paid in the following financial year and are analysed in detail in the Group's annual remuneration report and are more reflective of the performance of the period under review.

Payments to directors and prescribed officers for the year ended 30 June 2022 for services rendered are as follows:

R'000	Services as directors ¹	Basic salary	Perfor- mance bonus	Phantom scheme payments	Provident fund contri- butions	Other benefits ¹	Total
Executive							
A Gore	-	7 611	8 172	-	1 107	387	17 277
HD Kallner	-	5 650	6 891	-	282	174	12 997
NS Koopowitz ²	-	19 428	21 286	8 664	81	552	50 011
Dr A Ntsaluba	-	4 749	5 216	-	356	290	10 611
A Pollard ³	-	7 343	6 684	2 057	122	336	16 542
B Swartzberg	-	5 314	5 933	2 532	555	237	14 571
DM Viljoen	-	5 019	5 381	2 995	780	183	14 358
Sub-total	-	55 114	59 563	16 248	3 283	2 159	136 367
Non-executive							
ME Tucker ⁴	6 539	-	-	-	-	-	6 539
HL Bosman ⁶	1 743	-	-	-	-	-	1 743
Dr BA Brink	614	-	-	-	-	-	614
SE De Bruyn	591	-	-	-	-	-	591
R Farber ⁵	3 219	-	-	-	-	3 633	6 852
MH Hlala	1 102	-	-	-	-	-	1 102
FN Khanyile	1 500	-	-	-	-	-	1 500
D Macready	1 851	-	-	-	-	-	1 851
Dr TV Maphai	1 797	-	-	-	-	-	1 797
T Mboweni	209	-	-	-	-	-	209
M Schreuder	1 621	-	-	-	-	-	1 621
B Van Kralingen ⁷	348	-	-	-	-	-	348
SV Zilwa ⁸	2 176	-	-	-	-	-	2 176
Sub-total	23 310	-	-	-	-	3 633	26 943
Total	23 310	55 114	59 563	16 248	3 283	5 793	163 310
Less: paid by subsidiaries	(23 310)	(55 114)	(59 563)	(16 248)	(3 283)	(5 793)	(163 310)
Paid by holding company	-	-	-	-	-	-	-

1 "Other benefits" comprise medical aid contributions, travel, other allowances and fees from group subsidiaries.

2 Salary and incentives paid in GBP.

3 Salary and incentives paid in USD.

4 Director's fees for services rendered are paid in GBP.

5 Director's fees for services rendered by R Farber were paid in AUD components.

6 Director's fees for services rendered by HL Bosman were paid to Rand Merchant Insurance Holdings Limited.

7 Director's fees for services rendered are paid in USD.

8 Participated in Discovery Limited 2015 BEE transaction, which loan outstanding to the Company was fully settled during the 2022 financial year.

Annexure C – Directorate *continued*

DIRECTORS' PARTICIPATION IN LONG-TERM INCENTIVE SCHEMES

Discovery's directors and prescribed officers participate in the various long-term incentive schemes offered by the Group and their participation is disclosed below. Refer to Group note 32 for a detailed description of the various schemes offered.

Discovery Limited phantom share scheme

Directors and prescribed officers participation as at 30 June 2023:

Directors and prescribed officers	Outstanding shares	Date granted	Final vesting date	Value at 30 June 2023 R
A Gore	12 007	2018/09/30	2023/09/30	1 751 221
HD Kallner	8 053	2018/09/30	2023/09/30	1 174 530
Dr A Ntsaluba	7 078	2018/09/30	2023/09/30	1 032 326
A Pollard	1 640	2018/09/30	2023/09/30	239 194
B Swartzberg	2 819	2018/09/30	2023/09/30	411 151
DM Viljoen	7 597	2018/09/30	2023/09/30	1 108 022

Discovery Limited long-term incentive plan

Directors and prescribed officers participation as at 30 June 2023:

Directors and prescribed officers	Outstanding shares	Date granted	Final vesting date	Value at 30 June 2023 R
A Gore	38 200	2019/09/30	2024/09/30	5 571 470
	30 434	2020/09/30	2023/09/30	4 438 799
	69 707	2020/09/30	2025/09/30	10 166 766
	68 786	2021/09/30	2026/09/30	10 032 438
HD Kallner	25 620	2019/09/30	2024/09/30	3 736 677
	98 985	2020/09/30	2023/09/30	14 436 962
	46 752	2020/09/30	2025/09/30	6 818 779
	46 135	2021/09/30	2026/09/30	6 728 790
Dr A Ntsaluba	22 627	2019/09/30	2024/09/30	3 300 148
	17 846	2020/09/30	2023/09/30	2 602 839
	41 289	2020/09/30	2025/09/30	6 022 001
	40 744	2021/09/30	2026/09/30	5 942 512
	51 786	2022/11/30	2025/09/30	7 552 988
A Pollard	7 331	2019/09/30	2024/09/30	1 069 226
	3 145	2020/09/30	2023/09/30	458 698
	22 362	2020/09/30	2025/09/30	3 261 498
	22 276	2021/09/30	2026/09/30	3 248 955
	83 453	2022/11/30	2025/09/30	12 171 620
	7 709	2022/11/30	2027/09/30	1 124 358
B Swartzberg	7 686	2019/09/30	2024/09/30	1 121 003
	11 501	2020/09/30	2023/09/30	1 677 421
	23 376	2020/09/30	2025/09/30	3 409 390
	23 068	2021/09/30	2026/09/30	3 364 468
	8 075	2022/11/30	2027/09/30	1 177 739
DM Viljoen	24 170	2019/09/30	2024/09/30	3 525 195
	24 797	2020/09/30	2023/09/30	3 616 642
	44 105	2020/09/30	2025/09/30	6 432 714
	45 197	2021/09/30	2026/09/30	6 591 982

**Annexure C – Directorate** *continued***DIRECTORS' PARTICIPATION IN LONG-TERM INCENTIVE SCHEMES** *continued*

The Vitality Group Cash-settled plan
Directors and prescribed officers

Directors and prescribed officers	Outstanding shares	Date granted	Exercise price USD	Final vesting date	Value at 30 June 2023 USD
A Pollard	36 467	2018/09/30	–	2023/09/30	37 312
	139 268	2019/09/30	–	2024/09/30	194 975
	153 330	2020/09/30	–	2025/09/30	214 662
	167 813	2021/09/30	–	2026/09/30	234 938
B Swartzberg	62 665	2018/09/30	–	2023/09/30	64 118
	143 771	2019/09/30	–	2024/09/30	201 279
	160 280	2020/09/30	–	2025/09/30	224 393
	173 772	2021/09/30	–	2026/09/30	243 281

The VitalityHealth and VitalityLife phantom share schemes
Directors and prescribed officers participation as at 30 June 2023:

Directors and prescribed officers	Outstanding shares	Date granted	Exercise price GBP	Final vesting date	Value at 30 June 2023 GBP
NS Koopowitz	4 336	2020/03/01	–	2023	192 995
	27 430	2022/01/05	–	2024	1 123 533

DIRECTORS' PARTICIPATION IN SINGLE INCENTIVE PLAN

Discovery Limited Single Incentive Plan

Directors and prescribed officers participation as at 30 June 2023:

Directors and prescribed officers	Outstanding shares	Date granted	Final vesting date	Value at 30 June 2023 R
A Gore	92 223	2022/11/30	2027/09/30	13 450 725
HD Kallner	67 823	2022/11/30	2027/09/30	9 891 985
Dr A Ntsaluba	55 807	2022/11/30	2027/09/30	8 139 451
A Pollard	91 102	2022/11/30	2027/09/30	13 287 227
B Swartzberg	67 999	2022/11/30	2027/09/30	9 917 654
DM Viljoen	61 054	2022/11/30	2027/09/30	8 904 726



Annexure C – Directorate *continued*

Directors' interests in shares

According to the Register of Directors' Interests, maintained by Discovery in accordance with the provisions of section 30(4)(d) of the Companies Act, directors and prescribed officers of Discovery have disclosed the following interest in the ordinary shares of the Company at 30 June 2023:

Directors and prescribed officers	Direct beneficial	Indirect beneficial	Total 2023	Direct beneficial	Indirect beneficial	Total 2022
Executive						
A Gore ¹	31 372	48 561 559	48 592 931	-	49 046 559	49 046 559
B Swartzberg ²	3 146 461	22 635 115	25 781 576	3 202 227	22 635 115	25 837 342
DM Viljoen	29 850	-	29 850	10 000	-	10 000
HD Kallner ⁴	100 398	-	100 398	100 398	-	100 398
NS Koopowitz ⁴	-	792 004	792 004	-	852 004	852 004
Dr A Ntsaluba ⁵	89 455	-	89 455	80 164	-	80 164
A Pollard ⁵	1 073 099	-	1 073 099	1 193 099	-	1 193 099
Non-executive						
HL Bosman ³	-	164 370	164 370	-	164 370	164 370
R Farber	55 076	-	55 076	55 076	-	55 076
FN Khanyile	1 300	-	1 300	1 300	-	1 300
Dr TV Maphai	1 919	196 505	198 424	1 919	196 505	198 424
SV Zilwa	-	680	680	-	680	680
	4 528 930	72 350 233	76 879 163	4 644 183	72 895 233	77 539 416

¹ Includes 39 300 000 (2022: 39 300 000) ordinary shares which are subject to security.

² Includes 11 500 000 (2022: 11 500 000) ordinary shares which are subject to security.

³ Retired effective 1 December 2023.

⁴ Transitioned from Group Executive Director to Prescribed Officer with effect from 1 March 2023.

⁵ Stepped down as Executive Director with effect from 1 March 2023.

There has been no change in the directors' interests in Discovery Limited's shares between 30 June 2023 and the date of publication of these annual financial statements.

Annexure D – Unaudited analysis of shareholders

at 30 June 2023

ORDINARY SHAREHOLDERS

	Number of shareholders	% of total shareholders	Number of shares	% of issued capital
Shareholder spread				
1 – 1 000 shares	38 753	86.89	5 883 083	0.87
1 001 – 10 000 shares	4 650	10.43	12 676 392	1.88
10 001 – 100 000 shares	878	1.97	27 157 201	4.03
100 001 – 1 000 000 shares	238	0.53	79 460 026	11.81
1 000 001 shares and over	82	0.18	547 969 715	81.41
	44 601	100.00	673 146 417	100.00
Public/non-public shareholders				
Non-public shareholders	19	0.03	178 244 562	26.48
– Directors of the Company, including their associates	9	0.02	75 552 239	11.23
– Employee share trusts	2	0.00	14 045 368	2.09
– Own holdings	1	0.00	680 268	0.10
– Key management personnel and trustees of pension funds	6	0.01	699 089	0.10
– Strategic holdings (more than 10%)	1	0.00	87 267 598	12.96
Public shareholders	44 582	99.97	494 901 855	73.52
	44 601	100.00	673 146 417	100.00

	Number of shares	%
Beneficial shareholders' holding of 5% or more		
Government Employees Pension Fund (including shares managed by Public Investment Corporation)	87 267 598	12.96
Remgro Limited	51 254 365	7.61
Baillie Gifford & Co Limited	50 465 898	7.50
Adrian Gore	48 592 931	7.22

B PREFERENCE SHAREHOLDERS

	Number of shareholders	% of total shareholders	Number of shares	% of issued capital
Shareholder spread				
1 – 1 000 shares	2 611	74.58	305 068	3.81
1 001 – 10 000 shares	756	21.59	2 408 357	30.10
10 001 – 100 000 shares	126	3.60	3 202 255	40.04
100 001 – 1 000 000 shares	8	0.23	2 084 320	26.05
	3 501	100.00	8 000 000	100.00
Public/non-public shareholders				
Public shareholders	3 501	100.00	8 000 000	100.00

	Number of shares	%
Beneficial shareholders' holding of 5% or more		
Outsurance Insurance Company Ltd	500 000	6.25
PSG Diversified Income Fund	497 457	6.22



Annexure E – Embedded value statement

Report on the review of the Embedded Value Statement

of Discovery Limited and its subsidiaries to the Directors of Discovery Limited

INTRODUCTION

We have reviewed the Embedded Value Statement of Discovery Limited and its subsidiaries (together the Discovery Limited Group) for the year ended 30 June 2023, as set out on pages 202 to 212 of the Discovery Annual Financial Statements for the year ended 30 June 2023 (the Report). The Report is prepared for the purpose of determining the embedded value and performance of Discovery Limited Group. The directors of Discovery Limited are responsible for the preparation and presentation of the Report in accordance with the embedded value basis set out in the Basis of Preparation section of the Report, and for determining that the basis of preparation is acceptable in the circumstances. Our responsibility is to express a conclusion on this Report based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the Report is not prepared, in all material respects, in accordance with the basis set out in the Basis of Preparation section of the Report.

BASIS OF ACCOUNTING AND RESTRICTION ON USE

Without modifying our conclusion, we draw attention to the Basis of Preparation section of the Report, which describes the basis of accounting. The Report is prepared for the purpose of determining the value and performance of Discovery Limited Group. As a result, the Report may not be suitable for another purpose. Our report is intended solely for the directors of Discovery Limited and should not be used by any other parties. We agree to the publication of our report in the Discovery Annual Financial Statements for the year ended 30 June 2023, provided it is clearly understood by the recipients of the Discovery Annual Financial Statements for the year ended 30 June 2023 that they enjoy such receipt for information only and that we accept no duty of care to them in respect of our report.

PricewaterhouseCoopers Inc.
Director: Andrew Graham Taylor
Registered Auditor
Johannesburg
21 September 2023

KPMG Inc.
Director: Mark Danckwerts
Registered Auditor
Johannesburg
21 September 2023



Annexure E – Embedded value statement *continued*

for the year ended 30 June 2023

The embedded value of the Discovery Group consists of the following components:

- the adjusted net worth attributed to the business at the valuation date;
- plus: the present value of expected future shareholder cash flows from the in-force covered business;
- less: the cost of required capital.

The present value of future shareholder cash flows from the in-force covered business is calculated as the value of projected future after-tax shareholder cash flows of the business in-force at the valuation date, discounted at the risk discount rate.

The required capital are the assets attributed to the covered business above the amount required to back covered business liabilities, whose distribution to shareholders is restricted as they are allocated to cover regulatory and internal capital requirements.

The value of new business is the present value, at the point of sale, of the projected future after-tax shareholder cash flows of the new business written by the Discovery Group, discounted at the risk discount rate, less an allowance for the reserving strain, initial expenses and cost of required capital. The value of new business is calculated using the current reporting date assumptions.

The embedded value includes the insurance and administration profits of the covered business in the Discovery Group. Covered business includes business written in South Africa through Discovery Life ("Life"), Discovery Invest ("Invest"), Discovery Health ("Health") and Discovery Vitality ("Vitality"), and in the United Kingdom through VitalityLife and VitalityHealth. For Vitality Group, Ping an Health Insurance, Discovery Insure, Discovery Bank and Umbrella Funds, no published value has been placed on the current in-force business.

In August 2011, the Discovery Group raised R800 million through the issue of non-cumulative, non-participating, non-convertible preference shares. For embedded value purposes this capital, net of share issue expenses, has been excluded from the adjusted net worth.

From June 2022, the VitalityLife embedded value has been adjusted to allow for the agreement with the Prudential Assurance Company ("PAC") in May 2022 to defer the transfer of the VitalityLife business on the PAC licence to the Vitality Life Limited licence ("the Part VII transfer").

The 30 June 2023 embedded value results and disclosures were subjected to an external review.

Annexure E – Embedded value statement *continued*

for the year ended 30 June 2023

TABLE 1: GROUP EMBEDDED VALUE

R million	30 June 2023	30 June 2022	% change
Shareholders' funds	63 974	53 555	19
Adjustment to shareholders' funds from published basis ¹	(45 688)	(39 764)	15
Adjusted net worth ²	18 286	13 791	33
Value of in-force covered business before cost of required capital	83 906	76 077	10
Cost of required capital	(4 016)	(3 610)	11
Discovery Group embedded value	98 176	86 258	14
Number of shares (millions)	658.4	657.0	
Embedded value per share	R149.11	R131.29	14
Diluted number of shares (millions)	672.5	668.3	
Diluted embedded value per share ³	R145.99	R129.07	13

¹ A breakdown of the adjustment to shareholders' funds is shown in the table below. Note that where relevant, adjustments have been converted using the closing exchange rate of R23.99/GBP (June 2022: R20.00/GBP).

R million	30 June 2023	30 June 2022
Life net assets under insurance contracts	(25 491)	(24 793)
Vitality Life Limited net assets under insurance contracts	(12 051)	(8 608)
VitalityHealth financial reinsurance asset	(4 465)	(3 021)
VitalityHealth and Vitality Health Insurance Limited deferred acquisition costs (net of deferred tax)	(536)	(450)
VitalityLife receivable relating to the Unemployment Cover benefit (net of deferred tax)	(13)	(11)
Goodwill relating to the acquisition of Standard Life Healthcare and the PAC joint venture	(2 969)	(2 475)
Intangible assets (net of deferred tax) in covered businesses	(893)	(864)
Net preference share capital	(779)	(779)
Reversal of 1 Discovery Place IFRS 16 financial lease accounting	1 333	1 170
Equity settled share based payment mark-to-market adjustment	176	67
	(45 688)	(39 764)

The "equity settled share based payment mark-to-market adjustment" reflects the difference between the provision in the IFRS equity and the mark-to-market value of the equity settled share based payments.

Annexure E – Embedded value statement *continued*

for the year ended 30 June 2023

2 The following table sets out the capital position of the covered businesses with the required capital on a consistent basis to that used in the embedded value:

R million	30 June 2023	30 June 2022
Shareholders' funds	63 974	53 555
Adjustment to shareholders' funds	(45 688)	(39 764)
Adjusted net worth	18 286	13 791
Excess of available capital over adjusted net worth	40 336	35 342
Available capital	58 622	49 133
Required capital	41 987	38 658
Excess available capital	16 635	10 475

The excess of available capital over adjusted net worth reflects the difference between the adjusted net worth and the available capital. This includes:

- The net preference share capital of R779 million which is included as available capital.
- The difference between Vitality Life Limited's Solvency II Pillar 1 Own Funds and its adjusted net worth.
- The difference between Life's Pillar 1 Own Funds and its adjusted net worth.

The following table sets out the required capital for each of the covered businesses:

R million	30 June 2023	30 June 2022
Health and Vitality	1 108	1 000
Life and Invest	26 011	25 403
VitalityHealth	4 238	3 164
VitalityLife	10 630	9 091
Total required capital	41 987	38 658

- For Health and Vitality, the required capital was set equal to two times the monthly renewal expense and Vitality benefit cost.
- For Life and Invest, the required capital was set equal to 1.25 times the SAM Pillar 1 Solvency Capital Requirement.
- For VitalityHealth, the required capital amount was set equal to 1.35 times the Solvency II Pillar 1 Solvency Capital Requirement.
- For the VitalityLife business on the PAC licence, the required capital was set equal to 1.5 times the UK Solvency I long-term insurance capital requirement as per the agreement with PAC following the long-term delay of the Part VII transfer. For the business sold on the Vitality Life Limited licence, the required capital was set equal to 1.4 times the Solvency II Pillar 1 Solvency Capital Requirement. Note that for the prior period ended 30 June 2022, the total required capital for VitalityLife was incorrectly reported as R9 751 million resulting in a total required capital of R39 318 million and total excess available capital of R9 815 million. This misstatement has been corrected above, and did not affect the embedded value as at 30 June 2022.

3 The diluted embedded value per share adjusts for treasury shares held in the Discovery Group BEE Share Trust and as part of the Discovery Group's Long-term Incentive Plan where the impact is dilutive.

Annexure E – Embedded value statement *continued*

for the year ended 30 June 2023

TABLE 2: VALUE OF IN-FORCE COVERED BUSINESS

R million	Value before cost of required capital	Cost of required capital	Value after cost of required capital
at 30 June 2023			
Health and Vitality	25 985	(512)	25 473
Life and Invest ¹	33 301	(1 665)	31 636
VitalityHealth ²	12 797	(698)	12 099
VitalityLife ²	11 823	(1 141)	10 682
Total	83 906	(4 016)	79 890
at 30 June 2022			
Health and Vitality	24 528	(479)	24 049
Life and Invest ¹	32 073	(1 509)	30 564
VitalityHealth ²	10 658	(583)	10 075
VitalityLife ²	8 818	(1 039)	7 779
Total	76 077	(3 610)	72 467

1 Included in the Life and Invest value of in-force covered business is R2 005 million (June 2022: R1 734 million) in respect of investment management services provided on off balance sheet investment business. The net assets of the investment service provider are included in the adjusted net worth.

2 The value of in-force has been converted using the closing exchange rate of R23.99/GBP (June 2022: R20.00/GBP).

TABLE 3: GROUP EMBEDDED VALUE EARNINGS

R million	30 June 2023	30 June 2022
Embedded value at end of period	98 176	86 258
Less: embedded value at beginning of period	(86 258)	(74 645)
Increase in embedded value	11 918	11 613
Net change in capital ¹	–	(10)
Dividends paid	69	56
Transfer to hedging reserve	(76)	(309)
Employee share option schemes	(553)	(326)
Increase in treasury shares	–	–
Acquisition of subsidiaries with non-controlling interest	(6)	–
Embedded value earnings	11 352	11 024
Annualised return on opening embedded value	13.2%	14.8%

1 The net change in capital reflects share issues (net of costs and proceeds) and an increase (decrease) in treasury shares in the period.

Annexure E – Embedded value statement *continued*

for the year ended 30 June 2023

TABLE 4: COMPONENTS OF GROUP EMBEDDED VALUE EARNINGS

R million	Year ended 30 June 2023				Year ended 30 June 2022
	Net worth	Cost of required capital	Value of in-force covered business	Embedded value	Embedded value
Total profit from new business (at point of sale)	(5 213)	(302)	6 955	1 440	2 061
Profit from existing business					
– Expected return	7 196	(33)	1 426	8 589	6 799
– Change in methodology and assumptions ¹	1 989	172	(7 015)	(4 854)	867
– Experience variances	716	68	2 420	3 204	3 124
Impairment, amortisation and fair value adjustment ²	(67)	–	–	(67)	(52)
Increase in goodwill and intangibles	(263)	–	–	(263)	(418)
Other initiatives ³	–	–	24	24	(836)
Non-recurring expenses	(193)	–	–	(193)	(130)
Acquisition costs ⁴	(50)	–	2	(48)	(41)
Finance costs	(2 848)	–	–	(2 848)	(2 318)
Foreign exchange rate movements ⁵	1 365	(312)	4 017	5 070	1 171
Other ⁶	89	1	–	90	(16)
Return on shareholders' funds ⁷	1 208	–	–	1 208	813
Embedded value earnings	3 929	(406)	7 829	11 352	11 024

¹ The changes in methodology and assumptions will vary over time to reflect adjustments to the model and assumptions as a result of changes to the operating and economic environment. The current period's changes are described in detail in Table 6 below (for previous periods refer to previous embedded value statements).

² This item reflects the amortisation of the intangible assets reflecting the banking costs, Cambridge Mobile Telematics system spend and capital expenditure in Discovery Group Europe Limited.

³ This item includes the profits of non-covered businesses (including Discovery Insure, Vitality Group and Ping An Health Insurance) and costs of start-up businesses (including Discovery Bank, a commercial offering in Discovery Insure, and an Umbrella Fund offering in Invest). Head office costs which relate to non-covered business are also included in this item.

⁴ Acquisition costs relate to commission paid on the Life and Invest business and expenses incurred in writing Health and Vitality business that has been written over the period but will only be activated and on risk after the valuation date. These policies are not included in the embedded value or the value of new business and therefore the costs are not deducted from the value of new business.

⁵ This item includes foreign exchange gains/(losses) emerging through the income statement, in addition to translation impacts on the cost of required capital and value of in-force.

⁶ This item includes, among other items, the tangible tax impact from movements in covered business intangible assets, which are excluded from the net worth.

⁷ The return on shareholders' funds is shown net of tax and management charges.

Annexure E – Embedded value statement *continued*

for the year ended 30 June 2023

TABLE 5: EXPERIENCE VARIANCES

R million	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		Total
	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	
Renewal expenses	67	–	32	2	(93)	–	(16)	–	(8)
Lapses and surrenders ^{1,2}	(4)	(78)	1	189	–	372	(161)	218	537
Mortality and morbidity	–	–	130	(79)	(93)	–	34	–	(8)
Policy alterations ²	–	(5)	(521)	163	–	–	30	(54)	(387)
Backdated cancellations	–	–	–	–	–	–	–	–	–
Premium and fee income ³	150	–	14	232	218	–	7	61	682
Inflation-linked indexation ^{2,4}	–	–	4	242	–	–	(107)	606	745
Economic ⁵	–	–	260	284	64	–	(2)	–	606
Commission	–	–	–	–	(36)	–	–	–	(36)
Tax ⁶	110	–	305	(307)	(33)	–	46	–	121
Reinsurance	–	–	–	–	84	–	(106)	46	24
Maintain modelling term ⁷	–	335	–	137	–	117	–	–	589
Vitality benefits	(32)	–	–	–	–	–	(5)	–	(37)
Other ⁸	161	(1)	(58)	35	19	–	247	(27)	376
Total	452	251	167	898	130	489	(33)	850	3 204

- 1 For Health and Vitality, the lapse and surrender experience was driven by the termination of an in-house scheme for the period under review – excluding this impact would have resulted in a positive experience variance for the business. For VitalityHealth, the experience reflects improved retention rates from strong performance across all channels coupled with a continued focus on renewal pricing strategies. Better than expected lapse experience has been observed for the other covered businesses.
- 2 For Life and Invest, the policy alterations experience relates mainly to acquisition costs on positive servicing, but should be considered in the context of the overall positive lapse and surrender and economic experience variances given its correlation to current economic conditions and the high inflationary environment.
- 3 Other than higher than expected premium and fee income, this experience variance item includes the impact of positive integration experience for Individual Life, and an increased demand for private medical insurance in the United Kingdom improving premium retention for VitalityHealth.
- 4 This experience variance relates to premium and benefit increases for inflation-linked policies, net of increase holidays. During the period the actual inflation was higher than expected for those policies passing through an anniversary increase in-period. In previous embedded value statements, this experience variance was included under economic experience. Due to the significance of these experience variances in the current period as a result of the high inflationary environment, this amount has been shown separately.
- 5 For Life and Invest, the experience includes higher than expected growth in asset values in the Invest business.
- 6 The tax variance arises due to the timing difference between the expected tax payments and actual payments.
- 7 For Health and Vitality, Life and Invest and VitalityHealth, the projection term is rebased at each year-end. Therefore, an experience variance arises because the total term of the in-force covered business is effectively increased by twelve months.
- 8 The key Other experience relates to cash flow timing variances in Life and Invest, profits and losses from companies within the Health, VitalityHealth and VitalityLife segments which are not part of covered business, including the net impact of the VitalityLife swaption program, excluding gains or losses from the hedge which are included in the economic assumption changes item.

**Annexure E – Embedded value statement** *continued*

for the year ended 30 June 2023

TABLE 6: METHODOLOGY AND ASSUMPTION CHANGES

R million	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		Total
	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	
Modelling changes ¹	41	-	(121)	202	-	-	48	(190)	(20)
Expenses ²	-	(495)	5	(133)	-	-	-	-	(623)
Lapses ³	-	-	(170)	(1 115)	-	-	-	-	(1 285)
Mortality and morbidity ⁴	-	-	-	-	-	-	81	(219)	(138)
Benefit changes	-	(18)	-	-	-	-	-	-	(18)
Vitality	-	-	-	-	-	-	-	-	-
Tax	-	-	-	-	-	-	-	(13)	(13)
Economic assumptions ⁵	-	(1 318)	23	(2 126)	-	(1 072)	106	(293)	(4 680)
Premium and fee income ⁶	-	1 084	108	454	-	-	-	-	1 646
Reinsurance and financing ⁷	-	-	1 867	(1 735)	-	63	-	-	195
Other	-	-	1	81	-	-	-	-	82
Total	41	(747)	1 713	(4 372)	-	(1 009)	235	(715)	(4 854)

1 For Health and Vitality and Life and Invest, the item reflects refinements to the data and models. For VitalityLife, the item reflects modelling improvements related to commission and reinsurance.

2 For Health and Vitality and Life and Invest, the expense assumption update reflects an alignment to the expense budget for the next financial year.

3 For Life and Invest, the long-term decrement basis was reviewed and updated in line with lower exit rates observed on certain Invest product lines, and a short-term allowance for elevated expected lapse and policy alterations experience on the Life business.

4 For VitalityLife, the mortality basis, with respect to future mortality improvements, and the serious illness cover basis was reviewed. The existing shared value model was reviewed and replaced with a new model to more appropriately capture the impact that shared value has on the business' underlying demographic basis.

5 For Health and Vitality and Life and Invest, the economic assumptions were updated in line with observed market nominal and real yield risk-free curves at 30 June 2023. For VitalityLife, the item includes the impact of updating the assumptions relative to the Solvency II yield curves and the IFRS interest rates, offset by the net change in the interest rate hedge. For VitalityHealth, the impact of updating the assumptions relative to the Solvency II yield curves results in a reduction to the annuity factor.

6 For Health and Vitality, the premium and fee income item relates to an update of the administration fee income escalations for certain plans recently renewed. For Life and Invest, Invest fee structures were reviewed in response to updated persistency expectations.

7 For Life and Invest, the reinsurance and financing item primarily relates to the impact of financing arrangements, where the future expected cash flows arising from part of the negative reserves are monetised to match other positive policy liabilities.

Annexure E – Embedded value statement *continued*

for the year ended 30 June 2023

TABLE 7: EMBEDDED VALUE OF NEW BUSINESS

R million	30 June 2023	30 June 2022	% Change
Health and Vitality			
Present value of future profits from new business (at point of sale)	954	958	
Cost of required capital	(39)	(30)	
Present value of future profits from new business (at point of sale) after cost of required capital	915	928	(1)
New business annualised premium income ¹	4 959	4 185	18
Life and Invest			
Present value of future profits from new business (at point of sale) ²	516	795	
Cost of required capital	(87)	(90)	
Present value of future profits from new business (at point of sale) after cost of required capital	429	705	(39)
New business annualised premium income ³	2 965	2 995	(1)
Annualised profit margin ⁴	1.8%	3.0%	
Annualised profit margin excluding Invest business	2.5%	5.3%	
VitalityHealth⁵			
Present value of future profits from new business (at point of sale)	269	398	
Cost of required capital	(87)	(81)	
Present value of future profits from new business (at point of sale) after cost of required capital	182	317	(43)
New business annualised premium income ⁶	2 001	1 648	21
Annualised profit margin ⁴	1.4%	2.6%	
VitalityLife⁷			
Present value of future profits from new business (at point of sale)	3	219	
Cost of required capital	(89)	(108)	
Present value of future profits from new business (at point of sale) after cost of required capital	(86)	111	(177)
New business annualised premium income	1 124	882	27
Annualised profit margin ⁴	(1.0%)	1.4%	

1 Health new business annualised premium income is the gross contribution to the medical schemes. The new business annualised premium income shown above excludes premiums in respect of members who join an existing employer where the member has no choice of medical scheme, as well as premiums in respect of new business written during the period but only activated after 30 June 2023.

The total Health and Vitality new business annualised premium income written over the period was R9 051 million (June 2022: R7 548 million).

2 Included in the Life and Invest embedded value of new business is R21 million (June 2022: R54 million) in respect of investment management services provided on off balance sheet investment business.

Risk business written prior to the valuation date allows certain Invest business to be written at financially advantageous terms, the impact of which has been recognised in the value of new business.

3 Life new business is defined as Life policies to which Life became contractually bound during the reporting period, including policies whose first premium is due after the valuation date. Invest new business is defined as business where at least one premium has been received and which has not been refunded after receipt. Invest new business also includes Discovery Retirement Optimiser policies to which Life and Invest became contractually bound during the reporting period, including policies whose first premium is due after the valuation date.

The new business annualised premium income of R2 965 million (June 2022: R2 995 million) (single premium APE: R1 430 million (June 2022: R1 421 million)) shown above excludes automatic premium increases and servicing increases in respect of existing business. The total new business annualised premium income written over the period, including automatic premium increases of R2 208 million (June 2022: R1 801 million) and servicing increases of R716 million (June 2022: R668 million), was R5 889 million (June 2022: R5 464 million) (single premium APE: R1 499 million (June 2022: R1 492 million)). Single premium business is included at 10% of the value of the single premium.

Policy alterations and internal replacement policies, including Discovery Retirement Optimisers added to existing Life Plans are shown in Table 5 as experience variances and not included as new business. Term extensions on existing contracts are not included as new business.

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

5 The VitalityHealth value of new business is calculated as the value at point of sale of the new business written premium in-force at the valuation date multiplied by the Margin multiplied by the Annuity Factor less the new business cash flows from point of sale to the valuation date. The assumptions for the Margin and Annuity Factor are shown in Table 8.

6 VitalityHealth new business is defined as individuals and employer groups which inceptioned during the reporting period. The new business annualised premium income shown above has been adjusted to exclude premiums in respect of members who join an existing employer group after the first month, as well as premiums in respect of new business written during the period but only activated after 30 June 2023.

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

**Annexure E – Embedded value statement** *continued*

for the year ended 30 June 2023

Basis of preparation**TABLE 8: EMBEDDED VALUE ECONOMIC ASSUMPTIONS**

	30 June 2023	30 June 2022
Beta coefficient	0.75	0.75
Equity risk premium (%)	3.5	3.5
Risk discount rate (%)		
– Health and Vitality ¹	15.125	14.375
– Life and Invest ¹	15.875	14.875
– VitalityHealth	7.000	5.016
– VitalityLife	7.042	4.997
Rand/GBP exchange rate		
Closing	23.99	20.00
Average	21.43	20.25
Margin over Expense inflation to derive Medical inflation (%)		
South Africa	3.00	3.00
Expense inflation (%) ²		
South Africa		
– Health and Vitality	7.96	7.85
– Life and Invest	8.13	7.74
United Kingdom	3.75	3.75
Pre-tax investment return (%)		
South Africa		
– Cash ¹	11.75	10.75
– Life and Invest bonds ³	13.25	12.25
– Health and Vitality bonds ³	12.50	11.75
– Equity ¹	16.75	15.75
United Kingdom		
– VitalityHealth risk-free rate	4.38	2.39
– VitalityLife risk-free rate	4.42	2.37
– VitalityLife IFRS interest rate	3.98	2.92
– VitalityLife investment return	4.31	2.00
Long-term corporation tax rate (%)		
South Africa	27	27
United Kingdom	25	25
VitalityHealth Assumptions		
– Margin (net of tax and cost of capital) (%)	12.05	12.00
– Annuity Factor	6.28	7.00
Projection term		
– Health and Vitality	20 years	20 years
– Discovery Life – VIF	40 years	40 years
– Group Life	20 years	20 years
– VitalityLife	No cap	No cap
– VitalityHealth ⁴	20 years	20 years

¹ Derived as a margin over (or below for cash) the respective pre-tax investment return for bonds.

² The inflation assumption is derived as the difference between the nominal and real yield curve at each duration. As an indication, the cash flow weighted average inflation is shown in the table. For the United Kingdom, the expense inflation assumption is aligned with the long-term market view of inflation.

³ As indications, the cash flow weighted averages derived from the relevant yield curve(s) are shown.

⁴ The VitalityHealth projection term of 20 years is used in the derivation of the Annuity Factor.



Annexure E – Embedded value statement *continued*

for the year ended 30 June 2023

The Discovery Group embedded value is calculated based on a risk discount rate using the Capital Asset Pricing Model (CAPM) approach with specific reference to the Discovery Group beta coefficient. The assumed beta is fixed at 0.75. This has been set such that the risk discount rate proxies the result of a Weighted Average Cost of Capital approach with reference to the capital structure of the Group and the observed beta calculated using daily returns over a long time period. The observed beta is calculated with reference to the ALSI. The assumed beta will only change if the capital structure of the Group and/or the observed beta calculated using daily returns over a long time period suggest the beta assumption should depart significantly from the assumption at the financial year-end. As beta values reflect the historic performance of share prices relative to the market, they may not allow fully for non-market related and non-financial risk. Investors may want to form their own view on an appropriate allowance for these risks which have not been modelled explicitly.

Life and Invest mortality, morbidity and lapse and surrender assumptions were derived from internal experience, where available, augmented by reinsurance and industry information.

The Health and Vitality lapse assumptions were derived from the results of recent experience investigations.

The VitalityHealth assumptions were derived from internal experience.

VitalityLife assumptions were derived from internal experience, where available, augmented by reinsurance, industry and Discovery Group group information.

Renewal expense assumptions were based on the results of the latest expense and budget information.

The initial expenses included in the calculation of the embedded value of new business are the actual costs incurred excluding expenses of an exceptional or non-recurring nature.

The South African investment return assumptions for Life, Invest, Health and Vitality were set relative to the publicly available JSE risk-free nominal yield curve.

The current and projected tax position of the policyholder funds within the Life company has been taken into account in determining the net investment return assumption.

The risk-free rate assumption for VitalityHealth and VitalityLife was based on the single interest rate derived from the Prudential Regulatory Authority yield curve. The inflation rate is consistent with the long-term market view of inflation.

From 30 June 2018, VitalityHealth calculate the value of in-force at the valuation date as the in-force written premium multiplied by the Margin multiplied by the Annuity Factor, as set out in the table above. The Annuity Factor assumption is derived from assumed future lapse rates and premium increases. The Margin assumption reflects profit margins after tax and Cost of Capital. The assumptions underlying the Annuity Factor and Margin are set taking into account the current experience in the business at different durations.

The cost of required capital is calculated using the difference between the risk discount rate and the net of tax asset return on tangible assets. The Vitality Life Limited and the VitalityLife business on the PAC licence required capital amount is assumed to earn the investment return assumption, which is set based on the return on a portfolio of government and corporate bonds assumed to back the required capital. The Life and Invest cost of required capital is calculated assuming shareholder cash flow is limited to the cash flow available after having met both the required capital amount and an internally defined liquidity target capital requirement of tangible assets.

The embedded value has been calculated in accordance with the Actuarial Society of South Africa's Advisory Practice Note ("APN") 107: Embedded Value Reporting, except the recommended disclosure of Free Surplus and Required Capital has been adjusted to take into account the nature of the capital requirements in the covered businesses, as can be seen in Table 1 note 2.

**Annexure E – Embedded value statement** *continued*

for the year ended 30 June 2023

Sensitivity to the embedded value assumptions

The risk discount rate uses the CAPM approach with specific reference to the Discovery Group beta coefficient. As beta values reflect the historic performance of share prices relative to the market, they may not allow fully for non-market related and non-financial risk. Investors may want to form their own view on an appropriate allowance for these risks which have not been modelled explicitly. The sensitivity of the embedded value and the embedded value of new business at 30 June 2023 to changes in the risk discount rate is included in the tables below.

For each sensitivity illustrated below, all other assumptions have been left unchanged. No allowance has been made for management action such as risk premium increases where future experience is worse than the base assumptions.

TABLE 9: EMBEDDED VALUE SENSITIVITY

R million	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		Embedded value	% change	
	Adjusted net worth ²	Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	Value of in-force			Cost of required capital
Base	18 286	25 985	(512)	33 301	(1 665)	12 797	(698)	11 823	(1 141)	98 176	
Impact of:											
Risk discount rate + 1%	18 286	24 563	(551)	30 350	(1 759)	12 160	(664)	11 106	(1 002)	92 489	(6)
Risk discount rate – 1%	18 286	27 555	(467)	36 786	(1 555)	13 501	(737)	12 625	(1 310)	104 684	7
Lapses – 10%	18 054	26 824	(536)	36 226	(1 760)	14 943	(815)	12 579	(1 374)	104 141	6
Interest rates – 1% ¹	17 316	25 887	(494)	33 841	(1 636)	13 501	(737)	11 987	(1 454)	98 211	–
Equity and property market value – 10%	18 247	25 985	(512)	32 595	(1 658)	12 797	(698)	11 823	(1 141)	97 438	(1)
Equity and property return + 1%	18 286	25 985	(512)	33 657	(1 665)	12 797	(698)	11 823	(1 141)	98 532	–
Renewal expenses – 10%	18 402	28 602	(473)	33 978	(1 636)	13 925	(698)	12 077	(1 126)	103 051	5
Mortality and morbidity – 5%	18 560	25 985	(512)	35 550	(1 544)	14 876	(698)	12 279	(1 105)	103 391	5
Projection term + 1 year	18 286	26 295	(517)	33 391	(1 667)	12 889	(703)	11 823	(1 141)	98 656	–

¹ All economic assumptions were reduced by 1%.

² The sensitivity impact on the VitalityLife net of tax change in negative reserves is included in the adjusted net worth column.

The following table shows the effect of using different assumptions on the embedded value of new business.

TABLE 10: VALUE OF NEW BUSINESS SENSITIVITY

R million	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		Value of new business	% change
	Value of new business	Cost of required capital	Value of new business	Cost of required capital	Value of new business	Cost of required capital	Value of new business	Cost of required capital		
Base	954	(39)	516	(87)	269	(87)	3	(89)	1 440	
Impact of:										
Risk discount rate + 1%	875	(43)	341	(92)	170	(82)	(103)	(75)	991	(31)
Risk discount rate – 1%	1 040	(36)	718	(81)	379	(93)	122	(107)	1 942	35
Lapses – 10%	1 022	(43)	707	(92)	509	(100)	120	(106)	2 017	40
Interest rates – 1% ¹	960	(38)	508	(85)	379	(93)	90	(123)	1 598	11
Equity and property return + 1%	954	(39)	543	(87)	269	(87)	3	(89)	1 467	2
Renewal expense – 10%	1 094	(37)	567	(85)	399	(87)	41	(85)	1 807	25
Mortality and morbidity – 5%	954	(39)	609	(80)	508	(87)	39	(82)	1 822	27
Projection term + 1 year	970	(40)	521	(87)	284	(87)	3	(89)	1 475	2
Acquisition costs – 10%	985	(39)	686	(87)	317	(87)	172	(89)	1 858	29

¹ All economic assumptions were reduced by 1%.



Annexure F – Unaudited five-year review

for the year ended 30 June 2023

	Group 2019	Group 2020	Group 2021	Group 2022	Group 2023	Compound growth %
Income statement extracts (R million)						
Profit from operations	7 536	1 532	5 304	7 858	8 662	4%
Headline earnings	5 147	296	2 986	5 204	5 490	2%
Abnormal expenses/(income)	(112)	3 451	420	612	2 188	
Normalised headline earnings	5 035	3 747	3 406	5 816	7 678	11%
Diluted normalised headline earnings per share (cents)	771.6	566.7	512.9	877.3	1 160.9	11%
Statement of financial position extracts (R million)						
Total assets	180 233	210 328	246 694	271 224	301 773	14%
Shareholders' funds	43 083	44 549	46 415	53 550	63 970	10%
Embedded value						
Embedded value (R million)	71 217	70 834	74 645	86 258	98 315	8%
Diluted embedded value per share (R)	108.30	107.71	112.23	129.07	146.20	8%
Key ratios						
Return on average equity (%)	16.4	0.4	7.1	11.0	9.1	
Return on average assets (%)	3.9	0.1	1.4	2.1	1.9	
Exchange rates						
Rand/USD						
– Closing	14.15	17.41	14.28	16.47	18.87	
– Average	14.17	15.70	15.42	15.22	17.79	
Rand/GBP						
– Closing	17.98	21.44	19.74	20.00	23.99	
– Average	18.32	19.75	20.74	20.25	21.43	
Share statistics						
Number of ordinary shares in issue						
– Weighted average (000's)	652 295	656 648	656 710	656 901	658 045	
– Diluted weighted average (000's)	652 568	661 242	664 073	663 082	661 328	
– End of period (000's)	658 291	658 291	665 769	668 963	673 146	
Price/diluted headline earnings (times)	19.3	18.3	24.7	14.6	12.6	
Share price (cents per share):						
– High	17 830	15 163	15 738	18 280	15 266	
– Low	13 287	5 815	10 047	11 760	10 241	
– Closing	14 911	10 455	12 667	12 810	14 585	
Market capitalisation (R million)	98 158	68 824	84 333	85 694	98 172	

Glossary of terms

Abbreviation	Meaning
AIAV	AIA Vitality Proprietary Limited
API	Annual Premium Income
CAE	Chief Audit Executive
CCIC	Capital, Currency and Investment Committee
CEO	Chief Executive Officer
CFC	Controlled Foreign Company
CFO	Chief Financial Officer
CGU	Cash generating unit
CIPC	Companies and Intellectual Property Commission
CMT	Cambridge Mobile Telematics
CODM	Chief Operating Decision-Maker
Companies Act	South African Companies Act, 71 of 2008
CRO	Chief Risk Officer
CSM	Contractual Service Margin (unearned profit)
DHEL	Discovery Holdings Europe Limited
DHMS	Discovery Health Medical Scheme
Discovery	Discovery Limited Group
DLAC	Discovery Limited Audit Committee
DMTN	Domestic Medium Term Note
DRG	Discovery Risk Grades
DVA	Discovery Vitality Australia Proprietary Limited
ECL	Expected credit losses
ESG	Environmental, Social, and Corporate Governance
FCA	Finance Conduct Authority
FCC	Finance and Capital Committee
FEC	Foreign Exchange Contracts
FGC	Financial Guarantee Contracts
FinRe	Financial Reinsurance – with risk transfer
FLR	Financial Leverage Ratio
FRC	United Kingdom Financial Reporting Council
FSV	Financial Soundness Valuation
FVTPL	Fair value through profit or loss
GIA	Group Internal Audit
GMM	General Measurement Model
HAF	Head of Actuarial Function
IASB	International Accounting Standards Board
IBNR	incurred but not yet reported claims
ICA	Individual Capital Assessment
IFA	Insurance Fund Account
IFRS	International Financial Reporting Standards
INSPRU	The Prudential Sourcebook for Insurers
IRBA	South African Independent Regulatory Board of Auditors



Glossary of terms *continued*

Abbreviation	Meaning
JSE	Johannesburg Stock Exchange
KAM	Key Audit Matters
LIC	Liability for Incurred Claims
LRC	Liability for Remaining Coverage
LTICR	Long-term Insurance Capital Requirement
LTIP	Long-term Incentive Plan
MAFR	Mandatory audit firm rotation
Morbidity	Morbidity claims are claims which arise as a result of an impairment of life due to an illness or disability event insured by the policyholder
Mortality	Mortality claims are claims which arise from the death of an insured life
NCD	Negotiable certificates of deposits
OCI	Other Comprehensive Income
OCR	Outstanding Claims Reserve
ORSA	Own Risk and Solvency Assessment
PA	Prudential Authority (South Africa)
PAA	Premium Allocation Approach
PAC	Prudential Assurance Company
PAHI	Ping An Health Insurance Company of China Ltd
PRA	Prudential Regulatory Authority (United Kingdom)
ROEV	Return On Opening Embedded Value
SA	South Africa
SAICA	South African Institute of Chartered Accountants
SAM	Solvency Assessment and Management
SAP	Standard of Actuarial Practice
SCR	Solvency Capital Requirement
SME	Small and Medium-sized Enterprises
TCFD	Task Force on Climate-related Financial Disclosure
TRS	Total Return equity Swaps
UK	United Kingdom
VFA	Variable Fee Approach
VGI	Vitality Group International Inc.
WHT	Withholding Tax

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