DISCOVERY VITALITY ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2023

CONTENTS

DISCOVERY VITALITY PROPRIETARY LIMITED
(Registration number 1999/07736/07)

ANNUAL FINANCIAL STATEMENTS

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

The Annual Financial Statements have been prepared by L Thapedi under the supervision of T Tsangwane CA (SA), the Head of Finance and Reporting. The Annual Financial Statements are reviewed by management, the Discovery Audit Committee and Discovery Vitality Board and are audited by the external auditors, PricewaterhouseCoopers Inc.

(Registration number 1999/07736/07)

Directors' responsibility statement

for the year ended 30 June 2023

DIRECTORS' RESPONSIBILITY TO THE SHAREHOLDER OF DISCOVERY VITALITY PROPRIETARY LIMITED (VITALITY OR COMPANY)

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

The Directors have reviewed Vitality's budget and cash flow forecast for the year ending 30 June 2023, on the basis of this review, and in the light of the current financial position and available cash resources, the Directors have no reason to believe that Vitality will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the Annual Financial Statements.

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

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

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

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

Vitality's external auditors, PricewaterhouseCoopers Inc., have audited the Annual Financial Statements and their unqualified report appears on page 3 to 4.

The Annual Financial Statements of Vitality for the year ended 30 June 2023, which appear on pages 7 to 35 have been approved by the Board of Directors on 6 October 2023 and are signed on its behalf by:

L.Lulema

L Lulema
Director

Dinesh Govender

D Govender
Director

Independent auditors' report

for the year ended 30 June 2023

TO THE SHAREHOLDER OF DISCOVERY VITALITY PROPRIETARY LIMITED

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Discovery Vitality (Pty) Ltd (the Company) as at 30 June 2023, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Discovery Vitality Proprietary Limited's financial statements set out on pages 7 to 35 comprise:

- the statement of financial position at 30 June 2023;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Discovery Vitality (Pty) Ltd (Registration Number: 1999/07736/07), Annual Financial Statements for the year ended 30 June 2023", which includes the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Independent auditors' report *continued*

for the year ended 30 June 2023

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

PricewaterhouseCoopers Inc

PricewaterhouseCoopers Inc.
Director: Johannes Grove
Registered Auditor
Johannesburg
6 October 2023

Directors' report

for the year ended 30 June 2023

The Directors present their report, which forms part of the Annual Financial Statements of Discovery Vitality Proprietary Limited, for the year ended 30 June 2023.

NATURE OF BUSINESS

Discovery Vitality consists of the Vitality Health programme, and to an extent the Vitality Money and Vitality Drive programmes, which give policyholders access to a wide range of tools, activities, and partners to encourage and reward their positive behaviours, thereby making them healthier, and enhancing and protecting their lives. As a policyholder engages to improve their health, they (1) earn Vitality Points which contribute to improving their Vitality Status, and (2) earn rewards, some of which increase based on Vitality status, in the form of upfront discounts, Discovery Miles, cashbacks and vouchers at Vitality's rewards partners.

REVIEW OF RESULTS

Vitality made a profit for the year R59 million (2022: R7 million).

SHARE CAPITAL

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

DIVIDENDS

There were no dividends paid in the current year (2022: R200 million).

HOLDING COMPANY

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

DIRECTORATE AND SECRETARY

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

Executive Directors	Non-Executive Directors
SP Mbatha (Resigned 1 July 2023) D Govender L Lulema (Appointed 1 August 2023)	A Gore* H Kallner* NS Koopowitz* Dr A Ntsaluba (Resigned 1 February 2023) A Pollard* B Swartzberg* DM Viljoen (Resigned 1 February 2023) HL Bosman (Resigned 1 December 2022) R Farber (Resigned 1 February 2023) FN Khanyile (Resigned 1 February 2023) T Maphai SV Zilwa (Resigned 1 February 2023)

Refer to Directors emoluments on page 26.

* *Non-Executive Director effective from 14 February 2023 (Previously Executive Director).*

COMPANY SECRETARY

Ms. NN Mbongo resigned as company secretary with effect from 31 March 2023. A Manqele, the current Group Company secretary of Discovery, has been appointed as the Acting Company Secretary with effect from 31 May 2023 and will hold this position until 31 August 2023.

A Ceba has been appointed as Company Secretary with effect from 1 September 2023.

Registered office
1 Discovery Place
Sandton
2196

Postal address
PO Box 786722
Sandton
2146

Directors' report *continued*

for the year ended 30 June 2023

DIRECTORS' REMUNERATION

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

Remuneration packages for Executive Directors consist of the following components:

- *Guaranteed component:* cost to company element which comprises a fixed cash portion and fixed benefits.
- *Short-term incentives:* Introduced during the current financial year, it has two components being a cash component and a deferred award. The plan consists of an annual personal incentive score linked to individual goals for each director, factoring in the Discovery Limited Group score which allows senior management to share in profits in Discovery Limited Group's performance.
- *Long-term incentive:* Executive Directors take part in Discovery Limited's share-based incentive scheme. This scheme is described in detail in note 16 to the Annual Financial Statements.

Non-Executive Directors receive a combination of fixed and meeting fees for their participation on the board and board committees. Black Non-Executive Directors also participate in the Discovery BEE transaction described in note 16 to the Annual Financial Statements. Non-Executive Directors' fees are reviewed annually and benchmarked against industry standards to ensure the fees remain competitive.

The Remuneration Committee, which is a sub-committee of the board, is responsible for approving the remuneration packages of Executive Directors and recommending the Non-Executive Directors' fees to the board for approval.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

EVENTS AFTER THE REPORTING DATE

There are no significant events after the reporting date, being 30 June 2023, to the date of the approval of the Annual Financial Statements, namely, 6 October 2023.

AUDITORS

The current auditors KPMG. together with Deloitte, will act as joint auditors of Discovery for the years ending June 2024 in accordance with section 90(1) of the Companies Act. KPMG.

Statement of financial position

as at 30 June 2023

R million	Notes	2023	2022
Assets			
Property, plant and equipment	3	**28**	*
Intangible assets – Software Development Assets	4	**68**	18
Contract assets with customers	5	**111**	82
Financial guarantee contract			
Financial assets			
– Derivative financial instruments	6	**–**	*
– Loans and receivables	7	**570**	411
Deferred income tax asset	8	**71**	67
Current income tax asset		**12**	14
Cash and cash equivalents	18.3	**442**	762
TOTAL ASSETS		**1 302**	1 354
Equity			
Capital and reserves			
Share capital	9	*****	*
Other reserves		**(37)**	(38)
Retained earnings		**290**	232
TOTAL EQUITY		**253**	194
Liabilities			
Financial liabilities			
– Derivative financial instrument	6	**1**	2
– Trade and other payables	10	**565**	625
Financial guarantee contract	19	**3**	10
Contract liabilities to customers	11	**466**	510
Employee benefits	12	**14**	13
TOTAL LIABILITIES		**1 049**	1 160
TOTAL EQUITY AND LIABILITIES		**1 302**	1 354

* *Amount is less than R500 000.*

Statement Comprehensive Income

for the year 30 June 2023

R million	Note	2023	2022
Revenue	13	**3 352**	2 993
Benefit expenses		**(2 570)**	(2 173)
Acquisition costs		**(117)**	(112)
Marketing and administration expenses	15	**(649)**	(701)
Profit from operations		**16**	7
Net fair value gains and financial assets at fair value through profit or loss		**(1)**	*
Investment income	14	**32**	28
Net fair value adjustment to financial guarantees	19	**7**	2
Finance costs		**(*)**	(*)
Profit before tax		**54**	37
Income tax expense	17	**5**	(30)
Total profit for the year		**59**	7
Other comprehensive income:			
Items that may be reclassified subsequently to Statement of Comprehensive Income:			
Cash flow hedges		*****	*
– Unrealised gains /(losses)		**–**	*
– Tax on unrealised gains /(losses)		**–**	*
– Gains /(losses) recycled to profit or loss		*****	*
– Tax on realised gains /(losses)		*****	*
Other comprehensive loss for the year, net of tax		*****	*
Total comprehensive income for the year		**59**	7

* *Amount is less than R500 000.*

Statement of change of equity

for the year ended 30 June 2023

R million	Share capital	Other reserves – Hedging reserve	Other reserves – Share based payment reserve	Retained earnings	Total Equity
Year ended 30 June 2022					
At the beginning of the year	*	(*)	(30)	437	407
Total comprehensive income for the year	–	*	–	7	7
Net profit for the year	–	–	–	7	7
Other comprehensive income	–	*	–	–	*
Transactions with owners:	–	–	(8)	(212)	(220)
Employee share option schemes:					
– Group equity-settled recharge arrangement	–	–	–	–	–
– Value of employee services	–	–	(7)	–	(7)
– Dividends paid	–	–	–	(200)	(200)
– Transfer of share options			(1)	1	–
– Distribution of financial guarantees	–	–	–	(13)	(13)
At end of the year	*	*	(38)	232	194
Year ended 30 June 2023					
At the beginning of the year	*****	*****	**(38)**	**232**	**194**
Total comprehensive income for the year	**–**	*****	**–**	**59**	**59**
Net profit for the year	**–**	**–**	**–**	**59**	**59**
Other comprehensive income	**–**	*****	**–**	**–**	*****
Transactions with owners:	**–**	**–**	**1**	**(1)**	*****
Employee share option schemes:					
– Value of employee services	**–**	**–**	*****	**–**	*****
– Transfer of share options	**–**	**–**	**1**	**(1)**	**–**
At end of the year	*****	*****	**(37)**	**290**	**253**

* *Amount is less than R500 000.*

Statement of cash flows

for the year ended 30 June 2023

R million	Notes	2023	2022
Cash flow (utilised in) operating activities		**(233)**	100
Cash generated by operations	18.1	**(268)**	135
Taxation received/(paid)	18.2	**3**	(63)
Interest received	14	**32**	28
Cash flow (utilised in) investing activities		**(87)**	(16)
Purchase of property, plant and equipment	3	**(28)**	–
Purchase of intangible assets	4	**(59)**	(16)
Net increase/(decrease) in cash and cash equivalents		**(320)**	84
Cash and cash equivalents at the beginning of the year		**762**	678
Cash and cash equivalents at the end of the year	18.3	**442**	762

* *Amount is less than R500 000.*

Notes to the annual financial statements

for the year ended 30 June 2023

1. CRITICAL ESTIMATES

Assumptions are based on historical experience and expectations of future outcomes and anticipated changes in the environment. Assumptions are further regularly reviewed in the light of emerging experience and adjusted where required.

Discovery Miles liability

The fair value of the Discovery Miles granted to members is estimated by applying a weighted average cost per Mile based on estimated redemption percentages. The weighted average cost is 9.86 cents per Mile for the current financial year (2022:10.16 cents per Mile). Miles can be earned by various factors, such as achieving weekly Vitality Active Rewards goals, purchasing items within Healthy Living, and transacting with your Discovery Bank credit card. As per the Vitality benefit rules, Vitality issues Miles to members when they have met the qualifying criteria. This has been included as part of Contract Liabilities in the Statement of Financial Position.

Employee benefits

The provision for leave pay is based on expected future salary increases of 5.5% (2022: 5.50%) and is discounted at a rate of 8.50% (2022: 5.05%).

Deferred income tax

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

2. MANAGEMENT OF FINANCIAL RISK

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

Financial risks are managed by Vitality as follows:

- The Capital, Currency, Investment Committee (CCIC) is a sub-committee of the Executive Committee and meets quarterly to focus on shareholder assets and the performance of asset managers responsible for managing these assets. The CCIC also sets exposure limits for exposures of individual counterparties.
- The Investment Committee is a sub-committee of the CCIC and meets monthly to make practical decisions regarding Vitality's liquidity.

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

- Financial Assets and Liabilities.
- Non-Financial Assets and Liabilities.

Notes to the annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF FINANCIAL RISK *continued*

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

R million	30 June 2023 Total	30 June 2023 Financial assets and liabilities	30 June 2023 Non-financial assets and liabilities	30 June 2022 Total	30 June 2022 Financial assets and liabilities	30 June 2022 Non-financial assets and liabilities
Intangible assets	**68**	**–**	**68**	18	–	18
Contract assets with customers	**111**	**(20)**	**91**	82	–	82
Property, plant and equipment	**28**	**–**	**28**	*	–	*
Derivatives used as cash flow hedges	*****	*****	**–**	*	(*)	–
Loans and receivables[1]	**570**	**(368)**	**202**	411	(278)	133
Deferred income tax	**71**	**–**	**71**	67	–	67
Current income tax asset	**12**	**–**	**12**	14	–	14
Cash and cash equivalents	**442**	**(442)**	**–**	762	(762)	–
Total assets	**1 302**	**(830)**	**472**	1 354	(1 040)	314
Derivatives used as cash flow hedges	**–**	**–**	**–**	–	–	–
Derivatives not designated as hedging instruments	**1**	**(1)**	**–**	2	(2)	–
Trade and other payables	**565**	**(564)**	**1**	625	(614)	11
Financial guarantee contract	**3**	**(3)**	**–**	10	(10)	–
Contract liabilities	**466**	**–**	**466**	510	–	510
Other liabilities[2]	**14**	**–**	**14**	13	–	13
Total liabilities	**1 049**	**(568)**	**481**	1 160	(626)	534

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

2.1 Market risk

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

- **Interest rate risk:** The impact of changes in market interest rates.
- **Currency risk:** The impact of changes in foreign exchange rates.

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

Notes to the annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF FINANCIAL RISK *continued*

2.1 Market risk *continued*

Interest rate risk

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

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

R million	Carrying value	Floating	Fixed	Non-interest bearing
2023				
Derivatives used as cash flow hedges	*****	**–**	**–**	*****
Contract assets with customers	**20**			**20**
Loans and receivables	**368**	**–**	**–**	**368**
Cash and cash equivalents	**442**	**442**	**–**	**–**
Total financial assets	**830**	**442**	**–**	**388**
Derivatives used as cash flow hedges	**–**	**–**	**–**	**–**
Derivatives not designated as hedging instruments	**1**	**–**	**–**	**1**
Trade and other payables	**564**	**–**	**–**	**564**
Financial guarantee contract	**3**	**–**	**–**	**3**
Total financial liabilities	**568**	**–**	**–**	**568**
2022				
Derivatives used as cash flow hedges	*	–	–	*
Loans and receivables	278	–	–	278
Cash and cash equivalents	762	762	–	–
Total financial assets	1 040	762	–	278
Derivatives used as cash flow hedges	–	–	–	–
Derivatives not designated as hedging instruments	2	–	–	2
Trade and other payables	614	–	–	614
Financial guarantee Contract	10	–	–	10
TOTAL FINANCIAL LIABILITIES	626	–	–	626

INTEREST RATE SENSITIVITY ANALYSIS

For cash and cash equivalents, a 1% increase in the local interest rate would result in an increase of R4 million before tax (2022: R6 million). A 1% decrease in the local interest rate would result in a decrease of R4 million before tax (2022: R6 million). The sensitivity is based on the assumption that the interest rate had increased/decreased by 1% with all other variables held constant.

Currency risk

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

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

Notes to the annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF FINANCIAL RISK *continued*

2.2 Credit risk

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

Credit risk relating to loans and receivables

Vitality's loans and receivables comprise:

R million	Note	2023	2022
Contract receivables:			
– Discovery Health Medical Scheme members	7	**22**	34
– Closed scheme members		**18**	6
– Less provision for impairment of contract receivables		**(2)**	(1)
Other receivables:	7		
– Fellow subsidiary intercompany accounts			
– Agents and brokers		**75**	52
– Vitality partners		**15**	16
– Other debtors		**261**	195
Less allowance for expected credit losses		**(21)**	(24)
Total		**368**	278

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

1. The Vitality premiums due from Discovery Health Medical Scheme (DHMS) and closed scheme members do not carry significant credit exposure as amounts due from any single member is insignificant.
2. Loans with fellow subsidiaries arise from intercompany transactions as disclosed in note 20 – Related Parties. These loans are settled on a monthly basis.
3. Agents and brokers are subject to a comprehensive relationship management program including credit assessment. Agents and brokers are not rated by Vitality as exposure to any single intermediary is insignificant. The widespread nature of the individual amounts combined with this close management relationship reduces credit risk. Most commission claw-backs are off-set against future payments and hence the risk of outstanding commission is minimal.
4. Vitality partners settle their accounts within 30 days in the ordinary course of business. These debtors have not been rated.

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

	2023		2022	
R million	Gross	ECL	Gross	ECL
Not past due	**332**	**(6)**	260	(17)
30 days	**13**	**–**	16	*
60 days	**9**	**–**	8	*
90 days	**2**	**–**	10	*
120 days	**20**	**(11)**	2	(2)
150 days	**3**	**(6)**	2	(2)
>150 days	**12**	**–**	4	(4)
TOTAL	**391**	**(23)**	302	(25)

* *Amounts are less than R500 000.*

Notes to the annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF FINANCIAL RISK *continued*

2.2 Credit risk *continued*

Credit risk relating to loans and receivables *continued*

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

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

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

	2023		2022	
R million	**12-month credit losses**	**Lifetime credit losses**	12-month credit losses	Lifetime credit losses
Balance at beginning of the year	**(25)**	**–**	(98)	–
Increase/decrease in provision	**1**	**–**	(67)	–
Amounts utilised during the year	**1**	**–**	140	–
BALANCE AT END OF THE YEAR	**(23)**	**–**	(25)	–

Credit exposure for cash and cash equivalents

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

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

R million	Total	AA1 AA2 AA3	A1 A2 A3	BA1 BA2 BA3	Govt	Not rated
2023						
Cash and cash equivalents	**442**	**–**	**–**	**442**	**–**	**–**
2022						
Cash and cash equivalents	762	–	–	762	–	–

Notes to the annual financial statements *continued*

for the year ended 30 June 2023

2. MANAGEMENT OF FINANCIAL RISK *continued*

2.3 Liquidity risk

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

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

Cash held by Vitality is managed by treasury. Treasury invests it in interest-bearing accounts, time deposits and money market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above mentioned forecasts. At the reporting date, the company held cash and cash equivalents of R442 million (2022: R762 million).

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

R million	< 1 year	1 – 2 years	3 – 5 years	5 – 10 years	Total
2023					
Trade and other payables	**564**	**(27)**	**28**	**–**	**565**
Derivative financial instrument	*****	**–**	**–**	**–**	*****
2022					
Trade and other payables	616	2	7	–	625
Derivative financial instrument	1	1	–	–	2

3. PROPERTY, PLANT AND EQUIPMENT

R million	Motor vehicles	Buildings WIP	Total
2023			
Opening carrying amount	*****	**–**	*****
Additions	**1**	**27**	**28**
Depreciation charge	**(*)**	**–**	*****
Closing carrying amount	**1**	**27**	**28**
At 30 June			
Cost	**2**	**27**	**29**
Accumulated depreciation	**(1)**	**–**	**(1)**
Carrying amount	**1**	**27**	**28**

R million	Motor vehicles	Building WIP	Total
2022			
Opening carrying amount	*	–	*
Additions	-	–	–
Depreciation charge	(*)	–	(*)
Closing carrying amount	*	–	*
At 30 June			
Cost	*	–	*
Accumulated depreciation	(*)	–	(*)
Carrying amount	*	–	*

** Amount is less than R500 000.*

Notes to the annual financial statements *continued*

for the year ended 30 June 2023

4. INTANGIBLE ASSETS – SOFTWARE DEVELOPMENT

R million	2023	2022
Year ended 30 June		
Opening carrying amount	**18**	14
Additions	**59**	16
Amortisation charge	**(9)**	(12)
Closing carrying amount	**68**	18
At 30 June		
Cost	**84**	52
Accumulated amortisation and impairment	**(16)**	(34)
Carrying amount	**68**	18

5. CONTRACT ASSETS WITH CUSTOMERS

R million	Assets arising from contracts with customers*	Costs of obtaining contracts	Total
2023			
Opening carrying amount	**–**	**82**	**82**
Accrued income recognised during the year	**65**	**–**	**65**
Payments received	**(45)**	**–**	**(45)**
Costs of obtaining new contracts	**–**	**96**	**96**
Amortised during the year	**–**	**(87)**	**(87)**
Closing carrying amount	**20**	**91**	**111**
Current	**20**	**67**	**87**
Non-current	**–**	**24**	**24**
	20	**91**	**111**
2022			
Opening carrying amount	17	98	115
Accrued income recognised during the year	7	–	7
Payments received	(24)	–	(24)
Costs of obtaining new contracts	–	67	67
Amortised during the year	–	(83)	(83)
Closing carrying amount	–	82	82
Current	–	65	65
Non-current	–	17	17
	–	82	82

Contract assets with customers comprises of the member gym activation fees balance.

Notes to the annual financial statements *continued*

for the year ended 30 June 2023

6. DERIVATIVE FINANCIAL INSTRUMENTS

	2023		2022	
R million	Asset	Liability	Asset	Liability
Derivatives used as cash flow hedges:				
Equity price risk derivatives[1]	–	–	–	–
Derivatives not designated as hedging instruments:				
De-designated derivatives[2]	–	(1)	*	(2)
	–	(1)	*	(2)
Current portion	–	(1)	*	(1)
Non-current portion	–	–	–	(1)
	–	(1)	*	(2)

* *Amount is less than R500 000*

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

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

7. LOANS AND RECEIVABLES

R million	2023	2022
Contract receivables:	38	39
– Discovery Health Medical Scheme members	22	34
– Closed scheme members	18	6
– Less provision for impairment of contract receivables	(2)	(1)
Other receivables:	532	372
– Agents and brokers	15	16
– Fellow subsidiary intercompany account	75	52
– Prepayments	196	132
– Stock	6	2
– Vitality partners debtors	261	–
– Less allowance for expected credit losses	(21)	(25)
	570	411
Current	570	411
	570	411

Notes to the annual financial statements *continued*

for the year ended 30 June 2023

8. DEFERRED INCOME TAX

R million	2023	2021
Deferred tax asset	**93**	90
Deferred tax liability	**(22)**	(23)
	71	67
Movement summary:		
Balance at 1 July	**67**	79
Statement of comprehensive income charge	**5**	(12)
Deferred tax on cash flow hedge	**(1)**	(*)
Balance at 30 June	**71**	67

Deferred tax for the year comprises:

R million	Opening balance	Charge for the year	Closing balance
Year ended 30 June 2023			
Contract liabilities	**35**	**(2)**	**33**
Prepayments	**(1)**	**1**	**–**
Provisions	**55**	**(10)**	**45**
Share-based payments – Cash Settled	**–**	*****	*****
Cash Flow Hedge	**1**	**(1)**	**–**
Contract assets with customers	**(22)**	**–**	**(22)**
Software Development	**(1)**	**1**	**–**
Difference between wear and tear and depreciation	*****	**(*)**	*****
Assessed losses	**–**	**15**	**15**
	67	**4**	**71**
Year ended 30 June 2022			
Contract liabilities	46	(11)	35
Prepayments	(11)	10	(1)
Provisions	72	(17)	55
Share-based payments – Cash Settled	2	(2)	–
Cash Flow Hedge	1	*	1
Contract assets with customers	(27)	5	(22)
Software Development	(4)	3	(1)
Difference between wear and tear and depreciation	*	*	*
	79	(12)	67

* *Amount is less than R500 000.*

9. SHARE CAPITAL

R million	2023	2022
Authorised		
1 000 ordinary share of R1 each	**1 000**	1 000
Issued		
1 ordinary share of R1 each (2021: 1 ordinary share)	**1**	1
Share capital	*****	*

* *Amount is less than R500 000.*

Notes to the annual financial statements *continued*

for the year ended 30 June 2023

10. TRADE AND OTHER PAYABLES

R million	2023	2022
Payables and accrued liabilities	**399**	455
Fellow subsidiary intercompany account	**131**	102
Cash-settled share-based payment provision	**22**	23
Value-added tax liability	**6**	11
Other creditors	**7**	34
	565	625
Current	**564**	616
Non-current	**1**	9
	565	625

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

11. CONTRACT LIABILITIES TO CUSTOMERS

R million	2023	2022
Opening carrying amount	**510**	448
Contract liabilities recognised in the current year	**(21)**	83
Revenue recognised in the year	**(23)**	(21)
Balance at 30 June	**466**	510
Current	**462**	506
Non-current	**4**	4
	466	510

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

12. EMPLOYEE BENEFITS

R million	2023	2022
Provision for leave pay		
Balance at 1 July	**13**	13
Provision raised	**15**	13
Used during the year	**(13)**	(12)
Paid to terminated employees	**(1)**	(1)
Balance at 30 June	**14**	13
Current	**12**	11
Non-current	**2**	2
	14	13

Notes to the annual financial statements *continued*

for the year ended 30 June 2023

13. REVENUE

R million	2023	2022
Revenue comprises:		
Vitality Fee income	**2 440**	2 255
Vitality benefit activation fee income	**151**	102
Vitality Access fee	**761**	636
	3 352	2 993

14. INVESTMENT INCOME

R million	2023	2022
Interest received on cash and cash equivalents	**32**	28

15. MARKETING AND ADMINISTRATION EXPENSES

R million	2023	2022
Auditor's remuneration		
Audit fees		
– current year	**3**	2
	3	2
Staff costs including Directors and prescribed offices		
Salaries, wages and allowances	**223**	243
Medical aid fund contributions	**19**	18
Defined contribution provident fund contributions	**18**	16
Social security levies	**1**	1
Share-based payment expenses	**27**	14
– cash-settled	**-**	1
– equity-settled	**26**	12
– gain on cashflow hedge	**1**	1
Staff training	**1**	1
Recruitment fees	**1**	*
Temporary staff	**-**	*
Provision for leave pay	**1**	*
Other	**8**	6
	299	299
Other operating costs		
Amortisation of software	**9**	12
Building related and office costs	**2**	2
Depreciation of property and equipment	**1**	*
Impairment of loans and receivables	**2**	1
IT systems	**146**	108
Marketing and distribution costs	**29**	28
Professional fees	**4**	5
Group recharges/recoveries and other operating costs	**155**	244
	348	400
Total marketing and administration expenses	**649**	701
Number of employees	**519**	491

* *Amounts are less than R500 000.*

Notes to the annual financial statements *continued*

for the year ended 30 June 2023

16. SHARE-BASED PAYMENT EXPENSES

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

BEE staff share scheme

In 2005, 5 290 000 Discovery Limited's shares were issued to the BEE staff share trust for current and future employees. These shares have all been allocated in prior years. 1 020 000 shares were purchased accumulatively in prior years and 40 000 additional shares were purchased by the BEE staff share trust during the current year. The trusts consists of two components; the allocation scheme and the option scheme as described below:

ALLOCATION SCHEME

Shares have been allocated to senior black employees based on level of seniority and length of past service. The shares vest to employees in 25% tranches from year two, three, four and five years respectively. On each vesting date, the trustees shall distribute to the employees the allocated shares to which the employee may be entitled.

OPTION SCHEME

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

The phantom scheme

Participants earn a cash bonus based on allocation of bonus scheme units which in turn are linked to the performance of the Discovery share price. The bonus is earned if the participant is employed on each vesting date. For units issued in September, the vesting of the units is in 25% tranches in year two, three, four and five years after allocation of the bonus units. The bonus may not be carried forward.

The 2013 - 2019 allocations were pre-determined combinations of units that replicate the economics of a Discovery Limited share and units that replicate the economics of a call option over a Discovery Limited share.

Long-term incentive plan (equity settled)

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

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

Notes to the annual financial statements *continued*

for the year ended 30 June 2023

16. SHARE-BASED PAYMENT EXPENSES *continued*

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

Date granted	Option price (R)	Final vesting date	Shares under option at beginning of year	Options granted during year	Options delivered during year	Options cancelled/ adjusted during year	Shares under option at end of year
BEE staff share scheme							
FY2018	–	28/02/2023	403	–	(403)	–	**–**
FY2019	–	31/03/2024	1 828	–	–	(1 828)	**–**
FY2022	–	30/04/2027	1 265	–	(472)	472	**1 265**
FY2023	–	30/11/2027	–	–	–	1 596	**1 596**
The Phantom scheme							
FY2018	R141.65	30/09/2022	14 507	–	(14 507)	–	**–**
FY2018	–	30/09/2022	12 443	–	(12 240)	(203)	**–**
FY2019	–	31/03/2023	27 552	–	(13 877)	843	**14 518**
DSY LTIP							
FY2020	–	30/09/2024	127 185	–	(58 178)	(3 737)	**65 270**
FY2021	–	30/09/2025	162 005	–	–	(383)	**161 622**
FY2022	–	30/09/2026	152 181	–	–	(5 795)	**146 386**
FY2023	–	30/09/2025	–	235 859	–	–	**235 859**

The Black-Scholes model was used to calculate the fair value of the phantom scheme based on the assumptions in the below table:

	Spot price	Exercise price	Option term	Volatility	Dividend yield
FY2020	R113.82	–	up to 3 – 5 years	30 89%	2.21% – 2.52%
FY2021	R125.52 – R153.54	–	up to 3 – 5 years	37.02% – 42.21%	2.26% – 2.57%
FY2022	R135.94	–	up to 3 – 5 years	36.77%	2.29% – 2.46%

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

Notes to the annual financial statements *continued*

for the year ended 30 June 2023

17. TAXATION

R million	2023	2022
South African normal taxation		
– Current tax	**–**	18
– Deferred tax	**5**	12
	5	30

Tax rate reconciliation %	2023	2022
Effective tax rate	**(8)**	37
Non-deductible expenditure	**–**	(2.0)
Non-taxable income	**35**	–
Change in tax rate	**–**	(11.5)
Impact on prior year adjustments	**–**	4.5
Standard rate of taxation	**27.0**	28.0

18. CASH FLOW INFORMATION

R million	2023	2022
18.1 Cash generated by operations		
Profit before taxation	**54**	37
Adjusted for:		
Investment income	**(32)**	(28)
Non-cash items:		
Allowance for expected credit losses	**(2)**	(72)
Amortisation of intangible assets	**9**	12
Amortisation of contract assets	**87**	83
Contract liabilities movement	**(44)**	62
Depreciation – Motor vehicles	*****	*
Dividends in specie	**-**	(200)
Gain from derivatives	**(1)**	(1)
Provision for employee benefits	**1**	*
Fair value gain/loss – Financial guarantee	**(7)**	(1)
Share-based payment expense – cash settled	**-**	(8)
Share-based payment transfer to retained earnings	**(1)**	*
Hedge ineffectiveness	*****	1
Working capital changes:		
Decrease/(increase) in Loans and receivables, contract receivables	**(273)**	104
Increase in Trade and other payables	**(59)**	146
	(268)	135
18.2 Taxation received/(paid)		
Amounts at beginning of the year	**14**	(31)
Amounts charged to profit or loss	**5**	(30)
Adjustment for movement in deferred taxation	**(4)**	13
Amounts at end of the year	**(12)**	(14)
Taxation received/(paid)	**3**	(62)
18.3 Cash and cash equivalents		
Cash	**31**	93
Short term deposits	**411**	669
	442	762

** Amounts are less than R500 000.*

Notes to the annual financial statements *continued*

for the year ended 30 June 2023

19. CONTINGENCIES AND FINANCIAL GUARANTEE CONTRACTS (FGC)

Vitality has provided the following guarantees:

- In respect of the borrowing facilities of Discovery Limited. As at 30 June 2023, Discovery Limited owed R10 billion in respect of these facilities (2022: R11 billion).
- In respect of borrowing facilities of Discovery Central Services. As at 30 June 2023, Discovery Central Services owed R3 billion (2022: R3 billion) in respect of these facilities.

	2023		2022	
R million	Asset	Liability	Asset	Liability
Opening balance	**–**	**(10)**	–	(6)
FGC recognised	**–**	**–**	–	(4)
Net fair value gains/losses on FGC	**–**	**5**	–	1
Credit losses on FGC	**–**	**2**	–	(1)
Closing balance	**–**	**(3)**	–	(10)

20. RELATED PARTIES

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

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

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

R million	2023	2022
Discovery Health		
Vitality fee income	**335**	428
Premium income	**19**	20
Systems recharges and consultant fees	**(30)**	–
Discovery Insure		
Benefit sales	**27**	20
Systems recharges	*****	*
Discovery Invest		
Systems recharges	*****	(*)
Discovery Life		
Systems recharges	*****	(1)
Benefit sales	*****	*
Discovery Bank		
Operations charges – Bank Rewards	**25**	26
Bank Access fee	**307**	208
Discovery Connect		
Acquisition costs	**(51)**	(44)
VG a division of Discovery Health		
Systems Recharges – Vitality International	**(16)**	(13)
Discovery Central Services		
Building and Office costs	**(41)**	(40)
Other Corporate Recharges	**(191)**	(196)
Discovery Limited		
Dividend in specie	**–**	(200)

** Amounts are less than R500 000.*

Notes to the annual financial statements *continued*

for the year ended 30 June 2023

20. RELATED PARTIES *continued*

R million	2023	2022
Discovery Health	**19**	8
Discovery Life	**53**	38
Discovery Limited	**(85)**	(58)
Discovery Insure	**3**	2
Discovery Invest	*****	*
Discovery Central Services	**(45)**	(43)
Discovery Connect	*****	*
Discovery Bank	*****	4
Discover Partner Markets	**(1)**	(1)

** Amounts are less than R500 000.*

Key management personnel

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

	Premiums received		Rewards paid	
R million	2023	2022	2023	2022
Vitality benefits	**173**	115	**2 965**	2 644

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							
S Mbatha	–	2 930	1 839	592	227	148	5 736
D Govender	–	5 064	3 995	1 756	380	209	11 404
Subtotal	–	7 994	5 834	2 348	607	357	17 140
Non-Executive							
R Farber[6]	3 713	–	–	–	–	4 010	7 723
SV Zilwa*	2 687	–	–		–	–	2 687
Dr TV Maphai*	1 651	–	–	–	–	–	1 651
HL Bosman[5]	1 033	–	–	–	–	–	1 033
FN Khanyile	1 964	–	–	–	–	–	1 964
A Gore	–	7 987	9 603	8 692	1 198	422	27 902
HD Kallner	–	7 472	7 062	23 823	374	228	38 959
NS Koopowitz[3]	–	21 255	22 734	10 816	118	563	55 486
Dr A Ntsaluba	–	2 922	5 811	4 961	219	177	14 090
A Pollard[4]	–	8 968	9 368	6 677	225	388	25 626
B Swartzberg	–	5 592	13 032	2 522	586	265	21 997
DM Viljoen	–	3 301	6 358	4 417	521	170	14 767
Subtotal	11 048	57 497	73 968	61 908	3 241	6 223	213 885
Total	11 048	65 491	79 802	64 256	3 848	6 580	231 025
Less: paid by fellow subsidiaries	(11 048)	(57 497)	(73 968)	(61 908)	(3 241)	(6 223)	(213 885)
Paid by Vitality	–	7 994	5 834	2 348	607	357	17 140

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 Salary and incentive are paid in GBP.
4 Salary and incentive are paid in USD.
5 Director's fees for services rendered by HL Bosman were paid to Rand Merchant Insurance Holdings Limited.
6 Director's fees for services 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. R Farber resigned as a director on 1 February 2023.
** Black Non-Executive Directors also participate in the Discovery Limited BEE-transaction.*

Notes to the annual financial statements *continued*

for the year ended 30 June 2023

20. RELATED PARTIES *continued*

Payments to Directors and prescribed officers for the year ended 30 June 2022 for services rendered are as follows:

R'000	Services as directors	Basic salary	Performance bonus	Phantom scheme bonus	Provident fund contributions	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
S Mbatha	–	590	–	164	47	34	835
D Govender	–	1 201	–	–	90	48	1 339
Subtotal	–	56 905	59 563	16 412	3 420	2 241	138 541
Non-Executive							
R Farber[4]	3 218	–	–	–	–	3 633	6 851
SV Zilwa*	2 176	–	–	–	–	–	2 176
Dr TV Maphai*	1 797	–	–	–	–	–	1 797
HL Bosman[5]	1 743	–	–	–	–	–	1 743
FN Khanyile[6]	1 500	–	–	–	–	–	1 500
Subtotal	10 434	–	–	–	–	3 633	14 067
Total	10 434	56 905	59 563	16 412	3 420	5 874	152 608
Less: paid by fellow subsidiaries	(10 434)	(55 114)	(59 563)	(16 248)	(3 283)	(5 792)	(150 434)
Paid by Vitality	–	1 791	–	164	137	82	2 174

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

21. CONTINGENCIES

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

22. EVENTS AFTER REPORTING DATE

No significant events occurred after the reporting date, being 30 June 2023, to the date of approval of the Annual Financial Statements, namely 6 October 2023.

DISCOVERY
ACCOUNTING POLICIES

Discovery Vitality Proprietary Limited

(Registration number 1999/07736/07)

Accounting policies

for the year ended 30 June 2023

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Basis of presentation

Vitality's Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as well as the South African Companies Act. They have been prepared in accordance with the going concern principle using the historical cost basis except where otherwise stated in the accounting policies below.

The preparation of the Annual Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Vitality's accounting policies.

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

New standards and amendments which became effective during the financial year

Vitality has elected to early adopted the requirements of IFRS 9 General Hedge Accounting. Refer to accounting policy 5 Derivative financial instruments. There were no other new standards, amendments and interpretations became effective during the periods which had a material impact on recognised amounts.

New standards and amendments to published standards not yet effective

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

Standard	Scope	Potential impact
Amendments to IAS 1, Presentation of financial statements on classification of Liabilities as Current or Non-Current Effective date: Deferred until 1 January 2024	The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.	Minimal impact on Vitality.

2. Foreign currency translation

2.1 Functional and presentation currency

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

2.2 Transactions and balances

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

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

3. Loans and receivables

Initial recognition

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

Subsequent measurement

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

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

Discovery Vitality Proprietary Limited

(Registration number 1999/07736/07)

Accounting policies *continued*

for the year ended 30 June 2023

4. Property, plant and equipment

Items of property, and equipment are measured at cost, which includes capitalised borrowing costs, capitalised capital expenditure relating to building improvements, 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 Vitality and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment. Property, plant and equipment are depreciated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Motor vehicles	4 years

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

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

5. Derivative financial instruments

Hedge accounting prior to 1 July 2022

Vitality 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 Vitality held derivatives for risk management purposes, and the transactions met the IAS 39 required criteria for documentation and hedge effectiveness, Vitality applied cash flow hedge accounting to the risks being hedged. Vitality 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%.

Vitality 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.

Hedge accounting after 1 July 2022

Vitality 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. Vitality 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 and entity financial results, disclosures or comparative information as a result of these amendments is immaterial.

Under general hedge accounting, Vitality has insured 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. Vitality 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.

Vitality 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.

Discovery Vitality Proprietary Limited

(Registration number 1999/07736/07)

Accounting policies *continued*

for the year ended 30 June 2023

5. Derivative financial instruments *continued*

5.1 Cash flow hedge

Vitality 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 the 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 periods in which the hedged item will affect profit or loss. Where the forecast transaction or a foreign currency firm commitment results in the recognition of a Non-Financial Asset or a Liability, the gains and losses previously deferred are transferred from the profit or loss and included in the initial measurement of the cost of the non-financial asset or liability.

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

5.2 Derivatives that do not qualify for hedge accounting

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

HEDGE 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.

6. Acquisition costs – contract assets with customers

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

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

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

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

7. Intangible assets – software development assets

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

- It is technically feasible to complete the software product so that it will be available for use.
- Management intends to complete the software for use.
- There is an ability to use the software product.
- It can be demonstrated how the software product will generate probable future economic benefits.
- Adequate technical and other resources to complete the development and to use the software products are available.
- The expenditure attributable to the software product during its development can be reliably measured.

Discovery Vitality Proprietary Limited

(Registration number 1999/07736/07)

Accounting policies *continued*

for the year ended 30 June 2023

7. Intangible assets – software development assets *continued*

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

Other development expenditure that does not meet these criteria are recognised as an expense as and when incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their useful lives, which does not exceed three years. The amortisation is reflected under marketing and administration expenses in profit or loss.

De-recognition

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

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

Consideration of impairment of intangible assets

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

8. Impairment of assets

Financial assets carried at amortised cost

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

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

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

9. Offsetting financial instruments

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

10. Cash and cash equivalents

Cash and cash equivalents comprise:

- Deposits held at call and short notice deposit accounts.
- Balances with banks.

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

11. Share capital

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

Discovery Vitality Proprietary Limited

(Registration number 1999/07736/07)

Accounting policies *continued*

for the year ended 30 June 2023

12. Deferred income tax

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

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

Temporary differences arise primarily from revaluation of certain Financial Assets and Liabilities and Share Based Payment and Provisions for Leave Pay. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income.

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

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

13. Employee benefits

13.1 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.

13.2 Post-employment benefits

Discovery operates defined contribution schemes, the assets of which are held in 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.

13.3. Share-based compensation

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

EQUITY-SETTLED SHARE-BASED COMPENSATION PLANS

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

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

CASH-SETTLED SHARE-BASED COMPENSATION PLANS

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

The liability is remeasured at each reporting date to its fair value, with all changes recognised immediately in profit or loss.

13.4. Leave pay

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

13.5. Profit share and bonus plan

Vitality recognises a liability and an expense for bonuses and profit-sharing in staff costs, based on a formula where there is a contractual obligation or where there is a past practice that has created a constructive obligation. This liability is disclosed in trade and other payables in the Statement of Financial Position with a corresponding expense taken to profit or loss.

14. Trade and other payables

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

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

Discovery Vitality Proprietary Limited

(Registration number 1999/07736/07)

Accounting policies *continued*

for the year ended 30 June 2023

15. Provisions

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

Provisions are measured as the present value of management's best estimate of the economic resources required to settle the obligation at the reporting date.

16. Contingent liabilities

Vitality discloses a contingent liability when:

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

17. Financial guarantees

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

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

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

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

Derecognition

Vitality de-recognises 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.

18. Revenue from contract with customers

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

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

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

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

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

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

Discovery Vitality Proprietary Limited

(Registration number 1999/07736/07)

Accounting policies *continued*

for the year ended 30 June 2023

18. Revenue from contract with customers *continued*

Nature of performance obligations

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

When does control pass point in time vs over time

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

When are amounts payable

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

Variable consideration and estimates

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

Costs to capitalise

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

19. Investment income

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

20. Net Benefit expenses

Benefit expenses include all direct expenses paid net of rebates and discounts under the Vitality programme and are expensed in profit or loss as incurred. There are various benefits paid to Vitality members, including Gym, Travel, Active Rewards and Healthy Living.

21. Acquisition costs

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

22. Marketing and administration expenses

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

23. Direct and indirect taxes

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

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

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable, disallowed and/or any allowances. Income tax is calculated using taxation rates that have been enacted at the reporting date.

Discovery
Vitality

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