Discovery

2018

DISCOVERY
ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Discovery Limited
Registration number 1999/007789/06

Annual Financial Statements
for the year ended 30 June 2018

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

Contents

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

Directors' responsibility statement

for the year ended 30 June 2018

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

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

The directors have reviewed Discovery's budget and cash flow forecast for the year to 30 June 2019. On the basis of this review, and in light of the current financial position and available cash resources, the directors have no reason to believe that Discovery will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the annual financial statements.

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

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

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

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

Discovery's external auditors, PricewaterhouseCoopers Inc., have audited the Annual Financial Statements and their unqualified report appears on pages 7 to 12.

The Annual Financial Statements of Discovery for the year ended 30 June 2018, which appear on pages 13 to 159, have been approved by the Board of Directors on 3 September 2018 and are signed on its behalf by:

A Gore
Chief Executive Officer

DM Viljoen
Chief Financial Officer

Certificate by the Company Secretary

for the year ended 30 June 2018

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 2018 lodged with the Registrar of Companies all such returns as are required by a public company in terms of this Act and that all such returns are true, correct and up to date.

MJ Botha
Company Secretary
3 September 2018

Report of the Audit Committee

for the year ended 30 June 2018

We are pleased to present our report for the financial year ended 30 June 2018. The Audit Committee (the Committee) is an independent statutory committee. Duties are delegated to the Committee by the Board of Directors of Discovery Limited (Discovery).

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

Audit Committee Terms of Reference

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

Audit Committee members, meeting attendance and assessment

The Committee is constituted as per section 94(4) of the Companies Act and consists of 3 independent non-executive directors of Discovery. It meets at least four times per annum as per its Terms of Reference, and in the year ended 30 June 2018 met seven times.

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

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

Committee member	Qualifications	Number of meetings held during the year ended 30 June 2018	Number of meetings eligible to attend	Number of meetings attended
AL Owen (Chairman)	BSc (Hons), FIA, FPMI	7	7	7
SE de Bruyn Sebotsa	LLB (Hons), MA	7	7	6
SV Zilwa	BCompt (Hons), CTA, CA (SA)	7	7	7

An internally managed assessment of the effectiveness of the Committee will be carried out in the year commencing 1 July 2018.

Role and responsibilities

Statutory duties

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

The Committee executed its duties in accordance with its Terms of Reference and applicable laws and regulations in force during the year ended 30 June 2018.

External auditor appointment and independence

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

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

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

The Committee, following consultation with executive management, approved the engagement letter, terms, audit plan and budgeted audit fees for the year ended 30 June 2018.

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

Report of the Audit Committee *continued*

for the year ended 30 June 2018

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

Financial statements and accounting practices

The Committee has reviewed the accounting policies and the consolidated and separate financial statements of Discovery and is satisfied that they are appropriate and comply with International Financial Reporting Standards. The Committee concluded that Discovery is a going concern. A process has been established to receive and deal appropriately with any concerns and complaints relating to the accounting and reporting practices of Discovery. Any issues raised are immediately dealt with by the Committee.

During the year, the Committee gave particular consideration to the following in respect of the year ended 30 June 2018:

- the new amendments to and interpretations of IFRS applicable to the year.
- the accounting treatment of Discovery's new head office building.
- the implications of any legislative amendments on the tax position of the Discovery Group and consideration of the appropriateness of deferred tax assets raised on assessed losses.
- the appropriateness of actuarial assumptions used in the setting of reserves – including negative rand reserves, taking into account recommendations given by the actuarial committee.
- the supportability of the negative rand reserve (asset) on the balance sheet under a variety of stress scenarios.
- an analysis of the possible impacts of the application of IFRS 17: Insurance contracts.
- impairment testing of internally generated intangible assets and software.
- the findings contained in the JSE's "Report on proactive monitoring of financial statements 2017" of issuers listed on the JSE and the applicability of any such findings to Discovery Limited's Annual Financial Statements.

The Committee is represented on the Group's Actuarial Committee and evaluates the appropriateness of the accounting policies and practices.

Internal financial controls

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

Internal Audit

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

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

The Committee reviewed and satisfied itself of the appropriateness of the expertise, resources and experience of Discovery's finance function, including the Chief Financial Officer, Mr DM Viljoen.

Whistle blowing

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

Report of the Audit Committee *continued*

for the year ended 30 June 2018

Ethics and compliance

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

Combined assurance

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

Opinion

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

The Committee has reviewed the consolidated and separate financial statements of Discovery Limited for the year ended 30 June 2018 and, based on the information provided to the Committee, considers that Discovery complies, in all material respects, with the requirements of the Companies Act and International Financial Reporting Standards.

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

AL Owen

AL Owen
Chairman: Audit Committee
3 September 2018

Independent auditor's report

for the year ended 30 June 2018

To the Shareholders of Discovery Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Discovery Limited (the Company) and its subsidiaries (together the Group) as at 30 June 2018, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Discovery Limited's consolidated and separate financial statements set out on pages 17 to 153 and 155 to 159 comprise:

- the accounting policies;
- the Group and Company statements of financial position as at 30 June 2018;
- the Group income statement for the year then ended;
- the Group and Company statements of other comprehensive income for the year then ended;
- the Company statement of profit and loss for the year then ended;
- the Group and Company statements of cash flows for the year then ended;
- the Group and Company statements of changes in equity for the year then ended;
- the notes to the Group and Company annual financial statements;
- the Directorate; and
- Annexure A: Product descriptions.

Basis for opinion

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

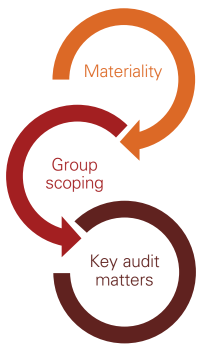
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach

Overview



Overall Group materiality

- R370.6 million which represents 5% of Group profit before tax.

Group audit scope

- Our Group scoping included full scope audits based on financial significance, audit risks and statutory audit requirements for twenty four components.

Key audit matters

- Valuation of assets and liabilities arising from insurance contracts.
- Annual assessment of goodwill for impairment.

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

Independent auditor's report *continued*

for the year ended 30 June 2018

Materiality

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

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

Overall Group materiality	R370.6 million
How we determined it	5% of Group profit before tax
Rationale for the materiality benchmark applied	We chose Group profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

How we tailored our Group audit scope

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

The Group (Discovery) has seven operating segments comprising of twenty six components (including unit trust funds) that operate across various countries but predominantly in South Africa and the United Kingdom. Full scope audits were performed for twenty four of the Group's components due to their financial significance, Group audit risks and their statutory audit requirements. For the remaining components we performed analytical reviews.

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

Key audit matters

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

Group financial statements:

Key audit matter	How our audit addressed the key audit matter
Valuation of assets and liabilities arising from insurance contracts (Refer to Notes 2, 4.2, 5 and 17 of the financial statements) The valuation of assets and liabilities from insurance contracts of the Group was considered a matter of most significance as it involves complex and subjective judgment about future events, policyholder behaviour and economic conditions. Assumptions about these matters are made in determining the value of the policyholder assets and liabilities and changes to these may result in a material change to the valuation. The most significant factors in determining the value of the assets and liabilities from insurance contracts relate to:	Our actuarial experts performed, amongst others, the following procedures with respect to these balances: • Considering Group's actuarial control environment and governance such as the functioning of the Actuarial Committee (and subsidiary Actuarial Committees). • Inspecting the liability build-up control performed by management to explain the sources of profit and corroborating to relevant information. • Challenging the appropriateness of all significant assumptions adopted by management, by comparing the assumptions to results of actuarial experience investigations conducted by management and benchmarking the assumptions to South African life insurance industry trends. We found management's assumptions to be reasonable.

Independent auditor's report *continued*

for the year ended 30 June 2018

Key audit matter	How our audit addressed the key audit matter
Impact of the Vitality programme on the valuation of assets and liabilities arising from insurance contracts: As for most life insurers, assumptions relating to mortality, morbidity and the level of lapses are significant in the determination of the value of policyholder liabilities and assets. Discovery is unique in the South African market due to its Vitality programme. In terms of this programme, policyholders are provided access to a number of services and benefits to encourage them to become healthier. Policyholders earn Vitality points which determine their Vitality status. The mortality, morbidity and lapse assumptions within the valuation of policyholder liabilities and assets in Discovery are specifically impacted by the Discovery Vitality policyholder statuses. The Discovery Vitality policyholder statuses inform the policyholder behaviour experience expected in future and therefore these assumptions.	We assessed the assumptions used by Discovery in the valuation of the insurance contract assets and liabilities in terms of the Financial Soundness Valuation ("FSV") basis as described in SAP 104 and the Group accounting policy 13. In particular, we tested the assumptions used by Discovery in setting the Vitality status distribution as well as the model which estimates the progression between statuses as well as data inputs into the model. The Vitality status distribution is updated every year based on the actual Vitality status of the policyholders. We have assessed the reasonability of the Vitality status distribution and the progression used against actual experience in setting the assumption. We found management's assumptions to be reasonable.
Policyholder alterations: Due to the large negative experience of policyholder alterations on Discovery Life in recent years, a number of immediate and short term management actions have been implemented. In addition, a strengthening of the lapse valuation basis was proposed as a proxy to ensure adequate allowance is made for the remaining negative experience in Discovery Life that is not expected to be addressed by management actions. Policy alterations consist of changes made to existing policies for example: • Increasing and decreasing benefits, • Non-contractual increases or decreases of cover, • Changing benefit integration options, • Changing premium and benefit escalation options, • Changes to rating factors; and • Any other non-contractual changes. It also includes automatic or default changes made to the Life Plan triggered by changes made to other Discovery products (for example changes to Health Plans). Policy alterations was not previously explicitly allowed for in the Discovery Life model given that only contractual benefits are allowed for in line with actuarial guidance. However, policy alterations experience since June 2014 in particular, has resulted in consistently growing negative experience variances.	Policy alterations assumptions are not explicitly required in modelling, given that only contractual benefits are explicitly required to be allowed for in line with actuarial guidance. However, it is not unreasonable to make an adjustment to the valuation basis given market practice and the negative experience observed. Our work therefore focussed, amongst others, on: • Inspecting Discovery's the calculation of the estimated impacts of the management actions. • Comparing Discovery's approach of adjusting the lapse basis as a proxy for policy alterations to the abovementioned estimated impact on the valuation of policyholder assets and liabilities. We found that the changes to assumptions were reasonable.

Independent auditor's report *continued*

for the year ended 30 June 2018

Key audit matter	How our audit addressed the key audit matter
Use of discretionary margins with respect to profit recognition: The life insurance operations sell profitable business. Applying the reserving basis using only compulsory margins as required for regulatory purposes, would result in an upfront profit being recognised at inception of a block of new business. Profits recognised at initial recognition of the insurance contracts are however limited to the extent of actual acquisition costs incurred through the addition of discretionary margins. The discretionary margins are reset at every valuation date to reflect the underlying profitability of the portfolio and are released over the term of a policy in line with the risk borne. Changes to discretionary margins have a direct impact on the profit recognition in a period and therefore need careful consideration to ensure compliance with the accounting policy.	Our work focussed, amongst others, on: • Confirming whether all acquisition costs were captured in the determination of the discretionary margins at 30 June 2018 through comparison to the acquisition cost amounts in the income statement. • Re-performing management's reconciliation of the discretionary margin transfer required to match the acquisition costs incurred to ensure materially no upfront profit is recognised. We found that the net transfer for the year ended 30 June 2018 closely matched the level of acquisition costs incurred and that no material upfront profit had been recognised.
Annual assessment of Goodwill for impairment (Refer to notes 4.1 and 9 of the financial statements) Discovery has a significant goodwill balance (R2 247 million) on its Group statement of financial position as at 30 June 2018. We considered management's annual impairment assessment as a matter of most significance, as it is subject to estimation uncertainty and significant judgment by management with respect to the inputs to the calculation of the recoverable amount used to assess the goodwill for impairment. The most significant judgments relate to the discount rate applied together with the assumptions supporting the underlying forecast cash flows.	We evaluated management's assessment of goodwill as at 30 June 2018 to ascertain whether there is any impairment required of the balance. We obtained management's calculation of the recoverable amount of the goodwill and performed amongst other the following procedures: • Considered if the methodology and source of information for the calculation was consistent to that used in prior years. No exceptions were noted; • Agreed the cash flows used in the calculation to the cash flows used in the insurance contract and embedded value valuations of the books of business associated with these entities. These were consistently applied and considered reasonable; and • Our valuation experts assessed the discount rate for reasonableness by developing our own range of acceptable discount rates considering other similar entities or transactions. We were satisfied that the discount rate used by management was found to be within the reasonable range of discount rates as determined by our valuation experts.

Company financial statements:

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the Discovery Limited Annual Financial Statements for the year ended 30 June 2018, which includes the Directors' Report, the Report of the 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 auditor's report, and the *Discovery Limited Integrated Annual Report 2018*, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

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

Independent auditor's report *continued*

for the year ended 30 June 2018

Responsibilities of the directors for the consolidated and separate financial statements

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

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

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

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

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

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

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

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

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

Independent auditor's report *continued*

for the year ended 30 June 2018

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Discovery Limited for 18 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: J Goncalves
Registered Auditor
Johannesburg
3 September 2018

Directors' report

for the year ended 30 June 2018

The directors present their 19th annual report, which forms part of the consolidated and separate financial statements of Discovery Limited for the year ended 30 June 2018.

Nature of business

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

Audited information

Subsidiary	Percentage holding	Country
Discovery Central Services Proprietary Limited	100%	SA
Discovery Connect Distribution Services Proprietary Limited	100%	SA
Discovery Health Proprietary Limited which holds the interests in:	100%	SA
– Discovery Third Party Recovery Services Proprietary Limited	100%	SA
– PrimeMed Administrators Proprietary Limited	100%	SA
– Discovery HealthCare Services Proprietary Limited which holds the interests in:	100%	SA
◦ Discovery Medical Suppliers Proprietary Limited	100%	SA
◦ Grove Nursing Services Proprietary Limited	100%	SA
◦ Southern RX Distributors Proprietary Limited	100%	SA
Discovery Insure Limited	100%	SA
Discovery Investment Management Proprietary Limited (dormant)	100%	SA
Discovery Life Collective Investments Proprietary Limited	100%	SA
Discovery Life Investment Services Proprietary Limited which holds the interest in:	100%	SA
– Discovery Life Nominees Proprietary Limited	100%	SA
Discovery Life Limited	100%	SA
Discovery Pref Holding Company (RF) Limited	100%	SA
Discovery Bank Holdings Limited (previously Discovery Purple Holdings Limited) which holds the interest in:	100%	SA
– Discovery Bank Limited (previously NewDisc Limited)**	52.1%	SA
Discovery Vitality Proprietary Limited	100%	SA
Discovery Partner Markets Asia Private Limited which holds the interest in:	100%	Singapore
– Discovery Partner Markets Services Private Limited	100%	Singapore
Discovery Finance Company Europe Limited	100%	UK
Discovery Group Europe Limited which holds the interests in:	100%	UK
– Discovery Offshore Holdings No 2 Limited (dormant)	100%	UK
– Discovery Holdings Europe Limited*, which holds the interest in:	99%	UK
◦ Health Protect Limited (dormant)	100%	UK
◦ Insure Your Health Limited	100%	UK
◦ Vitality Corporate Services Limited	100%	UK
◦ Vitality Life Limited	100%	UK
◦ Vitality Health Insurance Limited which holds the interest in:	100%	UK
▪ Vitality Health Limited	100%	UK
Vitality Group International Inc., which holds the interests in:	100%	USA
– Discovery Vitality Australia Proprietary Limited	100%	Australia
– Vitality Management Company LLC	100%	USA
– The Vitality Group Inc*., which holds the interest in:	99.9%	USA
◦ The Vitality Group LLC	100%	USA

* *The balance of the interest is held by senior management of these subsidiaries.*
** *The balance of the interest is held by FirstRand Investment Holding Limited.*

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

Directors' report *continued*

for the year ended 30 June 2018

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

Audited information

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

Review of Results

Profit attributable to ordinary shareholders is R5 652 million, a 28% increase from profits of R4 411 million reported in the prior financial year. The profit for the year includes deferred tax assets raised on assessed losses of R352 million, a reduction in deferred tax liabilities of R119 million as a result of the new 'adjusted IFRS' tax basis for life insurance companies in South Africa, and unrealised gains on foreign exchange contracts not designated as hedges of R77 million. Normalised headline earnings, which excludes these items of income and other once off items, increased by 16% to R5 401 million.

During the year under review, Discovery entered into a 15 year lease agreement for its new head office, and has classified the lease as a finance lease in terms of IAS17: Leases. This accounting treatment has resulted in the recognition of an asset of R3 155 million, which has been disclosed in 'Property and equipment' and a corresponding lease liability, which has been disclosed in 'Borrowings' in the Statement of financial position. It should be noted that ownership of the building does not transfer at the end of the lease period but remains that of the landlord.

Normalised operating profit per the segmental information, reflects the cash rental costs separately from the International Financial Reporting Standards (IFRS) finance lease treatment, as individual business expenses and margins are managed on underlying cash rental costs incurred by each business. The IFRS results reflect finance costs and depreciation as required by IAS 17.

If normalised headline earnings were to be adjusted for the impact of the accounting treatment of the new head office lease, it would result in an increase of R208 million in normalised headline earnings to R5 609 million (increase of 20% compared to the prior financial year). This adjustment would be calculated by replacing the depreciation of R126 million and finance charges of R210 million recognised in line with IFRS, with the actual market related rentals of R128 million.

Share capital

The share capital of the Company at 30 June 2018 was as follows:

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

Dividends

Dividends paid in respect of the 2017 financial year

Interim dividends:

- B preference share dividend of 529.31507 cents per share (423.45206 cents net of dividend withholding tax), paid on 13 March 2017.
- Ordinary share dividend of 88 cents per share (70.4 cents net of dividend withholding tax), paid on 20 March 2017.

Final dividends:

- B preference share dividend of 520.68493 cents (416.54794 cents net of dividend withholding tax), paid on 18 September 2017.
- Ordinary share dividend of 98 cents per share (78.4 cents net of dividend withholding tax), paid on 9 October 2017.

Directors' report *continued*

for the year ended 30 June 2018

Interim dividends paid in respect of the 2018 financial year

The following interim dividends were paid during the current financial year:

- B preference share dividend of 518.15068 cents (414.52054 cents net of dividend withholding tax), paid on 12 March 2018.
- Ordinary share dividend of 101 cents per share (80.8 cents net of dividend withholding tax), paid on 19 March 2018.

Final dividends declaration in respect of the 2018 financial year

B preference share cash dividend declaration:

On 23 August 2018, the directors declared a final gross cash dividend of 501.91781 cents (401.53425 cents net of dividend withholding tax) per B preference share for period 1 January 2018 to 30 June 2018, payable from the income reserves of the Company. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

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

The salient dates for the dividend were as follows:

Last day of trade to receive a dividend	Tuesday, 11 September 2018
Shares commence trading "ex" dividend	Wednesday, 12 September 2018
Record date	Friday, 14 September 2018
Payment date	Monday, 17 September 2018

B preference share certificates may not be dematerialised or rematerialised between Wednesday, 12 September 2018 and Friday, 14 September 2018, both days inclusive.

Ordinary cash dividend declaration:

Notice is hereby given that the directors have declared a final gross cash dividend of 114 cents (91.2 cents net of dividend withholding tax) per ordinary share, out of income reserves for the year ended 30 June 2018. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

The issued ordinary share capital at the declaration date is 646 844 992 ordinary shares.

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Tuesday, 2 October 2018
Shares commence trading "ex" dividend	Wednesday, 3 October 2018
Record date	Friday, 5 October 2018
Payment date	Monday, 8 October 2018

Share certificates may not be dematerialised or rematerialised between Wednesday, 3 October 2018 and Friday, 5 October 2018, both days inclusive.

Directors and prescribed officers

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

Executive directors	Non-executive directors	Prescribed officers
A Gore	MI Hilkowitz	Dr J Broomberg
R Farber (until 31 March 2018)	HL Bosman	K Rabson
HD Kallner	Dr BA Brink	Dr P Moumakwa
NS Koopowitz	SE de Bruyn Sebotsa	(resigned 31 January 2018)
HP Mayers	R Enslin (appointed 4 May 2017)	
Dr A Ntsaluba	R Farber (from 1 April 2018)	
A Pollard	SB Epstein (resigned 5 December 2016)	
JM Robertson (resigned 31 August 2018)	F Khanyile	
B Swartzberg	Dr TV Maphai	
DM Viljoen (appointed 1 May 2017)	TT Mboweni	
	AL Owen	
	SV Zilwa	

Directors' report *continued*

for the year ended 30 June 2018

On 30 April 2017, Mr R Farber relinquished his role as Chief Financial Officer and Group Financial Director of Discovery and remained an executive director until 31 March 2018. From 1 April 2018, Mr R Farber was a Non-executive director. Mr DM Viljoen was appointed as Chief Financial Officer and Group Financial Director of Discovery with effect from 1 May 2017. Mr JM Robertson has retired as executive director and Group Chief Information Officer from the Board of Discovery Limited with effect from 31 August 2018.

Dr BA Brink, Ms SE de Bruyn Sebotsa, Dr TV Maphai and Mr TT Mboweni retire by rotation at the forthcoming Annual General Meeting of shareholders and are eligible and available for re-election.

Details of the directors' emoluments, participation in share incentive schemes and interests in the Company are reflected on pages 148 to 153.

Company secretary

Mr MJ Botha continues in office as Company Secretary.

Registered office
1 Discovery Place
Sandton
2196

Postal address
PO Box 786722
Sandton
2146

Directors' interests in contracts

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

Borrowing powers

The directors may exercise all the powers of the Company to borrow money. In terms of the Memorandum of Incorporation, the borrowing powers of the Company are unlimited. However, in terms of the Long-term Insurance Act, 1998, the Short-term Insurance Act, 1998 and the Insurance Act , 2017, both Discovery Life and Discovery Insure may not encumber its assets or directly or indirectly borrow.

Indemnification and insurance of directors and officers

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

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

Events after the reporting date

The events after the reporting date are noted in Group note 43. There are no other significant events after the reporting date, being 30 June 2018, to the date of the approval of the Annual Financial Statements, namely, 3 September 2018.

Auditors

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

Accounting policies

for the year ended 30 June 2018

Summary of significant accounting policies

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

1. Basis of presentation

The consolidated and separate annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), its interpretations adopted by the IASB, the South African Institute of Chartered Accountants (SAICA), Financial Reporting Guides as issued by the Accounting Practices Committee, the JSE Listing 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 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.
- During 2018, the IASB published a revised Conceptual Framework for Financial Reporting. This conceptual framework is not an accounting standard, rather it provides guidance and concepts to underpin the IASB's standard development process. This does not change any existing published accounting standard but could affect accounting policies developed by an entity where the IFRS do not stipulate accounting requirements. Discovery does not develop accounting policies with reference to the Conceptual Framework and thus does not anticipate any changes arising from the issuing of the Conceptual Framework for Financial Reporting.
- The IASB also released non-mandatory guidance on making materiality judgements (IFRS Practice Statement 2). Discovery has considered this guidance in making materiality judgements in its Annual Financial Statements.

Accounting policies *continued*

for the year ended 30 June 2018

Title and Effective date for Discovery	Scope	Potential impact
Standards and IFRICs		
IFRS 9: Financial instruments Effective date: 1 July 2018	This standard introduces new requirements for the classification and measurement of financial assets, as well as a new impairment model which will result in earlier recognition of losses based on the expected credit loss method. No changes were introduced for the classification and measurement of financial liabilities, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss, unless the recognition would result in an accounting mismatch, in which case, the recognition of changes in own credit is recognised in the income statement. The hedging requirements of IFRS 9 have also been amended.	The decision to finalise the transitional approach has not yet been made. The current approach under consideration by Discovery is the cumulative catch up approach, which applies IFRS 9 retrospectively without restating comparative figures and where all measurement changes due to the adoption of IFRS 9 will be reflected in the opening retained earnings as at 1 July 2018. The transitional approach as well as the impact upon transition will be presented in the Discovery interim results as at 31 December 2018. Discovery is still in the process of assessing the classification and measurement of the Group's financial assets. However, Discovery's implementation of IFRS 9 will result in the removal of the available-for-sale classification for financial instruments. Discovery is evaluating what the measurement impact will be under IFRS 9. Although an election is available which would allow the gains and losses to be reported in other comprehensive income, these gains and losses can never be recycled into profit or loss. It is not likely that Discovery will take up this option going forward, but will assess this on an asset by asset basis for new financial assets acquired. The impact of this change will result in future fair value gains and losses being recorded in profit or loss. With respect to changes in the impairment model, Discovery does not expect significant impairment provisions to be raised due to the short-term nature of financial assets subject to the impairment model and low historical losses suffered.
	The amendments also align hedge accounting more closely with an entity's risk management. The revised standard also establishes a more principles-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in IAS 39.	It is anticipated that the hedge accounting requirements may simplify the existing hedge accounting process and effectiveness testing. However Discovery has elected to continue to account for its qualifying hedges under IAS 39 as permitted by IFRS 9, but will update its hedging documentation in line with IFRS 9.

Accounting policies *continued*

for the year ended 30 June 2018

Title and Effective date for Discovery	Scope	Potential impact
IFRS 15: Revenue from contracts with customers Effective date: 1 July 2018	This standard establishes a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or services transfer to a customer.	The decision on the transitional approach has not yet been made. The current approach under consideration by Discovery is the cumulative catch up approach, which applies IFRS 15 retrospectively without restating comparative figures. All measurement changes due to the adoption of IFRS 15 will be reflected in the opening retained earnings as at 1 July 2018. The transitional approach as well as the impact upon transition will be presented in the Discovery interim results as at 31 December 2018. Discovery has performed detailed assessments of the most material contracts within each non-insurance entity in the Group. This was performed by designing a detailed contract checklist, defining each entity's ordinary activities and customers, scoping all contracts with customers and assessing related contracts to the checklist. The most material contracts in each area have been reviewed in detail. Discovery is currently quantifying the impact of IFRS 15 and the preliminary findings indicate that it is unlikely that there will be a material financial impact on the timing or amount of revenue recognised, however there will be an impact on the financial statement disclosure.
IFRS 16: Leases Effective date 1 July 2019	The new standard requires lessees to recognise a lease liability and a 'right-of-use' asset for nearly all lease contracts. Lessor accounting has not substantially changed in the new standard. A lessee will measure the lease liabilities as the present value of future lease payments. The 'right-of-use' asset will initially be the same amount as lease liabilities, including costs directly related to entering into the lease. 'Right-of-use' assets will be amortised over the shorter period of the useful life or the lease term. A lessee will not be required to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture).	Various transitional reliefs and practical expedients are available both on transition and on an on-going basis relating to the adoption of IFRS 16. Discovery is still in the process of assessing the transitional approach it will follow at 1 July 2019. As part of the initial impact analysis, Discovery currently has a cash flow commitment of R455 million in respect of land and buildings under operating leases (refer to note 39.2). In terms of the new standard Discovery will be required to raise an asset and liability in respect of these leases in its Statement of financial position. In addition there will be a change in the timing of expense recognition in profit or loss, however there will be no overall impact over the lease term. For the 1 Discovery Place lease, Discovery's new head office building, the accounting treatment as a finance lease is aligned with IFRS 16. Discovery's implementation plan is still in its preliminary phase.

Accounting policies *continued*

for the year ended 30 June 2018

Title and Effective date for Discovery	Scope	Potential impact
IFRS 17: Insurance contracts Effective date: 1 July 2021	IFRS 17 was issued in May 2017. The standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.	The standard is expected to have a material impact on the recognition, measurement and presentation and disclosure for insurance contracts. The new standard will have significant impacts on underlying valuation models, systems, processes, internal controls and various other fundamental aspects of the insurance business. Discovery has established governance structures relating to the IFRS 17 project. The Audit Committee is ultimately responsible for the implementation of the accounting standard, with authority delegated to company CFO's and Chief actuaries. Discovery is in the process of performing an impact assessment of applying the requirements of IFRS 17. Concurrently, gaps in the current process and data are being identified and being attended to as part of the overall IFRS 17 project.
IFRIC 22: Foreign currency transactions and advance consideration Effective date: 1 July 2018	This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payment/receipts are made. The guidance aims to reduce diversity in practice.	As part of the implementation of this requirement Discovery will review the current accounting practice to ensure that these requirements have been complied with.
IFRIC 23: Uncertainty over Income Tax Treatments Effective date: 1 July 2019	The IFRIC clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. This includes where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates. The interpretation requires that the entity account for tax consequences based on the probability of the tax authority accepting the treatment. The effects of uncertainty are recognised using either the most likely amount or the expected value where there are a range of possible outcomes.	Discovery is assessing the extent of uncertain tax treatments which may be in scope of the new requirements.
Amendments to issued standards		
IFRS 4 (Amendment): Insurance contracts Effective date: 1 July 2018	Gives companies whose activities are predominantly connected with insurance an optional exemption from applying IFRS 9 until 1 January 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39.	Discovery will not defer the implementation of IFRS 9.

Accounting policies *continued*

for the year ended 30 June 2018

2. Consolidation

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

2.1 Business combinations

The acquisition method of accounting is used to account for business combinations by the Group. In the current and prior period, Discovery has not entered into any material business combinations.

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 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.

Of the 25 (2017: 25) Discovery Unit Trusts consolidated at 30 June 2018 Discovery holds less than a 50% economic interest in 4 (2017: 3) of these funds. Refer to page 14 for a list of consolidated unit trusts.

2.3 Subsidiaries

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

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

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

2.4 Associates and joint ventures

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

A joint venture is a joint arrangement whereby the parties that have joint control of an arrangement 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. 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.

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

Accounting policies *continued*

for the year ended 30 June 2018

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 (see accounting policy 9 for the policy on impairment).

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

3. Foreign currency translation

3.1 Functional and presentation currency

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

3.2 Transactions and balances

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

- The settlement of trading transactions are included in the results of operating activities in profit or loss.
- The settlement of financing transactions and from the translation at year-end exchange rates of assets and liabilities denominated in foreign currencies are recognised in profit or loss as foreign exchange gains and losses.
- Qualifying cash flow hedges and qualifying net investment hedges are deferred in the Statement of 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).
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognised in the foreign currency translation reserve in the Statement of 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.

4. Property and equipment

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

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

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

Leasehold improvements	Shorter of estimated life or period of lease
Computer equipment	3-7 years
Furniture, fittings and building fit out	5-15 years
Motor vehicles	4 years
Telematics devices	2-5 years

Accounting policies *continued*

for the year ended 30 June 2018

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

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

5. Intangible assets

5.1 Computer software development costs

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

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

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

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

Computer software development costs 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 (between three and ten years). The amortisation is reflected under marketing and administration expenses in profit or loss.

5.2 Banking license and right to profit share

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

5.3 Other intangible assets

Discovery does not recognise costs incurred to internally developed 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.

5.4 Deferred acquisition costs

The direct costs of acquiring new business, which are expected to be recovered out of future revenue margins, are deferred over the period in which the related revenue is earned and recognised as an asset in the statement of financial position. The accounting policies relating specifically to deferred acquisition costs for insurance and investment contracts are detailed in accounting policies 13 and 14.

5.5 Intangible assets identified in the acquisition of business combinations

Intangible assets acquired as part of business combinations were 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.

Accounting policies *continued*

for the year ended 30 June 2018

6. Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired.

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

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

7. Financial assets

Discovery classifies its financial assets into the following categories:

- Financial assets at fair value through profit or loss.
- Available-for-sale financial assets.
- Loans and receivables.
- Derivative financial instruments at fair value through profit or loss.
- Derivative financial instruments designated as hedging instruments part of qualifying hedges.

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

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

7.1 Financial assets at fair value through profit or loss

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

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

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

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

- Held in internal funds to match insurance and investment contract liabilities that are linked to the changes in fair value of these assets. The designation of these assets at fair value through profit or loss eliminates or significantly reduces a measurement or recognition inconsistency which would arise on measuring financial assets and insurance and investment contract liabilities on different bases.
- These groups of assets and liabilities are also managed together and performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to Discovery's key management personnel.

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

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

Accounting policies *continued*

for the year ended 30 June 2018

7.2 Available-for-sale financial assets

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

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

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

7.3 Loans and receivables

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

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

8. 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 which a derivative contract is entered into (the best evidence of fair value on day one is the transaction price) and subsequently re-measures these instruments 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.

Discovery is permitted to designate certain derivatives as either:

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

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

8.1 Cash flow hedge

Discovery recognises the effective portion of fair value changes of derivatives that are designated 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 in 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 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.

Accounting policies *continued*

for the year ended 30 June 2018

8.2 Derivatives that do not qualify for hedge accounting

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

9. Impairment of assets

9.1 Financial assets carried at amortised cost

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

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

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

9.2 Available-for-sale investments

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

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

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

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

9.3 Impairment of other non-financial assets

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that goodwill may be impaired.

Other assets, including intangible assets and deferred acquisition costs, 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.

Accounting policies *continued*

for the year ended 30 June 2018

10. Offsetting financial instruments

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

11. Cash and cash equivalents

Cash and cash equivalents comprise:

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

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

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

13. Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. Discovery defines 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.

13.1 Recognition and measurement

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

13.1.1 Individual life insurance

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

Valuation of policyholder liabilities

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

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

Accounting policies *continued*

for the year ended 30 June 2018

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

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

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

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

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

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

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

Premium revenue

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

Insurance benefits and claims

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

Acquisition costs

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

Accounting policies *continued*

for the year ended 30 June 2018

13.1.2 Group life insurance

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

Premium revenue

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

Insurance benefits and claims

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

Acquisition costs

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

13.1.3 Health insurance

These contracts insure policyholders against healthcare-related claims.

Premium revenue

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

Insurance benefits and claims

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

Deferred acquisition costs

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

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

Premium revenue

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

Accounting policies *continued*

for the year ended 30 June 2018

Unearned Premium Provision

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

Reinsurance commission income

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

Insurance benefits and claims

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

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

Salvage and subrogation recoveries

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

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

Acquisition costs

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

Excess funder account (EFA)

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 EFA.

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

If the policyholder has elected to double the fuel cash back and paid it into an EFA, an EFA liability is raised. The EFA liability is calculated using a discounted cash flow approach and is disclosed in liabilities arising from insurance contracts in the statement of financial position and the movement is disclosed in the transfer to liabilities under insurance contracts.

When the member uses funds in the EFA to pay for his excess 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

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.

Accounting policies *continued*

for the year ended 30 June 2018

13.4 Reinsurance contracts

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

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

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

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

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

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

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

13.5 Receivables and payables related to insurance contracts

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

14. Investment contracts

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

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

Valuation of policyholder liabilities

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

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

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

Premium revenue

All premiums 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.

Accounting policies *continued*

for the year ended 30 June 2018

Fees on investment contracts

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

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

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

Deferred acquisition costs

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

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

15. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently 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 rate 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.

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

16. Deferred income tax

Discovery calculates deferred income 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 directors 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 as a finance lease, effect of straight-lining of operating leases, revaluation of certain financial assets and liabilities, provisions for leave pay, provisions for share-based payments and tax losses carried forward. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income.

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

Deferred income tax assets and liabilities are offset when:

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

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

17. Employee benefits

17.1 Post-employment benefits

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

17.2 Share-based compensation

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

Equity-settled share-based compensation plans

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

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

Cash-settled share-based compensation plans

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

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

17.3 Leave pay

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

17.4 Profit share and bonus plan

Discovery 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 and subsequently measured at amortised cost using the effective interest rate 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

20.1 Insurance premium revenue

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

Accounting policies *continued*

for the year ended 30 June 2018

20.2 Fee income on administration business

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

20.3 Vitality income

Vitality income includes:

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

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

20.4 Investment income

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

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

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

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

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

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

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

21. Leases

21.1 Finance leases

Discovery classifies leases as finance leases where it assumes substantially all the benefits and risks of ownership, based on the substance of the arrangement at inception of the lease.

Finance leases are capitalised at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the minimum lease payments. Discovery allocates each lease payment between the liability and finance costs to achieve a constant rate of interest on the finance balance outstanding. The finance cost is recognised in profit or loss.

The assets acquired are depreciated over the useful life of the assets, unless it is not probable that Discovery will take ownership of the assets, in which case the assets are depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

21.2 Operating leases

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

Accounting policies *continued*

for the year ended 30 June 2018

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

22. Marketing and administration expenses

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

23. Finance costs

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

24. Direct and indirect taxes

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

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

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

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

25. 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.

26. Segment reporting

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

An operating segment is a component of an entity:

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

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

(c) For which discrete financial information is available.

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

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

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

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

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

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

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

Group statement of financial position

at 30 June 2018

R million	Notes	Group 2018	Group 2017
Assets			
Assets arising from insurance contracts	5	43 625	37 691
Property and equipment	6	4 272	1 210
Intangible assets	7	5 491	4 071
Deferred acquisition costs	8	1 150	1 025
Goodwill	9	2 247	2 107
Investment in equity-accounted investees	10	1 159	979
Financial assets			
– Available-for-sale investments	11	7 547	7 298
– Investments at fair value through profit or loss	11	71 246	58 948
– Derivatives	12	494	392
– Loans and receivables including insurance receivables	13	7 543	6 470
Deferred income tax	23	1 968	1 337
Current income tax asset		38	34
Reinsurance contracts	14	308	263
Cash and cash equivalents	15	10 894	9 098
Total assets		157 982	130 923
Equity			
Capital and reserves			
Ordinary share capital and share premium	16.1	8 308	8 306
Perpetual preference share capital	16.2	779	779
Other reserves		1 280	346
Retained earnings		27 227	22 859
		37 594	32 290
Non-controlling interest		*	*
Total equity		37 594	32 290
Liabilities			
Liabilities arising from insurance contracts	17	61 488	52 477
Liabilities arising from reinsurance contracts	18	8 918	6 746
Financial liabilities			
– Negative reserve funding	19	–	847
– Borrowings at amortised cost	20	14 079	8 524
– Investment contracts at fair value through profit or loss	21	17 927	14 867
– Derivatives	12	78	135
– Trade and other payables	22	9 043	7 369
Deferred income tax	23	8 007	6 963
Deferred revenue	24	324	291
Employee benefits	25	232	191
Current income tax liability		292	223
Total liabilities		120 388	98 633
Total equity and liabilities		157 982	130 923

* *Amount is less than R500 000.*

Group income statement

for the year ended 30 June 2018

R million	Notes	Group 2018	Group 2017
Insurance premium revenue		36 685	33 533
Reinsurance premiums		(4 356)	(3 837)
Net insurance premium revenue	26	32 329	29 696
Fee income from administration business		9 252	8 372
Vitality income		4 491	4 267
Investment income	27	895	758
– investment income earned on shareholder investments and cash		209	150
– investment income earned on assets backing policyholder liabilities		686	608
Net realised gains on available-for-sale financial assets	28	10	8
Net fair value gains on financial assets at fair value through profit or loss	29	5 823	2 108
Net income		52 800	45 209
Claims and policyholders' benefits		(20 714)	(19 237)
Insurance claims recovered from reinsurers		2 735	2 816
Recapture of reinsurance		–	(858)
Net claims and policyholders' benefits	30	(17 979)	(17 279)
Acquisition costs	31	(5 594)	(5 237)
Marketing and administration expenses	32	(17 219)	(15 652)
Amortisation of intangibles from business combinations		(123)	(171)
Recovery of expenses from reinsurers		2 542	2 985
Net transfer to/from assets/liabilities under insurance contracts		(4 859)	(3 362)
– change in assets arising from insurance contracts		5 141	5 346
– change in assets arising from reinsurance contracts		36	(109)
– change in liabilities arising from insurance contracts		(8 088)	(6 625)
– change in liabilities arising from reinsurance contracts	18	(1 948)	(1 974)
Fair value adjustment to liabilities under investment contracts	21	(1 308)	(248)
Profit from operations		8 260	6 245
Finance costs	34	(959)	(478)
Foreign exchange losses	35	(4)	(21)
Share of net profits from equity-accounted investments	10	115	26
Profit before tax		7 412	5 772
Income tax expense	36	(1 677)	(1 278)
Profit for the year		5 735	4 494
Profit attributable to:			
– ordinary shareholders		5 652	4 411
– preference shareholders		83	83
– non-controlling interest		*	*
		5 735	4 494

* *Amount is less than R500 000.*

Earnings per share for profit attributable to ordinary shareholders of the Company during the year (cents):	37		
– undiluted		876.1	684.2
– diluted		875.6	683.6

Group statement of other comprehensive income

for the year ended 30 June 2018

R million	Group 2018	Group 2017
Profit for the year	**5 735**	4 494
Items that are or may be reclassified subsequently to profit or loss:		
Change in available-for-sale financial assets	**37**	17
– unrealised gains	**64**	29
– capital gains tax on unrealised gains	**(19)**	(6)
– realised gains transferred to profit or loss	**(10)**	(8)
– capital gains tax on realised gains	**2**	2
Currency translation differences	**840**	(1 575)
– unrealised gains/(losses)	**856**	(1 581)
– tax on unrealised gains/losses	**(16)**	6
Cash flow hedges	**2**	33
– unrealised gains	**200**	159
– tax on unrealised gains	**(32)**	(25)
– gains recycled to profit or loss	**(188)**	(123)
– tax on recycled gains	**22**	22
Share of other comprehensive income/(loss) from equity-accounted investments	**42**	(58)
– change in available-for-sale financial assets	**(9)**	(1)
– currency translation differences	**51**	(57)
Other comprehensive income/(loss) for the year, net of tax	**921**	(1 583)
Total comprehensive income for the year	**6 656**	2 911
Attributable to:		
– ordinary shareholders	**6 573**	2 828
– preference shareholders	**83**	83
– non-controlling interest	*****	*
Total comprehensive income for the year	**6 656**	2 911

* *Amount is less than R500 000.*

Group statement of cash flows

for the year ended 30 June 2018

R million	Notes	Group 2018	Group 2017
Cash flow from operating activities		**3 414**	(832)
Cash generated by operations	38.1	**11 125**	5 526
Purchase of investments held to back policyholder liabilities		**(24 217)**	(32 104)
Proceeds from disposal of investments held to back policyholder liabilities		**16 179**	25 020
		3 087	(1 558)
Dividends received		**252**	197
Interest received		**2 062**	1 711
Interest paid		**(759)**	(437)
Taxation paid	38.2	**(1 228)**	(745)
Cash flow from investing activities		**(2 433)**	15
Purchase of financial assets		**(23 631)**	(14 083)
Proceeds from disposal of financial assets		**23 621**	16 208
Purchase of property and equipment		**(470)**	(239)
Proceeds from disposal of property and equipment		**7**	5
Purchase of intangible assets		**(1 940)**	(1 353)
Proceeds from disposal of intangible assets		**–**	7
Increase in investment in associate		**(20)**	(530)
Cash flow from financing activities		**609**	1 913
Share buy-back		**–**	*
Dividends paid to ordinary shareholders		**(1 284)**	(1 152)
Dividends paid to preference shareholders		**(83)**	(83)
Increase in borrowings	38.3	**2 654**	3 514
Repayment of borrowings	38.3	**(678)**	(366)
Net increase in cash and cash equivalents		**1 590**	1 096
Cash and cash equivalents at beginning of the year		**9 097**	8 614
Foreign exchange gains/(losses) on cash and cash equivalents		**201**	(613)
Cash and cash equivalents at end of the year	15	**10 888**	9 097
Reconciliation to statement of financial position			
Cash and cash equivalents		**10 894**	9 098
Bank overdraft included in borrowings at amortised cost		**(6)**	(1)
Cash and cash equivalents at end of the year		**10 888**	9 097

* *Amount is less than R500 000.*

Group statement of changes in equity

for the year ended 30 June 2018

R million	Share capital and share premium	Preference share capital	Share-based payment reserve	Available-for-sale investments[1]
	Attributable to equity holders of the Company			
Year ended 30 June 2017				
At beginning of the year	8 300	779	319	164
Total comprehensive income for the year	–	83	–	16
Profit for the year	–	83	–	–
Other comprehensive income	–	–	–	16
Transactions with owners	6	(83)	(5)	–
Increase in treasury shares	(4)	–	–	–
Delivery of treasury shares	11	–	–	–
Share buy-back	(1)	–	–	–
Employee share option schemes:				
– Share schemes cancelled	–	–	(19)	–
– Value of employee services	–	–	14	–
Dividends paid to preference shareholders	–	(83)	–	–
Dividends paid to ordinary shareholders	–	–	–	–
At end of the year	8 306	779	314	180
Year ended 30 June 2018				
At beginning of the year	**8 306**	**779**	**314**	**180**
Total comprehensive income for the year	**–**	**83**	**–**	**28**
Profit for the year	**–**	**83**	**–**	**–**
Other comprehensive income	**–**	**–**	**–**	**28**
Transactions with owners	**2**	**(83)**	**13**	**–**
Delivery of treasury shares	**2**	**–**	**–**	**–**
Employee share option schemes:				
– Value of employee services	**–**	**–**	**13**	**–**
Dividends paid to preference shareholders	**–**	**(83)**	**–**	**–**
Dividends paid to ordinary shareholders	**–**	**–**	**–**	**–**
At end of the year	**8 308**	**779**	**327**	**208**

1 This relates to the fair value adjustment of available-for-sale financial assets.

** Amount is less than R500 000.*

Of the R27 227 million (2017: R22 859 million) held in retained earnings, R8 215 million (2017: R6 754 million) is distributable. The balance is held to meet the capital requirements in various Group companies.

Attributable to equity holders of the Company					
Foreign currency translation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total
1 485	(34)	19 594	30 607	*	30 607
(1 632)	33	4 411	2 911	*	2 911
–	–	4 411	4 494	*	4 494
(1 632)	33	–	(1 583)	*	(1 583)
–	–	(1 146)	(1 228)	–	(1 228)
–	–	–	(4)	–	(4)
–	–	(11)	–	–	–
–	–	1	–	–	–
–	–	12	(7)	–	(7)
–	–	–	14	–	14
–	–	–	(83)	–	(83)
–	–	(1 148)	(1 148)	–	(1 148)
(147)	(1)	22 859	32 290	*	32 290
(147)	(1)	22 859	32 290	*	32 290
891	2	5 652	6 656	*	6 656
–	–	5 652	5 735	*	5 735
891	2	–	921	–	921
–	–	(1 284)	(1 352)	–	(1 352)
–	–	–	2	–	2
–	–	–	13	–	13
–	–	–	(83)	–	(83)
–	–	(1 284)	(1 284)	–	(1 284)
744	1	27 227	37 594	*	37 594

Notes to the Group annual financial statements

for the year ended 30 June 2018

1. Segment information

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

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

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

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

(iv) **SA Vitality:** offers health and lifestyle benefits with selected partners to the Group's clients.

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

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

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

- SA Insure: provides motor vehicle, household and other short-term risk insurance products to the South African market, including the commercial offering.
- Vitality Group: provides a Vitality platform to international insurance businesses.
- SA Bank: includes start-up costs being incurred towards the launch of a bank in the South African market, as well as the DiscoveryCard which is offered to clients within South Africa.
- UK Invest: includes start-up costs incurred towards the investment business in the United Kingdom.
- SA Distribution: provides sales and distribution services in respect of all South African products.
- SA Umbrella Fund offering: includes start-up costs incurred in respect of the corporate retirement fund offering in the South African market.
- Other new business development costs: expenses incurred to investigate new products and markets.
- UK, US, SA and Singapore unallocated head office costs.

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

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

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

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

(iii) The effects of eliminating intercompany transactions on consolidation and normalised operating profit adjustments.

Change in presentation

At each reporting date, Discovery must review whether the segments being disclosed still comply with IFRS8 – Segment reporting. The management control over the credit card operations in the Group has moved from Discovery Vitality to Discovery Bank and disclosed accordingly in the segmental report in the 'All other segments'. The comparatives have been restated to include the DiscoveryCard in the 'All other segment', in line with the current year disclosure.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

1. Segment information *continued*

R million	SA Health	SA Life	SA Invest	SA Vitality
30 June 2018				
Income statement				
Insurance premium revenue	30	11 103	12 056	–
Reinsurance premiums	(2)	(2 141)	–	–
Net insurance premium revenue	28	8 962	12 056	–
Fee income from administration business	6 911	31	1 875	–
Vitality income	–	–	–	2 323
Investment income earned on assets backing policyholder liabilities	–	472	44	–
Finance charge on negative reserve funding	–	–	–	–
Inter-segment funding[1]	–	(708)	708	–
Net fair value gains on financial assets at fair value through profit or loss	2	589	3 741	–
Net income	6 941	9 346	18 424	2 323
Claims and policyholders' benefits	(2)	(6 943)	(7 375)	–
Insurance claims recovered from reinsurers	1	1 534	–	–
Net claims and policyholders' benefits	(1)	(5 409)	(7 375)	–
Acquisition costs	(3)	(1 606)	(1 046)	(76)
Marketing and administration expenses				
– depreciation and amortisation	(305)	(8)	–	(3)
– impairment	(7)	–	–	–
– other expenses	(3 855)	(1 639)	(808)	(2 186)
Recovery of expenses from reinsurers	–	–	–	–
Net transfer to/from assets/liabilities under insurance contracts				
– change in assets arising from insurance contracts	–	3 405	–	–
– change in assets arising from reinsurance contracts	–	25	–	–
– change in liabilities arising from insurance contracts	(1)	(35)	(8 031)	–
– change in liabilities arising from reinsurance contracts	–	(239)	–	–
Fair value adjustment to liabilities under investment contracts	–	(3)	(279)	–
Share of net profits from equity-accounted investments	8	–	–	–
Normalised profit/(loss) from operations	2 777	3 837	885	58
Investment income earned on shareholder investments and cash	66	39	26	30
Net fair value gains on financial assets at fair value through profit or loss	–	–	–	–
Net realised gains on available-for-sale financial assets	–	6	1	–
Initial expenses related to Prudential Book transfer	–	–	–	–
Amortisation of intangibles from business combinations	–	–	–	–
Market rentals related to Head Office building adjusted for finance costs and depreciation	–	–	–	–
Finance costs	(41)	(9)	–	–
Foreign exchange (losses)/gains	(3)	–	(9)	–
Profit before tax	2 799	3 873	903	88
Income tax expense	(718)	(929)	(253)	(25)
Profit for the year	2 081	2 944	650	63

1 *The inter-segment funding of R708 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.*

				IFRS reporting adjustments			
UK Health	UK Life	All other segments	Segment total	UK Life	DUT	Normalised profit adjustments	IFRS total
7 471	4 031	2 665	37 356	(671)	–	–	36 685
(1 165)	(1 559)	(160)	(5 027)	671	–	–	(4 356)
6 306	2 472	2 505	32 329	–	–	–	32 329
30	–	401	9 248	–	–	4	9 252
444	91	1 633	4 491	–	–	–	4 491
11	18	141	686	–	–	–	686
–	(160)	–	(160)	160	–	–	–
–	–	–	–	–	–	–	–
(1)	92	18	4 441	–	1 312	70	5 823
6 790	2 513	4 698	51 035	160	1 312	74	52 581
(4 029)	(997)	(1 590)	(20 936)	447	(225)	–	(20 714)
938	584	125	3 182	(447)	–	–	2 735
(3 091)	(413)	(1 465)	(17 754)	–	(225)	–	(17 979)
(536)	(1 887)	(280)	(5 434)	(160)	–	–	(5 594)
(238)	(18)	(242)	(814)	–	–	(126)	(940)
(193)	–	–	(200)	–	–	–	(200)
(2 849)	(1 620)	(3 163)	(16 120)	(27)	–	68	(16 079)
625	1 917	–	2 542	–	–	–	2 542
–	2 855	–	6 260	(1 119)	–	–	5 141
5	6	(1)	35	1	–	–	36
76	(10)	(49)	(8 050)	(1)	(21)	(16)	(8 088)
–	(2 828)	–	(3 067)	1 119	–	–	(1 948)
–	–	–	(282)	–	(1 066)	40	(1 308)
–	–	107	115	–	–	–	115
589	515	(395)	8 266	(27)	–	40	8 279
1	6	41	209	–	–	–	209
–	–	110	110	–	–	(110)	–
–	–	3	10	–	–	–	10
–	(2)	–	(2)	–	–	2	–
–	–	(123)	(123)	–	–	–	(123)
–	–	(208)	(208)	–	–	208	–
(1)	(2)	(713)	(766)	–	–	(193)	(959)
–	(3)	11	(4)	–	–	–	(4)
589	514	(1 274)	7 492	(27)	–	(53)	7 412
(13)	(85)	303	(1 720)	27	–	16	(1 677)
576	429	(971)	5 772	–	–	(37)	5 735

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

1. Segment information *continued*

R million	SA Health	SA Life	SA Invest	SA Vitality Restated
30 June 2017				
Income statement				
Insurance premium revenue	16	9 993	11 515	–
Reinsurance premiums	(2)	(1 838)	–	–
Net insurance premium revenue	14	8 155	11 515	–
Fee income from administration business	6 314	26	1 677	–
Vitality income	–	–	–	2 059
Investment income earned on assets backing policyholder liabilities	–	431	38	–
Finance charge on negative reserve funding	–	–	–	–
Inter-segment funding[1]	–	(573)	573	–
Net fair value gains on financial assets at fair value through profit or loss	–	476	1 317	–
Net income	6 328	8 515	15 120	2 059
Claims and policyholders' benefits	(1)	(6 241)	(6 800)	–
Insurance claims recovered from reinsurers	1	1 365	–	–
Recapture of reinsurance	–	–	–	–
Net claims and policyholders' benefits	–	(4 876)	(6 800)	–
Acquisition costs	–	(1 565)	(1 022)	(79)
Marketing and administration expenses				
– depreciation and amortisation	(303)	(15)	–	–
– other expenses	(3 520)	(1 521)	(663)	(1 955)
Recovery of expenses from reinsurers	–	–	–	–
Net transfer to/from assets/liabilities under insurance contracts				
– change in assets arising from insurance contracts	–	3 577	–	–
– change in assets arising from reinsurance contracts	–	(4)	–	–
– change in liabilities arising from insurance contracts	–	(124)	(5 867)	–
– change in liabilities arising from reinsurance contracts	–	(397)	–	–
Fair value adjustment to liabilities under investment contracts	–	(2)	(24)	–
Share of net profits from equity-accounted investments	–	–	–	–
Normalised profit/(loss) from operations	2 505	3 588	744	25
Investment income earned on shareholder investments and cash	55	26	21	17
Net realised gains on available-for-sale financial assets	–	1	7	–
Rebranding and business acquisition expenses	–	–	–	–
Amortisation of intangibles from business combinations	–	–	–	–
Finance costs	(49)	(8)	–	–
Foreign exchange losses	–	–	(8)	–
Profit before tax	2 511	3 607	764	42
Income tax expense	(685)	(1 008)	(214)	(13)
Profit for the year	1 826	2 599	550	29

1 *The inter-segment funding of R573 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.*

				IFRS reporting adjustments			
UK Health	UK Life	All other segments Restated	Segment total	UK Life	DUT	Normalised profit adjustments	IFRS total
7 040	3 617	2 076	34 257	(724)	–	–	33 533
(1 335)	(1 183)	(203)	(4 561)	724	–	–	(3 837)
5 705	2 434	1 873	29 696	–	–	–	29 696
24	–	331	8 372	–	–	–	8 372
538	94	1 576	4 267	–	–	–	4 267
15	18	106	608	–	–	–	608
–	(43)	–	(43)	43	–	–	–
–	–	–	–	–	–	–	–
–	(109)	–	1 684	–	424	–	2 108
6 282	2 394	3 886	44 584	43	424	–	45 051
(4 376)	(740)	(1 426)	(19 584)	347	–	–	(19 237)
1 125	407	265	3 163	(347)	–	–	2 816
(858)	–	–	(858)	–	–	–	(858)
(4 109)	(333)	(1 161)	(17 279)	–	–	–	(17 279)
(574)	(1 744)	(210)	(5 194)	(43)	–	–	(5 237)
(214)	(6)	(161)	(699)	–	–	–	(699)
(2 533)	(1 431)	(2 926)	(14 549)	(103)	(202)	(99)	(14 953)
1 566	1 419	–	2 985	–	–	–	2 985
–	1 406	–	4 983	363	–	–	5 346
(111)	8	–	(107)	(2)	–	–	(109)
(25)	(14)	(35)	(6 065)	2	–	(562)	(6 625)
–	(1 214)	–	(1 611)	(363)	–	–	(1 974)
–	–	–	(26)	–	(222)	–	(248)
1	–	25	26	–	–	–	26
283	485	(582)	7 048	(103)	–	(661)	6 284
2	6	23	150	–	–	–	150
–	–	–	8	–	–	–	8
(91)	–	(8)	(99)	–	–	99	–
–	–	(171)	(171)	–	–	–	(171)
(2)	(1)	(418)	(478)	–	–	–	(478)
–	–	(13)	(21)	–	–	–	(21)
192	490	(1 169)	6 437	(103)	–	(562)	5 772
(21)	(119)	117	(1 943)	103	–	562	(1 278)
171	371	(1 052)	4 494	–	–	–	4 494

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

2. Management of insurance risk

Discovery enters into contracts that carry insurance risk or financial risk or both. The following table analyses the various contracts offered by the Group and the risks these contracts transfer. A more detailed description of these products is included in Annexure A.

Contracts offered by the Group	Risk type	2018 Number of policies	2018 Annualised premium income (million)	2017 Number of policies	2017 Annualised premium income (million)
Discovery Individual Life		**429 817**	**R9 788**	413 346	R8 900
– Discovery Classic and Essential Life Plans	Insurance				
– Dollar Life Plan	Insurance				
– Business Life Plan	Insurance				
– Smart Life Plan	Insurance				
– Health Plan Protector[1]	Insurance				
– Medical Premium Waiver	Insurance				
– DiscoveryCard Protector[1]	Insurance				
– Stand-alone Global Education Protector	Insurance				
– Supplementary Cancer Protector	Insurance				
– Supplementary Gap Cover	Insurance				
– Funeral Cover	Insurance				
Discovery Group Life[2]	Insurance	**512 715**	**R2 011**	502 258	R1 844
Discovery Invest[3]		**288 599**	**R10 500**	259 526	R9 020
– Unit-linked contracts without significant insurance risk	Financial				
– Unit-linked contracts with significant insurance risk	Both				
– Guaranteed return plans	Both				
– Fixed annuities	Both				
– Discovery Retirement Optimiser: Linked	Both				
– Discovery Retirement Optimiser: Guaranteed	Both				
Discovery Insure		**150 716**	**R3 192**	125 698	R2 578
– Personal lines	Insurance				
– Commercial lines	Insurance				
VitalityHealth		**576 344**	**GBP 445** **R8 082**	537 695	GBP 423 R7 266
– Individual product	Insurance				
– SME product	Insurance				
– Corporate product	Insurance				
VitalityLife		**385 818**	**GBP 260** **R4 712**	337 900	GBP 229 R3 902
– VitalityLife Life Plan	Insurance				
– Essentials Plan	Insurance				
– Guaranteed 50s Plus Plan	Insurance				
– Relevant Life Plan	Insurance				
– Mortgage Plus Plan	Insurance				
– Business Protection Plan	Insurance				
– Vitality Optimiser	Insurance				
– Interest rate Optimiser	Insurance				
– Premium Optimiser	Insurance				

1 *Discontinued.*
2 *Number of lives covered.*
3 *Annualised premium income includes 10% of the value of single premium policies.*

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

2. Management of insurance risk *continued*

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

- **Management of insurance risks:** pages 47 to 66.
- **Management of financial risks:** pages 66 to 90.

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

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

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

Discovery assumes the following risks transferred from insurance contracts:

- Automatic increase take-up risk
- Concentration risk
- Currency risk
- Expense risk
- Lapse and surrender risk
- Liquidity risk
- Market and mismatching risk
- Modelling and data risk
- Operational/implementation risk
- Policy wording/legal risk
- Regulatory risk
- Reputational risk
- Tax risk
- Underwriting experience risk

Discovery manages the above in terms of its risk management framework and holds regulatory and economic capital for protection against adverse experience.

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

2.1 Discovery Life and Discovery Invest

2.1.1 Insurance risks

Market and mismatching risk

Mismatching risk is the risk that movements in assets and liabilities are out of line given changes in market conditions as defined on page 66.

Assets under insurance contracts

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

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

R million	Total	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2018						
Discovery Life	**27 078**	**2 478**	**7 526**	**6 040**	**5 614**	**5 420**
2017						
Discovery Life	24 009	2 409	6 821	5 114	4 869	4 796

Discounting is performed using the prevailing risk free SA gilt yield curve. The value of assets under insurance contracts is subject to interest rate risk.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

2. Management of insurance risk *continued*

2.1 Discovery Life and Discovery Invest *continued*

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

R million	2018	2017
Assets arising from insurance contracts at end of year, net of reinsurance	36 202	32 539
Adjusted for:		
Assets arising from insurance contracts relating to VitalityLife	(9 124)	(8 530)
Discovery Life value of discounted cash flows under insurance contracts	**27 078**	**24 009**

Liabilities arising from insurance contracts

For liabilities arising from insurance contracts, the insurance related cash outflows are matched with a combination of a release of policyholder assets (net of retained fees), investment return on these assets and Discovery Life cash flows. Refer to page 67 for a breakdown of the assets backing these liabilities.

The expected discounted future cash flows in the calculation of liabilities under insurance contracts are disclosed in the table below, 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+
2018						
Discovery Invest	(7 828)	(2 530)	(7 318)	1 025	1 035	(40)
2017						
Discovery Invest	(6 657)	(1 805)	(6 516)	825	827	12

Reconciliation of the liabilities under insurance contracts disclosed in the cash flows above to the Statement of financial position (refer to note 17):

R million	2018	2017
Long-term insurance contract liabilities with fixed and guaranteed terms	11 606	9 853
Negative insurance liability included in unit-linked insurance contracts	(3 778)	(3 196)
Discovery Invest value of liabilities under insurance contracts	**7 828**	**6 657**

The value of assets and liabilities under insurance contracts is subject to interest rate risk. There is thus a risk that a change in the risk free gilt yield could cause a change in the value of the assets and liabilities under insurance contracts.

For Discovery Life, increased interest rates would result in an adverse impact on the present value of future profits.

Future cash flows are largely linked to inflation, which maintains the value of cash flows in real terms. Lower than expected inflation adversely impacts the profitability of the book. Inflation and interest rates are generally correlated, which provides a natural hedge against adverse movements.

For Discovery Invest, investment policy fee income is dependent on the underlying value of policyholders' investments, which may be interest rate sensitive.

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 Continuation Benefits in payment are backed by a combination of cash, money market and gilts of appropriate duration.

The risk under the Global Linkage Benefit is fully reinsured and Discovery does not face any net direct market risk.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

2. Management of insurance risk *continued*

2.1 Discovery Life and Discovery Invest *continued*

Lapse and surrender risk

The majority of Discovery Life Plan policyholders have selected policies with automatic contractual premium and benefit increases. Similarly, the majority of Discovery Invest policyholders with recurring premium plans have selected automatic benefit increases. Policyholders have the option to lapse their policies or reduce premiums at any time.

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

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

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

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

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

The lapse risk is managed as follows:

- *Product design*

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

  Integration between different product offerings across Discovery enhances the value proposition of the overall package of products from Discovery. For example, Vitality provides unique rewards and benefits to members and 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 benefit. Better terms are thus offered to healthy lives compared to less healthy lives.

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

- *Commission clawback*

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

- *Client relationships*

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

- *Reinsurance*

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

- *Experience monitoring*

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

- *Proactive conservation*

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

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

2. Management of insurance risk *continued*

2.1 Discovery Life and Discovery Invest *continued*

Underwriting experience risk

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

On guaranteed annuities there is a risk that mortality experience is lower than expected and thus income payments continue for longer than expected. The guaranteed annuity book of Discovery Life was insignificant at 30 June 2018. Discovery Life does not offer any deferred annuities where the annuity rate at a future point in time is guaranteed for new entrants.

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

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

There is a risk that the emergence of a new disease or epidemic can increase the number of claims. The risks are managed through:

- *Product design and pricing*

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

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

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

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

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

- *Underwriting*

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

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

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

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

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

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

2. Management of insurance risk *continued*

2.1 Discovery Life and Discovery Invest *continued*

- *Reinsurance*

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

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

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

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

- *Experience monitoring*

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

Expense risk

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

Modelling and data risk

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

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

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

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

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

Operational/Implementation risk

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.

In order to mitigate operational risk Discovery maintains and follows a set of documented process and procedures which are reviewed internally and externally to be in line with industry best practice. 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/implementation risk. Discovery does not have any legacy systems and processes to deal with thereby reducing operational risk.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

2. Management of insurance risk *continued*

2.1 Discovery Life and Discovery Invest *continued*

Regulatory risk

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

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

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

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

Policy wording/legal risk

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

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

Tax risk

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

Currency risk

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

Capital adequacy requirements and protection against adverse experience

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

In accordance with the Long-term Insurance Act (1998) up to 30 June 2018, Discovery Life is required to demonstrate solvency to the Registrar of Long-term Insurance. Discovery Life thus needs to maintain sufficient shareholder assets, over and above the assets required to meet shareholder liabilities, to support a multiple of the Capital Adequacy Requirement (CAR).

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

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

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

2. Management of insurance risk *continued*

2.1 Discovery Life and Discovery Invest *continued*

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

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

At 30 June 2018, the statutory capital adequacy requirement was R866 million and was covered 3.5 times (2017: the statutory capital adequacy requirement was R705 million and was covered 3.9 times).

From 1 July 2018, Discovery Life is required to demonstrate solvency to the Prudential Authority in accordance with the Insurance Act (2017). Discovery Life has calculated its solvency position on the relevant SAM basis annually since 30 June 2013. A consistent level of solvency cover, comfortably in excess of the statutory minimum, was observed at all valuation dates.

Liquidity risk

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

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

Currently, Discovery Life's expected outflows are mostly long-term and the main liquidity requirement is to fund acquisition expenses on new business and unexpected fluctuations in benefit payments. As discussed in note 3.4.3, Discovery invests primarily in liquid financial assets. There is a need to meet liquidity requirements under 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.

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

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

R million	Total	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2018						
Discovery Life	**20 709**	**730**	**3 560**	**5 321**	**5 910**	**5 188**
Discovery Invest	**7 358**	**912**	**2 506**	**1 892**	**1 696**	**352**
2017						
Discovery Life	18 836	769	3 156	4 348	5 029	5 534
Discovery Invest	6 269	901	2 137	1 564	1 382	285

The cash flows in the table above differ from those disclosed on page 49, since the cash flows in the table 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 Invest embedded value methodology. Cash flows arising under investment management contracts are also included. No allowance has been made for new business and related expenses.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

2. Management of insurance risk *continued*

2.1 Discovery Life and Discovery Invest *continued*

Reputational risk

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

Reputational risks are controlled in that all decisions to repudiate claims are carefully 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.

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

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

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

Concentration risk

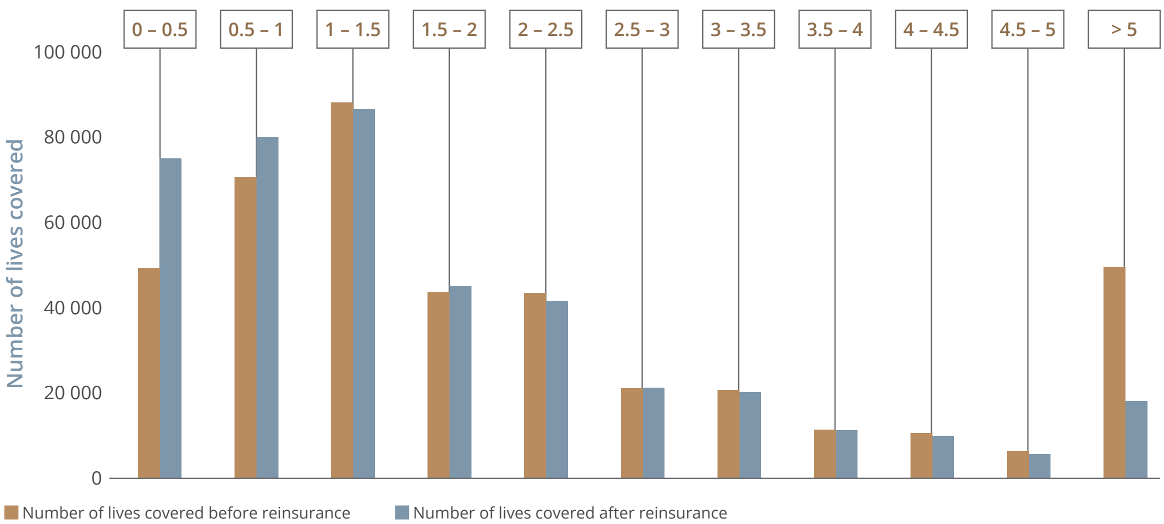
- *Claims experience risk*

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

  Discovery Life maintains a well-diversified portfolio of policies. Reinsurance is further used to protect against the concentration of risk. Catastrophe reinsurance protects against accumulation of claims from a single event, for example an airplane crash. The catastrophe reinsurance for Discovery Life covers single event disasters for up to R740 million where the net of reinsurance impact is greater than R74 million. For its biggest four group schemes, a further layer of catastrophe reinsurance cover of R2 900 million in excess of R814 million is in place.

  Reinsurance removes the exposure to large individual claims. The graph below 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.

Impact of reinsurance on exposure to large claims (Sum assured (R million))



Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

2. Management of insurance risk *continued*

2.1 Discovery Life and Discovery Invest *continued*

- *Withdrawal concentration risk*

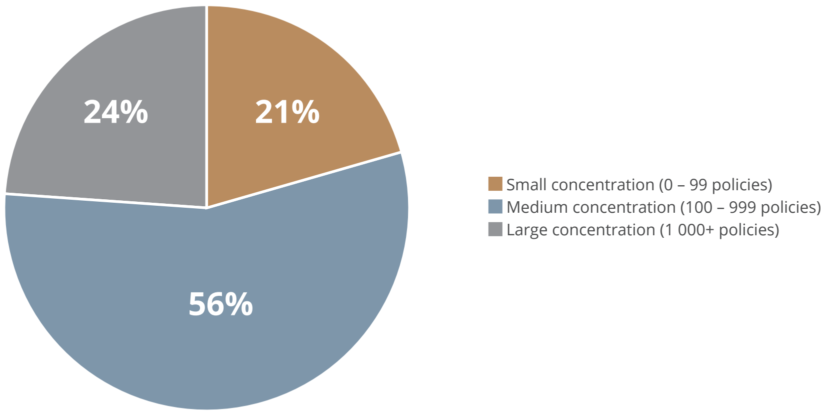
  There is a financial risk of the withdrawal of a block of policies written by a single independent intermediary.

  Discovery Life has a well-diversified book of business by source of new business and spread across more than 7 900 (2017: 7 700) brokers and agents.

  The maximum exposure of Discovery Life to a single intermediary is smaller than 1.2% (2017: 1.2%) and to a group of intermediaries is 2.6% (2017: 2.5%) as a percentage of total premium income.

  The distribution of annualised premium income (API) by concentration to an intermediary group is given in the graph below.

API concentration by intermediary



2.1.2 Sensitivity analysis

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

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

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

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

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

The following sensitivities are provided under insurance risk:

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

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

2. Management of insurance risk *continued*

2.1 Discovery Life and Discovery Invest *continued*

The sensitivities in the table below relate to Discovery Life. Assets under insurance contracts in the Statement of financial position include assets for both Discovery Life and VitalityLife. The sensitivities disclosed reconcile to assets under insurance contracts per the Statement of financial position as follows:

	Gross		Reinsurance		Net	
R million	2018	2017	2018	2017	2018	2017
Assets under insurance contracts (per note 5)	**43 625**	37 691	**(7 423)**	(5 152)	**36 202**	32 539
Discovery Life	**30 398**	26 993	**(3 320)**	(2 984)	**27 078**	24 009
VitalityLife	**13 227**	10 698	**(4 103)**	(2 168)	**9 124**	8 530

Sensitivity analysis: Discovery Life – assets under insurance contracts

	Gross exposure		Net of Reinsurance	
	Assets under insurance contracts R million	Change from base assumption %	Assets under insurance contracts R million	Change from base assumption %
Base: June 2018 assumptions	**30 398**		**27 078**	
Lapses +10% (e.g. from x% to 1.1x%)	**27 419**	**(9.8)**	**24 361**	**(10.0)**
Lapses -10% (e.g. from x% to 0.9x%)	**34 035**	**12.0**	**30 407**	**12.3**
Investment return and inflation -1% (e.g. from 5% to 4%)	**31 696**	**4.3**	**28 269**	**4.4**
Investment return and inflation +1% (e.g. from 5% to 6%)	**29 237**	**(3.8)**	**26 003**	**(4.0)**
Expense assumption +10%	**30 026**	**(1.2)**	**26 706**	**(1.4)**
Expense assumption -10%	**30 768**	**1.2**	**27 447**	**1.4**
Mortality and morbidity +10%	**25 571**	**(15.9)**	**22 684**	**(16.2)**
Mortality and morbidity -10%	**35 353**	**16.3**	**31 663**	**16.9**
Base: June 2017 assumptions	26 993		24 009	
Lapses +10% (e.g. from x% to 1.1x%)	24 489	(9.3)	21 731	(9.5)
Lapses -10% (e.g. from x% to 0.9x%)	30 024	11.2	26 777	11.5
Investment return and inflation -1% (e.g. from 5% to 4%)	28 179	4.4	25 084	4.5
Investment return and inflation +1% (e.g. from 5% to 6%)	25 936	(3.9)	23 061	(3.9)
Expense assumption +10%	26 676	(1.2)	23 692	(1.3)
Expense assumption -10%	27 310	1.2	24 325	1.3
Mortality and morbidity +10%	22 748	(15.7)	20 151	(16.1)
Mortality and morbidity -10%	31 355	16.2	28 038	16.8

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

2. Management of insurance risk *continued*

2.1 Discovery Life and Discovery Invest *continued*

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

For long-term insurance liabilities relating to fixed and guaranteed contracts and unit-linked contracts (refer to reconciliation on page 49), the sensitivities are detailed in the table below:

	Liabilities under insurance contracts R million	Change in variable %
Base: June 2018 assumptions	**7 828**	
Lapses +10% (e.g. from x% to 1.1x%)	**7 842**	**0.2**
Lapses -10% (e.g. from x% to 0.9x%)	**7 867**	**0.5**
Investment return and inflation -1% (e.g. from 5% to 4%)	**8 202**	**4.8**
Investment return and inflation +1% (e.g. from 5% to 6%)	**7 473**	**(4.5)**
Expense assumption +10%	**7 918**	**1.1**
Expense assumption -10%	**7 738**	**(1.1)**
Mortality and morbidity +10%	**7 854**	**0.3**
Mortality and morbidity -10%	**7 802**	**(0.3)**
Base: June 2017 assumptions	6 657	
Lapses +10% (e.g. from x% to 1.1x%)	6 738	1.2
Lapses -10% (e.g. from x% to 0.9x%)	6 604	(0.8)
Investment return and inflation -1% (e.g. from 5% to 4%)	6 859	3.0
Investment return and inflation +1% (e.g. from 5% to 6%)	6 472	(2.8)
Expense assumption +10%	6 745	1.3
Expense assumption -10%	6 587	(1.1)
Mortality and morbidity +10%	6 691	0.5
Mortality and morbidity -10%	6 640	(0.3)

2.2 VitalityLife

2.2.1 Insurance risks

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

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

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

Market and mismatching risk

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

Notes to the Group annual financial statements *continued*
for the year ended 30 June 2018

2. Management of insurance risk *continued*
2.2 VitalityLife *continued*
Lapse risk
Policyholders have the option to discontinue or reduce contributions at any time.

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

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

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

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

The lapse risk is managed as follows:

- *Product design*

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

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

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

- *Commission clawback*

  VitalityLife predominantly distributes via independent intermediaries.

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

- *Client relationships*

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

- *Experience monitoring*

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

- *Reinsurance*

  Reinsurance in VitalityLife protects against volatility in claims experience and against an accumulation of risk. In addition, reinsurers provide specialist advice when designing new products. VitalityLife also receive partial financing for new business strain from financing reinsurance treaties with reinsurers.

- *Proactive conservation*

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

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

2. Management of insurance risk *continued*

2.2 VitalityLife *continued*

Underwriting experience risk

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

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

There is a risk that the emergence of a new disease or epidemic can increase the number of claims. The risks are managed through:

- *Product design and pricing*

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

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

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

- *Underwriting*

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

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

- *Reinsurance*

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

- *Experience monitoring*

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

Expenses

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

Modelling and data risk

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

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

Any changes made to the model are reviewed.

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

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

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

2. Management of insurance risk *continued*

2.2 VitalityLife *continued*

Operational/Implementation risk

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

Regulatory risk

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

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

Tax risk

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

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

Currency risk

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

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

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

Solvency capital requirements and protection against adverse experience

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

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

Solvency I

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

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

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

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

Notes to the Group annual financial statements *continued*
for the year ended 30 June 2018

2. Management of insurance risk *continued*
2.2 VitalityLife *continued*

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

- Mortality risk.
- Expense risk.
- Market risk.
- Health risk.

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

Solvency II

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

- Best estimate liabilities (BEL): policyholder liabilities are calculated on a best estimate basis (excluding any margins) and discounted at the latest swap curve published by EIOPA.
- Solvency capital requirement (SCR): 1-in-200 year stresses are applied to the BEL to stress the key risks and are combined correlation matrices.
- Risk Margin (RM): 6% of the SCR run-off projected over time is discounted at the latest swap curve.
- Technical Provisions (TP): the sum of the BEL and the RM.
- Own Funds: the net assets of the company needed to cover the SCR and other liquidity requirements; a negative TP can be included in the sum of Own Funds to cover the SCR.

Liquidity risk

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

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

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

Policy wording/legal risks

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

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

Reputational risk

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

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

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

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

2. Management of insurance risk *continued*

2.2 VitalityLife *continued*

Concentration risk

Claims experience risk

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

Withdrawal concentration risk

There is a financial risk of the withdrawal of a block of policies written by a single independent intermediary. VitalityLife has a well-diversified book of business by source of new business and spread across more than 27 524 (2017: 25 449) brokers and agents. The maximum exposure of VitalityLife to a single intermediary is smaller than 0.70% (2017: 0.70%) of annualised premium income.

2.2.2 Sensitivity analysis

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

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

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

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

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

The following sensitivities are provided under insurance risk:

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

The sensitivities in the table below relate to VitalityLife. Assets under insurance contracts in the Statement of financial position include assets for both Discovery Life and VitalityLife. The business written on Prudential Assurance Company's (PAC's) life insurance license (up to 31 December 2015) is classified as a reinsurance contract under IFRS 4. The reinsurance recoveries of R2 984 million only relate to the business written on the VitalityLife license. The sensitivities disclosed reconcile to assets under insurance contracts per the Statement of financial position as follows:

	Gross		Reinsurance		Net	
R million	**2018**	2017	**2018**	2017	**2018**	2017
Assets under insurance contracts (per note 5)	**43 625**	37 691	**(7 423)**	(5 152)	**36 202**	32 539
Discovery Life	**30 398**	26 993	**(3 320)**	(2 984)	**27 078**	24 009
VitalityLife	**13 227**	10 698	**(4 103)**	(2 168)	**9 124**	8 530

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

2. Management of insurance risk *continued*

2.2 VitalityLife *continued*

Sensitivity analysis: VitalityLife – assets under insurance contracts

	Gross exposure		Net of Reinsurance	
	Assets under insurance contracts R million	Change from base assumption %	Assets under insurance contracts R million	Change from base assumption %
Base: June 2018 assumptions	**13 227**		**9 124**	
Lapses +10% (e.g. from x% to 1.1x%)	**12 899**	**(2.5)**	**8 888**	**(2.6)**
Lapses -10% (e.g. from x% to 0.9x%)	**13 572**	**2.6**	**9 368**	**2.7**
Investment return and inflation -1% (e.g. from 5% to 4%)	**11 849**	**(10.4)**	**7 599**	**(16.7)**
Investment return and inflation +1% (e.g. from 5% to 6%)	**14 010**	**5.9**	**10 037**	**10.0**
Expense assumption +10%	**13 068**	**(1.2)**	**8 965**	**(1.7)**
Expense assumption -10%	**13 386**	**1.2**	**9 283**	**1.7**
Mortality and morbidity +10%	**12 190**	**(7.8)**	**8 538**	**(6.4)**
Mortality and morbidity -10%	**14 266**	**7.9**	**9 688**	**6.2**
Base: June 2017 assumptions	10 698		8 530	
Lapses +10% (e.g. from x% to 1.1x%)	10 523	(1.6)	8 407	(1.4)
Lapses -10% (e.g. from x% to 0.9x%)	10 865	1.6	8 642	1.3
Investment return and inflation -1% (e.g. from 5% to 4%)	9 137	(14.6)	6 885	(19.3)
Investment return and inflation +1% (e.g. from 5% to 6%)	11 571	8.2	9 480	11.1
Expense assumption +10%	10 525	(1.6)	8 357	(2.0)
Expense assumption -10%	10 870	1.6	8 703	2.0
Mortality and morbidity +10%	9 943	(7.1)	8 079	(5.3)
Mortality and morbidity -10%	11 447	7.0	8 961	5.0

2.3 VitalityHealth

2.3.1 Insurance risks

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

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

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

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

VitalityHealth currently has quota share agreements in place with three reinsurers with an outstanding balance of GBP 126.3 million (R2 294 million) at year end (2017: GBP 104.5 million (R1 775 million)).

Capital adequacy requirements and protection against adverse experience

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

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

At 30 June 2018, the capital requirement for Vitality Health Limited was GBP 87 million (R1 580 million) with the solvency cover of 143%. VitalityHealth risk appetite is to hold capital resources that are 40% in excess of the solvency capital requirement. At 30 June 2017, the capital requirement for Vitality Health Limited was GBP 83 million (R1 420 million) with the solvency cover of 145%. The calculation of capital requirements and available own funds will be audited annually.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

2. Management of insurance risk *continued*

2.3 VitalityHealth *continued*

2.3.2 IBNR calculation

VitalityHealth's reserves are set based on the traditional actuarial chain ladder models. The chain ladder model assumes that there is stability in the delays from treatment date to payment date (therefore future payments can be estimated using historical experience). Adjustments to the model results are made if evidence arise of developments in the business that the models do not reflect. The Reserving Committee considers both the model results and other business indicators, when setting the actual reserves. The IBNR is GBP 26.7 million (R485 million) at 30 June 2018 (2017: GBP 32.3 million (R549 million)), which approximates 1.2 months' worth of claims – which is the expected delay in claims reporting discussed above. Claims provisions at 30 June 2018 includes a supplier settlement and disputed claims provision reflecting the probability weighted settlement of supplier invoices and claims in dispute. The total of such provisions is GBP 3.0 million (R54 million) (2017: GBP 4.5 million (R76.4 million)).

2.3.3 Sensitivity analysis

VitalityHealth's IBNR reserves are sensitive to changes in the business' invoice processing speeds – which has been volatile over the past two years. Currently the IBNR is 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	2018 R	2017 R	2018 GBP	2017 GBP
Base case (80th percentile)	**485**	549	**26.7**	32.3
50th percentile	**427**		**23.5**	
95th percentile	**539**		**29.7**	

Note that sensitivity using this approach has been measured from 2018 and will be tracked going forward. As a result comparatives for 2017 have not been presented.

2.4 Discovery Insure

2.4.1 Insurance risks

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

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

Discovery Insure also mitigates its insurance risk through the use of telematics. The telemetry received in respect of vehicles in which the 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.

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

Underwriting strategy

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

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

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

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

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

2. Management of insurance risk *continued*

2.4 Discovery Insure *continued*

Reinsurance strategy

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

Concentration of risk

There is a risk that a concentration of risk can lead to worse than expected claims experience. Discovery Insure is exposed to a concentration of insurance risk in the Gauteng province of South Africa where 52% (2017: 55%) of the company's total sum insured is domiciled. In order to manage this concentration of insurance risk, the company has entered into a catastrophe excess of loss reinsurance treaty that would limit the loss of the company to pre-determined levels following the occurrence of a localised catastrophe in this area.

3. Management of financial risk

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

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

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

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

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

Financial risks are managed by Discovery as follows:

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

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

To assist in the analysis of the financial risks that Discovery and its policyholders are exposed to, the Statement of financial position has been divided into five categories, based on the nature of the products provided by Discovery and the nature of the financial assets held to back the policyholder liabilities. The table on page 47 lists the contracts that Discovery offers and the category they are included in for financial risk disclosure.

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

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

3. Management of financial risk *continued*

The following tables reconcile the Group Statement of financial position to the classes of risks and the categories listed on the previous page. The look-through basis has been applied to investments in mutual funds to assist in the identification of Discovery's financial risks and will not agree to the investment disclosure in note 11.

R million	Total	Unit-linked investment contracts	Unit-linked insurance contracts	Insurance contracts	Shareholder Financial assets and liabilities	Other assets and liabilities
30 June 2018						
Assets arising from insurance contracts	43 625	–	–	43 625	–	–
Financial instruments at fair value through profit or loss:						
Listed:						
– Equity securities	39 800	11 973	27 688	139	–	–
– Equity linked notes	2 193	163	2 030	–	–	–
– Debt securities	18 092	2 771	6 334	8 987	–	–
– Inflation linked securities	1 096	47	79	970	–	–
– Money market securities	2 935	495	2 420	20	–	–
Unlisted:						
– Equity securities	877	281	590	6	–	–
– Equity linked notes	649	49	599	1	–	–
– Debt securities	73	26	47	–	–	–
– Money market securities	5 531	1 686	3 434	411	–	–
Available-for-sale financial instruments:						
Listed:						
– Equity securities	696	–	–	–	696	–
– Equity linked notes	15	–	–	–	15	–
– Debt securities	1 433	–	–	–	1 433	–
– Inflation linked securities	3	–	–	–	3	–
– Money market securities	4 039	–	–	–	4 039	–
Unlisted:						
– Equity securities	11	–	–	–	11	–
– Equity linked notes	7	–	–	–	7	–
– Debt securities	9	–	–	–	9	–
– Money market securities	1 334	–	–	–	1 334	–
Derivative financial instruments at fair value:						
– Hedges	337	–	–	–	337	–
– Non-hedges	157	2	19	–	136	–
Loans and receivables:						
– Insurance receivables	4 190	–	–	–	4 190	–
– Other	3 353	165	382	2	2 242	562
Reinsurance contracts	308	–	–	308	–	–
Cash and cash equivalents	10 894	340	924	4	9 626	–
Other assets	16 325	–	579	–	–	15 746
Total assets	**157 982**	**17 998**	**45 125**	**54 473**	**24 078**	**16 308**
Liabilities arising from insurance contracts	61 488	–	40 631	20 857	–	–
Liabilities arising from reinsurance contracts	8 918	–	–	8 918	–	–
Borrowings at amortised cost	14 079	1	4	–	14 074	–
Investment contracts at fair value through profit or loss	17 927	17 927	–	–	–	–
Derivative financial instruments at fair value:						
– Hedges	51	–	–	–	51	–
– Non-hedges	27	2	14	–	11	–
Trade and other payables	9 043	68	119	1	8 780	75
Other liabilities	8 855	–	–	–	–	8 855
Total liabilities	**120 388**	**17 998**	**40 768**	**29 776**	**22 916**	**8 930**

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

3. Management of financial risk *continued*

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

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

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. The market risk (including equity price, interest rate and currency risk) for these contacts is therefore borne by the policyholder. Discovery holds the assets on which the unit prices are based and as a result there is no mismatch.

	Investments held at risk of investment policyholders	
R million	**Group 2018**	Group 2017
Financial instruments at fair value through profit or loss:		
Listed:		
– Equity securities	**11 973**	9 463
– Equity linked notes	**163**	231
– Debt securities	**2 771**	1 817
– Inflation linked securities	**47**	34
– Money market securities	**495**	769
Unlisted:		
– Equity securities	**281**	84
– Equity linked notes	**49**	–
– Debt securities	**26**	38
– Money market securities	**1 686**	1 847
Derivative financial instruments at fair value:		
– Non-hedges	**2**	5
Loans and receivables:		
– Other	**165**	136
Cash and cash equivalents	**340**	547
Total assets	**17 998**	14 971
Borrowings at amortised cost	**1**	–
Investment contracts at fair value through profit or loss	**17 927**	14 867
Derivative financial instruments at fair value:		
– Non-hedges	**2**	3
Trade and other payables	**68**	101
Total liabilities	**17 998**	14 971

3.1.1 Market risk

Discovery's primary exposure to market risk from these contracts is the volatility in asset management fees earned by Discovery, due to the impact of interest rate, equity price and currency movements on the fair value of the assets held in the linked funds, on which the investment management fees are based. A decrease of 10% in the value of the assets would reduce the asset management fees by R38 million per annum (2017: R33 million).

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

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

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

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

3.1.3 Liquidity risk

Certain contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. This surrender value is equal to or less than the carrying amount of the contract liabilities. If all the contracts with this option were surrendered at the financial year-end, a loss of R388 million (2017: R330 million) would have been recorded in profit or loss. This loss results from the deferred acquisition cost and deferred revenue liability relating to these contracts being impaired, but the impact is reduced by the surrender penalties receivable. A maturity analysis based on the earliest contractual repayment date would present 100% (2017: 100%) of the policyholder liabilities due within one year. The assets held to match these policyholder liabilities are realisable in the short-term.

3.2 Unit-linked insurance contracts

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

	Investments held at risk of insurance policyholders	
R million	**Group 2018**	Group 2017
Financial instruments at fair value through profit or loss:		
Listed:		
– Equity securities	**27 688**	22 488
– Equity linked notes	**2 030**	2 326
– Debt securities	**6 334**	4 714
– Inflation linked securities	**79**	55
– Money market securities	**2 420**	2 021
Unlisted:		
– Equity securities	**590**	647
– Equity linked notes	**599**	–
– Debt securities	**47**	89
– Money market securities	**3 434**	3 722
Derivative financial instruments at fair value:		
– Non-hedges	**19**	32
Loans and receivables:		
– Other	**382**	372
Cash and cash equivalents	**924**	1 362
Other assets	**579**	–
Total assets	**45 125**	37 828
Liabilities arising from insurance contracts	**40 631**	34 375
Borrowings at amortised cost	**4**	–
Derivative financial instruments at fair value:		
– Non-hedges	**14**	22
Trade and other payables	**119**	235
Total liabilities	**40 768**	34 632

The assets are greater than the liabilities as a result of the Negative insurance liability included in unit-linked insurance contracts (refer to note 17).

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

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. A decrease of 10% in the value of the assets would reduce the asset management fees by R97 million per annum (2017: R33 million).

3.2.2 Credit risk

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

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

3.2.3 Liquidity risk

All contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. This surrender value is equal to or less than the carrying amount of the contract liabilities. If all the contracts with this option were surrendered at the financial year-end, a loss of R3 722 million (2017: R3 103 million) would have been recorded in profit or loss. This loss results from the impairment of Assets arising from insurance contracts relating to these contracts, but the impact is reduced by the surrender penalties receivable.

A discounted maturity analysis based on the earliest contractual repayment date would present R44 167 million (2017: R37 215 million) of the liabilities as due on the earliest period of the table (between 0 and one year), R105 million (2017: R227 million) of the liabilities would be due between one and two years, and R137 million (2017: R129 million) of the liabilities would be due between three and five years. The assets held to match these policyholder liabilities are very liquid.

3.3 Insurance contracts

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

R million	Group 2018	Group 2017
Assets arising from insurance contracts	43 625	37 691
Financial instruments at fair value through profit or loss:		
Listed:		
– Equity securities	139	117
– Debt securities	8 987	7 967
– Inflation linked securities	970	297
– Money market securities	20	40
Unlisted:		
– Equity securities	6	–
– Equity linked notes	1	1
– Debt securities	–	1
– Money market securities	411	180
Derivative financial instruments at fair value:		
– Non-hedges	–	1
Loans and receivables:		
– Other	2	2
Reinsurance contracts	308	263
Cash and cash equivalents	4	7
Total assets	**54 473**	**46 567**
Liabilities arising from insurance contracts	20 857	18 102
Liabilities arising from reinsurance contracts	8 918	6 746
Derivative financial instruments at fair value:		
– Non-hedges	–	1
Trade and other payables	1	2
Total liabilities	**29 776**	**24 851**

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

3. Management of financial risk *continued*

3.3 Insurance contracts *continued*

3.3.1 Market risk

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

Based on guidance from Standard of Actuarial Practice Note 104, these movements are captured in the resilience Capital Adequacy Requirement (CAR) and an amount of R112 million is included in the CAR at 30 June 2018 (2017: R43 million) to protect against potential mismatches between assets and liabilities. The increase in resilience CAR from June 2017 to June 2018 is a result of changes in economic valuation basis.

3.3.2 Credit risk

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

R million	Total	Aaa	Aa1 Aa2 Aa3	A1 A2 A3	Baa1 Baa2 Baa3	Ba1 Ba2 Ba3	Govt	Not rated
30 June 2018								
Financial instruments at fair value through profit or loss:								
Listed:								
– Equity securities	**139**	**–**	**–**	**–**	**–**	**–**	**–**	**139**
– Debt securities	**8 987**	**159**	**294**	**–**	**–**	**–**	**8 534**	**–**
– Inflation linked securities	**970**	**–**	**20**	**–**	**–**	**–**	**950**	**–**
– Money market securities	**20**	**2**	**7**	**11**	**–**	**–**	**–**	**–**
Unlisted:								
– Equity securities	**6**	**–**	**–**	**–**	**–**	**–**	**–**	**6**
– Equity linked notes	**1**	**–**	**–**	**–**	**–**	**–**	**–**	**1**
– Money market securities	**411**	**36**	**332**	**8**	**1**	**–**	**–**	**34**
Cash and cash equivalents	**4**	**2**	**2**	**–**	**–**	**–**	**–**	**–**
	10 538	**199**	**655**	**19**	**1**	**–**	**9 484**	**180**
30 June 2017								
Financial assets at fair value through profit or loss:								
Listed:								
– Equity securities	117	–	–	–	–	–	–	117
– Debt securities	7 967	302	226	91	1	–	7 346	1
– Inflation linked securities	297	–	–	19	–	–	278	–
– Money market securities	40	3	22	13	–	–	–	2
Unlisted:								
– Equity linked notes	1	–	–	–	–	–	–	1
– Debt securities	1	–	–	–	–	1	–	–
– Money market securities	180	80	63	29	–	–	–	8
	8 603	385	311	152	1	1	7 624	129

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

3. Management of financial risk *continued*

3.3 Insurance contracts *continued*

3.3.3 Liquidity risk

The liquidity risk for assets and liabilities arising from insurance contracts are discussed in insurance risks on page 54. The financial investments held at fair value through profit or loss are realisable in the short-term.

3.4 Shareholder financial assets and liabilities

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

R million	Group 2018	Group 2017
Available-for-sale financial instruments:		
Listed:		
– Equity securities	**696**	616
– Equity linked notes	**15**	8
– Debt securities	**1 433**	2 055
– Inflation linked securities	**3**	6
– Money market securities	**4 039**	2 185
Unlisted:		
– Equity securities	**11**	2
– Equity linked notes	**7**	9
– Debt securities	**9**	18
– Money market securities	**1 334**	2 399
Derivative financial instruments at fair value:		
– Hedges	**337**	354
– Non-hedges	**136**	–
Loans and receivables:		
– Insurance receivables	**4 190**	3 757
– Other	**2 242**	1 805
Cash and cash equivalents	**9 626**	7 182
Total assets	**24 078**	20 396
Negative reserve funding	**–**	847
Borrowings at amortised cost	**14 074**	8 524
Derivative financial instruments at fair value:		
– Hedges	**51**	29
– Non-hedges	**11**	80
Trade and other payables	**8 780**	6 981
Total liabilities	**22 916**	16 461

3.4.1 Market risk

Equity price risk

Investments

Discovery is exposed to equity price risk because of investments held by the Group and classified on the consolidated Statement of financial position as available-for-sale. To manage its equity risk arising from investments in equity securities and equity linked notes of R711 million (2017: R624 million), the Group diversifies its portfolio and uses experienced asset managers.

For shareholder investments, a 10% increase in the equity markets would result in a profit of R77 million before tax (2017: R81 million). A 10% decrease in the equity markets would result in a loss of R31 million before tax (2017: R38 million). This impact would be recognised in the Statement of other comprehensive income. The sensitivity is based on the assumption that the equity markets had increased/decreased by 10% with all other variables held constant.

Hedge derivative instruments

Discovery is also exposed to equity price risk through its cash-settled share incentive schemes, namely the Phantom share scheme and the Acquisition share scheme, the details of which is described in note 33. This liability has been included in Trade and other payables in the table in note 3.4. To manage this risk, Discovery has purchased a combination of return swaps and call options from Baa or A – rated South African banks to hedge a portion of its exposure to changes in the Discovery share price.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

3. Management of financial risk *continued*

3.4 Shareholder financial assets and liabilities *continued*

i. Phantom share scheme

As at 30 June 2018, approximately 99.3% (2017: 94.0%) of this exposure is hedged. The hedges were designed to be highly effective, where the terms of the hedge or return swaps substantially match that of the phantom share scheme on a per instrument basis. Combinations of return swaps and call options were designated on a unit for unit basis to substantially match the terms of the phantom share and call option units.

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

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

Maturity date	Strike price	Number of call options
2017		
30 September 2017	54.75 – 134.94	2 500 877
30 April 2018	127.22	11 791
30 June 2018	122.50	6 735
30 September 2018	84.76 – 134.94	1 641 093
31 October 2018	115.23	10 414
30 April 2019	127.22	11 791
30 June 2019	122.50	6 735
30 September 2019	97.89 – 134.94	1 119 008
31 October 2019	115.23	5 207
30 April 2020	127.22	11 791
30 June 2020	122.50	6 735
30 September 2020	114.96 – 134.94	554 455
31 October 2020	115.23	5 207
30 April 2021	127.22	11 791
30 September 2021	114.96	95 173
2018		
30 September 2018	**84.76 – 134.94**	**1 641 093**
31 October 2018	**115.23**	**10 414**
30 November 2018	**110.40**	**2 038**
30 April 2019	**127.22**	**11 791**
30 June 2019	**122.50**	**6 735**
30 September 2019	**97.89 – 141.65**	**1 304 496**
31 October 2019	**115.23**	**5 207**
30 November 2019	**110.40**	**2 038**
30 April 2020	**127.22**	**11 791**
30 June 2020	**122.50**	**6 735**
30 September 2020	**114.96 – 141.65**	**735 040**
31 October 2020	**115.23**	**5 207**
30 November 2020	**110.40**	**2 038**
30 April 2021	**127.22**	**11 791**
30 September 2021	**114.96 – 141.65**	**270 904**
30 November 2021	**110.40**	**2 038**
30 September 2022	**141.65**	**170 827**

The notional value of the outstanding cash-settled call options held by the Group at 30 June 2018 was R497 million (2017: R610 million).

The fair value of the call options is repriced at each reporting date and was calculated on a Black-Scholes model using the same assumptions as tabled in note 33.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

3. Management of financial risk *continued*

3.4 Shareholder financial assets and liabilities *continued*

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

Maturity date	Reference price	Number of return swaps
2017		
30 September 2017	54.76 – 134.94	1 210 619
28 February 2017	115.07	15 208
30 April 2018	127.22	5 895
30 June 2018	122.50	3 367
30 September 2018	84.71 – 134.94	1 330 316
31 October 2018	115.23	5 207
28 February 2019	115.07	15 208
30 April 2019	127.22 – 131.95	24 841
30 June 2019	122.50	3 367
30 September 2019	97.89 – 134.94	1 053 344
31 October 2019	115.23	2 604
28 February 2020	115.07	15 208
30 April 2020	127.22 – 131.95	24 841
30 June 2020	122.50	3 367
30 September 2020	114.96 – 134.94	755 537
31 October 2020	115.23	2 604
28 February 2021	115.07	15 208
30 April 2021	127.22 – 131.95	24 841
30 September 2021	114.96	509 952
30 April 2022	131.95	18 946
2018		
30 September 2018	**84.71 – 134.94**	**1 330 316**
31 October 2018	**115.23**	**5 207**
30 November 2018	**171.04**	**2 725**
28 February 2019	**115.07**	**15 208**
30 April 2019	**127.22 – 131.95**	**24 841**
30 June 2019	**122.50**	**3 367**
30 September 2019	**97.89 – 171.04**	**1 589 822**
31 October 2019	**115.23**	**2 604**
30 November 2019	**171.04**	**2 725**
29 February 2020	**115.07**	**15 208**
31 March 2020	**171.04**	**73 313**
30 April 2020	**127.22 – 131.95**	**24 841**
30 June 2020	**122.50**	**3 367**
30 September 2020	**114.96 – 171.04**	**1 278 288**
31 October 2020	**114.96 – 171.04**	**4 310**
30 November 2020	**171.04**	**1 019**
28 February 2021	**115.07**	**15 208**
31 March 2021	**171.04**	**73 313**
30 April 2021	**127.22 – 131.95**	**24 841**
30 September 2021	**114.96 – 171.04**	**1 018 977**
30 November 2021	**171.04**	**2 725**
31 March 2022	**171.04**	**73 313**
30 April 2022	**131.95**	**18 946**
30 September 2022	**141.65 – 171.04**	**495 298**
31 March 2023	**171.04**	**73 313**

The notional value of the outstanding return swaps held by the Group at 30 June 2018 was R854 million (2017: R580 million). The fair value of the return swaps is calculated by discounting the future cash flows of the instruments.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

3. Management of financial risk *continued*

3.4 Shareholder financial assets and liabilities *continued*

ii. Acquisition share scheme

As at 30 June 2018, approximately 84.8% (2017: 89.7%) of this exposure is hedged. The hedges were designed to be highly effective, where the terms of the hedge or return swaps substantially match that of the acquisition share scheme on a per instrument basis.

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

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

Maturity date	Reference price	Number of return swaps
2017		
30 June 2017	84.06 – 134.94	818 838
30 June 2018	96.06 – 127.92	741 691
30 June 2019	118.31 – 127.92	562 204
30 June 2020	118.31 – 127.92	64 403
30 June 2021	127.92	21 279
2018		
30 June 2018	**84.06 – 134.94**	**818 838**
30 June 2019	**96.06 – 147.50**	**750 831**
30 June 2020	**118.31 – 147.50**	**611 487**
30 June 2021	**118.31 – 147.50**	**601 204**
30 June 2022	**118.31 – 147.50**	**80 506**
30 June 2023	**147.50**	**50 087**

The notional value of the outstanding return swaps held by the Group at 30 June 2018 was R158 million (2017: R188 million). The fair value of the return swaps is calculated by discounting the future cash flows of the instruments.

At 30 June 2018, the fair value of the derivative instruments purchased to hedge the Phantom and Acquisition share schemes, is R325 million (2017: R340 million) (refer to note 12). To reduce the credit risk exposure from the hedge derivative instruments purchased, Discovery has entered into collateral agreements with the relevant financial institutions to post cash collateral periodically, equal to the fair value of the derivatives.

A total of R210 million cash collateral is being held by Discovery at 30 June 2018 (2017: R270 million) (refer to note 22). The cash collateral held has been invested into money market securities and presented as financial assets in the Statement of financial position. The posting of the collateral does not result in legal settlement of the outstanding derivative balance. The collateral will only be used to settle the derivative upon default or bankruptcy of either party. The offsetting requirements of IAS 32 are therefore not met.

Discovery recognises the effective portion of fair value changes of derivatives that are designated and qualify as cash flow hedges and prove to be highly effective in relation to the hedged risk, in the cash flow hedging reserve in the Statement of other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. A gain of R22 million was recognised in profit or loss during the current year (2017: R16 million) as a result of ineffectiveness.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

3. Management of financial risk *continued*

3.4 Shareholder financial assets and liabilities *continued*

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

R million	2018	2017
Balance at beginning of the year	(33)	5
Unrealised gains accumulated in equity	(224)	(176)
Tax on unrealised gains	26	29
Recycled to profit or loss during the current year[1]	194	131
Tax on recycled gains	(20)	(22)
Balance at end of the year	(57)	(33)

1 *Disclosed in Marketing and administration expenses and Acquisition costs, in profit or loss.*

The cash flow hedge relating to the Phantom and Acquisition share schemes as at 30 June is expected to be recycled to profit or loss as follows:

R million	2018	2017
Recycled to profit or loss within one year	(18)	(24)
Recycled to profit or loss within two to five years	(39)	(9)
	(57)	(33)

Interest rate risk

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

R million	Carrying amount	Fixed	Floating	Non-interest bearing
30 June 2018				
Available-for-sale financial instruments:				
Listed:				
– Equity securities	696	–	–	696
– Equity linked notes	15	–	–	15
– Debt securities	1 433	1 255	178	–
– Inflation linked securities	3	–	3	–
– Money market securities	4 039	1 296	2 725	18
Unlisted:				
– Equity securities	11	–	–	11
– Equity linked notes	7	–	–	7
– Debt securities	9	2	7	–
– Money market securities	1 334	444	881	9
Derivative financial instruments at fair value:				
– Hedges	337	337	–	–
– Non-hedges	136	–	–	136
Loans and receivables	6 432	32	296	6 104
Cash and cash equivalents	9 626	4 663	4 957	6
Total financial assets	24 078	8 029	9 047	7 002
Borrowings at amortised cost	14 074	8 333	5 741	–
Derivative financial instruments at fair value:				
– Hedges	51	51	–	–
– Non-hedges	11	8	–	3
Trade and other payables	8 780	15	387	8 378
Total financial liabilities	22 916	8 407	6 128	8 381

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

3. Management of financial risk *continued*

3.4 Shareholder financial assets and liabilities *continued*

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

Investments

For shareholder investments, a 1% increase in the local interest rate would result in an increase of R16 million in the value of these investments (2017: R47 million). A 1% decrease in the local interest rate would result in a decrease of R18 million in the value of these investments (2017: R47 million). The sensitivity is based on the assumption that the interest rate had increased/decreased by 1% with all other variables held constant.

Borrowings at amortised cost and related hedges

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

		2018		2017	
R million	Ref	**Carrying value**	**Facility value**	Carrying value	Facility value
Interest rate risk from bank borrowings					
Fixed rate loan facilities	i	**3 393**	**3 450**	3 094	3 069
Floating interest rate facilities with floating-to-fixed interest rate swaps	ii	**3 130**	**3 125**	829	825
Floating interest rate facilities	iii	**717**	**675**	677	675
Foreign floating interest rate facilities	iii	**1 810**	**2 174**	2 174	2 174
Total bank borrowings (refer to note 20)		**9 050**	**9 424**	6 774	6 743

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

3. Management of financial risk *continued*

3.4 Shareholder financial assets and liabilities *continued*

Borrowings at amortised cost and related hedges continued

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

Interest rate per annum	Maturity date	Capital repayment	Facility value
Fixed at 10.94%	10 June 2021	Maturity	500
Fixed at 10.59%	10 June 2021	Annually[1]	1 100
Fixed at 10.20%	17 March 2022	Maturity	800
Fixed at 10.23%	16 May 2022	Maturity	200
Fixed at a weighted average rate of 11.44%	Various maturities	Instalments	469
Total fixed rate loan facilities 30 June 2017			3 069
Fixed at 10.46%[2]	21 November 2024	Maturity	200
Fixed at a weighted average rate of 11.44%	Various maturities	Instalments	181
Total fixed rate loan facilities 30 June 2018			3 450

1 *The loan has an amortising capital profile, having the first repayment on 10 June 2019 and final settlement on 10 June 2021.*
2 *Interest is payable semi-annually in arrears.*

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

R million	2018	2017
Balance 1 July	**34**	28
Unrealised losses accumulated in equity	**24**	15
Tax on unrealised losses	**6**	(6)
Recycled to profit or loss during the current year[1]	**(6)**	(5)
Tax on recycled gains	**(2)**	2
Balance 30 June	**56**	34
The cash flow hedge will be recycled to profit or loss as follows:		
Recycled to profit or loss within one year	**7**	6
Recycled to profit or loss within two to five years	**31**	28
Recycled to profit or loss within six to ten years	**18**	–
	56	34

1 *Disclosed as finance costs in profit or loss.*

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

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

	2018		2017	
R million	Nominal value	Fair value liability	Nominal value	Fair value liability
Maturity date:				
30 September 2021	**375**	**(5)**	375	(7)
15 December 2021	**450**	**(4)**	450	(8)
21 November 2022	**500**	**(8)**	–	–
2 March 2023	**1 000**	**(4)**	–	–
21 November 2024	**800**	**(18)**	–	–
	3 125	**(39)**	825	(15)

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

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

3. Management of financial risk *continued*

3.4 Shareholder financial assets and liabilities *continued*

Non-hedge derivative financial instruments

i. Interest rate swap

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

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

At 30 June 2018 DHEL is party to 1 (2017: 1) open derivative contract. The fixed interest payable is 0.87% on a notional derivative value of GBP 167.7 million (2017: GBP 150.4 million).

At 30 June 2018 the fair value of the derivative was a liability of GBP 0.4 million (R7 million) (2017: GBP 4.6 million (R79 million)). At 30 June 2017 DHEL had provided the counterparty with GBP 1 million of collateral against this liability. There is no collateral provided at 30 June 2018.

Although the instrument reduces the exposure to the volatility of the index, the derivative instrument does not qualify for hedge accounting. Accordingly, the derivative has been classified as a financial asset or liability carried at fair value through profit or loss. The fair value adjustment of GBP 1.4 million (R23 million) has been recognised in 'Net fair value gains on financial assets at fair value through profit or loss'. The current open derivative contract expires on 24 September 2018.

ii. Derivative instruments used by Discovery's asset managers

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

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

R million	Notional amount	Fair value asset	Fair value liability
30 June 2018			
Interest rate contracts:			
– fixed for floating swaps	**(18)**	*****	*****
– fixed for fixed swaps	**(1)**	*****	*****
– floating for fixed swaps	**(32)**	*****	*****
	(51)	*****	*****
30 June 2017			
Interest rate contracts:			
– fixed for floating swaps	(50)	*	*
– floating for fixed swaps	(22)	–	*
	(72)	*	*

* *Amount is less than R500 000.*

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

3. Management of financial risk *continued*

3.4 Shareholder financial assets and liabilities *continued*

Currency risk

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

R million	Total	Rand	GBP in UK subsidiary	GBP other	USD in US subsidiary	USD other	Other currencies
30 June 2018							
Available-for-sale financial instruments:							
Listed:							
– Equity securities	696	381	51	29	–	178	57
– Equity linked notes	15	15	–	–	–	–	–
– Debt securities	1 433	987	442	–	–	4	–
– Inflation linked securities	3	3	–	–	–	–	–
– Money market securities	4 039	1 929	1 984	–	–	126	–
Unlisted:							
– Equity securities	11	2	–	2	–	7	–
– Equity linked notes	7	7	–	–	–	–	–
– Debt securities	9	7	–	1	–	1	–
– Money market securities	1 334	1 150	181	–	–	3	–
Derivative financial instruments at fair value:							
– Hedges	337	337	–	–	–	–	–
– Non-hedges	136	136	–	–	–	–	–
Loans and receivables	6 432	3 160	2 850	–	250	76	96
Cash and cash equivalents	9 626	6 318	2 776	84	109	222	117
Total financial assets	24 078	14 432	8 284	116	359	617	270
Borrowings at amortised cost	14 074	12 264	1 810	–	–	–	–
Derivative financial instruments at fair value:							
– Hedges	51	51	–	–	–	–	–
– Non-hedges	11	–	8	–	–	3	–
Trade and other payables	8 780	3 219	5 314	1	81	56	109
Total financial liabilities	22 916	15 534	7 132	1	81	59	109

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

3. Management of financial risk *continued*

3.4 Shareholder financial assets and liabilities *continued*

R million	Total	Rand	GBP in UK subsidiary	GBP other	USD in US subsidiary	USD other	Other currencies
30 June 2017							
Available-for-sale financial assets:							
Listed:							
– Equity securities	616	334	–	33	–	179	70
– Equity linked notes	8	8	–	–	–	–	–
– Debt securities	2 055	248	1 806	–	–	1	–
– Inflation linked securities	6	6	–	–	–	–	–
– Money market securities	2 185	2 185	–	–	–	–	–
Unlisted:							
– Equity securities	2	2	–	–	–	–	–
– Equity linked notes	9	9	–	–	–	–	–
– Debt securities	18	17	–	–	–	1	–
– Money market securities	2 399	2 168	228	–	–	3	–
Derivative financial instruments at fair value:							
– Hedges	354	354	–	–	–	–	–
Loans and receivables	5 562	2 931	2 345	–	198	58	30
Cash and cash equivalents	7 182	3 969	2 952	5	165	6	85
Total financial assets	20 396	12 231	7 331	38	363	248	185
Negative reserve funding	847	–	847	–	–	–	–
Borrowings at amortised cost	8 524	6 350	2 174	–	–	–	–
Derivative financial instruments at fair value:							
– Hedges	29	29	–	–	–	–	–
– Non-hedges	80	1	79	–	–	–	–
Trade and other payables	6 981	2 836	3 908	–	197	34	6
Total financial liabilities	16 461	9 216	7 008	–	197	34	6

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 2018	**13.81**	**18.16**
30 June 2017	13.12	17.03

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.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

3. Management of financial risk *continued*

3.4 Shareholder financial assets and liabilities *continued*

Forward exchange contracts (FECs)

To manage its foreign exchange risk arising from future commercial transactions, Discovery enters into FECs. Discovery agreed to buy foreign currency from third party banks which were Baa2 rated (2017: Baa3 rated), as rated by Moody's. The fair value of these contracts have been included in financial liabilities (refer to note 12).

Discovery entered into these agreements as an economic hedge against foreign currency risk for expenses expected to be paid in the future.

New transactions have been entered into which have not been designated as hedges and as a result gains and losses are recognised in profit or loss. The amount recognised in profit or loss for the current year was a gain of R135 million (2017: R1 million), with a corresponding derivative asset of R135 million (2017: R1 million). The notional value of the FEC contracts are GBP 115 million and CNY 40 million (2017: USD 3 million and EUR 1 million).

Borrowings

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

3.4.2 Credit risk

Key areas where Discovery is exposed to credit risk are:

- **Financial investments comprising money market and debt instruments entered to invest surplus shareholder funds –** Discovery is exposed to the issuer's credit standing on these instruments which is monitored by the Capital, Currency and Investment Committee by setting a minimum credit rating and maximum exposures per issuer. Regulations in the various jurisdictions in which Discovery operates have the effect of limiting exposure to individual issuers due to the inadmissibility of assets if specified limits are breached. Discovery has appointed reputable asset managers to manage these instruments. Information regarding the aggregated credit risk exposure for debt and money market instruments categorised by credit ratings is provided on the next page.
- **Cash and cash equivalents –** This risk is managed by monitoring exposure to external financial institutions against approved limits per institution. Credit ratings are provided on the next page.
- **Certain accounts within the Statement of financial position category of Loans and receivables –** The management of this risk is discussed in detail on page 85.
- **Reinsurance assets comprising receivables raised for expected recoveries on projected claims (Discovery's liability as primary insurer is not discharged) and amounts due from reinsurers in respect of claims already paid –** This risk is limited as risk premiums are paid monthly to reinsurers and claims can be offset against risk premiums. Further, it is expected that there will be little build-up of actuarial liability on the reinsurers' side. The risk thus mainly arises following a period of higher than expected claims. Credit ratings of reinsurers are taken into account in reinsurance placement decisions. Credit exposure to reinsurers is also limited through the use of several reinsurers. Reinsurance is placed with reputable international companies directly or through their national offices. The reinsurance companies used by Discovery are rated A or higher by A.M.Best, a rating agency with an exclusive insurance industry focus. Refer to www.ambest.com for further detail.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

3. Management of financial risk *continued*

3.4 Shareholder financial assets and liabilities *continued*

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

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

R million	Total	Aaa	Aa1 Aa2 Aa3	A1 A2 A3	Baa1 Baa2 Baa3	Ba1 Ba2 Ba3	Govt	Not rated
30 June 2018								
Available-for-sale financial assets:								
– Equity securities	**707**	**164**	**–**	**15**	**50**	**162**	**–**	**316**
– Equity linked notes	**22**	**–**	**–**	**–**	**–**	**–**	**–**	**22**
– Debt securities	**1 442**	**84**	**84**	**480**	**2**	**–**	**790**	**2**
– Inflation linked securities	**3**	**2**	**–**	**–**	**1**	**–**	**–**	**–**
– Money market securities	**5 373**	**161**	**395**	**3 305**	**1 283**	**1**	**29**	**199**
Cash and cash equivalents	**9 626**	**426**	**1 508**	**5 454**	**2 180**	**34**	**5**	**19**
	17 173	**837**	**1 987**	**9 254**	**3 516**	**197**	**824**	**558**
30 June 2017								
Available-for-sale financial assets:								
– Equity securities	618	–	7	–	47	7	–	557
– Equity linked notes	17	–	–	–	–	–	–	17
– Debt securities	2 073	78	71	1 858	2	23	20	21
– Inflation linked securities	6	–	–	–	–	6	–	–
– Money market securities	4 584	847	1 364	350	1 327	16	629	51
Cash and cash equivalents	7 182	173	1 323	3 154	2 530	–	–	2
	14 480	1 098	2 765	5 362	3 906	52	649	648

Credit risk relating to loans and receivables

The table below summarises Discovery's shareholder loans and receivables including insurance receivables, at 30 June. This table only relates to shareholder's credit exposure relating to loans and receivables and will therefore not agree to note 13. Refer to tables provided on page 67 and 68.

R million	Ref	2018	2017
Receivables arising from insurance and reinsurance contracts:			
– Premium debtors	i	**548**	497
– Less provision for impairment of premium debtors		**(62)**	(56)
– Reinsurance debtors	ii	**3 704**	3 316
Other loans and receivables:			
– Agents and brokers	iii	**356**	275
– BEE partners' rights-issue funding		**111**	101
– Cash-in-transit debtors		**73**	156
– Closed scheme debtors	iv	**118**	73
– Discovery Health Medical Scheme	iv	**628**	576
– Discovery Unit Trust debtors		**2**	2
– Expired hedge receivables		**18**	36
– FNB – DiscoveryCard receivable		**114**	105
– International partner market receivables		**225**	55
– Loans to BEE initiatives		**105**	104
– Loans to senior management		**153**	145
– Security deposit on derivatives		**–**	17
– Vitality partner debtors		**86**	31
– Other debtors		**484**	349
– Less provision for impairment of other loans and receivables		**(231)**	(220)
		6 432	5 562

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

3. Management of financial risk *continued*

3.4 Shareholder financial assets and liabilities *continued*

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

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

ii. VitalityHealth made use of financial reinsurance as a financing tool for new business acquisition costs. The receipt from the reinsurer was recognised in profit or loss upfront in the year received. Thereafter, VitalityHealth converted their cash financial reinsurance to cashless financial reinsurance to minimise the cost of funding. This was done by recapturing reinsurance obligations and replacing this with new cashless reinsurance treaties. GBP 125.5 million (R2 278 million) (2017: GBP 101.6 million (R1 731 million)) is outstanding in respect of cashless reinsurance treaties.

   Refer to page 83 for detail regarding the management of risk in respect of reinsurance receivables raised for expected recoveries on projected claims and amounts due from reinsurers in respect of claims already paid. Discovery's liability as primary insurer is not discharged.

iii. Agents and brokers are subject to a comprehensive relationship management programme including credit assessment. Agents and brokers are not rated by Discovery as exposure to any single intermediary is insignificant. The widespread nature of the individual amounts combined with this close management relationship reduces credit risk. Most commission claw backs are offset against future payments and hence the risk of outstanding commission clawbacks is reduced.

iv. The Discovery Health Medical Scheme (DHMS) has been rated Aa by Global Credit Ratings. The closed schemes have not been rated. Payments by DHMS and the other closed schemes are managed by Discovery and are paid by the seventh of the following month.

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

R million	**Gross 2018**	**Impairment 2018**	Gross 2017	Impairment 2017
Not past due (current)	**6 187**	**(31)**	5 240	(94)
30 days	**88**	**(18)**	66	(17)
60 days	**85**	**(13)**	33	(12)
90 days	**39**	**(14)**	30	(9)
120 days	**16**	**(7)**	15	(9)
150 days	**35**	**(7)**	35	(6)
>150 days	**275**	**(203)**	419	(129)
	6 725	**(293)**	5 838	(276)

Discovery establishes an allowance for impairment that represents its estimate of incurred losses in respect of loans and receivables. The allowance comprises of a specific loss component that relates to individually significant exposures, and a collective loss component, established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

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

R million	**2018**	2017
Balance at beginning of the year	**276**	239
Increase in provision	**52**	53
Amounts utilised during the period	**(35)**	(16)
Balance at end of the year	**293**	276

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

3. Management of financial risk *continued*

3.4 Shareholder financial assets and liabilities *continued*

3.4.3 Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities (refer to note 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. At the reporting date, the shareholders held money market funds and cash and cash equivalents of R14 999 million (2017: R11 766 million).

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

R million	Ref	Total	<1 year	1- 5 years	6 –10 years	> 10 years	Open ended
30 June 2018							
Borrowings net of interest rate swap		**22 015**	**1 568**	**12 960**	**4 392**	**3 095**	**–**
Derivative financial instruments at fair value:							
– Hedges		**55**	**6**	**19**	**30**	**–**	**–**
– Non-hedges		**11**	**11**	**–**	**–**	**–**	**–**
Trade and other payables		**8 856**	**4 521**	**3 909**	**95**	**148**	**183**
Total		**30 937**	**6 106**	**16 888**	**4 517**	**3 243**	**183**
30 June 2017							
Negative reserve funding	i	308	77	231	–	–	–
Borrowings net of interest rate swap		10 846	1 001	9 079	766	–	–
Derivative financial instruments at fair value:							
– Non-hedges		95	79	16	–	–	–
Trade and other payables		6 981	3 683	3 123	18	4	153
Total		18 230	4 840	12 449	784	4	153

i. This liability represents the acquisition costs in respect of business written on Prudential Assurance Company's (Prudential) life insurance license and were funded by Prudential. The liability is repaid on a matched basis as the cash flows emerge from this business. In the event that the cash flows do not emerge as anticipated, VitalityLife would be required to repay these liabilities from other resources.

In terms of the level premium reinsurance treaty entered into in respect of this business, a security deposit was required to be placed by the reinsurer, to reduce counterparty risk. At 30 June 2018, GBP 169 million (R3 065 million) (2017: GBP 147 million (R2 501 million)) was held as a security deposit. The contractual arrangement in respect of the business written on the Prudential license is accounted for as a reinsurance contract under IFRS 4 and as a result, the 'deposit back' held has been disclosed as a reduction of the negative reserve funding liability.

During the 2018 financial year, additional amounts were received as 'deposit back' in excess of the negative reserve funding. The agreements indicate that offset is applicable up to the amount of the negative reserve funding. Any additional amounts of the deposit back received thereafter, are included in cash. The corresponding liability to the reinsurer has been accounted for in Trade and other payables.

The decrease in the negative reserve funding liability in the current financial year, relates to the partial repayment of funding by VitalityLife as well as an increase in the amount of 'deposit back' held which has been offset against the liability. There is still an amount payable to Prudential of GBP 120.5 million (R2 189 million) at 30 June 2018.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

3. Management of financial risk *continued*

3.5 Capital management

The Group's objectives when managing capital are:

- To comply with the statutory capital requirements required by the regulators of the insurance markets where the Group operates.
- To maintain a capital buffer in excess of the statutory capital requirements in order to reduce the risk of breaching the statutory requirement in the event of deviations from the main assumptions affecting the Group's insurance businesses.
- To ensure that sufficient capital is available to fund the Group's working capital and strategic capital requirements.
- To achieve an optimal and efficient capital funding profile.
- To consider capital management needs both in the short term and over a 5-year planning horizon.

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

Financial Leverage Ratio

As part of the capital management process, the Group monitors its capital structure utilising the Financial Leverage Ratio (FLR). This ratio is calculated as total debt[1] divided by total debt[1] plus total equity. The Group's strategy is to maintain a prudent FLR of 28% per the Group Risk Appetite statement. The table below summarises the FLR at 30 June:

R million	2018	2017
– Amount owed to Prudential Assurance Company Limited	2 189	3 080
– Borrowings at amortised cost (refer to note 20)[1]	10 842	8 524
– Guarantees issued for reinsurance contracts	50	171
Total debt and guarantees	**13 081**	11 775
Total equity	**37 594**	32 290
Financial Leverage Ratio (%)	**25.8%**	26.7%

1 *Excluding the finance lease liability in respect of the new head office building of R3 237 million.*

The FLR at 30 June 2018 is therefore in line with Discovery's risk appetite.

Minimum capital requirements

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

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

The table below summarises the minimum required capital across the Group subsidiaries and the actual solvency capital held as a percentage of this requirement, for each of them at 30 June:

			Actual solvency	
Insurance operations	Jurisdiction	Statutory solvency requirement	2018	2017
Discovery Life	South Africa	1 x Statutory Capital Adequacy Requirement (CAR)	**3.5 times**	3.9 times
Discovery Life Investment Services	South Africa	13/52 x annualised operational expenses	**3 times**	1.6 times
Discovery Life Collective Investments (DLCI)	South Africa	13/52 x annualised fixed operational expenses plus a portion of risk capital on investments held by DLCI	**6.4 times**	4.1 times
Discovery Insure	South Africa	1 x Statutory Capital Adequacy Requirement (CAR)	**2.0 times**	2.2 times
Vitality Health Limited	United Kingdom	Highest capital requirement determined under the Solvency II Directive	**1.4 times**	1.5 times
Vitality Life Limited	United Kingdom	1 x Solvency Capital Requirement under Solvency II	**1.9 times**	2.1 times

The Solvency Assessment and Management regulatory regime, which is effective from 1 July 2018, implements a Group statutory capital requirement. Discovery has been monitoring and reporting its Group statutory capital position to the Prudential Authority as part of the industry wide parallel run exercise. The implications of the new regime have been considered when formulating the capital management strategy going forward.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

3. Management of financial risk *continued*

3.6 Fair value estimation

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

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

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

(a) Quoted prices for similar instruments or identical instruments in markets which are not considered to be active, or

(b) Valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

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

For the amounts disclosed in the fair value hierarchy table, the look-through basis has not been applied to the mutual fund balances and the amounts will therefore agree to the amounts disclosed in the Statement of financial position.

R million	Level 1	Level 2	Level 3	Total
30 June 2018				
Financial assets at fair value through profit or loss:				
– Equity securities	29 769	873	–	30 642
– Equity linked notes	–	211	–	211
– Debt securities	15 120	534	–	15 654
– Inflation linked securities	1 096	–	–	1 096
– Money market securities	610	5 255	–	5 865
– Mutual funds	17 778	–	–	17 778
Available-for-sale financial assets:				
– Equity securities	166	9	–	175
– Equity linked notes	–	20	–	20
– Debt securities	840	573	–	1 413
– Inflation linked securities	2	–	–	2
– Money market securities	2 382	1 787	–	4 169
– Mutual funds	1 768	–	–	1 768
Derivative financial instruments at fair value:				
– Hedges	–	337	–	337
– Non-hedges	–	157	–	157
Total financial assets	69 531	9 756	–	79 287
Derivative financial instruments at fair value:				
– Hedges	–	51	–	51
– Non-hedges	–	27	–	27
Total financial liabilities	–	78	–	78

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

3. Management of financial risk *continued*

3.6 Fair value estimation *continued*

R million	Level 1	Level 2	Level 3	Total
30 June 2017				
Financial instruments at fair value through profit or loss:				
– Equity securities	24 069	–	–	24 069
– Equity linked notes	–	2 557	–	2 557
– Debt securities	11 815	462	–	12 277
– Inflation linked securities	386	–	–	386
– Money market securities	590	5 628	–	6 218
– Mutual funds	13 441	–	–	13 441
Available-for-sale financial instruments:				
– Equity securities	145	–	–	145
– Equity linked notes	–	17	–	17
– Debt securities	94	147	–	241
– Inflation linked securities	5	–	–	5
– Money market securities	642	1 588	–	2 230
– Mutual funds	4 660	–	–	4 660
Derivative financial instruments at fair value:				
– Hedges	–	354	–	354
– Non-hedges	–	38	–	38
Total financial assets	55 847	10 791	–	66 638
Derivative financial instruments at fair value:				
– Hedges	–	29	–	29
– Non-hedges	–	106	–	106
Total financial liabilities	–	135	–	135

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

Specific valuation techniques used to value financial instruments in level 2

- Discovery Life has invested in equity linked notes offered by international banks in order to back certain unit- linked contract liabilities. The calculation of the daily value of the equity linked investments is made by the provider of the note. Discovery Life has procedures in place to ensure that these prices are correct. Aside from the daily reasonableness checks versus similar funds and movement since the prior day's price, the fund values are calculated with reference to a specific formula or index, disclosed to the policyholders, which is recalculated by Discovery Life in order to check if the price provided by the provider is correct.
- If a quoted market price is not available on a recognised stock exchange or from a broker for non-exchange traded financial instruments, the fair value of the instrument is estimated by the asset managers, using valuation techniques including the use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions.
- The fair value of the hedged derivatives is calculated as follows:
  - The fair value of call options is calculated based on a Black-Scholes model.
  - The fair value of the return swaps is calculated by discounting the future cash flows of the instruments.
  - The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

3. Management of financial risk *continued*

3.7 Offsetting financial assets and financial liabilities

Financial assets

The following financial assets are subject to offsetting:

R million	Gross financial assets	Gross offsetting financial liabilities	Net amount presented
30 June 2018			
Cash and cash equivalents	**11 055**	**(161)**	**10 894**
30 June 2017			
Cash and cash equivalents	9 275	(177)	9 098

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

Cash collateral

To reduce the credit risk exposure from the hedge derivative instruments purchased (refer to page 73), 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 R210 million cash collateral is being held by Discovery at 30 June 2018 (2017: R270 million held by Discovery).

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

Negative reserve funding and 'deposit back'

The negative reserve funding liability to the Prudential Assurance Company (Prudential) life insurance company of GBP 120.5 million (R2 189 million) has been offset against the security deposit received from the reinsurer of GBP 169 million (R3 065 million) (2017: GBP 147 million (R2 501 million)). Refer to note 19.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

4. Critical accounting estimates and judgements in applying accounting policies

Assumptions and estimates form an integral part of financial reporting and have an impact on the amounts reported. Assumptions are based on historical experience and expectations of future outcomes and anticipated changes in the environment. Assumptions are further regularly reviewed in the light of emerging experience and adjusted where required.

4.1 Goodwill and goodwill impairment

Following the acquisition of Standard Life Healthcare and the related capital restructure of the Prudential joint venture, Discovery allocated GBP 120.1 million to goodwill at 1 August 2010. The goodwill represents the value of future new business expected to be written by VitalityHealth and VitalityLife and has been allocated between VitalityHealth and VitalityLife based on management's estimate of the present value of future new business for each entity as at 31 July 2010.

The value of future VitalityHealth new business was calculated as the present value of future after-tax profits of the business expected to be written in future. The after-tax profits in each future period are calculated as the earned premium multiplied by the net profit margin. A long-term net margin of 5% and a terminal growth rate of 2.5% have been used in this calculation.

The value of future VitalityLife new business was calculated using an appraisal value methodology, where the value of future new business is calculated as a 3 times multiple of the value of new business written over the past year.

Based on the above valuations, GBP 96.7 million and GBP 23.4 million of the goodwill was allocated to VitalityHealth and VitalityLife respectively as at 31 July 2010.

Recoverable amount of goodwill at 30 June 2018

Discovery tests each cash-generating unit (CGU) containing goodwill for impairment on an annual basis. An impairment loss is recognised whenever the carrying amount of a CGU exceeds its recoverable amount. The recoverable amount of each CGU is estimated as the present value of future cash flows that are expected to be derived from the asset i.e. its value-in-use.

The value-in-use is calculated as the present value of the best-estimate pre-tax cash flows of the CGU for the in-force policies at the valuation date and 10 years of new business. For the policies in-force at the valuation date and for each tranche of new business, the cash flows are projected over a 10 year period and a terminal value is applied in the final year of the projection, calculated using a growth rate assumption appropriate for the decline in the best-estimate pre-tax cash flows.

During the reporting period, the recoverable amount for VitalityHealth and VitalityLife was higher than the carrying amount, therefore no impairment is necessary.

4.2 Policyholder liabilities assumptions and estimates (including assets arising from insurance contracts)

Discovery Life and VitalityLife

The insurance policies issued are valued using various methodologies and assumptions. The methodology is described in accounting policy 13.1. The assumptions used are best estimate assumptions, with the addition of explicit compulsory margins required by:

- SAP 104 of the Actuarial Society of South Africa (ASSA) for Discovery Life,
- INSPRU of the Prudential Regulatory Authority (PRA) in the UK,

and discretionary margins described on page 28 of the accounting policies. The process used to decide on best estimate assumptions is described below.

Experience investigations

Experience investigations into lapse, mortality, morbidity, expenses and other key accounting estimates are performed at every valuation date. The data for the months since the previous valuation date forms the basis of each investigation. The experience of prior periods is also considered to establish trends and add credibility to the results.

The most recent experience investigations were performed at 30 June 2018.

Mortality and morbidity

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

The assumptions are modified for each policy based on actual data available from underwriting performed on the policy and compared against standard industry tables for reasonability. The key mortality and morbidity assumptions are reviewed and benchmarked against the industry by independent actuarial consultants to ensure that the assumptions are reasonable, upon implementation of significant new products.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

4. Critical accounting estimates and judgements in applying accounting policies *continued*

4.2 Policyholder liabilities assumptions and estimates (including assets arising from insurance contracts) *continued*

An adjustment is made to the standard mortality and morbidity assumptions to reflect the expected impact of engagement in the Vitality programme. It has been observed that higher rates of engagement are correlated to lower mortality and morbidity rates.

An allowance is made for the impact of AIDS on South African mortality rates. This is described in detail under the AIDS assumption below.

Surrender and lapse rates

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

Lapse assumptions are varied between different types of policies where the lapse experience is expected to differ significantly. Allowance is made for the estimated impact of the economic environment. Adjustments are made to the lapse and surrender assumptions where appropriate, to reflect the expected impact of engagement in the Vitality programme because it has been observed that higher rates of engagement results in lower lapses.

Taxation

Future tax is allowed for according to the current tax legislation and current tax rates. It is assumed that future tax on statutory profits will be payable at the prevailing company tax rate of 28% (2017: 28%) in South Africa. The prevailing tax rate in the UK is 19% (2017: 19%) but is expected to decrease to 17% in May 2020. The recent increase in Value Added Tax (VAT) in South Africa from 14% to 15% has been allowed for.

Recent tax amendments for Life companies introduced a Risk Policy Fund for all new risk business written after 1 July 2016. In terms of this legislation Discovery Life has also elected to move existing risk business to this Fund. As a result of these changes the assessed loss in the Individual Policyholder Fund is now expected to stop increasing and will be utilised over time. Therefore, in terms of IAS 12: Income Taxes, a value of R562 million, which was previously implicit in the valuation of insurance contract liabilities, was recognised as an explicit deferred tax asset in the 30 June 2017 financial year. The related balance for the year ended 30 June 2018 is R579 million.

To calculate this value, Discovery Life performed a probability weighted cash flow forecast of the annual cash flows expected to arise from the utilisation of the assessed loss. The primary factors that management have taken into account when arriving at the probability are the expected market growth and withdrawal rate of the Linked Asset and Guaranteed Endowment book. For Linked Assets, given the uncertainty inherent in market growth assumptions and the fact that discounting of cash flows is not permitted by IAS12, future market growth was assumed to be 0% for the purpose of calculating the deferred tax asset. The expected income on the bond portfolio held to match policyholder liabilities has been fully allowed for at current rates. For both the Linked and bond portfolio, cash flows arising from the tax asset were further reduced to account for the uncertainty of future lapse rates and product mix as well as the broader economic and legislative environment.

Deferred tax arises on the other temporary differences between the accounting basis and the tax basis.

Economic assumptions/Investment returns

For Discovery Life and Invest, the discount rate is set equal to the estimate of the risk free investment return rate. The inflation assumption is set as the differential between assumed nominal and real interest rates.

Previously the nominal interest rate was based on a cash flow weighted implied single interest rate derived from the risk-free yield curve. The real rate assumption was set equal to an assumed single rate. A change has been made to the Discovery Life and Invest economic basis to align the nominal interest rate assumptions with the shape of the risk free yield curve. Consistent with this, the real yield assumption was set relative to the observed real yield curve, adjusted to remove volatility due to the nature of the index linked government bond market.

For comparison purposes, it is noted that the single risk free rate at 30 June 2018 would have been unchanged at 10.25%. The implied single real interest rate has decreased to 2.77% at 30 June 2018 (2017: 4%).

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

4. Critical accounting estimates and judgements in applying accounting policies *continued*

4.2 Policyholder liabilities assumptions and estimates (including assets arising from insurance contracts) *continued*

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

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

For VitalityLife, the investment rate is set in line with the expected long-term return on a portfolio of UK government and corporate fixed interest assets of appropriate term and nature, less a margin to protect against adverse experience. The best estimate inflation assumption is set in line with long-term UK inflation expectations and observed real yields consistent with the term of the liabilities. The risk free rate at 30 June 2018 was set at 2.10% p.a (2017: 2.13% p.a.) for VitalityLife.

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

Expense assumptions

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

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

Per policy expenses are projected to increase in line with consumer price inflation.

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

HIV/AIDS

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

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

Reinsurance

All prospective liabilities are valued gross of reinsurance and then adjusted for the expected effect of reinsurance. For outstanding reported claims and incurred but not reported (IBNR), a specific allowance is made for reinsurance recoveries.

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

Automatic premium increases

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

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

Policy alterations

In recent years, Discovery Life policy alterations have led to negative experience variances. Policy alterations were not previously explicitly allowed for in the Discovery Life model given that only contractual benefits are allowed for in line with actuarial guidance. Management has instituted various actions to counter the negative experience. To the extent not covered by management actions, implicit allowance is made for net negative policy alterations over time by an assumed increase in the lapse rate.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

4. Critical accounting estimates and judgements in applying accounting policies *continued*

4.2 Policyholder liabilities assumptions and estimates (including assets arising from insurance contracts) *continued*

Changes in assumptions

Assumptions and methodologies are reviewed during each valuation. The impact of changes in the assumptions is reflected in profit or loss as the changes occur.

Modelling and assumption changes were made to the valuation at 30 June 2018 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 R295 million (2017: R225 million decrease). For VitalityLife, the total effect of these changes was an increase in the assets of R134 million (2017: R376 million increase).

In addition to this, the discretionary margins were reset to reflect the underlying profitability of the overall portfolio. The reset of margins increased the assets on the Financial Soundness Valuation basis by R704 million (2017: R717 million increase). Refer to note 5 for an analysis of these changes.

Sensitivities

The sensitivity of the policyholder liabilities on the Financial Soundness Valuation basis is set out on pages 57 to 58. The sensitivity of the policyholder liabilities on the INSPRU basis is set out on page 64.

VitalityHealth

IBNR calculation

The estimation of treatments incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling treatments already notified to VitalityHealth, where more information about the claim event is generally available. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where treatments are typically reported relatively quickly after the claim event tend to display lower levels of volatility.

In calculating the estimated cost of unpaid claims VitalityHealth uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assume that the development pattern of the current claim will be consistent with past experience.

Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared to the cost of previously settled claims including:

- Changes in company processes which might accelerate or slow down the development and/or recording of paid or incurred treatments compared to the statistics from previous periods.
- Changes in the legal environment.
- The effects of inflation.
- Changes in the mix of business.
- The impact of large losses.
- Movements in industry benchmarks.

Where possible VitalityHealth adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes.

The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each incident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

5. Assets arising from insurance contracts

R million	Group 2018	Group 2017
Long-term insurance contracts – gross	43 625	37 691
Less: ceded to reinsurers (refer to note 18)	(7 423)	(5 152)
Long-term insurance contracts – net	36 202	32 539
Current	4 103	2 409
Non-current	32 099	30 130
	36 202	32 539
Movement in assets arising from insurance contracts		
Balance at beginning of the year	32 539	30 589
Movement for the year:		
Expected movement in policyholder liabilities	(3 392)	(2 917)
Unwinding of discount rate	2 425	2 091
New business written	3 980	3 843
Experience variances	(429)	(588)
Economic	(255)	(128)
Operational	(174)	(460)
Modelling and method changes	(155)	14
Benefit enhancements	(31)	–
Changes in assumptions	(6)	137
Economic	2 749	(138)
Operational	(2 755)	275
Changes in margins[1]	703	717
Foreign exchange difference	568	(1 347)
Balance at end of the year	36 202	32 539

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.*

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

6. Property and equipment

R million	Land and buildings	Furniture, fittings and equipment	Computer equipment and operating systems	Leasehold improve-ments	Motor Vehicles	Telematics devices	Total
Year ended 30 June 2017							
Opening carrying amount	–	115	550	262	14	111	1 052
Foreign exchange differences	–	(8)	(47)	(8)	–	–	(63)
Additions	–	26	120	307	6	48	507
Disposals							
– Cost	–	(1)	–	–	(3)	(4)	(8)
– Accumulated depreciation	–	1	–	–	3	2	6
Derecognition and impairment							
– Cost	–	–	–	(3)	–	(38)	(41)
– Accumulated depreciation	–	–	–	3	–	17	20
Depreciation charge	–	(36)	(130)	(53)	(7)	(37)	(263)
Closing carrying amount	–	97	493	508	13	99	1 210
At 30 June 2017							
Cost	–	328	1 039	779	47	182	2 375
Accumulated depreciation	–	(231)	(546)	(271)	(34)	(83)	(1 165)
Closing carrying amount	–	97	493	508	13	99	1 210
Year ended 30 June 2018							
Opening carrying amount	**–**	**97**	**493**	**508**	**13**	**99**	**1 210**
Foreign exchange differences	**–**	**1**	**7**	**3**	**–**	**–**	**11**
Additions	**3 155**	**11**	**96**	**392**	**12**	**55**	**3 721**
Disposals							
– Cost	**–**	**(3)**	**(259)**	**(23)**	**(6)**	**(5)**	**(296)**
– Accumulated depreciation	**–**	**3**	**18**	**23**	**6**	**3**	**53**
Derecognition							
– Cost	**–**	**(84)**	**(219)**	**(119)**	**–**	**(22)**	**(444)**
– Accumulated depreciation	**–**	**84**	**219**	**119**	**–**	**11**	**433**
Depreciation charge	**(126)**	**(34)**	**(127)**	**(76)**	**(8)**	**(45)**	**(416)**
Closing carrying amount	**3 029**	**75**	**228**	**827**	**17**	**96**	**4 272**
At 30 June 2018							
Cost	**3 155**	**267**	**679**	**1 017**	**53**	**210**	**5 381**
Accumulated depreciation	**(126)**	**(192)**	**(451)**	**(190)**	**(36)**	**(114)**	**(1 109)**
Closing carrying amount	**3 029**	**75**	**228**	**827**	**17**	**96**	**4 272**

Derecognition

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

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

6. Property and equipment *continued*

Leased assets

The table on the previous page includes the following assets which are leased under a finance lease:

R million	Land and buildings	Computer equipment and operating systems	Leasehold improvements	Total
Year ended 30 June 2017				
Opening carrying amount	–	131	–	131
Additions	–	27	241	268
Depreciation charge	–	(50)	–	(50)
Closing carrying amount	–	108	241	349
Cost	–	274	241	515
Accumulated depreciation	–	(166)	–	(166)
Closing carrying amount	–	108	241	349
Year ended 30 June 2018				
Opening carrying amount	**–**	**108**	**241**	**349**
Additions	**3 155**	**37**	**59**	**3 251**
Depreciation charge	**(126)**	**(47)**	**(10)**	**(183)**
Closing carrying amount	**3 029**	**98**	**290**	**3 417**
Cost	**3 155**	**311**	**300**	**3 766**
Accumulated depreciation	**(126)**	**(213)**	**(10)**	**(349)**
Closing carrying amount	**3 029**	**98**	**290**	**3 417**

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

7. Intangible assets

R million	Software Development[1]	Business acquisitions: Customer Contracts[2]	Banking license and right to profit share[3]	Total
Year ended 30 June 2017				
Opening carrying amount	1 542	676	1 338	3 556
Foreign exchange differences	(134)	(90)	–	(224)
Additions	1 353	–	–	1 353
Amortisation charge	(436)	(86)	(85)	(607)
Derecognition				
– Cost	(207)	–	–	(207)
– Accumulated amortisation	207	–	–	207
Disposal				
– Cost	(7)	–	–	(7)
Closing carrying amount	2 318	500	1 253	4 071
At 30 June 2017				
Cost	3 561	1 471	1 364	6 396
Accumulated amortisation	(1 243)	(971)	(111)	(2 325)
Closing carrying amount	2 318	500	1 253	4 071
Year ended 30 June 2018				
Opening carrying amount	**2 318**	**500**	**1 253**	**4 071**
Foreign exchange differences	**63**	**29**	**–**	**92**
Additions	**2 177**	**–**	**2**	**2 179**
Amortisation charge	**(525)**	**(71)**	**(52)**	**(648)**
Impairment				
– Cost	**(343)**	**–**	**–**	**(343)**
– Accumulated amortisation	**143**	**–**	**–**	**143**
Derecognition				
– Cost	**(3)**	**–**	**–**	**(3)**
Closing carrying amount	**3 830**	**458**	**1 203**	**5 491**
At 30 June 2018				
Cost	**5 489**	**1 564**	**1 366**	**8 419**
Accumulated amortisation	**(1 659)**	**(1 106)**	**(163)**	**(2 928)**
Closing carrying amount	**3 830**	**458**	**1 203**	**5 491**

1 *Software development additions includes an amount of R64 million (2017: R20 million) of finance costs that have been capitalised during the year.*

2 *Customer contracts represent the value of in-force business acquired in the Standard Life Healthcare and PrimeMed business combinations. 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.*

3 *Discovery and FirstRand Bank Limited (FRB) has a joint arrangement in place that makes a "Discovery" branded FNB credit card (DiscoveryCard) available to the clients of Discovery. During the 2016 financial year, Discovery increased its economic interest in the DiscoveryCard, by subscribing for redeemable preference shares in the share capital of FRB. This entitled Discovery to receive an additional 54.99% of the profits generated by the DiscoveryCard effective from 1 July 2015. The preference share is accounted for as an intangible asset under IAS 38: Intangible assets. Discovery paid R1 422 million to FRB in this regard. The carrying amount is assessed for impairment on an annual basis. There were no indicators of impairment at 30 June 2018, as a result no calculation of the recoverable amount was required.*

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

8. Deferred acquisition costs

R million	Group 2018	Group 2017
Opening carrying amount	1 025	1 028
Foreign exchange differences	24	(51)
Additions	925	935
Deferred acquisition costs amortised	(824)	(887)
Balance at end of the year	1 150	1 025

This intangible asset relates to acquisition costs incurred that are expected to be recovered out of future revenue margins. The carrying value of the deferred acquisition costs relate to the following contracts:

R million	Group 2018	Group 2017
Investment management contracts	556	512
Insurance management contracts – including health and short term insurance	469	365
Vitality contracts	125	148
	1 150	1 025

9. Goodwill recognised through business combinations

Goodwill, which represents the value of future business expected to be written, is not amortised, but is assessed for possible impairment at each reporting date. The impairment is recorded in profit or loss, if necessary. At 30 June 2018 there was no indication that goodwill is impaired.

Reconciliation of goodwill	Date of acquisition	GBP million at date of acquisition	R million 2018	R million 2017
Goodwill recognised from the following business combinations and allocated to the VitalityHealth and VitalityLife cash generating units:				
– Vitality Health Holdings Limited	31 July 2010	86.9	1 578	1 480
– Standard Life Healthcare	31 July 2010	33.2	603	565
– Insure Your Health	25 March 2013	2.5	46	43
– KYS Paid Limited	30 April 2014	1.1	20	19
		123.7	2 247	2 107

Refer to note 4.1 for critical estimate used in assessing goodwill for impairment.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

10. Equity-accounted investees

R million	Group 2018	Group 2017
Carrying value of material interest in associate	933	785
Carrying value of individually immaterial interest in associates	214	178
Carrying value of individually immaterial interest in joint ventures	12	16
Investment in equity-accounted investees	**1 159**	**979**

Material interests in associates and joint ventures

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

	Ping An Health	
R million	2018	2017
Ownership structure	Equity-accounted associate	
Nature	Insurance	
Place of business	China	
% of ownership interest	25%	25%
Summarised statement of comprehensive income		
Revenue	7 022	2 832
Net profit/(loss)	385	(20)
Other comprehensive income/(loss)	(36)	6
Total comprehensive income/(loss	**349**	**(14)**
Summarised statement of financial position		
Current assets	3 542	2 575
Non-current assets	6 552	2 753
Current liabilities	(1 687)	(1 902)
Non-current liabilities	(5 693)	(2 406)
Net assets	**2 714**	**1 020**
Reconciliation to carrying amounts:		
Opening net assets	1 020	627
Profit/(loss) for the year	385	(20)
Other comprehensive (loss)/income	(36)	6
Increase in share capital and share premium	1 258	524
Foreign exchange gains/(losses)	87	(117)
Closing net assets	**2 714**	**1 020**
Group's share of net assets	679	255
Goodwill	254	191
Share capital paid not yet issued	–	339
Carrying value at 30 June	**933**	**785**

Ping An Health Insurance Company of China, Limited (Ping An Health or PAH)

Ping An Health offers policyholders in China cover for a range of private healthcare-related claims. PAH is a strategic partnership for the Group, providing access to new clients and markets in China. Discovery's investment was recorded at cost and has been reduced by its proportionate share of the losses of PAH.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

10. Equity-accounted investees *continued*

Individually immaterial associates and joint ventures

R million	Associates 2018	Associates 2017	Joint ventures 2018	Joint ventures 2017
Aggregate carrying amount	214	178	12	16
Aggregate amounts of the Group's share of:				
Profit for the year	2	19	17	12
Other comprehensive income	–	–	–	(1)
Total comprehensive income	2	19	17	11

11. Financial assets – investments

R million	Group 2018	Group 2017
The Group's investment in financial assets are summarised by measurement category in the table below:		
Available-for-sale financial assets:	7 547	7 298
– Equity securities	175	145
– Equity linked notes[1]	20	17
– Debt securities	1 413	241
– Inflation linked securities	2	5
– Money market securities	4 169	2 230
– Mutual funds	1 768	4 660
Financial assets at fair value through profit or loss:	71 246	58 948
– Equity securities	30 642	24 069
– Equity linked notes[1]	211	2 557
– Debt securities	15 654	12 277
– Inflation linked securities	1 096	386
– Money market securities	5 865	6 218
– Mutual funds	17 778	13 441
Total investments	78 793	66 246
Listed	68 184	55 360
Unlisted	10 609	10 886
	78 793	66 246

1 *Majority of the equity linked notes are Rand denominated investments providing equity exposure together with either a floor of 80% of the highest price observed since inception or a return after five years based on the best of three different unit trusts or indices.*

Maturity profile:

- It is management's intention to hold the available-for-sale financial assets as a long-term investment but may utilise these funds when required by business.
- Financial assets at fair value through profit or loss are held to back policyholder liabilities. Except for R105 million (2017: R227 million) which will be held to back unit-linked insurance contracts with a maturity profile between one and two years and R137 million (2017: R129 million) which will be held to back unit-linked insurance contracts with a maturity profile between three and five years (refer to note 3.2.3), the balance can be withdrawn in the short-term.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

12. Derivative financial instruments

R million	Group 2018 Assets	Group 2018 Liabilities	Group 2017 Assets	Group 2017 Liabilities
Share scheme – cash flow hedge[1]	337	(12)	354	(14)
Interest rate swap	–	(39)	–	(15)
Non-hedge derivatives	157	(27)	38	(106)
	494	(78)	392	(135)
Current	296	(29)	201	(109)
Non-current	198	(49)	191	(26)
	494	(78)	392	(135)

1 *The Share scheme – cash flow hedge includes a day one Profit or Loss balance of R41 million (2017: R39 million).*

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

13. Loans and receivables including insurance receivables

R million	Group 2018	Group 2017
Receivables arising from insurance and reinsurance contracts:		
– Premium debtors	548	497
– Less provision for impairment of premium debtors	(62)	(56)
– Reinsurance debtors	3 704	3 316
Other loans and receivables:		
– Agents and brokers	356	275
– BEE partners' rights-issue funding	111	101
– Cash-in-transit debtors	132	156
– Closed scheme debtors	118	73
– Discovery Health Medical Scheme	628	576
– Discovery Unit Trust debtors	489	480
– Expired hedge receivables	18	36
– FNB – DiscoveryCard receivable	114	105
– International partner market receivables	225	55
– Loans to BEE initiatives	105	104
– Loans to senior management	153	145
– Prepayments	494	374
– Security deposit on derivatives	–	17
– Value-added tax asset	40	27
– Vitality partner debtors	86	31
– Other debtors	515	378
– Less provision for impairment of other loans and receivables	(231)	(220)
Total loans and receivables	7 543	6 470
Current	5 551	4 526
Non-current	1 992	1 944
	7 543	6 470

The carrying value approximates the fair value of the loans and receivables.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

14. Reinsurance contracts

R million	Group 2018	Group 2017
Reinsurers' share of insurance contract liabilities	**308**	263
Current	**308**	263

Amounts due from reinsurers in respect of claims paid and reported by the Group on the contracts that are reinsured are included in loans and receivables (refer to note 13).

15. Cash and cash equivalents

R million	Group 2018	Group 2017
Cash at bank and in hand	**5 049**	5 294
Short-term deposits	**5 845**	3 804
	10 894	9 098

Reconciliation to cash flow statement

The above figures reconcile to the amount of cash shown in the Statement of cash flows at the end of the financial year as follows:

R million	Group 2018	Group 2017
Balances as above	**10 894**	9 098
Bank overdraft (refer to note 20)	**(6)**	(1)
Balances per Statement of cash flows	**10 888**	9 097

16. Share capital and share premium

16.1 Ordinary share capital and share premium

	Issued		Treasury shares			
R million	Share capital	Share premium	Discovery Health	BEE share trust	BEE transaction partners	Total outstanding
At 1 July 2016	1	8 378	(14)	(56)	(9)	8 300
Share movements:						
– treasury shares delivered	–	–	–	–	11	11
– treasury shares purchased	–	(1)	–	(2)	(2)	(5)
At 30 June 2017	**1**	**8 377**	**(14)**	**(58)**	**–**	**8 306**
Share movements:						
– treasury shares delivered	**–**	**2**	**–**	**–**	**–**	**2**
At 30 June 2018	**1**	**8 379**	**(14)**	**(58)**	**–**	**8 308**

		Treasury shares			
Number of shares	Issued	Discovery Health	BEE share trust	BEE transaction partners	Total outstanding
At 1 July 2016	647 427 946	(680 268)	(1 324 112)	(1 200 554)	644 223 012
Share movements:					
– cancelled from issue	(582 954)	–	–	–	(582 954)
– treasury shares delivered	–	–	138 408	1 200 554	1 338 962
– treasury share purchased	–	–	(20 000)	–	(20 000)
At 30 June 2017	**646 844 992**	**(680 268)**	**(1 205 704)**	**–**	**644 959 020**
Share movements:					
– treasury shares delivered	**–**	**–**	**98 962**	**–**	**98 962**
At 30 June 2018	**646 844 992**	**(680 268)**	**(1 106 742)**	**–**	**645 057 982**

The total authorised number of ordinary shares is 1 billion (2017: 1 billion), with a par value of 0.1 cent per share.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

16. Share capital and share premium *continued*

16.1 Ordinary share capital and share premium *continued*

Expiry of BEE transaction in the prior year

In December 2005, Discovery concluded a BEE transaction pursuant to which 38 725 909 shares were issued to a consortium of BEE parties.

- 1 106 455 of these shares were issued to the Maphai SPV being one of the BEE consortium members for an initial period of 11 years (initial period). The shares were issued at R0.001 each, with a subscription consideration of R1.72 per share.

The difference between the market value of the ordinary shares issued to the BEE parties and the subscription consideration, represented an outstanding funded amount provided by Discovery shareholders (funded amount). These shares were treated as treasury shares.

The BEE parties committed to utilise any dividend or capital distributions made by Discovery to acquire additional Discovery shares in the market within three months of the date of any distributions. These additional shares were also treated as treasury shares.

At the end of the initial period,

- Discovery had the right to repurchase such number of ordinary shares at R0.001 per share that would provide Discovery with a notional return of the funded amount.
- In order for the BEE Partners to retain the full number of Discovery shares originally issued to them, the BEE Partners then had the right to simultaneously acquire from Discovery, at the then thirty-day volume-weighted average price per Discovery share, the same number of shares repurchased by Discovery.

The initial period of The Maphai SPV transaction expired in December 2016 and resulted in the following:

- Discovery repurchased 582 954 Discovery shares held by the Maphai SPV at a price of R0.001 per Discovery share.
- The Maphai SPV chose not to exercise their right to acquire the shares repurchased by Discovery. These shares have been cancelled from issue.

As a result of this transaction, treasury shares decreased by 1 200 554 shares, representing shares funded through this transaction as well additional shares purchased by the Maphai SPV utilising dividend distributions. The delivery of treasury shares purchased by the Maphai SPV using dividend distributions received in the past, resulted in an increase in Share Premium of R11 million.

All amounts funded in terms of the September 2005 BEE transaction have now been repaid.

16.2 Preference share capital

R million	Group 2018	Group 2017
Authorised		
40 000 000 A no par value preference shares		
20 000 000 B preference shares of R100 each	**2 000**	2 000
20 000 000 C no par value preference shares		
	2 000	2 000
Issued		
8 000 000 B preference shares of R100 each	**800**	800
Share issue costs	**(21)**	(21)
At 30 June	**779**	779

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

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

17. Liabilities arising from insurance contracts

R million	Group 2018	Group 2017
Gross		
– claims reported and loss adjustment expenses	7 296	6 256
– claims incurred but not reported (IBNR)	1 351	1 255
– Excess Funder Account (EFA) liability	53	38
– unearned premiums	551	700
– unit-linked insurance contracts	40 631	34 375
– with fixed and guaranteed terms	11 606	9 853
Total liabilities arising from insurance contracts, gross	61 488	52 477
Recoverable from reinsurers		
– claims incurred but not reported	(304)	(258)
– unearned premiums	(4)	(5)
Total reinsurers' share of liabilities arising from insurance contracts (refer to note 14)	(308)	(263)
Net		
– claims reported and loss adjustment expenses	7 296	6 256
– claims incurred but not reported	1 047	997
– EFA liability	53	38
– unearned premiums	547	695
– unit-linked insurance contracts	40 631	34 375
– with fixed and guaranteed terms	11 606	9 853
Total liabilities arising from insurance contracts, net	61 180	52 214
Current[1]	52 177	44 647
Non-current	9 003	7 567
	61 180	52 214

1 *Includes R44 409 million (2017: R37 571 million) which is repayable to policyholders on demand. For contractual maturity analysis refer to note 3.2.3.*

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

17. Liabilities arising from insurance contracts *continued*

Movements in the liabilities are as follows:

R million	2018 Gross	2018 Reinsurance	2018 Net	2017 Gross	2017 Reinsurance	2017 Net
Claims reported and loss adjustment expenses and IBNR						
Notified claims	6 256	–	6 256	5 179	–	5 179
Incurred but not reported	1 255	(258)	997	1 232	(405)	827
Balance at beginning of the year	7 511	(258)	7 253	6 411	(405)	6 006
Cash paid for claims settled in the year	(8 992)	117	(8 875)	(3 382)	449	(2 933)
Increase/(decrease) in liabilities:						
– arising from current year claims	10 632	(153)	10 479	5 189	(339)	4 850
– arising from prior year claims	(589)	–	(589)	(543)	–	(543)
Foreign exchange differences	85	(10)	75	(164)	37	(127)
Balance at end of the year	8 647	(304)	8 343	7 511	(258)	7 253
Notified claims	7 296	–	7 296	6 256	–	6 256
Incurred but not reported	1 351	(304)	1 047	1 255	(258)	997
Balance at end of the year	8 647	(304)	8 343	7 511	(258)	7 253
EFA liability						
Balance at beginning of the year	38	–	38	32	–	32
Increase in the year	21	–	21	10	–	10
Cash paid	(6)	–	(6)	(4)	–	(4)
Balance at end of the year	53	–	53	38	–	38
Provisions for unearned premiums						
Balance at beginning of the year	700	(5)	695	501	(5)	496
Increase in the year	895	(4)	891	1 200	(5)	1 195
Release in the year	(1 078)	5	(1 073)	(933)	5	(928)
Foreign exchange differences	34	–	34	(68)	–	(68)
Balance at end of the year	551	(4)	547	700	(5)	695

R million	Group 2018	Group 2017
Unit-linked insurance contracts		
Balance at beginning of the year	34 375	29 829
Premiums received	9 105	8 452
Fair value adjustment	3 362	1 210
Withdrawals	(4 560)	(4 249)
Fees	(1 069)	(983)
Movement in negative insurance liability	(582)	116
Balance at end of the year	40 631	34 375
Balance is made up as follows:		
Unit-linked liabilities	44 409	37 571
Negative insurance liability	(3 778)	(3 196)
	40 631	34 375
With fixed and guaranteed terms		
Balance at beginning of the year	9 853	7 900
Expected movement in policyholder liabilities	(1 868)	(1 594)
Unwinding of discount rate	583	575
New business written	2 707	2 829
Experience variances	331	143
Balance at end of the year	11 606	9 853

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

18. Liabilities arising from reinsurance contracts

R million	Group 2018	Group 2017
Lapse risk treaties	1 495	1 594
Reinsurance recoveries relating to assets arising from insurance contracts (refer to note 5)	7 423	5 152
	8 918	6 746
Balance at beginning of the year	6 746	4 894
Increase in liability	1 948	1 974
– gross increase in liability	3 297	2 841
– receipt arising from reinsurance contracts	144	65
– reinsurance premiums paid	(1 493)	(932)
Foreign exchange differences	224	(122)
Balance at end of the year	8 918	6 746
Current	1 247	902
Non-current	7 671	5 844
	8 918	6 746

19. Negative reserve funding

R million	Group 2018	Group 2017
Negative reserve funding	–	758
Finance charge payable on negative reserve balance	–	89
	–	847
Movement analysis:		
Balance at beginning of the year	847	4 248
Additional acquisition costs funded	–	5
Interest accrued	62	131
Repayment of funding	(544)	(1 920)
Deposit back of reserves received	(380)	(1 069)
Foreign exchange differences	15	(548)
Balance at end of the year	–	847
Current[1]	–	(1 666)
Non-current	–	2 513
	–	847

1 *Includes a security deposit of R3 065 million (2017: R2 501 million) of which the maturity profile is dependent upon the exposure to the counterparty.*

This liability represents the acquisition costs in respect of business written on Prudential Assurance Company's (Prudential) life insurance license and were funded by Prudential. The liability is repaid on a matched basis as the cash flows emerge from this business. In the event that the cash flows do not emerge as anticipated, VitalityLife would be required to repay these liabilities from other resources.

In terms of the level premium reinsurance treaty entered into in respect of this business, a security deposit was required to be placed by the reinsurer, to reduce counterparty risk. At 30 June 2018, GBP 169 million (R3 065 million) (2017: GBP 147 million (R2 501 million)) was held as a security deposit. The contractual arrangement in respect of the business written on the Prudential license is accounted for as a reinsurance contract under IFRS 4 and as a result, the 'deposit back' held has been disclosed as a reduction of the negative reserve funding liability.

During the 2018 financial year, additional amounts were received as 'deposit back' in excess of the negative reserve funding. The agreements indicate that offset is applicable up to the amount of the negative reserve funding. Any additional amounts of the deposit back received thereafter, are included in cash. The corresponding liability to the reinsurer has been accounted for in Trade and other payables.

The decrease in the negative reserve funding liability in the current financial year, relates to the partial repayment of funding by VitalityLife as well as an increase in the amount of deposit back held which has been offset against the liability. There is still an amount payable to Prudential of GBP 120.5 million (R2 189 million) at 30 June 2018.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

20. Borrowings at amortised cost

R million	Ref	Group 2018	Group 2017
Bank borrowings	i	**9 050**	6 774
Redeemable preference shares	ii	**1 402**	1 400
Bank overdraft		**6**	1
Finance lease liability	iii	**3 621**	349
		14 079	8 524
Current		**710**	382
Non-current		**13 369**	8 142
		14 079	8 524

i Bank borrowings

Movement analysis of borrowings:		
Balance at beginning of the year	**6 774**	3 846
Loans raised	**2 654**	3 514
Loans repaid	**(558)**	(302)
Cash flow hedge capitalised	**(6)**	(5)
Interest accrued	**593**	313
Interest paid	**(516)**	(277)
Raising fees capitalised	**(12)**	(2)
Foreign exchange differences	**120**	(313)
Balance at end of year	**9 050**	6 774

SA borrowing facilities

– During the current financial year, Discovery registered an unsecured R10 billion Domestic Medium Term Note (DMTN) programme. In terms of this programme, Discovery issued R1.5 billion JSE Listed Notes in its inaugural issuance on 21 November 2017. The carrying amount of the listed notes approximates their fair value. Discovery Limited has further borrowed R4.6 billion (2017: R3.6 billion) for long term funding requirements. The borrowings were acquired for general corporate purposes in order to fund the various growth initiatives within the Group.

The facilities have the following profile and salient terms:

Facility amount R million	Interest rate per annum	Maturity date	Capital repayment
500	Fixed at 10.94%	10 June 2021	Maturity
1 100	Fixed at 10.59%	10 June 2021	Annually[1]
375	Fixed at 10.39%[2]	30 September 2021	Maturity
450	Fixed at 10.31%[2]	15 December 2021	Maturity
175	Linked to 3 month JIBAR[3]	10 March 2022	Maturity
800	Fixed at 10.20%	17 March 2022	Maturity
200	Fixed at 10.23%	16 May 2022	Maturity
500	Fixed at 9.71%[2]	21 November 2022	Maturity
800	Fixed at 10.31%[2]	21 November 2024	Maturity
200	Fixed at 10.46%[4]	21 November 2024	Maturity
1 000	Fixed at 10.28%[2]	2 March 2023	Maturity
6 100			

1 *Commencing on 10 June 2019 with final payment on 10 June 2021.*
2 *The interest rate has been fixed through interest rate swaps. Refer to page 79.*
3 *As at 30 June 2018, interest is accruing at 9.58% per annum (2017: 9.77% per annum).*
4 *Interest is payable semi-annually in arrears.*

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

20. Borrowings at amortised cost *continued*

i Bank borrowings *continued*

The borrowings are unsecured senior debt and are not callable or convertible. Interest is payable quarterly in arrears other than footnote 4 in the table above.

- Discovery Central Services Proprietary Limited entered into borrowing facilities for an amount of R650 million. Discovery Health Proprietary Limited, Discovery Vitality Proprietary Limited and Discovery Limited have provided guarantees in respect of these facilities. Interest rates on the utilised amount is fixed at a weighted average rate of 11.56% per annum, with capital and interest repayable in instalments over the duration of the loan facility.

  During the current financial year R154 million (2017: R495 million) of the facility was utilised. R73 million (2017: R43 million) of this facility was repaid. The balance owing at 30 June 2018 amounts to R568 million (2017: R469 million) which includes accrued interest.

- Included in borrowings at 30 June 2018 is R557 million in the form of unsecured Investment Notes with a 5 year term, on which interest accrues at a floating margin linked to 3 month JIBAR. Interest and capital are repayable on 30 June 2022.

UK borrowing facilities

Discovery previously entered into term facilities totaling GBP 150 million. These borrowings have been used to fund the new business acquisition costs incurred by VitalityLife, which were previously funded by The Prudential Assurance Company Limited (Prudential) and disclosed as Negative Reserve Funding in the Statement of financial position.

Discovery repaid GBP 15 million of this facility in previous financial periods and a further GBP 28 million of this facility during 2018, of which GBP 13 million was a voluntary prepayment. The balance owing at 30 June 2018 amounts to GBP 99.7 million (R1 810 million) (2017: GBP 127.5 million (R2 174 million)).

The salient terms of the facilities are as follows:

Facility 1:

Facility amount:	GBP 100 million
Facility utilised:	GBP 100 million
Type of borrowings:	Senior unsecured
Capital repayable:	Bi-annual instalments of GBP 7.5 million commenced on 31 May 2016, with a final bullet payment at maturity of GBP 47.5 million
Interest rate:	Floating, linked to 3 month London Interbank Offered Rate (LIBOR)
Security:	None
Maturity date:	23 June 2020
Callable/Convertible:	Not applicable
Interest payable:	Quarterly in arrears

Facility 2:

Facility amount:	GBP 50 million
Facility utilised:	GBP 50 million
Type of borrowings:	Senior unsecured
Capital repayable:	Full amount is repayable at maturity date
Interest rate:	Floating, linked to 3 month London Interbank Offered Rate (LIBOR)
Security:	None
Maturity date:	27 May 2021
Callable/Convertible:	Not applicable
Interest payable:	Quarterly in arrears

The bank borrowings impose certain restrictions on Discovery's operations, including limitation on total borrowings. A breach of these restrictions would require immediate repayment of any outstanding balance. At 30 June 2018 there was no breach.

ii Redeemable preference shares

In 2016 Discovery Pref Holding Company (RF) Limited issued 1 400 A preference shares at an issue price of R1 million each, by way of a private placement. The preference shares were issued at a fixed coupon rate of 8.225% per annum, paid bi-annually. The shares are cumulative, non-participating, non-convertible preference shares and redeemable on 29 June 2021.

As the shares are mandatorily redeemable on a specific date, they have been recognised in Borrowings. The value of the preference shares has been reduced by the share issue costs of R6.7 million.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

20. Borrowings at amortised cost *continued*

iii Capitalised finance lease liability

Commitments in relation to finance leases are payable as follows:

R million	Minimum lease payments	Finance cost	Present value
30 June 2018			
Due within one year	**454**	**(86)**	**368**
Due between two and five years	**1 713**	**(503)**	**1 210**
Due between six and ten years	**2 640**	**(1 416)**	**1 224**
Due between eleven and fifteen years	**3 095**	**(2 276)**	**819**
	7 902	**(4 281)**	**3 621**
30 June 2017			
Due within one year	89	(40)	49
Due between two and five years	273	(116)	157
Due between six and ten years	196	(53)	143
	558	(209)	349

Refer to note 6 that details the assets that are recognised under a finance lease.

During the 2018 financial year Discovery took occupation of a new head office building under a finance lease. A finance lease liability and related asset (refer to note 6) of R3 155 million were raised. At year end, R3 237 million remained outstanding. Finance charges of R210 million have been recognised on the finance lease liability in profit or loss and repayments of R128 million have been made.

21. Investment contracts at fair value through profit or loss

R million	Group 2018	Group 2017
The movements during the year were as follows:		
Balance at beginning of the year	**14 867**	13 514
Deposits received	**5 472**	5 703
Account balances paid on withdrawal and other terminations in the year	**(3 720)**	(4 598)
Fair value adjustment	**1 308**	248
Balance at end of the year	**17 927**	14 867
Current[1]	**17 927**	14 867

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

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

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

22. Trade and other payables

R million	Group 2018	Group 2017
Commissions payable	190	235
Digicore payable	9	8
Discovery Unit Trust creditors	184	328
Due to reinsurers	248	189
Intermediary payables	72	4
Payables and accrued liabilities	2 516	1 931
Payroll creditors	772	718
Policyholder unallocated funds	391	282
Premiums and fees received in advance	246	288
VitalityLife working capital funding[1]	3 663	2 713
Security deposits on derivatives	210	270
Straight-lining operating lease payments	43	71
Unsettled trades	54	–
Value-added tax liability	76	53
Other creditors	369	279
	9 043	7 369
Current	4 710	4 072
Non-current	4 333	3 297
	9 043	7 369

1 *Includes the 'deposit back' of GBP 169 million (R3 065 million) (2017: GBP 147 million (R2 501 million)) related to the level premium reinsurance treaty in respect of business written on Prudential Assurance Company's (Prudential) life insurance license, payable to the reinsurer. Refer to note 19.*

23. Deferred income tax

R million	Group 2018	Group 2017
Deferred tax asset	1 968	1 337
– Current	391	241
– Non-current	1 577	1 096
Deferred tax liability	(8 007)	(6 963)
– Current	36	–
– Non-current	(8 043)	(6 963)
	(6 039)	(5 626)
Movement summary		
Balance at beginning of the year	(5 626)	(5 211)
Income statement charge (Refer to note 36)	(404)	(372)
Capital gains taxation on available-for-sale financial assets charged to other comprehensive income	(17)	(4)
Deferred tax on cash flow hedge charged to other comprehensive income	(10)	(3)
Foreign exchange differences	18	(36)
Balance at end of the year	(6 039)	(5 626)

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

23. Deferred income tax *continued*

Deferred taxation comprises:

R million	Opening balance	Charge for the year	Forex movement	Closing Balance
Year ended 30 June 2018				
Assessed loss in Company Policyholders' Fund	**41**	**28**	**–**	**69**
Assessed loss in Individual Policyholders' Fund[1]	**562**	**17**	**–**	**579**
Assessed loss in subsidiaries[2]	**355**	**281**	**19**	**655**
Capital gains tax on available-for-sale financial instruments	**(83)**	**(34)**	**–**	**(117)**
Cash flow hedge	**(34)**	**(2)**	**–**	**(36)**
Deferred acquisition costs	**(183)**	**(15)**	**–**	**(198)**
Deferred revenue	**35**	**(1)**	**–**	**34**
Difference between accounting and tax balances arising from insurance contracts	**(6 756)**	**(1 119)**	**–**	**(7 875)**
Difference between wear and tear and depreciation	**(87)**	**(46)**	**2**	**(131)**
Finance Lease	**–**	**5**	**–**	**5**
Income received in advance	**38**	**(17)**	**–**	**21**
Intangibles recognised on acquistion of businesses	**(94)**	**14**	**(5)**	**(85)**
Operating leases	**8**	**(4)**	**–**	**4**
Prepayments	**(28)**	**18**	**–**	**(10)**
Provisions	**108**	**35**	**1**	**144**
Share-based payments	**84**	**5**	**–**	**89**
Unutilised special transfer balances	**386**	**184**	**–**	**570**
Pre-trade expenditure	**17**	**110**	**–**	**127**
Other	**5**	**110**	**1**	**116**
	(5 626)	**(431)**	**18**	**(6 039)**

1 *A deferred tax asset has been recognised on assessed losses in the Discovery Life Individual Policyholder Fund. Refer to note 4.2.*

2 *Deferred tax assets have been raised in respect of tax losses in Discovery Life Investment Services Proprietary Limited, Discovery Vitality Proprietary Limited, Vitality Health Limited and Discovery Insure Limited. The Group recognises deferred tax assets on carried forward tax losses to the extent there are sufficient estimated future taxable profits and/or taxable temporary differences against which the tax losses can be utilised.*

R million	Opening balance	Charge for the year	Forex movement	Closing balance
Year ended 30 June 2017				
Assessed loss in Company Policyholders' Fund	41	–	–	41
Assessed loss in Individual Policyholders' Fund	–	562	–	562
Assessed loss in subsidiaries	478	(75)	(48)	355
Capital gains tax on available-for-sale financial instruments	(79)	(4)	–	(83)
Cash flow hedge	(47)	13	–	(34)
Deferred acquisition costs	(175)	(8)	–	(183)
Deferrred revenue	36	(1)	–	35
Difference between accounting and tax balances arising from insurance contracts	(5 817)	(939)	–	(6 756)
Difference between wear and tear and depreciation	(66)	(19)	(2)	(87)
Finance Lease	3	(3)	–	–
Income received in advance	8	30	–	38
Intangibles recognised on acquisition of businesses	(127)	17	16	(94)
Operating leases	8	–	–	8
Prepayments	(27)	(1)	–	(28)
Provisions	72	37	(1)	108
Share-based payments	106	(22)	–	84
Unutilised special transfer balances	366	20	–	386
Pre-trade expenditure	–	17	–	17
Other	9	(3)	(1)	5
	(5 211)	(379)	(36)	(5 626)

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

23. Deferred income tax *continued*

Assessable losses

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

R million	Group 2018	Group 2017
Vitality Group International, Inc (will begin to expire in 2021)	**3 106**	3 150
Discovery Central Services Proprietary Limited	**238**	–
Discovery Connect Distribution Services Proprietary Limited	**339**	235
Discovery Group Europe Limited	**83**	91
Discovery Insure Limited	**–**	1 030
Discovery Life – Individual Policyholders' Fund	**14 039**	14 625
Discovery Medical Distribution Services Proprietary Limited	**2**	–
Discovery Partner Market Services PTE LTD	**48**	47
Grove Nursing Services Proprietary Limited	**26**	22
PrimeMed Administrators Proprietary Limited	**2**	–
Southern Rx Proprietary Limited	**57**	43
Vitality Health Limited	**526**	1 273
	18 466	20 516

At 30 June 2018, Vitality Health Limited (VHL) has a potential deferred tax asset of GBP 22.5 million (2017: GBP 25.1 million). During the 2015 financial year, all UK health insurance business was migrated from Vitality Health Insurance Limited (VHIL) to VHL. As a result, VHL is expected to make taxable profits over the next ten years. Management have applied a probability factor to these estimated profits and raised a deferred tax asset, based on the UK tax rate of 19% which reduces to 17% from April 2020 onwards, totalling GBP 17.6 million (2017: GBP 14.2 million). This is 78% of the total estimated deferred tax asset for VHL.

24. Deferred revenue

R million	Group 2018	Group 2017
Balance at beginning of the year	**291**	291
Income deferred	**250**	201
Income recognised through profit or loss	**(219)**	(201)
Foreign exchange differences	**2**	*
Balance at end of the year	**324**	291
Current	**198**	129
Non-current	**126**	162
	324	291

* *Amount is less than R500 000.*

25. Employee benefits

Leave pay

R million	Group 2018	Group 2017
Balance at beginning of the year	**191**	169
Additional provisions raised	**205**	265
Used during the year	**(140)**	(219)
Paid to terminated employees	**(24)**	(24)
Balance at end of the year	**232**	191
Current	**192**	162
Non-current	**40**	29
	232	191

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

26. Net insurance premium revenue

R million	Group 2018	Group 2017
Health	**6 320**	5 720
Recurring premiums	7 486	7 056
Reinsurance premiums	(1 166)	(1 336)
Individual life and invest	**21 665**	20 496
Recurring premiums	16 768	14 981
Single premiums	7 803	7 722
Reinsurance premiums	(2 906)	(2 207)
Group life	**1 826**	1 607
Recurring premiums	1 949	1 698
Reinsurance premiums	(123)	(91)
Short-term insurance	**2 518**	1 873
Recurring premiums	2 679	2 076
Reinsurance premiums	(161)	(203)
	32 329	29 696
Insurance premium revenue	36 685	33 533
Outward reinsurance premiums	(4 356)	(3 837)
	32 329	29 696

27. Investment income

	Group 2018	Group 2017
Available-for-sale financial assets	63	53
– Interest	46	36
– Dividends	*	*
– Mutual fund distributions	17	17
At amortised cost interest income	19	20
Cash and cash equivalents interest income	813	685
	895	758
Attributable to:		
– shareholders	209	150
– policyholders	686	608
	895	758

** Amount is less than R500 000.*

28. Net realised gains on available-for-sale financial assets

	Group 2018	Group 2017
Realised gains	10	11
– Equity securities	–	*
– Money market securities	1	2
– Mutual funds	9	9
Realised losses	*	(3)
– Money market securities	–	(1)
– Mutual funds	*	(2)
	10	8

* *Amount is less than R500 000.*

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

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

R million	Group 2018	Group 2017
Investment income	1 436	1 176
– Interest	1 184	979
– Dividends	252	197
Net realised gains	73	16
Net fair value gains	3 463	262
Hedge ineffectiveness	4	–
Mutual fund distribution	847	654
	5 823	2 108

30. Net claims and policyholders' benefits

R million	Group 2018	Group 2017
Health insurance claims	3 092	4 109
Gross claims	4 030	4 377
Recapture of reinsurance	–	858
Less: Reinsurance recoveries	(938)	(1 126)
Individual life insurance claims	3 704	3 992
Death	1 701	2 027
Disability	2 557	2 286
Payback benefits	973	1 020
Less: Reinsurance recoveries	(1 527)	(1 341)
Group life insurance claims	1 567	1 217
Death	609	608
Disability	1 099	691
Payback benefits	4	2
Less: Reinsurance recoveries	(145)	(84)
Individual investment benefits	7 600	6 800
Surrenders	6 135	5 543
Guaranteed payments	53	65
Annuity payments	1 412	1 192
Short-term insurance claims	2 016	1 161
Gross claims	2 141	1 426
Less: Reinsurance recoveries	(125)	(265)
	17 979	17 279
Claims and policyholders' benefits	20 714	19 237
Insurance claims recovered from reinsurers	(2 735)	(2 816)
Recapture of reinsurance	–	858
Net claims and policyholders' benefits	17 979	17 279

31. Acquisition costs

R million	Group 2018	Group 2017
Commission expenses	5 695	5 285
Movement in deferred acquisition costs (refer to note 8)	(101)	(48)
	5 594	5 237

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

32. Marketing and administration expenses

R million	Group 2018	Group 2017
Auditors remuneration		
Audit fees	41	38
Fees for other services	1	1
Prior year	3	4
	45	43
Operating lease charges[1]		
Property	258	233
Computer and office equipment	121	83
	379	316
Staff costs including executive directors[2]		
Salaries, wages and allowances	5 412	4 702
Medical aid fund contributions	323	279
Defined contribution provident fund contributions	310	266
Social security levies	183	188
Share-based payment expenses		
– equity-settled	25	29
– cash-settled	365	204
– (gain)/loss on cash flow hedge	(69)	60
Staff training	41	26
Recruitment fees	42	53
Temporary staff	269	212
Provision for leave pay	65	46
Other	168	175
	7 134	6 240
Other operating costs[4]		
Amortisation of software (Refer to note 7)[3]	525	436
Building related and office costs[1]	551	517
Depreciation of property and equipment (Refer to note 6)	416	263
Gains on disposal of property and equipment	(4)	(3)
Impairment of intangible assets	200	–
Impairment of loans and receivables (Refer to note 13)	17	37
Insurance	28	15
IT systems and consumables[1]	1 213	905
Marketing and distribution costs	1 109	948
Non-executive directors fees	22	14
Professional fees	569	569
Vitality benefit expenses	3 581	3 563
Other operating expenses	1 434	1 789
	9 661	9 053
Total marketing and administration expenses	17 219	15 652

1 *Operating lease charges were previously included in numbers presented for 'Building related and office costs' and 'IT systems and consumables'. These expenses now exclude the operating lease charges in both the current and prior year, for enhanced disclosure.*

2 *Executive directors' and prescribed officers' remuneration is included in employee costs. Refer to Directorate for detailed disclosure.*

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

4 *For enhanced disclosure, prior year costs have been reclassified between different categories within the 'Other operating costs' note, in line with current year disclosures.*

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

33. Share-based payments and long term incentives

33.1 Incentive schemes

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

Share-based payment schemes:

The following schemes are linked to the Discovery Limited share price and are accounted for as share-based payments under IFRS 2.

1. **BEE staff share trust**

   5 290 000 Discovery Limited's shares were issued to the BEE staff share trust for current and future employees. 980 000 additional shares have been purchased accumulatively in prior years, for future allocation to employees. No additional shares were purchased by the BEE staff share trust during the current year. The trusts consists of two components; the allocation scheme and the option scheme as described below:

   Allocation scheme

   Shares have been allocated to senior black employees based on level of seniority and length of past service. The shares vest to employees two, three, four and five years after allocation at a rate of 25% per annum. On each vesting date, the trustees shall distribute to the employees the allocated shares to which the employee may be entitled.

   Option scheme

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

2. **The Discovery Limited phantom scheme**

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

   The 2012 – 2017 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.

3. **Acquisition schemes**

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

4. **The Vitality Group phantom stock plan**

   Participants earn a cash bonus based on allocation of bonus scheme units which in turn are linked to the performance of Vitality Group Inc. share price. The bonus is earned if the participant is employed on each vesting date. The units typically vest equally over a 4 year period but 3 year vesting grants are offered as well.

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.

5. **The VitalityHealth and VitalityLife phantom 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.

6. **The VitalityHealth and VitalityLife scheme**

   Shares in Discovery Holdings Europe Limited were issued to participants. The participants have the option to sell the shares at any point in time until 12 March 2019 at which time their holding company, Discovery Group Europe Limited, has an obligation to purchase the shares from them.

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.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

33. Share-based payments and long term incentives *continued*

33.1 Incentive schemes *continued*

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

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

Date granted	Option Price	Final vesting date	Shares under option at beginning of year	Options granted during year	Options delivered during year	Options cancelled or adjusted during year	Shares under option at end of year
1. BEE staff share trust							
01/07/2011 – 30/06/2012	R0.00	30/09/2017	4 963	–	–	(4 963)	**–**
01/07/2012 – 30/06/2013	R0.00	30/09/2018	10 899	–	(3 090)	(4 719)	**3 090**
01/07/2013 – 30/06/2014	R0.00	30/09/2019	111 975	–	(31 486)	(47 058)	**33 431**
01/07/2014 – 30/06/2015	R0.00	30/09/2020	27 021	–	(9 007)	–	**18 014**
01/07/2015 – 30/06/2016	R122.40	01/03/2021	14 705	–	(3 676)	–	**11 029**
01/07/2015 – 30/06/2016	R121.50	01/04/2021	49 382	–	(12 345)	–	**37 037**
01/07/2015 – 30/06/2016	R0.00	30/09/2021	63 944	–	(13 047)	(9 106)	**41 791**
01/07/2016 – 30/06/2017	R113.00	30/09/2021	8 496	–	–	–	**8 496**
01/07/2016 – 30/06/2017	R122.50	30/09/2021	130 024	–	–	(2 296)	**127 728**
01/07/2016 – 30/06/2017	R0.00	30/04/2022	172 548	–	–	(12 521)	**160 027**
01/07/2017 – 30/06/2018	R0.00	22/05/2023	–	55 246	–	–	**55 246**
2. The Discovery Limited phantom scheme							
01/07/2012 – 30/06/2013	R54.75	30/09/2017	1 018 610	–	(1 014 220)	(4 390)	**–**
01/07/2012 – 30/06/2013	R0.00	30/09/2017	355 885	–	(354 423)	(1 462)	**–**
01/07/2013 – 30/06/2014	R84.76	30/09/2018	1 040 522	–	(519 157)	(29 916)	**491 449**
01/07/2013 – 30/06/2014	R0.00	30/06/2018	912 983	–	(650 070)	(14 957)	**247 956**
01/07/2014 – 30/06/2015	R97.89	30/09/2019	1 757 500	–	(581 472)	(80 411)	**1 095 617**
01/07/2014 – 30/06/2015	R0.00	30/09/2019	878 741	–	(290 733)	(40 206)	**547 802**
01/07/2015 – 30/06/2016	R134.94	30/09/2020	2 020 135	–	(513 027)	(64 860)	**1 442 248**
01/07/2015 – 30/06/2016	R0.00	30/09/2020	1 004 260	–	(220 634)	(26 943)	**756 683**
01/07/2016 – 30/06/2017	R114.96 – R127.22	30/09/2021	540 939	–	–	(91 155)	**449 784**
01/07/2016 – 30/06/2017	R0.00	30/09/2021	2 467 876	–	(15 208)	(147 408)	**2 305 260**
01/07/2017 – 30/06/2018	R84.76 – R141.65	31/03/2023	–	800 824	–	(13 978)	**786 846**
01/07/2017 – 30/06/2018	R0.00	31/03/2023	–	2 518 269	–	(48 440)	**2 469 829**

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

33. Share-based payment expenses *continued*

Date granted	Option Price	Final vesting date	Shares under option at beginning of year	Options granted during year	Options delivered during year	Options cancelled or adjusted during year	Shares under option at end of year
3. Acquisition schemes							
01/07/2012 – 30/06/2013	R 0.00	30/06/2018	42 841	–	(37 707)	(5 134)	**–**
01/07/2013 – 30/06/2014	R 0.00	30/06/2019	93 082	–	(60 081)	11 224	**44 225**
01/07/2014 – 30/06/2015	R 0.00	30/06/2020	691 970	–	(592 820)	(663)	**98 487**
01/07/2015 – 30/06/2016	R 0.00	30/06/2021	808 296	–	(46 596)	(9 236)	**752 464**
01/07/2016 – 30/06/2017	R 0.00	30/06/2022	826 193	–	(12 382)	50 683	**864 494**
01/07/2017 – 30/06/2018	R 0.00	30/06/2023	–	682 212	–	–	**682 212**
4. The Vitality Group phantom stock plan							
01/10/2013	USD 0.00	01/10/2017	573 937	–	(573 937)	–	**–**
01/10/2014	USD 0.00	01/10/2018	913 894	–	(634 335)	354 776	**634 335**
01/10/2015	USD 0.00	01/10/2019	1 553 541	–	(517 847)	–	**1 035 694**
01/10/2016	USD 0.00	01/10/2020	1 863 393	–	–	–	**1 863 393**
5. The VitalityHealth and VitalityLife phantom scheme							
04/11/2013	GBP 0.00	04/11/2017	37 158	–	(35 965)	(1 193)	**–**
27/01/2014	GBP 0.00	27/01/2018	979	–	(979)	–	**–**
04/12/2014	GBP 0.00	04/12/2018	21 101	–	(9 525)	(3 150)	**8 426**
07/01/2015	GBP 0.00	07/01/2019	3 145	–	(1 049)	–	**2 096**
01/09/2015	GBP 154.13	01/09/2019	39 956	–	–	–	**39 956**
30/10/2015	GBP 0.00	30/10/2019	89 332	–	(29 678)	(2 220)	**57 434**
20/11/2016	GBP 0.00	20/11/2020	118 663	4 094	(11 274)	(4 387)	**107 096**
22/12/2016	GBP 0.00	22/12/2020	2 144	–	–	–	**2 144**
30/01/2017	GBP 0.00	31/10/2020	–	–	–	38 986	**38 986**
30/11/2017	GBP 0.00	31/10/2021	–	142 805	–	(1 316)	**141 489**
22/12/2017	GBP 0.00	31/10/2020	–	2 194	–	–	**2 194**
6. The VitalityHealth and VitalityLife scheme							
12/03/2015	GBP 0.00	12/03/2019	53 198	–	–	–	**53 198**

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

	Spot price	Exercise price	Option term	Volatility	Dividend yield
BEE staff share trust originally issued on:					
– 13 September 2005	R21.47	R21.47	2 to 5 years	32.7% – 35.5%	–
Phantom scheme					
– issued between 01/07/2017 and 30/06/2018	R147.50	R114.96 – R127.22	up to 4.25 years	25.19% – 31.29%	0.00 – 1.50
– issued between 01/07/2016 and 30/06/2017	R147.50	R114.96 – R127.22	up to 3.25 years	24.95% – 30.44%	0.00 – 2.10
– issued on:					
– 30/09/2015	R147.50	R134.94	up to 2.25 years	25.2%	0.00 – 1.26
– 30/09/2014	R147.50	R97.89	up to1.25 years	25.9%	0.00 – 1.10
– 30/09/2013	R147.50	R54.75	up to 0.25 years	31.3%	–

The VitalityHealth and VitalityLife phantom share scheme is repriced at each reporting date. The value of the shares and options allocated are dependent on the performance of VitalityLife and VitalityHealth, more specifically the Value of In Force (ViF) of VitalityLife and the Embedded Value (EV) of VitalityHealth. The valuation of the Discovery Holdings Europe Limited equity share scheme options, is calculated on the same basis.

The Phantom schemes and Acquisition schemes are cash-settled and are thus repriced at each reporting date. The fair value of shares granted under these schemes during the current financial year, has been calculated using the closing price of R147.50 adjusted for expected future dividends that will be declared by Discovery during the vesting period.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

33. Share-based payment expenses *continued*

33.2 Black Economic Empowerment (BEE) transaction and IFRS 2

Discovery concluded a BEE transaction in September 2005 pursuant to which 38 725 909 shares were issued to BEE parties as follows:

BEE parties	Number of shares issued	Number of shares settled	Number of shares outstanding	Date of settlement	Subscription price per share
Dlamini SPV	200 000	(200 000)	–	15 April 2009	0.00
Zilwa SPV	200 000	(200 000)	–	9 Dec 2010	0.00
WDBIH SPV	17 703 273	(17 703 273)	–	6 Dec 2013	0.11
Discovery Foundation	14 226 181	(14 226 181)	–	8 Dec 2015	0.00
Maphai SPV	1 106 455	(1 106 455)	–	9 Dec 2016	1.72
BEE staff share trust	5 290 000	(5 164 219)	125 781	–	0.00

Mechanics of the transaction with BEE partners other than BEE staff share trust (BEE parties)

In terms of the original transaction, the difference between the market value of the ordinary shares issued to the BEE parties of R715 million and the subscription consideration of R3.9 million represented an outstanding funded amount provided by Discovery shareholders (the funded amount). The BEE parties would provide Discovery and its subsidiaries with a right to purchase, at the end of an initial period of ten years, such number of ordinary shares at 0.1 cent per share (the par value) that would provide Discovery with a notional return on this funded amount (the Discovery repurchase agreement).

In order to allow the BEE parties to retain the full number of Discovery shares originally issued to them, the BEE parties had a right to simultaneously acquire from Discovery, at the then thirty-day volume-weighted average price per Discovery share, the same number of shares repurchased by Discovery in terms of the Discovery repurchase agreement.

Shares acquired by the BEE parties ranked pari passu with existing Discovery shares. The BEE parties undertook to utilise any dividend or capital distributions made by Discovery to acquire additional Discovery shares in the market within three months of the date of any distribution.

All amounts funded in terms of the September 2005 BEE transaction were repaid by the end of the prior financial year.

34. Finance costs

R million	Group 2018	Group 2017
Interest expense on:		
– Bank loan	669	419
– Finance lease liability	254	29
– Accounts payable balances	36	30
	959	478

35. Foreign exchange losses

	Group 2018	Group 2017
Net foreign exchange losses	4	21

The net foreign exchange losses arise primarily from the settlement of foreign supplier balances.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

36. Taxation

R million	Group 2018	Group 2017
Charge for the year:		
Current taxation	**1 273**	906
Normal taxation	**1 268**	904
Capital gains taxation	**5**	2
Deferred taxation	**404**	372
	1 677	1 278

	%	%
Taxation rate reconciliation		
Effective taxation rate	**22.6**	22.1
Subsidiary losses not provided for	**(0.4)**	(0.8)
Prior year under/over provision	**0.1**	–
Deferred tax asset raised on prior year losses	**4.1**	–
Alignment to adjusted IFRS tax basis in terms of section 29A	**1.6**	–
Tax on Individual Policyholder Fund prior year losses raised	**–**	7.0
Capital profits and dividend income	**1.1**	0.8
Disallowed expenditure	**(2.0)**	(1.3)
Non-taxable income	**–**	0.1
Tax rate decrease in the UK	**0.8**	(0.1)
Tax rate differences	*****	0.3
Other permanent differences	**0.1**	(0.1)
Standard rate of taxation	**28.0**	28.0

* *Percentage is less than 0.1.*

For South African entities that are in a tax paying position, tax has been provided at 28% (2017: 28%).

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

37. Earnings per share

	Group 2018	Group 2017
Basic earnings per share		
Earnings per share is based on net profit after tax attributable to ordinary shareholders and the weighted number of ordinary shares in issue.		
Net profit attributable to ordinary shareholders (R million)	**5 652**	4 411
Weighted number of ordinary shares in issue (000's)	**645 014**	644 651
Undiluted earnings per share (cents)	**876.1**	684.2
Diluted earnings per share		
Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Discovery has two categories of dilutive potential ordinary shares namely: – shares issued from the staff share trusts which have not been delivered to participants – shares issued to BEE parties		
Weighted average ordinary shares in issue (000's) adjusted for:	**645 014**	644 651
– Weighted average ordinary shares in the staff share trusts (000's)	**394**	392
– Weighted average ordinary shares issued to BEE parties (000's)	**–**	193
	645 408	645 236
Diluted earnings per share (cents)	**875.6**	683.6

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

37. Earnings per share *continued*

	Group 2018	Group 2017
Headline earnings		
Headline earnings per share is based on the net profit after tax attributable to ordinary shareholders adjusted for items of a capital nature and the weighted average number of ordinary shares in issue.		
Headline earnings reconciliation (R million)		
Net profit attributable to ordinary shareholders	5 652	4 411
Adjusted for:		
– gain on disposal of property and equipment	(4)	(3)
– tax on disposal of property and equipment	1	2
– impairment of intangible assets	200	–
– tax on impairment of intangible assets	(38)	–
– realised gains on available-for-sale financial assets	(10)	(8)
– capital gains tax on realised gains on available-for-sale financial assets	2	2
Headline earnings	5 803	4 404
Headline earnings per share (cents):		
– undiluted	899.6	683.1
– diluted	899.0	682.5
Normalised headline earnings (R million)		
Normalised headline earnings is calculated by adjusting headline earnings with significant items that are not considered to be part of Discovery's normal operations.		
Headline earnings	5 803	4 404
– accrual of dividends payable to preference shareholders	1	(1)
– amortisation of intangibles from business combinations	123	171
– deferred tax on amortisation of intangibles from business combinations	(14)	(17)
– deferred tax asset raised on assessed losses	(352)	–
– deferred tax timing difference related to new 'adjusted IFRS' tax basis	(119)	–
– duplicate rental and other building related costs	37	–
– unrealised gains on foreign exchange contracts not designated as hedges	(77)	–
– initial expenses related to Prudential Book transfer	(1)	–
– rebranding and business acquisition expenses	–	99
Normalised headline earnings	5 401	4 656
Normalised headline earnings per share (cents):		
– undiluted	837.4	722.2
– diluted	836.9	721.5

Normalised operating profit per the segmental information presented in note 1, reflects the cash rental costs separately from the International Financial Reporting Standards (IFRS) finance lease treatment, as individual business expenses and margins are managed on underlying cash rental costs incurred by each business.

Normalised headline earnings adjusted for the impact of the accounting treatment of the new head office lease, would result in an increase of R208 million in normalised headline earnings to R5 609 million. The adjustment is calculated by replacing the depreciation of R126 million and finance charges of R210 million recognised in line with IFRS, with the actual market related rentals of R128 million.

Normalised headline earnings per share (with market related cash rentals)(cents) would be 869.5 on an undiluted basis and 869.0 on a diluted basis.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

38. Cash flow information

	R million	Group 2018	Group 2017
38.1	**Cash generated by operations**		
	Profit before taxation	7 412	5 772
	Adjusted for:		
	Investment income	(3 178)	(2 588)
	Realised investment gains and losses	(83)	(24)
	Financing costs	959	478
	Premiums, claims and investment charges for liabilities under investment contracts	1 752	1 105
	Non-cash items:		
	Amortisation of software	525	436
	Amortisation of intangibles from business combinations	123	171
	Deferred acquisition costs	(101)	(48)
	Deferred revenue	31	–
	Depreciation	416	263
	(Gain)/loss from derivatives	(138)	237
	Gain on disposal of property and equipment	(4)	(3)
	Derecognition and impairment of property and equipment	11	21
	Derecognition and impairment of intangible assets	203	–
	Operating lease payments in advance	(16)	–
	Provision for bad debts	17	37
	Provision for employee benefits	65	46
	Share-based payment expenses	418	239
	Share of net gains in equity accounted investments	(115)	(26)
	Transfer to assets under insurance contracts	(5 141)	(5 346)
	Transfer to assets under reinsurance contracts	(36)	109
	Transfer to liabilities under insurance contracts	8 088	6 625
	Transfer to liabilities under reinsurance contracts	1 948	1 974
	Fair value adjustment to liabilities under investment contracts	1 308	248
	Foreign exchange differences	57	(59)
	Unearned premiums	(183)	267
	Unrealised gains on investments at fair value through profit or loss	(3 463)	(262)
	Working capital changes:		
	Loans and receivables including insurance receivables	(908)	(1 614)
	Trade and other payables	1 158	(2 532)
		11 125	5 526
38.2	**Taxation paid**		
	Balance at beginning of the year	(189)	(37)
	Taxation charged for the year in the income statement	(1 677)	(1 278)
	Adjustment for movement in deferred taxation	404	372
	Taxation charged for the year in other comprehensive income	(16)	6
	Foreign exchange differences	(4)	3
	Balance at end of the year	254	189
	Taxation paid	(1 228)	(745)

* *Amount is less than R500 000.*

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

38. Cash flow information *continued*

38.3 Movement of borrowings

	Group 2018	Group 2017
Balance at beginning of the year excluding bank overdraft	**8 523**	5 380
Assets purchased on finance lease	**3 251**	268
Increase in borrowings	**2 654**	3 514
Raising fees capitalised	**(12)**	(1)
Interest accrued on borrowings	**963**	426
Interest capitalised to intangible assets	**64**	20
Interest recognised in profit or loss	**899**	406
Interest paid on borrowings	**(750)**	(385)
Repayment of borrowings	**(678)**	(366)
Foreign exchange differences	**122**	(313)
Balance at end of the year excluding bank overdraft	**14 073**	8 523

Other cash flows relating to financing activities are dividends declared and paid on ordinary and preference shares. Dividends declared are fully settled during the period.

39. Commitments

39.1 Capital commitments

Capital expenditure approved but not contracted for at the reporting date is as follows:

	Group 2018	Group 2017
Property and equipment including new head office leasehold improvements	**84**	1 151
Intangible assets	**377**	662
Development costs for Discovery Bank	**200**	665
	661	2 478

39.2 Operating lease commitments

Discovery has various operating lease agreements. Most leases contain renewal options. Lease terms do not contain restrictions on Discovery's activities concerning dividends, additional debt or further leasing.

Discovery leases certain computer and office equipment under operating leases. The remaining periods of the leases are from two months to four years. The future minimum commitments are as follows:

	Group 2018	Group 2017
Due within one year	**82**	88
Due within two to five years	**59**	90
Cash flow commitment	**141**	178

Discovery leases certain land and buildings under operating leases. The remaining periods of the leases are from two months to ten years. The future minimum commitments in terms of the leases of land and buildings, are as follows:

	Group 2018	Group 2017
Due within one year	**89**	352
Due within two to five years	**197**	1 827
Due after five years[1]	**169**	6 242
Cash flow commitment	**455**	8 421
Accrued to a liability (refer to note 22)	**(43)**	(71)
Net commitment	**412**	8 350

1 *The prior year includes the committed spend for the 1 Discovery Place building lease totaling R7 451 million. This commitment has been recognised in 2018 as a finance lease under IAS 17: Leases.*

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

40. Dividends per share

40.1 Dividends per ordinary share

The dividends paid in 2018 totalled R1 284 million and comprised a final dividend of 98 cents per share paid on 9 October 2017 and an interim dividend of 101 cents per share paid on 19 March 2018.

The dividends paid in 2017 totalled R1 152 million and comprised a final dividend of 90 cents per share paid on 10 October 2016 and an interim dividend of 88 cents per share paid on 20 March 2017.

40.2 Dividends per preference share

The dividends paid in 2018 totalled R83 million and comprised a final dividend of 520.68493 cents per share paid on 18 September 2017 and an interim dividend of 518.15068 cents per share paid on 12 March 2018.

The dividends paid in 2017 totalled R83 million and comprised a final dividend of 514.24658 cents per share paid on 19 September 2016 and an interim dividend of 529.31507 cents per share paid on 13 March 2017.

41. Contingencies

The Group is exposed to the following contingencies at 30 June 2018:

- In terms of the acquisition implementation agreement between Discovery Group Europe Limited, The Prudential Assurance Company Limited and Vitality Health Limited, Discovery Limited has guaranteed the obligations of Discovery Group Europe Limited and its subsidiaries to The Prudential Assurance Company Limited.
- VitalityHealth has provided certain volume guarantees to its reinsurance providers. Discovery Limited has guaranteed these obligations.

42. Related parties

List of related parties as defined

Subsidiaries

Details of subsidiaries directly owned by Discovery Limited are contained in Company note 2.

Associates and Joint Ventures

Details of Discovery's material associates and joint ventures are contained in the Group note 10.

Corporate investors

RMI Holdings Limited has a 25.04% shareholding in Discovery Limited. Included in the RMI Holdings group structure are the following subsidiaries and associates which are also considered to be related parties:

1. MMI Holdings Limited.
2. OUTsurance Holdings Limited.
3. RMBSI Investments Proprietary Limited.

Discovery did not enter into any transactions with these related parties during the current or prior financial year.

Key management personnel

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

A list of the directors and prescribed officers of Discovery Limited can be found in the Directors' report (page 15).

It is not considered necessary to disclose details of key management family members and their influenced or controlled separate entities. To the extent specific transactions have occurred between Discovery and these related parties (as defined in IAS 24) the details are included in the aggregate disclosure contained below under key management and where significant, full details of all relationships and terms of the transactions are provided.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

42. Related parties *continued*

Transactions with related parties

For purposes of this section Discovery Limited will be referred to as the Company and where relevant, amounts are excluding VAT.

Discovery Health Medical Scheme (DHMS)

Discovery Health administers DHMS and provides managed care services for which it charges an administration fee and a managed healthcare fee respectively. These fees are determined on an annual basis and approved by the trustees of DHMS. The fees totalled R5 496 million (2017: R5 090 million). Discovery offers the members of DHMS access to the Vitality programme. Discovery Health also provides wellness services to DHMS. The fees received for these services totalled R34 million (2017: R38 million).

Interest between Discovery and DHMS is calculated at call rates on the daily outstanding balance. During the year under review it was agreed that Discovery would refund interest received from DHMS in prior years, to the value of R3 million. Interest received from DHMS in the prior year amounted to R1 million.

Discovery Third Party Recovery Services (DTPRS) paid DHMS R15 million (2017: R14 million) to purchase all the risks and rewards of ownership to the claims due from the Road Accident Fund up to 31 December 2017 (2017: up to 31 December 2016). DTPRS also provides a service to DHMS to recover all claims that are due from the Compensation for Occupational Injuries and Diseases. DTPRS received R19 million (2017: R20 million) for this service. DTPRS owes DHMS R7 million (2017: R2 million) at year-end.

Discovery Vitality receives monthly contributions from DHMS members that have activated the Vitality Wellness programme through various product integrations. The membership fees totalled R1 483 million for the year ended 30 June 2018 (2017: R1 383 million).

DHMS owes Discovery R634 million (2017: R576 million) at year-end.

Closed schemes

Discovery Health administers the following restricted membership medical schemes:

- Anglo Medical Scheme.
- Anglovaal Group Medical Scheme.
- Bankmed Medical Scheme.
- BMW Employees Medical Aid Scheme.
- Glencore Medical Scheme
- LA Health Medical Scheme.
- Lonmin Medical Scheme.
- Malcor Medical Aid.
- Naspers Medical Fund.
- Netcare Medical Scheme.
- Quantum Medical Aid Society.
- Remedi Medical Scheme.
- Retail Medical Scheme.
- TFG Medical Scheme.
- Tsogo Sun Group Medical Scheme.
- University of KwaZulu-Natal Medical Scheme.
- WITS Medical Aid Fund (amalgamated with DHMS effective 1 January 2018)
- South African Breweries Medical Scheme (effective 1 July 2017)

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 R892 million (2017: R777 million).

Discovery Vitality receives monthly contributions from the closed scheme members that have activated the Vitality Wellness programme through various product integrations. The membership fees totalled R83 million (2017: R76 million).

Amounts due to Discovery at year-end totalled R82 million (2017: R73 million).

Cambridge Mobile Telematics Inc. (CMT)

Discovery Insure procured the services of CMT to develop software for the smartphone telematics platform. R1 million (2017: R1 million) has been paid to CMT in respect of this software.

Discovery Insure also paid fees on a monthly basis to CMT for the collation and interpretation of data and the translating of driving behaviour into scorable events. Fees paid for the year totalled R10 million (2017: R10 million).

Discovery franchises

Discovery has established a network of 34 franchises in order to establish a national footprint for its products. Discovery has paid R284 million (2017: R274 million) in fees to the franchises. The franchises participate in the Acquisition Scheme. During the year, R19 million (2017: R19 million) was accrued for in terms of this scheme.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

42. Related parties *continued*

Transactions with related parties *continued*

The Discovery Foundation

The Discovery Foundation, which is an independent shareholder of Discovery, received contributions from Discovery of R29 million and management fees of R3 million during the prior financial year. It has become self-sustaining from the dividends received on its shareholding in Discovery Limited and no further contributions or fees were received during the current financial year (2017: R32 million). The Discovery Foundation has invested R69 million (2017: R63 million) in Discovery Unit Trusts.

The Discovery Fund

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

The Discovery Fund received contributions from Discovery of R29 million during the year (2017: R29 million). Discovery also paid a management fee of R5 million (2017: R2 million).

Discovery staff pension and provident funds

A pension and provident fund has been set-up specifically for the Discovery staff. Contributions made to this fund during the year amounted to R259 million (2017: R215 million). The pension and provident fund has invested R1 048 million (2017: R879 million) in Discovery Invest Target Retirement Funds.

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

1. Discovery Limited key management personnel's compensation, paid by the Company or on behalf of the Company for services rendered to Discovery Limited, is detailed in the Directorate.
2. Aggregate details of insurance, annuity and investment transactions between Discovery Limited, any subsidiary, associate or joint venture of Discovery Limited and key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management:

Insurance contracts

	Aggregate insured cover		Premiums received		Claims paid	
R'000	2018	2017	2018	2017	2018	2017
Life insurance	1 194 889	1 095 050	8 019	6 124	–	–
Short-term insurance	492 705	556 876	2 101	2 403	504	4 673

Investment contracts

	Investment values		Premiums received		Withdrawal benefits		Investment returns	
R'000	2018	2017	2018	2017	2018	2017	2018	2017
Investment contracts	64 172	72 676	2 445	13 692	15 709	4 429	4 761	844

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

VitalityHealth health insurance

	Premiums received		Claims paid	
R'000	2018	2017	2018	2017
Health insurance	393	37	9	174

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

42. Related parties *continued*

Transactions with related parties *continued*

4. Aggregate details of transactions between Discovery Vitality Proprietary Limited and key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management:

Vitality loyalty programme

	Premiums received		Amounts paid	
R'000	**2018**	2017	**2018**	2017
Vitality benefits	**102**	70	**1 933**	1 286

DiscoveryCard

	Card fees received		Discounts paid	
R'000	**2018**	2017	**2018**	2017
DiscoveryCard	**254**	298	**48**	96

Key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management accrued 387 150 Discovery miles as part of the DiscoveryCard loyalty programme for the year ended 30 June 2018 (2017: 486 846).

5. 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 2018 was 93 002 782 ordinary shares (2017: 93 607 020 ordinary shares).
6. During the current financial year the following transactions occurred between Discovery and key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management:
   a. Sponsorship and enterprise development grants to the value of R0.8 million (2017: R0.8 million) were made to organisations where members of key management personnel have significant influence.
   b. Discovery acquired paintings and other services to the value of R2 million (2017: R1 million) from a company controlled by a family member of key management personnel.
   c. In the prior year, CSI donations and management fees of R32 million were paid to the Discovery Foundation in which an executive director of Discovery has significant influence.

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

43. Events after reporting date

B preference share cash dividend declaration:

On 23 August 2018, the directors declared a final gross cash dividend of 501.91781 cents (401.53425 cents net of dividend withholding tax) per B preference share for period 1 January 2018 to 30 June 2018, payable from the income reserves of the Company. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

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

The salient dates for the dividend were as follows:

Last day of trade to receive a dividend	Tuesday, 11 September 2018
Shares commence trading "ex" dividend	Wednesday, 12 September 2018
Record date	Friday, 14 September 2018
Payment date	Monday, 17 September 2018

B preference share certificates may not be dematerialised or rematerialised between Wednesday, 12 September 2018 and Friday, 14 September 2018, both days inclusive.

Ordinary share cash dividend declaration:

Notice is hereby given that the directors have declared a final gross cash dividend of 114 cents (91.2 cents net of dividend withholding tax) per ordinary share, out of income reserves for the year ended 30 June 2018. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

The issued ordinary share capital at the declaration date is 646 844 992 ordinary shares.

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Tuesday, 2 October 2018
Shares commence trading "ex" dividend	Wednesday, 3 October 2018
Record date	Friday, 5 October 2018
Payment date	Monday, 8 October 2018

Share certificates may not be dematerialised or rematerialised between Wednesday, 3 October 2018 and Friday, 5 October 2018, both days inclusive.

Banking

Shareholders are referred to the SENS announcement on 16 October 2017 wherein they were advised that Discovery had been granted a banking licence by the Registrar of Banks (now the Chief Executive Officer of the Prudential Authority, SARB). At the time we also advised that the approval from the Registrar contained certain conditions relating to the shareholding of Discovery Bank, the impact of which were being considered by all affected parties.

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

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

The proposed transaction therefore includes:

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

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

Notes to the Group annual financial statements *continued*

for the year ended 30 June 2018

43. Events after reporting date *continued*

Banking *continued*

The total combined acquisition price payable by Discovery to the FirstRand Group will be R1.8 billion. Discovery has provided guidance that it plans to pursue existing growth initiatives without recourse to additional capital. As is clear in its performance during the period under review, the Group and its growth initiatives have delivered strongly, and the capital plan has evolved better than expected. This gives Discovery the opportunity of continued growth accompanied by a stronger balance sheet with less leverage and larger cash buffers. Since the acquisition of the remaining 25% constitutes a new initiative and presents an important opportunity for the Group, the Board decided that this acquisition should be funded by way of an equity issuance limited to the purchase price. Given the relative immateriality, the transaction does not require shareholder approval.

Listed debt issue

On 29 August 2018, as part of its ongoing capital management process, Discovery Limited issued further Floating Rate Notes in terms of its Domestic Medium Term Note Programme (DMTN) totalling R700 million. Capital repayment is on maturity date being 21 August 2026. The coupon rate in respect of the notes is linked to 3 month JIBAR plus 180 bps, with interest payable quarterly in arrears. Interest rates on these notes have been fixed at 10.29% per annum, through interest rate swaps. This brings the total nominal value in issue under the DMTN programme to R2.2 billion.

Company statement of financial position

at 30 June 2018

R million	Notes	Company 2018	Company 2017
Assets			
Investments in subsidiaries	2	**18 103**	16 444
Investment in equity-accounted investees	3	**831**	831
Financial assets			
– Available-for-sale investments	4	**130**	56
– Derivatives	5	**135**	
– Loans to subsidiaries	6	**5 419**	3 047
– Loans to BEE partners	7	**111**	101
– Trade and other receivables	8	*****	52
Deferred income tax asset	14	**–**	2
Cash and cash equivalents	20.6	**39**	219
Total assets		**24 768**	20 752
Equity			
Capital and reserves			
Ordinary share capital and share premium	9.1	**8 496**	8 496
Preference share capital	9.2	**779**	779
Other reserves		**273**	286
Retained earnings		**5 936**	3 942
Total equity		**15 484**	13 503
Liabilities			
Financial liabilities			
– Borrowings at amortised cost	10	**6 132**	3 630
– Derivatives	11	**39**	15
– Trade and other payables	12	**2 505**	2 424
– Loans from subsidiaries	13	**557**	1 175
Deferred income tax		**1**	–
Current income tax liabilities		**50**	5
Total liabilities		**9 284**	7 249
Total liabilities and equity		**24 768**	20 752

* *Amount is less than R500 000.*

Company statement of profit and loss

for the year ended 30 June 2018

R million	Notes	Company 2018	Company 2017
Investment income	15	**3 894**	1 297
Other income	16	**24**	27
Marketing and administration expenses	17	**(6)**	(14)
Impairment of investment in subsidiaries	18	**–**	(108)
Profit from operations		**3 912**	1 202
Finance costs		**(529)**	(254)
Foreign exchange gains/(losses)		**55**	(23)
Profit before tax		**3 438**	925
Taxation	19	**(74)**	10
Profit for the year		**3 364**	935
Attributable to:			
– ordinary shareholders		**3 281**	852
– preference shareholders		**83**	83
		3 364	935

Company statement of other comprehensive income

for the year ended 30 June 2018

R million	Company 2018	Company 2017
Profit for the year	**3 364**	935
Items that are or may be reclassified subsequently to profit or loss:		
Change in available-for-sale financial assets	**(5)**	2
– unrealised (loss)/gains	**(6)**	3
– capital gains tax on unrealised loss/(gains)	**1**	(1)
Cash flow hedges	**(21)**	(6)
– unrealised losses	**(23)**	(15)
– deferred tax	**(4)**	4
– losses recycled to profit or loss	**6**	5
Other comprehensive loss for the year, net of tax	**(26)**	(4)
Total comprehensive income for the year	**3 338**	931
Attributable to:		
– ordinary shareholders	**3 255**	848
– preference shareholders	**83**	83
	3 338	931

Company statement of changes in equity

for the year ended 30 June 2018

R million	Share capital and share premium	Preference share capital	Hedging reserve	Share-based payment reserve	Available-for-sale investments[1]	Retained earnings	Total
Year ended 30 June 2017							
At beginning of the year	8 496	779	(29)	300	5	4 242	13 793
Total comprehensive income for the year	–	83	(6)	–	2	852	931
Profit for the year	–	83	–	–	–	852	935
Other comprehensive income	–	–	(6)	–	2	–	(4)
Transactions with owners	–	(83)	–	14	–	(1 152)	(1 221)
Increase in BEE share option scheme	–	–	–	14	–	–	14
Dividends paid to ordinary shareholders	–	–	–	–	–	(1 152)	(1 152)
Dividends paid to preference shareholders	–	(83)	–	–	–	–	(83)
At end of the year	8 496	779	(35)	314	7	3 942	13 503
Year ended 30 June 2018							
At beginning of the year	**8 496**	**779**	**(35)**	**314**	**7**	**3 942**	**13 503**
Total comprehensive income for the year	**–**	**83**	**(21)**	**–**	**(5)**	**3 281**	**3 338**
Profit for the year	**–**	**83**	**–**	**–**	**–**	**3 281**	**3 364**
Other comprehensive income	**–**	**–**	**(21)**	**–**	**(5)**	**–**	**(26)**
Transactions with owners	**–**	**(83)**	**–**	**13**	**–**	**(1 287)**	**(1 357)**
Increase in BEE share option scheme	**–**	**–**	**–**	**13**	**–**	**–**	**13**
Dividends paid to ordinary shareholders	**–**	**–**	**–**	**–**	**–**	**(1 287)**	**(1 287)**
Dividends paid to preference shareholders	**–**	**(83)**	**–**	**–**	**–**	**–**	**(83)**
At end of the year	**8 496**	**779**	**(56)**	**327**	**2**	**5 936**	**15 484**

1 *This relates to the fair value adjustment of available-for-sale financial assets.*

Company statement of cash flows

for the year ended 30 June 2018

R million	Notes	Company 2018	Company 2017
Cash flow from operating activities		**1 888**	3 677
Cash generated by operations	20.1	(538)	2 767
Dividends received		2 878	1 102
Interest received		29	5
Interest paid		(452)	(233)
Taxation (paid) /received	20.2	(29)	36
Cash flow from investing activities		**(3 186)**	(4 220)
Increase investment in subsidiary	20.3	(1 109)	(2 229)
Increase investment in associate	20.4	–	(432)
Purchase of financial assets	3	(4 632)	(27)
Disposal of financial assets	3	4 552	–
Increase in loans granted to subsidiaries	6	(2 238)	(1 532)
Proceeds from settlement of subsidiary loans	6	241	–
Cash flow from financing activities		**1 118**	758
Proceeds from long-term borrowings	20.5	2 488	1 998
Repayment of long-term borrowings	20.5	–	(5)
Dividends paid to ordinary shareholders		(1 287)	(1 152)
Dividends paid to preference shareholders		(83)	(83)
Net (decrease)/increase in cash and cash equivalents		(180)	215
Cash and cash equivalents at beginning of the year		219	4
Cash and cash equivalents at end of the year	20.6	**39**	219

Notes to the Company annual financial statements

for the year ended 30 June 2018

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 page 66 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:

R million	Carrying amount	Fixed	Floating	Non-interest bearing
30 June 2018				
Available-for-sale financial assets:				
– Debt securities	7	*	7	–
– Money market securities	123	34	89	–
Derivative financial instruments at fair value:				
– Non-hedges	135	135	–	–
Loans to subsidiaries	5 419	1 473	2 578	1 368
Loans to BEE partners	111	–	111	–
Cash and cash equivalents	39	–	39	–
Total financial assets	5 834	1 642	2 824	1 368
Borrowings at amortised cost	6 132	2 825	3 307	–
Derivative financial instruments at fair value:				
– Hedges	39	39	–	–
Trade and other payables	2 505	–	–	2 505
Loans from subsidiaries	557	–	557	–
Total financial liabilities	9 233	2 864	3 864	2 505
30 June 2017				
Available-for-sale financial assets:				
– Debt securities	11	–	11	–
– Money market securities	45	12	33	–
Loans to subsidiaries	3 047	–	3 047	–
Loans to BEE partner	101	–	101	–
Trade and other receivables	52	–	–	52
Cash and cash equivalents	219	–	219	–
Total financial assets	3 475	12	3 411	52
Borrowings at amortised cost	3 630	2 625	1 005	–
Derivative financial instruments at fair value:				
– Hedges	15	15	–	–
Trade and other payables	2 424	–	–	2 424
Loans from subsidiaries	1 175	–	500	675
Total financial liabilities	7 244	2 640	1 505	3 099

* *Amount is less than R500 000.*

Notes to the Company annual financial statements *continued*

for the year ended 30 June 2018

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:

R million	Total	Rand	GBP	USD
30 June 2018				
Available-for-sale financial assets:				
– Debt securities	**7**	**7**	**–**	**–**
– Money market securities	**123**	**123**	**–**	**–**
Derivative financial instruments at fair value:				
– Non-hedges	**135**	**135**	**–**	**–**
Loans to subsidiaries and BEE partners	**5 530**	**4 538**	**992**	**–**
Cash and cash equivalents	**39**	**1**	**15**	**23**
Total financial assets	**5 834**	**4 804**	**1 007**	**23**
Borrowings at amortised cost	**6 132**	**6 132**	**–**	**–**
Derivative financial instruments at fair value:				
– Hedges	**39**	**39**	**–**	**–**
Trade and other payables and loans from subsidiaries	**3 062**	**3 062**	**–**	**–**
Total financial liabilities	**9 233**	**9 233**	**–**	**–**
30 June 2017				
Available-for-sale financial assets:				
– Debt securities	11	11	–	–
– Money market securities	45	45	–	–
Loans to subsidiaries and BEE partners	3 148	2 504	644	–
Trade and other receivables	52	52	–	–
Cash and cash equivalents	219	206	–	13
Total financial assets	3 475	2 818	644	13
Borrowings at amortised cost	3 630	3 630	–	–
Derivative financial instruments at fair value:				
– Hedges	15	15	–	–
Trade and other payables and loans from subsidiaries	3 599	3 599	–	–
Total financial liabilities	7 244	7 244	–	–

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.

Key areas where Discovery Limited is exposed to credit risk are:

- *Financial assets comprising money market and debt instruments* – Discovery Limited is exposed to the issuer's credit standing on these instruments which is monitored by the CCIC by setting a minimum credit rating. The aggregate credit risk exposure for financial assets categorised by credit ratings is provided on the next page.
- *Cash and cash equivalents* – This risk is managed by monitoring exposure to external financial institutions against approved limits per institution. Credit ratings are provided in the next page.

Notes to the Company annual financial statements *continued*

for the year ended 30 June 2018

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 by Moody's credit ratings:

R million	Total	Aaa	Aa1-3	A1-3	Baa1-3	Ba1-3	Not rated
30 June 2018							
Available-for-sale financial assets:							
– Debt securities	**7**	**3**	*****	**4**	**–**	**–**	**–**
– Money market securities	**123**	**73**	**46**	**1**	**2**	**–**	**1**
Cash and cash equivalents	**39**	**–**	**–**	**–**	**39**	**–**	**–**
Loans to subsidiaries	**5 419**	**–**	**–**	**–**	**–**	**–**	**5 419**
Loans to BEE partners	**111**	**–**	**–**	**–**	**–**	**–**	**111**
Total	**5 699**	**76**	**46**	**5**	**41**	**–**	**5 531**

* *Amount is less than R300 000.*

R million	Total	Aaa	Aa1-3	A1-3	Baa1-3	Ba1-3	Not rated
30 June 2017							
Available-for-sale financial assets:							
– Debt securities	11	–	–	–	–	6	5
– Money market securities	45	4	16	6	–	–	19
Cash and cash equivalents	219	–	–	–	219	–	–
Loans to subsidiaries	3 047	–	–	–	–	–	3 047
Loans to BEE partners	101	–	–	–	–	–	101
Total	3 423	4	16	6	219	6	3 172

Long-term credit ratings were used in the above credit risk analysis.

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.

Cash flow forecasting is performed by Discovery Limited and liquidity requirements are monitored to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Company's debt financing plans and covenant compliance.

Cash held by Discovery Limited is managed by Treasury. Treasury invests it in interest-bearing accounts, term deposits and money-market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide headroom as determined by the above-mentioned forecasts. At the reporting date, Discovery Limited had money market funds and cash and cash equivalents of R162 million (2017: R264 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:

R million	Total	<1 year	1 – 5 years	5 – 10 years	Open ended
30 June 2018					
Borrowings net of interest rate swaps*	**8 674**	**910**	**6 608**	**1 156**	**–**
Trade and other payables	**2 505**	**–**	**–**	**–**	**2 505**
Loans from subsidiaries	**557**	**–**	**557**	**–**	**–**
Total	**11 736**	**910**	**7 165**	**1 156**	**2 505**
30 June 2017					
Borrowings net of interest rate swaps*	5 104	341	4 763	–	–
Trade and other payables	2 424	–	–	–	2 424
Loans from subsidiaries	1 175	675	500	–	–
Total	8 703	1 016	5 263	–	2 424

* *These amounts do not agree to the Statement of financial position as these are the undiscounted contractual payments.*

Notes to the Company annual financial statements *continued*

for the year ended 30 June 2018

1. Management of financial risk *continued*

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. 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.

For the amounts disclosed in the fair value hierarchy table, the look-through basis has not been applied to the mutual fund balances and the amounts will therefore agree to the amounts disclosed in the Statement of financial position.

R million	Total	Level 1	Level 2	Level 3
30 June 2018				
Available-for-sale investments				
– Mutual funds	**130**	**130**	**–**	**–**
Derivative financial instruments at fair value:				
– Non-hedges	**135**	**–**	**135**	**–**
Total financial assets	**265**	**130**	**135**	**–**
Derivative financial instruments at fair value:				
– Hedges	**39**	**–**	**39**	**–**
Total financial liabilities	**39**	**–**	**39**	**–**
30 June 2017				
Available-for-sale investments				
– Mutual funds	56	56	–	–
Total financial assets	56	56	–	–
Derivative financial instruments at fair value:				
– Hedges	15	–	15	–
Total financial liabilities	15	–	15	–

Notes to the Company annual financial statements *continued*

for the year ended 30 June 2018

2. Investments in subsidiaries

	Issued ordinary capital R million		Effective percentage holding %		Investment in subsidiaries[4] R million	
	2018	2017	**2018**	2017	**2018**	2017
Vitality Group International Inc.[1]	**2 380**	2 380	**99.99**	99.99	**619**	573
Discovery Connect Distribution Services Proprietary Limited	*****	*	**100**	100	*****	*
Discovery Central Services Properietary Limited	*****	*	**100**	100	*****	*
Discovery Finance Company Europe Limited[2]	**393**	393	**100**	100	**393**	393
Discovery Group Europe Limited[2]	**11 731**	11 296	**100**	100	**11 718**	11 283
Discovery Health Proprietary Limited	**271**	271	**100**	100	**488**	480
Discovery Insure Limited	**2 176**	1 969	**100**	100	**1 284**	1 077
Discovery Life Limited	**1 416**	1 416	**100**	100	**1 700**	1 698
Discovery Life Collective Investments Proprietary Limited	**15**	15	**100**	100	**15**	15
Discovery Life Investment Services Proprietary Limited	**3**	3	**100**	100	**3**	3
Discovery Pref Holding Company (RF) Limited	*****	*	**100**	100	*****	*
Discovery Vitality Proprietary Limited	**1 600**	1 600	**100**	100	**8**	809
Discovery Partner Markets Asia Private Limited[3]	**211**	211	**100**	100	**113**	113
Discovery Bank Holdings Limited	**1 758**	–	**100**	–	**1 762**	–
					18 103	16 444

* *Amount is less than R5 000.*

1 *Incorporated in the United States of America.*
2 *Incorporated in England and Wales.*
3 *Incorporated in Singapore.*
4 *Investments in subsidiaries include cost less impairments and the value of share options issued to subsidiary staff.*

Refer to company note 20.3 for a detailed movement analysis.

3. Investment in equity-accounted investees

	% ownership interest		**Company**	Company
R million	**2018**	2017	**2018**	2017
Investment at cost:				
Ping An Health Insurance Company in China, Limited	**25%**	25%	**831**	831
AIA Vitality (Hong Kong) Limited	**44%**	44%	*****	*
			831	831

* *Amount is R103.*

Refer to Group note 10 for disclosure of the investment in associate and joint ventures.

Notes to the Company annual financial statements *continued*

for the year ended 30 June 2018

4. Financial assets – investments

R million	Company 2018	Company 2017
Available-for-sale financial assets:		
– Mutual funds	**130**	56
	130	56
Movement analysis:		
Balance at beginning of year	**56**	26
Additions	**4 631**	27
Disposals	**(4 552)**	–
(Loss)/gain on fair value adjustment	**(5)**	3
Balance at end of year	**130**	56

Notes 1.1 to 1.4 apply the look-through basis to the financial assets, to assist in the identification of Discovery's financial risks.

5. Derivative financial assets

R million	Company 2018	Company 2017
Non-hedge derivatives	**135**	–
Current	**135**	–

Refer to page 83 for a detailed description of the derivative financial instruments listed above.

6. Loans to subsidiaries

R million		Company 2018	Company 2017
Balance at beginning of the year		**3 047**	1 356
Additional loan granted		**2 238**	1 533
Repayment of loans		**(241)**	–
Interest receivable		**316**	181
Exchange differences		**59**	(23)
Balance at end of the year		**5 419**	3 047
Discovery Group Europe Limited	i	**1 359**	979
Discovery Health Proprietary Limited	ii	**2 352**	1 919
Discovery Connect Distribution Services Proprietary Limited	iii	**340**	148
Discovery Central Services Proprietary Limited	iv	**1 363**	1
Discovery Life Investment Services Proprietary Limited	v	**5**	–
		5 419	3 047
Current		**1 406**	1
Non-current		**4 013**	3 046
		5 419	3 047

Notes to the Company annual financial statements *continued*

for the year ended 30 June 2018

6. Loans to subsidiaries *continued*

i. Discovery Limited has granted four GBP denominated loans and one ZAR denominated loan to Discovery Group Europe Limited (DGEL), a foreign subsidiary of Discovery Limited, the terms are as follows:

GBP denominated

Loan 1 – accrues interest at 400 basis points above 3 month LIBOR and is repayable on 31 July 2020. The value of the loan outstanding at 30 June 2018 is R242 million (GBP 13.3 million) (2017: R217 million (GBP 12.7 million)).

Loan 2 – accrues interest at 600 basis points above 3 month LIBOR and is repayable on 1 April 2027. The value of the loan outstanding at 30 June 2018 is R448 million (GBP 25 million) (2017: R426 million (GBP 24.7 million)).

Loan 3 – accrues interest at 600 basis points above 3 month LIBOR and is repayable on 1 November 2027. The value of the loan outstanding at 30 June 2018 is R110 million (GBP 6 million). This loan was granted during the current financial year.

Loan 4 – accrues interest at 600 basis points above 3 month LIBOR and is repayable on 1 June 2028. The value of the loan outstanding at 30 June 2018 is R192 million (GBP 10.5 million). This loan was granted during the current financial year.

ZAR denominated

Loan 1 – accrues interest at 200 basis points above the 3 month JIBAR and is repayable on 11 November 2022.The value of the loan outstanding at 30 June 2018 is R367 million (2017: R336 million).

Interest of R75 million was earned in respect of these loans in the current financial year (2017: R46 million) and R59 million foreign exchange gains was recognised in profit and loss (2017: R23 million loss).

ii. Discovery Limited has granted loans of R727 million and R1 283 million to Discovery Health Proprietary Limited (Discovery Health). The loan for R727 million, accrues interest at 240 basis points above the 3 month JIBAR and is repayable on 30 June 2021. The loan for R1 283 million, accrues interest at a fixed rate of 10.2% and is repayable on 31 July 2022. The loans will become payable upon maturity and interest is payable quarterly, with the option available for Discovery Health to capitalise the interest to the value of the loan. The value of the loans outstanding at 30 June 2018 is R2 352 million (2017: R1 919 million), comprising of capital of R2 010 million (2017: R1 747 million) and interest of R342 million (2017: R120 million).

iii. Discovery Limited granted loans totalling R307 million to Discovery Connect Distribution Services Proprietary Limited. The loans accrue interest at First National Bank's published prime overdraft lending rate and are repayable on 30 June 2021. The loans and the interest will become payable upon maturity. The value of the loans outstanding at 30 June 2018 is R340 million (2017: R148 million), comprising of capital of R307 million (2017: R131 million) and interest of R33 million (2017: R15 million).

iv. During 2017, Discovery Limited granted an interest-free loan of R2.8 billion to Discovery Central Services Proprietary Limited. The value of the loan outstanding at 30 June 2018 is R1 363 million (2017: R1 million).

v. Discovery Limited granted an interest-free loan to Discovery Life Investment Services Proprietary Limited. The value of the loan outstanding at 30 June 2018 is R5 million.

7. Loans to BEE Partners

R million	**Company 2018**	Company 2017
Balance at the beginning of the year	**101**	92
Interest receivable	**10**	9
Balance at end of the year	**111**	101
Current	**96**	–
Non-current	**15**	101
	111	101

Financial assistance was provided to Discovery's BEE Partners in April 2015 to assist them in following their rights in terms of the Discovery Limited's rights issue. Interest accrues at a rate of prime less 0.5% and is repayable within five years. However, the outstanding balance is repayable immediately if they are no longer a BEE partner.

Notes to the Company annual financial statements *continued*

for the year ended 30 June 2018

8. Trade and other receivables

R million	Company 2018	Company 2017
Value-added tax	*	*
Other debtors	–	46
Outstanding bank deposits	–	6
	*	52

* *Amount is less than R6 000.*

9. Share capital and share premium

9.1 Ordinary share capital and share premium

	Number of shares	Share capital R million	Share premium R million	Total R million
Issued				
At 1 July 2016	647 427 946	1	8 495	8 496
Share movements:				
– shares cancelled	(582 954)	(*)	–	(*)
At 30 June 2017	646 844 992	1	8 495	8 496
At 30 June 2018	**646 844 992**	**1**	**8 495**	**8 496**

* *Amount is less than R500 000.*

The total authorised number of ordinary shares is 1 billion (2017: 1 billion), with a par value of 0.1 cent per share.

9.2 Preference share capital

R million	Company 2018	Company 2017
Authorised		
40 000 000 A no par value preference shares		
20 000 000 B preference shares of R100 each	2 000	2 000
20 000 000 C no par value preference shares		
	2 000	2 000
Issued		
8 000 000 B preference shares of R100 each	800	800
Share issue costs	(21)	(21)
At 30 June	779	779

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

Notes to the Company annual financial statements *continued*

for the year ended 30 June 2018

10. Borrowings at amortised cost

R million	Company 2018	Company 2017
Bank borrowings	6 132	3 630
Current	313	20
Non-current	5 819	3 610
	6 132	3 630

Bank borrowings

– During the current financial year, Discovery registered an unsecured R10 billion Domestic Medium Term Note (DMTN) programme. In terms of this programme, Discovery issued R1.5 billion JSE Listed Notes in its inaugural issuance on 21 November 2017. The carrying amount of the listed notes approximates their fair value. Discovery Limited has further borrowed R4.6 billion (2017: R3.6 billion) for long term funding requirements. The borrowings were acquired for general corporate purposes in order to fund the various growth initiatives within the Group.

The facilities have the following profile and salient terms:

Facility amount R million	Interest rate per annum	Maturity date	Capital repayment
500	Fixed at 10.94%	10 June 2021	Maturity
1 100	Fixed at 10.59%	10 June 2021	Annually[1]
375	Fixed at 10.39%[2]	30 September 2021	Maturity
450	Fixed at 10.31%[2]	15 December 2021	Maturity
175	Linked to 3 month JIBAR[3]	10 March 2022	Maturity
800	Fixed at 10.20%	17 March 2022	Maturity
200	Fixed at 10.23%	16 May 2022	Maturity
500	Fixed at 9.71%[2]	21 November 2022	Maturity
800	Fixed at 10.31%[2]	21 November 2024	Maturity
200	Fixed at 10.46%[4]	21 November 2024	Maturity
1 000	Fixed at 10.28%[2]	2 March 2023	Maturity
6 100			

1 *Commencing on 10 June 2019 with final payment on 10 June 2021.*
2 *The interest rate has been fixed through interest rate swaps. Refer to page 79.*
3 *As at 30 June 2018, interest is accruing at 9.58% per annum (2017: 9.77% per annum).*
4 *Interest is payable semi-annually in arrears.*

The borrowings are unsecured senior debt and are not callable or convertible. Interest is payable quarterly in arrears other than footnote 4 in the table above. Refer to company note 20.5 for movement analysis.

11. Derivative financial liabilities

R million	Company 2018	Company 2017
Interest rate swap	39	15
Non-current	39	15
	39	15

Refer to pages 78 to 79 for a detailed description of the derivative financial instruments listed above.

Notes to the Company annual financial statements *continued*

for the year ended 30 June 2018

12. Trade and other payables

R million		Company 2018	Company 2017
Accrued expenditure		**4**	1
Dividends due to shareholders		**4**	4
Intercompany payables		**2 497**	2 419
		2 505	2 424
Intercompany payables include:			
Discovery Health Proprietary Limited	i	**2 402**	2 357
Discovery Pref Holding Company (RF) Limited	ii	**95**	62
		2 497	2 419

i. Discovery Limited receives funds from Discovery Health Proprietary Limited through a loan account, based on operational requirements. The loan is interest free and is settled as and when sufficient cash becomes available.

ii. Discovery Limited received funds from Discovery Pref Holding Company (RF) Limited through a loan account to assist with the company's operational requirements. The loan is interest free and is settled as and when sufficient cash becomes available.

13. Loans from subsidiaries

R million		Company 2018	Company 2017
Discovery Life Limited	i	**557**	500
Discovery Bank Limited (previously NewDisc Limited)	ii	**–**	675
		557	1 175

i. On 30 June 2017, Discovery Limited issued 5-year term Investment Notes totalling R500 million to Discovery Life. Interest is linked to 3 month JIBAR, currently 10.62% per annum (2017: 11.51%) and is repayable in arrears together with capital on 30 June 2022.

ii. In the prior year, Discovery received funds from NewDisc Limited through a loan account to assist with operational requirements. The loan was interest free and has been fully settled.

14. Deferred income tax

R million	Company 2018	Company 2017
Deferred tax asset	**–**	2
– Non-current	**–**	2
Deferred tax liability	**1**	–
– Non-current	**1**	–
	1	2
Movement summary:		
Balance at beginning of the year	**2**	(1)
Deferred tax on cash flow hedge charged to other comprehensive income	**(4)**	4
Deferred tax on investment charged to other comprehensive income	**1**	(1)
Balance at end of the year	**(1)**	2
Deferred taxation comprises:		
Capital gains tax on unrealised gains on available-for-sale financial instruments	**(1)**	(2)
Cash flow hedge	**–**	4
	(1)	2

Notes to the Company annual financial statements *continued*

for the year ended 30 June 2018

15. Investment income

R million	Company 2018	Company 2017
At amortised cost interest income	**327**	190
Dividends received from subsidiaries and equity-accounted investments	**3 415**	1 102
Available-for-sale investment income	**19**	–
Realised loss on hedge derivatives	**(2)**	–
Fair value gains on non-hedge derivatives	**135**	–
Cash and cash equivalents interest income	*****	5
	3 894	1 297

* *Amount is less than R500 000.*

Dividends received from subsidiaries and equity-accounted investments include:		
Discovery Health Proprietary Limited	**2 904**	1 102
Discovery Vitality Limited	**491**	–
AIA Vitality (Hong Kong) Limited	**20**	–
	3 415	1 102

16. Other income

Guarantee fees	**24**	27
	24	27

Discovery Limited issued a guarantee to HSBC Bank in respect of Discovery Finance Company Europe obligations. It was elected that a guarantee fee would be charged by Discovery Limited.

17. Marketing and administration expenses

Marketing and administration expenses comprises:

Audit fees	**3**	3
Professional fees	**2**	9
Other	**1**	2
	6	14

18. Impairment of investments in subsidiaries

Discovery Insure Limited	**–**	43
Vitality Group International Inc.	**–**	65
	–	108

Subsidiaries are tested for impairment at each reporting date and impaired to the recoverable amount, which is equal to the net asset value of the investment. All subsidiaries were considered for impairment at 30 June 2018 and no indicators of impairment were found.

19. Taxation

South African normal taxation		
Current tax	**(74)**	(8)
Prior year over provision	*****	18
	(74)	10

* *Amount is less than R500 000.*

	%	%
Taxation rate reconciliation		
Effective taxation rate	**2.2**	(1.1)
Capital profits and dividend income	**27.8**	33.3
Disallowed expenditure	**(1.6)**	(2.2)
Impairment of subsidiaries	**–**	(3.3)
Prior year over provision	**–**	1.9
Other permanent differences	**(0.4)**	(0.6)
Standard rate of taxation	**28.0**	28.0

Notes to the Company annual financial statements *continued*

for the year ended 30 June 2018

20. Cash flow information

R million	Company 2018	Company 2017
20.1 Cash generated by operations		
Profit before taxation	3 438	925
Adjusted for:		
Interest received	(346)	(195)
Dividends received	(3 415)	(1 102)
Realised loss on non-hedge derivatives	2	–
Finance costs	529	254
Non-cash items:		
Impairment of investments in subsidiaries	–	108
Fair value gains on hedge derivatives	(135)	–
Unrealised foreign exchange (loss)/gain	(58)	23
Working capital changes:		
Loans and receivables	41	(52)
Trade and other payables and loans from subsidiaries	(594)	2 806
	(538)	2 767
20.2 Taxation paid		
Balance at beginning of the year	(5)	21
Taxation charged for the year in the statement of comprehensive income	(74)	10
Balance at end of the year	50	5
	(29)	36
20.3 Increase in investment in subsidiary		
Balance at beginning of the year	16 444	14 309
Impairment of investments in subsidiaries	–	(108)
Delivery of shares[1]	45	–
Dividend in specie[2]	491	–
Value of share options issued to subsidiary staff	14	14
Balance at end of the year	(18 103)	(16 444)
Increase in investment in subsidiary	(1 109)	(2 229)

1 *An investment of R45 million into Destiny Health was made in 2017, but the formalities of the share issue were only finalised in 2018.*

2 *Vitality held investments of 52.1% in Discovery Bank Limited, (previously NewDisc Limited) and 99% in Discovery Bank Holdings Limited during the financial year. These investments were both disposed of through a Capital Reduction and Dividend in Specie, respectively, to Discovery Limited.*

R million	Company 2018	Company 2017
20.4 Increase in investment in associate		
Balance at beginning of the year	831	399
Balance at end of the year	(831)	(831)
	–	(432)
20.5 Long-term borrowings		
Balance at beginning of the year	3 630	1 621
Interest accrued	448	249
Interest paid	(428)	(233)
Cashflow hedge capitalised	(6)	–
Increase in borrowings	2 500	2 000
Raising fees capitalised	(12)	(2)
Repayment of borrowings	–	(5)
Balance at end of the year	6 132	3 630
20.6 Cash and cash equivalents		
Cash at bank and in hand	39	219
Short-term deposits	*	–
	39	219

* *Amount is less than R500 000.*

Notes to the Company annual financial statements *continued*

for the year ended 30 June 2018

21. Contingencies

Discovery Limited has provided the following guarantees:

- Discovery Limited has issued a guarantee to HSBC Bank in respect of the obligations of Discovery Finance Company Europe Limited in the amount of GBP 150 million. As at 30 June 2018, Discovery Finance Company Europe Limited owed GBP 99.7 million in respect of these borrowing facilities.
- In terms of the acquisition implementation agreement between Discovery Group Europe Limited, The Prudential Assurance Company Limited and Vitality Health Limited, Discovery Limited has guaranteed the obligations of Discovery Group Europe Limited and its subsidiaries to The Prudential Assurance Company Limited.
- Vitality Health Limited has provided certain volume guarantees to its reinsurance providers. Discovery Limited has guaranteed these obligations.
- In terms of the agreement entered into between Discovery Insure Limited and Digicore Holdings Limited and C-Track (SA) Proprietary Limited, Discovery Limited has guaranteed the obligations of Discovery Insure to Digicore Holdings Limited.
- In terms of the agreement entered into between Discovery Insure Limited and Hannover Reinsurance, Discovery Limited has guaranteed the obligations of Discovery Insure to Hannover Reinsurance.
- Discovery Health and Discovery Vitality have guaranteed the borrowing facilities of Discovery Limited and Discovery Pref Holding Company. As at 30 June 2018, Discovery Limited owed R6.1 billion and Discovery Pref Holding Company owed R1.4 billion in respect of these facilities. Discovery Limited has issued a counter guarantee in terms of these facilities.
- Discovery Central Services has entered into borrowing facilities for an amount of R649 million. The full amount has been drawn down and the balance outstanding at 30 June 2018 is R568 million. Discovery Health, Discovery Vitality and Discovery Limited have provided guarantees in respect of these facilities.

22. Events after reporting date

Refer to Group note 43 for a list of the events after reporting date.

Directorate

Remuneration and fees

Payments to directors for the year ended 30 June 2018 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	–	6 600	5 412	6 406	990	313	19 721
R Farber[2]	–	4 351	5 320	5 011	–	413	15 095
HD Kallner	–	4 913	5 070	9 526	246	141	19 896
NS Koopowitz[3]	–	15 304	15 215	13 115	173	419	44 226
HP Mayers[4]	–	15 358	12 787	6 901	1 651	377	37 074
Dr A Ntsaluba	–	4 127	3 719	6 399	309	223	14 777
A Pollard[5]	–	5 679	5 100	6 943	228	270	18 220
JM Robertson	–	3 760	3 100	6 112	770	93	13 835
B Swartzberg	–	4 906	4 355	5 874	252	142	15 529
DM Viljoen	–	4 277	750	–	652	71	5 750
Sub-total	–	69 275	60 828	66 287	5 271	2 462	204 123
Prescribed officers							
Dr J Broomberg	–	4 614	3 645	5 754	231	136	14 380
K Rabson	–	4 404	3 424	5 921	220	358	14 327
Dr P Moumakwa[6]	–	1 903	2 669	5 094	204	57	9 927
Sub-total	–	10 921	9 738	16 769	655	551	38 634
Non-executive							
MI Hilkowitz	4 200	–	–	–	–	–	4 200
R Farber[2]	1 353	–	–	–	–	–	1 353
Dr BA Brink	1 286	–	–	–	–	–	1 286
HL Bosman[7]	1 278	–	–	–	–	–	1 278
SE de Bruyn Sebotsa	1 371	–	–	–	–	–	1 371
R Enslin[8]	830	–	–	–	–	99	929
F Khanyile[9]	614	–	–	–	–	–	614
Dr TV Maphai	859	–	–	–	–	–	859
TT Mboweni	1 317	–	–	–	–	–	1 317
AL Owen[10]	2 446	–	–	–	–	175	2 621
SV Zilwa	1 577	–	–	–	–	–	1 577
Sub-total	17 131	–	–	–	–	274	17 405
Total	17 131	80 196	70 566	83 056	5 926	3 287	260 162
Less: paid by subsidiaries	(17 131)	(80 196)	(70 566)	(83 056)	(5 926)	(3 287)	(260 162)
Paid by holding company	–	–	–	–	–	–	–

1 *"Other benefits" comprise medical aid contributions, travel and other allowances.*
2 *R Farber was redesignated as a non-executive director on 1 April 2018. Remuneration and services rendered fees consists of AUD and Rand components.*
3 *Salary and incentive are paid in GBP.*
4 *Remuneration consists of GBP and Rands components.*
5 *Salary and incentive are paid in USD.*
6 *Dr P Moumakwa resigned as prescribed officer effective 31 January 2018.*
7 *Director's fees for services rendered by HL Bosman were paid to Rand Merchant Insurance Holdings Limited.*
8 *Director's fees for services rendered are paid in USD.*
9 *Director's fees for services rendered by F Khanyile were paid to WDB Investment Holdings Proprietary Limited.*
10 *Director's fees for services rendered are paid in GBP.*

Directorate *continued*

Remuneration and fees *continued*

Payments to directors for the year ended 30 June 2017 for services rendered are as follows:

R'000	Services as directors	Basic salary	Perfor-mance bonus	Phantom scheme bonus	Provident fund contri-butions	Other benefits[1]	Total
Executive							
A Gore	–	6 233	3 569	6 141	935	287	17 165
R Farber	–	4 741	2 176	5 858	345	72	13 192
HD Kallner	–	4 642	3 650	8 530	232	126	17 180
NS Koopowitz[2]	–	14 929	10 501	7 898	173	411	33 912
HP Mayers[3]	–	14 894	13 208	6 780	1 623	7 821	44 326
Dr A Ntsaluba	–	3 898	2 328	10 701	292	205	17 424
A Pollard[4]	–	5 890	1 740	8 631	144	255	16 660
JM Robertson	–	3 550	2 050	6 072	727	85	12 484
B Swartzberg	–	4 634	2 731	5 858	238	129	13 590
DM Viljoen[5]		713	10 000	–	109	11	10 833
Sub-total	–	64 124	51 953	66 469	4 818	9 402	196 766
Prescribed officers							
Dr J Broomberg	–	4 352	2 306	5 731	218	131	12 738
K Rabson	–	4 173	2 170	5 814	209	319	12 685
Dr P Moumakwa	–	2 911	1 575	5 139	291	61	9 977
Sub-total	–	11 436	6 051	16 684	718	511	35 400
Non-executive							
MI Hilkowitz	3 834	–	–	–	–	–	3 834
Dr BA Brink	933	–	–	–	–	–	933
HL Bosman[6]	1 268	–	–	–	–	–	1 268
SE de Bruyn Sebotsa	1 256	–	–	–	–	–	1 256
SB Epstein[7]	1 936	–	–	4 052	–	186	6 174
R Enslin	211	–	–	–	–	–	211
F Khanyile[8]	470	–	–	–	–	–	470
Dr TV Maphai	798	–	–	–	–	–	798
TT Mboweni	604	–	–	–	–	–	604
AL Owen[9]	2 862	–	–	–	–	–	2 862
SV Zilwa	1 278	–	–	–	–	–	1 278
Sub-total	15 450	–	–	4 052	–	186	19 688
Total	15 450	75 560	58 004	87 205	5 536	10 099	251 854
Less: paid by subsidiaries	(15 450)	(75 560)	(58 004)	(87 205)	(5 536)	(10 099)	(251 854)
Paid by holding company	–	–	–	–	–	–	–

1 *"Other benefits" comprise medical aid contributions, travel and other allowances.*
2 *Salary and incentive are paid in GBP.*
3 *Remuneration consist of GBP and Rand components.*
4 *Salary and incentive are paid in USD.*
5 *The sign-on bonus paid to DM Viljoen has a two year retention condition.*
6 *Director's fees for services rendered by HL Bosman were paid to Rand Merchant Insurance Holdings Limited.*
7 *Included in director's fees for SB Epstein is US$100 000 for services rendered as director of TVG Inc. Director's fees are paid in USD.*
8 *Director's fees for services rendered by F Khanyile were paid to WDB Investment Holdings Proprietary Limited.*
9 *Director's fees for services rendered are paid in GBP.*

Directorate *continued*

Directors' participation in share incentive schemes

Discovery's directors and prescribed officers participate in the various share incentive schemes offered by the Group and their participation is disclosed below. Refer to Group note 33.1 for a detailed description of the various schemes offered.

Discovery Limited phantom share scheme

Directors and prescribed officers participation as at 30 June 2018:

Directors and prescribed officers	Outstanding shares	Date granted	Strike price R	Final vesting date	Value at allocation date	Value at 30 June 2018 R
J Broomberg	2 973	30/09/2013	–	30/09/2018	251 991	438 554
	5 947	30/09/2013	84.76	30/09/2018	168 023	381 961
	5 484	30/09/2014	–	30/09/2019	536 829	803 249
	10 967	30/09/2014	97.89	30/09/2019	357 853	591 713
	8 433	30/09/2015	–	30/09/2020	1 950 693	1 218 562
	12 650	30/09/2015	134.94	30/09/2020	568 997	348 353
	17 570	30/09/2016	–	30/09/2021	2 019 847	2 536 101
	24 620	30/09/2017	–	30/09/2022	3 487 423	3 497 632
A Gore	5 097	30/09/2013	–	30/09/2018	432 022	751 808
	10 194	30/09/2013	84.76	30/09/2018	288 014	654 790
	9 401	30/09/2014	–	30/09/2019	920 264	1 377 030
	18 801	30/09/2014	97.89	30/09/2019	613 477	1 014 361
	14 456	30/09/2015	–	30/09/2020	1 950 693	2 088 881
	21 685	30/09/2015	134.94	30/09/2020	975 391	597 173
	32 424	30/09/2016	–	30/09/2021	3 727 463	4 680 167
	55 788	30/09/2017	–	30/09/2022	7 902 370	7 925 503
HD Kallner	3 398	30/09/2013	–	30/09/2018	288 014	501 205
	6 796	30/09/2013	84.76	30/09/2018	192 010	436 526
	27 721	30/09/2014	–	30/09/2019	2 713 609	4 060 630
	55 441	30/09/2014	97.89	30/09/2019	1 809 040	2 991 260
	9 638	30/09/2015	–	30/09/2020	1 300 552	1 392 684
	14 456	30/09/2015	134.94	30/09/2020	650 231	398 109
	75 918	30/09/2016	–	30/09/2021	8 727 533	10 958 207
	37 416	30/09/2017	–	30/09/2022	5 299 976	5 315 491
	293 255	01/04/2018	–	01/04/2023	50 000 000	40 941 634
HP Mayers	3 398	30/09/2013	–	30/09/2018	288 014	501 205
	6 796	30/09/2013	84.76	30/09/2018	192 010	436 526
	6 267	30/09/2014	–	30/09/2019	613 477	918 020
	12 534	30/09/2014	97.89	30/09/2019	408 984	676 259
	9 638	30/09/2015	–	30/09/2020	1 300 552	1 392 684
	14 456	30/09/2015	134.94	30/09/2020	650 231	398 109
A Ntsaluba	3 398	30/09/2013	–	30/09/2018	288 014	501 205
	6 796	30/09/2013	84.76	30/09/2018	192 010	436 526
	6 267	30/09/2014	–	30/09/2019	613 477	918 020
	12 534	30/09/2014	97.89	30/09/2019	408 984	676 259
	9 638	30/09/2015	–	30/09/2020	1 300 552	1 392 684
	14 456	30/09/2015	134.94	30/09/2020	650 231	398 109
	38 229	30/09/2016	–	30/09/2021	4 394 806	5 518 076
	19 732	30/09/2017	–	30/09/2022	2 795 038	2 803 220
	39 465	30/09/2017	141.65	30/09/2022	1 863 406	1 535 292

Directorate *continued*

Directors' participation in share incentive schemes *continued*

Discovery Limited phantom share scheme *continued*

Directors and prescribed officers	Outstanding shares	Date granted	Strike price R	Final vesting date	Value at allocation date	Value at 30 June 2018 R
A Pollard	1 147	30/09/2013	–	30/09/2018	**97 220**	**169 146**
	2 294	30/09/2013	84.76	30/09/2018	**64 813**	**147 334**
	2 089	30/09/2014	–	30/09/2019	**204 492**	**306 007**
	4 178	30/09/2014	97.89	30/09/2019	**136 328**	**225 420**
	3 213	30/09/2015	–	30/09/2020	**433 562**	**464 276**
	4 819	30/09/2015	134.94	30/09/2020	**216 759**	**132 703**
	7 587	30/09/2016	–	30/09/2021	**872 202**	**1 095 128**
	15 175	30/09/2016	114.96	30/09/2021	**581 506**	**714 645**
	7 591	30/09/2017	–	30/09/2022	**1 075 265**	**1 078 413**
	15 181	30/09/2017	141.65	30/09/2022	**716 796**	**590 581**
K Rabson	2 973	30/09/2013	–	30/09/2018	**251 991**	**438 554**
	5 947	30/09/2013	84.76	30/09/2018	**168 023**	**381 961**
	5 484	30/09/2014	–	30/09/2019	**536 829**	**803 249**
	10 967	30/09/2014	97.89	30/09/2019	**357 853**	**591 713**
	30 665	30/09/2015	–	30/09/2020	**4 137 935**	**4 431 070**
	45 998	30/09/2015	134.94	30/09/2020	**2 068 990**	**1 266 719**
	17 570	30/09/2016	–	30/09/2021	**2 019 847**	**2 536 101**
	24 620	30/09/2017	–	30/09/2022	**3 487 423**	**3 497 632**
JM Robertson	3 398	30/09/2013	–	30/09/2018	**288 014**	**501 205**
	6 796	30/09/2013	84.76	30/09/2018	**192 010**	**436 526**
	6 267	30/09/2014	–	30/09/2019	**613 477**	**918 020**
	12 534	30/09/2014	97.89	30/09/2019	**408 984**	**676 259**
	9 638	30/09/2015	–	30/09/2020	**1 300 552**	**1 392 684**
	14 456	30/09/2015	134.94	30/09/2020	**650 231**	**398 109**
	37 936	30/09/2016	–	30/09/2021	**4 361 123**	**5 475 783**
	32 636	30/09/2017	–	30/09/2022	**4 622 889**	**4 636 422**
DM Viljoen	75 785	01/05/2017	–	30/04/2022	**10 000 000**	**10 766 370**
	22 450	30/09/2017	–	30/09/2022	**3 180 043**	**3 189 351**
	44 899	30/09/2017	141.65	30/09/2022	**2 119 981**	**1 746 689**
B Swartzberg	3 398	30/09/2013	–	30/09/2018	**288 014**	**501 205**
	6 796	30/09/2013	84.76	30/09/2018	**192 010**	**436 526**
	6 267	30/09/2014	–	30/09/2019	**613 477**	**918 020**
	12 534	30/09/2014	97.89	30/09/2019	**408 984**	**676 259**
	9 638	30/09/2015	–	30/09/2020	**1 300 552**	**1 392 684**
	14 456	30/09/2015	134.94	30/09/2020	**650 231**	**398 109**
	43 493	30/09/2016	–	30/09/2021	**4 999 955**	**6 277 896**
	7 858	30/09/2017	–	30/09/2022	**1 113 086**	**1 116 344**
	15 715	30/09/2017	141.65	30/09/2022	**742 010**	**611 355**

Upon R Farber's redesignation as a non-executive director on 1 April 2018, all outstanding phantom share and phantom options were forfeited.

Directorate *continued*

Directors' participation in share incentive schemes *continued*

The Vitality Group Inc. phantom stock plan

Directors and prescribed officers participation as at 30 June 2018:

Directors and prescribed officers	Outstanding shares	Date granted	Exercise price USD	Final vesting date	Value at 30 June 2018 USD
A Pollard	156 407	01/10/2014	–	01/10/2018	**123 562**
	230 858	01/10/2015	–	01/10/2019	**191 612**
	355 773	01/10/2016	–	01/10/2020	**310 708**
	245 609	01/10/2017	–	01/10/2022	**245 609**
B Swartzberg	254 244	01/10/2017	–	01/10/2022	**254 244**

The VitalityHealth and VitalityLife phantom share schemes

Directors and prescribed officers participation as at 30 June 2018:

Directors and prescribed officers	Outstanding shares	Date granted	Exercise price GBP	Final vesting date	Value at 30 June 2018 GBP
NS Koopowitz	13 248	2015	–	2019	**443 543**
	19 978	2015	154.13	2019	**616 721**
	19 493	2016	–	2020	**648 532**
	14 624	2017	–	2021	**544 159**
HP Mayers	19 978	2015	154.13	2019	**616 721**
	19 493	2016	–	2020	**648 532**
	14 624	2017	–	2021	**544 159**

Other developing segment schemes

Directors and prescribed officers participation as at 30 June 2018:

Directors and prescribed officers	Outstanding shares	Date granted	Strike price R	Final vesting date	Value at 30 June 2018 GBP
HD Kallner	13 303	01/07/2017	–	30/09/2018	**1 962 192**
	19 664	01/07/2017	–	30/09/2019	**2 860 522**
	6 361	01/07/2017	–	30/09/2020	**912 040**

Directorate *continued*

Directors' interests in shares

Other developing segment schemes *continued*

According to the Register of Directors' Interests, maintained by Discovery in accordance with the provisions of section 30(4)(d) of the Companies Act, directors and prescribed officers of Discovery have disclosed the following interest in the ordinary shares of the Company at 30 June:

Directors and prescribed officers	Direct beneficial	Indirect beneficial	Total 2018	Direct beneficial	Indirect beneficial	Total 2017
A Gore	–	49 618 784	49 618 784	–	49 618 784	49 618 784
R Farber	55 076	–	55 076	55 076	–	55 076
HD Kallner	100 398	–	100 398	100 398	–	100 398
NS Koopowitz	–	962 004	962 004	250 000	852 764	1 102 764
HP Mayers	36 948	8 449 550	8 486 498	36 948	8 449 550	8 486 498
A Ntsaluba	110 164	–	110 164	110 164	–	110 164
A Pollard	1 423 099	–	1 423 099	1 423 099	–	1 423 099
JM Robertson	1 404 439	3 390 812	4 795 251	1 404 439	3 390 812	4 795 251
B Swartzberg	3 384 227	22 279 011	25 663 238	3 384 227	22 279 011	25 663 238
DM Viljoen	10 000	–	10 000	10 000	–	10 000
Dr J Broomberg	152 842	–	152 842	160 842	–	160 842
Dr P Moumakwa	–	–	–	13 284	–	13 284
H Bosman	–	77 027	77 027	–	77 027	77 027
Dr BA Brink	25 000	–	25 000	25 000	–	25 000
Dr TV Maphai	1 919	491 395	493 314	1 919	1 074 349	1 076 268
K Rabson	–	755 000	755 000	–	755 000	755 000
SE de Bruyn Sebotsa	65 800	–	65 800	65 800	–	65 800
AL Owen	33 747	–	33 747	33 747	–	33 747
SV Zilwa	–	34 780	34 780	–	34 780	34 780
	6 803 659	86 058 363	92 862 022	7 074 943	86 532 077	93 607 020

There has been no change in the directors' interests in Discovery Limited's shares between 30 June 2018 and the date of publication of this annual report.

Analysis of shareholders

at 30 June 2018

	Number of shareholders	%	Number of shares	%
Shareholder spread				
1 – 1 000 shares	29 149	78.89	7 518 381	1.16
1 001 – 10 000 shares	6 525	17.66	18 030 981	2.79
10 001 – 100 000 shares	1 001	2.71	29 141 934	4.50
100 001 – 1 000 000 shares	195	0.53	62 394 548	9.65
1 000 001 shares and over	79	0.21	529 759 148	81.90
	36 949	**100.00**	**646 844 992**	**100.00**
Distribution of shares				
Black Economic Empowerment			35 992 733	5.56
Charity			1 074 786	0.17
Corporate holding			161 944 576	25.04
Custodians			5 864 481	0.91
Exchange-traded fund			8 354 706	1.29
Foreign government			284 808	0.04
Hedge fund			920 032	0.14
Insurance companies			9 034 273	1.40
Investment trusts			2 440 617	0.38
Local authority			367 097	0.06
Medical Aid Scheme			52 478	0.01
Other managed funds			18 040 547	2.79
Pension funds			98 700 098	15.26
Private investor			115 436 572	17.85
Sovereign wealth			27 934 625	4.32
Trading position			23 793 210	3.68
Unit trusts and mutual funds			136 271 392	21.07
University			142 075	0.02
Venture capital			195 816	0.03
			646 844 922	**100.00**
Public/non-public shareholders				
Non-public shareholders	**27**	**0.08**	**343 403 125**	**53.09**
– Directors of the Company	16	0.04	91 954 180	14.22
– Empowerment	6	0.02	35 992 733	5.56
– Own holdings	1	0.00	680 268	0.11
– Key management personnel	2	0.01	907 842	0.14
Strategic holdings (more than 5%)	2	0.01	213 868 102	33.06
Public shareholders	**36 922**	**99.92**	**303 441 867**	**46.91**
	36 949	**100.00**	**646 844 992**	**100.00**

	Number of shares	%
Beneficial shareholders' holding of 5% or more		
Rand Merchant Insurance Holdings Limited	161 944 576	25.04
Government Employees Pension Fund	51 923 526	8.03
A Gore	49 618 784	6.93

Annexure A: Product descriptions

Discovery Life

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

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

Discovery Life Plan

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

The Discovery Life Plan covers:

- Life Cover Benefits.
- Disability Benefits.
- Severe Illness Benefits.
- Income Continuation Benefits.

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

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

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

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

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

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

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

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

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

The Smart Life Plan was launched in September 2017 and enhances Discovery Life's offering to a younger clientele, providing benefits which are tailored to appeal to individuals aged between 18 and 29.

Health Plan Protector (discontinued)

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

Medical Premium Waiver

The Medical Premium Waiver funds contributions to a client's Health Plan in the event of death, disability or severe illness and can be bought on a stand-alone basis. The Health Plan Protector provides cover up to age 65, however premiums are not guaranteed.

Annexure A: Product descriptions *continued*

DiscoveryCard Protector (discontinued)

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

Standalone Global Education Protector

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

Supplementary Gap Cover

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

Supplementary Cancer Protector

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

Funeral Cover

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

Group Life

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

Discovery Invest

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

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

The following wrappers are available:

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

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

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

Annexure A: Product descriptions *continued*

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

- **Investment Integrator:** Uses inter alia the health improvements from Vitality and tax efficiencies created to offer a cost effective endowment and increase the value of the investment. A fee reduction of up to 100% can be achieved on both administration and asset management fees. This benefit is no longer available to new business.
- **Annuity Integrator:** By releasing the value of a policyholder's life cover at retirement, the Annuity Integrator creates enhanced benefits for Discovery Retirement Income Plan investors. The benefits include increased retirement income, protection against longevity, protection against ill-health and protection against poor performance of underlying assets.
- **Guaranteed return plans:** Guaranteed return plans include the following:
  - The Guaranteed Growth Plan is a single premium endowment that provides a guaranteed return at the end of five years.
  - The Guaranteed Income Plan provides a guaranteed return at the end of five years on the chosen percentage of the lump sum contribution. The remainder of the lump sum will provide a monthly or annual income.
- **Upfront Investment Integrator:** Provides an upfront boost to the member's investment value of the lump sum Endowment plan.
- **Life Booster:** Provides a boost to the investment fund value on death of between 5% and 15% depending on the member's Vitality status.
- **Retirement Income Investment Integrator:** Boosts annual annuity payments received by up to 50% depending on the member's Vitality status and chosen annual annuity income.
- **Retirement Upfront Investment Integrator:** Provides an upfront boost to the member's investment value of the lump sum Retirement and Preserver plans.
- **Classic Benefits:** Consists of a range of benefits which enhance and protect the member's investment fund offered on the lump sum Retirement plans, Preserver plans and lump sum Flexible Investment plans.
- **Administration Fee Integrator:** A fee discount of up to 100% can be achieved on the administration fee of the Investment plan, where the discount is based on Vitality status and invested term.
- **Flexible Pan Retirement Integrator:** Provides a boost to the Retirement Upfront Investment Integrator of up to 50% of asset management fees paid in the Flexible Investment Plan.
- **Discovery Retirement Optimiser:** Offers funding for retirement and offers unique benefits that, together with a Discovery Life Plan, boosts retirement funding. Policyholders have a choice of linked investment portfolios or a portfolio that offers a guaranteed return in real terms. Funds offering a guaranteed return has been closed to new business.

VitalityLife

VitalityLife Plan

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

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

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

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

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

Annexure A: Product descriptions *continued*

Essentials Plan

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

Guaranteed 50 Plus Plan

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

Relevant Life Plan

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

Business Protection Plan

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

Mortgage Plus Plan

The Mortgage Plus Plan provides insurance protection for individuals and families against death, disability and serious illness when taking out a mortgage on their home.

Vitality Optimiser

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

Whole of Life Optimiser

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

Wellness Optimiser

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

VitalityHealth

VitalityHealth offers three main product types:

Individual product

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

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

SME product

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

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

Annexure A: Product descriptions *continued*

Corporate product

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

- **Private Medical Insurance:** Cover is offered for a range of private healthcare-related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions. Administration of healthcare trusts providing medical benefits to employees of large corporates is also available.
- **Vitality rewards for employees:** A base level Vitality package is offered to all members, including gym offering and healthcare-benefits. Employers can choose to add activity- and status-dependent rewards. A 'stand-alone' Vitality programme is being launched to large corporates where medical benefits are not provided, via a joint venture with Nuffield Health.

Discovery Insure

Discovery Insure underwrites both personal and more recently commercial lines business, specific products are as follows:

Motor

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

Property

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

Liability

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

Health Gap Cover

Provides cover shortfalls on specialist accounts for hospital admissions, shortfalls for specific treatment before and after hospital admissions, as well as additional funds for cancer treatment. Note that this product is sold as part of personal lines insurance only.