Discovery

CREATING SHARED VALUE

Integrated Annual Report 2015

Our core purpose and ambition

Our core purpose is to make people healthier and enhance and protect their lives.

Our ambition is to be the best insurance organisation in the world and a powerful force for social good.

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

Our shared value insurance model delivers better health and value for clients, superior actuarial dynamics for the insurer, and a healthier society.

Our unique approach has underpinned our success globally, with substantial new business growth and an impressive increase in normalised operating profit and headline earnings. Today, Discovery covers over 5.1 million clients, and generates in excess of R37. 8 billion of annual revenue.

In this report we explain what shared value insurance means for us, for our strategy and for the way in which we evaluate our performance.

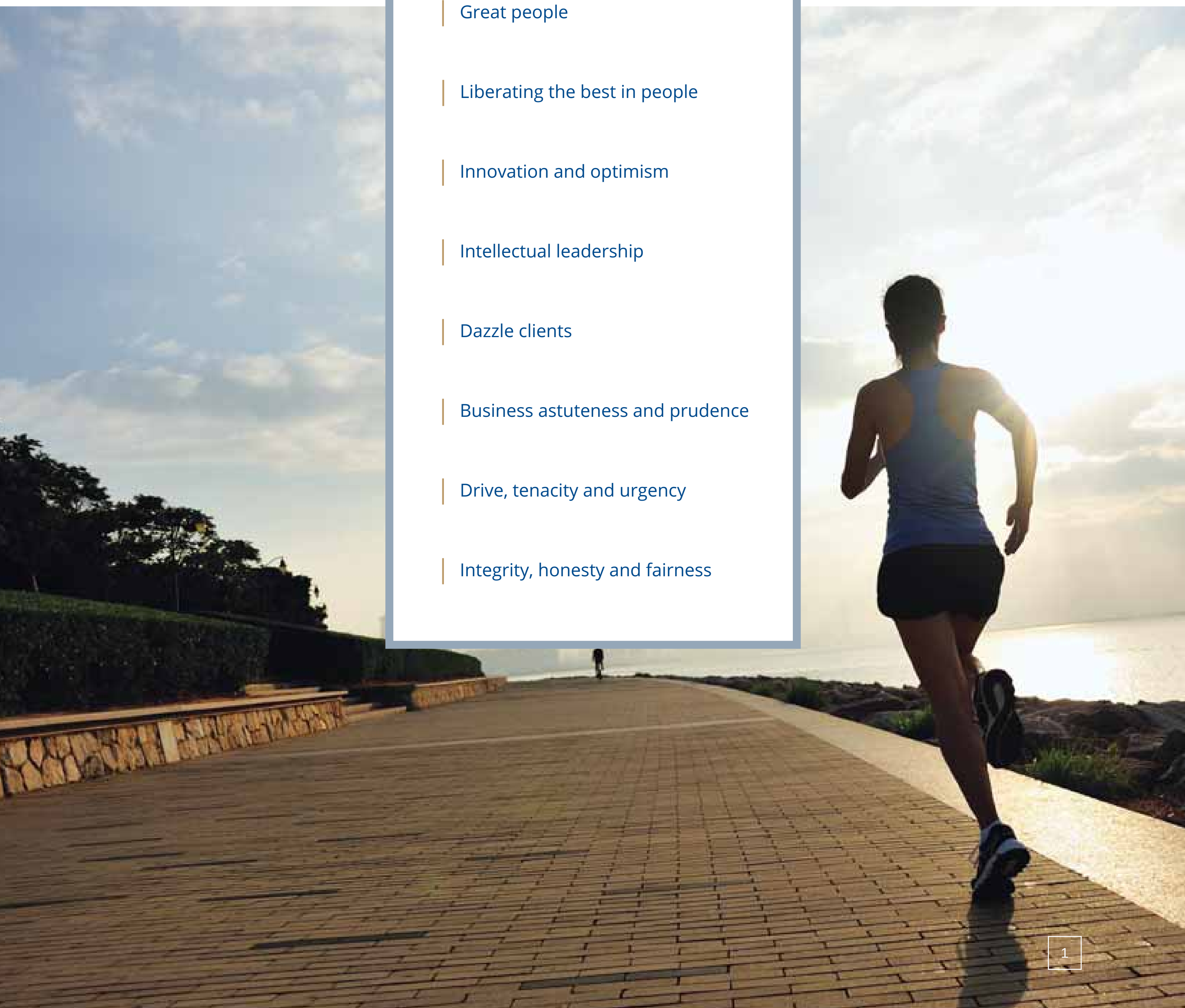
Our main clients are large-, medium-, and small-sized employers for health insurance, as well as individuals who buy health, life and short-term insurance and savings and investment products from us.

Through our scalable business model, we are exporting Discovery's intellectual property from our home market of South Africa to other industries and markets, including the United Kingdom, United States, China, Singapore, Hong Kong, Australia and Europe.

Our values

Our values frame our decisions and form the foundation of everything we do.
It is brought alive by our people, in how we think and through our actions.

- Great people
- Liberating the best in people
- Innovation and optimism
- Intellectual leadership
- Dazzle clients
- Business astuteness and prudence
- Drive, tenacity and urgency
- Integrity, honesty and fairness



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About this report

This report has been prepared broadly in line with the guidelines of the International Integrated Reporting Council (IIRC). Building on our reporting in previous years, we have aimed to make this document more concise, presenting our readers with a complete picture of our integrated business model and strategy, but remaining focused on the issues which are material for the business and for shareholders.

This integrated annual report is supplemented by a separate People and Sustainable Development Report, in which we provide additional detail about our framework for sustainable development and our sustainability strategy.

Scope and boundary

In this report, we cover the operations of Discovery Limited, including Discovery Health, Discovery Vitality, Discovery Life, Discovery Invest, and Discovery Insure in South Africa, VitalityHealth and VitalityLife in the UK, as well as our other international operations, falling under Discovery Partner Markets. These include Ping An Health, The Vitality Group (including the John Hancock partnership), AIA Vitality and the Generali partnership.

Non-financial data is included for all South African-based operations.

Material issues for reporting

We identified six issues which we believe represent some of the most material challenges for the business today and which have driven our selection of content for this report. The issues were identified following extensive management discussions and workshops, as well as a review of key risks identified by the organisation and issues highlighted in commentary from external stakeholders.

In the interest of keeping our report concise, we have not devoted a section to analysing these material issues, but have instead covered them throughout the document. The box alongside gives an indication of where information on each issue can be found.

Material issues

01 | Achieving new business growth by continuing to innovate products and services, and increasing our ability to capture value across the chain in our chosen business segments

- Group Chief Executive Officer — **page 8**
- Group Chief Financial Officer — **page 12**
- All business reviews — **page 30**

02 | Consolidating recent acquisitions, particularly the transition of the UK business to full ownership under the Vitality brand, and obtaining our UK life insurance license in our UK primary market

- Group Chief Executive Officer — **page 8**
- Group Chief Financial Officer — **page 12**
- VitalityHealth and VitalityLife — **pgs 66 and 74**

03 | Continue to explore adjacent industries in the South African market that leverage our behavioural-based business model; and explore opportunities to export successful local adjacencies to international markets

- Group Chief Executive Officer — **page 8**
- Group Chief Financial Officer — **page 12**
- Discovery Partner Markets — **page 78**

04 | Continue to grow internationally, finding models that leverage our South African intellectual property for Discovery Partner Markets

- Group Chief Executive Officer — **page 8**
- Group Chief Financial Officer — **page 12**
- Discovery Partner Markets — **page 78**

05 | Ensuring the best skills, depth of leadership and diversity in our business that will enable continued innovation to benefit our clients and help us to become the best insurance organisation in the world

- People and Sustainable Development Report **www.discovery.co.za/info/2015PSDReport**

06 | Navigating an increasingly complex regulatory environment

- Compliance Review — **page 110**
- Group Chief Executive Officer — **page 8**

In addition to the material issues, we believe it is important to use this report to communicate our approach to the creation of shared value through our business model.

During 2015 we made progress in further refining this approach and in developing our understanding of what constitutes shared value metrics.

Preparation of Discovery's Annual Financial Statements

for the year ended 30 June 2015:

- Annual Financial Statements
  – L Capon CA(SA) and L van Jaarsveldt CA(SA) (prepared)
  – R Farber CA(SA) FC MA (supervised)
- Embedded Value Statement
  – M Curtis FASSA, FIA (prepared)
  – A Rayner FASSA, FIA (supervised)

Approval by the Discovery Board of Directors

The Discovery Limited Board of Directors approved the Discovery Integrated Annual Report on 6 October 2015, based on the recommendation of Discovery's Audit Committee.

Signed by the Chairperson of the Discovery Limited Board of Directors.
Monty Hilkowitz

Statement from Discovery Group Internal Audit

Discovery Group Internal Audit performed a limited review of the statements and quantitative data contained in the Discovery 2015 Integrated Annual Report, with the exception of the Annual Financial Statements.

Set out below is a summary of the procedures performed pertaining to the financial and non-financial information as contained in the Integrated Report, as well as for the Key Performance Indicators (KPIs) and the Global Reporting Initiative (GRI) indicators in the People and Sustainable Development Report for the year ending 30 June 2015, which were included in the scope of the limited assurance engagement.

- Discovery Group Internal Audit obtained an understanding of:
  - The stakeholder engagement process
  - The selection and application of integrated and sustainability reporting policies
  - How management has applied the principle of materiality in preparing the Integrated Annual Report and the specified KPIs and GRIs in the People and Sustainable Development Report.
- Discovery Group Internal Audit made enquiries of management, employees and those responsible for the preparation of the Integrated Report and the specified KPIs and the GRIs, as considered necessary.
- Discovery Group Internal Audit inspected relevant supporting documentation and obtained such external confirmations and management representations as considered necessary for the purposes of the audit engagement.
- Discovery Group Internal Audit performed analytical procedures and limited tests of detail responsive to the risk assessment and the level of assurance required, including a comparison of judgementally selected information to the underlying source documentation from which the information has been derived.

Based on the evidence obtained in completing this limited assurance engagement, Discovery Group Internal Audit believes that the information (quantitative and qualitative), disclosed in the Integrated Annual Report, sufficiently and appropriately represents the Group's performance for the year ended 30 June 2015.

Reporting frameworks

We used the guidelines provided by the International Integrated Reporting Framework and the Global Reporting Initiative (GRI) G3.1 guidelines in preparing our 2015 Integrated Annual Report and People and Sustainable Development Report. The application of G4 guidelines for future reporting is under review. Our self-declared application level according to the Global Reporting Initiative is B+ and this application level has received third-party verification from Indyebo Incorporated. The statement from Indyebo Incorporated is available in our 2015 People and Sustainable Development Report. Our Annual Financial Statements were prepared in accordance with International Financial Reporting Standards.

How we report to our stakeholders

Together with our Integrated Annual Report, there is a number of other reports and publications we make available to stakeholders. These reports provide detailed information on Discovery and our economic, financial, and social performance during the past financial year, as well as our prospects.

Integrated Annual Report

Our Integrated Annual Report provides an analysis of our financial, economic, and social performance in relation to our business strategy going forward.
www.discovery.co.za/info/2015integratedreport

Annual Financial Results Presentation

A presentation of Discovery's annual financial results to investors.
www.discovery.co.za/info/2015annualresults

Summarised Annual Financial Statements

Presents summarised financials and administration requirements (AGM notice, proxy form).
www.discovery.co.za/info/2015summarisedfinancials

People and Sustainable Development Report

An overview of Discovery's performance according to our Framework for Sustainable Development.
www.discovery.co.za/info/2015PSDReport

King III Register

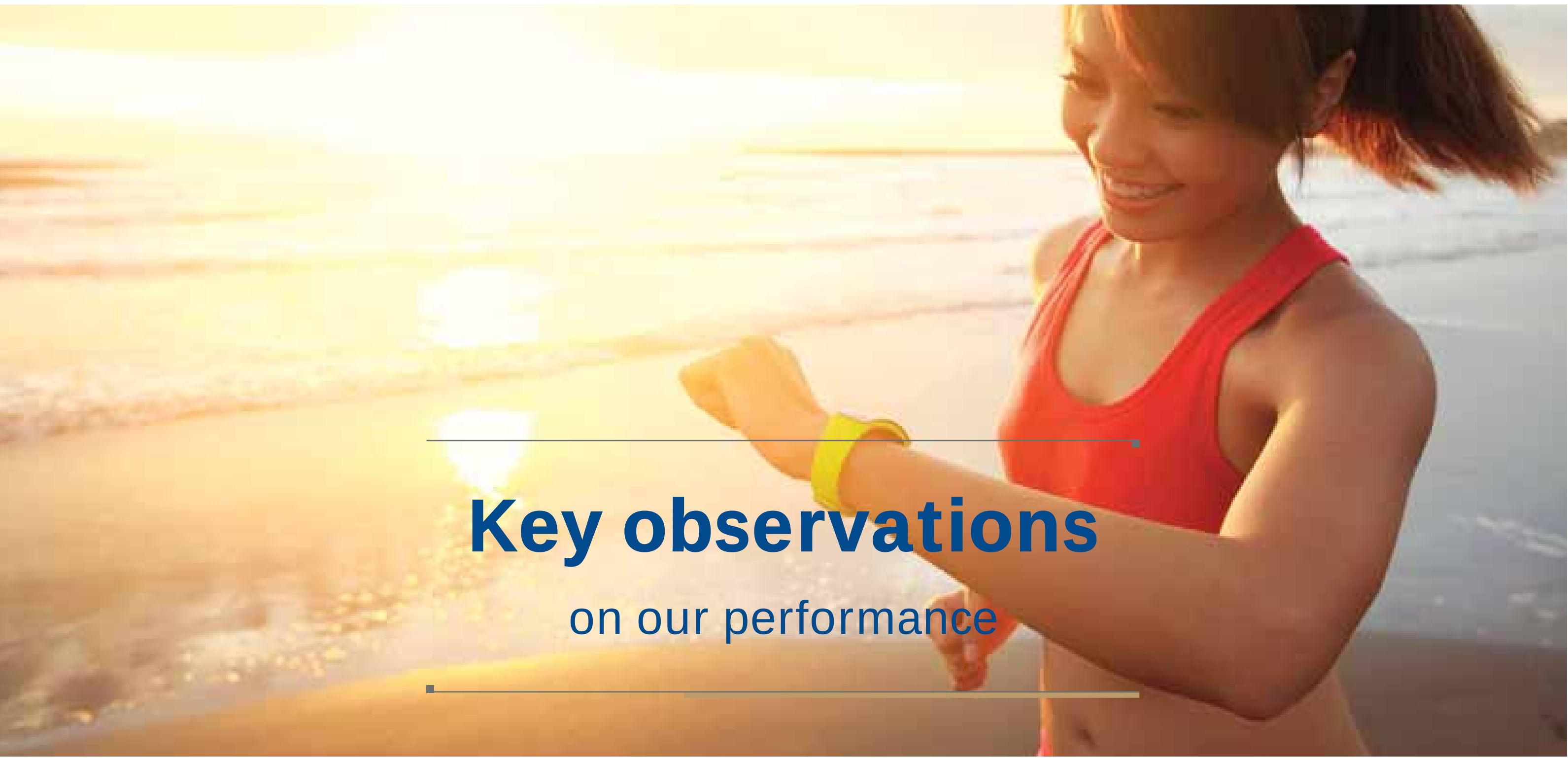
The King III Register provides a complete view of how Discovery addresses the principles of King III.
www.discovery.co.za/info/2015King3

Comments

We value feedback and comments from our stakeholders on our Integrated Annual Report, as well as our other publications. Please send your comments to
askthecfo@discovery.co.za

Contact us

Mr Richard Farber, Discovery Chief Financial Officer
+27 11 529 1855



Key observations

on our performance

01 | Financial performance

Normalised headline earnings

+ 16% to R4 027 million

New business annualised premium income

+ 51% to R17 532 million

Growth in embedded value

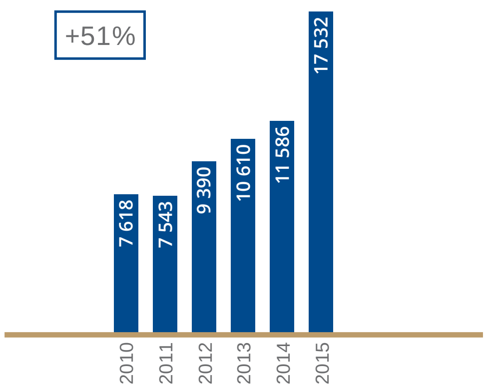
+ 21% to R52 295 million

Normalised profit from operations

+ 17% to R5 789 million

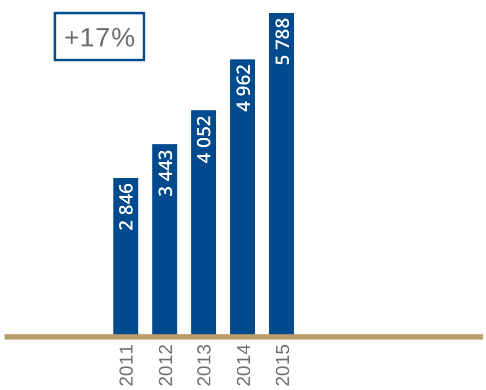
New business annualised premium income (API)

(Rm)



Operating profit

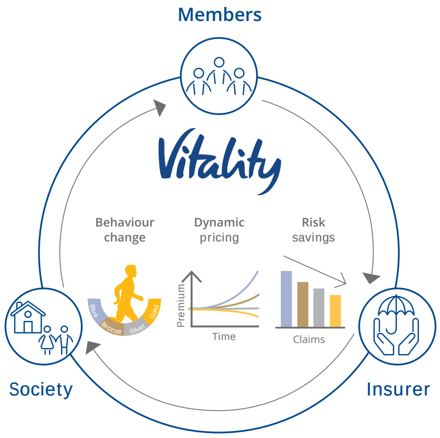
(Rm)



02 | Business model

Network of insurers

AIA Vitality | Discovery | Generali Vitality | Ping An | John Hancock | Vitality



Global collaboration with Apple

03 | Business performance

Outstanding growth in primary markets, supported by an acceleration from our newer businesses

Successful transition to full ownership in the UK, evidenced by strong business performance

Continued global rollout of the model, with continued momentum from Ping An Health

04 | Social value

Discovery was named by Fortune Magazine as **one of the 51 companies globally that have made a sizeable impact on major global, social or environmental problems** as part of their competitive strategy

Vitality: On average, a Vitality member used a partner gym every **0.85 seconds,** thereby increasing the average fitness and activity levels among our members

38 medical specialists and healthcare organisations received research grants from the **Discovery Foundation,** bringing the number of recipients since 2006 to **over 273**

Discovery Foundation has invested over R129 million in medical education since 2006

Discovery received the Geneva Forum for Health Award, an award that recognises advances and contributions to healthcare systems

The Discovery Insure Driving Challenge helped drivers improve their driving behaviour **by 20%** in the first two days of taking part in the challenge

Review from Adrian Gore

Discovery Chief Executive

We have invested in strengthening our insurance, behavioural and technology assets to succeed and lead in the markets in which we operate, and to build a global business that is relevant.

Discovery is at the forefront of insurance that is **dynamic and technology-enabled.**

We have the potential to **leverage our global scale** to secure major technology, academic and reward partnerships to bolster the Vitality model and **shape the shared** value insurance space.

The past year has seen an acceleration of influential trends in the global insurance market. The nature of risk has become even more behavioural and complex. Technology is playing a bigger role and wearable devices are becoming more ubiquitous; while health promotion and disease prevention continue to be personalised. Given this environment, we have invested in strengthening our insurance, behavioural and technology assets to succeed and lead in the markets in which we operate, and to build a global business that is relevant. Towards this, we have broadened our scope in terms of geographic reach and social value creation, collaborating with insurance partners and other stakeholders to drive the shared value business model and realise our ambition to be the best insurance organisation in the world. With this in mind, I would like to highlight some key developments over the past year:

Investment in our business model

From its genesis, Discovery has been built on the purpose of making people healthier, utilising Vitality to underpin a best-in-class insurance model. This has given rise to established shared value insurance businesses in our primary markets, and an ambition to enhance and expand this model in secondary and partner markets. As part of this, Discovery has been working on building a global network of insurance partners under the Vitality banner, including AIA in Asia, John Hancock in the United States, Generali in Europe and Ping An Health in China. Together with our partner insurers, we have the potential to leverage our global scale to secure major technology, academic and reward partnerships to bolster the Vitality model and shape the shared value insurance market.

The Vitality model encompasses a number of wellness pillars, with a particularly powerful one being physical activity – since inactivity accounts for a large portion of the preventable disease burden, and physical activity often serves as a trigger for further health and wellness engagement. In the UK, Vitality has pioneered Active Rewards, a device engagement platform, and we have seen early success in creating organic physical activity engagement. These insights and developments, combined with the advent of wearable technology and the quantified self – increased self-knowledge through tracking health data with technology – have resulted in the refinement of Vitality's intellectual property, manifesting in a global product, Vitality Active Rewards. This product tracks Vitality members' physical activity and rewards them with real-time benefits from partners such as Starbucks, on the achievement of personalised physical activity goals. Vitality Active Rewards is thus an evolution of the Vitality model that combines personalised pathways with the provision of wearable devices and everyday rewards to encourage positive behaviour change – placing Discovery at the forefront of insurance that is dynamic and technology-enabled.

This drive to stay disruptive and exceed the expectations of our members can be witnessed throughout the organisation, from broad strategic moves to more focused internal initiatives. For example, this year's Actuarial Conference for Discovery employees, featured ideas spanning how personality profiles impact behaviour to better disease management using an expanded clinical toolkit. We also saw the benefit of analysing established methodologies in new ways, such as the outcome of VitalityHealth's study of corporate wellness data, featured on the front page of the Financial Times. I do believe this continuing renewal of our model, without sacrificing its conceptual integrity, will keep us both competitive and meaningful.

Review from Adrian Gore continued

Primary market: South Africa

In South Africa, we witnessed significant milestones in various businesses, as we continue to build on solid foundations to expand and develop our assets. In July, Discovery Health reached three million lives under management, a remarkable achievement that motivates us to pursue further excellence and positive impact. In addition, Discovery Invest reached R50 billion in assets under management in April – also a phenomenal accomplishment. Finally, Discovery Insure is now ranked number two in personal lines new business and is attracting close to 15% of new business volumes in South Africa.

On the back of their success, our incumbent businesses have used their scale to invest in key assets, with great growth potential built into the South African market. Discovery Health has developed unique competencies in creating a better healthcare system, as evidenced by it recently being awarded the administration of Bankmed Medical Scheme – a closed medical scheme covering banking employees in South Africa. Other significant initiatives include HomeCare, MedXpress and enhanced digital platforms for members and healthcare professionals to engage with Discovery Health.

Discovery Life showed strong growth in profits and new business, increasing its market share from 26% to close to 30% in the intermediated affluent market – a testament to the high quality of the aligned-adviser force, which grew in both size and productivity. Its performance demonstrates the efficacy of the shared value model, with members gaining access to competitive products and exceptional policyholder returns, while the business benefits from a healthier, more integrated membership base and a lower lapse rate.

In Discovery Insure, new business continues to grow while the business continues to innovate differentiating features and services such as Claimsview, a new online claims portal on the Discovery website that provides planholders with up-to-date progress of a claim once it has been submitted. With Discovery Insure, our aim is to bring about measurable behaviour change, thereby positively impacting the overall safety of South Africa's roads. In this regard, our driver-behaviour programme continues to encourage Discovery Insure clients to improve their driving behaviour.

Second primary market: United Kingdom

During the first half of the financial year, Discovery entered into a transaction to purchase the 25% shareholding in the UK joint venture from Prudential. This transaction was completed mid-November, with a new brand – Vitality – being launched. The previous businesses of PruHealth and PruProtect have been successfully rebranded to VitalityHealth and VitalityLife, with an integrated marketing campaign driving increased brand awareness and resonance. The UK business is rolling out exciting product enhancements and digital innovations such as VitalityGP, and delivered key insights into the corporate space via Britain's Healthiest Company and Corporate Vitality.

These developments reflect the consolidation of the UK market and its continued investment in the Vitality asset to fulfil our ambition of building the best protection business in the UK. Highlights include the ongoing success of the Life business, with integrated products performing particularly well. VitalityLife recorded three consecutive record sales quarters, reflecting the powerful consumer brand the business has developed, and continues to grow its market share in the independent financial adviser space. VitalityHealth has been focusing on quality of new business and experienced strong product resonance and member engagement with the Vitality wellness programme – particularly with the new Active Rewards benefit.

Local adjacencies

Discovery's intention is to expand its business model into banking, and to establish an innovative full-service retail bank. The success of Discovery Card has demonstrated the efficacy of the Discovery model which utilises the Vitality capability to leverage behavioural economic insights and incentives to encourage better behavioural choices, when combined with market-leading banking capabilities. This has resulted in a fast-growing, profitable credit card of excellent quality that offers unique value to members, and ongoing value to shareholders.

Discovery Partner Markets

Discovery has restructured its traditional joint venture operating model with insurance partners in overseas markets, and adopted a Partner Market approach. Using this archetype, we have announced partnerships with two additional insurers – John Hancock in North America and Generali in Europe – thereby expanding the shared value insurance model into new markets. The newly-adopted operating model positions Discovery Partner Markets well to contribute to future Group profits and expansion, and we are excited about future prospects for these partners.

During the past year, Discovery Partner Markets continued to show promising performance as start-up businesses made their way towards profitability. This demonstrates the resonance of the Vitality model with insurers around the world. New business in Ping An Health more than tripled over the past financial year and we remain optimistic about the partnership's potential, given innovations such as the group mid-market products and the latent opportunity in the Chinese insurance market, supported by regulatory reform. In the Asia-Pacific region, AIA completed a successful launch in Hong Kong in July, and plans to grow penetration of AIA Vitality further through product innovation and strategic partnership. Asia is regarded as one of the largest and fastest-growing insurance markets in the world, and we are well-placed to compete in this space.

Regulatory environment

We recognise that Discovery operates in a complex regulatory environment. Discovery continues to focus on how this environment develops to ensure that the business is positioned well for future growth.

Force for social good

Discovery has embarked on a number of initiatives linked to our goal of being a force for social good, notably a powerful partnership with the City of Johannesburg around healthy schools and the Childsafe project aimed at safe school commuting. The City of Joburg Healthy Schools Programme will provide incentives to schools to improve indicators of student health, with an aim of being the largest schools health programme by 2020. The Discovery Safe Travel to School programme is focused on making the school commute safer for children by using Discovery Insure's telematics technology and rewards to change the way school transporters drive. Initial results from the pilot group in South Africa's Western Cape Province shows hugely positive outcomes in terms of less risky driving behaviour, which should manifest in fewer accidents involving this vulnerable group.

The Discovery Foundation has continued its pursuit of making South Africa a centre of excellence in Academic Medicine, and has to date invested over R129 million in training 273 specialists in areas of need. All recipients will train further at medical institutions in South Africa, as well as at leading institutions internationally, including Massachusetts General Hospital and Cleveland Clinic in the United States.

These and other efforts to bring about enhanced wellness and safety through the mechanism of our business model have been acknowledged this year. In May, Discovery was recognised at the global Shared Value Summit held in New York, the pre-eminent meeting of minds on the topic. This was a humbling and affirming acknowledgment that I believe greatly furthered our cause to be a force for social good on a global stage.

In addition, we were honoured with the Geneva Forum for Health Award, presented annually during the forum for health at the World Health Assembly. The award recognises advances and contributions in health systems that have, or will have, the potential to fundamentally improve the health of people around the world. It is thus an exceptional acknowledgement, with other recipients including the likes of Chief Medical Officers from various leading companies and national Health Ministers.

Finally, in August this year Discovery was placed 17th in Fortune Magazine's "Change the World" list, which lists 51 companies that have made a sizeable impact on major global social or environmental problems as part of their competitive strategy. This is again a further confirmation of the resonance and impact of our shared value insurance model.

Values and people

The milestones over the year highlight the fact that as we have grown, the drivers of our success have not diminished. One would expect certain features to dilute with scale, yet our experience has been the opposite: as we reach more members, markets and countries, that which powers the business – our values – have only intensified.

Core to these values are the people that exemplify them every day. Over the year, we have consistently invested in attracting, retaining and developing great people, and in March this year Discovery People (our human resources division) started a transformation process to more clearly define its role in achieving our ambition. This will see the establishment and refinement of key initiatives in recruitment, talent, stakeholder management, leadership, analytics and transformation. A highlight over the year included the Adrian Gore Fellowship Award (AGFA), now in its third year. This is a key initiative to source the top diverse actuarial talent in South Africa – with the recipient this year being Mathew Green from the University of Cape Town.

In terms of our own corporate wellness, we recently completed a 10 Ton Challenge, which provided great insights into ways to create a healthy, thriving workforce. The challenge served as a microcosm of what we are trying to achieve at scale, and invites us to reflect on the pathways to success, and the attitudes underpinning them. Overall, Discovery employees lost 2 200 kilogrammes, resulting in 43 940 nutritious meals donated to our charity partner, Joint Aid Management.

Conclusion

The year has been a tremendous one in terms of solidifying our strategy to have a powerful and distinctive global insurance presence. I would like to thank the remarkable Discovery team for their efforts over the year. I believe our team is truly exceptional from a drive and ideas perspective – and I am humbled every day as I witness their passion to scale and export what we believe to be our noble core purpose. I remain excited for what lies ahead as we move towards achieving our ambition by 2018 of being the best insurance organisation in the world, and a powerful force for social good.

Review from Richard Farber

Discovery Group Chief Financial Officer

The year to 30 June 2015 marked a period of strong performance for Discovery.

The period saw new business grow 51% to R17 532 million (15% excluding Bankmed); normalised profit from operations up 17% to R5 789 million; growth in embedded value of 21% to R52 billion, driven by a return on covered business of 18% and the R5 billion rights issue; and return on average equity of 18%.

New business
↑51%
to R17 532 **million**

Embedded value
↑21%
to R52 **billion**

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Financial highlights for 2015

In November 2014, Discovery acquired the remaining 25% issued share capital of Prudential Health Holdings Limited, the holding company of PruHealth and PruProtect, the UK joint venture with Prudential for GBP 155 million (the acquisition).

The acquisition was consistent with Discovery's strategic ambition to have full ownership of the underlying insurance entities in the UK and was primarily funded as follows:

- Bridging debt was raised by Discovery Limited for R1.5 billion. This debt was repaid before 30 June 2015.
- Discovery Life Limited entered into a financial reinsurance treaty resulting in a cash inflow of R1 250 million. This treaty effectively reinsures approximately 8% of the negative reserve at 31 December 2014. The inflow has been disclosed in profit or loss as a receipt arising from reinsurance contracts and transfer to liabilities arising from reinsurance contracts.

Following this acquisition, PruHealth and PruProtect were successfully rebranded as VitalityHealth and VitalityLife. The rebrand reflects the integral nature of the Vitality asset to Discovery's ambition of building the best protection business in the UK. These rebranding costs, as well as other once-off costs relating to the acquisition, totalled R420 million in the year ended 30 June 2015 and have been excluded from normalised headline earnings.

In February 2015, the business announced a rights issue to fund growth opportunities in the UK and in local adjacencies. The response was overwhelmingly positive, and the rights issue of R5 billion was notably oversubscribed. Less than 1% of the shares offered were not taken up directly and for these excess shares, Discovery had applications for over R6 billion in shares. Of the R5 billion raised, approximately R3 billion will be used to fund additional capital required by VitalityLife to obtain its own life licence.

Approximately R2 billion of the rights issue proceeds will be used to fund Discovery's increased participation in Discovery Card (established in 2004 by Discovery and First National Bank, (a division of FirstRand Bank Limited), from 20% to 74.99% and to invest in the development of the financial services platform.

Review from Richard Farber continued

Challenges experienced in 2015

New business volumes in VitalityHealth were lower than our target, as the business focused on improving loss ratios. Furthermore, our corporate proposition in the UK Health insurance market has yet to gain the traction needed to differentiate our proposition in a commoditised market.

Although the markets in Asia Pacific continue to show acceptance and preference for Vitality as a wellness programme, challenges have been experienced in executing the software development in the different markets. This has slowed the expansion of Vitality in the Asian markets. Discovery has made the decision to outsource the software development where appropriate, allowing focus on the structuring of incentives and on sourcing quality reward partners.

Health metrics reporting

During the year we made substantial progress in addressing a critical component of long-term financial performance – improving the health and wellness of our workforce.

It is widely recognised that the health of a workforce is a critical economic driver and it has been shown that there is a direct financial correlation between employee wellness and the financial success of a business. The problems associated with lifestyle diseases have a significant impact in the workplace, reducing productivity, adversely affecting real and lasting employee engagement, and restricting the development of a positive and proactive employee culture. The effects are felt at a tangible level in higher incidences of employee illness and absenteeism, reduced employee morale and significantly reduced levels of employee engagement and productivity, often referred to as presenteeism.

Non-communicable diseases (NCDs) are the leading drivers of healthcare costs. The World Economic Forum (WEF) and the Harvard School of Public Health estimate that the global economic impact of cardiovascular disease, chronic respiratory disease, cancer, diabetes and mental illness could amount to a productivity loss of $47 trillion to businesses over the next two decades. In a WEF survey of business executives from around the world, NCDs were identified as one of the leading threats to economic growth.

Many NCDs are associated with preventable risk factors such as tobacco use, unhealthy diet, physical inactivity and harmful levels of alcohol use. Altering such lifestyle habits requires that employers structure interventions to encourage change and that they are able to measure the resulting improvement in employees' health indicators. For this reason, in 2015 we embarked on a project to include the measurement of employee health and wellness in our future reporting. We believe that this presents an opportunity for businesses to mitigate the impact of poor health on financial performance in a way that results in tangible and sustainable outcomes.

In line with our objective to promote health and wellness programmes that advance society, we have worked with leading health institutions such as the Harvard School of Public Health, McBassi & Company, Johns Hopkins University, the American College of Occupational and Environmental Medicine (ACOEM) and the University of California to develop health metrics that can be used to measure employee health and wellness and its impact on the business.

Agreement has been secured from companies in a range of sectors to pilot these metrics. In addition to Discovery, Edelman, IBM, Johnson & Johnson, LendLease, Lockheed Martin, Merck, Novo Nordisk, and PepsiCo will form part of this pilot group.

Discovery Vitality's research shows that employees who participate in wellness programmes at work exhibit lower absenteeism in comparison with those who do not, accounting for a **positive impact of approximately 3%** in direct and indirect costs for the employer.

Our approach to reporting on health metrics

Our vision

By 2020, we believe workforce health metrics will be an integral indicator of overall organisational performance, within the broader corporate accountability framework. These metrics will be core to corporate social responsibility, sustainability and integrated reporting, and critical for consideration by all shareholders and potential investors.

Our metrics

Measuring employee wellness requires us to take a broad range of issues into account, all of which can have an impact on employee wellness. Through a pilot project with various global companies, where health metrics will be included in corporate reporting, we are working to define the categories of indicators that should be measured by employers.

The final metrics will need to be applicable to the entire working population, including managerial and service industry employees.

Although the metrics are still under development, we have included information on our employee wellness and health data in our People and Sustainable Development Report.

Results of the businesses

Discovery Health

The increase in operating profit of Discovery Health by 10% to R2 031 million (2014: R1 854 million) was driven by:

- The increase in the total number of principal members covered from 1.36 million at 30 June 2014 to 1.4 million (2.99 million lives) as at 30 June 2015. This increase in members is a function of new business Annualised Premium Income (API) increasing by 8% to R5 398 million (2014: R5 000 million), including the addition of two new closed schemes (WitsMed and Malcor) but excluding R4.2 billion in respect of the addition of the Bankmed Medical Scheme.
- An increase in the administration fee charged to the Discovery Health Medical Scheme (DHMS) from 1 January 2015 of 5.3% (2014: 5.4%). A total of 89% of members on all schemes administrated by Discovery Health are on DHMS.
- Expenses that increased by 9.5% from R2 611 million to R2 859 million. This higher than normal rate of expense growth was driven by additional investment in Discovery Health's service and product offerings.

Discovery Life

Discovery Life's operating profit grew by 15% to R2 968 million (2014: R2 591 million). Our accounting policy is to recognise profits over the life of the insurance policy. Profits are driven by good claims experience and premium growth, which increased by 14% for the year under review. Premium growth is a function of:

- An increase in new business API of 11% to R2 231 million (2014: R2 013 million). This is driven primarily by expansion of the adviser footprint in South Africa to over 1 000 high-quality aligned financial advisers, with growth in production per adviser well above the industry benchmark.
- Automatic contribution increases of R887 million (2014: R773 million) and servicing increases of R500 million (2014: R473 million).
- Lower lapse levels driven by clients who are highly engaged in Vitality.

Discovery Invest

Discovery Invest's operating profit grew by 39% to R460 million (2014: R331 million). This increase is a function of:

- Assets under management increasing 21% to R50.5 billion. This was driven by an increase of 18% in new business API from R1 396 million to R1 646 million, largely as a result of strong single premium growth. Market growth was slightly more muted than previous years. The Association for Savings and Investment South Africa (ASISA) Multi-Asset High Equity sector average returns (most similar to the most popular funds we offer) over the last three years, were as follows:

FY2015	FY2014	FY2013
7.34%	19.89%	17.72%

- Increased fee margins resulting from changes in product mix (increased single premium policies) and more efficient product design.

Discovery Insure

Discovery Insure's operating loss reduced from R172 million to R151 million. The performance is driven by the following factors:

- New business API increased 25% to R789 million (2014: R632 million).
- Loss ratios and lapse rates are improving by duration. We have also found a direct correlation between Vitalitydrive status and loss ratios and lapse rates.
- A decision was taken to boost overall advertising expenditure in the year under review (included in other expenses).

VitalityHealth

VitalityHealth's operating profit increased by 10% to R223 million (2014: R202 million). This was a result of a strong focus on loss ratios, which in turn resulted in a decrease in new business API from R953 million in 2014 to R814 million in 2015.

VitalityLife

VitalityLife's operating profit increased by 27% to R542 million (2014: R426 million). As in Discovery Life, the accounting policy of VitalityLife is to recognise profits over the life of the insurance policy. Profits are driven by premium which grew 37% for the year under review and was a function of:

- An increase in new business API of 22% to R1 079 million (2014: R883 million).
- Lower lapse levels driven by clients who are highly engaged in Vitality.

New business development areas

Operating losses from new business development areas increased 10% from R241 million to R266 million (excluding Discovery Insure). This excludes losses of R87 million resulting from the restructure of the AIA joint venture. The restructure will see Discovery earn fees based on new business written. The partnership has moved from a profit share arrangement to a fee-based partnership with AIA in line with the arrangement concluded with John Hancock in the United States. The business drivers of our partner markets are new business API of integrated products, levels of engagement in Vitality, and lapse rates.

Ping An Health individual sales continued to show strong performance with an increase in new business API of 192% to R991 million (2014: R339 million). The new products are still in an embryonic phase and it is premature to gauge longer-term profitability.

Review from Richard Farber continued

Impact of the rand exchange rate on the Group's profit or losses from operations outside South Africa

The Group's profit/losses from operations outside South Africa are translated into rands at average exchange rates for consolidation purposes. A weaker average exchange rate during 2015 resulted in an increase in the rand equivalent of foreign profits (mostly GBP denominated) and an increase in the rand equivalent of foreign losses (mostly USD and CNY denominated).

Average exchange rate	2015	2014	% change
Rand/GBP	18.04	17.06	5.7
Rand/USD	11.49	10.43	10.2
Rand/CNY	1.85	1.7	8.8

Investor questions

Three key questions have been asked repeatedly during our engagement with investors and analysts throughout the year. I thought it would be helpful to answer these questions below:

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

The accounting standard for insurance contracts, IFRS 4, does not prescribe any measurement rules for insurance contracts, but requires that an insurer's policy to recognise profit on insurance contracts, be applied consistently. Discovery has adopted the policy of setting up a negative reserve approximately equal to the acquisition costs incurred in writing that policy. These acquisition costs are then amortised over the life of the policy and the profit inherent in the policy is recognised as the risk is borne. This approach is largely consistent with the current thinking in the development of a new accounting standard for Insurance Contracts (IFRS 4 phase 2).

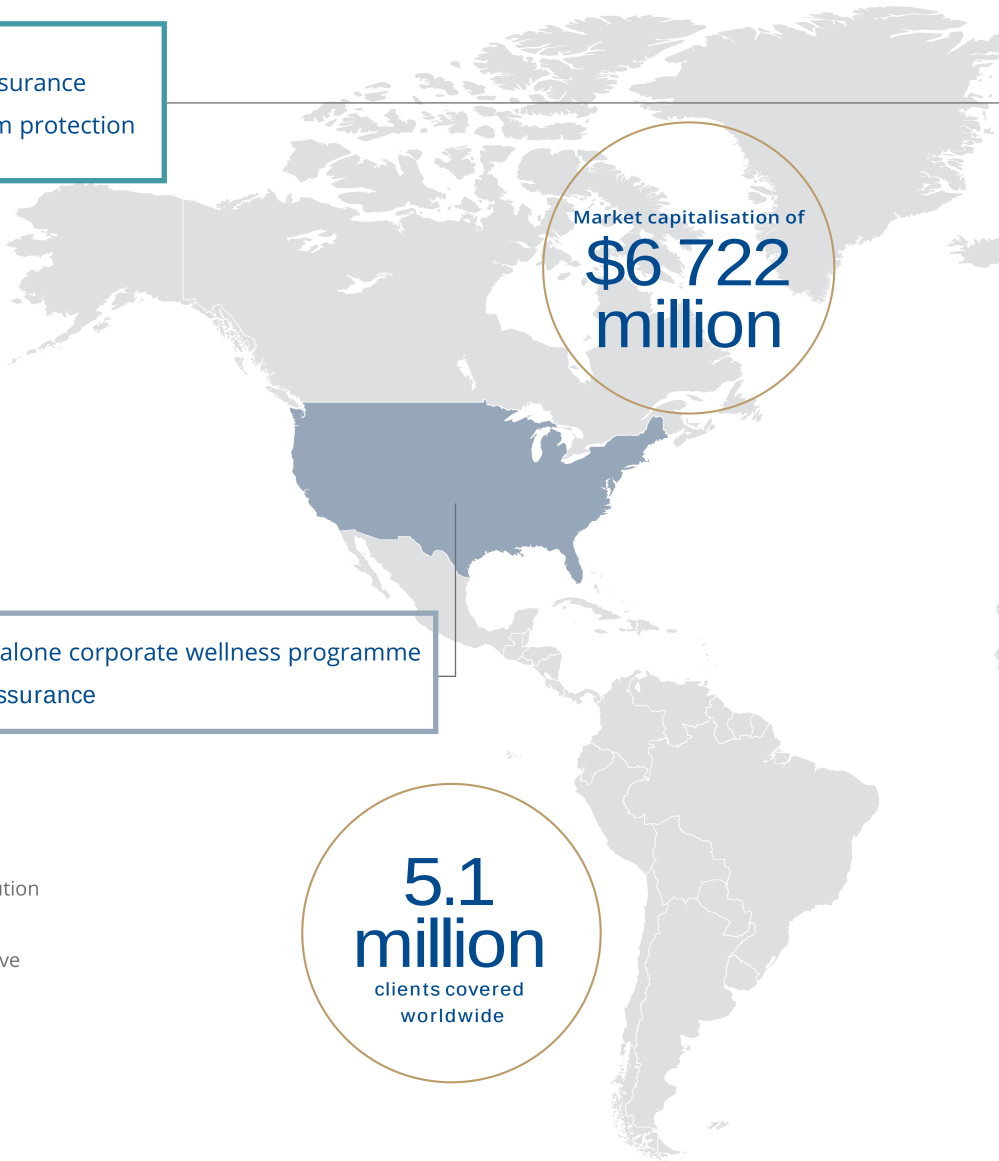
Q Are you concerned with the profile of cash flows from Discovery Life?

No. There are significant acquisition costs incurred to write long-term insurance contracts which are recovered over the life of the policy. With a fast-growing business such as Discovery Life, significant investment is required to fund new business acquisition costs. The key issue is that this investment must generate acceptable returns over the long-term. We are comfortable that the new policies we are writing are meeting or exceeding our hurdle rate of risk free +10%. Despite the upfront cash requirement, Discovery Life generated R1 073 million in cash (net of financial reinsurance) over the period before paying dividends.

Q The South African consumer is under increased economic pressure. What is the impact on your business?

Lapse rates are of particular concern during a difficult economic environment. We closely monitor metrics that reflect the impact of these economic conditions on Discovery. To date, we have not seen any negative trends emerging that impact our business. For example, we continue to experience low lapse rates in Discovery Health and Discovery Life, extremely low missed debit orders across our businesses, and no significant degradation in our credit card book.

Discovery: a global view



Market capitalisation of **$6 722 million**

5.1 million clients covered worldwide

United Kingdom

Second Primary Market

- Health insurance
- Long-term protection

VitalityHealth

- 100% owned
- One of the top four private medical insurance providers

VitalityLife

- 100% owned
- One of the top two protection providers in the United Kingdom's independent financial adviser segment

United States

Partner Market

- Standalone corporate wellness programme
- Life assurance

Vitality

- 100% owned
- Recognised as best-in-class wellness solution provider in the United States
- Over 700 000 people across 50 states have access to Vitality in the United States

John Hancock | Vitality

- Strategic partnership with John Hancock announced in 2015
- Vitality will be offered to John Hancock insurance clients in the United States

South Africa

Primary Market

- Health insurance
- Life assurance
- Long-term savings and investments
- Short-term insurance
- Wellness programme
- Credit card

Discovery Health

- 100% owned
- Manages the largest open medical scheme in South Africa: Discovery Health Medical Scheme and 16 closed schemes (including Bankmed and Glencore joining from 1 January 2016)

Discovery Life

- 100% owned
- Largest pure risk writer in South Africa in the intermediary channel
- Over 800 000 lives covered (Individual and Group Risk)
- 29% protection market share (intermediated affluent)

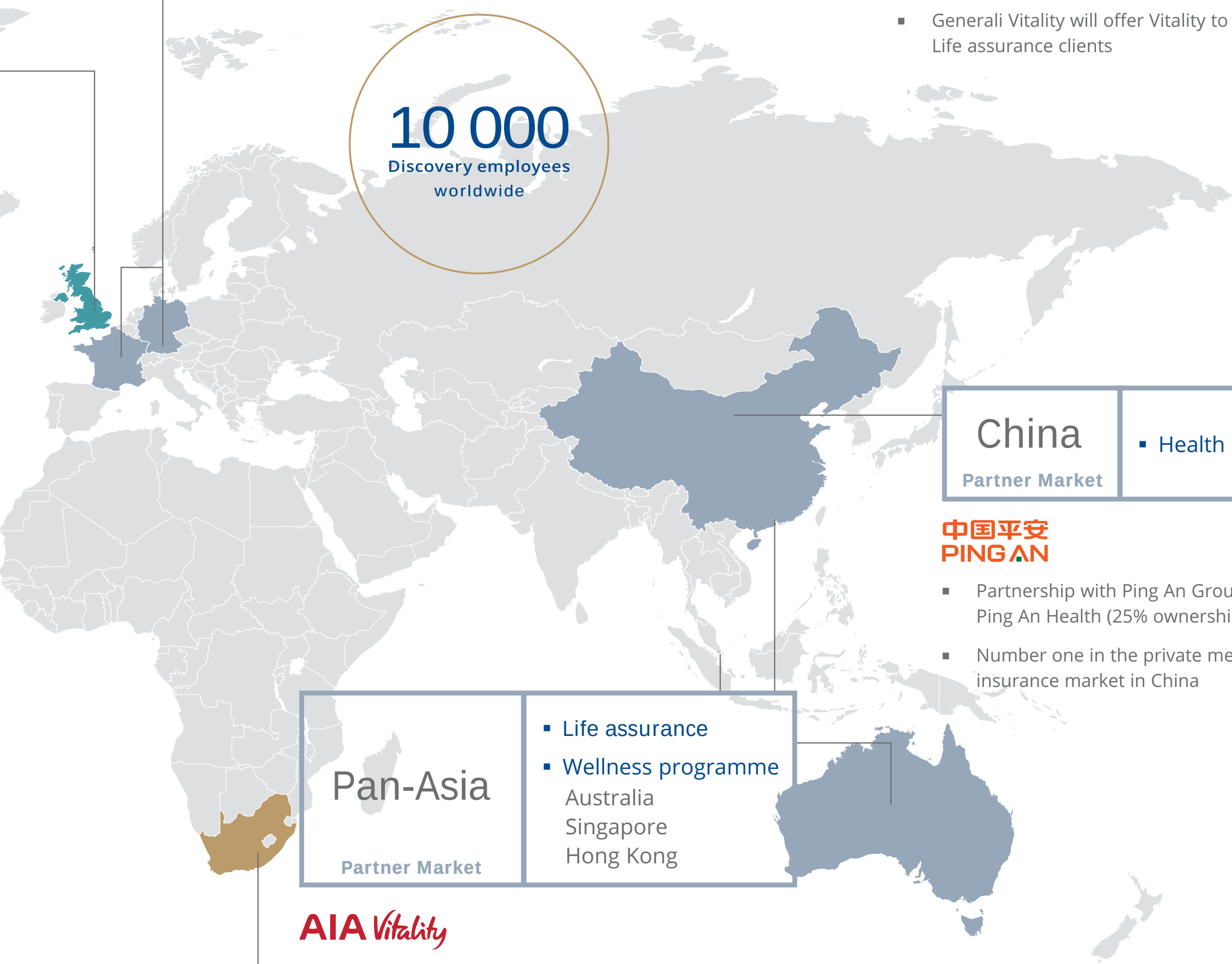
Europe
Partner Market

- Life assurance
- Wellness programme

Germany
France

GENERALI Vitality

- Partnership with Generali announced in 2014
- Generali Vitality will offer Vitality to Generali Life assurance clients



10 000
Discovery employees worldwide

China
Partner Market

- Health insurance

中国平安 PING AN

- Partnership with Ping An Group – Ping An Health (25% ownership)
- Number one in the private medical insurance market in China

Pan-Asia
Partner Market

- Life assurance
- Wellness programme

Australia
Singapore
Hong Kong

AIA Vitality

- Launched in Singapore in 2013, in Australia in 2014, and Hong Kong in 2015
- AIA Vitality offers Vitality to AIA Life assurance clients

Discovery Invest

- 100% owned
- Number-one writer of endowment and voluntary purchase annuities
- Over 120 000 policyholders

Discovery Insure

- 100% owned
- Fastest-growing short-term insurer in the personal lines insurance market
- Over 84 000 policies

Discovery Vitality

- 100% owned
- Largest wellness programme, with close to 1.7 million people participating
- Discovery Card is a Visa credit card offering that rewards clients for getting healthier
- Discovery will own 74.99% of the Card (FirstRand: 25.01%)

Our shared value insurance model

The Discovery business model centres on making people healthier and having a positive long-term impact on cost and value for both the insurer and the client. The model encourages clients to improve their health-related behaviour, thereby having a positive impact on mortality and morbidity experience in the health, life and short-term insurance markets. The resulting insurance savings offer more value, as better price points and more client incentives are created that drive ongoing positive behaviour change. The effect is shared value, with a positive impact on clients, insurers and society.

Discovery businesses

Health insurance	Short-term insurance	Life assurance	Financial services

Across markets and territories

Behavioural change
Behavioural economics forms the foundation of the Vitality product construct, which actively influences behaviour and improves morbidity, mortality, and financial outcomes for clients.

Better insurance outcomes for clients
The positive impact of Vitality on health improves mortality and morbidity experience, resulting in lower claims and increased retention of healthier clients and better value for clients.

Discovery Vitality
A world-class behavioural wellness solution that helps people become healthier by giving them the tools, knowledge, access and incentives to improve their health. Vitality has scientifically proven that clients who actively engage in the programme live longer and have lower healthcare costs than non-Vitality clients. Vitality also has relevance for other markets and industries. Our driver-behaviour programme, Vitalitydrive, is the latest manifestation of a behaviour-based incentive programme in South Africa.

Technology as an enabler
Data analytics provide us with unique insights into understanding how clients respond to incentives – an aspect that enables us to provide clients with more value.

Dynamic underwriting
Vitality allows for dynamic risk assessment and more accurate pricing of individual clients, based on their Vitality engagement and lifestyle choices.

Product integration
Vitality creates a mechanism to enhance value for clients who have multiple Discovery products.

Unique assets behind Discovery's shared value insurance model

Discovery has developed a unique set of assets that underpin our shared value insurance model, resulting in positive claims and lapse experiences, powerful product integration dynamics, and unique client insights and value.

Points and status

An actuarially and clinically verified measure to rank clients based on their engagement with the Vitality programme.

Behavioural, clinical and actuarial data set

17 million life years of data on the correlation between incentives and behaviour change, as well as risk and behaviour change.

Dynamic pricing engine and valuation models

Generates rating factors for insurance and a reinsurance capability to deploy these factors in different markets.

Vitality Age

Developed through a meta-analysis of over 5 000 published studies.

Personal pathways

Tailored, non-discriminatory programmes that encompass the entire wellness spectrum.

Disruptive insurance products

Products that offer better value for clients and deliver risk savings and higher profitability for insurers.

Technology

Seamless, verified collection and computation of wellness data, navigation of wellness pathways, and collection of rewards.

Rewards

Local and global networks of incentive partners including travel, entertainment, retail and fuel.

The Discovery business model is responsive to key macro trends that impact our industry

1 The increasing importance of lifestyle choices as a driver of health outcomes

Physical inactivity, poor nutrition and smoking account for four conditions (cancer, diabetes, heart and lung disease), which are responsible for the majority of all deaths. Lifestyle choices drive 80% of the disease burden and 60% of mortality. World Health Organization (WHO) projections show that non-communicable diseases (NCDs) will be responsible for a significantly increased total number of deaths in the next decade. NCD deaths are projected to increase by 15% globally between 2010 and 2020, to 44 million deaths.

The implications of these trends for the life and health insurance markets are substantial – static underwriting in which risk is evaluated at policy inception, based on pre-existing conditions at that point, overlooks the fact that much of the risk will be determined by choices the policyholder makes during the lifetime of the policy. This presents an opportunity for significant innovation and disruption.

2 Our tendency as human beings to under-invest in wellness and over-invest in healthcare, which has motivated the development of our incentive-based approach to changing consumer behaviour

While the long-term benefits of wellness and preventive care are well documented, people make decisions regarding their health based on over-optimistic and present-biased assumptions, leading to an under-consumption of wellness.

Despite its hidden costs, people tend to over-consume healthcare, due to its immediate benefits but under-consume preventive wellness measures that have long-term benefits. These behavioural biases need to be understood, and individuals need to be nudged toward adopting and maintaining positive health choices.

3 The increasing cost of healthcare, not only as a result of increased life expectancy, but also because of various other demand- and supply-side factors

Globally, the cost of healthcare continues to escalate, making it challenging for healthcare systems – private and public – to ensure adequate access to quality healthcare. Various complex factors contribute to healthcare inflation, including demand- and supply-side factors such as a shortage of healthcare professionals, new medicines and technologies that come onto the market at a significantly higher cost than the technologies they replace, and demographic trends such as an ageing population and the rise in chronic diseases of lifestyle. One of the key characteristics of healthcare costs is that the healthcare industry experiences the Baumol Effect where healthcare inflation continues to outstrip wage inflation. Contrary to industries where technological advances lead to cost decreases, in healthcare the same scarce human resources are still required and do not result in lower costs.

4 The generational shift in expectations from business, underlining the importance of social mission and value

The millennial generation demands more from the institutions that serve it. This generation is more civically minded and has experienced a loss of trust in institutions following the global financial crisis. Organisations that seek the patronage of millennials must demonstrate that they too are a force for social good. Discovery's business model and vision of making people healthier and enhancing and protecting their lives creates tangible change within our markets, the broader society and for our clients and employees.

5 Increased demand for insurance products in a volatile economic environment, giving an opportunity for insurers to innovate for the benefit of the consumer

During difficult economic periods, consumers' demand for insurance products tend to increase as financial markets and investment performance continue to be more volatile. This provides an opportunity for insurers to be more innovative in the products they offer consumers.

Traditionally, risk cover was combined with an investment component, resulting in a portion of the policyholder's monthly premium covering risk benefits, and the remainder being invested on the policyholder's behalf. Discovery by contrast put the policyholder's premiums to work at once to provide cover for the financial impact associated with health-related risks such as disability, illness and death.

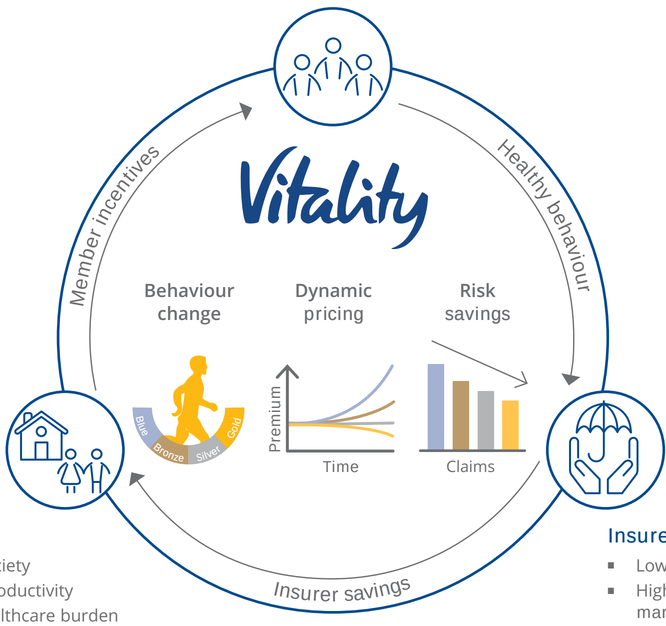
Discovery Life's integrated model harnesses its unique access to data on clients' health, wellness and driving patterns to assess and underwrite client risk dynamically. Clients pay premiums which reflect their risk profile and, in many cases, far lower premiums than they would pay for equivalent policies based on a traditional insurance model. Discovery Life's integrated model therefore provides a scientific foundation to encourage and reward healthy living, while protecting clients against unforeseen events and illnesses.

Measuring our shared value performance

Clients who are highly engaged with Vitality have lower mortality, morbidity and lapse rates than clients who are not engaged. For the insurer, this means lower costs, and for the individual, better health, more cost-effective cover and improved benefits. Discovery clients benefit from rewards across the Discovery suite of products.

Members

- Better value through better price and improved benefits
- Improved health
- Significant financial rewards for managing their health



Society

- Healthier society
- Improved productivity
- Reduced healthcare burden
- Safer roads

Insurer

- Lower claims
- Higher margins and increased market share
- Positive selection and lower lapses

The impact of the Discovery business model from an actuarial and competitive perspective is dramatic. The model creates more value through lower price points and better benefits, attracts better lives, encourages positive behavioural change, and has lower claims rates with better selective lapsation. This has resulted in unique price competitiveness and significant margin uplift.

Creating value for our clients: how Vitality helps clients be healthier

Various academic research studies, undertaken since 2006 and published in leading academic journals, show the benefits of engaging medical scheme members in their wellness through Vitality. One study reported on the effect of an incentive-based wellness programme on medical claims and hospital admissions by looking at the data of 948 974 members in terms of their participation in fitness activities and their medical claims data. The study found that hospitalisation costs per member were lower in the engaged group compared with the inactive (non-engaged) group. The same pattern was shown for the number of admissions per patient and length of hospital stay per patient. Highly active members who were hospitalised experienced an average annual savings in associated medical claims of R5 025 compared with inactive members.[1]

A second retrospective study, done over five years, examined the extent to which changes in engagement with fitness-related activities, as part of a health promotion programme, in the first three years of enrolment, were related to the probability of hospital admission and hospital claims during the subsequent two years. The research shows that the proportion of members in the study cohort using the gym had increased from 27% at the time of enrolment in 2004 to 33.1% at the end of 2008. The proportion of inactive members changed from 76% to 68% from years 1 to 5.[2]

1 Fitness-related Activities and Medical Claims related to Hospital Admissions – South Africa, 2006; Preventing Chronic Disease, October 2009

2 Participation in Fitness-related Activities of an Incentive-based health promotion program and hospital costs: a retrospective longitudinal study, The Science of Health Promotion, May/June 2011, Vol. 25, No 5

Our shared value metrics

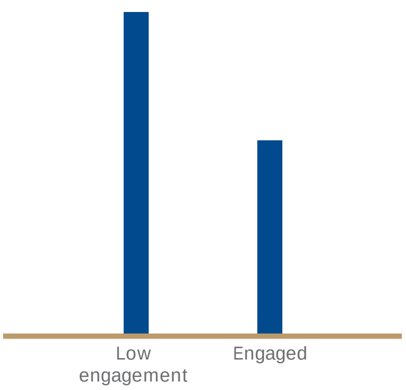
In applying our shared value approach and business model, we measure our performance in terms of both social and financial outcomes.

1 Mortality and morbidity rates of our client base

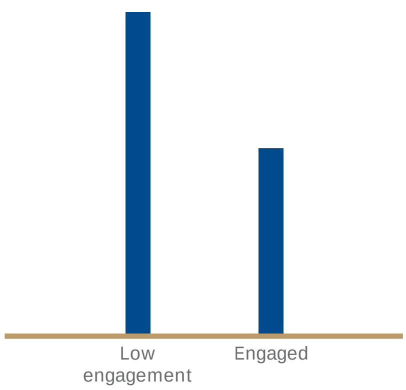
2 Lapse rate in our business

3 Value created for clients in the form of financial rewards and other benefits

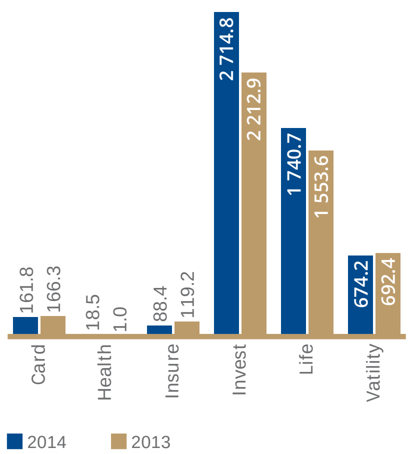
Mortality and morbidity claims trends (Vitality participation)



Trend in lapse rates (Vitality participation)



Value of Discovery rewards earned (Rm)



Characteristics of our markets

and how our business model adapts to challenges in these markets

Primary market

In our primary market of South Africa, our markets comprise private health insurance, life assurance, investments and savings, short-term insurance, credit card and wellness products.

Discovery Health

Market dynamics

The South African healthcare market consists of the public and private healthcare sectors.

- South Africa's private healthcare system is egalitarian by nature and structured around medical schemes. Medical schemes are highly regulated not-for-profit entities that belong to its members. Schemes are community rated, which means that all members pay the same contribution regardless of their health status. All citizens are able to join. Membership is, however, voluntary which makes it challenging for medical schemes to manage escalating costs.
- South Africa's private healthcare sector faces a number of unique supply- and demand-side cost drivers, such as underlying market dynamics, the fee-for-service payment system and a severe shortage of healthcare professionals. In terms of tariffs, hospital and doctor tariff increases are closely correlated with Consumer Price Inflation (CPI) increases, which have been relatively high.
- The average annual inflation in healthcare has been 8.6% from 2008, with the highest inflation rate of 8.8% seen between 2013 and 2014.
- The main drivers of this remain high utilisation and price, compounded by an ageing population and the changing dynamic of high cost and low-volume new technologies.

Discovery's model in this market

We provide a comprehensive healthcare offering and business model that aims to integrate all aspects of healthcare, risk, wellness, quality of care, and technology into a cohesive healthcare system that addresses the needs of the patient and healthcare professionals. Discovery Health's evolution from being a pure risk manager to a business that acts as the catalyst for healthcare integration, has become critical in a healthcare system that faces numerous challenges.

Refer to the Performance review on page 30.

Discovery Life

Market dynamics

The South African life assurance market is highly competitive. Sales are predominantly channelled through intermediaries, although the number of direct-to-consumer insurers has increased in recent years. Insurance models were typically based on a traditional investment and risk product combination, which did not deliver results for clients.

The South African insurance industry risk-only new business is recovering from 2011 lows and the industry is undergoing extensive regulatory changes.

Discovery's model in this market

Discovery Life offers a differentiated value proposition that separated risk from investment products when the business was launched. This structural change has since become the standard in the industry.

The Group's model has evolved into a behavioural-based insurance model that combines the wellness and data advantages of the Vitality programme to introduce dynamic underwriting to Discovery Life's pricing model. Through this model, savings are channelled back to the client in the form of upfront discounts and rewards for improved health and driving behaviour.

The model is hugely successful as it creates shared value for consumers and the life assurer. Clients obtain more value as their policies are underwritten ongoingly based on their Vitality engagement, and a more accurate risk price is realised, while Discovery Life experiences lower claims costs overall and lower lapse rates.

Refer to the Performance review on page 42.

Discovery Invest

Market dynamics

- Over the past seven years, the South African Administration Platform and Unit Trust industry experienced unprecedented growth.
- Technology plays a key role in clients interacting with products and companies.
- There has recently been global market uncertainty and the industry is experiencing extensive legislative and regulatory shifts.

Discovery's model in this market

As a result of its strongly-performing products and distribution channel of 6 000 financial advisers, Discovery Invest achieved the landmark of R50 billion of assets under management in April 2015. Discovery Invest delivers superior returns to clients through our innovative investment products and superior asset management.

Many of our products include a capital guarantee which provides protection in the event of major market shifts. We continue to invest in technology and developing our platforms to offer clients a seamless service experience. We also monitor potential changes and evolve products to make sure they comply with all proposed legislative and regulatory amendments.

Refer to the Performance review on page 48.

Characteristics of our markets continued

Primary market continued

Discovery Insure

Market dynamics

- South African roads are among the most dangerous worldwide. Compared with the United States (12 fatalities per 100 000 lives), South Africa has a fatality rate of 31.9 per 100 000 lives. Accidents are three times more severe in South Africa than in the United States in terms of quality for life impact and economic costs.
- The advance of telematics technology in the short-term insurance industry continues to offer insurers further opportunities to differentiate products and provide better service to clients.

Discovery's model in this market

Discovery Insure's business model centres on Vitalitydrive, a driver-behaviour programme that rewards clients for driving well. It offers unique safety features, enables rewards for good driving, and offers the tools and knowledge to improve driving.

A key differentiator for Discovery Insure is the combination of telematics technology with a behaviour-based programme that monitors and rewards better driving.

Refer to the Performance review on page 54.

Discovery Vitality

Market dynamics

- There has been a high prevalence and increase in chronic diseases of lifestyle, which come with a poorer quality of life for individuals and a high economic burden for consumers.
- Increases in these conditions are attributable to modifiable lifestyle behaviours that increase the risk of these diseases. There is a particular need to bring about behaviour change and for more individuals and companies to become aware of and engage in healthy lifestyle behaviours.

Discovery's model in this market

Discovery Vitality is currently reaching close to 1.7 million individuals in South Africa. The programme covers the complete healthcare spectrum, ranging from lifestyle modification and preventive care, to disease management. The impact of Vitality on member behaviour and health outcomes is evident with a 37% reduction in healthcare costs for Vitality members who are highly engaged.

Vitality will continue efforts to create more awareness of its behaviour-change model and to increase engagement by developing initiatives to help more members adopt healthy behaviours when they activate their Vitality benefits. Further engagement will also be achieved through development of more immediate incentives. There is a particular focus of encouraging participation in physical activity, which has shown to increase participation in other wellness activities.

We will also look to expand our value proposition across the membership base. Discovery Health's enhanced wellness offering to corporate clients, HealthyCompany, incorporates aspects of Vitality and makes it possible for employer groups to become more aware of employee health and its effects on business performance.

Refer to the Performance review on page 62.

Second primary market

In our second primary market of the United Kingdom, we operate in the health insurance industry and the protection market through VitalityHealth and VitalityLife. The UK businesses are increasingly playing an important role in the overall Discovery Group performance, with a current contribution of 34% to Group revenue and 13% to normalised operating profit.

UK businesses

VitalityHealth

Market dynamics

The National Health System (NHS) provides state-funded healthcare. However, due to long waiting periods at NHS providers, and as certain elective procedures are not covered by the NHS, the market receptivity for private medical insurance has been growing for a number of years.

There is also a growing realisation of the importance of wellness and preventive measures to help curb the increasing burden of chronic diseases of lifestyle.

Discovery's model in this market

VitalityHealth's unique model offers a healthcare solution that integrates wellness and prevention programmes through Vitality partners, with cover for primary care, consultant care, chronic condition management, hospitalisation for acute conditions and post-hospital recovery and rehabilitation. An engaging member communication platform incentivises clients to improve their health and wellness and undertake preventive health screening.

Refer to the Performance review on page 66.

VitalityLife

Market dynamics

The UK insurance industry (including long-term and short-term products) is the largest in Europe and the third largest in the world, by premium volume.

The life insurance market is concentrated, with low levels of innovation, high degrees of commoditisation, and limited growth.

While a significant and growing protection gap exists, current products have failed to meet consumer needs. The market continues to focus on the financial impact of sickness and mortality risk, rather than addressing the detrimental lifestyle choices that underlie these risks. This manifests in an underwriting approach that prices risk on the basis of pre-existing conditions at policy inception, rather than dynamically over the policy term based on clients' engagement in their own health.

Discovery's model in this market

Discovery's dynamic pricing model addresses this imbalance by providing clients with an upfront premium discount, with future premiums being adjusted based on ongoing engagement in Vitality.

VitalityLife's products, based on the Discovery Life model, have resonated strongly with both intermediaries and consumers.

Refer to the Performance review on page 74.

Characteristics of our markets continued

Partner markets

Discovery operates in the private healthcare and protection markets through The Vitality Group and a partnership with John Hancock in the United States, Ping An Health in China, AIA Vitality in Asia, and Generali in Europe.

Market dynamics

Our partner markets are among the largest globally in terms of market size and growth, and are driving $1.3 trillion in value creation in life insurance, with the majority coming from the fast-growing Asian markets. As is the case in the rest of the world, chronic diseases of lifestyle are also impacting these territories.

Discovery's model in this market

In our partner markets, Discovery acts as an intellectual property provider, benefiting from a share in the performance profits that the Vitality model brings to partners.

The attractiveness of the Vitality model and the flexibility of its structure allow us to partner with established insurers in these markets, by scaling our Vitality model as needed.

Using this model as a basis, Discovery has partnered with some of the world's leading insurers, positioning us well for value generation, diversification of earnings and mitigation of sovereign and currency risk.

At the heart of this model are significant assets:

- A comprehensive wellness platform that is non-discriminatory and intuitive
- Global networks of screening, physical activity, nutrition and incentive partners
- Significant data on the correlations between incentives and behaviour change, behaviour change and health outcomes, and behaviour-linked insurance pricing
- A technology platform that underpins the model, enabling the seamless, verified and secure collection of wellness data, computing of health risk, navigation of wellness pathways and fulfilment of rewards
- A dynamic pricing engine and valuation models that create pricing and rating factors for insurance markets, and a re-insurance capability to deploy these factors in global markets

Refer to the Performance review on page 78.

Discovery Health

Who we are

Discovery Health administers the Discovery Health Medical Scheme (DHMS), the largest open medical scheme in South Africa, and a portfolio of 14 closed medical schemes, which will grow to 16 with Bankmed and Glencore Medical Scheme joining the portfolio from 1 January 2016.

Together, these schemes meet the full spectrum of healthcare needs of more than three million people, through world-class actuarial, analytic, clinical and research and development capabilities which are deployed at every point in the medical scheme product cycle.

With structural innovations such as the Medical Savings Account, best-in-class claims and risk management assets and skills, additional services such as MedXpress medicine delivery, Discovery HomeCare home-based healthcare services, and world-leading digital tools, Discovery Health creates a value-based healthcare system that optimises quality of care, cost and access to care for members and healthcare professionals. This healthcare system is based on a shared value approach that creates value for the member, the medical scheme, health professionals and for broader society.

Discovery Health's model for a high-quality and sustainable healthcare system revolves around four key themes:

1. Better health for members of all the schemes under management, which manifests in lower mortality and morbidity rates over the long term.
2. Better quality healthcare delivery when members need it.
3. The lowest-cost product suite to meet all clients' benefit needs.
4. An intuitive and accessible system that uses technology smartly to help members navigate the healthcare system more effectively.

Our vision

To make people healthier by offering them the broadest and best benefit choices at the lowest cost per unit of benefit. This is offered inside a healthcare system that is seamless, accessible and brilliantly serviced within a broader sustainable healthcare system for all South Africans.

2.99 million

The number of lives managed by Discovery Health as at June 2015 for all schemes under management. During July 2015, Discovery Health reached the milestone of **3 million** lives under management, an increase of **3.5%** over 2014.

33%

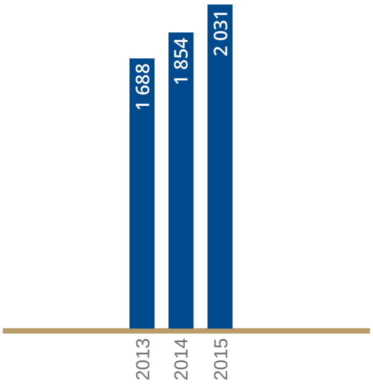
Discovery Health's share in the overall medical scheme market, including both Discovery Health Medical Scheme and its 14 closed medical scheme clients. From January 2016, with the inclusion of the Bankmed and Glencore closed schemes, the overall market share will **increase to 38.1%.**

R2 031 million

Operating profit for Discovery Health in 2015, an increase of 9.5% over 2014.

Operating profit

(Rm)



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Product, benefit and service innovations since 2004.

Discovery Health Medical Scheme data is reported for the calendar year 1 January 2014 to 31 December 2014.

Discovery Health continued

Dr Jonathan Broomberg
Discovery Health, Chief Executive Officer

Business performance during the year

Discovery Health

During the review period, Discovery Health continued to create a highly competitive healthcare system for Discovery Health Medical Scheme and other schemes under our management, by investment in and innovation across a range of services and assets. These include a world-leading wellness offering for corporate clients; sophisticated and user-friendly digital platforms for members and healthcare professionals; further enhancements to client medical schemes' comprehensive product ranges; and expansion of value-added services such as Discovery HomeCare. As a result, members of our client schemes continue to experience access to high quality healthcare services, personalised servicing and care, as well as access to the latest technology, and extensive provider networks.

The competitiveness of the Discovery Health model is evident from the strong performance of Discovery Health Medical Scheme, and of the closed membership medical schemes under our management. Since 2010, Discovery Health has been awarded eight out of nine tenders for the management of closed membership medical schemes, the most recent being the Bankmed Medical Scheme with over 200 000 lives and the Glencore Medical Scheme. These schemes will join the Discovery Health portfolio of clients from 1 January 2016. Discovery Health will now have the largest number of contracts for the management of closed membership medical schemes in South Africa, and has increased its market share from 8% to 16.1%, with a 38.1% market share overall (with the inclusion of Bankmed and Glencore closed medical schemes).

Discovery Health Medical Scheme

Discovery Health Medical Scheme continued to perform strongly, with ongoing robust growth driven by the success of the Direct to Consumer (D2C) channel as well as our advice-based distribution channels. The number of lives covered grew 2.7% off an extremely high base to over 2.6 million lives as at 31 December 2014. The loss ratio, lapse rate and buy-downs remained at very low levels. Taking investment income into account, the net annual surplus for the last year was R1.5 billion and the solvency level reached 25.8% of annual premium, more than a year ahead of the planned target date. As further validation, a recent benchmarking exercise by Deloitte, including a global sample of 25 leading health insurers, placed Discovery Health Medical Scheme in the top-three performing health insurers worldwide over the past decade.

Performance highlights of Discovery Health Medical Scheme, the largest open medical scheme in South Africa, administered by Discovery Health

AA+	Discovery Health Medical Scheme's rating from Global Credit Ratings, for its claims paying and risk management capability. The Scheme remains the only open medical scheme in South Africa to have achieved this rating.
52%	The current market share of Discovery Health Medical Scheme in the South African open medical scheme market.
25.8%	Discovery Health Medical Scheme's solvency ratio at the end of 2014, which is equivalent to R11.7 billion in reserves. The target of 25% was reached in 2014, one year ahead of plan and in accordance with statutory requirements for medical schemes in South Africa.
33.58	The average age of members of Discovery Health Medical Scheme. The Scheme's membership base has consistently aged by less than a year, every year, reflecting our ability to engage young members through the use of digital platforms and Vitality, Discovery's behavioural-based wellness programme.

Material challenges for Discovery Health

01 | Maintaining membership growth and keeping lapse rates low in a difficult economic environment

Discovery Health's open and closed membership medical schemes under its management continued to show growth, despite the challenging economic environment. Our Vitality wellness solution assists our client schemes in offering additional value to their members, and is a major contributor to our ability to consistently maintain low lapse rates. Vitality also supports our client schemes by improving the health status of engaged members, thereby reducing claims costs for these medical schemes.

02 | Addressing persistently high healthcare costs

This remains a focus area for Discovery Health and we continue to address rising healthcare costs through robust risk management structures, as well as by developing key assets in the healthcare supply chain such as MedXpress, Southern Rx and Discovery HomeCare.

03 | Improving the quality of care in the South African healthcare system

For the first time in 2015, we published the results of patients' perceptions of their experience of hospital care, with the objective of sharing information with consumers and improving the overall quality of care. This is just one element in Discovery Health's very wide set of activities aimed at improving the quality of healthcare that members of our client schemes have access to.

04 | Engagement with the broader healthcare system

Our efforts target the development of a sustainable healthcare system and we continue to collaborate with all stakeholders on proposals for National Health Insurance (NHI) in South Africa; and through an active financial role in the Social Compact and Public Health Enhancement Fund with the Department of Health. In addition, the Discovery Foundation made grants to the value of R129 million over the past nine years and is now close to the initial goal of supporting 300 specialists in advancing their specialist education and training in South Africa's public sector.

05 | Maintaining the level of innovation and thought leadership that has characterised our business to date

We continue to seek out opportunities to be a positive agent for change in our healthcare system, including through a number of summits and conferences organised and hosted by Discovery Health, which allow for positive and informed debate on the future of healthcare in South Africa. The Discovery Health Medicine and Media Summits, for example, aim to encourage stakeholders in the pharmaceutical and media industries respectively, to engage in the debate about challenges in, and solutions for, our healthcare system.

06 | Navigating an increasingly complex regulatory environment

We maintain open and constructive relationships with government and regulatory authorities, understanding that our mutual goal is to build a regulatory environment that serves all industry stakeholders.

Discovery Health continued

Progress against our strategic objectives

In our 2014 report, we outlined our strategic objectives for the year ahead. In this section we report on progress against these objectives.

Build an integrated Discovery healthcare system that ensures superior quality of care, seamless patient journeys, and enhanced value for members

Discovery Health continues to offer members seamless access to the healthcare system, catering for the needs of a broad spectrum of clients. The complex nature of healthcare systems requires a collaborative approach by all stakeholders to address the growing challenges of rising costs and variable quality of care.

We have distilled these perspectives into Healthcare 2020, our vision to develop a healthcare system that focuses on the needs of patients and aims to ensure that the system delivers value for patients, resulting in the best quality of care at the lowest possible cost. The model centres on a cohesive system where healthcare professionals work in teams within integrated practice units and delivery systems, and are paid using innovative alternatives to current fee-for-service models, such as the value-based reimbursement model we are piloting with the health group Intercare. Health outcomes, costs and value are continually measured as the basis for improvement.

Create unique and outstanding service experiences for members at every touch point in the healthcare system

For patients with complex conditions, navigating the healthcare system as it is currently configured, can be a frustrating experience. Determining the correct pathway for treatment from the range of potential treatment options and providers, requires coordination by the patient, their family or caregivers, sometimes on the basis of inadequate information and in difficult circumstances.

During 2015, we undertook several initiatives designed to assist patients to navigate this complexity and to encourage greater awareness around the management of conditions.

Value-based approaches, such as the Discovery Health Care Coordination Programme, have been enhanced to support a simpler interface with the healthcare system for patients with specific needs.

Through Discovery HealthID, we are pioneering the use of technology to enable a more coordinated care approach by healthcare providers (see the case study on page 40). HealthID is a digital system that shares electronic patient records with health professionals, following patient consent. This enables an integrated perspective that can improve care and reduce wastage and unnecessary duplication of services.

We are also exploring the potential for a value-based reimbursement model through a pilot project with Intercare. This approach enables an improved focus on patient outcomes through risk-based contracts with healthcare providers that align incentives for quality of care, efficiency and effectiveness.

Alongside these innovations, we continue efforts to improve the quality of care in the private healthcare system. Acknowledging that, within this system, private healthcare patients typically receive care of a high standard with many islands of excellence, and some areas of poorer quality, our approach has been to draw attention to those service providers who excel in their fields and to support a more consistent experience across all service providers.

Greater transparency throughout our healthcare system is, according to general belief, not ethically correct. However, there is evidence that it will lead to improved outcomes, fewer errors, more satisfied patients, and lower healthcare costs. The mechanisms for these improvements are several and include the ability of transparency to support accountability, stimulate improvements in quality and safety, promote trust and ethical behaviour, and facilitate patient choice.

In pursuit of greater transparency, consumer choice and improving quality of care, Discovery Health will, in collaboration with stakeholders, release the results of our patient experience survey – Discovery PASS. This survey, started in 2010, measures the experience of members of client schemes during hospital admissions.*

* *Source: SHINING A LIGHT. Safer Health Care Through Transparency. NPSF 2015*

Discovery Health Patient Experience Survey – Discovery PASS

Up to 200 000 members of Discovery Health Medical Scheme have reported their experience of care in hospital since 2010.

Measuring patient experience in South Africa

Other than published anecdotes, little information about the quality of care from the patient's perspective is available to the public in South Africa.

Measuring quality of care is mandatory in other healthcare systems

In the US and other countries, a great deal of measurement of the quality of care is available for public consumption. Reporting on numerous quality measures is mandatory. A clear correlation is seen between measures of patient experience and other measures of clinical quality with better patient experience being associated with higher quality of care and improved health outcomes.

The Discovery Health Patient Experience Survey – how the survey works

- An invitation to complete the survey goes to members of Discovery Health Medical Scheme who are older than 18 and were recently admitted to a private hospital.
- It is based on the *Hospital Consumer Assessment of Healthcare Providers and Systems* survey developed by the United States Agency for Healthcare Research and Quality.
- There are 22 questions on patient experience across eight categories, including the quality of nursing care, responsiveness of staff, hospital environment, and pain management.
- The methods used to compare hospitals are clear, transparent, rigorous, and scientifically peer-reviewed.

The survey embodies the principle of not only asking patients "what's the matter?" but allowing patients to say "what matters to me".

The findings will be released during November 2015.

Measuring quality to increase collaboration between healthcare professionals: Best Care Always

Discovery was an initiating partner of the Best Care Always campaign in 2009 that guides public and private healthcare organisations in South Africa as they implement specific, internationally-recognised, evidence-based interventions that enhance patient safety and constitute current best practice in hospital care.

Areas of focus include antibiotic use, catheter-associated infections, central-line and surgical site infections, and ventilator-associated pneumonia. Participating hospitals should be willing to make evidence-based changes at a faster pace, share ideas with others, measure results and report on progress.

Discovery Health model for quality and sustainable healthcare

1 Better health

Best wellness platform globally, with close to 1.7 million people participating in the programme in South Africa

2 Better healthcare

Broadest network of healthcare professionals with 90% of consultations done with network doctors and quality and service in line with global standards

3 Lower cost

17 plan choices at an average 14% cheaper than the market rate

4 Underpinned by technology

Over 1 000 doctors using HealthID, and over 600 000 member consents given

Discovery Health continued

Progress against our strategic objectives continued

Make members healthier through increased Vitality engagement at home, and through improved corporate wellness programmes

Vitality continues to play a major role in improving the health of members. The programme represents a holistic approach to managing chronic illnesses that includes member education, lifestyle management, disease management, Care Coordination Programmes and cover for medicines. We are exploring additional ways of developing Vitality benefits that are meaningful across all economic and social segments.

Refer to the separate Vitality business review on page 62 for more detail.

Externally-verified research clearly indicates that patients with chronic conditions who are highly engaged in the Vitality programme have between 10% and 30% lower healthcare costs. Equally, highly-engaged members have lower costs per patient, shorter stays in hospital and fewer admissions compared with other groups. Engaged members on average have a 10% lower chance of being admitted into hospital, 25% shorter hospital stays and 35% lower hospital costs.

The impact of exercise on hospital admissions is profound. A survey of Vitality members has shown that members who exercise twice a week are 13% less likely to be admitted to hospital than those who rarely exercise. The greatest benefit is evident in the impact on mortality. Members on the two highest Vitality statuses have an eight year longer life expectancy compared with members who are not on Vitality or who are on the lowest status.

During the period, Discovery Health also significantly enhanced the corporate wellness offering to corporate clients. New enhancements to the Discovery Wellness Experience include pre-populated data on registration, a rotating body scan, improved HIV testing, and delivery of a personalised report within 24 hours of attending the Discovery Wellness Experience.

The newly-launched Premier Discovery Wellness Experience was rolled out from May 2015. Since then, we have hosted 61 of these events, which included events at 53 employer groups, which provided health screenings to over 17 000 attendees. We also brought Wellness Days to more than 10 000 permanent employees during 30 events hosted at 23 employer groups during the period.

Ensure consistent, excellent financial performance and sustained healthy growth of Discovery Health Medical Scheme and other client schemes

The strong performance of Discovery Health Medical Scheme was a major feature of the year, with the Scheme enjoying a year of excellence in every respect, building on the foundation of investment over previous years in innovative product design, service excellence, competitive administration fees and reduced medical costs.

Discovery Health Medical Scheme continues to attract younger members by engaging this important audience through direct market channels, which we are building symbiotically with existing broker networks, and through our rewards-driven wellness programmes. Membership growth remains high with 1 284 new lives joining per day and lapse rates consistently low (4.5% in 2014), both of which are notable achievements in the current difficult economic situation.

The open schemes market share of the Discovery Health Medical Scheme increased to **52%**. Main members increased by 3.3% to 1 231 116 and the total number of lives covered increased by **2.7%** from **2 564 313** to **2 634 819**.

Growth in the closed medical scheme market continued to show good progress, with Discovery Health competing successfully for tenders for the administration of medical benefits for Malcor Medical Aid Scheme and Wits Medical Scheme (WitsMed) in 2015 and for Bankmed Medical Scheme and Glencore Medical Scheme commencing in 2016. Discovery Health has won eight out of the last nine tenders contested since 2010. With Bankmed Medical Scheme and Glencore Medical Scheme joining from 1 January 2016, Discovery Health will now administer 16 closed medical schemes and has increased its market share in this area from 8% to 16.1% and its overall market share to 38.1%.

Decisively increase Discovery Health Medical Scheme's competitive advantage through lower contributions and lower healthcare costs, and ensure lowest costs for all client schemes

Discovery Health's operating model results in the lowest cost inflation and best value in the medical scheme industry for its client schemes. Our operating model focuses on managing each element of healthcare costs to achieve the lowest cost per benefit unit per member. The elements that impact healthcare costs include the cost of providing a specific unit of healthcare service, access to healthcare providers, the impact of the clinical severity of conditions, member utilisation and the extent of benefits offered by the medical scheme.

Discovery Health's integrated operating model addresses each of these elements through comprehensive reimbursement models and tariff negotiations that ensures direct payment to healthcare professionals at a sustainable cost to medical schemes; extensive provider networks that ensure members have access to high-quality care with minimised co-payments; clinical protocols and governance, as well as algorithms that manage benefit utilisation optimally;

and a product design that ensures unlimited cover for the most serious illnesses that require in-hospital treatment, extensive cover for chronic illnesses and flexible cover options for day-to-day expenses. The combined result of this model is a saving of approximately 15.5% of total risk claims for Discovery Health Medical Scheme.

Discovery Health Medical Scheme funds over R33 billion of healthcare expenditure annually. Through Discovery Health's world-class assets and integrated approach, it is able to provide a lower cost per member than competitors. This results in Discovery Health Medical Scheme contributions being on average 14% lower than other competing open market medical schemes, when compared on a plan-for-plan basis.

Administration and managed care fees have also been an area of focus, and have reduced in real terms as the Scheme has grown. In 2014, administration and managed care fees were at 10.66% of gross contributions, below the average of the 12 largest open medical schemes in South Africa which was at 10.72%. This downward trend is expected to continue with the administration and managed care fees expected to reach 10% of gross contributions by 2017.

Continue to engage with the Department of Health and the Council for Medical Schemes

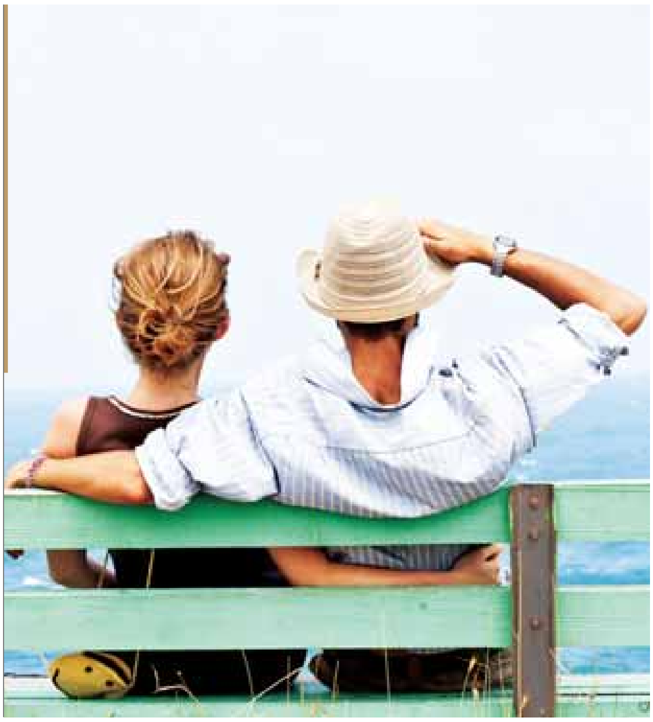
Discovery Health engages with government and the Council for Medical Schemes on a range of issues affecting the sector. One area of focus during the year was the potential for new low-cost medical scheme options targeting cover for lower-income families. A second was the ongoing discussion about a more rational approach to medical scheme capital requirements to replace the current "one size fits all" rule, which requires that all medical schemes hold reserves equivalent to 25% of gross contributions.

Engagement with the broader healthcare system

We engage with the broader healthcare system through many channels, including collaboration with the regulatory authorities and government on the proposed National Health Insurance (NHI) Scheme in South Africa. Discovery Health continues to play an active financial role in the Social Compact and Public Health Enhancement Fund with the Department of Health.

In addition, the Discovery Foundation made grants to the value of R129 million over the past nine years and has now supported 273 doctors with funding for further research and training.

We continue to acknowledge superior service in the public health system through the Department of Health Quality Nurse Awards, which gives generous awards for study to nurses who offer superior care to patients. Through the Best Care Always initiative, we initiated collaboration with both private and public hospitals on some of the critical issues relating to hospital care, including the overuse of antibiotics and the prevalence of superbug infections.



Discovery Health continued

Progress against our strategic objectives continued

Broaden access to quality healthcare by lowering costs, creating unique products, and applying innovative technologies

Tackling persistently high healthcare costs remains a key imperative for the business. South Africa faces rising healthcare costs driven by a complex combination of inter-related supply-side and demand-side factors.

In line with global markets, demand-side cost drivers in South Africa include increased utilisation of healthcare and are compounded by an ageing population, an increased chronic, cancer and lifestyle disease burden and a changing dynamic in the use of high-cost, low-volume technologies.

In South Africa, uniquely, legislation also requires medical schemes to accept all applicants at the same contribution regardless of age and health status, but makes scheme membership voluntary. This leads to adverse selection – where young and healthy members join a medical scheme when they believe they will need healthcare and new joiners opt for cheaper, lower benefit options and “buy up” to higher-cost plans only when they become ill. This increases the cost of schemes in comparison with other jurisdictions, where surpluses generated by young and healthy members play a greater role in cross-subsidy of the costs of care for the elderly and sick.

On the supply side, some of the most influential cost drivers are not unique to the South African market. The fee-for-service payment system and the fragmented silo structure in which doctors, hospitals and other providers operate are key structural challenges which are also experienced by several first-world countries. There is conclusive international evidence that both of these features contribute to rising healthcare costs that compromise the quality of care. In South Africa, medical inflation is approximately 3% to 4% higher than Consumer Price Inflation (CPI).

For Discovery Health, managing cost and the effect of inflation is an important goal as we aim to keep access to quality care affordable over the long term.

Operating within the healthcare regulatory framework, we seek out ways to manage the cost, affordability and sustainability of schemes under our management by implementing and optimising value-based healthcare principles.

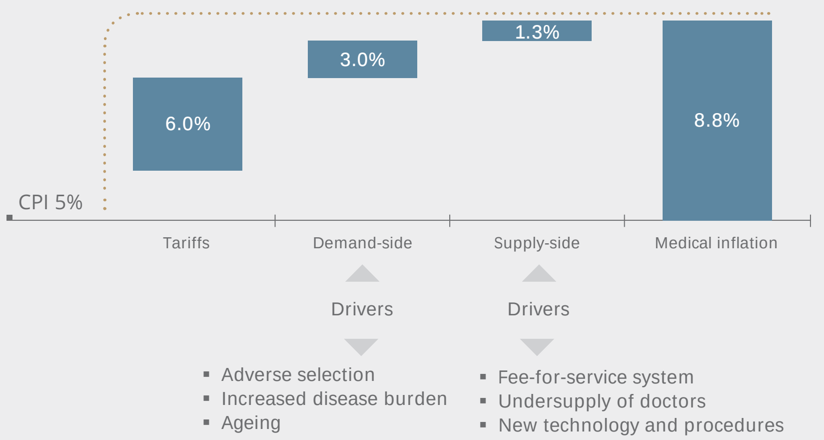
One example is the Care Coordination Programme, which not only supports the recovery of medical scheme members with very complex healthcare needs but also reduces costs. The programme facilitates patients’ recovery by moving them to a participating care facility where a care coordinator guides the patient and family through the recovery process. Guidance continues once the patient recovers and receives care and treatment at home.

We have also used our data analytics capability to tackle fraud more effectively, achieving a 22% increase in fraud and forensic savings in 2014.

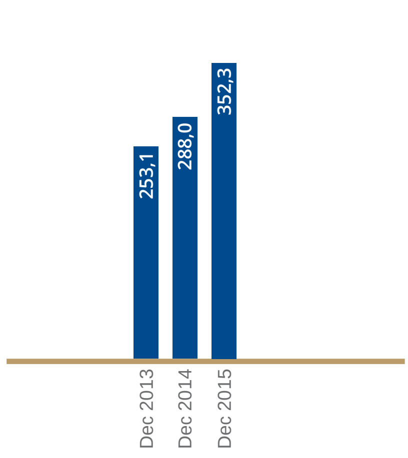
Annual healthcare inflation between 2013 to 2014 was 8.8%, the highest level in five years.

Over 5 600 members are treated through the Discovery Health Care Coordination Programme at 16 participating care facilities, with a saving of R30 000 per patient per year.

Utilisation is a key driver of medical inflation in South Africa



Fraud savings
(Rm)



Outlook

We are making sustained progress on many of the issues which are material to the business and to the health industry in general through innovative approaches targeting structural healthcare challenges and long-term drivers of performance.

We believe that the use of digital technology still holds significant potential to increase the level of interaction with clients, and thereby reducing the costs of service to them. Savings can be re-invested into higher touch, dedicated teams serving members with specialised needs. An example is our case study on page 46 on using technology to improve patient care, describing ways in which we are using technology to empower personalised health pathways for members with chronic conditions such as diabetes, and to enable better coordination of the efforts of healthcare providers, medical schemes and wellness professionals.

Our strategic objectives for 2016

- Build an integrated Discovery healthcare system that ensures continued superior quality of care, seamless patient journeys, and enhanced value for members.
- Create unique and outstanding service experiences for members at every touch point in the healthcare system.
- Make members healthier through increased Vitality engagement at home and in the workplace.
- Ensure consistent, excellent financial performance and sustained healthy growth of DHMS and other client schemes.
- Decisively increase the competitive advantage of DHMS through lower premiums and lower healthcare costs.
- Broaden access to quality healthcare by lowering costs, creating unique products, and applying innovative technologies.

Discovery Health continued

case
study

Leveraging technology to improve patient care and reduce costs

Discovery Health sees significant potential to further leverage technology to improve patient care and reduce costs.

The lack of electronic health records which can be shared with and between health professionals is currently a significant barrier to improving care. Discovery Health launched HealthID in May 2012 to address this challenge. This product allows healthcare professionals access to the details of members' previous doctor and hospital visits, prescribed medicines, blood test results and health measures, once the patient's consent has been obtained.

A recent case study showed that this system not only reduces potential wastage in the healthcare system, but can also save lives. During patient rounds undertaken prior to operations, anaesthetists are able to confirm patients' medicine and dosages. As a result of HealthID, one anaesthetist realised that incorrect information had been supplied by the patient. Treatment was adjusted according to this new information, without which the operation might have had resulted in adverse effects for the patient.

HealthID: Transforming the way doctors manage the health of their patients

Electronic Health Records

Allows access to Discovery Health Medical Scheme members' full Electronic Health Records, including details of previous doctor and hospital visits, previously prescribed medicines, blood test results and health measures.

Chronic Illness Benefit application and approval

Doctors can complete an electronic Chronic Illness Benefit application form with the required information and validation built into the electronic process.

Electronic prescriptions direct to pharmacy

Medicine for chronic and acute conditions can be prescribed using HealthID.

Benefit details and cover

Discovery Health Medical Scheme members' plan and benefit information can be viewed.

Emergency HealthID

Discovery Health Medical Scheme members' unique QR code gives emergency personnel secure access to essential information in an emergency.

Electronic referrals

Discovery Health Medical Scheme members can be referred to another healthcare professional by using the electronic referral tool.

A further example of the value-add that technology can bring is the use of HealthID for patients with diabetes, where a feature has been included to monitor patients using the latest telemetry technology. Data can be exported and linked to an online health and Vitality profile that provides members with access to additional management tools. Discovery Health Medical Scheme provides full cover of telemetric glucometers for Scheme members registered on the Chronic Illness Benefit. Discovery Health has also developed Personal Health Programmes that link to this technology to assist members in managing their lifestyle and condition better.

Simple interface with a smartphone

- Blood glucose meter connects directly to phone
- Readings are transmitted to a web URL

Triggers alerts to the member's doctor

- Data is accessible for both patients and doctors
- Doctor is alerted automatically if readings are out of range

Improved outcomes and savings

- Approximately 55 000 DHMS members with diabetes
- Total cost of R298 million per year

Who we are

Discovery Life is a market-leading insurance company whose innovative products provide close to 800 000 individual and group policyholders with life, capital disability and severe illness cover. In only 15 years, Discovery Life has grown to become the largest writer of risk business in South Africa. It currently holds a share of 29% of the intermediated affluent protection market in South Africa.

Discovery Life's integrated model harnesses its unique access to data on clients' health, wellness and driving patterns to assess and underwrite client risk dynamically. Clients pay premiums which reflect their risk profile and, in many cases, far lower premiums than they would pay for equivalent policies based on a traditional insurance model. In short, Discovery Life's integrated model provides a scientific foundation to encourage and reward healthy living, while protecting clients against unforeseen events and illnesses.

Our vision

Our vision is to become the best life insurer in the world, with products that meet customer needs in unique ways, thereby attracting and retaining healthier lives and delivering loss ratios that are lower than the industry average.

R668 million

The total paid to clients in Discovery Life PayBack benefits during the financial year. The PayBack benefit is a breakthrough risk product that translates the impact of improved personal health into a tangible financial asset.

R1.9 billion

The total value of PayBack benefits paid to Discovery Life clients since the launch of the product.

R9.7 billion

Insurance premium revenue earned by Discovery Life in the 2015 financial year.

50%↓

Diamond Vitality members claimed 50% less than members with a Blue or Bronze Vitality status overall; and 79% less on Life Cover Benefits. This reflects the positive impact of Vitality on people's health.

Discovery's shared value insurance model has three powerful outcomes.

The premise of Discovery's shared value insurance model is to allow all stakeholders to benefit from the value created in encouraging clients to improve their underlying health. By doing this, not only are clients able to receive unmatched value from their insurance policy but society as a whole is able to progress due to the improved health of its members.

Three powerful outcomes

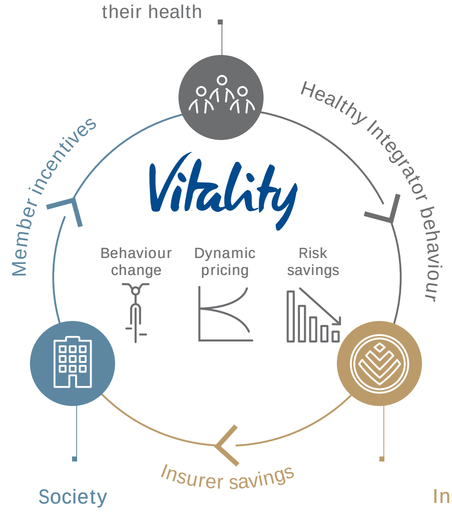
01 | Market-leading risk protection
Discovery Life offers the most comprehensive risk cover in the market. This is evidenced through Discovery Life being awarded the Financial Intermediaries Association long-term assurance award from 2004 – 2010, and 2013 – 2015. Independent financial advisers have consistently chosen Discovery Life as the insurer of choice.

02 | Significant additional financial benefits
Clients are able to actively create value out of their policy through significant additional financial benefits like the PayBack benefit and premium discounts. To date, Discovery Life has returned more than R1.9 billion to policyholders through the PayBack benefit.

03 | Increased longevity
Improvements in life expectancy through healthier eating habits, improved physical activity, changing smoking habits and regular screening tests are evident, with highly engaged Vitality members claiming 50% less than non-Vitality members.

Members

- Better value through reduced pricing for improved benefits
- Improved health and wellness
- Significant financial rewards for managing their health



Society

- Healthier society
- Improved productivity
- Reduced healthcare burden
- Safer roads

Insurer

- Lower claims
- Lower lapses and increased market share

Discovery Life continued

Herschel Mayers
Discovery Life, Chief Executive Officer

Business performance during the year

Discovery Life demonstrated exceptional operating profit growth of 15% to R2 968 million over the period, driven by new business growth of 11% to R2 231 million; and competitive products and other innovations in the servicing environment. Experience variances were R236 million and the business generated R1 073 million in cash (after financial reinsurance) over the period, before allowing for the repayment of financial reinsurance (3% impact on operating profit). The new business growth took place in a fairly flat market, representing a market share gain from 26% to close to 30%. This was largely due to the high quality aligned-adviser force, which grew in both size and productivity.

Discovery Life's strong performance is a testament to the efficacy of our shared value model, with members gaining access to competitive products and exceptional policyholder returns (with R668 million in integrator PayBacks over the last year), while the business benefits from a healthier, more integrated base and a lower lapse rate.

Furthermore, from a distribution perspective, tied agents and direct business are growing faster than the Independent Financial Adviser segment, which has had a positive effect on service quality and product knowledge for clients. The business continues to take proactive steps in light of the potential regulatory shifts, with the launch of the Discovery Financial Adviser Academy in August 2015. The academy expects to see approximately 100 new high-quality aligned advisers graduate each year, who are mentored by the leading performers over a two-year period.

Material challenges

01 | A relatively flat market for pure risk products due to continuing economic difficulties

Our innovative and value-driven products enable us to lead further disruption in a highly competitive but flat market for pure risk products. We have launched special offers and new products to increase sales and increase the uptake of our products.

02 | Ensuring the business is adequately prepared for implementation of the Solvency Assessment and Management (SAM) framework

We are well prepared for the introduction of the SAM framework. SAM is a corporate governance, risk management and internal control framework for South African insurers, which aligns the South African market with international insurance supervision and regulatory benchmarks.

03 | The potential impact of the Retail Distribution Review (RDR)

We are working closely with regulatory and industry bodies to develop the proposals envisaged in the Retail Distribution Review. The Retail Distribution Review was initiated by the Financial Services Board of South Africa with the aim of ensuring that customers receive fair outcomes when purchasing financial products.

04 | Continuing to strengthen our distribution channel

Our distribution strategy takes account of recent regulatory changes prohibiting the use of sign-on bonuses when recruiting tied agents. We anticipate that future growth in our distribution channel will take place primarily through the recruitment of new entrants to the industry.

Progress against our strategic objectives

In our 2014 report, we outlined our strategic objectives for the year. In this section we report on progress against these objectives:

A continued focus on enhancements to the Discovery Life product offering, including further integration opportunities with other Discovery businesses

In the context of a flat market for risk products in South Africa, we focused on developing new products and enhancements that deliver more value for clients, financial advisers and shareholders. The Double Guaranteed PayBack Special offer, an offer that gives clients double their base guaranteed annual PayBack for a period of time, was launched in 2014 and generated Annualised Premium Income (API) of approximately R185 million in the last five months of the 2014 calendar year.

Two product launches in the first half of the 2015 calendar year saw the introduction of a number of innovative products and enhancements, including:

- An enhanced Income Continuation Benefit (ICB) which:
  - Optimises the benefit paid, based on changes to the tax treatment of income replacement policies.
  - Scientifically accounts for the timing and increase in expenses following a disability.
  - Uses technology to revolutionise the claims process. Through HealthID, clients can submit and assess claims electronically, and it allows the claims process to be triggered automatically.
  - Accounts for external factors that may result in a client being unable to earn an income.
  - Provides cover into retirement.
- New products that offer innovative ways in which clients' lifestyles can be protected, for example, by safeguarding insurance and retirement savings contributions and healthy living benefits, and by providing protection against retrenchment. In addition, the newly-introduced Family Protector pays 100% of a client's Income Continuation Benefit amount for up to six months if their spouse or children suffer a severe illness. The Transport Protector allows access to Uber services to the value of R5 000 if policyholders are booked off work for longer than their waiting period to claim.
- *Enhanced Cover and Financial Integrator Buy-Up Cash Conversion:* These benefits support the ability to retire comfortably over a longer life span by channelling risk savings generated through our shared value model back to policyholders to supplement their retirement savings. Following the product enhancements announced in June 2015, policyholders can double the Buy-Up Cash Conversion, with no change in premium.
- The *Dollar Discovery Retirement Optimiser* which can be added as an ancillary benefit to the Dollar Life Plan. It converts unused life cover to supplement a policyholder's retirement savings.

To further promote product uptake, and to offer a seamless interface with Vitality, a promotion during the second half of the 2014 calendar year gave Discovery Health clients attending Premier Wellness Days, the opportunity to qualify for additional cover through Discovery Life without undertaking additional health checks. It also enabled them to receive a guaranteed annual PayBack of up to 45% of premium amounts over the course of their policies.

Discovery Life's exemplary record with the Ombudsman for Long-Term Assurance continued during the year, with only 2.8% of all industry cases submitted to the Ombudsman originating from Discovery Life. Approximately half of these cases were claims related. Discovery Life declined only 2% of claims in the same period, with the majority (81%) of these being declined because policy terms and conditions or criteria were not met.

Integrating Discovery's suite of products

We constantly seek out ways to integrate Discovery's suite of products to increase their collective value to clients. One way in which Discovery Life has integrated its offering with Discovery Health is through the introduction of the Discovery claims concierge service. The concierge service assists Discovery Life clients who are also Discovery Health Medical Scheme members by providing a high-touch, compassionate and comprehensive claims experience to assist clients to navigate the healthcare system in the event of a major claim.

When a Discovery Health Medical Scheme member with a Discovery Life Plan becomes eligible for a claim, our systems identify the potential for the claim and pro-actively notify clients that they may qualify. The purpose of the service is to streamline the claims process and provide additional support to clients when they are at their most vulnerable.

The concierge service includes family support, referral to Discovery HomeCare nursing if this is necessary, specialised support services such as trauma referrals and assistance for cancer patients through oncology liaison managers, as well as the activation of various lifestyle protection benefits.

Discovery Life continued

Progress against our strategic objectives continued

Increase market share and maintain competitive advantage through integrated offerings

Despite challenging economic and market conditions, we have maintained and increased our share of the protection product market. Our share of the intermediated affluent protection market is now at 29%.

Despite a decline in the overall market we also increased new business over the year. The value of our in force business, i.e. active policies, now stands at R21.9 billion*.

Development and preparation for the Solvency Assessment and Management (SAM) framework

The effective date for SAM was postponed to later in 2016, dependent on regulatory approval. Although the proposed regulatory changes being introduced with the SAM framework are significant, our preparation for valuation, management and reporting under the SAM framework remains on track. During 2015, our risk modelling was revised, all necessary parallel runs were performed and the Board approved the risk appetite statement and metrics. All Own Risk and Solvency Assessment (ORSA) projections were completed together with completion of the ORSA report and the necessary stress tests conducted to ensure we are on track.

Continue to focus on the emerging market offering through distribution and product enhancements

We launched a standalone funeral product in February 2013 which was replaced in March 2015 by a budget Essential Funeral Plan and a comprehensive Classic Funeral Plan. Both products have been well received and continue to grow. Having stabilised our offering in this market and gaining vital experience, we plan to launch further innovative new benefits and enhancements in 2016.

* *Value of in force business (net cost of capital) for Discovery Life and Discovery Invest.*

Outlook

During the next year, our focus will be on maintaining product innovation by developing value-driven products that are aligned with our shared value model that enables further integration of Discovery Life's products with other elements of Discovery's product suite.

Taking into account recent and potential future regulatory changes, we will also continue to develop and refine application of the SAM framework and examine the potential impact of the Retail Distribution Review (RDR) on the business.

Our strategic objectives for 2016

- A continued focus on maintaining product innovation and enhancements to the Discovery Life product offering.
- Focusing on further integration opportunities with other Discovery businesses.
- Ensuring the business is adequately prepared for the Solvency Assessment and Management framework as well as the RDR outcomes.
- Increase market share and maintain a competitive advantage through integrated offerings that continue to meet client needs.
- Continue to develop the current and emerging distribution channels for Discovery Life products.

case study

Unique features of Discovery Life's products provide exceptional value to clients

Our claims experience shows that claimants who have one severe illness are 20 times more likely to have a subsequent illness than those who have not claimed. Responding to the need to protect clients against possible risks to their lifestyle and earning ability, we have become the only life insurer to offer the ability to claim more than the selected cover amount. Discovery Life accepts multiple claims regardless of the severity of the condition for which claims are made.

The need for this type of cover is underlined by the recent experience of a 66-year old policyholder, who submitted four claims for four separate health events during the first quarter of 2014. Following surgery to repair a thoracic aneurysm, the client underwent surgery for retinal detachment, first on his right eye and then on his left eye. He then required angioplasty to treat the narrowed coronary arteries of his heart. Discovery Life paid R1.5 million in benefits out to the client for all four claims.

A further unique feature is the automatic AccessCover benefit. This enables claimants who experience life-changing events to secure financial assistance, even if they do not have severe illness cover.

A recent case highlighted the need for this cover, when a policyholder was able to convert her life cover into immediate cash following diagnosis with stage IV breast cancer. Discovery Life paid almost R3.5 million in benefits, which was invaluable in assisting her with treatment and recovery.

The graph below shows the increased likelihood of subsequent illnesses that are the same or related to a previous illness. For example, if a first claim was for a condition in the heart and artery body system, the chances of a subsequent claim related to this body system is 75%. Therefore, a comprehensive multiple claims facility like that offered by Discovery Life allows a policyholder to claim for related conditions for subsequent claims. Traditional insurers typically pay multiple claims, but will only cover unrelated conditions. The value of this type of cover is evident from the data below:

Multiple claims on the Discovery Life Severe Illness Benefit, from January to December 2014

	First claim Percentage chance of having multiple claims for this condition	Second claim Percentage chance of having multiple claims in the same or in a different body system following the first claim	
		Same body system	Different body system
CANCER	31%	70%	30%
HEART AND ARTERY	29%	75%	25%
NERVOUS	15%	69%	31%
CONNECTIVE TISSUE DISORDER	8%	73%	27%
RESPIRATORY	4%	42%	58%

Discovery Invest

Who we are

Discovery Invest provides innovative, tax- and fee-efficient investment products to clients in the South African market, distributed through a network of 6 000 financial advisers.

The business achieved the landmark of R50 billion in assets under management in April 2015. It is the largest provider of endowment policies in South Africa, having maintained a market share of between 25% and 48% of net new endowment business written over the past five years.

Our vision

To deliver superior returns by offering innovative investment products aligned to the Discovery model and product suite, and access to superior asset management.

More than

R50 billion

assets under management.

R1 646 million

New business annualised premium income generated in 2015.

R460 million

Operating profit

↑39%.

R1.9 billion

The expected future value accruing to clients through future upfront Investment Integrator boosts, generated by leveraging the tax and health assets of Discovery Life plans.

R367 million

Fees saved on behalf of clients through the "As and When" Integrator since inception – a product that reduces administration fees by between 40% and 100%.

Discovery Invest continued

Herschel Mayers
Discovery Invest, Chief Executive Officer

Business performance during the year

The performance of Discovery Invest exceeded expectations. Operating profit increased by 39% to R460 million, driven by the high growth in products sold and strong performance of the market. Assets under management (AUM) reached the milestone of R50 billion, with new business increasing by 18% to R1 646 million.

Discovery Invest continues to have the largest share of new endowment business and its balanced funds (the majority of AUM) have shown top quartile performance over one-, three- and five-year terms. An above-the-line campaign around “Performing brilliantly even if you’re young” will be used to drive increased take-up of this product.

Material challenges

01 Increasing market share of net inflows and assets under management

Market share and assets under management are key performance indicators for the business. We drive take-up of new products through product innovation, including further product integration opportunities, and enhancements.

02 Maintaining our focus on new product development

We differentiate ourselves by offering innovative products that are tax- and fee-efficient for clients. We target new product development opportunities that reflect key trends in our market and are aligned with industry-wide regulatory changes.

Progress against our strategic objectives

In our 2014 report, we outlined our strategic objectives for the year. In this section we report on progress against these objectives:

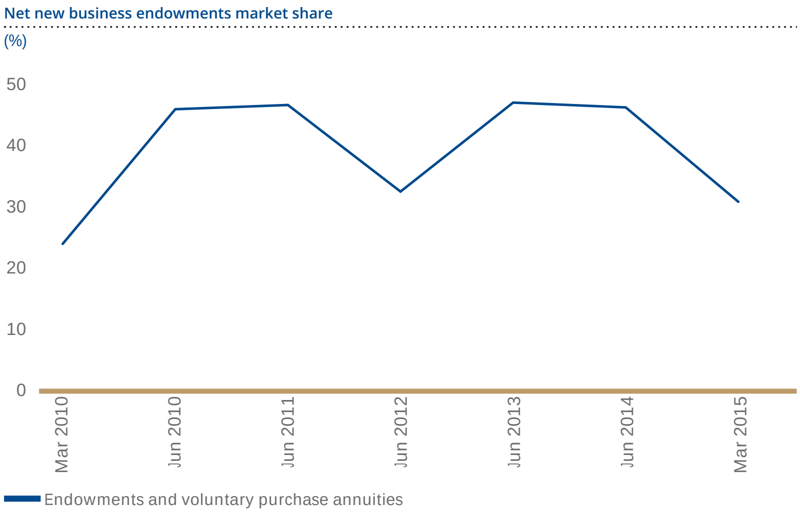
Increase market share of net inflows and assets under management

Assets under management increased by 20.7% in 2015 and have grown by 67.4% over the past three years. In April 2015, assets under management reached the landmark level of R50 billion.

Assets under management

2015	R50 473 million
2014	R41 822 million
2013	R30 153 million

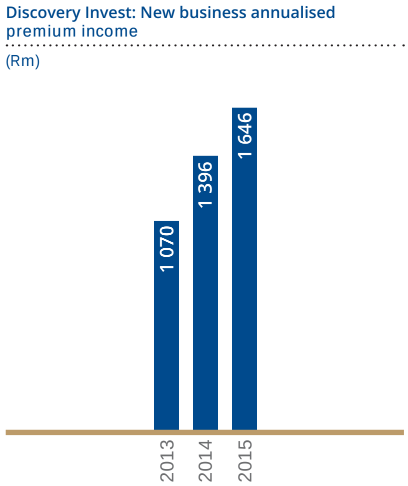
Discovery Invest has a significant market share in the endowment business, having written between 25% and 48% of net new endowments since 2010.



Drive take-up of new products and benefits launched for Discovery Invest

We have seen strong take-up of our products during the year, with new business annualised premium income of R1 646 million.

During 2015, R241 million was raised in the second tranche of the Capital 200+ structured note, traded at the end of March 2015. The note guarantees a 100% return if the underlying European and US index basket is flat or positive over five years, with some capital protection. R50.01 million has also been invested in the Discovery Enhanced Yield Fund since the product's launch in March 2015. The fund provides clients with a 15% return if the FTSE is either flat or positive over five years.



Discovery Invest continued

Progress against our strategic objectives continued

Continued development of new products, taking into consideration industry-wide regulatory changes

We differentiate ourselves through innovative products, which create value for clients by leveraging potential tax benefits associated with savings. Four key trends in our market shape our approach to new product development:

01 |

Health and wellness

As in Discovery Life, we experience positive variances in mortality and morbidity experience, as well as in lapses and policy surrenders, when clients are engaged with their health and wellness, as measured through Vitality participation. We estimate that these variances have had a cumulative positive impact of R1 213 million across both Discovery Life and Discovery Invest since June 2010.

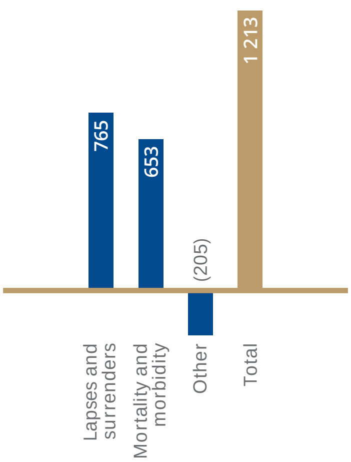
02 |

Technology

Technology has the potential to play a key role in streamlining the way in which advisers and clients interact with our products. Phase 1 of our new website, launched mid-April 2015, focuses on creating a user-friendly online interface to enable intuitive navigation for financial advisers and clients. Through this redesigned website, financial advisers and clients can obtain reports, fund statements and records of past communications and transactions directly. This enables faster and more efficient servicing, for example, it facilitates fund switches using one-time-pin security and the submitting and obtaining of responses to queries, directly with the relevant operations teams.

Cumulative components of Embedded Value experience variances since June 2010

(Rm)



03 |

Fundamental regulatory shifts

In South Africa, the administration platform and unit trust industry are undergoing extensive legislative and regulatory change. Recent and proposed legislative and regulatory amendments include:

- The Protection of Personal Information Act (POPI), which was passed into law in November 2013
- The Retirement Reform and Savings proposals, released in March 2014 by the National Treasury
- Dispensations from the Financial Services Board (FSB) and regulatory authorities
- The Retail Distribution Review (RDR), which aims to ensure that clients receive fair outcomes when purchasing financial products
- Changes to the FAIS General Code of Conduct, prohibiting the use of sign-on bonuses for tied agents. Changes to the commission structure for risk and investment products introduced in response to the RDR may also have implications for our agent network. Our revised distribution strategy takes these changes into account.

04 |

Global market uncertainty

Many of our products include a capital guarantee which provides protection for clients in the event of major market shifts.

Product enhancements developed, launched and rolled out during the year reflect these four factors as well as our dynamic approach to product innovation:

2014

- Launch of Capital 200+, a five-year structured note which doubles clients' capital if a global portfolio is flat or positive after five years and provides some capital guarantee. All returns above 200% are also uncapped.
- Launch of Global Property+, a five-year structured note which doubles positive returns achieved on a basket of offshore properties and provides some capital guarantee.

2015

- Launch of our tax-free investment plan, designed around the Core Flexible Investment Plan and aimed at incentivising South Africans to increase discretionary savings. The plan is aligned with new tax legislation which came into effect on 1 March 2015 and which supports the sale of tax-free investment products. Sales of R5.8 million were achieved during the first four months after launching the product.
- Launch of the Dollar Discovery Retirement Optimiser, which is attached to the Dollar Life Plan and converts offshore life cover into retirement income offshore in US dollars. It also has a Retirement Investment Integrator which discounts all fees by up to 80%.
- Creation of three new risk-profiled offshore funds built from iShares Exchange Traded Funds (ETFs), which will be offered on the new Dollar Discovery Retirement Optimiser and the current Offshore Endowment Plans.
- Launch of the Discovery Enhanced Yield Fund, a structured note that provides a guaranteed return of 15% if the FTSE 100 is flat or positive over one year. If the return is negative, the product adds another 15% and rolls over to pay out at the end of the second year. This continues for up to five years, adding 15% each year. Capital protection is also provided at the end of five years unless the FTSE falls by more than 40%. This product has achieved sales of R50 million since its launch.

Outlook

We continue to monitor potential regulatory changes, in particular the Retail Distribution Review (RDR), which will have an impact on our products, processes and systems in the short term and will inform our decisions around current and future distribution models. We have provided input into the first version of the RDR White Paper, which sets out proposed reforms to the regulatory framework for distributing retail financial products in the South African market.

The pension fund reforms proposed by National Treasury are also anticipated to have a major impact on the business over the next three years and our products will be structured to enable clients to benefit from the reforms introduced.

Phase two and three of our website redesign project remain on track and will be rolled out over the next 12 months with the aim of delivering superior online service to our advisers and clients through a range of intuitive, self-help tools and functionalities.

Our strategic objectives for 2016

- Continue to focus on superior returns through innovative investment products that are aligned to the Discovery shared value model.
- Identify further integration opportunities with other Discovery businesses.
- Maintain and increase the market share in endowment business and growth in assets under management through the development of integrated and innovative offerings.
- Monitor the potential impact of regulatory changes and focus on preparation to align with reforms in retirement regulation and RDR.
- Complete work on the website redesign project to offer clients a complete suite of innovative tools and self-help functionalities.

Discovery Insure

Who we are

Launched in 2011, Discovery Insure offers insurance products that are unique in the South African market. It protects R99.5 billion in assets, including 117 000 vehicles, through policies that are dynamically priced to take account of driver behaviour, monitored through continually-evolving telematics technology.

Over three billion kilometres of driver behaviour data has been collected to date. The insights resulting from this data have enabled the business to develop new products that incentivise good driver behaviour, reduce risk and increase returns for the insurer, while at the same time making South African roads safer.

Through Vitalitydrive, a driver behaviour programme that rewards clients for driving well, clients receive rebates on fuel of up to 50% of their monthly fuel spend, as well as numerous other benefits aligned with our behavioural economics model. In addition to motor insurance, Discovery Insure offers comprehensive buildings, contents and portable possessions insurance.

While the use of telematics technology is becoming mainstream globally, Discovery's approach is unique as it combines the benefits of telematics technology with insights from behavioural economics to systematically improve clients' driving behaviour. In this way, additional value is delivered to clients through financial rewards, while the risk for us as the insurer is reduced.

The technology we have developed to track driver behaviour enables us to provide further value to clients, such as ImpactAlert, which assists up to 120 clients each month by detecting vehicle accidents and alerting the Insure24 response team so that assistance can be dispatched when needed.

Our vision

Our vision is to be a best-in-class insurance business that helps people drive safer, thereby attaining the number one position in profitable new business while achieving loss ratios that are among the lowest in the industry.

32

The number of fatalities due to motor vehicle accidents per 100 000 drivers, per year. South African roads are among the most dangerous in the world. Accidents cost the economy an estimated R300 billion each year, approximately 10% of the South African Gross Domestic Product (GDP).

33%

Lower motor vehicle fatality rates among Vitalitydrive members than the national average.

56%

Lower loss ratio of advanced status drivers when compared with drivers on the lowest driver status level who are not engaging with the programme. Advanced status drivers also have a lapse rate that is 85% lower than the baseline.

Savings enable us to fund **68 million litres** of fuel annually through fuel rebates in our behavioural insurance model.

The three factors that determine Driver Quotient (DQ) – the measure of how well a person drives – form the basis for rewarding individual driver behaviour scientifically through Vitalitydrive.

01 Driver performance

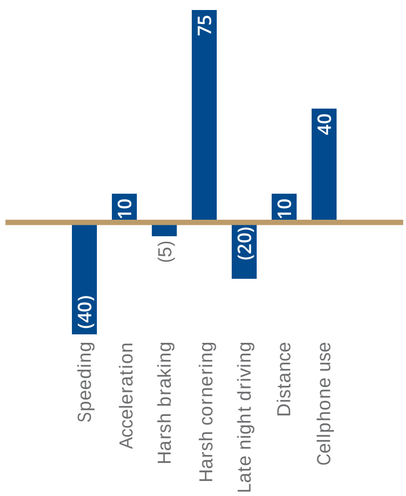
02 Knowledge and awareness

03 Vehicle condition and roadworthiness

= **Up to 50%** of fuel spend back each month

Example of a driver behavioural profile that shows the percentage incidence in each driver behaviour category

(%)



Discovery Insure continued

Anton Ossip
Discovery Insure, Chief Executive Officer

Business performance during the year

Discovery Insure continued to grow rapidly, with new business Annualised Premium Income (API) up 25% to R789 million. Discovery Insure is now ranked in the top three insurers in personal lines new business and is attracting 12% to 15% of new business volumes in South Africa. The loss ratio also continues to improve, reducing six percentage points compared with the previous year, trending towards the long-term target.

The year under review saw Discovery Insure's differentiated model being further enhanced and validated through an evolving reward proposition. The business covers 117 000 cars with three million kilometres of data being tracked daily, and proven influence on risk and losses through appropriate rewards. This reaffirms the power of the shared value model, as members are rewarded for safer driving, thereby reducing claims and losses for Discovery Insure, and having a positive impact on the overall safety of South Africa's roads.

See the case study on page 60.

In addition, a hybrid distribution model and brand building efforts are adding value to the business. Testimony to this, Discovery Insure was voted the top brand in the consumer short-term insurance category in the 2015 Sunday Times Top Brands Survey – one of South Africa's leading brand recognition surveys. Discovery Connect, our direct-to-customer distribution channel, has been a major source of new business growth over the past year and now accounts for 54% of new business written. As of 1 July 2015, Discovery Connect will become a separate channel to ensure sufficient focus on this growing distribution channel.

Material challenges

01 | Leveraging telematics technology to shift driver behaviour

A key challenge is to use our behaviour-based insurance model, enabled by telematics technology, to encourage a significant shift in the driver behaviour of our clients.

02 | Maintain product differentiation in a competitive market

We offer a differentiated product in a saturated and commoditised market. Our objective is to maintain our rate of innovation to reach our growth targets.

03 | Resolving claims more cost effectively

The depreciating exchange rate environment has led to historic and forecasted increases in the cost of claims, as replacement parts have become more expensive.

04 | Regulatory changes, focusing further on consumer protection

We are actively managing and working with the South African regulator on changes in our business environment.

Progress against our strategic objectives

In our 2014 report, we outlined our strategic objectives for the year. In this section we report on progress against these objectives:

Implementation of Discovery Insure's smartphone app and sensor solution for new and existing clients

Telematics technology has improved significantly since it was first introduced in 2011, with each phase of the technology evolution enabling further improvements in driver behaviour, as well as additional product features. The most recent evolution of telematics technology was the introduction of the mobile app and sensor solution, launched in our market in August 2014 and made available to clients from November 2014.

The combination of the smartphone app and the vehicle sensor currently in use, delivers a number of benefits:

- It conveys more accurate driving behaviour data – accidents in particular are difficult to detect using a phone-only solution.
- It enables the device to be matched to the vehicle – eliminating possible abuse.
- Actual vehicle trips can be identified – ensuring that bus or train trips are not included in the data.
- Trips are recorded even when the driver is not using their phone. Data is stored and uploaded when the devices are paired.
- There is no risk of interference with the vehicle's electronics, as the device is battery-powered rather than vehicle-powered.
- It allows users to link to ImpactAlert, a unique safety feature of Vitalitydrive, as data is more accurate and can be used to construct a unique driver profile.

A key challenge for us, however, has been the transition of new and existing clients to this technology, as well as ensuring that there is adequate data recorded to score driver behaviour.

Our efforts have been focused on:

- Gaining acceptance of the new technology among existing clients and using it to attract new clients. We have successfully used the Discovery Insure Driving Challenge, a national competition via the Discovery Insure smartphone app, to achieve this. The Driving Challenge is one of the ways in which the product is promoted beyond the immediate client base of the business.
- Leveraging telematics to secure further improvement in driver behaviour, particularly through active engagement and communication with clients. Adding scale to the business and the further improvement in driver behaviour, will enable us to achieve additional reductions in loss ratios and increase the level of benefits channelled back to clients.

Approximately 40% of clients enable the app and sensor technology at the sales stage, an encouraging level for the business. A comprehensive communications process is in place to ensure planholders are correctly utilising the app and sensor solution.

The evolution of Discovery Insure's telematics technology offering: app and sensor technology

June 2011
Phase 1
Installed tracking device

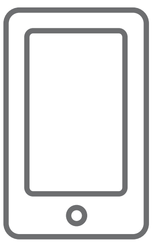
20% driver behaviour improvement in the first 12 months

May 2013
Phase 2
Detailed monthly feedback

Additional 5% improvement in driver behaviour

June 2014
Phase 3
Mobile technology to measure driving behaviour

App users with a low score on day one, improve by over 20% by day three



November 2014
Phase 4
Mobile DQ-Track with tag

Objectives

- Verifies the client is driving the car
- Supplies accurate feedback
- Collects and stores information in no-reception areas
- Ensures easy installation
- Provides battery and data efficiencies

Discovery Insure continued

Continued implementation of strategies to bring the loss ratio closer to our long-term target

Loss ratios continue to follow a downward trend. The loss ratio is significantly lower among engaged Vitalitydrive participants, than among non-engaged members. Not only do good drivers experience a 37% lower rate of accidents over drivers on the lower statuses (base and neutral), but the cost of their claims, if an accident takes place, is significantly lower. The cost per claim for engaged and advanced drivers is 23% lower than the base and neutral status drivers.

We believe these behavioural changes can be sustained. To date we have experienced a steady growth in engaged and advanced status drivers, which illustrates the programme's ability to change behaviour over the long term. Our data also shows that our client base (across both technology platforms) has a higher proportion of excellent drivers when compared with the rest of South Africa's drivers.

Although the loss ratio is decreasing as the average policy duration of the book increases, loss ratios remain above our long-term target. We therefore continue to focus on reducing claims through rewards structures that encourage our clients to improve their driving behaviour, thereby improving their risk profile. We are also seeking ways of reducing the cost pressures on insurance repairs.

One challenge is the cost of parts, which is negatively affected by a worsening Rand/Dollar exchange rate. A further issue is the worsening pattern of extreme weather events. The response of the business has been to implement tighter controls on procurement management by working with suppliers to process claims as cost-effectively as possible.

Responses to extreme weather events require a coordinated approach. For example, in the case of a recent hail event in Pietermaritzburg in KwaZulu-Natal, South Africa, emergency response teams were sent out to support panel beaters, and the business worked with car rental companies to ensure that sufficient replacement cars could be procured for drivers affected.

Product innovation supports the reduction of claims where feasible. The recently-introduced benefit with taxi service Uber, for example, was developed to reduce the risk of night driving. Our data shows that driving between 11pm and 4am carries a risk of accident almost 10 times greater than at other times. Using Discovery Insure and a Discovery Card, clients can secure a discount of up to 40% off every Uber trip.

From over 1 700 members taking advantage of the benefit, we have experienced a 15% reduction in night driving kilometres and a 3% reduction in loss ratios.

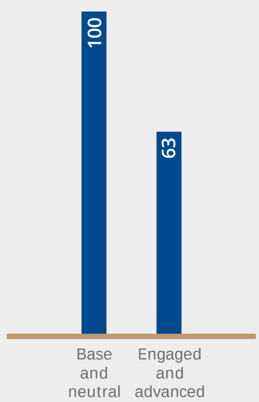
Further innovations include taking advantage of the ability of telematics products to track the normal driving distance of a car owner and to detect abnormal driving patterns that may be the result of a theft or vehicle hijacking. Vehicle owners are then contacted pro-actively to check whether they have experienced an incident, and Discovery Insure provides support and emergency assistance if required. Family members can also be tracked and located in case of an emergency.

Maintain new business levels above target and lapse rates lower than targets

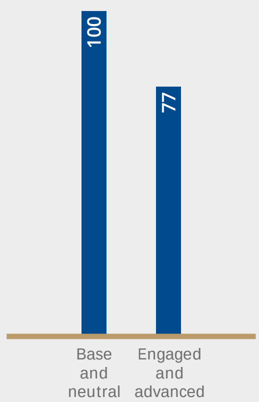
The Discovery Insure Driving Challenge, which took place in August last year, contributed to new sales by allowing drivers not currently participating in Vitalitydrive, to gain a deeper insight into how they drive. This enabled broadened consumer awareness of Discovery Insure.

One of our major achievements during the year has been the extent to which we have achieved new business growth in a market where many of our competitors are struggling to maintain market share. Our innovative products and service levels play a major role in continuing to attract new clients. Client engagement through Vitalitydrive is a major contributor to lapse rates, which are below the industry average.

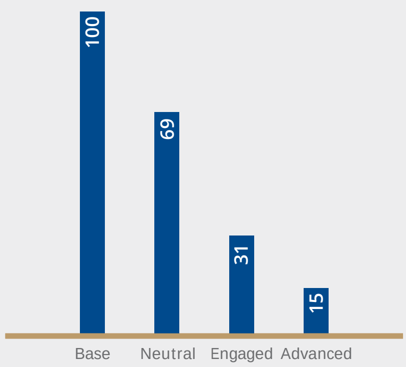
Relative claims frequency by Vitalitydrive status
(%)



Relative claims cost by driver engagement
(%)



Lapse rates by Vitalitydrive status
(%)



Note: Base and neutral = lowest Vitalitydrive status; engaged and advanced = higher Vitalitydrive status

Outlook

During the year ahead we will work to achieve scale in the business through growth in our client base and by improving client engagement through the take up of the app and sensor product among new and existing clients.

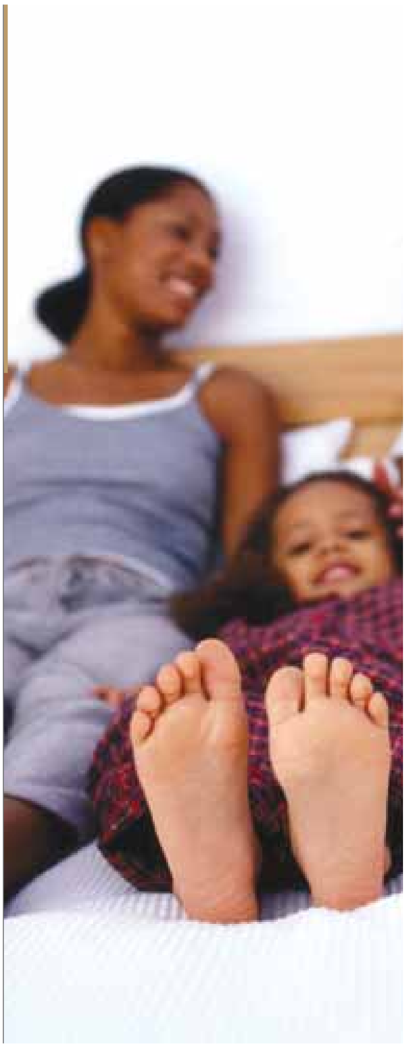
We will maintain our focus on bringing the book loss ratio towards our long-term target and by responding to the structural issues that drive costs in the industry – poor road safety and the high cost of repairs. The use of telematics technology to price risk more accurately is critical.

In an increasingly competitive market, we need to continuously remind consumers about the need for insurance and broaden our offering to include products at a range of price points.

We will also explore further opportunities to integrate Discovery Insure products with other Discovery behavioural-based products to create enhanced value for members, including opportunities to enhance value for Discovery Life policyholders.

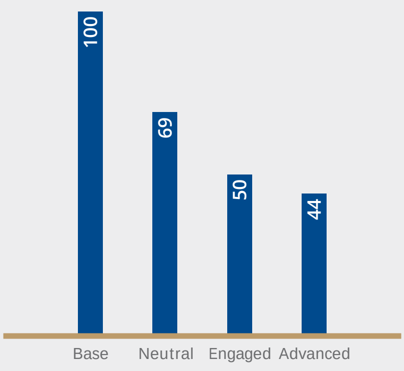
Our strategic objectives for 2016

- Maintain the momentum of sales growth that the business has seen since inception and to increase our market presence and entrench our position within the short-term insurance industry.
- Achieve a sustainably low structural loss ratio by making use of our distinctive business model.
- Increase member engagement to attract, retain and reward clients for better driving behaviour.
- Encourage the uptake of our world-first app and sensor technology to improve member experience.
- Continue to invest in product expansion through ongoing innovation and development of our unique value proposition.

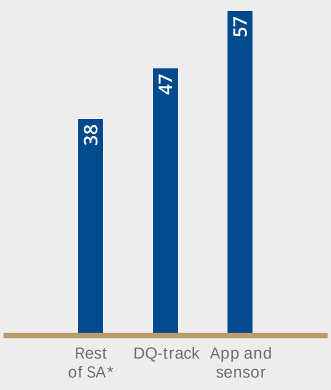


Loss ratio by Vitalitydrive status

(%)



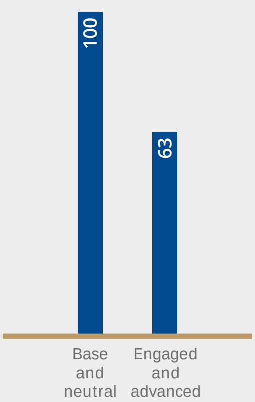
% of excellent drivers



* *As measured through the Discovery Insure Driving Challenge, which was available to the general public*

Relative claims frequency by driver engagement

(%)



Discovery Insure continued

case study

Creating shared value through our behavioural-based insurance model

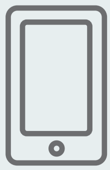
Discovery Insure's products create shared value by addressing structural issues for society, such as the high level of vehicle accidents, which result in preventable costs for the economy and which cause a disproportionately high amount of deaths and injuries, particularly among children.

In a partnership with Childsafe, a non-profit organisation in South Africa aimed at improving the lives of children, we started the Safe Travel to School programme. Through this programme, scholar transporters in South Africa's Western Cape Province, enrolled in a driver behaviour programme that is aimed at improving their driving and saving more lives of children. The driver-behaviour programme draws from Discovery Insure's Vitalitydrive principles and uses telematics technology to measure and track participants' driving behaviour. The initial results from the one-year long pilot study have been extremely positive.

See our case study in our People and Sustainable Development Report, page 30.

Our core Discovery Insure products encourage and incentivise safer driving while benefit linkages with partners such as Uber target high-risk client segments and high-risk driving behaviours. This benefit was introduced to address late-night driving, a behaviour that has been shown to result in a higher risk of accidents.

In many areas, we have led action against high-risk behaviours, for example the practice of texting while driving. We participated in the South African Road Traffic Management Corporation's Road Safety Advisory Council, at the invitation of the Minister of Transport, and are the only short-term insurer to have been included on this panel. The aim of this Council is to provide inputs into the strategic direction, oversee and provide critical assessment of proposed road safety initiatives and campaigns.



Drivers who use their cellphones have on average

52 seconds

of distracted driving per trip.

This is equivalent to one kilometre of 'blind driving' at 60km/h.

We continue to broaden access to telematics technology to improve driver behaviour through the Discovery Insure Driving Challenge. This challenge took place last year and is running from August 2015 for the second time.

The challenge enables all South African road users with smartphones to obtain feedback on their driving performance and be rewarded for good driving.

Drivers are awarded a score against a simple five-star system for their driving performance in six key areas of risk:

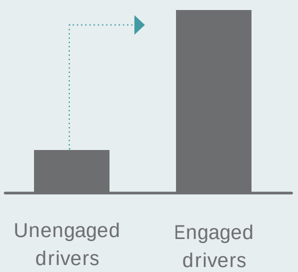
- Night driving
- Harsh braking
- Speeding
- Harsh acceleration
- Harsh cornering
- Phone usage

Data from the Driving Challenge in 2014 showed that it supported significant improvements in driver safety. Users scoring less than 50 points at the start of the programme, for example, typically improve their driving behaviour by up to 20% over the next two days. These improvements are sustained over time with continuous improvement in the first month of the programme.

Discovery Insure Driving Challenge insights

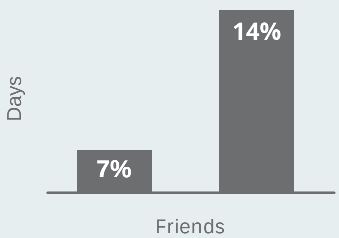
Immediate feedback encourages a higher percentage improvement in driving behaviour. Users who score fewer than 50 points after their first day improve on average by 20% over the next two days.

Relative driver behaviour improvement over 10 days



A higher number of friends encouraged better driving behaviour among participants.

Driver improvement in first five days



We saw a continued improvement over time as members receive immediate feedback with the app.

Average driver score in first month

Discovery Vitality

Who we are

Discovery Vitality is the largest scientifically-based wellness programme globally with close to 1.7 million people taking part in the programme in South Africa, over 860 000 in the United Kingdom and over one million clients in the United States and China, combined. Through a range of innovative programmes and benefits, Discovery Vitality covers the complete healthcare spectrum, ranging from lifestyle modification and preventive care, to disease management.

Vitality is integrated seamlessly with Discovery Health and Discovery Life products and is the enabler that allows these businesses to generate shared value. Our data shows that highly-engaged Vitality members have an average life expectancy of 88 compared with an average of 46 as measured in the general South African population.

Our vision

Our vision is to be the most effective wellness programme in the world, and to become an integrated part of the healthcare system, thereby having a profound impact on members' lives. By delivering scientifically-based interventions, powerful incentives and access to world-class partners in a dynamic, intuitive and seamless way, we can encourage positive risk selection, behaviour change and retention, thus supporting Discovery in becoming the world's best insurance company.

Dr Shrey Viranna
Discovery Vitality, Chief Executive Officer

How does Vitality work?

3 simple steps:

1. Members have access to a network of health and wellness providers. Cost barriers are lowered and Vitality has access to significant data to measure and verify health behaviour and engagement.

2. A customised wellness solution is provided for each member based on individual risk factors, making the programme easy and effective to use.

3. Members are rewarded for their engagement with the programme through a broad incentive structure that addresses different behavioural motivators.

Long-term impact of Vitality on people's health and healthcare costs

During 2015, we concluded an in-depth analysis of the impact of Vitality engagement on improving the health and wellness of over 800 000 adult Vitality members (between January 2011 and June 2014). The analysis showed the following:

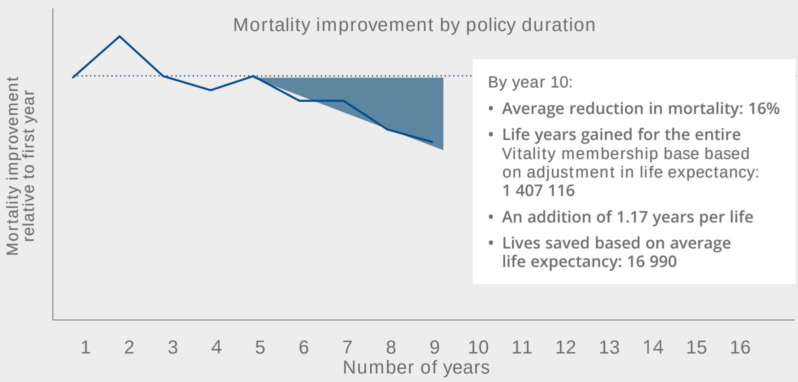
53% **reduction in lifestyle-related healthcare costs**
experienced by members who are non-smokers versus new smokers. The differential between non-smokers and long-term smokers or those who have only recently stopped smoking, is 38%.

37% **reduction in lifestyle-related healthcare costs**
experienced by members who are highly active.

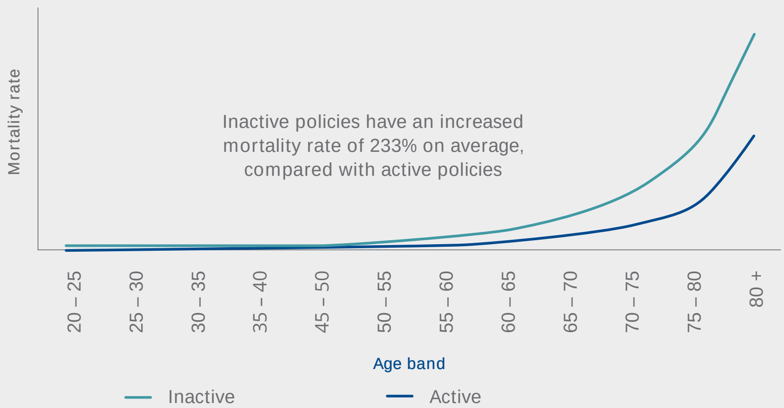
8% **reduction in lifestyle-related healthcare costs**
experienced by members who spend a higher proportion of their shopping basket on healthy food items.

28% **reduction in lifestyle-related healthcare costs**
experienced by members in the healthy Body Mass Index (BMI) range of 18.5 – 25, versus members classified as severely or morbidly obese (BMI>35).

How mortality rates improve the longer members remain on Vitality



Comparison of mortality for active and inactive policies



Discovery Vitality continued

How Vitality motivates people

Over 397 000 discounted movies watched at a partner cinema from January 2015 to June 2015

Over 656 000 discounted flights were booked from January 2015 to June 2015

INCENTIVES

On average, **every 0.85 seconds** a Vitality member works out at a partner gym

On average, **231** fitness assessments completed every day

On average, **every 0.56 seconds** a Vitality member uses the HealthyFood benefit, with over R19 million spent on HealthyFood items every day

Material challenges

01 Increase the number of Discovery clients who participate in Vitality

Lives currently covered by Vitality are approximately 60% of our Discovery Life and Discovery Health base. Our objective is to continuously increase this ratio.

02 Ensuring Vitality members are engaged from the start of the membership

Our data shows that early engagement in Vitality is critical to ensure members remain engaged. We are therefore investigating ways to encourage early engagement.

03 Improving health outcomes

We have adopted the 2023 targets of the World Health Organization (WHO) and aim to achieve these targets in our business by 2018.

Progress against our strategic objectives

In our 2014 report, we outlined our strategic objectives for the year. In this section we report on progress against these objectives:

Grow the Vitality membership as a percentage of the businesses

New member activations reached 123 666 for the year, ahead of our target. Membership has been supported by product innovations in 2015, targeting membership growth and the more active engagement of existing Vitality members. In particular:

- The Vitality Active Rewards benefit is being introduced to enable members to benefit from incentives more quickly through instantaneous, small-value rewards for achieving weekly fitness goals. The benefit is enabled by a smartphone app that identifies and tracks personalised fitness goals for members.
- The HealthyFood benefit was elevated by introducing the HealthyFood Switch app, which gives users information on the contents of food by scanning food barcodes. This product, developed by the George Institute for Global Health in Australia, has already shown proven success in other markets.

New initiatives have been introduced that continue to support new membership growth. In particular, the Team Vitality cycling and running club has been highly successful, attracting over 2 000 cyclists and 4 500 runners in South Africa, now making Team Vitality officially the largest running and cycling club in the country. There has been a positive response to the benefits offered through these clubs.

Parkruns have proven to be a highly successful means of engaging members and non-members alike in physical activity, with 245 000 members attending a parkrun across 63 locations.

Reduce operational costs to support long-term development capacity in Vitality

Integration of the Vitality and Discovery Card products will support lower operational costs over the longer term.

Develop and implement strategies to grow Discovery Card advances and turnover

Discovery Card is currently the largest standalone card in the country and Visa named the card as the most successful co-branded card globally.

Given its potential for future growth, Discovery increased its stake in Discovery Card during the year under review, with the objective of becoming more active owners of Discovery Card and driving its overall profitability.

We are also exploring options to integrate the card further with Discovery Health and Discovery Life to improve the value offering of the card and the resulting retention levels.

Develop and implement strategies and initiatives to enhance employee morale and boost energy, and Employment Equity targets

Employee morale has been boosted by hosting CEO and Executive coffee chats with employees as well as hosting roadshows. These sessions have allowed employees, to engage with Vitality Executives and share their experiences with them. The feedback from these sessions have been positive and have led to improved employee engagement scores. Mentorship and leadership programmes have been implemented to nurture and develop the talent within Vitality and assist in pursuing our Employment Equity targets.

Outlook

During the next year we intend to explore developing additional Vitality products, aimed at increasing our penetration of the Discovery Health and Discovery Life membership base, currently focused on higher income market segments.

A key area of focus will be to achieve growth in Discovery Card, including plans to increase card advances and enhance the value proposition of the card. Our objective will be to ensure that it is front-of-wallet for all purchasing decisions.

Our strategic objectives for 2016

- Develop a new Vitality offer to provide a point of differentiation in defined segments beyond our current market, in a way that supports the core Vitality programme.
- Enhance the value proposition of Discovery Card and increase spend through the card.
- Increase the level of physical activity of members through new products, particularly Vitality Active Rewards.
- Help members to improve their nutrition choices, by expanding the HealthyFood concept to include more aspects of nutrition.
- Develop Vitality's value proposition further, ensuring that benefits provide value across our membership base.

VitalityHealth

Who we are

VitalityHealth (previously PruHealth) is the fourth-largest provider of private medical insurance (PMI) in the UK, covering close to 550 000 lives. Previously a joint venture with Prudential plc, PruHealth became a wholly-owned business of Discovery in November 2014. It was subsequently rebranded as VitalityHealth.

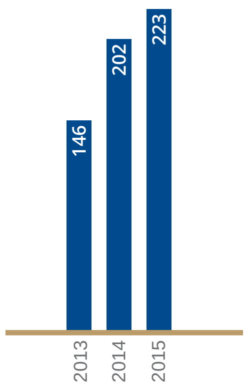
VitalityHealth's unique model offers a holistic healthcare solution that integrates wellness and prevention programmes with traditional illness cover. Insurance cover is provided for services ranging from private primary care consultations, offered through a virtual GP platform, to consultant care, hospitalisation for acute conditions, and post-hospital recovery and rehabilitation.

During the period, VitalityHealth launched two significant and socially-progressive enhancements to its product, being VitalityGP and Active Rewards. Firstly, through VitalityGP, members can directly access private care without the need for a National Health Service GP referral, a unique feature in UK Private Medical Insurance (PMI). In addition, VitalityGP can combine both sickness and wellness data through Vitality to establish the most appropriate treatment pathways for members, creating a truly holistic approach to healthcare. Secondly, VitalityHealth pioneered the concept of Active Rewards, which monetises daily activity to motivate members to undertake more physical activity. By offering rewards such as free Starbucks drinks and cinema tickets, Active Rewards has precipitated record levels of engagement with Vitality, with significant evidence of physical activity behavioural change.

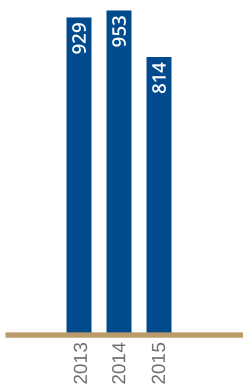
Our vision

Our vision is to entrench our unique shared value approach to deliver strong market share growth, excellent levels of member engagement and market-leading profitability.

Normalised profit from operations
(%)



New business annualised premium income
(%)



1.2%

Improvement in our loss ratio over the previous year. Our loss ratio is among the lowest in the industry.

2.1%

Decrease in our lapse rate over the previous year, which remains ahead of target and among the lowest in the industry.

34%

New business growth through our direct sales channel.

R814 million

New business annualised premium income for 2015.

R223 million

Operating profit.

VitalityHealth continued

Neville Koopowitz
VitalityHealth, Chief Executive Officer

Business performance during the year

During the period, VitalityHealth had a deliberate strategy to focus on better-quality, higher-margin business in a highly-competitive new business acquisition environment. While this approach delivers long-term value in the form of sustainably lower loss ratios and more engaged members, it comes at the expense of short-term new business growth. Both of these trends played out in the period under review. At a membership level of 550 000 lives, and with emerging improvements in the dynamics of the market, the platform has now been established for the business to return to growth.

The period under review saw the continuation of the excellent loss ratio and lapse rate performance of the business to industry-leading levels. It also experienced strong product resonance and member engagement with the Vitality wellness programme – particularly with the new Active Rewards benefit. From a new business perspective, the focus on quality resulted in a reduction in overall new business annualised premium income, from R953 million to R814 million over the period. Despite this, positive growth was seen in the proportion of new business generated through the more profitable direct channels and individual market. Additionally, the post-reporting period monthly new business run-rate has recovered to R83.7 million in 2015 from R67.9 million in 2014, reflecting the early signs of a new business recovery.

At an operational level, the complexity of the operating environment was reduced with the exit from the Transitional Services Agreement (TSA) in place with Standard Life. The business is on track to complete a system migration to a single administration platform in the next 18 months. This is expected to deliver additional operating efficiency going forward.

VitalityHealth achieved normalised operating profit of R223 million, an increase of 10% from the previous period.

Material challenges

01 | Transition to full ownership and rebranding of the business

The transition to full ownership, and the associated brand change, has been successful with no evidence of shock lapses or deterioration in the established new business run rate. This reflects the positive impact of a 24-month brand, sponsorship and advertising approach that deliberately elevated the “Vitality” brand within the PruHealth brand hierarchy in anticipation of the ownership change. Significant investment was made in the Vitality brand over the past six months to establish the foundation for a powerful and differentiated insurance brand in both the financial adviser and consumer markets.

02 | Migrating to a single technology platform

VitalityHealth is nearing completion of a system and product migration that will result in a consistent product structure and a single administration system for all legacy portfolios. In addition to the migration activity, significant investment is being made in online and mobile enhancements. These enhancements are expected to further improve operating efficiency and member engagement by creating a true multi-channel service environment.

03 | Attracting new lives to the Private Medical Insurance (PMI) market

The UK PMI market has failed to attract large numbers of young and healthy people in recent years, predominantly due to its singular focus on illness coverage provision. VitalityHealth’s product, which lends equal weight to the provision of care and health promotion, positions us well to extend the appeal of the PMI market beyond the traditional purchasers of PMI. Analysis of our individual market new business indicates our success in attracting new, previously uninsured, members to the PMI market. These members have significant levels of engagement with Vitality, and typically exhibit better claims and retention behaviour.

04 | Strengthening our governance framework

We continue to work on strengthening our governance framework in line with ongoing regulatory developments. We have completed readiness work for Solvency II, an EU directive that codifies and harmonises EU insurance regulation.

Progress against our strategic objectives

In our 2014 report, we outlined our strategic objectives for the year. In this section we report on progress against these objectives:

Continue to invest in Vitality to establish the brand, partners, engagement and reach required to deliver better actuarial dynamics

A considered approach was applied to the development of the Vitality brand following the Discovery acquisition, with the objective of establishing an insurance brand that cuts through in a typically low-interest category, and one that will appeal to consumers. Strategically, the approach taken through sponsorship, advertising and intellectual leadership, sought to not only rebase the business brand to Vitality and achieve "business-as-usual" with minimal disruption, but also to use the rebrand investment as an opportunity to build momentum for the business. This resulted in Vitality acquiring a number of new sponsorship properties over the year, and launching a national advertising campaign at the start of 2015.

From a sponsorship perspective, the strategy is to create brand awareness through association and participation. At an association level, the approach has been to align with key individuals in the UK, as well as national teams and the English Premier League. This has resulted in a sponsorship portfolio that comprises Vitality Ambassadors, national rugby, cricket and netball sponsorships, as well as partnerships with Manchester City, Liverpool and Arsenal football clubs. Being one of the largest employers in Bournemouth, we have recently taken up sponsorship of Bournemouth Football Club, newly promoted to the English Premier League. The sponsorship, launched to coincide with the club's promotion, includes naming rights for the Bournemouth stadium, now known as Vitality Stadium. From a participation standpoint, we use our sponsorship assets to drive member engagement, such as competitions for Premier League tickets, as well as nationwide mass participation events, predominantly through the Vitality Run Series, to improve the nation's health.

Aligned to the brand and advertising activity, we have made a considerable investment in member communication to drive increasing levels of engagement with Vitality's wellness and rewards partners. By June 2015, Vitality had reached record numbers of members engaged in health awareness through Vitality Age and health screenings, as well as healthy behaviours such as physical activity and nutrition. Reward usage grew considerably in line with the growth in engagement.

Importantly, from an actuarial perspective, we continue to see the positive effect of Vitality engagement on loss ratios and lapse rates. In the context of new business, the appeal of the Vitality programme is significant among non-traditional purchasers of PMI, evidenced by a younger age profile and very high levels of early engagement with Vitality's health and wellness partners. Equally, on the active book, we continue to see both improved loss ratios, lower anti-selective lapsation, and increased levels of Vitality engagement. This has resulted in VitalityHealth demonstrating industry-leading levels of loss ratio and lapse rates.

VitalityHealth continued

Progress against our strategic objectives continued

New product innovation that reinforces our brand and shared value model

Our innovation objective is to launch products that are socially progressive and deliver true behaviour change among our members. By encouraging behaviour change, we make our members healthier; thereby generating better loss ratios; and positively impacting business and society. This will support the attainment of our shared value insurance objectives.

During the year, VitalityHealth launched two fundamental product enhancements, VitalityGP and Active Rewards. While VitalityGP aims to extend the traditional scope of PMI benefits into primary care by introducing a GP-led clinical pathway process, Active Rewards seeks to bring daily activity into people's lives through the introduction of immediate rewards for activity. Both innovations have resonated strongly with members, with take-up exceeding expectations.

Building intellectual leadership in our sector in the UK market

The business is building a reputation for innovation and leadership in the sector, notably through the product construct that extends the traditional scope of PMI coverage, but also through social initiatives such as Britain's Healthiest Company. Since its launch in 2013, Britain's Healthiest Company has become the pre-eminent workplace wellness survey in the UK, and a leading authority on the link between modifiable risk factors, organisational factors, and employee productivity. The outputs of Britain's Healthiest Company are being used to inform the development of VitalityHealth's new corporate market proposition.

See the case study on page 72 for more detail.

Strengthening our distribution channels

Our direct sales channels have proven to be highly successful, with new business through these channels increasing by 19% over the year. This was due to a number of new direct sales initiatives, including the establishment of in- and out-bound call centres, the establishment of lead generation capabilities, and targeted above-the-line campaigns and sponsorship activity. Business sourced through this channel comes at higher margins, lower loss ratios and significantly higher levels of Vitality engagement.

Outlook

Our growth trajectory will continue to take account of the need to build a quality portfolio of lives rather than focusing on market share and absolute policy numbers. While we see room for growth, our intention is to achieve sustainable growth without compromising margins and to maintain our loss ratio as the lowest in the industry.

We anticipate seeing the benefit of investment in our IT systems coming through in the 2017 financial year and will work further to leverage the potential that our new platform will create from an operating efficiency perspective.

We continue to see the significant impact of our clients' engagement in the Vitality programme on retention and loss ratios. From a business client perspective, we are increasingly applying the learnings from Britain's Healthiest Company to evaluate the effect of Vitality engagement on key HR metrics such as productivity, employee engagement, and turnover, essentially moving Vitality from a programme targeted at individuals to one that can be used to manage corporate health.

Our strategic objectives for 2016

- **Sales and distribution:** Target growth in all distribution channels without a material degradation in new business margins.
- **Pricing:** Increase pricing sophistication to improve the targeting of more profitable new business segments on a proactive basis, as well as enhance retention of more engaged, higher-value clients.
- **Product innovation:** Identifying selective opportunities to enhance the Vitality programme as a means to drive further wellness engagement and behaviour change.
- **Corporate Vitality:** Better embed the learnings from Britain's Healthiest Company into the corporate proposition to secure a pipeline of corporate business that makes an acceptable return for the business.
- **Digital:** Enhance the existing digital and online capabilities to introduce a true multi-channel service environment and better member journeys.
- **Solvency II:** Ensure VitalityHealth is Solvency II compliant on 1 January 2016, and that all necessary reporting framework processes are in place.

VitalityHealth continued

case
study

Examining the link between workforce productivity and wellness

Together with our research partners, the University of Cambridge and Rand Europe, VitalityHealth ran the competition "Britain's Healthiest Company" in 2015 for the third time. The objective of the initiative – done as a welllness survey – is to generate a credible evidence base that links employee health and wellbeing to company profits, thereby increasing the number of companies that take responsibility for the health of their employees.

£58 billion
The estimated cost to the UK economy of lost productivity due to poor health.

Through participation in the programme, employers gain:

1. A greater understanding of the burden of disease and the prevalence of lifestyle risk factors in the workplace
2. A better understanding of employee attitudes to health and their motivation to make positive changes
3. An understanding of how effective their current workplace policies, facilities and interventions are in engaging employees in their health and wellbeing
4. Benchmarking of their performance across a broad spectrum of interventions, as well as health and productivity outcomes
5. Support in developing the financial case for investment in employee health and wellbeing

The research platform is based on the concept of Vitality Age – a metric which is determined by using nine risk factors which are proven to have an impact on mortality and health risk. This provides a common currency for benchmarking and interpreting employer and employee results.

Surveys are conducted with companies based on a methodology devised by an expert advisory panel. It evaluates clinical and non-clinical risks, their effect on productivity, health, behaviour and engagement, as well as the effectiveness of workplace health interventions.

Analytics, reporting and research are undertaken by the University of Cambridge and by Rand Europe, a not-for-profit research institute with a mission to improve policy and decision-making through research and analysis, to ensure objective data collection and analytics and to provide tailored employer reporting.

Since its launch in 2013, the initiative has grown exponentially, with over 32 500 employees from 120 companies participating in the 2015 edition of the competition. Over 7.8 million data points from both the workplace and individual employees have been collected over the three years of the survey, highlighting some significant risk areas among workforces of participating companies.

Results from the 2015 Britain's Healthiest Company survey: percentage of employees outside the healthy range

36% physical activity

35% chronic conditions

52% nutrition

4% mental wellbeing

80% health screening

20% body composition

19% alcohol

40% smoking

VitalityHealth MERCER

BRITAIN'S HEALTHIEST COMPANY

In partnership with

THE UNIVERSITY OF CAMBRIDGE & RAND EUROPE

The Sunday Telegraph

Who we are

VitalityLife (previously PruProtect) is the third-largest protection life assurer in the UK, with a total market share of 9.6%. In the intermediated market, VitalityLife's market share is 12.6%. Previously a joint venture with Prudential plc, VitalityLife became a wholly-owned business of Discovery in November 2014, and it was then rebranded as VitalityLife.

Products are distributed through a network of over 8 000 financial advisers, 18 franchises, two call centres and an increasingly important direct-to-consumer channel. The business benefits from excellent in-house lead generation capability.

The Vitality Optimiser integrates VitalityLife products with Vitality membership, offering a unique proposition in the UK market by enabling clients to benefit from Vitality rewards by engaging with and improving their health.

Our vision

Our vision is to entrench our unique Vitality-led behavioural insurance model as a new generation insurance category in the UK. This will be achieved by building our business into the leading protection business by market share, brand and financial strength, and moving insurance from a low-interest category to a brand which resonates with consumers.

R1 079 million

New business annualised premium income in 2015.

12.6%

VitalityLife's share of the intermediated protection market.
In the final quarter of the financial year, the business became the **second largest player** in the UK intermediated market for the first time.

318 000

Number of lives covered by **over 250 000** VitalityLife policies.

£8.24 million

(R119.48 million at the average exchange rate over the same period)

Cumulative positive variance in claims (i.e. in lower than expected claims ratios) since 2009, supported by the integration of Vitality with life protection products.

73.5%

The percentage of the UK population that are within three miles of a UK Vitality partner.
On average, members engage with a Vitality partner **every six seconds.**

VitalityLife continued

Herschel Mayers
VitalityLife, Chief Executive Officer

Business performance during the year

The VitalityLife business produced a strong normalised operating profit for the year-to-date, with an increase of 27% to R542 million and new business up 22% to R1 079 million.

The period also saw the continued adoption of the Vitality-integrated model, with the Vitality Optimiser product comprising over 50% of new business.

Following the rebrand, VitalityLife recorded three consecutive record sales quarters. This reflects the powerful consumer brand the business has developed. VitalityLife continued to grow its market share in the independent financial adviser space to 12.6%, and is now in second place in that segment.

Material challenges

01 Rebranding and transition to full ownership

Following the purchase by Discovery of the 25% share of Prudential plc in PruProtect, the business has been rebranded to VitalityLife and integrated into the Discovery Group.

02 Enhancing the footprint of the Vitality brand

In the UK, Vitality membership and benefits are integrated with our core life assurance products through the Vitality Optimiser. The visibility of the Vitality brand is therefore a critical factor in driving lead generation and sales.

03 Approval of our UK licence application

Our licence application was submitted as scheduled. It is being reviewed by the UK regulator and is awaiting approval.

Progress against our strategic objectives

In our 2014 report, we outlined our strategic objectives for the year. In this section we report on progress against these objectives:

Continue to invest in Vitality to establish the brand, partners, engagement and reach required to deliver better actuarial dynamics, and become the leading life insurer in the UK

During the year under review, we continued to invest significantly in the Vitality brand in the UK, with sponsorship of football, cricket and rugby, as well as promotional campaigns in conjunction with our Vitality ambassadors, prominent sports personalities such as Lord Sebastian Coe, Jessica Ennis-Hill and Jonny Wilkinson. We also ran television advertising campaigns and invested in press and billboard coverage.

Our Vitality Summit presented an excellent opportunity to raise the brand profile further, with Alastair Campbell, a prominent campaigner on mental health, and Andrew Marr, a well-known journalist, author and broadcaster, participating as keynote speakers.

Sales showed good growth, with three consecutive quarters of record new business. Both the number of policies and lives covered increased by approximately 25% over the financial year. The franchise channel, which accounts for approximately 75% of total sales, continued to perform well, increasing sales by 15% year-on-year.

During the year, we introduced leading market products in the areas of lifestyle care cover, mortgage payment protection and short-term income protection. A Relevant Life Policy (a tax-efficient means of providing a death-in-service benefit to employees) was introduced, linked to the Vitality Optimiser. Sales of these new products have exceeded £1 million since the launch.

In the intermediated channel, where product sales take place through independent financial advisers, VitalityLife captured a market share of 12.6% of new sales and became the second largest player in the UK market. It remains the third largest provider of life assurance products overall in the UK. During the year, the business continued to invest in campaigns to support direct marketing channels, which are performing well.

The Vitality Optimiser continues to attract strong sales, with over 50% of all sales of new products during the second half of the financial year attracting the Vitality module. The Vitality Optimiser was launched in 2013 and integrates VitalityLife policies with Vitality membership. It provides clients with an upfront premium discount, with future premiums being adjusted on the basis of their ongoing engagement in Vitality.

Lapse rates remained low and have been reducing over time. Claim ratios are also strong, tracking below expected rates. We continue to monitor claims closely as the portfolio increases and matures.

Own and have more influence over distribution to become the leading new business writer in the profitable segments of the market where we choose to operate

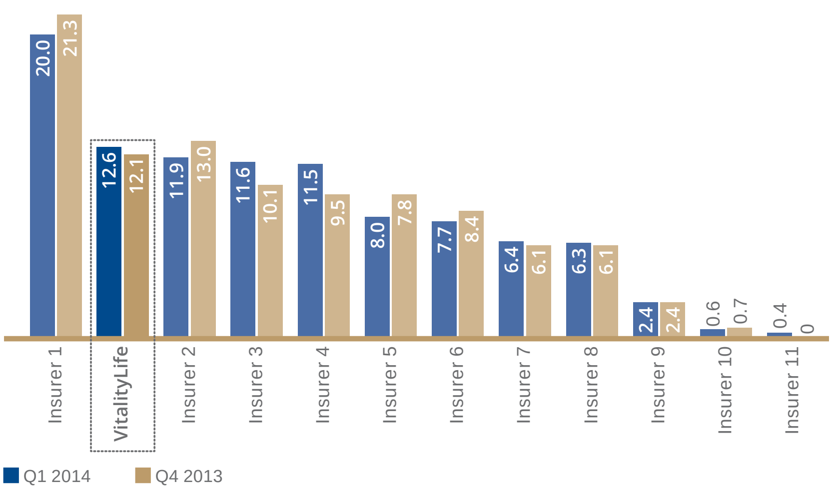
Our direct-to-consumer channel, launched in January 2014, is now well established and is tracking well relative to targets. We are also targeting increased sales through single tie businesses (banks or building societies which sell products from one insurance company only) by using integration with Vitality as a unique selling point. During the year, the amount of single ties increased from three to 21, with a significant percentage increase in sales.

Maintain an agile governance framework and control environment which both protects and creates value

Our focus has been on enhancing the robustness of our control and governance framework. The framework in place is aligned with current UK corporate governance requirements. During the year, controls were strengthened further.

Market share of VitalityLife in the UK

(%)



Outlook

We look forward to a positive outcome from VitalityLife's ongoing license application process. Consultations with the authorities are continuing on the application and a project team is in place to handle the application process and maintain a focus on the key milestones.

The UK life assurance market remains competitive with potential new entrants to the market emerging and consolidation activity taking place. Improving economic conditions presents a potential opportunity for the business.

We are targeting further growth in the intermediated market, aiming to increase our market share in this segment further, alongside growth in direct sales channels.

The transition to full ownership of the brand creates opportunities within the UK environment and we will be looking to consolidate our position further and to review the potential for wider opportunities, leveraging our shared value insurance model.

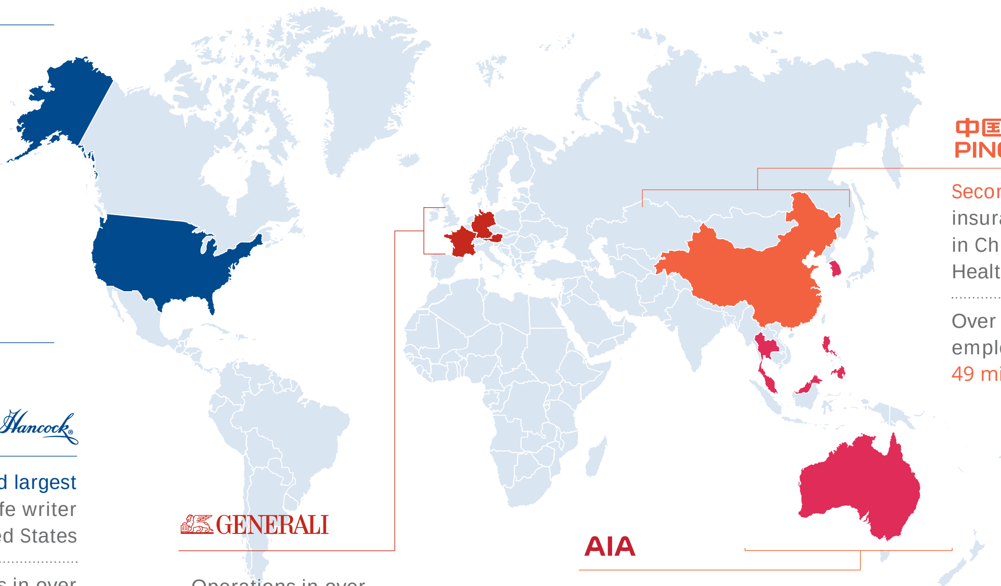
Our strategic objectives for 2016

- Ensuring we meet all requirements for successful licence application.
- Focus on enhancements to the VitalityLife product offering, including further integration opportunities with other Discovery offerings.
- Increase our market share through growing the intermediated market.
- Consolidate our position and continue to invest in and grow Vitality and drive engagement.

Discovery Partner Markets

Discovery partners across four continents

As part of our international expansion strategy and in line with our ambition to be the best insurer in the world, Discovery has built partnerships and joint ventures with leading insurers globally.



John Hancock

Second largest universal life writer in the United States

Operations in over 50 states

GENERALI

Operations in over 60 countries

Over 80 000 employees, 65 million customers

Books EUR 70 billion in premiums annually

AIA

21 000 employees, 17 markets across Asia

Over 28 million individual policies

More than 16 million group scheme members

中国平安 PING AN

Second largest insurance company in China, Ping An Health is a subsidiary

Over 210 000 employees, 49 million customers

200 million
The total number of clients served by our global insurance partners

Our vision

Our vision is to entrench Vitality as the best-in-class wellness solution and provider globally. Discovery's behaviour-linked business model has appeal for global insurers who are faced with the challenge of rising healthcare costs due to higher mortality and morbidity rates and the escalating burden of chronic disease.

Barry Swartzberg
Discovery Partner Markets,
Chief Executive Officer

Business performance during the year

The financial year saw Discovery revise its traditional joint-venture operating model with insurance partners in overseas markets. A newly-formed Discovery Partner Markets team gives dedicated focus and structure to ensuring outstanding delivery across all partner market territories.

Two key imperatives define the strategy of the business unit. Firstly, bringing our existing partnerships, The Vitality Group and Ping An Health, to profitability, and secondly, generating rapid and substantial value through our more recent partnerships, AIA Vitality, John Hancock and Generali Vitality.

During the financial year under review, Discovery Partner Markets continued to show promising performance, as several start-up businesses head towards profitability. The current performance of Discovery Partner Markets is now on par with Discovery's other local and UK businesses at a similar juncture in their respective life cycles.

Material challenges

01 | Developing the optimal model for expanding Vitality to overseas markets

The financial year saw Discovery restructure its traditional joint venture operating model with insurance partners in overseas markets. In the revised Partner Market model, Discovery acts as an intellectual property provider, benefiting from a share in the performance profits that the Vitality model brings to partners. Through this model, Discovery will not deploy capital to operations.

The revised operating model positions Discovery Partner Markets well to contribute to future Group profits and further expansion, to diversify earnings and mitigate sovereign and currency risk. This model also more appropriately captures the economic and legal substance of the Group's international partnerships, more efficiently focuses the management of these partners and allows the business to share more rapidly in proceeds from its presence in international markets.

02 | Increasing engagement with Vitality in our target membership base

Developing a profitable and sustainable business model for the franchising of the Vitality model depends on being able to increase and sustain the penetration of Vitality products in our target member base. We work with our partners to promote early engagement with the Vitality programme among their clients, a factor which is significant in ensuring continued membership and increased engagement levels over time. Our experience with John Hancock has proved particularly successful, with prominent above-the-line advertising support from our partner on the benefits of the Vitality model.

We need to ensure that agents and financial advisers are adequately rewarded. As we are delivering a novel proposition to the market, we need to ensure that agents and advisers invest the time that is required to explain our model fully. Once this has been achieved, and members are engaged with Vitality, they are less likely to lapse or switch to other insurers.

03 | Building the capacity required to implement our partner market strategy

To support our growth model, we need to create the capacity to develop, adapt and deploy our products in new and existing markets. Where possible, we leverage group assets and functions, such as the wealth of research undertaken in the Vitality Institute. The focus of the Discovery Partner Markets business unit is on adapting Discovery's intellectual property to our chosen markets and deploying it successfully.

Key areas of activity are product integration and adaptation, engagement, development and innovation in the Vitality product, research and sales and distribution.

We are investing significantly in our IT systems to support a transformed operating model that creates a solid base of systems assets, enables convergence, reduces the cost of ownership and leverages our IT partnerships.

Outlook

We remain focused on building long-term and mutually-profitable relationships with our partners that will create future long-term assets for Discovery. We will also continue to invest in people and assets to build a solid foundation for the business and support future growth.

Our strategic objectives for 2016 include:

- Further establishing our reputation for differentiation and leadership through our shared value insurance model.
- Raising the profile of the Vitality brand, so that it becomes synonymous with the shared value insurance category globally.
- Securing global partners across key reward categories, to boost our global programme and create entry barriers for competitors.
- Establishing powerful academic and technological collaborations to position Vitality at the forefront of the culture of health, ensuring that Vitality remains a collective and credible voice which favourably influences policies and regulatory approaches.

Discovery Partner Markets continued

Who we are

In China, Discovery has a 25% equity share in Ping An Health, the largest comprehensive medical insurer in China. To date, this is the only market where Discovery has taken an equity share in a health insurance company. In other markets we contribute to partnerships as an intellectual property provider. Our partner in this venture, the Ping An Insurance Group of China, is one of the strongest retail brands in China, with a market capitalisation of US$113.8 billion. It is known for its strong brand equity and excellent distribution footprint.

Business performance during the year

Ping An Health had a successful 12 months. The Chinese private healthcare insurance environment, while still in its infancy, continues to show significant long-term opportunity. The Chinese Ministries of Health and Finance continue to put forward proposals that encourage the purchase of medical insurance by employers and individuals.

New business more than tripled over the period to R991 million, predominantly driven by individual insurance sales. In the group market, Ping An Health achieved a year-on-year total revenue growth of 34%, maintaining its market leading position with 40% market share in this market segment. The quality of individual and group businesses remains excellent, with loss ratio and lapse rates continuing within assumptions.

Progress against our strategic objectives

The Ping An Health partnership is unique in our portfolio of international ventures. By investing in Ping An Health, we have taken an equity stake in a health insurance business that we believe has significant potential, rather than franchising our model through existing products and players.

Changes in our approach to the investment and structure of the management team made in mid-2014 are proving successful, with significant new business growth having been achieved during the period, particularly in the individual market.

Insights from our experience of the joint venture so far have informed our focus on five areas of activity that we believe are critical for the success of the joint venture:

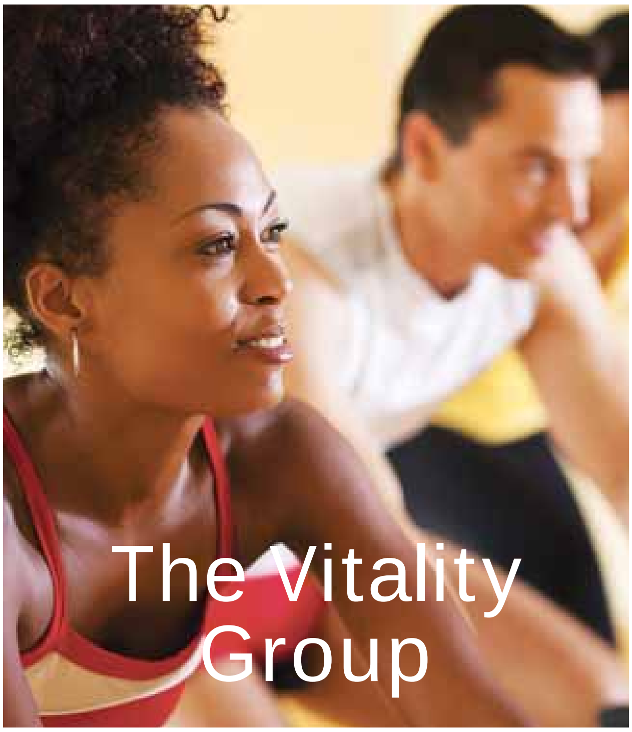
- Optimising our engagement model – securing buy-in and ownership from the team is essential. Our current model of building ownership of the venture through an internal team, with onsite support from Discovery, is proving highly successful.
- Product design – we have simplified our products in line with the needs of the market, creating marketing material that is easier for users to understand and that encourages clients to engage early and actively with the product. As in other markets, we are gaining traction by offering smaller-value, more frequent and more immediate rewards, which are proving more meaningful for consumers in this market.
- Internal marketing – we are taking a change management approach to ensure that sales teams actively adopt and promote products. This implies that our sales agents need to buy-in to the product themselves and fully understand the broader benefits. The scale of the distribution channel is significant, with over 120 000 distribution agents currently marketing our products in China.
- Client experience – we are focusing on mobile and digital platforms to create a more intuitive and engaging client experience.
- Sales and engagement – among our corporate clients, we work through human resources teams to create product awareness. In the individual market, our focus is on creating a simple message at the point of sale by using digital media to full advantage.

Currently, loss ratios and lapse rates remain within our target range. As our business grows, we may need to shift our focus to enhancing the quality of lives in our portfolio. With the increasing popularity of health and wellness in the Chinese market, we anticipate gaining significant traction through Vitality products and incentives.

Outlook

We will sustain our current strategy in the Ping An Health joint venture, particularly given recent changes to tax legislation which offer more favourable terms for individuals to buy health insurance.

Discovery remains excited about the potential of the Ping An Health business, especially given recent product innovations that are expected to boost new business. These innovations include the recent launch of China's first group mid-market product, online individual products and an enhanced version of Vitality embedded into WeChat, China's largest social networking platform.



The Vitality Group

Who we are

The Vitality Group provides workplace wellness programmes to US corporates. Programmes target improved employee health and lower healthcare cost coverage, enabling clients to increase their own financial competitiveness through a healthier and more engaged workforce.

The Vitality Group is also rolling out Vitality products through a partnership with John Hancock, a leading provider of insurance and financial services products with coverage in most states in the US market.

Business performance during the year

In the United States, The Vitality Group has demonstrated improvement in both new membership and engagement, increasing new membership by 33% to 774 518 and maintaining an excellent rate of member engagement. This indicates a growing realisation in the market that Vitality can contribute to improving wellness in a way that delivers financial and social benefits.

The John Hancock Vitality product has been a resounding success, with extensive public relations coverage garnering excitement in agency forces and among member groups. Member take-up has proceeded smoothly, and State regulatory approvals are running ahead of schedule, with a majority of States already approved for both Universal Life and Term Life.

Vitality engagement has increased by 32% from 2014 to 2015.

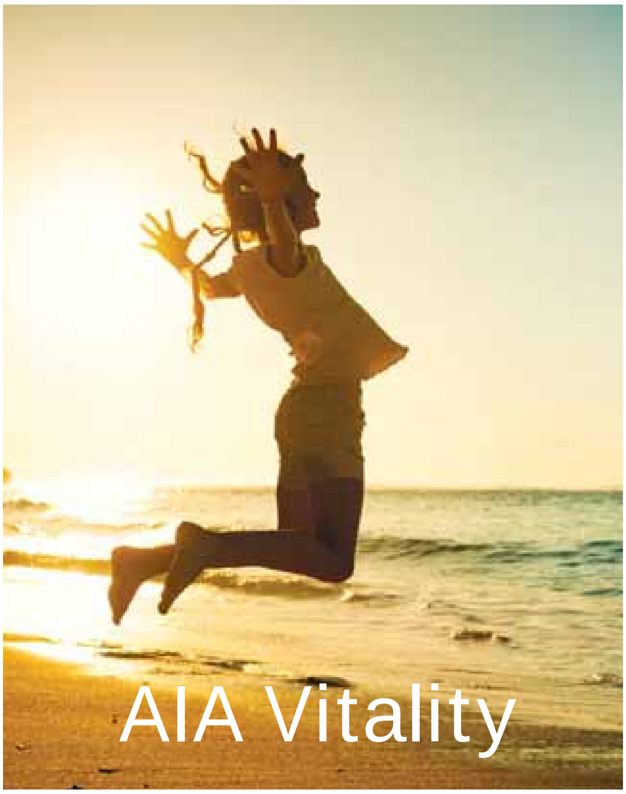
Progress against our strategic objectives

While we continue to target medium to large corporates, we intend extending sales to small- and medium-sized enterprises, where our offer is also highly relevant. A different sales distribution method will be employed to ensure we reach this segment in an efficient way.

John Hancock has proven to be a transformational relationship in the US market, with our partner embracing our product and shared-value insurance model wholeheartedly. The response to our products from the regulatory authorities has also been highly encouraging, with regulatory approvals tracking or moving ahead of our original schedule.

A long-standing client of The Vitality Group, McKesson, was awarded the C Everett Koop award in 2015. This prestigious award recognises companies that excel in providing workplace wellness benefits to employees. This is the second Vitality Group client in the US that received this prestigious award.

Discovery Partner Markets continued



Who we are

In Australia, Singapore and Hong Kong, Discovery has partnered with AIA Group Limited, one of Asia's most prominent insurance groups, to apply Discovery's behavioural-based insurance model to the life assurance environment. AIA Vitality was launched in 2013 in Australia, and in 2014 in Singapore. It is currently being rolled out in Hong Kong following a successful agency launch in 2015. AIA Vitality will be launched in two additional markets in 2015 and one in 2016.

A key focus for the forthcoming year will be the launch of Vitality through the AIA Group into three new markets in Asia. Concurrently, we are also working on a revision of our Australian product with the intention of capturing an increased share of this market.

AIA Vitality is still at an early stage of development, and our focus is on launching into additional markets in Asia and on increasing the level of engagement with Vitality.

Future developments: Generali partnership with Vitality

In the Northern European market, a new venture announced with Generali in November 2014, will take Vitality into this life assurance market, specifically in Germany, Austria, and France.

Following the announcement of a strategic partnership with Generali in Europe, Vitality will be piloted in these countries. This marks an exciting new opportunity for Discovery to further execute its model of shared value insurance, with all the associated benefits for members, the insurer, and broader society.

During the next financial year, we will continue to work on closing out the commercial and planning arrangements with Generali.

Products for launch through the Generali partnership are still being finalised. We anticipate launching into the European market in 2016, with an initial focus on France and Germany.

Our leadership

1

2

2 Richard Farber (44)

Chief Financial Officer

BCom (Hons), CA (SA), FCMA

Richard was a Partner at Fisher Hoffman Sithole (PKF) from 1998 until 2001 before joining Investec Bank, where he was the Group Accountant from 2002 to 2003. He joined Discovery as the Chief Financial Officer in 2003 and was appointed as the Financial Director in 2009. Richard was a member of the Financial Reporting Investigation Panel (FRIP) – previously known as the GAAP Monitoring Panel – from 2005 until 2014. He is a Fellow of the Chartered Institute of Management Accountants.

1 Adrian Gore (51)

Group Chief Executive

BSc (Hons), FFA, ASA, MAAA, FASSA

Adrian is the founder and Chief Executive Officer of the Discovery Group. He is a Fellow of the Actuarial Society of South Africa and of the Faculty of Actuaries (Edinburgh), an Associate of the Society of Actuaries (Chicago), and a member of the American Academy of Actuaries. In 1998, he was recognised as South Africa's Best Entrepreneur by Ernst & Young, and in 2004 was chosen as South Africa's leading CEO in the annual Moneyweb CEO's Awards. In 2008 he received the Investec Award for Considerable Contribution in a Profession, and in 2010, was named the Sunday Times Business Leader of the Year. In 2015, Adrian received the McKinsey Geneva Forum for Health Award. He chairs the South African chapter of Endeavor and sits on the World Economic Forum Industry Agenda Council on Future Health. He also sits on the Columbia University Mailman School of Public Health Board of Overseers, the World Health Organization Commission to end Childhood Obesity and on the Massachusetts General Hospital Global Health Advisory Board. In 2015 Adrian also became a member of the Brookings International Advisory Council.

3

3 Hylton Kallner (40)

Chief Marketing Officer

BEconSc, FFA, FASSA

Hylton graduated from the University of the Witwatersrand with a BEconSc in Actuarial Science. In 2000, he was admitted as a Fellow of the Faculty of Actuaries and a Fellow of the Actuarial Society of South Africa. In 1996 Hylton started his career at Liberty Life in the actuarial division. In October 1996, he joined Discovery where he has held various positions in marketing, actuarial, and strategic projects. He is currently the Chief Marketing Officer for the Discovery Group and plays a key role in the executive committees of Discovery Limited, Discovery Health, Discovery Life, Discovery Invest, Discovery Insure, and Discovery Vitality. Hylton was also appointed to the boards of Discovery Health and Discovery Life in April 2010.

4

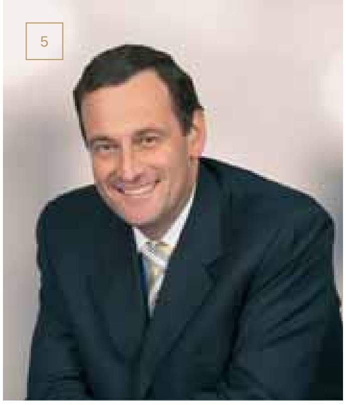
4 Neville Koopowitz (51)

Chief Executive, VitalityHealth

BCom, CFP

Neville joined Discovery as Marketing Director in 1996 and has played a key role in defining and building the Discovery identity as well as the development of Discovery's sales and distribution network. His particular area of focus has been the development of Vitality where he was the Chief Executive Officer from the company's inception in 1997 until 2005. In this role he was responsible for the launch of Discovery Card. In 2005 he took up the role of Chief Executive Officer of Discovery Health; a position he held until his move to the UK in 2010. He is currently the Chief Executive Officer of VitalityHealth and VitalityLife in the UK. He sits on the Health Committee of the Association of British Health Insurers.

- ▲ Executive Director
- ● Non-Executive Director
- ■ Prescribed Officer of the Board
- * Group Executive
- ▼ Chairperson of the Board



5 Herschel Mayers (55)

Chief Executive, Discovery Life, Discovery Invest and VitalityLife

BSc (Hons), FIA, FASSA

Herschel qualified as an actuary in 1986 and is a Fellow of the Institute of Actuaries. He joined Liberty Life after qualifying, and as a member of their executive committee, served as the Head of Individual and Group Business, Underwriting and Systems, Technology, Product Development, and Finance. Herschel joined Discovery in 2000 as the Managing Director of Discovery Life. In 2001, he was appointed to the Board of the Life Offices Association (LOA) and he currently serves on the Board of the Association for Savings and Investment South Africa (previously LOA). In January 2006, Herschel was appointed as Chief Executive Officer of Discovery Life and Discovery Invest. He is a member of the Discovery Limited Executive Committee and is currently also the Chief Executive Officer of VitalityLife in the UK.

6 Dr Ayanda Ntsaluba (55)

MBChB, MSc (Lond), FCOG (SA)

Before joining Discovery in 2011, Ayanda served as Director General of the Department of International Relations and Co-operation. Before this, he was Director General of the Department of Health. A qualified obstetrician and gynaecologist, Ayanda completed further tertiary education in the fields of health policy planning, international relations, and business at eminent universities including Harvard University, the University of London, and the Moscow Institute of Social Science. He has served on a number of statutory bodies including the Medical Research Council (SA) and the Health Professions Council of South Africa. Ayanda is playing an instrumental role in Discovery's overall strategic planning, particularly within the healthcare system and in Discovery's international expansion strategy.

8 John Robertson (67)

Group Chief Information Officer

BCom, CTA, CA (SA), HDipTax

John joined Discovery in 1993 and was responsible for information technology strategy, systems development, information technology networks, and finance. He is currently responsible for technology infrastructure services that support Discovery Group companies in South Africa and internationally. He is also responsible for corporate applications and shared services and facilities.

7 Alan Pollard (46)

Chief Executive, The Vitality Group

BSc (Hons), FIA, FASSA

Alan, a qualified actuary, joined Discovery in 1994 and was Head of Research and Development where he was responsible for the design and development of the Discovery Health products. From 2005 he served as Chief Executive Officer of Discovery Vitality until relocating in 2012 to serve as Chief Executive Officer of The Vitality Group in the US. Alan is a member of the Executive Committee of Discovery Limited.

9 Barry Swartzberg (50)

Chief Executive, Discovery Partner Markets

BSc, FFA, ASA, FASSA, CFP

Barry was a co-founder of Discovery in 1992 and was involved in developing the Discovery concept. After Discovery Health was launched, he was involved in setting up the administration and systems infrastructure for the company. Following that, he served as Marketing Director and then Chief Executive Officer of Discovery Health (2000 – 2005). From 2005 to 2014, he was Executive Director leading the diversification of Discovery's operations both locally and internationally. He is currently CEO of Discovery Partner Markets which focuses on internationalising Discovery's unique intellectual property. He serves on the boards of Discovery Limited, Vitality in the US, Ping An Health in China, and Discovery Insure.

Our leadership continued

10 Dr Jonathan Broomberg (54)

CEO Discovery Health

MD, PhD

Jonathan studied medicine at the University of the Witwatersrand and then read Philosophy, Politics and Economics at Balliol College in the United Kingdom. He completed MSc and PHD degrees in Health Economics at the London School of Hygiene and Tropical Medicine before joining Discovery Health in 2005 as Head of Strategy. He was appointed CEO in 2010. Jonathan has managed private equity and venture capital investments in the healthcare and education sectors. He spent several years in academic research and consultancy in health economics and policy, and served as a Special Advisor to Dr Nkosozana Dlamini Zuma, South Africa's Minister of Health between 1994 and 1999. Alongside his private sector interests, Jonathan maintains engagement on South African and global public health affairs. He is also a director of Soul City Institute for Health Communications.

11 Anton Ossip (41)

CEO Discovery Insure

BEconSc (cum laude), FIA, FASSA

Anton has played a critical role in the development of Discovery Insure since joining Discovery in July 2011. Before joining Discovery, he occupied a diverse range of executive positions at Alexander Forbes over 13 years. Anton was CEO of Risk and Insurance, CEO of Alexander Forbes Insurance, CEO of AF Financial Services and Chairperson of both the Alexander Forbes Insurance Board and the Guardrisk Holdings Board. His broad expertise across the disciplines of short- and long-term insurance, as well as financial services, has played a key part in the evolution of Discovery Insure. Anton has been a director of the South Africa Actuarial Development Programme since June 2010 and he is a past president of the Insurance Institute of South Africa.

12 Kenny Rabson (47)

Deputy CEO Discovery Life and Discovery Invest

BSc FIA, FASSA

Kenny joined Discovery in 2000 as a founding member of Discovery Life. He is responsible for all actuarial functions in Discovery Life and Discovery Invest, with particular focus on product development and strategy of these companies. Before joining Discovery, Kenny worked at Liberty Life in their corporate valuations area for several years, performing the annual valuations and Analysis of Surplus work. He qualified as an actuary through the Institute of Actuaries in the UK in 1994 and moved to Liberty's product development area where he established his skills in product development. This culminated in Kenny establishing Liberty's linked investment product company in 1997.

13 Dr Penny Tlhabi (51)

Head of Discovery People and Sustainable Development

MbCHB

Penny has been employed at Discovery since 2005 in various leadership positions. She is currently the Head of Human Resources, Enterprise Development and Social Responsibility for Discovery Holdings; and serves on the Executive Committee of Discovery Holdings. Penny is a director of Discovery Health. She is also a member of the Board of Witkoppen Clinic and African Health Placements (AHP). Penny qualified as a medical doctor in 1987 and worked in both the public and private sectors as a clinician until 1996.

▲ Executive Director
● Non-Executive Director
■ Prescribed Officer of the Board
* Group Executive
▼ Chairperson of the Board

14 Dr Shrey Viranna (40)

CEO Discovery Vitality

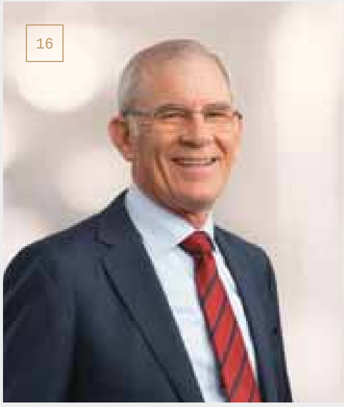
MbCHB

Shrey holds an MbCHB degree from the Nelson Mandela School of Medicine and has worked as a doctor in various South African public health institutions. He served briefly in the military, managing clinics for the South African National Defence Force. Before being appointed CEO of Discovery Vitality, he led the Discovery Health Services Division, developing the corporate wellness offering, HealthyCompany, as well as Discovery HomeCare, a home-based nursing care programme. Before joining Discovery he was a partner at McKinsey & Company where he led the Sub-Saharan Africa Healthcare Practice. He has been published on a number of healthcare topics relevant to Sub-Saharan Africa and has advised Ministers and senior officials in the region. He has an established community service record and has advised NPOs and NGOs on healthcare for children.

15 Herman Bosman (47)

LLM (cum laude)

Herman is the Chief Executive Officer of RMB Holdings and Rand Merchant Insurance Holdings, having joined the companies in April 2014. Prior to his current role he was Chief Executive Officer of Deutsche Bank South Africa (2006 – 2013) and Head of Corporate Finance at Rand Merchant Bank (2000 – 2006). In these capacities, Herman has acted as professional advisor to the Discovery executive team on numerous occasions since 1999. Herman also serves on the Board of Governors at the University of Johannesburg, is a director of Endeavor South Africa, and Business and Arts South Africa. He is a Chartered Financial Analyst.



16 Dr Brian Brink (63)

(Independent)

BSc (Med), MBBCh, DMed (Hon)

Brian retired as Chief Medical Officer of Anglo American plc at the end of 2014. He was awarded an honorary doctorate in medicine by the University of the Witwatersrand in recognition of his contribution to the private sector response to HIV/AIDS in South Africa. He has been closely associated with The Global Fund to Fight AIDS, Tuberculosis, and Malaria since its inception in 2002. Brian is a respected thought leader on the role of the private sector in improving health in developing countries, with a particular interest in strengthening health systems in resource-poor settings.
He chairs the private sector constituency on health for the Southern African Development Community (SADC) and also serves on a number of NGO boards in the field of health and human rights.

17 Sonja De Bruyn Sebotsa (43)

(Independent)

LLB (Hons), MA, SFA,
Harvard Executive Programme

Sonja is the founder and Principal Partner of Identity Partners, an investment firm which makes equity investments, carries out advisory work, and provides debt and equity finance for SMEs through the Identity Development Fund. Sonja's areas of study include law, business, and economics. Until 2007, she was an Executive Director of Women's Development Bank (WDB) Investment Holdings where she led the structuring of several of its investment transactions. Before this, she was a Vice President in the investment banking division of Deutsche Bank, where she worked in Mergers and Acquisitions and Corporate Finance in South Africa and the UK.

Our leadership continued

18 Jan Durand (48)

● **(Independent)**

BAcc (Hons), MPhil, CA (SA)

Jan is a qualified chartered accountant and Rhodes Scholar with a BAcc (Hons) from the University of Stellenbosch and an MPhil in Management Studies from Oxford University. He is the Chief Executive Officer of Remgro Ltd and before its delisting was the Financial Director and Chief Executive Officer of Venfin Ltd. Jan is a Director of RCL Foods Ltd, RMI Holdings Ltd, Distell Limited, and Mediclinic Limited. He has been a Director of Remgro Ltd since November 2009 and served as a Non-Executive Director of Alexander Forbes Ltd from October 2004 to July 2007.

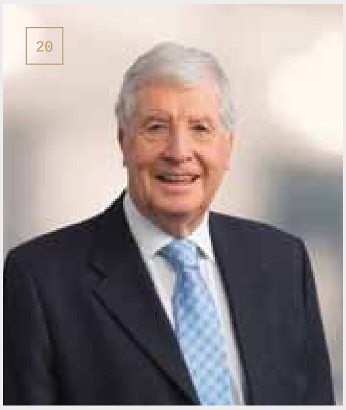
▲ Executive Director
● Non-Executive Director
■ Prescribed Officer of the Board
* Group Executive
▼ Chairperson of the Board

19 Steven Epstein (72)

●

JD (Columbia University Law School),
BA (Tufts University)

Steven is the founder and Senior Partner of Epstein Becker & Green, one of the largest US-based health law firms that support clients in redundant practice on issues that range from health policy and strategic partnering to complex compliance issues. He sits on the board of The Vitality Group and a number of healthcare companies, and the advisory boards of several venture capital firms. For over 30 years, he has played a unique role in establishing the concept that healthcare organisations need a dedicated form of legal representation.



20 Monty Hilkowitz (75)

▼ ● **(Independent)**

FIA

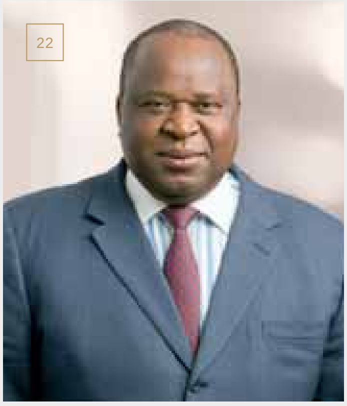
Monty worked for Southern Life Association and Swiss Re before joining Liberty Life in 1971, where he was appointed Managing Director in 1978. He was appointed Chief Executive Officer of Westpac Life in Australia in 1986. He has been self-employed since 1989 and has been involved in investment management, financial services, and insurance interests in several countries. He is currently a director of Acuvest, a specialist financial services company in Ireland and serves as Chairperson of Pioneer International. Monty is Chairperson of the Discovery Board of Directors.

21 Vincent Maphai (63)

● **(Independent)**

BA, BA (Hons), M Phil, D Phil,
Advanced Management Programme
(Harvard University)

Vincent was, until end of 2014 when he retired, the Director of Corporate Affairs and Transformation at SAB. Previously, he was the Southern African Chairperson of BHP Billiton. Vincent has served on the boards of various companies as Non-Executive Chairperson including the SABC, the Presidential Review Commission into the restructuring of the public sector, and the South African Responsible Gambling Trust. Vincent is also the Chairperson of the Discovery Foundation.



22 Tito Mboweni (56)

(Independent)

BA Economics and Political Science (NUL), MA Development Economics (UEA), Diploma in International Business Diplomacy (Georgetown University)

Tito is the former Governor of the Reserve Bank of South Africa, (1999 – 2009) and also Chairperson of the Committee of Central Bank Governors (SADC). He is the former Deputy Head of the ANC's Department of Economic Policy (1990 and 1998) and the Head of the ANC Policy Department (1994 – 1998). Tito currently serves as Chairperson of the Board of Nampak Ltd, SacOil Holdings Ltd, and Accelerate Property Fund, as well as African Center for Economic Transformation (ACET). He is an International Advisor for Goldman Sachs International and a member of the Advisory Board for Total Oil Marketing's Strategic Consultative Committee for Africa and Middle East, a Non-Executive Director for PPC Ltd and is South Africa's Representative to the BRICS New Development Bank's Board of Directors as a Non-Executive Director. In December 2012 he was elected to the African National Congress (ANC) National Executive Committee, and is a member of its Economic Transformation, Social Transformation, Finance and Fundraising, and Free State Province sub-committees. On the community side, he is a member of the Thabo Mbeki Foundation Council of Advisors and Chairperson and Trustee of the Fund Raising Committee for the Nelson Mandela Children's Hospital.

23 Les Owen (66)

(Independent)

BSc (Hons), FIA, FPMI

Les is a qualified actuary with over 40 years of experience in the UK and Asia Pacific insurance markets. He was the Group Chief Executive of AXA Asia Pacific Holdings Limited (2000 – 2006) and Chief Executive of AXA Sun Life in the UK from 1995 to 1999. Les brings to the Board extensive experience and expertise in international insurance markets. He is the Non-Executive Chairman of Jelf plc and a non-executive director of Computershare Ltd and Royal Mail plc. Les joined the Board of Discovery in 2007 and is Chairperson of the Discovery Limited Audit Committee and the Risk and Compliance Committee.

24 Tania Slabbert (48)

BA, MBA

Tania is a Director and co-founder of WDB Investment Holdings where she served as CEO for 12 years, managing the growth of the company's investment portfolio from inception. Tania also served as CEO of the WDB Trust, supporting programmes providing rural women with access to financial and non-financial resources. Before joining WDB, Tania spent four years in the diplomatic corps in France and several years in West Africa working in the non-governmental sector. Her other directorships include the Bidvest Group and Caxton. Tania also serves as a Trustee of the BPSA Education Foundation.

25 Sindi Zilwa (48)

(Independent)

BCompt (Hons), CTA, CA (SA), Advanced Taxation Certificate (SA), Advanced Diploma in Financial Planning (UOFS), Advanced Diploma in Banking (RAU)

Sindi is the Chief Executive Officer of Nkonki, a chartered accountancy firm. In 1990, she became the second black woman to qualify as a chartered accountant in South Africa. In 1998, she was awarded the Businesswoman of the Year Award by the Executive Women's Club, and in 2008, the Woman of Substance Award by the African Women Chartered Accountants Forum. She serves on the boards of Aspen, Rebosis, Metrofile, Gijima, Alexkor SOC Limited, and Air Traffic Navigation Services Limited. She has authored a book, "ACE Model-Winning Formula for Audit Committees" which is used by the Institute of Directors to train audit committee members.

Remuneration Review

Discovery aims to be an "employer of choice" with a firm belief that the long-term success of the organisation is directly linked to the calibre of its people and the working environment created. This manifests in the Discovery values of great people and liberating the best in our people. We strive to ensure that our pay framework rewards our people for their performance, while at the same time meeting stakeholder expectations.

Remuneration policy

Discovery's remuneration policy is intended to recruit and retain employees whose values are aligned to our culture and core purpose. We aim to create an environment that motivates high performance so that all employees can positively contribute to our strategy and values.

Our philosophy is to balance a flexible approach that recognises differences in individual performance, value and contribution to the organisation. We achieve this through a robust performance management practice, which ensures equitable and competitively benchmarked pay levels with incentives geared to agreed performance outcomes, where appropriate.

The key principles that underpin our reward policy, reward structures and individual rewards are:

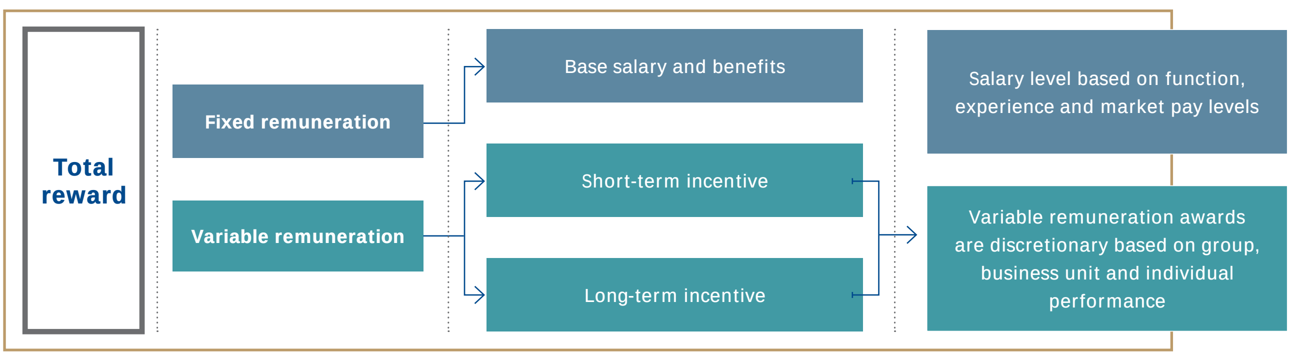
- We offer pay packages that are competitive in the market to attract and retain the right people.
- Pay for performance is at the heart of our remuneration philosophy – exceptional performance is recognised and rewarded.
- We believe in pay that is right and fair – we conduct regular internal and external salary surveys to ensure fairness and consistency across the business.
- We are non-discriminatory – all remuneration policies and practices are free from unfair discrimination based on race, gender, age, religion, marital status and ethnic or social origin.
- We employ a Total Cost to Company approach to remuneration, which includes both financial and non-financial components.
- Our short-term incentive schemes are designed to encourage, recognise and reward performance and allow sufficient flexibility to respond to different business needs. They are not a function of a guaranteed package.
- Our long-term incentive schemes create a sense of ownership in the company.
- Our remuneration policy assists managers to make educated and defendable pay decisions.
- Individual performance appraisals identify talent at all levels in the business and enable fair and competitive pay.
- Pay designs comply with all tax and regulatory requirements.

Remuneration structure

Our remuneration structure is designed to support the successful execution of our strategy by:

- Attracting, motivating and retaining quality employees.
- Encouraging and rewarding employees to achieve or exceed the objectives of the business.
- Aligning the economic interest of employees with those of other stakeholders.
- Enhancing Discovery's owner-manager culture.
- Striving for the appropriate mix between fixed and variable pay for our employees, depending on their roles.

The diagram below shows the composition of our total reward offering. The elements of this diagram are explained in the sections that follow.



Fixed remuneration

The purpose and key components of our general reward arrangements are summarised in the following table:

Element	Purpose	Detail
Base salary	To attract and retain employees.	Discovery seeks to remain competitive relative to peers and similar size companies. International benchmarks are considered for employees in our international operations. Discovery takes cognisance of the 50th percentile of the financial services market. Our philosophy is to pay above market average where required to attract the best talent, especially for critical skills. Increases take effect on 1 July each year and are based on individual performance and market inflation.
Compulsory benefits	To encourage retirement savings and to cater for unforeseen life events.	Pension and provident plans, disability and death cover and medical insurance are compulsory benefits.
Optional benefits	To enhance the package available to employees.	Access to Discovery Creche and the Discovery Gym are optional benefits.

Variable remuneration

We provide incentives to reward performance. Variable remuneration comprises short-term and long-term incentives. All variable remuneration awards are discretionary.

Element	Purpose	Detail
Short-term incentive	To incentivise achievement of stipulated semi-annual and annual short-term objectives.	Individual awards are based on Group, business unit and individual performance (utilising both financial and non-financial metrics).
Long-term incentive	To incentivise the executive directors and senior management to execute the long-term strategy of the Group successfully to achieve its long-term objectives.	Individual allocations are based on overall individual performance. The incentive awards are considered to be a direct link to performance through the share price and are intended to attract and retain talent.

Short-term incentive awards

In many business areas, incentives paid to employees relate directly to their function and are paid monthly, bi-annually or annually. These awards are based on individual performance.

Short-term incentives are paid to executive directors and managers in arrears in March and September each year and comprise two components (depending on management level):

- A personal incentive linked to individual goals for each employee; and
- A "profit pool" element which allows senior management to share in the profit if the Group's performance is above certain profit hurdles.

The September payments are based on the audited results of the previous financial year. For executive directors, the split between individual and profit pool components is 25% and 50% of salary respectively.

The Remuneration Committee approves the Group primary bonus pools and oversees the principles applied in allocating these pools to business units and individuals. In each case, there is a threshold below which no incentive is paid. These thresholds are set strategically based on the business area and level.

Individual performance is determined by:

- Setting performance criteria at the start of each period (annually for executive directors, six-monthly for management)
- Evaluating individual performance
- Determining variable pay based on individual performance.

For management, individual performance is moderated by the business unit's balanced scorecard. The business unit's balanced scorecard contains financial and non-financial metrics and is based on short-term delivery.

The profit pool element is an annual profit pool with a 30% drawdown paid mid-year (March payout). The actual value of the profit pool is calculated at the end of the financial year based on a profit hurdle related to the change in operating profit of the Group compared with the year before. This hurdle is set in line with the Group's ambition of growing operating profit by 20% per annum.

Remuneration Review continued

Long-term incentive plans

The Group has several long-term incentive plans in place to encourage executive directors and senior management (approximately 5% of total employees) to execute the long-term strategy of the Group successfully to achieve its long-term objectives. For all long-term incentive plans, employment on vesting date is a condition of vesting.

A particular individual may be a participant in one or more of the plans detailed below.

Plan	**Phantom share-based incentive plan**	**Phantom option-based incentive plan**
Purpose	This incentive plan is a direct link to the Group's performance through the share price. The plan is primarily intended to attract and retain critical employees.	This incentive plan is a direct link to the Group's performance through the growth in the share price. The plan is primarily intended to attract and retain critical employees.

Detail

Phantom share-based incentive plan

- Overall individual performance and level is taken into account when the Remuneration Committee decides on each individual allocation.
- The value of the annual allocation on the date of allocation is in the range of 18% to 36% of fixed remuneration. Each year the Remuneration Committee considers the prior year's allocations and current salary level in assessing the allocation.
- Participants earn a cash bonus based on the allocation of the bonus scheme units, which in turn are linked to the performance of the Discovery share price.
- Units are issued in September each year. The vesting of the units is equally two, three, four and five years after allocation.
- The 2014 allocation of phantom shares are subject to performance criteria (compound growth in normalised HEPS exceeding a hurdle rate of CPI+1.5%).
- As the scheme is a phantom bonus scheme, there is no dilution created by these awards.
- Discovery has implemented a programme to hedge the economic risk linked to the share price based on the anticipated payout of the incentive.

Phantom option-based incentive plan

- Overall individual performance and level is taken into account when the Remuneration Committee decides on each individual allocation.
- The value of the annual allocation on the date of allocation is in the range of 12% to 24% of fixed remuneration. Each year the Remuneration Committee considers the prior year's allocations and current salary level in assessing the allocation.
- Participants earn a cash bonus based on the allocation of the bonus scheme units, which in turn are linked to the growth in the Discovery share price.
- Units are issued in September each year. The vesting of the units is equally two, three, four and five years after allocation.
- As the scheme is a phantom bonus scheme, there is no dilution created by these awards.
- Discovery has implemented a programme to hedge the economic risk linked to the share price based on the anticipated payout of the incentive.

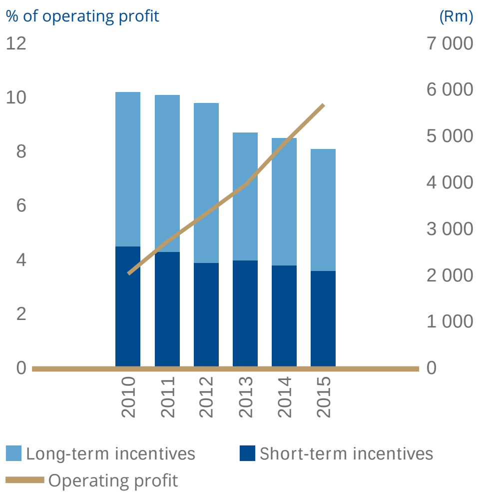
From 2008 to 2011, allocations were only made in the phantom share-based incentive plan. From 2012, allocations consisted of a fixed combination of the phantom share-based incentive plan and the phantom option-based incentive plan.

Plan	Purpose	Detail
Black Economic Empowerment staff share trust	The trust is intended to recruit and retain senior black talent.	▪ Shares/options are allocated to attract or retain senior black employees who are highly skilled. The allocations are based on level of seniority. ▪ Vesting takes place equally two, three, four and five years after allocation.
Start-up long-term incentive plan for new ventures	These plans are intended to foster Discovery's owner manager culture and to attract and retain talent for our new businesses.	▪ Allocation may be in the form of phantom shares or shares in the new entity. ▪ Performance criteria is a hurdle rate relating to value created over cost of capital. ▪ Vesting periods vary by plan. ▪ Restricted to executives in the new ventures, such as Discovery Insure.

Plan	Purpose	Detail
Executive Outperformance Scheme	This scheme is intended to recognise and reward executives who contribute to the five-year plan to realise our 2018 ambition of becoming the best insurance organisation in the world and a powerful force for social good.	▪ Demanding key performance measures have been set at individual level and are linked to the 2018 ambition. ▪ Vesting of the units is equally two, three and four years after allocation. ▪ Restricted to the Group Executive Committee.

The chart alongside illustrates total short-term and total long-term incentives for executive directors and management as a percentage of operating profit. It illustrates a disciplined approach toward variable remuneration. Total incentives indicate a reducing trend over time. This is due to incentives growing in line with salary and staff growth, while operating profit has grown faster. Incentives have been included based on the amount expensed in the income statement in the relevant year. The amount and timing of the payments to employees will differ from the amount expensed.

Incentives as a % of operating profit (2010 – 2015)



Remuneration Review continued

Remuneration Committee governance

The Board is ultimately responsible for the remuneration policy. To assist the Board in fulfilling its responsibilities, it has appointed and mandated a Remuneration Committee, which consists of non-executive directors and is advised by an independent expert.

The primary objective of the Remuneration Committee is to provide input into and approve the reward strategy. It is responsible for:

- Ensuring alignment with Discovery's overall remuneration philosophy.
- Approving remuneration packages for executive directors and ensuring they are market and performance related.
- Reviewing policy relating to the bonus and share incentive schemes.
- Recommending the base for non-executive directors' fees.
- Reviewing annual salary increases.

The Remuneration Committee has delegated some of its functions to the Internal Remuneration Committee (comprising the executive directors). This latter body is responsible for:

- Detailed analysis and development of research-based recommendations to the Remuneration Committee.
- The remuneration packages of management and employees in general (with the exception of directors) in line with the policy.
- Supervising the increase process and reporting any anomalies to the Remuneration Committee.

The Remuneration Committee uses the services of a number of advisers to assist in tracking market trends related to all levels of employees, including PE Corporate Services, Khokhela Consulting (Mabili Reward), PwC's Remchannel, 21st Century Pay Solutions, and Vasdex Associates.

Remuneration Committee membership

JJ Durand is the Chairperson of the Remuneration Committee. Other Remuneration Committee members are MI Hilkowitz and H Bosman (appointed 1 July 2014). T Slabbert and B Olivier (independent remuneration expert), who both have experience in this area, attend the meeting by invitation.

The Remuneration Committee met twice during the last financial year and attendance was as follows:

	August 2014	June 2015
H Bosman	✓	✓
JJ Durand (Chairperson)	✓	✓
MI Hilkowitz	✓	✓

All Remuneration Committee members have the relevant skills and experience to perform their duties. The majority of Remuneration Committee members have no business or other relationships that could materially interfere with their independent judgement. The Remuneration Committee members are also members of key oversight committees so that they are able to monitor risk trends across the Group. Members of Executive Management and the Chairperson of the Internal Remuneration Committee also attend the meetings by invitation. Executive directors are not allowed to participate in discussions regarding their own remuneration and are not entitled to a vote at the meetings.

Remuneration for Executive Directors

Evaluation of Executive Directors

The performance of the executive directors is measured against:

- Business performance
- Transformation and people
- Innovation
- Achievement of strategic initiatives for the year

Quantitative elements have pre-determined measures and qualitative elements have strategic objectives. This is determined annually in advance and agreed to by the Remuneration Committee.

The Remuneration Committee monitors the correlation between remuneration and profitability over time, and the variability of pay over time.

Terms of employment

All executive directors are employed on employment contracts that can be cancelled with between one month and three months' notice by either the executive or the company.

Non-Executive Directors

Non-Executive Directors receive a combination of fixed and meeting fees for their participation on the Board and Board Committees. Black Non-Executive Directors also participated in the Discovery broad-based black economic empowerment (BBBEE) transaction which was implemented in 2005. This initiative was approved as the Board believed it is necessary to secure the services of black non-executive directors with the relevant skill and experience. At the Annual General Meeting held on 1 December 2009, shareholders approved that Ms SE Sebotsa, a black non-executive director, participate in the Discovery Limited phantom share-based incentive scheme to replicate participation in the Discovery BBBEE transaction. Non-executive directors do not receive annual incentive awards.

The Board proposes the fees for non-executive directors, following a recommendation from the Remuneration Committee. The fees are reviewed annually taking into consideration the individual's responsibilities and Board Committee membership. The Chairperson is not present when his remuneration is reviewed. In addition, from time to time, the fees are benchmarked to other local and international financial services companies and companies with similar market capitalisation to ensure the fees remain competitive. Recommendations are made to the Board for consideration.

The fee structure has two components:

1. A retainer.
2. A Board or Board Committee meeting attendance fee.

The Chairperson of the Board receives a fixed retainer and does not receive any other fees or retainer for attendance at Board or Committee meetings. Following recommendations from the Remuneration Committee, the Board proposes the fees for non-executive directors for shareholder approval.

The proposed fees for non-executive directors for the 2016 financial year have been based on an increase of 5% for Rand-based fees and 2.5% for fees based in US Dollars and Pounds. The Chairperson's remuneration has been increased from a fixed R3 000 000 to R3 600 000 to take into account the extra responsibilities created by Solvency Assessment and Management (SAM) and other regulatory changes.

Terms for Non-Executive Directors

There is no limitation on the number of times a non-executive director may stand for re-election. Proposals for re-election are based on individual performance and contribution, which is reviewed by the Board.

The fee structure for 2015 and proposed 2016 financial years is shown below:

	2014/2015	2015/2016
Retainer for the Chairperson of the Board	R3 000 000	R3 600 000
SA-based Board retainer	R154 000	R161 700
SA-based Board attendance fees	R25 700 per meeting	R27 000 per meeting
SA-based committee Chairperson retainer	R190 000	R199 500
SA-based committee members' retainer	R110 000	R115 500
SA-based committee Chairperson attendance fees	R22 000 per meeting	R23 100 per meeting
SA-based committee members' attendance fee	R14 000 per meeting	R14 700 per meeting
US-based Board retainer	USD 36 800	USD 37 720
US-based Board attendance fee	USD 6 100 per meeting	USD 6 250 per meeting
UK-based Board retainer	GBP 28 000	GBP 28 700
UK-based Board attendance fee	GBP 4 700 per meeting	GBP 4 820 per meeting
UK-based committee Chairperson retainer	GBP 26 500	GBP 27 160
UK-based committee Chairperson attendance fee	GBP 2 600 per meeting	GBP 2 665 per meeting
UK-based committee members' retainer	GBP 8 000	GBP 8 200
UK-based committee members' attendance fee	GBP 1 100 per meeting	GBP 1 130 per meeting
Non-resident director travel allowance	USD 2 500 per return leg	USD 2 575 per return leg

Remuneration Review continued

DIRECTORS' REMUNERATION

Remuneration and fees

Payments to directors for the year ended 30 June 2015 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	–	4 288	3 831	4 480	643	206	13 448
R Farber	–	3 618	2 977	4 480	181	102	11 358
HD Kallner	–	3 645	3 115	3 984	182	104	11 030
NS Koopowitz[2]	–	14 232	7 658	17 857	787	441	40 975
HP Mayers	–	6 999	5 393	4 480	735	259	17 866
Dr A Ntsaluba	–	3 209	3 055	7 429	561	163	14 417
A Pollard[3]	–	4 852	1 979	4 720	120	184	11 855
JM Robertson	–	3 244	2 794	4 480	650	7	11 175
B Swartzberg	–	3 420	3 240	4 480	579	106	11 825
Sub-total	–	47 507	34 042	56 390	4 438	1 572	143 949
Prescribed officers							
Dr J Broomberg	–	3 613	2 522	11 551	271	103	18 060
K Rabson	–	3 176	2 432	3 763	397	241	10 009
Dr P Tlhabi	–	2 557	1 822	3 641	255	80	8 355
Sub-total	–	9 346	6 776	18 955	923	424	36 424
Non-executive							
MI Hilkowitz	3 000	–	–	–	–	–	3 000
Dr BA Brink	718	–	–	–	–	–	718
HL Bosman[4]	918	–	–	–	–	–	918
JJ Durand[5]	696	–	–	–	–	–	696
SB Epstein[6]	4 772	–	–	953	–	–	5 725
Dr TV Maphai	778	–	–	–	–	–	778
TT Mboweni	314	–	–	–	–	–	314
AL Owen[7]	2 658	–	–	–	–	–	2 658
SE De Bruyn Sebotsa	684	–	–	6 176	–	–	6 860
T Slabbert[8]	584	–	–	–	–	–	584
SV Zilwa	1 044	–	–	–	–	–	1 044
Sub-total	16 166	–	–	7 129	–	–	23 295
Total	16 166	56 853	40 818	82 474	5 361	1 996	203 668
Less: paid by subsidiaries	(16 166)	(56 853)	(40 818)	(82 474)	(5 361)	(1 996)	(203 668)
Paid by holding company	–	–	–	–	–	–	–

1 *"Other benefits" comprise medical aid contributions, travel and other allowances.*
2 *Salary and incentive are paid in GBP.*
3 *Salary and incentive are paid in USD.*
4 *Directors' fees for services rendered by HL Bosman were paid to Rand Merchant Insurance Holdings Limited.*
5 *Directors' fees for services rendered by JJ Durand were paid to Remgro Limited.*
6 *Included in directors' fees for SB Epstein is USD 100 000 for services rendered as director of TVG Inc. Directors' fees are paid in USD.*
7 *Directors' fees are paid in GBP.*
8 *Directors' fees for services rendered by T Slabbert were paid to WDB Investment Holdings Proprietary Limited.*

Remuneration and fees continued

Payments to directors for the year ended 30 June 2014 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	–	4 229	3 176	4 555	616	168	12 744
R Farber	–	3 554	2 216	12 998	168	86	19 022
HD Kallner	–	3 681	2 533	14 392	174	96	20 876
NS Koopowitz[2]	–	12 557	13 656	15 846	748	271	43 078
HP Mayers	–	7 541	3 892	20 380	702	236	32 751
Dr A Ntsaluba	–	3 180	2 424	4 054	539	122	10 319
A Pollard[3]	–	4 275	–	13 433	108	97	17 913
JM Robertson	–	3 158	2 111	10 494	603	16	16 382
B Swartzberg	–	3 837	2 558	19 588	551	97	26 631
Sub-total	–	46 012	32 566	115 740	4 209	1 189	199 716
Prescribed officers							
Dr J Broomberg	–	3 584	2 263	10 487	256	84	16 674
K Rabson	–	3 077	2 047	14 635	360	228	20 347
Dr P Tlhabi	–	2 533	1 557	7 967	241	74	12 372
Sub-total	–	9 194	5 867	33 089	857	386	49 393
Non-executive							
MI Hilkowitz	2 836	–	–	–	–	–	2 836
Dr BA Brink	466	–	–	–	–	–	466
HL Bosman[4]	75	–	–	–	–	–	75
P Cooper[4]	764	–	–	–	–	–	764
JJ Durand[5]	535	–	–	–	–	–	535
SB Epstein[6]	1 782	–	–	882	–	–	2 664
Dr TV Maphai	370	–	–	–	–	–	370
TT Mboweni	146	–	–	–	–	–	146
AL Owen[7]	2 108	–	–	–	–	–	2 108
SE De Bruyn Sebotsa	633	–	–	5 223	–	–	5 856
T Slabbert[8]	580	–	–	–	–	–	580
SV Zilwa	781	–	–	–	–	–	781
Sub-total	11 076	–	–	6 105	–	–	17 181
Total	11 076	55 206	38 433	154 934	5 066	1 575	266 290
Less: paid by subsidiaries	(11 076)	(55 206)	(38 433)	(154 934)	(5 066)	(1 575)	(266 290)
Paid by holding company	–	–	–	–	–	–	–

1 "Other benefits" comprise medical aid contributions, travel and other allowances.
2 Salary and incentive are paid in GBP.
3 Salary and incentive are paid in USD.
4 Directors' fees for services rendered by P Cooper and HL Bosman were paid to Rand Merchant Insurance Holdings Limited.
5 Directors' fees for services rendered by JJ Durand were paid to Remgro Limited.
6 Included in directors' fees for SB Epstein is USD 100 000 for services rendered as director of TVG Inc. Directors' fees are paid in USD.
7 Directors' fees are paid in GBP.
8 Directors' fees for services rendered by T Slabbert were paid to WDB Investment Holdings Proprietary Limited.

Remuneration Review continued

DIRECTORATE

Remuneration and fees

Directors are paid short-term incentives three months after the year end. The following table includes the short-term incentives in the year to which they relate, rather than the year of payment. The fixed remuneration and short-term incentives for the year ended 30 June 2015 were:

R'000	Basic salary	Performance bonus	Provident fund contributions	Other benefits[1]	Total
Executive					
A Gore	4 288	3 410	643	206	8 547
R Farber	3 618	3 005	181	102	6 906
HD Kallner	3 645	2 890	182	104	6 821
NS Koopowitz	14 232	6 599	787	441	22 059
HP Mayers	6 999	5 449	735	259	13 442
Dr A Ntsaluba	3 209	2 635	561	163	6 568
A Pollard	4 852	2 184	120	184	7 340
JM Robertson	3 244	2 308	650	7	6 209
B Swartzberg	3 420	2 948	579	106	7 053
Sub-total	47 507	31 428	4 438	1 572	84 945
Prescribed officers					
Dr J Broomberg	3 613	2 522	271	103	6 509
K Rabson	3 176	2 432	397	241	6 246
Dr P Tlhabi	2 557	1 822	255	80	4 714
Sub-total	9 346	6 776	923	424	17 469
Total	56 853	38 204	5 361	1 996	102 414
Less: paid by subsidiaries	(56 853)	(38 204)	(5 361)	(1 996)	(102 414)
Paid by holding company	–	–	–	–	–

1 *"Other benefits" comprise medical aid contributions, travel and other allowances.*

DIRECTORS' REMUNERATION

Directors' participation in share incentive schemes

Discovery's directors and prescribed officers participate in the various share incentive schemes offered by the Group – their participation is disclosed below. Refer to Group Annual Financial Statements 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 2015:

Directors and prescribed officers	Outstanding shares	Date granted	Strike price (R)	Final vesting date	Value at 30 June 2015 (R)
J Broomberg	10 000	30/09/2010	–	30/09/2015	**1 264 700**
	20 700	30/09/2011	–	30/09/2016	**2 617 929**
	12 945	30/09/2012	–	30/09/2017	**1 637 154**
	38 835	30/09/2012	54,75	30/09/2017	**2 857 262**
	11 893	30/09/2013	–	30/09/2018	**1 504 108**
	23 786	30/09/2013	84,76	30/09/2018	**1 200 510**
	84 337	01/07/2013	–	30/06/2017	**10 666 100**
	10 967	30/09/2014	–	30/09/2019	**1 386 996**
	21 934	30/09/2014	97,89	30/90/2019	**1 042 617**
R Farber	10 726	30/09/2010	–	30/09/2015	**1 356 517**
	22 250	30/09/2011	–	30/09/2016	**2 813 958**
	13 915	30/09/2012	–	30/09/2017	**1 759 830**
	41 744	30/09/2012	54,75	30/09/2017	**3 071 289**
	13 592	30/09/2013	–	30/09/2018	**1 718 980**
	27 184	30/09/2013	84,76	30/09/2018	**1 372 012**
	108 434	01/07/2013	–	30/09/2017	**13 713 648**
	12 534	30/09/2014	–	30/09/2019	**1 585 175**
	25 068	30/09/2014	97,89	30/09/2019	**1 191 589**
A Gore	10 726	30/09/2010	–	30/09/2015	**1 356 517**
	22 250	30/09/2011	–	30/09/2016	**2 813 958**
	13 915	30/09/2012	–	30/09/2017	**1 759 830**
	41 744	30/09/2012	54,75	30/09/2017	**3 071 289**
	20 388	30/09/2013	–	30/09/2018	**2 578 470**
	40 776	30/09/2013	84,76	30/09/2018	**2 058 018**
	108 434	01/07/2013	–	30/09/2017	**13 713 648**
	18 801	30/09/2014	–	30/09/2019	**2 377 762**
	37 601	30/09/2014	97,89	30/09/2019	**1 787 336**
HD Kallner	10 726	30/09/2010	–	30/09/2015	**1 356 517**
	22 250	30/09/2011	–	30/09/2016	**2 813 958**
	13 915	30/09/2012	–	30/09/2017	**1 759 830**
	41 744	30/09/2012	54,75	30/09/2017	**3 071 289**
	13 592	30/09/2013	–	30/09/2018	**1 718 980**
	27 184	30/09/2013	84,76	30/09/2018	**1 372 012**
	108 434	01/07/2013	–	30/09/2017	**13 713 648**
	55 441	30/09/2014	–	30/09/2019	**7 011 623**
	110 882	30/09/2014	97,89	30/09/2019	**5 270 696**
NS Koopowitz	180 723	01/07/2013	–	30/06/2017	**22 856 038**

Remuneration Review continued

Directors' participation in share incentive schemes continued

Directors and prescribed officers	Outstanding shares	Date granted	Strike price (R)	Final vesting date	Value at 30 June 2015 (R)
HP Mayers	10 726	30/09/2010	–	30/09/2015	**1 356 517**
	22 250	30/09/2011	–	30/09/2016	**2 813 958**
	13 915	30/09/2012	–	30/09/2017	**1 759 830**
	41 744	30/09/2012	54,75	30/09/2017	**3 071 289**
	13 592	30/09/2013	–	30/09/2018	**1 718 980**
	27 184	30/09/2013	84,76	30/09/2018	**1 372 012**
	108 434	01/07/2013	–	30/06/2017	**13 713 648**
	12 534	30/09/2014	–	30/09/2019	**1 585 175**
	25 068	30/09/2014	97,89	30/09/2019	**1 191 589**
A Ntsaluba	13 915	30/09/2012	–	30/09/2017	**1 759 830**
	41 744	30/09/2012	54,75	30/09/2017	**3 071 307**
	13 592	30/09/2013	–	30/09/2018	**1 718 980**
	27 184	30/09/2013	84,76	30/09/2018	**1 372 012**
	108 434	01/07/2013	–	30/06/2017	**13 713 648**
	12 534	30/09/2014	–	30/09/2019	**1 585 175**
	25 068	30/09/2014	97,89	30/09/2019	**1 191 589**
A Pollard	10 726	30/09/2010	–	30/09/2015	**1 356 517**
	22 250	30/09/2011	–	30/09/2016	**2 813 958**
	4 638	30/09/2012	–	30/09/2017	**586 568**
	13 914	30/09/2012	54,75	30/09/2017	**1 023 714**
	4 587	30/09/2013	–	30/09/2018	**580 118**
	9 175	30/09/2013	84,76	30/09/2018	**463 074**
	144 578	01/07/2013	–	30/06/2017	**18 284 780**
	4 178	30/09/2014	–	30/09/2019	**528 392**
	8 356	30/09/2014	97,89	30/09/2019	**397 196**
K Rabson	10 000	30/09/2010	–	30/09/2015	**1 264 700**
	20 700	30/09/2011	–	30/09/2016	**2 617 929**
	12 945	30/09/2012	–	30/09/2017	**1 637 154**
	38 835	30/09/2012	54,75	30/09/2017	**2 857 261**
	11 893	30/09/2013	–	30/09/2018	**1 504 108**
	23 786	30/09/2013	84,76	30/09/2018	**1 200 510**
	84 337	01/07/2013	–	30/06/2017	**10 666 100**
	10 967	30/09/2014	–	30/09/2019	**1 386 996**
	21 934	30/09/2014	97,89	30/09/2019	**1 042 617**
JM Robertson	10 726	30/09/2010	–	30/09/2015	**1 356 517**
	22 250	30/09/2011	–	30/09/2016	**2 813 958**
	13 915	30/09/2012	–	30/09/2017	**1 759 830**
	41 744	30/09/2012	54,75	30/09/2017	**3 071 289**
	13 592	30/09/2013	–	30/09/2018	**1 718 980**
	27 184	30/09/2013	84,76	30/09/2018	**1 372 012**
	108 434	01/07/2013	–	30/06/2017	**13 713 648**
	12 534	30/09/2014	–	30/09/2019	**1 585 175**
	25 068	30/09/2014	97,89	30/09/2019	**1 191 589**

Discovery Limited phantom share scheme continued

Directors and prescribed officers	Outstanding shares	Date granted	Strike price (R)	Final vesting date	Value at 30 June 2015 (R)
B Swartzberg	10 726	30/09/2010	–	30/09/2015	**1 356 517**
	22 250	30/09/2011	–	30/09/2016	**2 813 958**
	13 915	30/09/2012	–	30/09/2017	**1 759 830**
	41 744	30/09/2012	54,75	30/09/2017	**3 071 289**
	13 592	30/09/2013	–	30/09/2018	**1 718 980**
	27 184	30/09/2013	84,76	30/09/2018	**1 372 012**
	108 434	01/07/2013	–	30/06/2017	**13 713 648**
	12 534	30/09/2014	–	30/09/2019	**1 585 175**
	25 068	30/09/2014	97,89	30/09/2019	**1 191 589**
P Tlhabi	8 750	30/09/2010	–	30/09/2015	**1 106 613**
	20 700	30/09/2011	–	30/09/2016	**2 617 929**
	12 945	30/09/2012	–	30/09/2017	**1 637 154**
	38 835	30/09/2012	54,75	30/09/2017	**2 857 262**
	11 893	30/09/2013	–	30/09/2018	**1 504 108**
	23 786	30/09/2013	84,76	30/09/2018	**1 200 510**
	84 337	01/07/2013	–	30/06/2017	**10 666 100**
	10 967	30/09/2014	–	30/09/2019	**1 386 996**
	21 934	30/09/2014	97,89	30/09/2019	**1 042 617**

Corporate Governance Review

Corporate governance forms the foundation of how we conduct our operations. As a values-based organisation, Discovery embraces the four values underpinning good governance: fairness, accountability, transparency and responsibility. Our company values permeate our business operations and form an integral part of Discovery's Code of Conduct. Corporate governance is important because it ensures we conduct business in a responsible, ethical and transparent manner. Discovery's Board of Directors is committed to ensuring that both our local and foreign business operations are run in a responsible manner with a view to maintain sustainable, economic, social and environmental performance.

How we address the recommendations of the King Code on Governance Principles (King III) for Discovery

During the year under review, Discovery complied with the mandatory principles of governance, as contained in the JSE Listing Requirements and the principles of King III.

In assessing adherence to the King III principles, a compliance programme is in place whereby the level of compliance across the Group is monitored at regular intervals. Our Governance and Compliance reviews illustrate how we have applied the principles of King III. Where a principle has not been applied, this has been highlighted and explained. For the full King III register, please refer to our website at www.discovery.co.za

Ethical leadership and corporate citizenship

The Discovery Board governs the organisation in an effective and ethical manner. The business is synonymous with the qualities of integrity, honesty, fairness, intellectual leadership and tenacity.

These characteristics are manifested in the form of Discovery's values. Our values are embedded in all business operations through a Code of Conduct, which is subscribed to by the Board and prescribed and applicable to all employees.

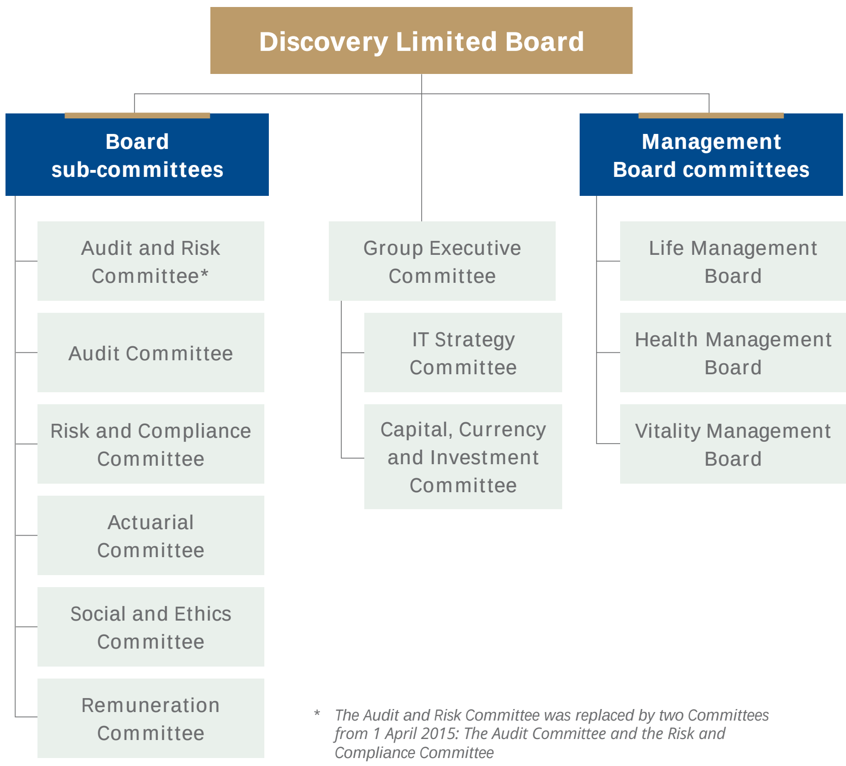
The Code of Conduct sets out Discovery's commitment and approach to conducting business ethically, and in the best interests of all stakeholders. It is regularly communicated to all employees and a number of programmes are in place to create awareness of Discovery's values and ethics standards.

Discovery established various sustainability initiatives under a Framework for Sustainable Development, which incorporates Corporate Social Initiative (CSI) investments, enterprise development and transformation and environmental issues. These initiatives and projects are aimed at ensuring that Discovery has a positive impact on society and that there is always a correlation between business impact and community benefit. For more information on our sustainability performance and initiatives, please read our latest People and Sustainable Development Report, available online at www.discovery.co.za.

Board of Directors

The core purpose of Discovery is to make people healthier and to enhance and protect their lives. Discovery has a unique entrepreneurial spirit with a strong emphasis on innovation. The Discovery Board of Directors (Board) has the responsibility to preserve these special attributes, while at the same time ensuring that the principles of sound and uncompromising good governance are observed.

Overview of the Board and sub-committees



* *The Audit and Risk Committee was replaced by two Committees from 1 April 2015: The Audit Committee and the Risk and Compliance Committee*

Group Corporate Governance Committees and Secretary

	Board of Directors	Audit and Risk Committee[1]	Audit Committee[1]	Risk and Compliance Committee[1]	Actuarial Committee	Social and Ethics Committee	Remuneration Committee	Group Executive Committee
MI Hilkowitz (Chairperson)	6/6^						2/2	
HL Bosman	6/6			2/2			2/2	
A Gore (Chief Executive Officer)	6/6					1/5		M^
BA Brink	6/6			2/2		5/5		
A Ntsaluba	6/6					4/5		M
J Durand	5/6		1/2				2/2^	
SB Epstein	5/6							
HD Kallner	6/6					3/5		M
R Farber	6/6			2/2	8/8	5/5		M
NS Koopowitz	6/6							M
TV Maphai	6/6							
HP Mayers	6/6			2/2	7/8	3/5		M
AL Owen	6/6	5/5^	2/2^	2/2^	6/8			
A Pollard	5/6							M
JM Robertson	6/6			2/2		3/5		M
SE de Bruyn Sebotsa	5/6	5/5	2/2	2/2				
T Slabbert	6/6					4/5		
B Swartzberg	5/6				4/8	3/5		M
S Zilwa	6/6	5/5	2/2	2/2	6/8	3/5^		
J Broomberg[2]	6/6					2/5		M
KS Rabson[3]	6/6							M
P Tlhabi[2]	4/6					4/5		M
TT Mboweni	6/6			2/2				
C van Der Riet					8/8^			
AB Rayner[4, 5]				2/2	8/8			M
S Matisonn[4, 5]					6/8			M
RW Williams[4]					8/8			
R Lee[4]					8/8			
D Govender[4, 5]								M
P Harvey[4, 5]								M
L Izikowitz[4, 5]								M
K Mayet[4, 5]								M
R Noach[4, 5]								M
G Novick[4, 5]								M
A Ossip[4, 5]				1/2				M
E Stipp[4 5]								M
B Sundelson[4, 5]								M
R van Reenen[4, 5]								M
S Vyvyan-Day[4, 5]								M
S Viranna[4, 5]				1/2				M
B Tromp[4]				1/2				
S Meintjes[4]				2/2				
MJ Botha (Company Secretary)								

Key

** Appointed 1 April 2015*
 # Resigned during the year
^ Chairperson of the Committee
1 The Audit and Risk Committee was replaced by 2 separate committees from 1 April 2015 – The Audit Committee and the Risk and Compliance Committee
2 Directors of Discovery Health (Pty) Ltd only
3 Director of Discovery Life Ltd only
4 Not directors of Discovery
5 Executive Management
M Member of the Discovery Group Executive Committee

Corporate Governance Review continued

The Board is ultimately responsible for the performance and strategy of Discovery. By selectively delegating authority and certain functions to the various committees, the Board does not absolve themselves from their own responsibilities towards Discovery. Each committee operates under written terms of reference. All the written terms of reference were reviewed by the relevant committees.

Discovery's Board has a clear division of responsibilities between itself and the executive management. During the year under review, Discovery did not appoint new directors to the Board. At the time of publishing this report, the Discovery Board consisted of eleven non-executive directors (eight are independent) and nine executive directors.

Board proceedings

The Board meets six times a year, with additional meetings arranged where necessary. The long- and short-term strategies of Discovery are discussed and agreed with executive management in an annual strategy day. The focus of these discussions is around the Group strategy and takes into account risks, opportunities and the sustainability of the Group.

Board Charter

A Board Charter which sets out the roles and responsibilities of the Board has been adopted and a comprehensive review of the Charter was undertaken in the past year to align it with emerging governance and regulatory requirements. The Charter provides directors full and unrestricted access to relevant information pertaining to Discovery and allows them to access independent professional advice at Discovery's expense to assist them in their duties.

Role of the Chairperson

The Chairperson has been a Non-Executive Director of Discovery for 12 years. The Board of Directors considered the Chairperson's independence last year and, taking into account the independence criteria applied to board members, found him to be independent.

The roles of the Chairperson and the Group Chief Executive Officer are separate, with each having their own set of duties. The Chairperson is responsible for leading the board and the Group Chief Executive Officer for the operational management of the Group. The division of responsibilities ensures a balance of power and that no individual has unrestricted decision-making powers or authority.

Succession Plan of the Chairperson and senior executives

Succession plans, which are reviewed and updated annually, are in place for the Chairperson of the Board, as well as the senior executives within the Group.

Appointment and rotation of Directors

The Board approved a policy whereby they retain responsibility for the identification and vetting of potential directors, successful candidates are then recommended for appointment to the shareholders at the Annual General Meeting. The Board may also delegate this to an ad-hoc sub-committee for the search and vetting of potential directors. To ensure that the mix of skills, experience and technical expertise of the Directors remain appropriate, the Board retains responsibility for the appointment of new directors.

Non-Executive Directors are appointed for three years and re-appointment is not automatic. As per the Board Charter, one third of the Non-Executive Directors rotate annually by retirement. Executive directors have contracts that may be terminated with one to three months' notice.

Induction of new Non-Executive Directors

The Group has a structured and comprehensive induction programme for new Non-Executive Directors, which is designed to enable new appointees to the Board to familiarise themselves with the Group's operations, financial affairs and strategic position to make an effective contribution as soon as possible after they have joined the Board.

Assessment of Independent Directors

In assessing the independence of Non-Executive Directors, the Board takes into account the personal shareholding of the individual director, the director's own or family involvement in Discovery's business and the fact that the remuneration earned by the directors is not contingent on the performance of the Group.

Assessment of the Chairperson

The Board evaluates the performance and independence of the Chairperson annually through a questionnaire. The results of the assessment found the Chairperson to fulfil his role independently and to the satisfaction of the Board as a whole.

Board Performance Assessment

A collective board-effectiveness evaluation is conducted annually. This year an internal assessment was done and the Board was found to be effective. The Chairperson meets with individual directors on a one-on-one basis throughout the year to discuss matters relevant to their directorship. Overall, it was found that the Board has a wide array of skills and experience required to oversee the operations of the Group as a whole.

Continuous Professional Development

Induction and orientation programmes are in place for new directors, including an explanation of their fiduciary duties and responsibilities. They also go on visits to different parts of the businesses for discussions with management on industry-specific issues.

Continuous educational programmes incorporating financial, actuarial, economic and industry-related matters are available to all directors. During the year under review, specific training on Solvency Assessment and Management (SAM) and other legislative developments was provided. Going forward, once a year, a day will be set aside to train the Board on all legislative developments.

Management of Directors' interests
A declaration of interest register is regularly updated by the company secretary and circulated at each board meeting. Directors' interests are disclosed before any board meeting and directors are encouraged to disclose their interests whenever it arises.

Trading in Discovery shares
Discovery has a policy in place that enforces closed periods, prohibiting trading in shares by directors and senior executives a month before the interim and final financial results period. Employees are prohibited from trading in shares in a closed period. All directors trading in shares require the prior approval of the Chairperson of the Board and senior management is required to notify the Chief Financial Officer prior to the transaction. The company secretary keeps a record of such trading and approvals.

Company Secretary
The Company Secretary is suitably qualified and has the requisite knowledge and skills to fulfil his duties and responsibilities. The Company Secretary is not a director and maintains an independent and arms-length relationship with the Directors. The directors have unlimited access to the advice and services of the Company Secretary, who ensures that all members adhere to the administration protocols of Board and sub-committee proceedings.
The Company Secretary was externally evaluated and the Board is satisfied that the Company Secretary is qualified to fulfil his duties and responsibilities to the Group.

Board committees[1]

Audit Committee
The Audit Committee is responsible for assisting the Board in terms of the financial reporting processes, internal controls, performance of internal and external audit processes, the overall tax compliance of the Group and any other matters that may impact the financial results of the Group.

The Committee consists of four highly skilled and experienced independent Non-Executive Directors with extensive actuarial, insurance, economics, business and accounting skills. Members of the committee are elected at the Annual General Meeting on recommendation of the Board and have the right to consult with specialists or consultants if required. The Chairperson of the Board, Chairperson of the Actuarial Committee, executive management team and Heads of the Finance, Risk, Compliance and Internal Audit Functions, as well as the external auditors, attend the meetings by invitation.

The scope of the Audit Committee covers all activities of subsidiaries, joint ventures, partnerships and other business ventures within the Discovery Group, both locally and internationally where the Discovery Group has management control.
The Committee has the discretion to rely on the work undertaken by any existing governance structure within the international operations where separate governance structures are in place to fulfil the governance and overseeing responsibilities.

Audit Committee proceedings
The Audit Committee meets six times a year, with the mandate to convene additional meetings as circumstances require. One additional meeting was scheduled in the past year.
The Chairperson of the Committee reports at each Board meeting on its activities and attends the Annual General Meeting to answer questions concerning matters falling within the ambit of the Committee. The Committee regularly meets with the internal and external auditors, as well as the heads of Risk and Compliance, without members of management present.

For more details, refer to the Report of the Audit Committee on page 4 of the Audited Annual Financial Statements.

The responsibilities of the Audit Committee are to:

- Oversee the appointment, performance assessment, remuneration, disciplinary action against or dismissal of the Chief Audit Executive.
- Review and approve the Internal Audit Charter, monitor the performance of the Group Internal Audit Function, and to approve the annual internal audit plan.
- Review any significant matters raised by the internal and external auditors.
- Examine and review draft interim and annual financial results, announcements and any financial information to be made public and recommend this to the Board for approval.
- Review the basis on which the Group has been determined to be a going concern.
- Review the effectiveness and appropriateness of the Group's system of internal financial controls.
- Oversee the appointment of external auditors and recommend, with board approval, the appointment of the external auditors to the Annual General Meeting for appointment.

Risk and Compliance Committee
The Risk and Compliance Committee is responsible for assisting the Board with the overall system of risk and compliance management, ensuring that risk and compliance matters are disclosed in a timely manner, including fraud management, business continuity and disaster and IT Governance Framework and protection of information assets.

The Committee consists of six highly-skilled and experienced Non-Executive Directors (five of whom are independent) and eight members of senior management. The members of the committee collectively have extensive actuarial, insurance, regulatory, economics and accounting skills.

1 *With effect from 1 April 2015, the Audit and Risk Committee was split into a separate Audit Committee and a Risk and Compliance Committee. The section describes the position after 1 April 2015.*

Corporate Governance Review continued

Members of the committee are elected by the Board and have the right to consult with specialists or consultants if required. The Chairperson of the Board, Chairperson of the Actuarial Committee, executive management team and Internal Audit Function, as well as the external auditors, attend the meetings by invitation.

The scope of the Risk and Compliance Committee covers all activities of subsidiaries, joint ventures, partnerships and other business ventures within the Discovery Group, both locally and internationally where the Discovery Group has management control. The Committee has the discretion to rely on the work undertaken by any existing governance structure within the international operations where such separate governance structures are in place to fulfil the governance and overseeing responsibilities.

Risk and Compliance Committee proceedings

The Risk and Compliance Committee meets six times a year with the mandate to convene additional meetings as circumstances require. The Chairperson of the Committee reports at each Board meeting on its activities. The Committee regularly meets with the Heads of Risk and Compliance without members of management present.

The responsibilities of the Risk and Compliance Committee are:

- To oversee the appointment, performance assessment, remuneration, disciplinary action against or dismissal of the Chief Risk Officer and the Chief Compliance Officer
- To ensure that independent, effective and sufficiently resourced Risk Management and Group Compliance Functions are established and that these functions operate effectively as part of the second line of defence
- To review and assess the adequacy and effectiveness of the risk and compliance management systems across the Group
- To review and recommend the approval of the risk management, compliance and governance policies across the Group
- To review the effectiveness and appropriateness of the anti-fraud programmes within the Group
- To review the effectiveness and appropriateness of the IT Governance and Control Frameworks, and to review and approve the business continuity and disaster recovery programmes in place.

Actuarial Committee

The Actuarial Committee assists the Board with actuarial matters and their fiduciary duties towards members, policyholders and shareholders.

The Committee consists mainly of executive directors and non-board members who provide industry expertise, as well as an independent and unbiased perspective on actuarial matters impacting Discovery. The committee is chaired by a non-board member recognised in the industry as a technical leader in his field.

VitalityHealth and VitalityLife in the UK and Discovery Insure have their own actuarial committees that are responsible for specific issues relating to the pricing and underwriting of these companies' products. The work of these committees is overseen by the Discovery Actuarial Committee.

Actuarial Committee proceedings

The Actuarial Committee meets six times a year with the mandate to convene additional meetings as circumstances may require. A new chairperson was appointed and two additional meetings were scheduled during the past year.

The responsibilities of the Actuarial Committee are to:

- Ensure that all relevant actuarial risks within Discovery are identified and analysed
- Consider the financial soundness valuation results of Discovery, including overall methodology and assumptions used to value the assets and liabilities of the Group
- Consider the embedded value results of Discovery, including the overall methodology and assumptions used in the embedded value calculation
- Review the external disclosure of the embedded value results of Discovery
- Consider the capital position of Discovery
- Review all reinsurance arrangements.

Social and Ethics Committee

The Social and Ethics Committee assists the Board in discharging its responsibilities towards the requirements of transformation, ethics management and sustainable development within Discovery. The Committee's scope covers all South African subsidiaries within the Discovery Group.

The Committee is mainly constituted by Executive Directors and the Chairperson is a Non-Executive Independent Director. Taking into account the objectives of this Committee, the Board is of the view that the skills, experience and knowledge of the current committee members are appropriate in overseeing the committee's activities.

Social and Ethics Committee proceedings

The Committee meets five times a year, with additional meetings being held when required. Two additional meetings were scheduled in the past year.
The Committee may invite any directors, professional advisers, or officers whose input might be required at the meeting.

The responsibilities of the Social and Ethics Committee are to:

- Monitor the Group's standing in terms of the ten principles set out in the United Nations Global Compact Principles and the Organisation for Economic Co-operation and Development (OECD) recommendations regarding corruption and relevant legislative requirements

- Review and approve, for recommendation to the Board, the company's stakeholder policy
- Review and approve a framework for stakeholder engagement and the stakeholder engagement policy
- Monitor the company's activities in respect of stakeholder relationships, including the company's advertising, public relations and compliance with consumer protection laws
- Monitor the company's performance in relation to good corporate citizenship as well as the environment, health and public safety
- Review and approve the Enterprise Development Policy, the Employment Equity Plan, the Preferential Procurement Policy, the CSI strategy and projects proposed by management
- Review and approve, for recommendation to the Board, the Sustainable Development Strategy and key sustainability indicators
- Consider and review the Ethics framework, the Code of Conduct and any complaints received by the Group
- Make recommendations to the Board regarding any potential conflicts of interest of a material nature

Remuneration Committee

The Remuneration Committee assists the Board in terms of the Group's remuneration strategies, principles and employment policies.

The Remuneration Committee consists of three independent non-executive directors. Impartial remuneration experts are invited to meetings to assist in advising the Committee.

Details of the respective directors' remuneration for the year under review can be found on page 96.

Remuneration Committee proceedings
The Committee met three times during the year. Members of Executive Management and the Chairperson of the Internal Remuneration Committee also attend the meetings by invitation. Executive directors are not allowed to participate in discussions regarding their own remuneration nor are they entitled to a vote at the meetings.

The responsibilities of the Remuneration Committee are to:

- Assist the Board in its responsibility for setting and administering remuneration policies in Discovery's long-term interest
- Ensure that Discovery's employees are remunerated fairly and equitably taking into account Discovery's performance and external market trend
- Make recommendations to the Board on the remuneration structures of Non-Executive Directors
- Ensure that the remuneration of Executive Directors is sufficient to attract, retain and motivate them
- Approve a policy relating to bonus and share-incentive schemes.

Group Executive Committee

The Executive Committee is mandated and responsible for implementing the strategies approved by the Discovery Board and for managing the affairs of the Group.

The Group Executive Committee is chaired by the Group Chief Executive Officer and meets weekly.

The different business units, including the offshore operations, also have executive committees that meet regularly. Feedback on the activities of each business unit is provided at the weekly meetings of the Group Executive Committee.

Governance of Ethics within Discovery

The Discovery Board of Directors oversees the ethics management in the Group. The Board is responsible for ensuring that ethics are integrated into the strategy and culture of the Group. The Social and Ethics Committee, as a sub-committee of the Board, provides strategic direction to corporate ethical behaviour, and further oversees the roll out of the Group's ethical strategy. This strategy is supported and managed in a structured and formalised way by a dedicated Ethics Office that is adequately resourced and staffed by skilled and professional ethics officers.

The Ethics Office is responsible for the Group's ethics management process. This entails the planning, coordination, implementation and control of the strategies, structures and systems required to institutionalise, monitor and report on ethics performance. The Ethics Office started a process of integrating all levels of ethics standards in the Group. The Group's ethics standards will be reflected in a consistent and integrated manner, starting at an aspirational level from the Group's core values, its ethics guiding principles through to rule-based policies and procedures.

Discovery launched a successful formal training and awareness campaign, which included face-to-face training, as well as other electronic mediums of awareness. All levels of employees, in all South African geographies, were reached with this campaign. The campaign resulted in significant engagement between management and employees. The Ethics Office is focused on increasing its digital reach within the Group to ensure effective institutionalisation of ethics.

In partnership with Deloitte, the Ethics Office manages a successful whistle-blowing hotline for anonymous reporting of inappropriate or unethical conduct.

Corporate Governance Review continued

Group Risk Management

The Board is ultimately responsible for the governance of risk across the organisation. The Board charter outlines the directors' responsibilities for ensuring there are risk management processes in place to enable complete, timely, relevant, accurate and accessible risk disclosure to all stakeholders. As sub-committees of the Board, the Risk and Compliance Committee and the Actuarial Committee have been delegated the responsibility to oversee the operational effectiveness of the risk management system.

The Group Risk Management function is headed by the Chief Risk Officer who reports directly to the Group Chief Executive and is a member of the Group Executive Committee. The Group Risk Management function reports to all Risk and Compliance Committee meetings on the risks the organisation faces, the extent to which mitigation plans and controls are in place and the details of and response to any risk incidents that may have occurred.

The Board maintains and is accountable for the Enterprise Risk Management Policy and implementation of the Risk Management Plan. The Chief Executive Officers and executive management teams are responsible for the management of all risks, as well as implementing the risk policy and plan through a common and integrated Enterprise Risk Management Framework. The Group Risk Management Function and Chief Risk Officer provide guidance and oversee these aspects.

The Board reviews and approves the level of risk appetite and tolerance for each category of risk to which each business is exposed. Many factors are considered when setting the appetite and tolerance. Some of these include considerations of business maturity, risk management maturity, Discovery's propensity to take on risk, Discovery's ability to control risk, Group strategic intentions, capital and funding constraints and reputational impacts.

An evaluation of the effectiveness of the risk management system is performed on an annual basis by the Group Internal Audit function. Refer to the Group Risk review for further information.

Group Compliance

The compliance function was established in terms of JSE regulatory requirements through its Surveillance Department to maintain an active supervisory and monitoring role of all JSE-listed companies. The compliance function is further strengthened through Chapter 6 of the King III report on governance relating to compliance with laws, rules, codes and standards. The Financial Services Board (FSB) regulates most of the Group subsidiaries' business activities whereby all financial advice and intermediary services are reported regularly to ensure that clients' rights are protected.

The Board is accountable for compliance with legislative and regulatory requirements and has therefore appointed a Chief Compliance Officer (CCO) to manage the relevant legislation and regulatory requirements. The CCO is given unrestricted access to the Chairperson of both the Board and the Group Audit and Compliance Committee, is a member of the Risk and Compliance Committee and reports on all regulatory, legal and supervisory developments, and the impact they might have on other relevant legislation.

The Group Compliance Function is responsible to implement a control framework ensuring the appropriate management of Regulatory Compliance Risks. Group Compliance works closely with Group Risk Management but operates as a separate independent division within Discovery. This enables close alignment to the Risk Management Framework while ensuring that the regulatory exposures and opportunities within Discovery receive focused and appropriate attention.

Discovery has a mature compliance culture encouraged through leadership, establishing of appropriate structures, education and training, communication, and management of key performance indicators relevant to compliance through a comprehensive reporting system. This system is reviewed regularly by management and reported on to the Directors. The Compliance function forms an integral part of the Combined Assurance Model to provide reasonable assurance of the accuracy of regulatory reporting and forms an effective supporting tool to the overall corporate governance structure within the Group.

To ensure the identification, assessment and appropriate response to the risk of non-compliance, a compliance framework has been developed and implemented to ensure that regulatory exposure is managed in accordance with Generally Accepted Compliance Standards.

The internal and external auditors conduct regular reviews on the adequacy of the compliance function. Discovery has not recorded any regulatory or administrative penalties during the financial year for any non-compliance with any governance or legislative obligations.

Requests for Information and Promotion of Access to Information Act

During the year under review, we received one request for information in terms of Promotion of Access to Information (PAIA). On advice from external legal counsel, no response was made to this request as this was settled with the litigatee.

Group Internal Audit

The Group Internal Audit function operates within the ambit of a clearly-defined charter which has been approved by the Audit Committee. Their main focus is to provide a systematic, disciplined approach to the evaluation and improvement of the effectiveness of internal control systems, risk management and governance processes.

Group Internal Audit is staffed with suitably qualified, competent and ethical employees, affiliated to the Institute of Internal Auditors (IIA) and other professional bodies. These employees are not involved in any day-to-day operations of Discovery, nor do they assume the responsibility for the implementation of any internal control systems or direct the activities of any employee.

Group Internal Audit annually prepares a risk-based audit plan in consultation with management, Group Risk and Group Compliance. This plan, as well as the Group Internal Audit Budget, is approved annually by the Audit Committee and the effectiveness of the function is also assessed. As far as possible, planning is coordinated with the external auditors to minimise duplication of audit effort.

The Audit Committee is also mandated to approve the appointment and dismissal of the Chief Audit Executive (CAE).

The Internal Audit Plan includes capacity for the review of the effectiveness of:

- Internal Financial Controls: Specific attention is given to testing the control effectiveness and evaluating the results based on the design, implementation and operation of internal controls in the Group. This is done through a formal documented process and the results are reported to the Audit Committee.
- Combined Assurance: Group Internal Audit annually provides an assessment to the Audit Committee on the adequacy of the combined assurance approach.

Governance of Information Technology (IT)

The Board is responsible for IT governance and ensuring that IT is aligned to the performance objectives of the Discovery Group. It has appointed a Group Chief Information Officer whom the Board believes is suitable, qualified and experienced and who reports to the Board on all IT-related matters.

A formal IT governance framework consisting of various policies, standards and guidelines has been approved and implemented within the Group. This framework is fundamental to the operations of Discovery and covers the:

- Implementation of a dedicated Information and Data Security function to ensure that an appropriate Information Security Programme is implemented within the business.
- Establishment of a formal process to oversee and manage all IT investments and capital expenditure.
- Establishment of a number of operational and strategic IT committees to ensure that the Group infrastructure appropriately supports business objectives and strategy.
- Implementation of a Business Continuity Framework to ensure that appropriate plans and controls are in place so that all aspects of business resilience and disaster recovery are adequately dealt with.

Compliance Review

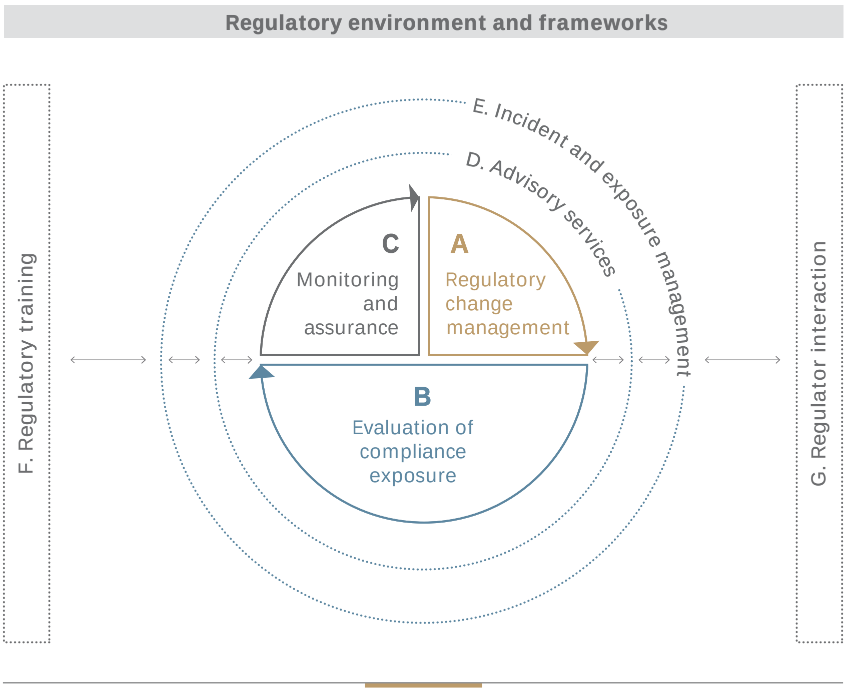
Discovery considers compliance with applicable laws, industry regulations, codes and its own ethical standards and intaernal policies as an integral part of doing business. The Board is committed to developing and maintaining a strong Compliance Management capability and culture which contribute to the growth within the Group and which provide appropriate protection to its policyholders and members.

This is achieved by:

- Fostering an environment where regulatory compliance is embedded in the Group's culture, business planning, decision making and day-to-day business activities.
- Actively communicating the effectiveness and business benefits of compliance management to all stakeholders.
- Considering the impact of the regulatory requirements in all strategic and operational business decisions, as well as the processes and control environments within the Group.
- Continually developing and enhancing the Group's Compliance Management capability in a manner that yields business benefit.
- Being able to provide reasonable and independent assurance to the Group's senior management and Board.

Key focus areas 2015	Key focus areas 2016
Solvency Assessment and Management and Solvency II Work around the Capital Requirements as set out in Pillar I of the FSB programme is ongoing and we are actively participating in industry and regulatory initiatives in this regard. Work around the implementation of the Solvency II requirements in the UK is also on track and we will continue our participation with programmes and information requests from UK regulators. During the next year we will be focusing on the implementation of the Pillar II requirements contained in the proposed interim measures, as set out in the Insurance Laws Draft Amendment Bill.	**Implementation of the Twin Peaks Regulatory Framework** We continue to monitor the developments around the Twin Peaks Regulatory Framework closely. We are cooperating with industry bodies and are committed to implement appropriate controls to address the regulatory requirements emerging from this process.
Implementation of the Retail Distribution Review Framework During the year we continued focusing on the possible impact of the Retail Distribution Review conducted by the Financial Services Board. We expect that the proposals, once published, could have an impact on how we remunerate our intermediaries.	**Implementation of the Retail Distribution Review (RDR) Framework** Work within Discovery to analyse the impact of the RDR proposals is ongoing and we will continue to cooperate closely with both industry bodies and the regulator in the development of the regulatory requirements.
Protecting the rights and personal information of our clients Work around the implementation of the Protection of Personal Information Bill requirements is ongoing within local operations and plans were in place to deliver the outstanding projects by August 2014. At the same time, we are monitoring developments around data protection that may impact the programmes we currently have in place within the UK environment. Work around the formalisation of the Treating Customers Fairly programme within the South African operations is also on track and we are actively participating in various industry initiatives.	**Continued strengthening of our information security controls and controls to protect our clients' information** We have completed a number of projects during the year which focus on formalising and strengthening our information security framework. Information security remains a key element of the Protection of Personal Information (POPI) programme within Discovery. As such, we will continue to focus on this over the next 12 months
Retirement reform We continue to monitor the developments around retirement reform and the amendments on the tax payable on retirement funds to ensure that we provide the best possible solution to our clients.	**Retirement reform** We will continue to monitor the developments around retirement reform and the amendments on the tax payable on retirement funds to ensure that we provide the best possible solution to our clients.

Compliance processes in place across the Group



Establishment of a framework to monitor and report on the fair treatment of customers

Work around the implementation and embedding of the Treating Customers Fairly (TCF) Framework within our South African operations is ongoing and we have completed a number of initiatives focused on the treatment of customers over the past year. We continue to participate in industry forums, as well as in the regulatory process.

Our policies and frameworks

We have developed a comprehensive set of compliance policies and frameworks to ensure that adequate processes and procedures are in place to manage adherence to the Group's regulatory environment. These policies and frameworks are aligned with the current regulatory developments that have been proposed under the Solvency Assessment and Management (SAM) requirements. These policies and frameworks are reviewed and approved annually by the Board.

The role of the Group compliance function

The Group compliance function is an independent function, operating as part of the second line of defence, established to support the Board, Executives, management and employees to embed compliance into the culture, business principles, and operational and management processes of the Group, as well as in any agreements with clients, service providers and other third parties. The Function is responsible for designing an effective compliance management and control system and for monitoring and reporting on the operational effectiveness of the system.

Discovery has invested in skilled and experienced compliance resources to:

- Maintain all legislative, regulatory, industry and best practice requirements and standards impacting the operations within the Group
- Support management with the implementation of the regulatory frameworks impacting the activities and operations in the Group
- Develop a risk-based compliance plan to monitor and assess the effectiveness of the controls implemented to manage and mitigate compliance exposures and regulatory risks to the business.

Our approach to compliance

Given our broad geographic footprint and the requirement to adhere to various local and international laws, rules, codes and standards, compliance is built into our corporate governance structures and frameworks. The South African business operations are supported by experienced compliance officers within a centralised compliance team, while our international business areas are supported by dedicated compliance teams in their respective jurisdictions. The work of these teams is closely aligned to the standards and guidelines within the Group Compliance function in South Africa.

The Group Compliance function is also responsible for the implementation and monitoring of an Anti-Money Laundering Control Framework within the Group.

Regulatory change management

Our regulatory change management activities are aimed at:

- Identification of legislative, regulatory and supervisory developments that impact the Group.
- Analysing these changes.
- Assisting with and advising management on implementing appropriate controls to address the requirements.

Evaluation of compliance exposures

We have implemented a risk-based evaluation process across the Group to assess the level of compliance exposure and to assist the Group Risk Management function with the evaluation of the regulatory risk within the Group.

Compliance Review continued

Monitoring and assurance

We develop an annual risk-based monitoring plan for the independent assessment of the appropriateness and efficiency of the control framework by ensuring compliance to regulatory requirements and the evaluation of progress made with the implementation of corrective actions agreed with the business.

Advisory services

Our experienced Compliance Officers provide general guidance and support to the business and to management to assist with the effective implementation of the control framework and regulatory requirements, as well as to assist and support the Group with all campaigns, external communication, marketing material and general client communication.

Incident and exposure management

We assist the Group with the identification of regulatory incidents and exposures, advising them on the appropriateness of corrective actions and monitoring progress with the implementation thereof.

Regulatory training

We maintain a comprehensive regulatory training programme for all employees to ensure awareness of the regulatory requirements impacting their day-to-day responsibilities.

Regulator interaction

Discovery is subject to external regulation and supervision by various authorities in each of the jurisdictions in which we operate. We maintain open and active dialogue with all our regulators and supervisors to respond proactively and pragmatically to emerging issues and questions. Where applicable, we participate in industry committees and discussion groups to maintain and enhance the regulatory environment in which the Group operates.

Regulatory requirements that significantly impact our business

The following proposed and current legislation will or already have a significant impact on Discovery's business:

South Africa	Solvency Assessment and Management (SAM) Framework
United Kingdom	Solvency II
United States	–

This framework has a material impact on our South African and UK insurance operations and significant progress was made during the year with the implementation of various policies and frameworks required to comply with these requirements.

Discovery is confident of being fully compliant with both the SAM and Solvency II requirements prior to the effective dates of January 2016 (UK) and 1 July 2016 (SA).

South Africa	Retail Distribution Review
United Kingdom	–
United States	–

Discovery is actively participating in industry forums and regulatory workshops. We implemented a number of initiatives within the Group to analyse and evaluate the impact of the proposed amendments and to address any implications it may have on our strategy and business operations.

South Africa	Treating Customers Fairly (TCF)
United Kingdom	–
United States	–

We made significant progress with the analysis of our business processes and have identified areas where we can improve our customer experience. These are receiving ongoing attention from our management team.

Work is ongoing to improve how we measure the treatment of our clients effectively and we are continouosly looking for more opportunities to improve on our TCF Framework.

South Africa	Retirement Reform
United Kingdom	–
United States	–

We support the initiatives announced by National Treasury to strengthen the retirement savings in South Africa and are reviewing our products and business processes carefully to ensure compliance with the requirements as they emerge.

South Africa	Protection of Personal Information (POPI) Act
United Kingdom	EU Data Privacy Directive
United States	–

We remain focused on completing a number of projects that will address key POPI objectives within the Group over the next 12 months.

Work is ongoing to align our data management strategy across the Group to international data privacy requirements and standards.

South Africa	–
United Kingdom	Complaints Handling Consultation Paper
United States	–

The Financial Conduct Authority published new rules in respect of complaint handling and call costs.

We are actively working with the business to update our processes to align to the new rules.

South Africa	National Health Insurance (NHI)
United Kingdom	–
United States	–

Discovery Health is supportive of this initiative and is actively seeking opportunities to support this initiative.

South Africa	Draft Taxation Laws Amendment
United Kingdom	–
United States	–

We have reviewed the proposed amendments and are participating in various industry groups that are lobbying to ensure that the proposed changes are equitable. We expect these amendments to impact the tax position of our Life operations and we are currently doing a detailed analysis on this.

South Africa	Twin Peaks Framework
United Kingdom	–
United States	–

We are actively participating in industry forums reviewing the Draft Insurance Bill and are monitoring the regulatory approval process of this framework carefully.

Risk Review

Key focus areas during the year

Progress towards SAM and Solvency II readiness
During the year, significant progress was made to ensure Discovery will be ready to fully comply with the requirements of SAM and Solvency II. This included comprehensive parallel runs on the SAM framework and completion of mock Own Risk and Solvency Assessment (ORSA) reports for Discovery Life, Discovery Insure and Discovery Limited; adoption of Board-approved risk appetite statements; development of actuarial models for stress and scenario testing and risk appetite modelling; development of risk capital models and methodologies; and approval and embedment of a suite of governance policies.

Enhancing the risk management capacity
Risk management capacity was strengthened during the year through further development of the Quants and Capital modelling team within Group Risk Management. This team is independently overseeing the actuarial outputs of the various Group entities and aggregation of risk-based capital needs. Additional capacity was created through a dedicated project risk specialist, IT security and finance risk resources.

Strengthening of risk frameworks
Various new risk frameworks were introduced, including a project and change risk management framework, incident management guidelines and the development of more complete suites of key risk indicators. Extensive training was provided to first-line risk officers.

Value-added risk services
A number of independent risk reviews were concluded during the year that assisted management with taking appropriate and informed decisions to improve the control environment and reduce the extent and impact of risk incidents.

Enterprise risk management

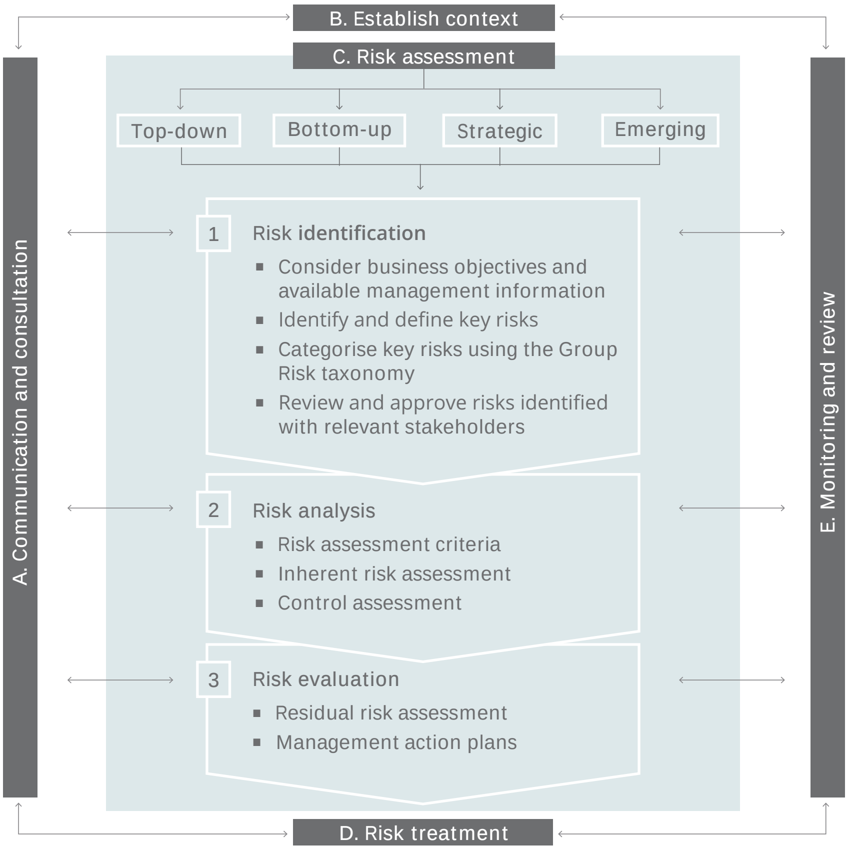
Discovery defines risk as the possibility of an event materialising which could impact the achievement of its objectives.

Enterprise Risk Management (ERM) provides a framework for managing these risks, which typically involves:

- Identifying particular events or circumstances relevant to Discovery's objectives (risks and opportunities).
- Measuring them in terms of impact and likelihood.
- Monitoring the risks against the limits set and capital available.
- Managing risks by developing risk mitigation strategies and action plans where necessary.
- Providing the Board and senior management with knowledge of the risks faced by the business through a regular risk reporting process.

Our enterprise risk management process

The eight key risk management processes (based on ISO31000) which Discovery follows are defined as follows:



Control functions within Discovery

To further strengthen the Board's governance and overseeing function, it has mandated the establishment of Independent Control Functions that operates at a Group level.

How do we manage risk?

Discovery has a three-lines-of-defence governance model.

Discovery Limited Board

- Group Executive
- Company Executive
- Capital, Currency and Investment Committee

Management

- Discovery Limited Audit Committee
- Discovery Limited Risk and Compliance Committee
- Discovery Limited Actuarial Committee

Risk Monitoring and Assurance

First line of defence

- Executive Committees
- Management of Operations

Line 1 – Business Unit Management

The "first line of defence" consists of the day-to-day management and operation of the business and requires that the business delivers on the strategy and optimises business performance within an agreed governance and risk framework.

Second line of defence

- Risk Management Function
- Compliance Function
- Actuarial Function

Line 2 – Risk Management, Compliance and Actuarial Control functions

The "second line of defence" consists of risk management and compliance management functions that are responsible for designing and ensuring the operating effectiveness of the risk and compliance management system, supplemented by an actuarial function for the Discovery Life business.

Risk Management

The Group's Risk Management function is independent of first-line management and is responsible for designing and ensuring the operational effectiveness of the Risk Management System for all risk types. The Group Risk Management function coordinates and challenges information on risk management and ensures the establishment of appropriate risk reporting procedures and feedback to the Board.

Compliance

The compliance function ensures that Discovery is able to meet its legal and regulatory obligations, and promotes a corporate culture of compliance and integrity. The compliance function has the authority to communicate with any employee and obtain access to any records required to carry out its responsibilities.

Actuarial

The Actuarial function informs the Board and the Actuarial Committee of the reliability and adequacy of the calculation of technical provisions, capital requirements, premium and pricing activities and compliance with related statutory and regulatory requirements for Discovery Life. The Head of the Actuarial Function expresses an opinion on these calculations and ensures the establishment of appropriate reporting procedures and feedback processes to the Board.

Third line of defence

- Internal Audit
- External Audit
- Other Assurance Providers

Line 3 – Assurance

The "third line of defence" comprises of Discovery's assurance functions, i.e. internal and external audit, that provide an independent and balanced view of the effectiveness of the first- and second-line functions. The Group Internal Audit function performs an annual assessment on the effectiveness of the risk management system. The findings from these audits and assessments are reported to the various governance bodies within the organisation.

Risk Review continued

Our policies and frameworks

To support effective communication and implementation of the Enterprise Risk Management Policy, Discovery has developed a comprehensive set of risk policies and frameworks to ensure that adequate processes and procedures are in place to manage risk. These policies and frameworks are aligned with the regulatory requirements that have been proposed under the Solvency Assessment and Management (SAM) regime, are reviewed and approved by the Board annually and undergo an annual confirmation of compliance by the relevant policy owner.

Our risk appetite and strategy

The following overarching principles capture Discovery's risk appetite and risk strategy. We seek to:

- Invest in entities and partnerships that progress our core purpose, while increasing shareholder economic value, strengthening Discovery's product offering and diversifying operations across a range of financial and related industries.
- Maintain a financially sound position by ensuring that Discovery is well capitalised and will continue to meet its capital requirements (both internal and regulatory) and obligations to policyholders and clients.
- Maintain an appropriate liquidity position (including ensuring adequate cash flow generation) to support the growth of existing businesses, undertake new corporate initiatives and consistently deliver on its stated dividend policy.
- Apply prudent principles when managing the capital funding structure, which includes managing the balance between debt and equity funding.

We avoid instances where Discovery is exposed to very volatile or extreme potential outcomes which could threaten the viability of the business.

We accept risks that:

- Provide an adequate balance between risk and reward, in line with Discovery's commitment to achieve its return on capital target.
- Discovery has the required expertise and skills to manage.

The role of the risk management function

The risk management function is independent from the day-to-day management and first-line risk capacity and is responsible for designing and ensuring the operational effectiveness of the risk management system. This team consists of skilled resources such as actuaries, accountants, project risk specialists, IT specialists, finance specialists and risk management analysts. This team coordinates and challenges risk information, and establishes appropriate risk reporting procedures.

The risk management team:

- Assists the Board, the various Board committees and senior management in carrying out their respective responsibilities by coordinating risk management activities.
- Facilitates the risk identification process. This is performed through evaluating the internal and external risk environment on an ongoing basis to identify current and emerging risks as early as possible. This may include evaluating risks from different perspectives, such as by territory or by line of business.
- Assists the business in managing identified risks effectively. This includes assessing the capacity to absorb risk with regards to the nature, probability, duration, correlation, and potential severity of risks.
- Performs independent risk reviews to enable the provision of risk assurance to the Board.
- Regularly reports to senior management, key people in control functions and the Board on the risk profile. This includes details of the risk exposures faced, risk incidents that have occurred and related mitigating actions required.
- Recommends the risk appetite and allocation of capital to the Board for approval. This includes the cascading of risk limits to an appropriate level of detail, and monitoring the actual risk exposure against the Board approved appetite.
- Maintains an aggregated view of the risk profile and associated capital requirements.
- Conducts a review of and reports upon the ORSA process on an annual basis, which includes overseeing of the integration between risk and capital management across Discovery.
- Conducts regular stress testing and scenario analyses, including that of extreme events with low probability, but high potential impact.
- Conducts regular assessments of the risk management system and ensures that all necessary improvements are implemented.
- Documents and reports material changes affecting the risk management system to the Board to ensure that the framework is maintained and improved.

The risks that impact our strategy

Discovery is a multi-national organisation that faces a myriad of risks. The material issues that impact Discovery and our stakeholders are determined in line with the business strategy and strategic objectives, opportunities, the risks faced by the various subsidiaries, the communities we impact and the trends in our environment. The table outlines the key risks impacting Discovery and the related mitigation strategies. These issues are discussed further in this report and in the People and Sustainable Development Report.

Risk	Mitigating actions
Deployment of the Vitality business model internationally	Discovery has established a Discovery Partner Markets division which focuses on deploying the Vitality business model to the partner markets. This team develops strategies and solutions to enhance the product offerings in these markets and manage partner relationships.
Availability of adequate funding to pursue strategic goals	Discovery has material funding requirements to grow its insurance and other financial services businesses, both locally and globally. The recent rights issue, combined with access to various debt and reinsurance solutions, ensure that Discovery can pursue a growth agenda with adequate funding resources.
Ability to attract and retain Employment Equity candidates in critical leadership and technical positions	A strategic recruitment programme is in place to attract, develop, and retain employees with key skills and competencies into the business. These include graduate recruitment programmes in the information technology and actuarial fields. Discovery has a series of training and development programmes in place which develop leaders at all levels in the business.
Regulatory risk due to the high volume and velocity of regulatory change, and increasing regulatory complexity	The compliance function has established a comprehensive compliance process which involves reviewing all proposed regulatory changes to ensure that responses to these changes are embedded throughout the organisation.
Customer retention in a tough economic environment	Discovery's strategy to retain clients includes providing the best-in-class insurance products and services. Vitality provides clients with additional value through health and lifestyle benefits and product integration, which contribute to lower lapse levels. Through innovation and designing products and services which improve our client experience, Discovery is able to retain its customers.
Cybercrime and data security	Discovery has initiated various projects and initiatives to enhance system and data security measures. Discovery has also taken out "Cyber Cover" insurance to assist with recovery in the event of material cyber-security breaches.
Insurance risk, i.e. lapse, mortality, morbidity etc	Given its multiple licenced insurance entities, Discovery is considered to be an insurance Group and is exposed to material insurance risk, both in the life and non-life sectors. This risk is managed by ensuring that the underwriting risk policies for each of the licenced insurance entities are robust and embedded in the business; ensuring that adequate re-insurance arrangements are in place, using skilled actuarial resources to understand the risks associated with the insurance businesses, and ensuring that each insurance business attains sufficient scale to effectively diversify the insurance risks underwritten.
Business disruption	Discovery faces the risk of business disruption due to a variety of causes, including natural and man-made events, and accidental or wilful damage. Discovery has extensive business continuity and disaster recovery plans in place, which are regularly tested. Mitigating actions include a variety of fully-equipped alternative worksites, independent power supplies, Uninterruptable Power Supply (UPS) technology and full parallel systems failover capabilities.
Cross-company integration risk	Discovery is an organisation which is constantly innovating new products and making changes to current products and services offered. As most of these products are designed with integrated benefits, when changes are made, various entities are impacted. To mitigate this risk, Discovery has initiated numerous projects, processes and procedures to ensure the accuracy of premium calculations, client data and claims payments.

Risk Review continued

Solvency Assessment and Management (SAM) and Solvency II

Work continues towards preparing for full compliance with the requirements of SAM and Solvency II, with the majority of requirements already being met through existing business processes. Discovery is confident of being fully compliant with both SAM and Solvency II prior to the respective effective dates in 2016. Significant progress has been made over the year which includes the following:

Policies and frameworks

To ensure compliance with the requirements specified in Board Notice 158 relating to the Governance and Risk Management Framework, Discovery performed a review and refinement of all policies and frameworks to meet the specified requirements. These Policies and Frameworks were approved by the Board in April 2015.

Risk management processes

A review of the risk management system was performed and we initiated various developments to enhance the risk management process. These include:

- Developing a comprehensive Enterprise Risk Management Framework, which was approved by the Risk and Compliance Committee in April 2015.
- Developing and implementing standardised risk management guidelines which support the ERM framework.
- Establishing dedicated first-line risk officers for various entities within the group.
- Approval of an updated Risk Management plan which is monitored by the Risk and Compliance Committee.

Risk appetite

A review was performed of the risk appetite statements for Discovery Life and Discovery Insure during the reporting period. These Risk Appetite statements were approved by the relevant entity Boards, as well as the Discovery Limited Board. To improve the risk appetite monitoring and reporting process, the Risk Management function, in collaboration with the various entities, developed robust risk appetite models, supported by a comprehensive set of Key Risk Indicators. These models are used to measure the risk appetite metrics embedded in each of the entities. The following improvements were established:

- The operational risks for the insurance entities were remodeled.
- The economic capital model and framework were re-assessed.
- Robust processes and procedures to monitor performance against the risk limits and tolerances were implemented.

Comprehensive parallel run

As part of the SAM implementation, insurers were requested to conduct a Comprehensive Parallel Run (CPR) exercise. The purpose of the CPR was to allow insurers and the FSB to establish and test resources, processes and systems ahead of the full SAM implementation in 2016. Discovery and its regulated insurance entities, Discovery Life and Discovery Insure, were required to submit either quarterly or half-yearly and annual quantitative reporting templates, as well as conduct and report on the mock Own Risk and Solvency Assessment (ORSA).

The ORSA is defined as the processes and procedures employed to identify, assess, monitor, manage and report on the short- and long-term risks that Discovery faces or may face, as well as determine the capital resources and funding resources necessary to ensure that the overall solvency and funding needs are met at all times. The ORSA aims to enhance awareness of the inter-relationships between the risks to which Discovery is exposed, or may face in the long term, as well as the internal capital needs that follow from this risk exposure.

For the mock ORSA exercise, ORSA reports were produced for Discovery Life, Discovery Insure and Discovery Limited. The ORSA reports include detailed commentary on the risk profile for each entity, the stress and scenario test results, the reverse stress test results, capital projections, as well as commentary on the risk management system. A robust review and challenge process was conducted on the draft reports by the various governance structures across the organisation. These reports were submitted to the regulator in August 2015.

All other quantitative reporting templates were completed within the required timelines and the process is now largely embedded in the business.

Focus areas during 2016

To improve the current risk management system and processes, the forward-looking plan for the Group Risk Management function includes the following activities:

- Ensure that the risk appetite statements are embedded throughout the Group, supported by appropriate risk limits and triggers for all risk types.
- Enhance the ERM capability through various system developments and enhancements, as well as risk training and awareness sessions across the organisation.
- Institute first-line risk management roles for the remaining entities in the Group.
- Implement a suite of continuous risk monitoring tools.
- Complete preparations for full SAM and Solvency II compliance.

Audited and Abridged Annual Financial Statements

Statement of financial position
at 30 June 2015

R million	Group 2015 Audited	Group 2014 Audited
ASSETS		
Assets arising from insurance contracts	**21 726**	17 999
Property and equipment	**727**	666
Intangible assets including deferred acquisition costs	**2 526**	2 344
Goodwill	**2 375**	2 239
Investment in associates	**505**	551
Financial assets		
– Available-for-sale investments	**9 454**	7 578
– Investments at fair value through profit or loss	**40 132**	32 753
– Derivatives	**825**	588
– Loans and receivables including insurance receivables	**3 884**	3 110
Deferred income tax	**690**	406
Current income tax asset	**5**	46
Reinsurance contracts	**362**	266
Cash and cash equivalents	**6 251**	3 650
Total assets	**89 462**	72 196
EQUITY		
Capital and reserves		
Ordinary share capital and share premium	**7 488**	2 582
Perpetual preference share capital	**779**	779
Other reserves	**2 024**	1 501
Retained earnings	**17 065**	12 549
	27 356	17 411
Non-controlling interest	**–**	–
Total equity	**27 356**	17 411
LIABILITIES		
Liabilities arising from insurance contracts	**30 818**	25 797
Liabilities arising from reinsurance contracts	**3 827**	2 247
Financial liabilities		
– Puttable non-controlling interests	**–**	4 494
– Negative reserve funding	**5 437**	4 684
– Borrowings at amortised cost	**954**	572
– Investment contracts at fair value through profit or loss	**10 059**	8 264
– Derivatives	**7**	10
– Trade and other payables	**5 506**	3 752
Deferred income tax	**5 077**	4 647
Deferred revenue	**192**	157
Employee benefits	**152**	154
Current income tax liability	**77**	7
Total liabilities	**62 106**	54 785
Total equity and liabilities	**89 462**	72 196

Income statement

for the year ended 30 June 2015

R million	Group 2015 Audited	Group 2014 Audited	% change
Insurance premium revenue	**27 694**	23 090	
Reinsurance premiums	**(3 113)**	(2 182)	
Net insurance premium revenue	**24 581**	20 908	
Fee income from administration business	**6 630**	5 863	
Vitality income	**3 029**	2 492	
Receipt arising from reinsurance contracts	**1 250**	–	
Investment income	**507**	414	
– investment income earned on shareholder investments and cash	**188**	152	
– investment income earned on assets backing policyholder liabilities	**319**	262	
Net realised gains on available-for-sale financial assets	**188**	231	
Net fair value gains on financial assets at fair value through profit or loss	**3 124**	4 278	
Net income	**39 309**	34 186	
Claims and policyholders' benefits	**(15 805)**	(11 718)	
Insurance claims recovered from reinsurers	**2 503**	1 809	
Net claims and policyholders' benefits	**(13 302)**	(9 909)	
Acquisition costs	**(5 294)**	(4 296)	
Marketing and administration expenses	**(12 251)**	(10 146)	
Amortisation of intangibles from business combinations	**(227)**	(187)	
Recovery of expenses from reinsurers	**447**	360	
Transfer from assets/liabilities under insurance contracts	**(2 541)**	(3 726)	
– change in assets arising from insurance contracts	**3 278**	2 816	
– change in assets arising from reinsurance contracts	**81**	15	
– change in liabilities arising from insurance contracts	**(4 320)**	(5 810)	
– change in liabilities arising from reinsurance contracts	**(1 580)**	(747)	
Fair value adjustment to liabilities under investment contracts	**(912)**	(1 224)	
Profit from operations	**5 229**	5 058	
Puttable non-controlling interest fair value adjustment	**1 661**	(201)	
Finance costs	**(197)**	(220)	
– finance costs raised on puttable non-controlling interest financial liability	**(64)**	(157)	
– other finance costs	**(133)**	(63)	
Foreign exchange gains	**40**	18	
Realised gain from the sale of associate	**7**	–	
Share of net profits/(losses) from equity accounted investments	**26**	(14)	
Profit before tax	**6 766**	4 641	46
Income tax expense	**(1 214)**	(1 327)	9
Profit for the year	**5 552**	3 314	68
Profit attributable to:			
– ordinary shareholders	**5 480**	3 246	69
– preference shareholders	**72**	68	
– non-controlling interest	**–**	–	
	5 552	3 314	68
Earnings per share for profit attributable to ordinary shareholders of the company during the year (cents):			
– basic*	**914.8**	558.7	64
– diluted*	**902.2**	545.1	66

* *The prior year's earnings per share has been restated*

Statement of comprehensive income
for the year ended 30 June 2015

R million	Group 2015 Audited	Group 2014 Audited	% change
Profit for the year	**5 552**	3 314	
Items that are or may be reclassified subsequently to profit or loss:			
Change in available-for-sale financial assets	**(92)**	(3)	
– unrealised gains	**72**	272	
– capital gains tax on unrealised gains	**(11)**	(87)	
– realised gains transferred to profit or loss	**(188)**	(231)	
– capital gains tax on realised gains	**35**	43	
Currency translation differences	**492**	256	
– unrealised gains	**504**	285	
– deferred tax on unrealised gains	**(12)**	(29)	
Cash flow hedges	**58**	(32)	
– unrealised gains	**143**	51	
– tax on unrealised gains	**(23)**	(9)	
– current tax on unrealised gains	**–**	4	
– gains recycled to profit or loss	**(75)**	(87)	
– tax on recycled gains	**13**	9	
Share of other comprehensive income from equity accounted investments	**65**	27	
– change in available-for-sale financial assets	**13**	(*)	
– currency translation differences	**52**	27	
Other comprehensive income for the year, net of tax	**523**	248	
Total comprehensive income for the year	**6 075**	3 562	71
Attributable to:			
– ordinary shareholders	**6 003**	3 494	72
– preference shareholders	**72**	68	
– non-controlling interest	**–**	–	
Total comprehensive income for the year	**6 075**	3 562	71

* *Amount is less than R500 000*

Headline earnings
for the year ended 30 June 2015

R million	Group 2015 Audited	Group 2014 Audited and restated	% change
Normalised headline earnings per share (cents):			
– undiluted	**672.2**	594.8	13
– diluted	**663.0**	580.2	14
Headline earnings per share (cents):			
– undiluted	**882.4**	527.4	67
– diluted	**870.2**	514.5	69
The reconciliation between earnings and headline earnings is shown below:			
Net profit attributable to ordinary shareholders	**5 480**	3 246	
Adjusted for:			
– realised gains on available-for-sale financial assets net of CGT	**(153)**	(188)	
– realised gain from sale of associate including deferred tax reversal	**(42)**	–	
– impairment of property and equipment	**–**	3	
– impairment of intangible assets	**–**	3	
Headline earnings	**5 285**	3 064	72
– accrual of dividends payable to preference shareholders	**(1)**	–	
– amortisation of intangibles from business combinations net of deferred tax	**170**	116	
– costs relating to the AIA restructure	**87**	–	
– deferred tax asset recognised on VitalityHealth assessed losses	**(295)**	–	
– fair value adjustment to puttable non-controlling interest financial liability	**(1 661)**	201	
– finance costs raised on puttable non-controlling interest financial liability	**64**	157	
– non-controlling interest allocation if no put options	**(42)**	(81)	
– rebranding and business acquisitions expenses	**420**	–	
Normalised headline earnings	**4 027**	3 457	16
Weighted number of shares in issue (000's)	**598 946**	581 123	
Diluted weighted number of shares (000's)	**607 290**	595 699	

Statement of changes in equity

for the year ended 30 June 2015

R million	Attributable to equity holders of the Company: Share capital and share premium	Preference share capital	Share-based payment reserve
Year ended 30 June 2015			
At beginning of year	**2 582**	**779**	**319**
Total comprehensive income for the year	**–**	**72**	**–**
Profit for the year	**–**	**72**	**–**
Other comprehensive income	**–**	**–**	**–**
Transactions with owners	**4 906**	**(72)**	**–**
Proceeds from rights-issue	**5 000**	**–**	**–**
Rights-issue costs	**(94)**	**–**	**–**
Delivery of treasury shares	*****	**–**	**–**
Dividends paid to preference shareholders	**–**	**(72)**	**–**
Dividends paid to ordinary shareholders	**–**	**–**	**–**
At end of year	**7 488**	**779**	**319**
Year ended 30 June 2014			
At beginning of year	1 470	779	319
Total comprehensive income for the year	–	68	–
Profit for the year	–	68	–
Other comprehensive income	–	–	–
Transactions with owners	1 112	(68)	–
Share buy-back[2]	*	–	–
Share issue	1 030	–	–
Share issue costs	(2)	–	–
Increase in treasury shares	(22)	–	–
Delivery of treasury shares	105	–	–
Proceeds from treasury shares	1	–	–
Non-controlling interest share issues	–	–	–
Non-controlling interest share buy-backs	–	–	–
Dividends paid to preference shareholders	–	(68)	–
Dividends paid to ordinary shareholders	–	–	–
At end of year	2 582	779	319

1 This relates to the fair value adjustments of available-for-sale financial assets
2 Amount is R12 441
** Amount is less than R500 000*

Attributable to equity holders of the Company						
Available-for-sale investments[1]	Translation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total
250	**829**	**103**	**12 549**	**17 411**	**–**	**17 411**
(79)	**544**	**58**	**5 480**	**6 075**	**–**	**6 075**
–	**–**	**–**	**5 480**	**5 552**	**–**	**5 552**
(79)	**544**	**58**	**–**	**523**	**–**	**523**
–	**–**	**–**	**(964)**	**3 870**	**–**	**3 870**
–	**–**	**–**	**–**	**5 000**	**–**	**5 000**
–	**–**	**–**	**–**	**(94)**	**–**	**(94)**
–	**–**	**–**	**–**	*****	**–**	*****
–	**–**	**–**	**–**	**(72)**	**–**	**(72)**
–	**–**	**–**	**(964)**	**(964)**	**–**	**(964)**
171	**1 373**	**161**	**17 065**	**27 356**	**–**	**27 356**
253	546	135	10 204	13 706	2	13 708
(3)	283	(32)	3 246	3 562	–	3 562
–	–	–	3 246	3 314	–	3 314
(3)	283	(32)	–	248	–	248
–	–	–	(901)	143	(2)	141
–	–	–	–	*	–	*
–	–	–	–	1 030	–	1 030
–	–	–	–	(2)	–	(2)
–	–	–	14	(8)	–	(8)
–	–	–	(105)	–	–	–
–	–	–	–	1	–	1
–	–	–	–	–	1	1
–	–	–	–	–	(3)	(3)
–	–	–	–	(68)	–	(68)
–	–	–	(810)	(810)	–	(810)
250	829	103	12 549	17 411	–	17 411

Statement of cash flows

for the year ended 30 June 2015

R million	Group 2015 Audited	Group 2014 Audited
Cash flow from operating activities	**3 415**	2 813
Cash generated by operations	**5 340**	6 424
Receipt arising from reinsurance contracts	**1 250**	–
Net purchase of investments held to back policyholder liabilities	**(5 232)**	(6 036)
Working capital changes	**1 711**	1 988
	3 069	2 376
Dividends received	**499**	362
Interest received	**923**	802
Interest paid	**(131)**	(63)
Taxation paid	**(945)**	(664)
Cash flow from investing activities	**(2 229)**	(1 102)
Net purchase of financial assets	**(1 656)**	(228)
Purchase of property and equipment	**(172)**	(208)
Proceeds from the sale of property and equipment	**7**	–
Purchase of intangible assets	**(559)**	(539)
Proceeds from the sale of intangible assets	**9**	27
Increase in investment in associate	**(59)**	(133)
Disposal of investment in associate	**201**	–
Purchase of businesses	**–**	(21)
Cash flow from financing activities	**1 485**	(176)
Proceeds from rights-issue	**5 000**	–
Rights-issue costs	**(94)**	–
Proceeds from issuance of ordinary shares	**–**	1 032
Proceeds from issuance of preference shares	**–**	45
Share buy-back	**–**	*
Share issue costs	**–**	(2)
Dividends paid to ordinary shareholders	**(964)**	(810)
Dividends paid to preference shareholders	**(72)**	(68)
Non-controlling interest share buy-backs	**–**	(3)
Settlement of puttable non-controlling interest liability	**(2 844)**	(352)
Increase in borrowings	**1 992**	–
Repayment of borrowings	**(1 533)**	(18)
Net increase in cash and cash equivalents	**2 671**	1 535
Cash and cash equivalents at beginning of year	**3 520**	1 887
Exchange gains on cash and cash equivalents	**60**	98
Cash and cash equivalents at end of year	**6 251**	3 520
Reconciliation to statement of financial position		
Cash and cash equivalents	**6 251**	3 650
Bank overdraft included in borrowings at amortised cost	**–**	(130)
Cash and cash equivalents at end of year	**6 251**	3 520

* *Amount is R12 441*

Additional information
at 30 June 2015

FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

	30 June 2015			
R million (audited)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss:				
– Equity securities	10 584	–	–	10 584
– Equity linked notes	–	2 576	–	2 576
– Debt securities	6 947	605	–	7 552
– Inflation linked securities	218	–	–	218
– Money market securities	157	1 013	–	1 170
– Mutual funds	18 032	–	–	18 032
Available-for-sale financial instruments:				
– Equity securities	65	–	–	65
– Equity linked notes	–	19	–	19
– Debt securities	66	466	–	532
– Money market securities	152	840	–	992
– Mutual funds	7 846	–	–	7 846
Derivative financial instruments at fair value:				
– Hedges	–	824	–	824
– Non-hedges	–	1	–	1
	44 067	6 344	–	50 411
Financial liabilities				
Derivative financial instruments at fair value:				
– Hedges	–	4	–	4
– Non-hedges	–	3	–	3
	–	7	–	7

Additional information continued
at 30 June 2015

	30 June 2014			
R million (audited)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss:				
– Equity securities	9 157	–	–	9 157
– Equity linked notes	–	1 612	–	1 612
– Debt securities	5 111	675	–	5 786
– Inflation linked securities	189	–	–	189
– Money market securities	344	743	–	1 087
– Mutual funds	14 922	–	–	14 922
Available-for-sale financial instruments:				
– Equity securities	96	–	–	96
– Equity linked notes	–	42	–	42
– Debt securities	714	428	–	1 142
– Inflation linked securities	75	–	–	75
– Money market securities	272	865	–	1 137
– Mutual funds	5 086	–	–	5 086
Derivative financial instruments at fair value:				
– Hedges	–	585	–	585
– Non-hedges	–	3	–	3
	35 966	4 953	–	40 919
Financial liabilities				
Puttable non-controlling interests	–	–	4 494	4 494
Derivative financial instruments at fair value:				
– Hedges	–	3	–	3
– Non-hedges	–	7	–	7
	–	10	4 494	4 504

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

Included in level 3 is the Puttable non-controlling interest liability. For a detailed description of the valuation of this liability, refer to note 4.5 in the 30 June 2015 Annual Financial Statements.

Specific valuation techniques used to value financial instruments in level 2

- Discovery 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 has procedures in place to ensure that these prices are correct. Aside from the daily reasonableness checks versus similar funds and movement since the prior day's price, the fund values are calculated with reference to a specific formula or index, disclosed to the policyholders, which is recalculated by Discovery in order to check if the price provided by the provider is correct.
- 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 by the issuers of those instruments, as follows:
  - (a) The fair value of call options is calculated on a Black-Scholes model.
  - (b) The fair value of the return swaps is calculated by discounting the future cash flows of the instruments.
  - (c) The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

EXCHANGE RATES USED IN THE PREPARATION OF THESE RESULTS

	USD	GBP
30 June 2015		
– Average	**11.49**	**18.04**
– Closing	**12.18**	**19.19**
30 June 2014		
– Average	10.43	17.06
– Closing	10.63	18.17

Segmental information
for the year ended 30 June 2015

R million	SA Health	SA Life	SA Invest	SA Vitality
Income statement				
Insurance premium revenue	16	9 711	7 821	–
Reinsurance premiums	(2)	(1 579)	–	–
Net insurance premium revenue	14	8 132	7 821	–
Fee income from administration business	4 881	248	1 106	–
Vitality income	–	–	–	2 051
Receipt arising from reinsurance contracts	–	1 250	–	–
Investment income on assets backing policyholder liabilities	–	240	3	–
Finance charge on negative reserve funding	–	–	–	–
Inter-segment funding[1]	–	(457)	457	–
Net fair value gains on financial assets at fair value through profit or loss	–	688	1 680	–
Net income	4 895	10 101	11 067	2 051
Claims and policyholders' benefits	(1)	(5 173)	(5 296)	–
Insurance claims recovered from reinsurers	1	1 226	–	–
Net claims and policyholders' benefits	–	(3 947)	(5 296)	–
Acquisition costs	(5)	(1 606)	(713)	(64)
Marketing and administration expenses				
– depreciation and amortisation	(211)	(28)	–	–
– other expenses	(2 648)	(1 490)	(430)	(1 945)
Recovery of expenses from reinsurers	–	–	–	–
Transfer from assets/liabilities under insurance contracts				
– change in assets arising from insurance contracts	–	1 526	–	–
– change in assets arising from reinsurance contracts	–	(8)	–	–
– change in liabilities arising from insurance contracts	–	3	(4 015)	–
– change in liabilities arising from reinsurance contracts	–	(1 580)	–	–
Fair value adjustment to liabilities under investment contracts	–	(3)	(153)	–
Share of net profits from equity accounted investments	–	–	–	–
Normalised profit/(loss) from operations	2 031	2 968	460	42
Investment income earned on shareholder investments and cash	67	33	15	9
Net realised gains on available-for-sale financial assets	–	187	1	–
Rebranding and business acquisitions expenses	–	–	–	–
Costs relating to AIA restructure	–	–	–	–
Amortisation of intangibles from business combinations	–	–	–	–
Puttable non-controlling interest fair value adjustment	–	–	–	–
Finance costs	(29)	(7)	–	–
Foreign exchange gains/(losses)	–	1	4	–
Realised gain from sale of associate	–	–	–	–
Profit before tax	2 069	3 182	480	51
Income tax expense	(595)	(877)	(132)	(15)
Profit for the year	1 474	2 305	348	36

1 *The inter-segment funding of R457 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	New business development	All other segments	Segment total	UK Life[2]	DUT[3]	Normalised profit adjustments[4]	IFRS total
6 958	2 629	1 102	–	28 237	(543)	–	–	27 694
(1 314)	(543)	(218)	–	(3 656)	543	–	–	(3 113)
5 644	2 086	884	–	24 581	–	–	–	24 581
97	–	298	–	6 630	–	–	–	6 630
323	25	630	–	3 029	–	–	–	3 029
–	–	–	–	1 250	–	–	–	1 250
50	–	26	–	319	–	–	(319)	–
–	(314)	–	–	(314)	314	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	2 368	–	756	–	3 124
6 114	1 797	1 838	–	37 863	314	756	(319)	38 614
(4 393)	(471)	(715)	–	(16 049)	244	–	–	(15 805)
1 140	244	136	–	2 747	(244)	–	–	2 503
(3 253)	(227)	(579)	–	(13 302)	–	–	–	(13 302)
(535)	(1 914)	(143)	–	(4 980)	(314)	–	–	(5 294)
(107)	–	(66)	(1)	(413)	–	–	–	(413)
(2 125)	(860)	(1 598)	(59)	(11 155)	(176)	–	–	(11 331)
316	–	131	–	447	–	–	–	447
–	10	–	–	1 536	1 742	–	–	3 278
89	7	–	–	88	(7)	–	–	81
(276)	(13)	(26)	–	(4 327)	7	–	–	(4 320)
–	1 742	–	–	162	(1 742)	–	–	(1 580)
–	–	–	–	(156)	–	(756)	–	(912)
–	–	26	–	26	–	–	–	26
223	542	(417)	(60)	5 789	(176)	–	(319)	5 294
6	–	17	41	188	–	–	319	507
–	–	–	–	188	–	–	–	188
(366)	–	–	(54)	(420)	–	–	–	(420)
–	–	(87)	–	(87)	–	–	–	(87)
–	–	–	(227)	(227)	–	–	–	(227)
–	–	–	1 661	1 661	–	–	–	1 661
(4)	–	(2)	(155)	(197)	–	–	–	(197)
(23)	–	19	39	40	–	–	–	40
–	–	7	–	7	–	–	–	7
(164)	542	(463)	1 245	6 942	(176)	–	–	6 766
295	(176)	88	22	(1 390)	176	–	–	(1 214)
131	366	(375)	1 267	5 552	–	–	–	5 552

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:

2 *The VitalityLife results are reclassified to account for the contractual arrangement as a reinsurance contract under IFRS 4.*

3 *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.*

4 *Investment income on assets backing policyholder liabilities is included as part of the normalised profit from operations in the segmental disclosure, but is included together with shareholder investment income for IFRS purposes.*

Segmental information continued

for the year ended 30 June 2014

R million	SA Health	SA Life	SA Invest	SA Vitality
Income statement				
Insurance premium revenue	16	8 522	6 336	–
Reinsurance premiums	(2)	(1 186)	–	–
Net insurance premium revenue	14	7 336	6 336	–
Fee income from administration business	4 453	204	837	–
Guarantee received from HumanaVitality	–	–	–	–
Vitality income	–	–	–	1 886
Investment income on assets backing policyholder liabilities	–	204	–	–
Finance charge on negative reserve funding	–	–	–	–
Inter-segment funding[1]	–	(448)	448	–
Net fair value gains on financial assets at fair value through profit or loss	–	1 010	2 382	–
Net income	4 467	8 306	10 003	1 886
Claims and policyholders' benefits	(2)	(4 139)	(2 718)	–
Insurance claims recovered from reinsurers	–	896	–	–
Net claims and policyholders' benefits	(2)	(3 243)	(2 718)	–
Acquisition costs	–	(1 434)	(541)	(67)
Marketing and administration expenses				
– depreciation and amortisation	(183)	(31)	–	–
– other expenses	(2 428)	(1 385)	(328)	(1 781)
Recovery of expenses from reinsurers	–	–	–	–
Transfer from assets/liabilities under insurance contracts				
– change in assets arising from insurance contracts	–	1 156	–	–
– change in assets arising from reinsurance contracts	–	9	–	–
– change in liabilities arising from insurance contracts	–	(35)	(5 752)	–
– change in liabilities arising from reinsurance contracts	–	(747)	–	–
Fair value adjustment to liabilities under investment contracts	–	(5)	(333)	–
Share of net losses from equity accounted investments	–	–	–	–
Normalised profit/(loss) from operations	1 854	2 591	331	38
Investment income earned on shareholder investments and cash	32	39	16	7
Net realised gains on available-for-sale financial assets	–	228	2	–
Amortisation of intangibles from business combinations	–	–	–	–
Puttable non-controlling interest fair value adjustment	–	–	–	–
Finance costs	(22)	–	–	–
Foreign exchange gains/(losses)	–	–	5	–
Profit before tax	1 864	2 858	354	45
Income tax expense	(523)	(760)	(97)	(13)
Profit for the year	1 341	2 098	257	32

1 The inter-segment funding of R448 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.

UK Health	UK Life	New business development	All other segments	Segment total	IFRS reporting adjustments UK Life[2]	DUT[3]	Normalised profit adjustments[4]	IFRS total
6 259	1 920	603	–	23 656	(566)	–	–	23 090
(925)	(566)	(69)	–	(2 748)	566	–	–	(2 182)
5 334	1 354	534	–	20 908	–	–	–	20 908
94	–	265	–	5 853	–	–	10	5 863
–	–	10	–	10	–	–	(10)	–
215	–	391	–	2 492	–	–	–	2 492
47	–	11	–	262	–	–	(262)	–
–	(202)	–	–	(202)	202	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	3 392	–	886	–	4 278
5 690	1 152	1 211	–	32 715	202	886	(262)	33 541
(4 263)	(455)	(415)	–	(11 992)	274	–	–	(11 718)
852	274	61	–	2 083	(274)	–	–	1 809
(3 411)	(181)	(354)	–	(9 909)	–	–	–	(9 909)
(503)	(1 458)	(91)	–	(4 094)	(202)	–	–	(4 296)
(38)	–	(40)	(1)	(293)	–	–	–	(293)
(1 834)	(745)	(1 172)	(66)	(9 739)	(114)	–	–	(9 853)
292	–	68	–	360	–	–	–	360
–	388	–	–	1 544	1 272	–	–	2 816
6	5	–	–	20	(5)	–	–	15
–	(7)	(21)	–	(5 815)	5	–	–	(5 810)
–	1 272	–	–	525	(1 272)	–	–	(747)
–	–	–	–	(338)	–	(886)	–	(1 224)
–	–	(14)	–	(14)	–	–	–	(14)
202	426	(413)	(67)	4 962	(114)	–	(262)	4 586
5	–	14	39	152	–	–	262	414
–	–	–	1	231	–	–	–	231
–	–	–	(187)	(187)	–	–	–	(187)
–	–	–	(201)	(201)	–	–	–	(201)
(2)	(2)	–	(196)	(222)	2	–	–	(220)
(55)	–	–	68	18	–	–	–	18
150	424	(399)	(543)	4 753	(112)	–	–	4 641
2	(112)	25	39	(1 439)	112	–	–	(1 327)
152	312	(374)	(504)	3 314	–	–	–	3 314

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:

2 The VitalityLife results are reclassified to account for the contractual arrangement as a reinsurance contract under IFRS 4.

3 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.

4 Investment income on assets backing policyholder liabilities is included as part of the normalised profit from operations in the segmental disclosure, but is included together with shareholder investment income for IFRS purposes.

Review of Group results

for the year ended 30 June 2015

NEW BUSINESS ANNUALISED PREMIUM INCOME

New business annualised premium income increased 51% for the year ended 30 June 2015 when compared to the same period in the prior year.

R million	June 2015	June 2014	% change
Discovery Health – DHMS	**4 442**	3 952	12
Discovery Health – Closed Schemes[1]	**5 156**	1 048	392
Discovery Life	**2 231**	2 013	11
Discovery Invest	**1 646**	1 396	18
Discovery Insure	**789**	632	25
Discovery Vitality	**223**	206	8
VitalityHealth[2]	**814**	953	(15)
VitalityLife	**1 079**	883	22
The Vitality Group	**161**	164	(2)
Ping An Health	**991**	339	192
New business API of Group	**17 532**	11 586	51

1 New business API for June 2015 includes R4,2 billion in respect of the Bankmed Medical Scheme administration and managed care services contract.
2 The comparative for VitalityHealth has been reduced by R293 million to exclude the new joiners as this has not been included in the 2015 number. New joiners are additional members to existing employer groups.
3 Due to the sale of the HumanaVitality associate in November 2014, R317 million new business API in respect of this associate has been excluded from the comparative number.

New business API is calculated at 12 times the monthly premium for new recurring premium policies and 10% of the value of new single premium policies. It also includes both automatic premium increases and servicing increases on existing policies. For The Vitality Group and Ping An Health, new business API is calculated based on the date of policy inception.

GROSS INFLOWS UNDER MANAGEMENT

Gross inflows under management measures the total funds collected by Discovery and is an accurate measure of the growth of Discovery. Gross inflows under management increased 15% for the year ended 30 June 2015 when compared to the same period in the prior year.

R million	June 2015	June 2014	% change
Discovery Health	**51 891**	46 395	12
Discovery Life	**9 959**	8 726	14
Discovery Invest	**13 520**	11 249	20
Discovery Insure	**1 118**	610	83
Discovery Vitality	**2 051**	1 886	9
VitalityHealth	**7 378**	6 568	12
VitalityLife	**2 654**	1 920	38
The Vitality Group	**634**	402	58
Other partner markets	**278**	257	8
Gross inflows under management	**89 483**	78 013	15
Less: collected on behalf of third parties	**(51 587)**	(46 002)	12
Discovery Health	**(46 994)**	(41 926)	12
Discovery Invest	**(4 593)**	(4 076)	13
Gross income of Group per the segmental information	**37 896**	32 011	18
Gross income is made up as follows:			
– Insurance premium revenue	**28 237**	23 656	19
– Fee income from administration business	**6 630**	5 853	13
– Vitality income	**3 029**	2 492	22
– Guarantee received from HumanaVitality	**–**	10	
Gross income of Group per the segmental information	**37 896**	32 011	18

NORMALISED PROFIT FROM OPERATIONS

The following table shows the main components of the normalised profit from operations for the year ended 30 June 2015:

R million	June 2015	June 2014	% change
Discovery Health	**2 031**	1 854	10
Discovery Life	**2 968**	2 591	15
Discovery Invest	**460**	331	39
Discovery Vitality	**42**	38	11
VitalityHealth	**223**	202	10
VitalityLife	**542**	426	27
Normalised profit from established businesses	**6 266**	5 442	15
Development and other segments	**(477)**	(480)	–
Normalised profit from operations	**5 789**	4 962	17

SIGNIFICANT TRANSACTIONS AFFECTING THE CURRENT RESULTS

Discovery acquired Prudential's remaining 25% shareholding in the UK joint venture

In November 2014, Prudential Assurance Company (Prudential) agreed to sell its remaining 25% shareholding in Prudential Health Holdings Limited (PHHL) to Discovery Limited for GBP 155 million (R2 790 million). The note entitled 'Put options in subsidiaries' gives a detailed description of the impact of this transaction.

This acquisition was primarily funded as follows:
- Bridging debt was raised by Discovery Limited for R1.5 billion. This debt was repaid before 30 June 2015.
- Discovery Life Limited entered into a financial reinsurance treaty resulting in a cash inflow of R1 250 million. This treaty effectively reinsures approximately 8% of the negative reserve at 31 December 2014. The inflow has been disclosed as a receipt arising from reinsurance contracts and transfer to liabilities arising from reinsurance contracts in profit or loss.

Following the purchase of the remaining 25% in PHHL, the products being offered in the UK-market have been rebranded. PruHealth and PruProtect have been rebranded as VitalityHealth and VitalityLife respectively. These rebranding costs, as well as other once-off costs relating to the acquisition totalled R420 million in the year ended 30 June 2015 and have been excluded from normalised headline earnings.

HumanaVitality partnership concluded

In November 2014, the HumanaVitality partnership concluded. This resulted in the following transactions:

- Humana paid The Vitality Group (TVG) USD 10 million for its initial investment and a further USD 9 million of accrued profits (totalling R201 million) to purchase TVG's 25% shareholding in HumanaVitality. This resulted in a profit from the sale of the associate of R7 million being recognised in profit or loss. A deferred tax liability raised upon recognition of the associate of R35 million has also been released to income tax in the Income Statement. Both these values have been excluded from headline earnings and normalised headline earnings.
- TVG Inc. paid Humana USD 5 million (R54 million) to purchase Humana's 25% shareholding in TVG LLC. The note entitled 'Put options in subsidiaries' gives a detailed description of the impact of this transaction.

AIA joint venture restructure

During the year the joint venture arrangement with AIA was restructured effectively moving from a profit share arrangement to a fee based arrangement. Discovery will now earn fees based on new business written. This resulted in the unwind of the AIA joint venture entity and Discovery realising a loss of R87 million of the accumulated losses. This expense has been included in headline earnings but excluded from normalised headline earnings.

Review of Group results continued

for the year ended 30 June 2015

Put options in subsidiaries

During the 2011 financial year, put options were granted to the non-controlling interests of two of Discovery's subsidiaries, entitling the non-controlling interests to sell their interests in the subsidiaries to Discovery at contracted dates at fair value. In accordance with IAS 32, Discovery recognised the fair value of the non-controlling interest, being the present value of the estimated purchase price, as a financial liability in the Statement of Financial Position (Puttable non-controlling interests).

In November 2014, both these put options lapsed, with the purchase by Discovery of the following:
- Prudential's remaining 25% shareholding in PHHL for GBP 155 million (R2 790 million).
- Humana's 25% shareholding in TVG LLC for USD 5 million (R54 million).

The excess between the carrying amount of the puttable non-controlling interest financial liability and the consideration paid, has been recognised in profit or loss as a puttable non-controlling interest fair value adjustment. This profit has been included in headline earnings but reversed when calculating normalised headline earnings.

The aggregate effects of the put options exercised are as follows:

R million	Total
Value of puttable non-controlling interests at 1 July 2014	**4 494**
Finance costs recognised in profit or loss	**64**
Subsidiary purchases	**(2 844)**
Fair value adjustments recognised in profit or loss	**(1 661)**
Net exchange differences arising during the year allocated to the translation reserve	**(53)**
Value of puttable non-controlling interests at 30 June 2015	**–**

Rights-issue

As discussed on page 13 of this Report, Discovery raised capital by way of an underwritten renounceable rights issue. This resulted in an increase in capital of R5 billion. Costs of R94 million were incurred in respect of the rights issue and has been written-off against share premium. Shares in issue have increased by 55 555 556 shares to 647 427 946 shares.

When ordinary shares are issued at a discount to the market price, IAS 33 (Earnings per Share) requires that the discount is treated as a bonus given to the shareholders in the form of shares for no consideration and this "bonus" element must be separately taken into account in calculating the weighted average number of shares. Further IAS 33 requires that the "bonus" shares must be added to the previous period in order to reflect the bonus element in the rights issue. This has resulted in a restatement of the prior year's earnings per share calculations for the "bonus" element of 16 065 241 shares.

Cents per share	30 June 2014 Previously reported	30 June 2014 Restated
Weighted number of shares in issue	565 471 445	581 122 914
Diluted weighted number of shares	580 047 142	595 698 611
Earnings per share		
– basic	574.2	558.7
– diluted	559.8	545.1
Headline earnings per share		
– undiluted	542.0	527.4
– diluted	528.4	514.5
Normalised headline earnings per share		
– undiluted	611.3	594.8
– diluted	595.9	580.2

OTHER SIGNIFICANT ITEMS IN THESE RESULTS

Share-based payments

Included in marketing and administration expenses, in employee costs, is R471 million (2014: R371 million) in respect of phantom shares and options granted under the employee share incentive schemes, which is expensed in accordance with the requirements of IFRS 2. Discovery has entered into transactions to hedge its exposure to changes in the Discovery share price arising from these schemes. As at 30 June 2015, approximately 91% (2014: 90.8%) of this exposure was hedged. Fair value gains of R311 million (2014: R145 million) relating to the hedge were recognised in profit or loss resulting in a net expense to Discovery of R160 million (2014: R226 million).

Taxation

For South African entities that are in a tax paying position, tax has been provided at 28% (2014: 28%) in the financial statements. No deferred tax assets have been recognised on the assessed losses in Discovery Insure and The Vitality Group.

A deferred tax asset of R295 million has been raised in respect of the VitalityHealth assessed losses. This approximates 50% of the potential deferred tax asset and is based on forecast taxable income for the next five years.

Material transactions with related parties

Discovery Health administers the Discovery Health Medical Scheme (DHMS) and provides managed care services for which it charges an administration fee and a managed healthcare fee respectively. These fees are determined on an annual basis and approved by the trustees of DHMS. The fees totalled R4 374 million for the year ended 30 June 2015 (2014: R4 046 million). Discovery offers the members of DHMS access to the Vitality programme.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss have increased by R7.4 billion due to the sale of Discovery Invest products.

Negative reserve funding

The negative reserve funding liability on Discovery's Statement of Financial Position represents the acquisition costs that are funded by Prudential on behalf of VitalityLife. The liability unwinds and is repaid on a matched basis as the cash flows emerge from the assets arising from insurance contracts. In the event that the cash flows do not emerge as anticipated, VitalityLife would be required to repay these liabilities from other resources.

The increase in the negative reserve funding liability relates to the increase in new business written by VitalityLife in the current period.

Deferred tax liability

The deferred tax liability is primarily attributable to the application of the Financial Services Board directive 145. This directive allows for the zeroing on a statutory basis of the assets arising from insurance contracts. The statutory basis is used when calculating tax payable for Discovery Life, resulting in a timing difference between the tax base and the accounting base.

SHAREHOLDER INFORMATION

Directorate

There were no changes to the Board of Discovery Limited during the current financial year.

Dividend policy and capital

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

- Preference share dividend of 465.0 cents per share, paid on 16 March 2015.
- Ordinary share dividend of 85.5 cents per share, paid on 23 March 2015.

On the statutory basis the capital adequacy requirement of Discovery Life was R557 million (2014: R522 million) and was covered 3.9 times (2014: 3.8 times).

Review of Group results continued

for the year ended 30 June 2015

B preference share cash dividend declaration:

On 27 August 2015, the directors declared a gross cash dividend of 458.699 cents (389.89415 cents net of dividend withholding tax) per B preference share for period 1 January 2015 to 30 June 2015. A dividend withholding tax of 15% will be applicable to all shareholders who are not exempt.

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

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Friday, 11 September 2015
Shares commence trading "ex" dividend	Monday, 14 September 2015
Record date	Friday, 18 September 2015
Payment date	Monday, 21 September 2015

B preference share certificates may not be dematerialised or rematerialised between Monday, 14 September 2015 and Friday, 18 September 2015, both days inclusive.

Ordinary share cash dividend declaration:

Notice is hereby given that the directors have declared a final gross cash dividend of 89.0 cents (75.65 cents net of dividend withholding tax) per ordinary share, out of income reserves for the year ended 30 June 2015. A dividend withholding tax of 15% will be applicable to all shareholders who are not exempt.

The issued ordinary share capital at the declaration date is 647 427 946 ordinary shares.

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Friday, 2 October 2015
Shares commence trading "ex" dividend	Monday, 5 October 2015
Record date	Friday, 9 October 2015
Payment date	Monday, 12 October 2015

Share certificates may not be dematerialised or rematerialised between Monday, 5 October 2015 and Friday, 9 October 2015, both days inclusive.

ACCOUNTING POLICIES

The annual financial statements have been prepared in accordance with International Financial Reporting Standards including IAS 34, as well as the South African Companies Act 71 of 2008. The accounting policies adopted are consistent with the accounting policies applied in the prior annual financial statements.

AUDIT

The consolidated financial statements are considered preliminary based on the JSE Listings Requirements and are summarised from a complete set of the Group financial statements on which the Independent Auditors, PricewaterhouseCoopers Inc., have expressed an unqualified audit opinion, which is available for inspection at the Company's registered office.

This report is extracted from audited information, but is not itself audited. The Auditor's Report does not necessarily report on all of the information contained in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the Auditor's Report together with the accompanying financial information from the Company's registered office.

The directors of Discovery take full responsibility for the preparation of this report and that the financial information has been correctly extracted from the underlying Annual Financial Statements.

A copy of the Annual Financial Statements that have been summarised in this report can be obtained from the Company's registered office.

Embedded value statement

for the year ended 30 June 2015

The embedded value of Discovery at 30 June 2015 consists of the following components:

- the free surplus attributed to the business at the valuation date;
- plus: the required capital to support the in-force covered business at the valuation date;
- plus: the present value of expected future shareholder cash flows from the in-force covered business;
- less: the cost of required capital.

The present value of future shareholder cash flows from the in-force covered business is calculated as the value of projected future after-tax shareholder cash flows of the business in force at the valuation date, discounted at the risk discount rate.

The value of new business is the present value, at the point of sale, of the projected future after-tax shareholder cash flows of the new business written by Discovery, discounted at the risk discount rate, less an allowance for the reserving strain (for Life), initial expenses and cost of required capital. The value of new business is calculated using the current reporting date assumptions.

For Life, the shareholder cash flows are based on the release of margins under the Statutory Valuation Method ("SVM") basis.

The embedded value includes the insurance and administration profits of the covered business in the Discovery Limited group. Covered business includes business written in South Africa through Discovery Life, Discovery Invest, Discovery Health and Discovery Vitality, and in the United Kingdom through VitalityLife (previously PruProtect) and VitalityHealth (previously PruHealth). For The Vitality Group (USA), Ping An Health and Discovery Insure, no published value has been placed on the current in-force business as the businesses have not yet reached suitable scale with predictable experience.

In February 2015, Discovery raised capital by way of an underwritten renounceable rights issue. This resulted in an increase in capital of R5 billion. Costs of R94 million were incurred in respect of the rights issue and has been written-off against share capital.

In November 2014, Prudential Assurance Company (Prudential) agreed to sell its remaining 25% shareholding in Prudential Health Holdings Limited (PHHL) to Discovery Limited for GBP 155 million (R2 790 million). Following the purchase of the remaining 25% in PHHL, PruHealth and PruProtect have been rebranded as VitalityHealth and VitalityLife respectively.

In November 2014, the HumanaVitality partnership concluded. As a result, Humana purchased The Vitality Group's 25% shareholding in HumanaVitality and The Vitality Group purchased Humana's 25% shareholding in TVG LLC.

During the 2011 financial year, put options were granted to the non-controlling interests of PHHL and TVG LLC, entitling the non-controlling interest to sell their interests in the subsidiaries to Discovery at contracted dates at fair value. In November 2014, both these put options lapsed, with the purchase by Discovery of the remaining 25% of PHHL and TVG LLC.

For accounting purposes, in accordance with IAS32, Discovery has included 100% of the subsidiaries' results. The fair value of the non-controlling interest, being the present value of the estimated purchase price, is recognised as a financial liability in the Statement of Financial Position (Puttable non-controlling interest). For embedded value purposes, the accounting treatment is unwound to reflect Discovery's 75% shareholding in these subsidiaries up to the date Discovery's shareholding increased to 100%.

In August 2011, Discovery raised R800 million through the issue of non-cumulative, non-participating, non-convertible preference shares. For embedded value purposes, this capital, net of share issue expenses, has been excluded from the adjusted net worth.

The auditors, PricewaterhouseCoopers Inc., have reviewed the consolidated value of in-force business and value of new business of Discovery Limited and its subsidiaries as included in the embedded value statement for the year ended 30 June 2015. A copy of the auditors' unqualified review report is available for inspection at the company's registered office.

Embedded value statement continued

for the year ended 30 June 2015

TABLE 1: GROUP EMBEDDED VALUE

R million	30 June 2015	30 June 2014	% change
Shareholders' funds	**27 356**	17 411	57
Adjustment to shareholders' funds from published basis[1]	**(17 784)**	(11 799)	
Adjusted net worth	**9 572**	5 612	
– Free surplus	**5 188**	2 311	
– Required capital[2]	**4 384**	3 301	
Value of in-force covered business before cost of required capital	**44 006**	38 368	
Cost of required capital	**(1 283)**	(930)	
Discovery Limited embedded value[3]	**52 295**	43 050	21
Number of shares (millions)	**629.0**	574.1	
Embedded value per share	**R83.14**	R74.98	11
Diluted number of shares (millions)	**646.7**	591.2	
Diluted embedded value per share[4]	**R82.29**	R74.13	11

1 *A breakdown of the adjustment to shareholders' funds is shown in the table below:*

R million	*30 June 2015*	*30 June 2014*
Life net assets under insurance contracts	*(13 208)*	*(11 691)*
VitalityHealth and VitalityHealth Insurance Limited deferred acquisition costs (net of deferred tax)	*(230)*	*(243)*
VitalityLife receivable relating to the Unemployment Cover benefit (net of deferred tax)	*(44)*	*(34)*
Goodwill and intangible assets (net of deferred tax) relating to the acquisition of Standard Life Healthcare and the Prudential joint venture	*(3 523)*	*(2 550)*
Unwind puttable non-controlling interest liability	*–*	*3 511*
Non-controlling share of profits/losses included in retained earnings	*–*	*(13)*
Net preference share capital	*(779)*	*(779)*
	(17 784)	*(11 799)*

2 *The required capital at June 2015 for Life is R1 114 million (June 2014: R1 043 million), for Health and Vitality is R642 million (June 2014: R614 million), for VitalityHealth and VitalityHealth Insurance Limited is R1 693 million (June 2014: R1 154 million) and for VitalityLife is R935 million (June 2014: R490 million). For Life, the required capital was set equal to two times the statutory Capital Adequacy Requirement ("CAR"). For Health and Vitality, the required capital was set equal to two times the monthly renewal expense and Vitality benefit cost. For VitalityHealth, the required capital amount was set equal to 1.25 times the capital prescribed by the Prudential Regulatory Authority under the Individual Capital Adequacy Standards ("ICAS") framework. For VitalityLife, the required capital was set equal to the UK Pillar 1 capital requirement.*

3 *The Discovery Limited embedded value is calculated based on a risk discount rate using the CAPM approach with specific reference to the Discovery beta coefficient. The Discovery beta coefficient used at 30 June 2015 is 0.55 (30 June 2014: 0.4). Following a review of the approach to setting an assumed beta, the methodology has been amended. Under this revised methodology, the assumed beta is set with reference to the observed beta calculated using daily returns over a long time period. The beta will continue to be calculated with reference to the ALSI. The resulting assumed beta will be fixed at this level unless the observed beta calculated using daily returns over a long time period departs significantly from this assumption. As beta values reflect the historic performance of share prices relative to the market they may not allow fully for non-market related and non-financial risk. Investors may want to form their own view on an appropriate allowance for these risks which have not been modelled explicitly.*

4 *The diluted embedded value per share allows for Discovery's BEE transaction where the impact is dilutive i.e. where the current embedded value per share exceeds the current transaction value.*

TABLE 2: VALUE OF IN-FORCE COVERED BUSINESS

R million	Value before cost of required capital	Cost of required capital	Value after cost of required capital
at 30 June 2015			
Health and Vitality	**15 500**	**(254)**	**15 246**
Life and Invest[1]	**22 464**	**(556)**	**21 908**
VitalityHealth[2]	**4 188**	**(208)**	**3 980**
VitalityLife[2]	**1 854**	**(265)**	**1 589**
Total	**44 006**	**(1 283)**	**42 723**
at 30 June 2014			
Health and Vitality	13 879	(209)	13 670
Life and Invest[1]	20 701	(481)	20 220
VitalityHealth[2]	2 762	(130)	2 632
VitalityLife[2]	1 026	(110)	916
Total	38 368	(930)	37 438

1 *Included in the Life and Invest value of in-force covered business is R884 million (June 2014: R735 million) in respect of investment management services provided on off balance sheet investment business. The net assets of the investment service provider are included in the adjusted net worth.*
2 *The value of in-force has been converted using the closing exchange rate of R19.19/GBP (June 2014: R18.17/GBP). The value of in-force at 30 June 2015 represents Discovery's 100% ownership of VitalityHealth and VitalityLife, compared to 75% at 30 June 2014.*

TABLE 3: GROUP EMBEDDED VALUE EARNINGS

R million	Year ended 30 June 2015	Year ended 30 June 2014
Embedded value at end of period	**52 295**	43 050
Less: Embedded value at beginning of period	**(43 050)**	(35 721)
Increase in embedded value	**9 245**	7 329
Net change in capital	**–**	(1 020)
Dividends paid	**1 036**	878
Transfer to hedging reserve	**(50)**	30
Proceeds from rights-issue	**(5 000)**	–
Rights-issue costs	**94**	–
Embedded value earnings	**5 325**	7 217
Annualised return on opening embedded value	**12.4%**	20.2%

Embedded value statement continued

for the year ended 30 June 2015

TABLE 4: COMPONENTS OF GROUP EMBEDDED VALUE EARNINGS

R million	Year ended 30 June 2015 Net Worth	Cost of required capital	Value of in-force covered business	Embedded Value	Year ended 30 June 2014 Embedded Value
Total profit from new business (at point of sale)	(2 025)	(155)	4 794	**2 614**	2 248
Profit from existing business					
■ Expected return	3 575	48	367	**3 990**	3 234
■ Change in methodology and assumptions[1]	1 762	(127)	(2 434)	**(799)**	21
■ Experience variances	199	(13)	1 266	**1 452**	1 433
Acquisition of Prudential joint venture[2]	(1 978)	(78)	1 282	**(774)**	(297)
Intangibles no longer allocated to minorities[3]	(765)	–	–	**(765)**	–
Increase in goodwill and intangibles	(277)	–	–	**(277)**	(256)
Other initiative costs[4]	(509)	–	24	**(485)**	(445)
Non-recurring expenses[5]	(488)	–	–	**(488)**	(23)
Acquisition costs[6]	(14)	–	(1)	**(15)**	(2)
Finance costs	(103)	–	–	**(103)**	(37)
Foreign exchange rate movements	257	(28)	352	**581**	986
Other[7]	181	–	(12)	**169**	–
Return on shareholders' funds[8]	225	–	–	**225**	355
Embedded value earnings	40	(353)	5 638	**5 325**	7 217

1 The changes in methodology and assumptions will vary over time to reflect adjustments to the model and assumptions as a result of changes to the operating and economic environment. The current period's changes are described in detail in Table 6 below (for previous periods refer to previous embedded value statements).
2 The net worth item represents the difference between the purchase price and the minority share of PHHL's tangible net asset value at the acquisition date. The value of in-force covered business and cost of required capital items represent the 25% of the value in-force and cost of required capital that Discovery purchased in the transaction at the acquisition date.
3 This item reflects the unwinding of the goodwill and intangible assets (net of deferred tax) relating to the acquisition of Standard Life Healthcare and the Prudential joint venture allocated to minorities.
4 This item reflects Group initiatives including expenses relating to the investment in The Vitality Group, Vitality International, once-off expenses in Invest, Discovery Insure, other new business initiatives and unallocated head office costs.
5 This item includes rebranding costs, as well as other once-off costs relating to the acquisition of 25% of PHHL, totalling R420 million.
6 Acquisition costs relate to commission paid on Life business and expenses incurred in writing Health and Vitality business that has been written over the period but will only be activated and on risk after the valuation date. These policies are not included in the embedded value or the value of new business and therefore the costs are excluded.
7 This item includes the tax benefit that will be obtained as the VitalityHealth DAC and intangible software assets amortise.
8 The return on shareholders' funds is shown net of tax and management charges.

TABLE 5: EXPERIENCE VARIANCES

	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		
R million	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Total
Renewal expenses	49	–	32	(4)	(86)	–	38	–	**29**
Other expenses	30	–	–	–	–	–	–	–	**30**
Lapses and surrenders	28	343	(107)	161	–	72	(75)	3	**425**
Mortality and morbidity	–	–	140	(35)	224	–	44	–	**373**
Policy alterations[1]	–	44	(381)	212	–	–	(39)	3	**(161)**
Premium and fee income	9	(68)	(96)	78	–	–	–	–	**(77)**
Economic assumptions	–	–	(119)	117	–	–	–	–	**(2)**
Commission	–	–	–	–	44	–	–	–	**44**
Tax[2]	(16)	–	250	(234)	223	–	(70)	–	**153**
Reinsurance	–	–	–	–	61	–	–	–	**61**
Maintain modelling term[3]	–	222	–	201	–	54	–	–	**477**
Vitality benefits	18	–	–	–	(40)	–	–	–	**(22)**
Other	31	1	(66)	87	49	(2)	24	(2)	**122**
Total	149	542	(347)	583	475	124	(78)	4	**1 452**

1 Policy alterations relate to changes to existing benefits at the request of the policyholder.
2 The tax variance for Life and Invest arises due to a movement in the deferred tax asset which delays the payment of tax. A deferred tax asset has been raised in respect of the VitalityHealth assessed losses. This approximates 50% of the potential deferred tax asset and is based on forecast taxable income for the next five years.
3 The projection term for Health and Vitality, Group Life and VitalityHealth at 30 June 2015 has not been changed from that used in the 30 June 2014 embedded value calculation. Therefore, an experience variance arises because the total term of the in-force covered business is effectively increased by twelve months. The projection term for Life has been changed for the 30 June 2015 embedded value calculation and is described in detail in Table 6 below. However, as methodology changes are applied at the end of the year, an experience variance arises because the total term of the in-force covered business is effectively increased by twelve months.

TABLE 6: METHODOLOGY AND ASSUMPTION CHANGES

	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		
R million	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Total
Modelling changes[1]	–	0	(57)	868	–	–	37	(42)	**806**
Expenses	–	(104)	–	–	–	(1 172)	–	–	**(1 276)**
Lapses[2]	–	477	(34)	30	–	–	4	28	**505**
Mortality and morbidity	–	–	66	(49)	–	1 446	–	–	**1 463**
Benefit enhancements	–	–	(22)	(201)	–	–	–	–	**(223)**
Vitality benefits	–	(0)	–	–	–	(264)	–	–	**(264)**
Tax	–	–	–	–	–	–	–	–	**–**
Economic assumptions[3]	–	(36)	2	(1 136)	–	(23)	(214)	120	**(1 287)**
Premium and fee income[4]	–	–	(155)	(206)	–	–	50	(40)	**(351)**
Reinsurance[5]	–	–	1 832	(2 001)	253	(256)	–	–	**(172)**
Other	–	–	–	–	–	–	–	–	**–**
Total	–	337	1 632	(2 695)	253	(269)	(123)	66	**(799)**

1 The impact of the model change for Discovery Life is largely a result of lifting the 40 year projection term limit on the value of in-force and valuing the policies over their full term.
2 The lapse assumption for Health has been reduced reflecting the sustained favourable lapse experience in recent years.
3 The economic assumption changes include the following items:
- *The change in the beta coefficient from 0.4 at 30 June 2014 to 0.55 at 30 June 2015.*
- *For VitalityHealth and VitalityLife, there has been a reduction in the UK risk-free rate since 30 June 2014.*
- *Alignment of the equity risk premium assumption across the Discovery EV, resulting in the VitalityHealth and VitalityLife equity risk premium changing from 4.0% at 30 June 2014 to 3.5% at 30 June 2015.*
- *For Health and Vitality, the risk-free rate is now being set with reference to its own cashflows (previously it was defaulted to the risk free rate set with reference to the Discovery Life cashflows). This reduces the Health and Vitality risk-free rate by 0.5% from the previous methodology.*

4 For Life, higher levels of engagement in the Vitality programme resulted in lower levels of future premium and higher policyholder benefits being projected.
5 For Life and VitalityHealth, the reinsurance item primarily relates to the impact of the financing reinsurance arrangements.

Embedded value statement continued

for the year ended 30 June 2015

TABLE 7: EMBEDDED VALUE OF NEW BUSINESS

R million	Year ended 30 June 2015	Year ended 30 June 2014	% change
Health and Vitality			
Present value of future profits from new business at point of sale	**606**	570	
Cost of required capital	**(22)**	(19)	
Present value of future profits from new business at point of sale after cost of required capital[1]	**584**	551	6
New business annualised premium income[2]	**2 829**	2 858	(1)
Life and Invest			
Present value of future profits from new business at point of sale[3]	**1 268**	1 191	
Cost of required capital	**(56)**	(52)	
Present value of future profits from new business at point of sale after cost of required capital[1]	**1 212**	1 139	6
New business annualised premium income[4]	**2 490**	2 163	15
Annualised profit margin[5]	**5.9%**	6.3%	
Annualised profit margin excluding Invest Business	**9.7%**	10.1%	
VitalityHealth			
Present value of future profits from new business at point of sale	**45**	118	
Cost of required capital	**(20)**	(21)	
Present value of future profits from new business at point of sale after cost of required capital[1, 6]	**25**	97	(74)
New business annualised premium income (Rand)[7]	**833**	761	9
Annualised profit margin[5]	**0.6%**	2.3%	
VitalityLife[8]			
Present value of future profits from new business at point of sale	**850**	493	
Cost of required capital	**(57)**	(32)	
Present value of future profits from new business at point of sale after cost of required capital[1, 6]	**793**	461	72
New business annualised premium income (Rand)	**967**	647	49
Annualised profit margin[5]	**11.0%**	10.0%	

1 *The Discovery Limited embedded value of new business is calculated based on a risk discount rate using the CAPM approach with specific reference to the Discovery beta coefficient. The Discovery beta coefficient used at 30 June 2015 is 0.55 (30 June 2014: 0.4). Following a review of the approach to setting an assumed beta, the methodology has been amended. Under this revised methodology, the assumed beta is set with reference to the observed beta calculated using daily returns over a long time period. The beta will continue to be calculated with reference to the ALSI. The resulting assumed beta will be fixed at this level unless the observed beta calculated using daily returns over a long time period departs significantly from this assumption. As beta values reflect the historic performance of share prices relative to the market they may not allow fully for non-market related and non-financial risk. Investors may want to form their own view on an appropriate allowance for these risks which have not been modelled explicitly.*

2 *Health new business annualised premium income is the gross contribution to the medical schemes. The new business annualised premium income shown above excludes premiums in respect of members who join an existing employer where the member has no choice of medical scheme, as well as premiums in respect of new business written during the period but only activated after 30 June 2015.*
The total Health and Vitality new business annualised premium income written over the period was R5 622 million (June 2014: R5 206 million).

3 *Included in the Life and Invest embedded value of new business is R60 million (June 2014: R39 million) in respect of investment management services provided on off balance sheet investment business.*
Risk business written prior to the valuation date allows certain Invest business to be written at financially advantageous terms, the impact of which has been recognised in the value of new business.

4 *Life new business is defined as Life policies or Discovery Retirement Optimiser policies which incepted during the reporting period and which are on risk at the valuation date. Invest new business is defined as business where at least one premium has been received and which has not been refunded after receipt.*
The new business annualised premium income of R2 490 million (June 2014: R2 163 million) (single premium APE: R1 005 million (June 2014: R865 million)) shown above excludes automatic premium increases and servicing increases in respect of existing business. The total Life new business annualised premium income written over the period, including automatic premium increases of R887 million (June 2014: R773 million) and servicing increases of R500 million (June 2014: R473 million) was R3 877 million (June 2014: R3 409 million) (single premium APE: R1 048 million (June 2014: R904 million)). Single premium business is included at 10% of the value of the single premium.
Policy alterations, including Discovery Retirement Optimisers added to existing Life Plans, are shown in Table 5 as experience variances and not included as new business.
Term extensions on existing contracts are not included as new business.

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

6 *VitalityHealth and VitalityLife new business values have been adjusted to allow for Discovery's ownership increasing from 75% to 100% in November 2014.*

7 *VitalityHealth new business is defined as individuals and employer groups which incepted during the reporting period. The new business annualised premium income shown above has been adjusted to exclude premiums in respect of members who join an existing employer group after the first month as well as premiums in respect of new business written during the period but only activated after 30 June 2015.*

8 *VitalityLife new business is defined as policies which incepted during the reporting period and which are on risk at the valuation date.*

TABLE 8: EMBEDDED VALUE ECONOMIC ASSUMPTIONS

	30 June 2015	30 June 2014
Beta coefficient		
South Africa	**0.55**	0.40
United Kingdom	**0.55**	0.40
Equity risk premium (%)		
South Africa	**3.50**	3.50
United Kingdom	**3.50**	4.00
Risk discount rate (%)		
Health and Vitality	**10.675**	10.650
Life and Invest	**11.175**	10.650
VitalityHealth	**4.05**	4.24
VitalityLife	**5.045**	5.50
Rand/GB Pound Exchange Rate		
Closing	**19.19**	18.17
Average	**18.04**	17.06
Medical inflation (%)		
South Africa	**8.25**	8.25
United Kingdom	**6.50**	6.50
Expense inflation (%)		
South Africa	**5.25**	5.25
United Kingdom	**3.30**	3.30
Pre-tax investment return (%)		
South Africa – Cash	**7.75**	7.75
– Bonds	**9.25**	9.25
– Equity	**12.75**	12.75
United Kingdom – VitalityHealth investment return	**2.12**	3.16
– VitalityLife investment return	**3.12**	3.90
Income tax rate (%)		
South Africa	**28.00**	28.00
United Kingdom – Long Term	**20.00**	20.00
Projection term		
– Health and Vitality	**20 years**	20 years
– Life	**No cap**	40 years
– Group Life	**10 years**	10 years
– VitalityHealth	**20 years**	20 years

Embedded value statement continued

for the year ended 30 June 2015

Life and Invest mortality, morbidity and lapse and surrender assumptions were derived from internal experience, where available, augmented by reinsurance and industry information.

The Health and Vitality lapse assumptions were derived from the results of recent experience investigations.

The VitalityHealth assumptions were derived from internal experience, augmented by industry information.

VitalityLife assumptions were derived from internal experience, where available, augmented by reinsurance, industry and Discovery Limited group information.

Renewal expense assumptions were based on the results of the latest expense and budget information.

The initial expenses included in the calculation of the embedded value of new business are the actual costs incurred excluding expenses of an exceptional or non-recurring nature.

The South African investment return assumption was based on a single interest rate derived from the risk-free zero coupon government bond yield curve. Other economic assumptions were set relative to this yield. The current and projected tax position of the policyholder funds within the Life company has been taken into account in determining the net investment return assumption.

The best estimate investment return assumption for VitalityHealth and VitalityLife was based on the single interest rate derived from the risk-free zero coupon sterling yield curve. The United Kingdom expense inflation assumption was set in line with long-term United Kingdom inflation expectations.

It is assumed that, for the purposes of calculating the cost of required capital, the Life and Invest required capital amount will be backed by surplus assets consisting of 100% equities and the Health, Vitality and VitalityHealth required capital amounts will be fully backed by cash. The VitalityLife required capital amount is assumed to earn the same return as the assets backing the VitalityLife policyholder liabilities. Allowance has been made for tax and investment expenses in the calculation of the cost of required capital. In calculating the capital gains tax ("CGT") liability, it is assumed that the portfolio is realised every 5 years. The Life and Invest cost of required capital is calculated using the difference between the gross of tax equity return and the equity return net of tax and expenses. The Health and Vitality and VitalityHealth cost of required capital is calculated using the difference between the risk discount rate and the net of tax cash return. The VitalityLife cost of required capital is calculated using the difference between the risk discount rate and the net of tax asset return assumption.

Sensitivity to the embedded value assumptions

The embedded value has been calculated in accordance with the Actuarial Society of South Africa's Advisory Practice Note APN 107: Embedded Value Reporting. The risk discount rate, calculated in accordance with the guidance note, uses the CAPM approach with specific reference to the Discovery beta coefficient. As beta values reflect the historic performance of share prices relative to the market they may not allow fully for non-market related and non-financial risk. Investors may want to form their own view on an appropriate allowance for these risks which have not been modelled explicitly. The sensitivity of the embedded value and the embedded value of new business at 30 June 2015 to changes in the risk discount rate is included in the tables below.

For each sensitivity illustrated below, all other assumptions have been left unchanged. No allowance has been made for management action such as risk premium increases where future experience is worse than the base assumptions.

TABLE 9: EMBEDDED VALUE SENSITIVITY

R million	Adjusted net worth	Health and Vitality Value of in-force	Health and Vitality Cost of required capital	Life and Invest Value of in-force	Life and Invest Cost of required capital	VitalityHealth Value of in-force	VitalityHealth Cost of required capital	VitalityLife[2] Value of in-force	VitalityLife[2] Cost of required capital	Embedded value	% change
Base	9 572	15 500	(254)	22 464	(556)	4 188	(208)	1 854	(265)	**52 295**	
Impact of:											
Risk discount rate +1%	9 572	14 562	(282)	19 914	(480)	3 912	(306)	1 641	(326)	**48 207**	(8)
Risk discount rate -1%	9 572	16 545	(221)	25 682	(655)	4 494	(95)	2 120	(184)	**57 258**	9
Lapses -10%	9 572	16 040	(266)	24 487	(598)	4 770	(221)	1 956	(296)	**55 444**	6
Interest rates -1%[1]	9 572	15 451	(242)	23 040	(611)	3 893	(188)	2 400	(311)	**53 004**	1
Equity and property market value -10%	9 564	15 500	(254)	22 248	(556)	4 187	(207)	1 854	(265)	**52 071**	(0)
Equity and property return +1%	9 572	15 500	(254)	22 670	(556)	4 187	(207)	1 854	(265)	**52 501**	0
Renewal expenses -10%	9 572	17 073	(235)	22 728	(555)	4 731	(207)	1 824	(263)	**54 668**	5
Mortality and morbidity -5%	9 572	15 500	(254)	23 842	(545)	5 359	(207)	1 823	(260)	**54 830**	5
Projection term +1 year	9 572	15 749	(257)	22 516	(556)	4 259	(208)	1 854	(265)	**52 664**	1

1 *All economic assumptions were reduced by 1%.*
2 *The sensitivity impact on the VitalityLife value of in-force excludes the net of tax change in negative reserves.*

The following table shows the effect of using different assumptions on the embedded value of new business.

TABLE 10: VALUE OF NEW BUSINESS SENSITIVITY

R million	Health and Vitality Value of new business	Health and Vitality Cost of required capital	Life and Invest Value of new business	Life and Invest Cost of required capital	VitalityHealth Value of new business	VitalityHealth Cost of required capital	VitalityLife Value of new business	VitalityLife Cost of required capital	Value of new business	% change
Base	606	(22)	1 268	(56)	45	(20)	850	(57)	**2 614**	
Impact of:										
Risk discount rate +1%	549	(25)	1 006	(48)	22	(28)	820	(71)	**2 225**	(15)
Risk discount rate -1%	668	(19)	1 594	(66)	70	(10)	888	(37)	**3 088**	18
Lapses -10%	649	(24)	1 517	(60)	87	(21)	992	(62)	**3 078**	18
Interest rates -1%[1]	611	(21)	1 337	(62)	68	(20)	871	(64)	**2 720**	4
Equity and property return +1%	606	(22)	1 312	(56)	45	(20)	850	(57)	**2 658**	2
Renewal expense -10%	713	(21)	1 300	(56)	77	(20)	881	(56)	**2 818**	8
Mortality and morbidity -5%	606	(22)	1 385	(55)	146	(20)	894	(55)	**2 879**	10
Projection term +1 year	621	(22)	1 273	(56)	49	(20)	850	(57)	**2 638**	1
Acquisition costs -10%	627	(22)	1 374	(56)	61	(20)	916	(56)	**2 824**	8

1 *All economic assumptions were reduced by 1%.*

Report on the review of the Group embedded value of Discovery Limited and its subsidiaries

to the directors of Discovery Limited

INTRODUCTION

We have reviewed the consolidated embedded value of Discovery Limited and its subsidiaries (the "Group") for the year ended 30 June 2015, as set out on pages 139 to 147 (the "Report"). The Report is prepared for the purpose of setting out the embedded value of the Group for the year-ended 30 June 2015. The directors of Discovery Limited are responsible for the preparation and presentation of the Report in accordance with the basis set out on page 139 of the Report and for determining that the basis of preparation is acceptable in the circumstances. Our responsibility is to express a conclusion on this Report based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope that audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the Report is not prepared, in all material respects, in accordance with the embedded value basis set out on page 139 of the embedded value statement.

BASIS OF ACCOUNTING

Without modifying our conclusion, we draw attention to page 146 of the embedded value statement, which describes the basis of preparation. The Report is prepared for the purpose of setting out the embedded value of the Group as at 30 June 2015. As a result, the Report may not be suitable for another purpose. Our report is intended solely for the directors of the Group and should not be used by any other parties. We agree to the publication of our report in the integrated report of Discovery Limited for the year ended 30 June 2015 provided it is clearly understood by the recipients of the integrated report that they enjoy such receipt for information only and that we accept no duty of care to them in respect of our report.

PricewaterhouseCoopers Inc.
Director: J. Goncalves
Registered Auditor

Johannesburg

9 September 2015

Five-year Review
for the year ended 30 June 2015

	Group					Compound growth %
	2011	2012	2013	2014	2015	
New business API (R million)	7 327	8 483	9 996	11 586	**17 532**	24%
Gross inflows under management (R million)						
Gross inflows under management	50 052	56 914	65 657	78 013	**89 483**	16%
Less: Collected on behalf of third parties	(32 198)	(36 369)	(40 813)	(46 002)	**(51 587)**	13%
Gross income of Group	17 854	20 545	24 844	32 011	**37 896**	21%
Income statement extracts (R million)						
Profit from operations	2 914	3 553	3 558	5 058	**5 229**	16%
Headline earnings	1 638	2 129	2 062	3 064	**5 285**	34%
Abnormal expenses	390	187	725	393	**(1 258)**	
Normalised headline earnings	2 028	2 316	2 787	3 457	**4 027**	19%
Diluted normalised headline earnings per share (cents)*	365.5	416.9	496.0	580.2	**663.0**	16%
Statement of financial position extracts (R million)						
Total assets	30 905	45 815	55 099	72 196	**89 462**	30%
Shareholders' funds	8 973	11 731	13 708	17 411	**27 356**	32%
Embedded value						
Embedded value (R million)	26 890	30 246	35 721	43 050	**52 295**	18%
Diluted embedded value per share (R)	47.86	53.78	63.30	74.13	**82.29**	15%
Key ratios						
Return on average equity (%)	30	21	17	21	**25**	
Return on average assets (%)	10	6	4	5	**7**	
Capital adequacy requirement (times)	3.6	4.4	4.0	3.8	**3.9**	
Exchange rates						
Rand/US$						
– Closing	6.77	8.19	10.01	10.63	**12.18**	
– Average	6.96	7.78	8.94	10.43	**11.49**	
Rand/GBP						
– Closing	10.84	12.83	15.22	18.17	**19.19**	
– Average	11.08	12.35	13.98	17.06	**18.04**	
Share statistics						
Number of ordinary shares in issue						
– Weighted average (000's)*	554 847	554 930	554 165	581 123	**598 946**	
– Diluted weighted average (000's)*	555 056	555 538	561 843	595 699	**607 290**	
– End of period (000's)	591 872	591 872	591 872	591 872	**647 428**	
Price/diluted headline earnings (times)	10.5	12.5	16.9	16.7	**19.1**	
Share price (cents per share):						
– High	4 095	5 233	8 700	9 831	**14 195**	
– Low	3 410	5 174	5 280	7 110	**9 050**	
– Closing	3 855	5 200	8 406	9 715	**12 647**	
Market capitalisation (R million)	22 817	30 777	49 753	57 500	**81 880**	

** 2011 to 2013 has not been adjusted for the bonus element of the rights issue*

STUDIO⑤

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