DISCOVERY INTEGRATED ANNUAL REPORT **2014**

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Discovery

Integrated Annual Report **2014**

About our Report

The 2014 Discovery Integrated Annual Report aims to provide a detailed review of Discovery's performance during the past financial year as it relates to financial and non-financial issues.

The Report also provides a comprehensive overview of the Group's stated ambition and strategic priorities. In terms of the topics addressed in this Report, our objective is to report on the issues that are material to Discovery. We determine materiality according to the issues that impact Discovery and where Discovery's business operations impact stakeholders; as well as the business objectives, strategy, and key risks for the business.

Scope of the Report

This Report covers the operations of Discovery Limited, including Discovery Health, Discovery Vitality, Discovery Life, Discovery Invest, Discovery Insure, PruHealth and PruProtect, Ping An Health, The Vitality Group, and AIA Vitality.

Approval by the Discovery Board of Directors

The Discovery Limited Board of Directors approved the Discovery Integrated Annual Report on 29 September 2014, based on the recommendation of Discovery's Audit and Risk Committee.

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

Monty Hilkowitz

Statement from the Discovery Social and Ethics Committee

The Social and Ethics Committee oversees transformation and sustainability issues for Discovery to ensure the Group meets its long-term strategic objectives. Transparent communication and engagement with stakeholders are important issues that are the responsibilities of the Committee. The Social and Ethics Committee has, therefore, reviewed and provided input into this year's Report and is satisfied that the 2014 Integrated Annual Report reflects an accurate and comprehensive representation of Discovery's performance for the past financial year.

Signed by the Chairperson of the Discovery Social and Ethics Committee.

Sindi Zilwa

Preparation of Discovery's Annual Financial Statements

Our Annual Financial Statements for the year ended 30 June 2014 were prepared by: B Mill (FFA, FASSA), L Capon CA(SA), and L van Jaarsveldt CA(SA). The preparation of the statements was supervised by R Farber CA(SA) FCMA and audited by PricewaterhouseCoopers Inc.

Reporting frameworks

In preparing our 2014 Integrated Annual Report and Sustainable Development Report, we used the guidelines provided by the International Integrated Reporting Framework and the Global Reporting Initiative (GRI) G3.1 guidelines. We self-declare an application level B+ and have received third-party verification from Indyebo Incorporated of this application level.

Our Annual Financial Statements were prepared in accordance with International Financial Reporting Standards.

Statement from Discovery Group Internal Audit

Discovery Group Internal Audit performed a limited review of the statements and quantitative data contained in the Discovery 2014 Integrated Annual Report, with the exception of the Annual Financial Statements.

Based on the results of the work done, in our opinion the Report:

- Provides confidence in the information presented. The level of data accuracy was found to be within acceptable limits. Additional improvements were recommended to Discovery management to reduce the potential for minor anomalies and misstatements, which were subsequently amended. Data trails selected were easily identifiable and traceable, and the persons responsible were able to reliably demonstrate the origin(s) and interpretation of data.
- Appropriately reflects the environmental, social, and economic performance achieved during the period.
- Represents a fair statement of Discovery's sustainability initiatives.
- Contains quantitative data which is free from material misstatement.

Overall, Group Internal Audit is satisfied that the Report is an appropriate representation of the relevant aspects during the reporting period, based on the audit procedures applied during this review.

The Report of the Audit and Risk Committee is available on pages 104 and 105 of this Report.

STUDIO 5

How we report to our stakeholders

In addition to our Integrated Annual Report, we make a number of reports and publications available to our stakeholders. These reports provide detailed disclosure 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 material analysis of our financial, economic, and social performance in relation to our business strategy going forward.

Available online at www.discovery.co.za/info/2014integratedreport

ANNUAL FINANCIAL RESULTS PRESENTATION

A presentation of Discovery's annual financial results to investors.

Available online at www.discovery.co.za/info/2014annualresults

SUMMARISED ANNUAL FINANCIAL STATEMENTS

Presents summarised financials and administration requirements (AGM notice, proxy form).

Available online at www.discovery.co.za/info/summarisedfinancials

SUSTAINABLE DEVELOPMENT REPORT

An overview of Discovery's performance according to our Framework for Sustainable Development.

Available online at www.discovery.co.za/info/2014SDReport

KING III REGISTER

The King III register provides a complete view of how Discovery addresses the principles of King III.

Available online at www.discovery.co.za/info/2014King3

YOUR 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 Limited Financial Director
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About Discovery

Discovery is a pioneering market leader with uniquely positioned businesses in the healthcare, long- and short-term insurance, wellness, and financial services industries. Founded in 1992 as a specialist health insurer, Discovery operates in South Africa, the UK, China, Singapore, Australia, and the US, through various business lines. Discovery today covers eight million lives.



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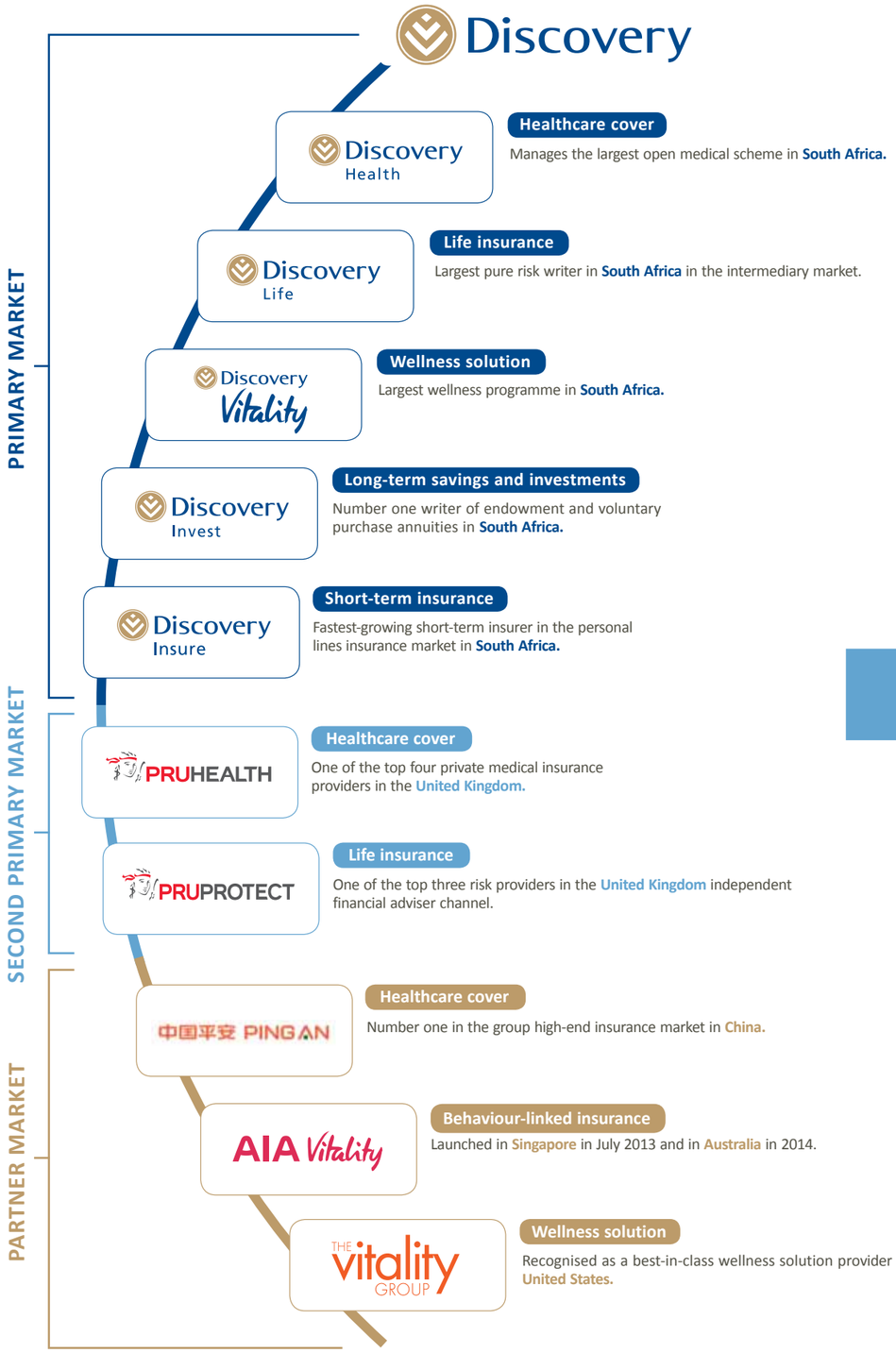
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About Discovery



A **pioneering insurer with uniquely positioned businesses** and an innovative business model that makes people healthier and offers them protection

WHAT WE DO

We design innovative insurance products that emphasise the importance of prevention and wellness; leveraging the insights from behavioural economics in an immediate rewards system that drives positive behaviour change over the long term. Relying on a strong big data analytics capability to understand and refine the incentives and nudges towards positive behaviour change, the model has been proven to be highly successful in impacting risk and the cost of healthcare and insurance positively.

OUR PRODUCTS

Our main clients are large, medium, and small sized employers for health insurance, as well as individual clients who buy health and life insurance and savings and investment products from us. Through our repeatable business model, we export the Discovery intellectual property to other industries and markets, including the UK, US, China, Singapore, and Australia.

Health insurance

Discovery Health Medical Scheme offers a range of options to cater for every medical need from the Executive Plan, our product for the high-end market, to the KeyCare Series, our product for the low-income market. Each plan's cover includes hospitalisation and chronic medicine, with many plans offering day-to-day cover as well.

In the UK, PruHealth is the only private medical insurer that integrates a comprehensive wellness solution into its health insurance product construct. This differentiated approach has resulted in a product proposition that provides value to all members, not only those who need to make a medical claim. In China, Ping An Health is the number one private medical insurer that offers insurance products for the corporate and individual markets.

Life assurance

Discovery Life offers cost-effective life insurance that adapts to clients' changing needs. In addition, members are able to gain more value by integrating their Discovery LIFE Plan with other Discovery products.

PruProtect replicates Discovery Life's successful model in the UK market.

Investment and savings products

Discovery Invest offers long-term savings and investment products that aim to give clients best market performance, tax- and fee-efficiency, while still offering a level of protection against market volatility.

Short-term insurance

Discovery Insure provides comprehensive short-term insurance for motor vehicles and belongings, and encourages safer driving through Vitalitydrive, a unique driver-behaviour programme that rewards clients for driving well.

Wellness programme

Vitality is a scientifically-based wellness programme that helps clients get healthier by giving them access to wellness partners as well as tools and incentives to make positive lifestyle changes.

Credit card

DiscoveryCard is a VISA credit card offering that rewards clients for getting healthier with Vitality.

WHAT DRIVES US

OUR CORE PURPOSE

To make people healthier and enhance and protect their lives

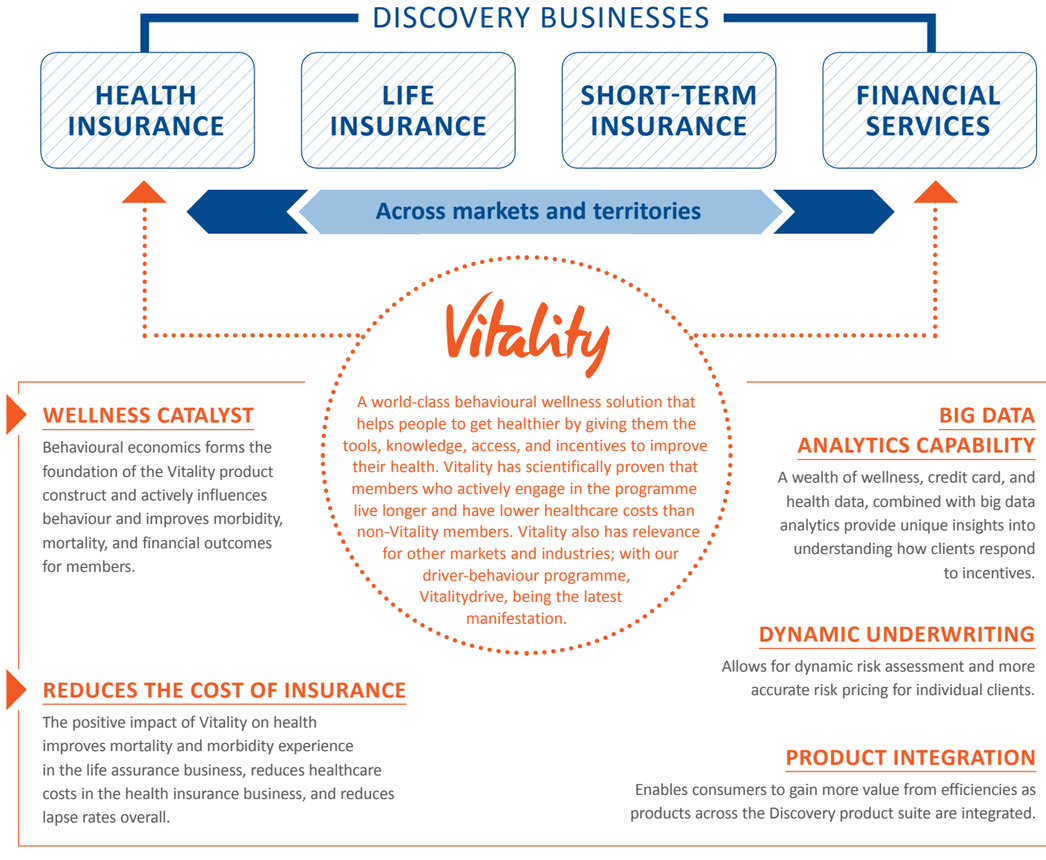
OUR AMBITION

To be the best insurance organisation in the world and a powerful force for social good

Discovery **business model**

The Discovery business model centres on making people healthier and having a positive long-term impact on costs and value for both the insurer and the client.

The result is a more effective insurance system that is increasingly relevant globally, given the global trends of chronic diseases of lifestyle, the challenge of rising healthcare costs, and consumers turning to protection products to mitigate financial uncertainty. A unique competitive advantage for Discovery is the ability to replicate the model to other industries and in other markets.



How our **business creates shared value**

Any insurance company has to perform well in three key areas in order to be sustainable and profitable.

1 NEW BUSINESS GROWTH

An insurer must continue to gain profitable new business to expand and strengthen its customer base. This allows the insurer to spread and manage the risk of the base more effectively. Innovative products and services that offer consumers more value are key to attracting new business.

- **Discovery's strategy:** We develop disruptive insurance products that offer more value and efficiency through product integration, resulting in higher levels of new business.
- **Our performance:** New Business Annual Premium Income (API) is up 15% to R12.2 billion.

2 LOW LAPSE LEVELS

Client retention is important for an insurer as it illustrates the insurer's ability to offer continued value to consumers.

- **Discovery's strategy:** We retain clients through high-quality products and additional health value gained through Vitality.
- **Our performance:** Low lapse levels across the business and increased engagement levels in Vitality: across health, life, and short-term insurance, the business experiences lower lapse rates for clients who are highly engaged in either Vitality or Vitalitydrive (Discovery Health: 4.2% in 2013; lower than the industry average).

3 GOOD CLAIMS EXPERIENCE

Insurers need to carefully manage the risk posed by high mortality and morbidity experience to ensure that the claims experience remains within expectation.

- **Discovery's strategy:** A sophisticated and robust risk management model enables us to better manage risk across the Health and Life businesses.
- **Our performance:** Claims experience across all businesses are trending downwards and surpassing expectation; Discovery Insure's business model delivers the desired actuarial dynamics in the short-term industry in terms of loss ratios and lapse rates (members on the higher driver-status levels of Vitalitydrive have lower loss ratios and lapse rates).

Member engagement in Vitality leads to the ability to accurately price risk and products, improved actuarial dynamics, and higher levels of profitability for Discovery.

MACRO TRENDS RELEVANT TO DISCOVERY

1. Increasing expectation from stakeholders that companies must play a socially progressive role in society.
2. Insurance companies have large risk pools and a mandate to protect people against life's uncertainties, giving these types of organisations the ideal opportunity to meet societal needs.
3. Given the global incidence and intensity of the burden of chronic diseases of lifestyle, insurance companies must find more effective ways of measuring a client's risk throughout the lifetime of the policy.
4. Behavioural economics shows us that people's behaviour in terms of the known risk factors for mortality and morbidity – health and driving behaviour – is irrational and requires insurance companies to find ways to counter this irrationality.
5. Irrational behaviours cannot be viewed in isolation but are persistent and interconnected.

Discovery's behavioural-linked insurance model responds to these trends by adopting a comprehensive view of a client's integrated risk behaviour and by using incentives to encourage better health and driving behaviour. The resulting risk savings are channelled back into the incentives that are used to deliver this behaviour change.

Our **strategic framework**

OUR CORE PURPOSE

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

OUR AMBITION

To be the best insurance organisation in the world and a powerful force for social good.

Our business is increasingly operating on a global platform – a direct outcome of our ambition to be the best insurance organisation in the world and the increasing relevance of Discovery's business model, seen against the macro trends of chronic diseases of lifestyle and consumers' movement towards insurance products. Discovery's vision is to be known as the best in the world for our excellence, financial strength, and innovation. In addition we must be a force for social good through the way we do business, the products and services we deliver, and through the impact our business has on broader society.

To deliver on this ambition, we use our unique business model to make a tangible difference in people's lives. By using powerful financial and behavioural structures that meet people's needs in sustainable ways, we are able to provide superior returns for shareholders.

OUR STRATEGIC OBJECTIVES

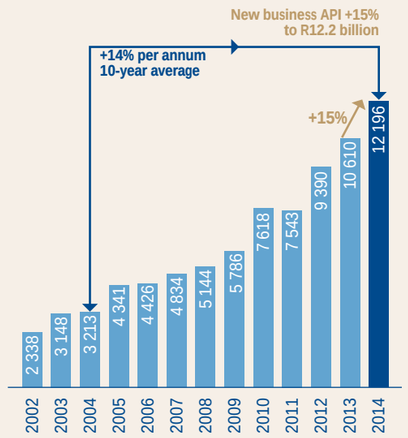
We measure our success against the following objectives

Our long-term strategic objective	How our performance during the past year contributes to achieving this objective
SCALE AND RELEVANCE • $1 billion in pre-tax earnings. • Be a top two provider in the markets we operate in.	• Profit before tax increased 44% to R4.6 billion ($460 million). • Discovery Health Medical Scheme has a 52% market share of the open medical scheme market in South Africa; PruHealth is one of the top four private medical insurers in the UK and PruProtect is one of the top three. Ping An Health is the number one comprehensive medical insurer in China.
FINANCIAL EXCELLENCE • 20% to 25% growth in operating earnings. • Group-wide return on capital of risk-free +10% over the long term.	• Normalised profit from operations up 23% to R5.0 billion. • Group-wide return on capital of risk-free +10% on new business written. • Return on opening embedded value of 20.2% per annum. • All operating units across the Group are financially sound.
EARNINGS • CPI +10% sustainable growth in operating earnings.	• Our operating profit has grown an average of 22% per annum over the past 10 years.
OUR SOCIAL IMPACT • To have a meaningful impact on society and as a result, be regarded by all stakeholders as a force for social good in society. • Reach 15 million members and help them be healthier. • Recognition as an employer of choice for all critical skills with excellent levels of employee satisfaction and retention.	• Significant work has been done with the Discovery Foundation and Discovery Fund to make healthcare accessible to more South Africans. • Discovery covers eight million lives globally and engagement in Vitality continues to improve. • During an annual engagement survey for employees, Discovery ranked highly in categories of Diversity, Company Purpose, and Communication compared with industry benchmarks. 85% of employees took part in the survey. • During the year, we continued our support for enterprise development initiatives that aim to reduce poverty and create employment. Part of this focuses on support for strategic suppliers to our business while enabling preferential procurement. We also partner with various entrepreneurial incubators in South Africa such as Awethu and Raizcorp, which assist entrepreneurs in developing and sustaining their businesses, thus furthering job creation.



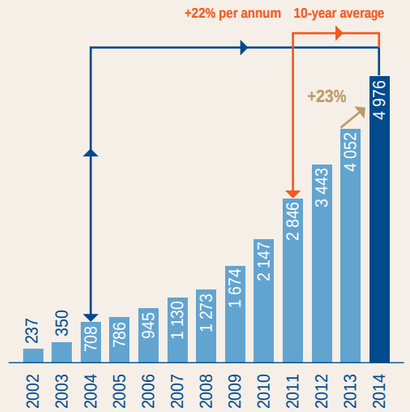
Our **performance highlights**

NEW BUSINESS GROWTH EXCEEDS LONG-TERM AVERAGE



up 15%
to R12.2 billion

OPERATING PROFIT GROWTH EXCEEDS LONG- AND SHORT-TERM AVERAGES

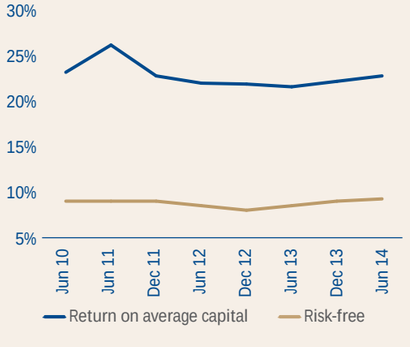


up 23%
to R5 billion

5%
of earnings **re-invested in our partner markets** in the US, China, Singapore, and Australia

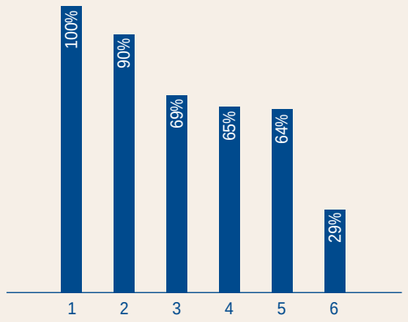
Significant **product launches** in each of the Discovery businesses in 2014

RETURN ON CAPITAL VS RISK-FREE %



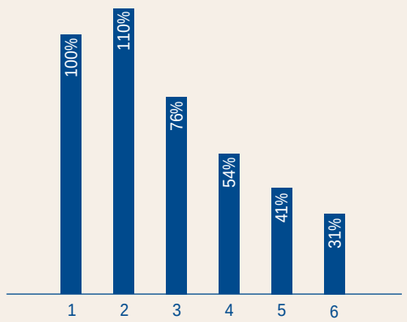
EXCELLENT ACTUARIAL PERFORMANCE ACROSS THE DISCOVERY BUSINESSES

Integration reduces mortality risk even further
Mortality claims versus number of Discovery policies per member (Actual versus expected, indexed*)



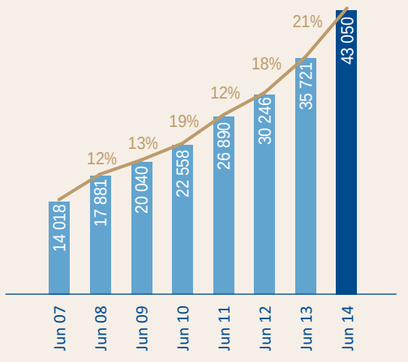
*January 2009 to December 2013 and indexed to 1 product = 100

Integration reduces lapse risk even further
Life lapses versus number of Discovery policies per member (Actual versus expected, indexed*)



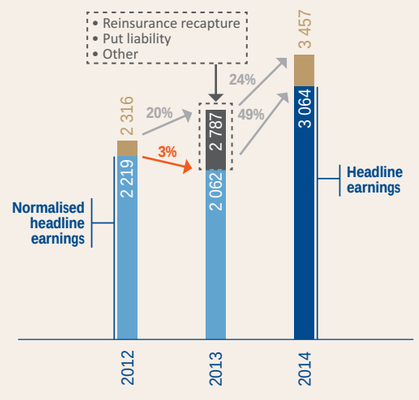
*Lapse rate July 2013 to June 2014 by product count (duration 1 to 5)

EMBEDDED VALUE



up 21%
to R43 billion

NORMALISED HEADLINE EARNINGS



up 24%

Sustainable development: **Our performance**

Discovery's performance in terms of sustainable development is reviewed against a framework of creating shared value. This framework links strategically to our business model and provides an additional means through which we track and measure our performance.

Strengthen and expand access to quality healthcare

Enhance economic and financial security and prosperity

Understand and improve our environmental performance

Change behaviour to make people healthier and better protect them

Create a values-based culture of opportunity and innovation



Key sustainability data

Sustainability metric	June 2014	June 2013	June 2012
Total spend on skills development	**R144 567 243**	R135 777 302	R113 779 153
Contribution towards community healthcare organisations	**R15 044 061**	R11 186 634	R15 608 718
Total amount committed to the training and research projects of specialists in the South African public healthcare sector	**R21 737 742**	R18 729 546	R17 167 700
Number of independent entrepreneurs developed	**105**	12	17
Socio-economic development spend	**R61 219 140**	R45 257 946	R70 368 390
Total preferential procurement spend	**R1 598 337 801**	R1 482 201 893	R1 315 208 151
Total direct and indirect greenhouse gas emissions by weight (tonnes of CO_2)	**52 568**	49 062	49 873
Total environmental protection expenditures	**R888 004**	R360 000*	R717 985
Total number of incidents of discrimination and corrective actions taken	**0**	0	0
Percentage and total number of business units analysed for risks related to corruption	**100%**	100%	100%
Percentage of employees trained in the organisation's anti-corruption policies and procedures	**33%****	71%	34%
Actions taken in response to incidents of corruption	**0**	1	0
Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes	**0**	2	0
Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	**R0**	R50 000	R0

**The difference between the figures in 2013 and 2014 is due to a once-off cost expense for a new Waste Management partner which saw an increase in the recycling of company-generated waste.*
***The percentage decrease is due to a company-wide online training model which is scheduled to be rolled out at the end of 2014.*

Note: Our Global Reporting Initiative Index and full sustainability metrics are available in our 2014 Sustainable Development Report.

Read our Sustainable Development Report online at www.discovery.co.za/info/2014SDreport

Our Discovery people

Overview of our Discovery people

Discovery has over 8 400 permanent employees working across all our operations

Some of the key skills and competencies in our business include actuarial, clinical, financial, information technology, and call centre. The company values that frame our actions are:

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

In terms of our people, our focus during the past year has been on further entrenching our culture of innovation; attracting, developing, and retaining top talent into our business; and looking after the wellness of our employees.

R5 billion
Total annual employee earnings between July 2013 and June 2014

70%
Skills development spend on Employment Equity employees in South Africa

104
Previously unemployed learners employed as part of the Discovery learnership programme

8 484
Total number of permanent employees worldwide

R144 567 243
Skills development spend in South Africa

Key initiatives during the past year

The Discovery Decree: Entrenching a philosophy of responsibility to each client

During the year, we introduced the Discovery Decree to our employees. The Decree, which states that *any Discovery person – from the tea lady to the CEO – who comes across someone who is dissatisfied with Discovery and who doesn't intervene to assist, should be dismissed*, has been discussed and debated in a series of workshops that included employees from across the business and representatives from the Discovery leadership team with 5 630 employees attending Decree workshops.

The aim of the Decree is to further entrench Discovery's philosophy of tremendous responsibility to each client. Our research shows that we are performing well in terms of service and value delivery. However, we also understand and recognise that our clients mostly interact with us in times of great need where customer service averages and percentages are not relevant for a client who relies on us. In healthcare, Discovery Health plays an important role as the largest open medical scheme administrator, dealing with increasing complexities and understandable demands from different stakeholders. Within this environment, we understand the vulnerable position our members often find themselves in and the responsibility we have to ensure we support and assist each member in every interaction. Our aim therefore, is to make sure we provide excellent service in every interaction.

To assist all our employees, we have implemented a process that enables employees to log the details of any client needing assistance, to a service team dedicated to resolve escalated queries.

Leadership development

Leadership development is a key focus area for Discovery to ensure that we achieve our long-term business objectives. We have implemented a three-part strategy that focuses on; 1) strengthening leadership skills across the different management levels, 2) encouraging a learning culture, and 3) developing a comprehensive leadership induction programme. The Peak Performance Development programmes were designed during the year under review and were rolled out from July 2014.

Employment Equity figures

Occupational levels	South African employees								Foreign nationals		Total		
	Female				Male				Female	Male			
	A	W	C	I	A	W	C	I			2013/2014	2012/2013	2011/2012
Top management	1	0	0	0	1	17	0	2	1	0	**22**	23	20
Senior management	20	101	9	28	19	135	12	22	7	13	**366**	350	315
Professionally qualified and mid-management	89	279	54	145	38	193	20	68	17	6	**909**	860	847
Skilled technical/junior management	330	503	213	337	322	400	141	275	28	37	**2 586**	2 505	2 395
Semi-skilled	912	384	356	331	622	361	218	353	15	18	**3 570**	3 236	3 164
Total employees 2014	1 352	1 267	632	841	1 002	1 106	391	720	68	74	**7 453***	–	–

**Employment Equity figures apply to South Africa only.*

A = African W = White C = Coloured I = Indian

Employee wellness

A new corporate wellness programme was launched during the year to all Discovery employees and 4 870 employees attended the wellness days. A further 592 completed their Vitality Checks at a pharmacy. Through the wellness days we have assisted over 2 000 employees with referrals to a healthcare professional within the Discovery wellness network.

Recruitment

To ensure that Discovery is able to meet its business objectives, attracting and retaining employees with critical skills remains a strategic priority. To attract actuarial skills to our business, we developed the Adrian Gore Fellowship Award for actuarial students in 2013. A student from the University of Cape Town was awarded the fellowship and recruited as a full-time employee.

A further 12 actuarial students from the group of entrants have been offered full-time positions and will start with Discovery in 2015.



Socio-economic development

Overview of our contribution to socio-economic development in South Africa

Discovery's contribution towards socio-economic development in South Africa focuses on aligning corporate social investment and enterprise development initiatives with national priorities.

We have identified access to healthcare as one of the key priorities in South Africa and our strategy and funding are geared towards supporting this critical area, especially in the areas of capacity building, primary healthcare, and maternal and child health. South Africa's public healthcare sector serves over 43 million people, consumes 3.5% of the Gross Domestic Product (GDP), with 12 470 medical practitioners working in this sector-making the public sector severely under-resourced. While South Africa's broader healthcare outlook has improved in terms of increased anti-retroviral (ARV) coverage and the resulting improved mortality, maternal and child health has worsened. Within this environment, the Discovery Fund provides ongoing financial support to 43 community healthcare organisations and projects, and the Discovery Foundation invests in the specialist training and clinical research projects of medical specialists in South Africa.

R21 737 742
Investment in medical education and training in South Africa through the Discovery Foundation

R15 044 061
Total investment by the Discovery Fund in public and community healthcare projects in South Africa

R3 194 222
The total rand value of hours volunteered by Discovery employees

Key initiatives during the past year

A partnership with Childsafe to create a safe environment for children travelling to school

In 2014, Discovery started a partnership with Childsafe, a campaign of the Child Accident Prevention Foundation of Southern Africa, the Department of Education, the Department of Transport, and the Cape Town City Traffic Department. The Safe Travel to School programme is a response to the high road accident and fatality rates on South African roads and aims to change driver behaviour among school transporters. Through regular feedback and other interventions, we want to encourage scholar transport drivers to positively change their driving behaviour and in doing so, prevent road accidents involving children. The recruitment of drivers involves licensing, vehicle roadworthy testing, and eye examinations. A number of Discovery service providers are involved and donate services and products, such as glasses and the DQ-Track that measures driver behaviour.

To date, more than 150 drivers have been approached in high-risk areas of South Africa's Western Cape. Four information workshops have been held, 32 vehicles have been fitted with the DQ-Track, and 25 drivers were provided with glasses after their eye examinations. Three principal meetings have been held and 30 educators have been involved in curriculum enhancement. A total of 1 800 children have been included in awareness interventions.

Our target is to have 75 drivers enrolled on the programme by the end of 2014.

Infrastructure development for the KwaZulu-Natal Children's Hospital

The Discovery Fund has approved a R10 million grant over two years towards the refurbishment and renovation of the new KwaZulu-Natal Children's Hospital, which is being built on the site of old Addington Children's Hospital in Durban. This investment entails the support of phase three of the hospital, which is scheduled to start in January 2015.

Investment in specialist medical training and clinical research projects

The Discovery Foundation continued its support of specialists in South Africa's public healthcare sector by investing in specialist training and clinical research projects. This year, we have provided funding of over R21 million to 68 recipients, including 30 new recipients.



The top issues **impacting our business**

The material issues that impact Discovery and our stakeholders are determined according to our business strategy and strategic objectives, opportunities, the risks for our business, the communities we impact, as well as the macro-trends in our operating environment.



1 Regulatory changes and impacts

RELATED RISK
The risk that regulatory changes may impact negatively on Discovery's competitive advantage and unique assets, which have been developed over a number of years.

OUR STRATEGY
A comprehensive compliance process supports product development to ensure all products and business processes comply while still offering best protection and value to clients.

OUTCOMES OF OUR STRATEGY
- A major regulatory aspect impacting the private healthcare industry is the *Competition Commission Inquiry into Private Healthcare*.
- Discovery Health is undertaking proactive engagement with the Competition Commission to provide supporting information, as required.
- We are jointly hosting seminars with the Competition Commission for healthcare providers to help ensure open communication around the work and progress of the Commission.

2 Increasing healthcare costs

RELATED RISK
The risk that continual medical inflation may impact business performance negatively in terms of mortality and morbidity experience and related expenses.

OUR STRATEGY
Discovery Health's operating model of scientifically-based wellness interventions, clinical and risk management assets, healthcare delivery assets, and comprehensive product range aim to address high healthcare costs.

OUTCOMES OF OUR STRATEGY
- Discovery tariff negotiations lead to significant savings for the Scheme: hospital costs are 16.3% lower for DHMS than the industry average.
- Discovery Health and its interventions save DHMS 12.3% of total claims expenditure, or R4.7 billion per year.

3 Implementing an international expansion strategy successfully

RELATED RISK
Strategic risk refers to the negative impact that improper implementation of strategy may have on Discovery's potential performance.

OUR STRATEGY
To export Discovery's business model to other markets and industries by investing in the repeatability of the model across local businesses, international markets, and adjacent industries.

OUTCOMES OF OUR STRATEGY
- We invested further in clinical and behavioural research, health and wellness tools, digital platforms, and data analytics in our different markets, including the US, UK, China, Singapore, and Australia.
- Ping An Health entrenched its position as the number one medical insurer in China.
- The Vitality Group is increasingly being acknowledged as the top wellness provider in the US.
- AIA Vitality has rolled out the integrated behavioural-linked life assurance model to two markets, Singapore and Australia.

4 Human resource capacity

RELATED RISK
The risk that Discovery does not have adequately skilled and experienced employees in especially critical areas, to meet our long-term business objectives.

OUR STRATEGY
To develop a sufficient stream of skilled and experienced employees, especially in key actuarial, clinical, and information technology areas.

OUTCOMES OF OUR STRATEGY
- 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.
- We started a series of training and development programmes aimed at developing leaders at all levels in the business.

5 Morbidity and mortality risk

RELATED RISK
This risk relates to the inherent uncertainty of insurance liabilities, such as frequency, amount, and timing. It includes adverse mortality, morbidity, and lapse experience of the insurer.

OUR STRATEGY
To manage morbidity and mortality risks through careful risk and actuarial management, and improving clients' health through Vitality, using data from Vitality to improve our underwriting capability and ability to price risk more accurately.

OUTCOMES OF OUR STRATEGY
- Vitality has been proven through research to help improve morbidity and mortality risks.
- Claims and loss ratios improve in correlation with the improvement in Vitality status.
- Increased product integration reduces mortality risk and lapses even further as clients gain more value.

6 Customer retention in tough economic climates

RELATED RISK
Clients lapsing policies due to a difficult economic environment.

OUR STRATEGY
To retain customers by providing best-in-class insurance products. Vitality provides clients with additional value through product integration, thereby contributing to low lapse levels.

OUTCOMES OF OUR STRATEGY
- Focused conservation strategies and processes are in place to ensure client retention.
- Lapses are low across all businesses and better than the industry average – lapse rates decrease as members engage more in Vitality or Vitalitydrive.
- New benefits and products, designed and introduced to market in August and September 2014; thereby bringing additional value to our clients.

Report from Adrian Gore

Group Chief Executive, Discovery Limited



"The principle of shared value functions by connecting a company's success to social progress, so that **customers, the business, and society as a whole all benefit.**"

Normalised profit from operations
up 23%
to
R5 billion

Growth in embedded value
up 21%
to R43.1 billion

STRATEGIC FOCUS AREAS OVER THE PAST YEAR

The period under review has been a highly successful one for Discovery, with substantial progress made to realise our core purpose – **to make people healthier and to enhance and protect their lives.**

Underpinning this progress, and a key feature of the past year, has been the continued investment in Discovery's behavioural-linked insurance business model. Ironically, while the activity across all businesses was intense, the work on the business model centred on focusing and simplifying its assets. This work is significant, given that the business model is the driving force behind our ambition to make society healthier, and a model that maintains and grows in relevance, given the international trends facing our environment.

These include a globally rising expectation that companies fulfil a socially-progressive core purpose, where economic value is generated through meeting societal needs in a sustainable way. The principle of shared value functions by connecting a company's success to social progress, so that customers, the business, and society as a whole all benefit.

Insurers are well placed to meet this civic responsibility, given their large risk pools and mandate to provide protection against life's risks and uncertainties. This speaks to the role that insurers can and must play to find ways to benefit society and contribute to greater health and security.

A third force impacting the sector is the growing evidence that human behaviour is often far from optimal and that people make decisions based on over-optimistic and present-biased assumptions. We see this in every facet of human behaviour. People with multiple chronic conditions believe they are in good health and fail to make health choices that will benefit them in the long run; the majority of people believe they are good drivers, when in reality only a minority are, perpetuating risky driving habits day-to-day; and people continue to put off saving for the future even when faced with evidence of the consequences. This highlights the inefficiency of global insurance systems that aim to mitigate the financial impact of sickness and mortality risk, yet fail to speak to the detrimental behavioural choices underlying these risks.

The implications for traditional insurance models are stark: in health insurance, societies are resisting against using pre-existing conditions in underwriting decisions; in life insurance, static underwriting based on pre-existing conditions is outdated; and in short-term insurance, current underwriting is inefficient and based largely on demographic information. In summary, these systems fail to acknowledge behaviour as a core driver of risk, dynamic throughout the lifetime and currency of a policy.

Discovery's behavioural-linked insurance model is therefore disruptive in that through its application of behavioural science, it addresses the shortcomings of traditional insurance systems, making it responsive to the prevalent global forces facing its industries. It does so by incentivising better health and driving, and channelling the resultant risk savings into the incentives required to deliver these behaviour changes – a positive and reinforcing cycle. In this way, it continues to drive shared value: it delivers better health and value for customers, superior actuarial dynamics for the insurer, and a healthier society at large.

Building on from this, a focus over the period has been the globalisation of the business model through a deliberate strategy. In South Africa, Discovery's primary market where Discovery owns 100% of the risk-taking entities in its business operations, the focus has been on consolidating the model's expansion into adjacent industries, namely, short-term insurance through Discovery Insure. In Discovery's second primary market, the UK, where Discovery owns the majority of the risk-taking entities in its business operations, the focus has been on the continued effort to build a replica of Discovery's integrated model. Finally, in partner markets (US, China, Singapore, and Australia) where Discovery partners with major global insurers on an IP-led and capital-light basis, work has concentrated on licensing the model and its assets.

The above strategic focus on the business model delivered excellent performance over the past year: normalised operating profit was up 23% to R5 billion, new business growth was up 15% to R12.2 billion, normalised headline earnings were up 24% to R3.5 billion, and growth in embedded value was up 21% to R43.1 billion. In addition, the primary market saw growth in normalised profit from operations of 21% to R4.6 billion; the second primary market saw 33% growth in normalised profit from operations to R628 million; and partner markets are presenting considerable growth opportunity with only 5% of earnings invested.

A REVIEW OF BUSINESS PERFORMANCE

PRIMARY MARKET: SOUTH AFRICA

Discovery Health

The healthcare environment remains complex, characterised by an increasing disease burden, a deepening shortage of physicians in key disciplines, continued upward cost pressure, and legislative reform. Against this backdrop, Discovery Health continued its mission to create a superior healthcare system for Discovery Health Medical Scheme and other schemes under management, with investment across all of its pillars: wellness programmes and pathways for corporates and individuals; the digital platforms through which members and health professionals interact; its comprehensive product range; its provider networks; and its clinical and risk management assets. The outcome for members remains significant: the best cover, broadest healthcare provider network, and best value for member-selected benefits.

Discovery Health's performance exceeded expectation: operating profit increased 10% to approximately R1.9 billion, after continued efficiencies were passed onto Discovery Health Medical Scheme through a planned scale-related reduction in administration fee. In addition, Discovery Health new business increased 4% to R5 billion; and lives under management grew to 2.9 million.

The year-to-date performance of Discovery Health Medical Scheme was also pleasing: lives covered grew 3% off an extremely high base to 2.6 million; and loss ratios, lapse rates, and buy-downs remained low. Taking investment income into account, the projected net annual surplus for the Scheme is R1.3 billion and the projected solvency level should reach 25% of annual premium income by 31 December 2014, well ahead of the planned target date.

Discovery Life

Discovery Life demonstrated exceptional operating profit growth of 23% to approximately R2.6 billion over the period, driven by new business growth of 6% to R2 billion, better-than-expected claims and lapse results, improved renewal efficiencies, and disciplined expense control. Experience variances were positive by R572 million and the business generated R422 million in cash over the period, before allowing for the repayment of financial reinsurance.

The performance further validates the efficacy of the model, and its unique shared value attributes: members experience better value for money and policy holder returns, and the insurer benefits from superior actuarial dynamics and higher profit margins. This is the basis for the successful exportation of the model to the UK and Asia.

Discovery Invest

The performance of Discovery Invest over the period exceeded expectation. Operating profit increased by 50% to R331 million, driven by high growth of products sold and strong performance of the market. Assets under management increased to close to R42 billion, with new business Annual Premium Income (API) increasing by 30% to approximately R1.4 billion.

Discovery Insure

Discovery Insure's new business was exceptional, with 73% growth to R632 million, continuing on its trajectory as the fastest-growing short-term insurer in South Africa. Notwithstanding this accelerated growth, the actuarial dynamics of loss ratio and lapse rates trended downwards.

Discovery's behavioural-linked insurance model in short-term insurance is demonstrating the desired linkages between incentives and behaviour change, and creating further unique and innovative big data pathways to protect members and their assets.

The period was also significant for the step-change in Discovery Insure's technology capability. In partnership with US-based Cambridge Mobile Telematics, Discovery Insure launched a ground-breaking smartphone app solution to accurately monitor complex driver behaviour at a granular level, and to encourage safer driving in an intuitive, cost-effective, and member-friendly way.

Report from Adrian Gore

Group Chief Executive, Discovery Limited

SECOND PRIMARY MARKET: UNITED KINGDOM

PruHealth and PruProtect

The performance of the joint businesses was positive: combined operating profit grew 33% to R628 million; new business grew 35% to R2.1 billion; and the combined customer base measured almost 800 000 at the end of the period. The scale and relevance of Discovery's UK businesses reflect Discovery's vision to build an exemplar of its South African model and assets, manifesting in the best protection business in the UK. In this light, the period was foundational for its work on the product construct, with Vitality at the core; the distribution network across direct and intermediated channels; the investment in the customer journey; and continued elevation of the Vitality brand.

PruHealth delivered 38% operating profit growth to R202 million, driven by strong new business growth of 34% to R1.2 billion, predominantly in PruHealth's traditional markets of individual and small- to mid-sized enterprises (SMEs). During the period, significant work was done through Britain's Healthiest Company – a national initiative undertaken in conjunction with the University of Cambridge and RAND Corporation – to better understand the drivers of productivity and employee engagement, allowing a basis for Vitality to become more relevant in the corporate market going forward. Higher levels of Vitality engagement continued to positively impact retention, where the focus has been around value by using sophisticated price optimisation techniques.

PruProtect delivered operating profit growth of 31% to R426 million and new business growth of 37% to R883 million, supported by the launch of the new Vitality Optimiser product. The product fully embraces the pricing advantages of Vitality engagement, allowing for both a competitive upfront price point and dynamic annual underwriting based on Vitality engagement. Initial member receptivity and engagement with Vitality has exceeded expectation. The strong growth enabled PruProtect to entrench its position as the number three new business writer in the independent financial adviser (IFA) segment. From an actuarial perspective, on a cumulative basis since launch, both claims and lapses continue to outperform assumptions.

PARTNER MARKETS: CHINA, US, SINGAPORE, AND AUSTRALIA

Ping An Health

In the period under review, Ping An Health entrenched its position as the largest and fastest-growing health insurer in China. Important advancements included an expanded individual product range; an enhanced service to brokers and clients; and the improved throughput of internal and external distribution channels.

New business grew 119% to R339 million. Encouragingly, category growth is evident, particularly in group high-end (a product range offering extensive private medical insurance targeted at employers in China), with many members being first-time purchasers of comprehensive private health insurance. In addition, the mid-June 2014 launch of the Essential Health Protector (a product offering comprehensive private medical insurance targeted at individuals), saw a marked increase in individual sales. Furthermore, the licensing of individual Ping An Health products as Ping An Life products, meant a marked increase in sales post the reporting period, the result of access to Ping An Life's large intermediary base. This positions Ping An Health favourably to capture the potential of this burgeoning and important category.

Encouragingly, the ongoing reform of the healthcare system and the direction of government policy continue to provide long-term support to the development of the private health insurance market in China.

The Vitality Group and AIA Vitality

Over the period, significant effort was made in globalising the Vitality chassis in the US and pan-Asia through The Vitality Group and AIA Vitality.

The Vitality Group is increasingly being acknowledged as the top wellness provider in the US. Key developments over the period included product enhancements; new Vitality partners; strengthening of The Vitality Group's sales and distribution capability; and superior levels of member engagement compared to the industry. In addition, the Vitality Institute consolidated its thought leadership, publishing the key findings and recommendations of The Vitality Institute Commission on Health Promotion and the Prevention of Chronic Disease in Working-Age Americans.

AIA Vitality has now rolled out the integrated model in two countries: Singapore and Australia. Early data from both countries confirms the relevance of Discovery's business model to these pan-Asian markets, and the products have gained instant recognition as being leading risk products, as judged by intermediaries and industry.

CONCLUDING REMARKS

This is an exciting time in Discovery's journey as we leverage the opportunities across our markets, given the international recognition for Discovery's leadership in the category of behavioural-linked insurance.

A key factor in our continued success is the unequivocal talent and passion of Discovery's employees. This serves to reinforce our commitment to recruit the best in their respective fields, develop our employees to liberate their most inspired contribution, and keep the Discovery family engaged and driven by our vision to be the best insurance organisation in the world.

I thank each and every employee for their contribution to our success; it is indeed my pleasure and privilege to work with them. I look forward to continuing to build Discovery with such a remarkable team.



Interview with Richard Farber

Financial Director, Discovery Limited



In this interview, Richard Farber answers the frequently asked questions received from our analyst and investor community.

1. What were the highlights and disappointments for Discovery over the past year?

This year marked another period of strong performance for Discovery across all metrics and the businesses are all well positioned for future growth in their respective markets. New business grew by 15% to R12.2 billion to beat the 10-year average of 14% while normalised operating profit increased 23% to R5 billion, beating the long-term average of 22%. Embedded value grew 21% to R43 billion pleasingly with a positive variance of R1.4 billion.

Specific highlights include the launch of a ground-breaking smartphone app solution to accurately monitor complex driver behaviour at a granular level by Discovery Insure in partnership with US-based Cambridge Mobile Telematics (CMT). The aim of this innovative app is to encourage safer driving. The strategic partnership with CMT enhances Discovery Insure's leadership position in the growing industry of behavioural-linked auto insurance.

The launch of the Vitality Optimiser product by PruProtect allows for competitive upfront pricing and dynamic annual underwriting based on Vitality engagement, reflecting our vision to build an exemplar of our South African model and assets. Initial member receptivity and Vitality engagement has exceeded expectation and the strong growth has enabled PruProtect to entrench its position as the number three new business writer in the independent financial adviser (IFA) segment.

Although we have always made it clear that due to the nature of this market segment, Ping An Health will take some time to gain traction, an important milestone that took place mid-June 2014 was the licensing of individual Ping An Health products as Ping An Life products, resulting in access to Ping An Life's large intermediary base. This led to a marked increase in sales post the reporting period.

Although we remain on track to migrate towards a single administration system in PruHealth, the time it has taken for us to do so has been a disappointment to some extent. This process would realise efficiencies in the cost base (we expect ± GBP5 million in the 2015/2016 financial year). We would also like to see PruHealth capitalise on the elevation of the Vitality brand and our investment in the customer journey.

2. What are your views on the current economic climate in South Africa and is this affecting your business?

Economic cycles in the sense of a recessionary environment are a risk for all insurers. As policy lapse rates tend to closely follow difficult economic conditions, it is important for products to be relevant and meet people's needs. We closely monitor metrics that reflect the impact of current economic conditions on Discovery and to date, have not seen any negative trends emerging that impact our business. To illustrate, we continue to experience low lapse rates in Discovery Health and Discovery Life, extremely low missed debit orders overall, and no significant degradation of our credit card book.

3. Expanding access to private healthcare in South Africa is still a challenge for healthcare funders. Your low-income plan KeyCare has not shown any significant growth during the past year, do you think this market has matured?

The slower growth in our low-income health plan KeyCare is largely attributable to the need to correct the pricing of this plan series last year to ensure its sustainability, and not necessarily the inability to grow the market further. Our view is that there is potential to grow the low-income market further by providing a quality healthcare product at the right price.

4. There are numerous regulatory changes that may impact your business in future. What are your views on this?

The regulatory changes in the financial services sector are understandable as our government aims to improve the competitiveness of South Africa's economy in the global context. The new risk-based solvency regime for South African insurers, Solvency Assessment and Management (SAM), which will be applicable from 1 January 2016, is likely to have the most significant impact in terms of capital management and the business overall. Discovery participates in the Financial Services Board and other industry forums on this topic, with satisfactory progress made on the implementation of this programme. Other legislation likely to change the financial and health services industry are:

- Revisions to the basis for taxation of insurance companies.
- SA Retail Distribution Review.
- Protection of Personal Information.
- Treating Customers Fairly.
- National Health Insurance and related developments.
- Retirement Reform.

In all instances we continue to engage with the different regulatory bodies to ensure Discovery not only complies with any regulatory changes, but also to ensure that our business is prepared for the impact of any of the regulatory changes.

5. In terms of the cash generated in Discovery Life, are you comfortable with the level and the re-investment?

Yes, our view is that the strong annualised profit margin (value of new business as a percentage of the present value of future premiums) in Discovery Life of 10%, warrants a high level of re-investment in the business. Therefore, cash generated in Discovery Life is re-invested to fund new business acquisition costs, the benefits of which will be realised over the term of the insurance policy. Moreover, Discovery's philosophy has been to re-invest in new business development. This has assisted in Discovery Insure's growth and the establishment of a solid foundation in China and Asia over the past few years.

6. Discovery uses re-insurance throughout the business; how does this work and are you comfortable with the level of re-insurance for Discovery?

Re-insurance is used strategically in Discovery as a mechanism to fund new business and reduce risks. For Discovery Insure, risk transfer to the re-insurers creates a sustainable business by reducing the level of capital requirements for shareholders. In the UK, health operations re-insurance is further used to fund new business expansion, thereby reducing the capital strain on shareholders. We are comfortable that the level of re-insurance used in the business is conservative and can be managed as our business needs change.

7. Some analysts consider your Embedded Value overstated as your risk discount rate is too low. Is the risk discount rate representative of the real cost of equity and are you using this for investment decision making?

Our risk discount rate is determined according to the Actuarial Society of South Africa's Advisory Note APN 107: Embedded Value reporting. The risk discount rate, calculated in accordance with the guidance note issued, uses the Capital Asset Pricing Model (CAPM) approach with specific reference to the Discovery beta coefficient from publicly quoted sources. This reflects the historic performance of the Discovery share price relative to the market and may not allow fully for non-market related and non-financial risk. Investors may want to form their own view of an appropriate allowance for the non-financial risks which have not been modelled exclusively. For our investment decisions, we use higher hurdle rates of risk-free plus 10%.

8. What are your key focus areas for next year?

In a challenging economic environment, our focus will be on ensuring the business continues to grow profitably across local and international operations. In South Africa and in the UK, our operations are well positioned to capitalise on emerging macro-economic trends.
In our partner markets, our focus is on monetising the intellectual property developed and shared in these markets; thereby expanding the success of the Discovery model.

A focus on wellness

Vitality: The enabler that creates shared value

Individuals' poor health behaviour leads to major chronic illnesses

Non-communicable diseases present the greatest threat to people's health globally. Cardiovascular disease, diabetes, high blood pressure, lung disease, and some cancers are the greatest causes of death and disability, and account for more than 50% of deaths worldwide. Four lifestyle behaviours – physical inactivity, poor nutrition, excessive alcohol intake, and smoking – result in an increased risk of getting one of these chronic illnesses. Changing these lifestyle behaviours can significantly reduce the impact of such illnesses.

Although people know about the risk of chronic illnesses, long-term healthy behaviour is difficult to establish

If the major chronic illnesses can be reduced by changing our risky behaviour, why is it so difficult to do so? The answer lies in the healthcare-wellness paradox. People tend to hold the view that immediate results are more valuable than wellness, as opposed to the view that positive behaviour today, will deliver better health outcomes in future. While the long-term benefits of wellness and preventive care are common knowledge, sustained wellness behaviour is difficult to establish and maintain. This can be attributed to a lack of information, over-optimism about health status, and the fact that the benefit of wellness and preventive care are only realised later in life.

For any wellness strategy to be effective, this aspect of human behaviour is critical to understand.

Vitality is a scientific wellness solution that addresses the healthcare-wellness paradox through groundbreaking behavioural economics techniques

Vitality was designed to engage individuals in the management and improvement of their health through the use of incentives. The programme is strongly grounded in the principles of behavioural economics, as it encourages positive, sustained behaviour change by offering individuals a combination of knowledge tools, access to wellness partners, and financial incentives. Incentives increase proportionally as the individual engages with the programme.

The programme works in three 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 engage with.
3. Members are **rewarded for their engagement** with the programme through a broad incentive structure that addresses different behavioural motivators.

Vitality

THE VITALITY PROGRAMME INTEGRATES HEALTH BEHAVIOUR AND COVERS THE COMPLETE HEALTHCARE SPECTRUM – RANGING FROM LIFESTYLE MODIFICATION AND PREVENTIVE CARE TO DISEASE MANAGEMENT

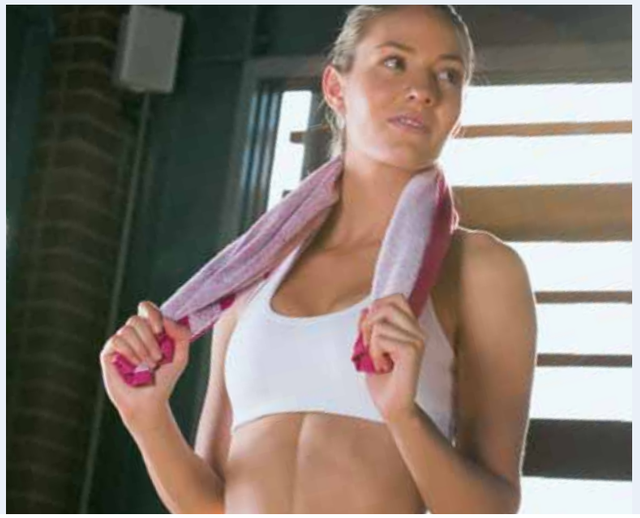
Between now and 2030, there is estimated to be a
17% increase
in deaths caused by chronic conditions
– World Health Organisation

The cost of the disease burden is likely to
increase by 50%
in developing countries by 2030
– World Health Organisation

Four main risk factors – physical inactivity, unhealthy diet, smoking, and excessive alcohol intake –
account for 60%
of all deaths worldwide
– World Health Organisation







Vitality is changing the way insurance works

Vitality integrates seamlessly with insurance products and provides a unique competitive advantage: it enables dynamic underwriting that benefits both the member and the insurer. Insurers traditionally use static underwriting risk factors such as gender, age, and smoker status to quantify a client's potential risk. Assessed at the time of policy inception, these risk factors offer a limited view of a person's health risk. A client's health behaviour, measured almost daily through the Vitality programme, provides an ongoing and more accurate risk indication.

Vitality has more than 17 years of wellness data and a comprehensive understanding of wellness behaviour. It adds a dynamic underwriting capability and takes into account the impact of chronic diseases of lifestyle as measured through levels of physical activity, dietary behaviour, smoking, blood pressure, and diabetes levels.

By integrating Vitality with insurance products, Discovery has developed a unique business model that can assess a client's risk more accurately over time. This results in better benefits for clients as savings are channelled to create additional value for clients, lower and more accurate risk pricing, better selection, lower lapse rates, and better mortality and morbidity experiences.

Read more about Discovery Vitality and Vitality Globally on pages 52 and 76 of this report.

A focus on wellness

Vitality research

Vitality collaborates with leading academic institutions to ensure that the Vitality programme is at the cutting edge of health behaviour change and to further the science of health promotion within the industry. Most research focuses on the effects of lifestyle changes on health, how incentives impact on health, and the role of wellness programmes to improve health behaviour change.



LIFESTYLE

Research collaborator: RAND Corporation

THE EFFECTS OF HEALTH RISKS ON HEALTHCARE COSTS

AIM Understand the effects of obesity, smoking, and excessive alcohol intake on healthcare expenditure.

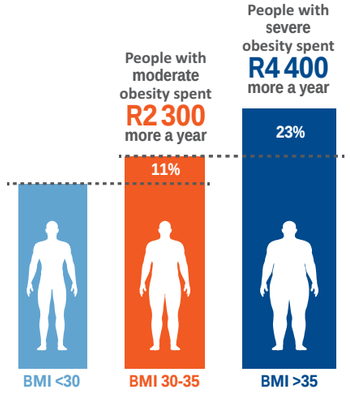
TOOLS Health survey and medical claims data for 70 000 South Africans.

FINDINGS

Smokers spent **R2 600** more per year than non-smokers

Medical expenses associated with these health risks were **higher among older individuals,** almost tripling for people between the ages of **54-69**

- R6 200 more for smoking
- R6 600 more for moderate obesity
- R15 800 more for severe obesity



EXERCISE

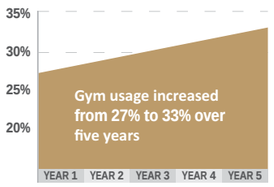
Research collaborator: University of Cape Town

VITALITY INSURED PERSONS STUDIES

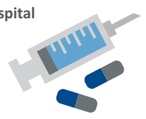
AIM Understand the impact of Vitality on exercise, healthcare costs and hospitalisation.

TOOLS Analysis of five years of Vitality engagement data and Discovery Health claims data.

FINDINGS Vitality members who consistently maintained or increased engagement in fitness-related activities had better health outcomes than non-Vitality members



There was a **7%** difference in probability of hospital admission and a difference of over **R1 000** in hospital costs between active and inactive members





Members initially classified as inactive dropped from **76% to 68%**

One additional gym visit per week was associated with a **7%** lower chance of hospital admission



NUTRITION

Research collaborator: RAND Corporation

BEHAVIOUR CHANGE – HEALTHYFOOD STUDIES EATING BETTER FOR LESS

AIM Understand the impact of a discount programme on the choice and purchase of healthy food items.

TOOLS Analysis of data from the online Vitality Health Risk Assessment (HRA) and HealthyFood spend of over 350 000 Vitality members.

25% CASH BACK had a larger effect than the 10% cash back

FINDINGS

Significantly greater intake of healthy foods

and a reduction of unhealthy foods

Compared to people who receive no cash back, a 25% CASH BACK on healthy foods showed:

- 21% Daily fruit and vegetables
- High-sugar foods 29%
- High-salt foods 24%
- Fried foods 27%

Members on both cash back levels changed their spending habits

The 25% cash back showed the most positive changes in:

- 9.3% Healthy foods
- 8.5% Fruit and vegetables
- 7.2% Less desirable foods

CHILDREN'S HEALTH

HEALTHY ACTIVE KIDS REPORT CARD

AIM To highlight the current health status of South African children and youth, specifically to physical activity, healthy eating, and maintaining a healthy weight.

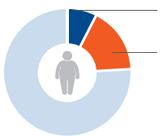
METHOD The physical activity and nutritional status of children and youth in South Africa were reviewed using published and peer-reviewed literature, post-graduate theses and dissertations, and 'grey' literature, eg, government reports of the previous five years. Based on these results a grade was assigned to each health behaviour.

FINDINGS

South African children spend a large proportion of time sedentary, the most concerning of which is screen time – an average of **3 HOURS** per child per day

On average, South African children consume **15-30 KG** of sugar per month

Overweight and obese children in South Africa



7.5% BOYS

16.7% GIRLS

South Africa has **dropped from a C- in 2010 to a D grading** for getting children active and eating healthily

The intake of fast food is increasing, with most South African children eating fast food **3X PER WEEK**



Research collaborator: UCT/MRC Research Unit for Exercise Science and Sports Medicine

WELLBEING AT WORK

THE RELATIONSHIP BETWEEN LEADERSHIP SUPPORT, WORKPLACE HEALTH PROMOTION FACILITIES, AND EMPLOYEE WELLBEING

AIM

To assess how employees' perceptions of their company's commitment to health promotion affected workplace health promotion programmes and policies, leadership support for worksite health promotion and employee wellbeing.

METHOD

- Discovery's Healthy Company Index identified companies that had adopted best practice in on-site health-related programmes and facilities.
- More than 100 companies registered and participated in the research in 2012 by completing a questionnaire on workplace facilities and practices. Over 13 000 employees completed a questionnaire on their health status and behaviours.
- The information gathered results in companies being awarded in various categories and a theoretical model linking leadership support to programme success, was developed.

FINDINGS

Workplace health promotion programmes are more likely to succeed if **actively supported at all levels of management. This improves how employees perceive their company's commitment to their health**

Research collaborator: UCT/MRC Research Unit for Exercise Science and Sports Medicine

A focus on healthcare

The drivers of cost in our healthcare system

Read the Discovery Health overview on page 36.

Drivers of healthcare costs occur on both the supply and the demand sides of the healthcare system. Supply-side factors include issues such as the numbers of healthcare professionals, hospitals, and other service providers, and how these are organised and paid. New medicines and technologies are also key supply-side factors. Demand-side factors include issues such as the age and disease profile of the population, which in turn influence the demand for healthcare services.



Examples of supply-side factors in the South African healthcare system

- New medicines and technologies that often provide tremendous improvements in survival rates and quality of life, but at a significantly higher cost.
- Severe shortages of healthcare professionals in some areas, and a market concentration of healthcare professionals in other areas.
- Fee-for-service-payment system that naturally encourages healthcare professionals to deliver more services, sometimes more than may be strictly necessary, and to optimise billing behaviour to maximise income.
- A fragmented structure where healthcare professionals work in silos, with very little coordination between them, leading to waste and duplication of services that do not add clinical benefit.

Examples of demand-side factors in the South African healthcare system

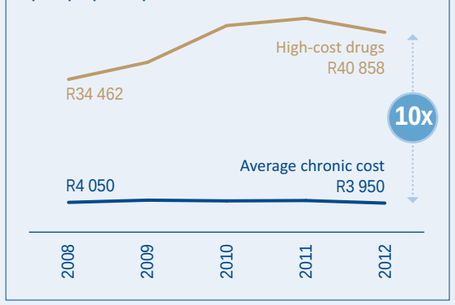
- Demographic trends such as an ageing insured population and a rapidly increasing chronic disease burden drive increased demand for healthcare services. The average scheme member with a chronic condition uses 400% more healthcare resources than a healthy member.
- The current medical scheme regulatory environment is based on open enrolment and community rating, which means that medical schemes must accept all applicants regardless of age and health status. South Africa is unique in that medical scheme membership is voluntary, resulting in adverse selection where people join a medical scheme when they believe they will need it, or they join lower-cost options and 'buy up' to more comprehensive options when they get sick. Medical schemes rely on the surpluses generated by healthy members to fund the cost of treatments for sick members. These cross-subsidies have to be managed and balanced carefully to ensure all members enjoy cover when they need it most while ensuring that medical scheme contributions remain affordable. Adverse selection undermines the ability of medical schemes to manage these cross-subsidies effectively.

Insights into healthcare costs

1 New medical technologies and other high-cost interventions are entering the healthcare system at an increasingly rapid pace. Many of these technologies are life-changing. However, they pose enormous challenges for healthcare funders and governments to fund those technologies which add clinical value and are at the same time cost-effective. At the same time they need to persuade healthcare professionals and patients to avoid expensive technologies that only add marginal value and are not cost- effective. Without this approach, individual healthcare professionals and patients will continue to demand access to all new technologies, regardless of their clinical value, side effects, and price.

Rapid increases in the use of high-cost drugs and technology

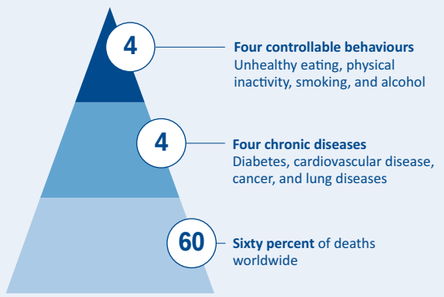
Spend per patient per annum



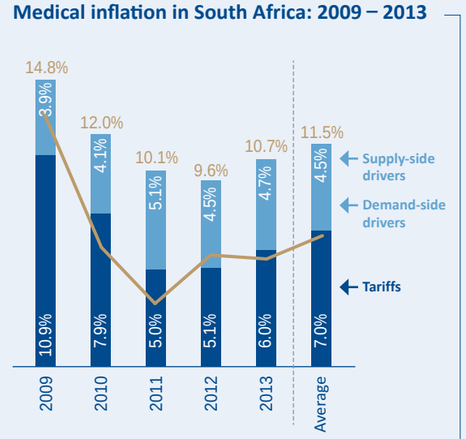
2 Unlike many other industries, new healthcare technologies increase rather than decrease costs over time. This can be attributed to what is known as the "Baumol effect", which explains the phenomenon that in labour-intensive (typically service-oriented) industries which rely on highly-skilled labour, technology advances generally do not replace highly-skilled labour and therefore do not lead to lower costs. The only way that this impact can be mitigated is to improve the productivity of all elements in the healthcare system. A new approach is required to how healthcare professionals and funders collaborate to counter ever-increasing healthcare inflation while also adopting the newest technologies that allow improvements in quality of care and health outcomes.

3 Healthcare inflation is only driven partly by Consumer Price Inflation (CPI)-related increases in the tariffs charged by healthcare professionals, hospitals, and other service providers. However, the key driver of inflation above CPI is the volume of services that medical scheme members consume every year. These increase significantly on an annual basis because of a combination of demand- and supply-side factors. Factors such as an ageing insured population and the rapid increase in chronic diseases of lifestyle add to the growing demand. Together, these factors currently contribute an additional 3% every year to healthcare inflation.

Epidemic of lifestyle diseases



Medical inflation in South Africa: 2009 – 2013



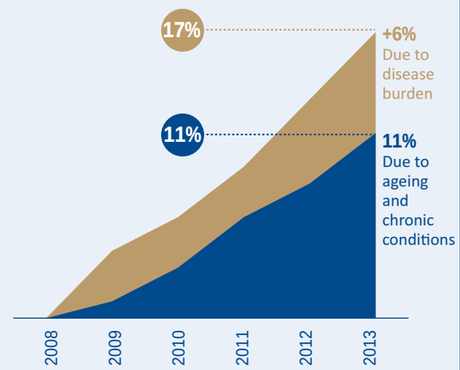
Supply-side drivers:
- Fee-for-service system
- Fragmentation of care
- New technology and procedures
- New hospitals

Demand-side drivers:
- Adverse selection
- Increased disease burden
- Ageing

Tariffs:
- 0.3% above CPI

Increasing disease burden in private medical schemes

Disease burden index, %



A focus on healthcare

The drivers of cost in our healthcare system

4 Employers, healthcare professionals, and funders of healthcare must find strategies to collaboratively manage the increasing burden of disease. Appropriate strategies must include incentives to encourage changes in lifestyle and health behaviours, as well as appropriate access to prevention screening and effective treatment of chronic diseases.

5 Inefficient processes, a lack of coordination between healthcare professionals, and a poor flow of information, result in significant wastage in the healthcare system. Initiatives to encourage better teamwork and coordination, as well as the use of efficient digital tools to improve access to, and the use of appropriate information, can lead to significant improvements in quality of care and to material cost savings. Over the long term this results in the freeing of funds for richer benefits and increased remuneration for healthcare professionals.

6 Improving quality of care and reducing waste require healthcare professionals and funders to collaborate to manage their patients' conditions in a coordinated fashion and to ensure that the system serves patients' real needs. There is significant evidence that healthcare professionals working alone with poor coordination between them, contributes to rising healthcare costs. This is because they often work on a fee-for-service reimbursement model that naturally encourages higher volumes and contributes to a fragmented care system. In addition, a lack of coordination leads to errors and duplication of investigations and other services.

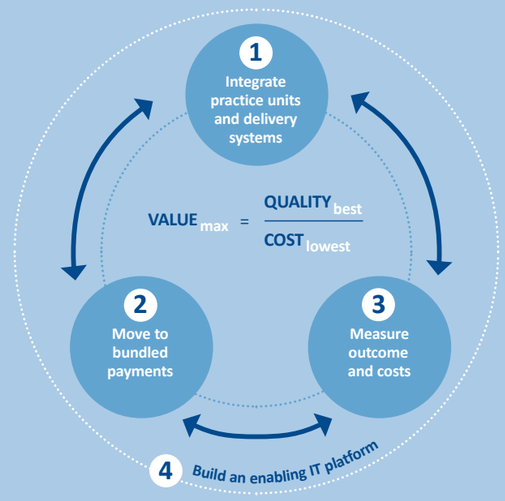
7 Mobile and digital technologies are playing a much greater role in people's lives. These technologies will greatly impact how healthcare is delivered to patients, how healthcare professionals interact with their patients and healthcare funders, as well as how patients will interact with their healthcare funder.



Setting a new healthcare agenda by creating value

Globally, healthcare leaders are realising that addressing the challenges and complexity of high healthcare costs require a collaborative, comprehensive, and systematic approach. Discovery Health has distilled these perspectives into a model that puts value for patients at the centre of the healthcare agenda.

Healthcare 2020 envisages a healthcare system in which healthcare professionals work together in teams within integrated practice units and delivery systems. Through this model, healthcare professionals are paid appropriately by using innovative reimbursement alternatives to the traditional fee-for-service model. Healthcare outcomes, costs, and value are continually measured as the basis for ongoing improvements.



The four key characteristics of a value-focused healthcare system are:

1. Integrated practice units and delivery systems that require teamwork, specialisation, and integrated delivery of care

   This model includes highly specialised and focused teams carrying out routine procedures efficiently and with excellent quality of care. It also includes multi-disciplinary teams that are able to manage diagnostic uncertainty and clinical ambiguity.

2. Measuring outcomes, costs, and value to enable more collaboration between healthcare professionals

   By implementing coordination programmes and projects that encourage greater collaboration and the sharing of knowledge, it is possible to better measure and improve patient outcomes and the resulting costs over the long term. Healthcare funders have an important role to play to enable this collaboration.

3. Value-based reimbursement models reward professionals and other service providers for improving patient outcomes

   Globally, there has been a shift in healthcare systems towards value-based reimbursement models that better align incentives for efficiency and quality of care. This includes risk-sharing contracts with healthcare professionals that naturally improves patient outcomes through a focus on quality of care. Over the long term, this also increases professional remuneration as cost savings are made possible by eliminating associated and unnecessary spend that only adds marginal clinical value.

4. Mobile and digital technology can be harnessed to improve quality and reduce costs

   There is a significant opportunity to use emerging digital technologies to improve the efficiency and outcomes of care for doctors and patients. Electronic patient records are becoming a critical tool that make the sharing of knowledge and collaboration between healthcare professionals easier.

Our important relationships

Our business impacts various communities and stakeholder groups, including employees, clients, financial advisers, healthcare professionals, regulatory and industry bodies, as well as investors. The way we operate, our long-term strategy, and the way we interact with our communities, are important aspects of our performance, and ultimately, the sustainability of our business. We recognise that the continued growth and success of our business are intrinsically linked to understanding our communities' concerns and needs.

In our community engagement, we abide by the following principles:

- Transparency and accountability.
- Inclusivity and responsiveness.
- Honesty and integrity.
- Complete, timely, relevant, accurate, honest, and accessible information.

We manage our engagement in the following ways:

- The Discovery Limited Board of Directors plays a governing role in the monitoring of our stakeholder engagement.
- Proactive management of stakeholder issues and concerns.
- Our stakeholder engagement framework and guidelines.

OUR CLIENTS

We provide insurance products, financial services, and wellness products to over eight million clients in South Africa, the UK, US, China, Singapore, and Australia. We impact people's lives through health, life and short-term insurance, investment and savings products, and wellness products.

THE ISSUES OUR COMMUNITIES CARE ABOUT

- Being sufficiently covered and protected by their choice of insurance product.
- Affording the cover they need.
- A life-changing event and the financial consequences of such an event.

OUR RESPONSE

- Discovery Health continues to develop new benefits and enhancements to give clients more choice and flexibility in terms of the cover they choose. For 2013, we introduced two new plans for members – the Classic Comprehensive Zero Plan and KeyCare Access – that cater for specific market segments.
- We continuously design new product integration benefits and enhancements that give our members more value as they combine their Discovery products.
- Underinsurance is a risk facing many consumers globally. To address this need, Discovery Life and PruProtect continuously design and launch new products aimed at making it easier for consumers to buy protection products that meet their lifestyle and financial needs.

INVESTORS AND ANALYSTS

Investors and analysts together form an important community for us as their perception of Discovery's financial performance could impact how the market views Discovery.

THE ISSUES OUR COMMUNITIES CARE ABOUT

- The financial performance of companies and industries in which investments are made.

OUR RESPONSE

- On an ongoing basis, Discovery's Investor Relations Department meets with investors and analysts to provide them with detailed information about Discovery's financial performance.

INDUSTRY BODIES, REGULATORS, AND GOVERNMENT

Financial services and insurance industries are highly regulated in our various markets. We are responsible for engaging with these industry bodies and regulators, and are required to comply with the various regulations that impact our business.

THE ISSUES OUR COMMUNITIES CARE ABOUT

- Ensuring that consumers are protected in terms of financial and insurance products.
- Ensuring that the various financial and insurance industries thrive.

OUR RESPONSE

- Regular engagement with the various regulatory and industry bodies, including detailed submissions to the Competition Commission Inquiry into Private Healthcare (South Africa); and preparation work on Solvency Assessment and Management (SAM) in South Africa; as well as preparation of submissions for the South African Retail Distribution Review.

OUR EMPLOYEES

Discovery has 8 484 employees across all our businesses. Our unique culture of innovation and entrepreneurial thinking are important driving forces behind our competitiveness. The talent, skills, and expertise of our employees are critical to our continued growth and success.

THE ISSUES OUR COMMUNITIES CARE ABOUT

- Career opportunities and advancement.
- Personal development.
- Achieving a work-life balance.

OUR RESPONSE

- During the year, we introduced a new leadership development programme. This programme focuses on developing current and future leaders, which is critical for Discovery to meet our long-term business objectives.
- A focus on developing a learning culture in Discovery through various learning opportunities, both in person and online.
- A leadership induction programme has been developed.
- A new corporate wellness offering was rolled out to all employees in May and June 2014 in which 4 870 employees took part.
- Additional lifestyle and wellness service providers were appointed for Discovery's head office, including a new staff restaurant that offers healthier meal options.

FINANCIAL ADVISERS

Qualified financial advisers are important as they assist clients with proper financial advice. As a community, Discovery works with independent and tied financial advisers.

THE ISSUES OUR COMMUNITIES CARE ABOUT

- Whether the financial and insurance industries remain sustainable.
- How regulatory and other industry and distribution changes may impact their careers.

OUR RESPONSE

- Ongoing engagement and communication with financial advisers through meetings, roadshows, and other forums.
- We host Continuous Professional Development Days (training on industry issues).
- Technical marketing support and other sales material and tools are provided.

HEALTHCARE PROFESSIONALS

Skilled healthcare professionals and other providers of healthcare are critical for the sustainability of healthcare systems and industries globally, as well as the continued care and wellbeing of patients.

THE ISSUES OUR COMMUNITIES CARE ABOUT

- Fair reimbursement for services delivered.
- How regulatory developments may impact their careers, working environment, and patients.

OUR RESPONSE

- Continuous engagement with healthcare professional societies to develop care coordination programmes and alternative reimbursement models that ensure quality of care to patients and higher reimbursement to healthcare professionals. Examples of these programmes include the Discovery Health Care Coordination Programme and the Discovery Health KidneyCare programme.
- Presentations and forum discussions with healthcare professionals around regulatory developments.

THE MEDIA

The media plays an important role in providing accurate information about complex issues such as healthcare and financial services.

THE ISSUES OUR COMMUNITIES CARE ABOUT

- The changing nature of how media is delivered and consumed, and the impact this has on career development.
- Finding accurate information for reporting.

OUR RESPONSE

- Discovery regularly hosts media roundtable discussions in which industry experts are brought together to discuss topical issues.
- Annually, awards are made for excellent media reporting in the healthcare field in South Africa through the Discovery Health Journalism Awards.

Discovery Health

DISCOVERY HEALTH

KEY FACTS ABOUT DISCOVERY HEALTH

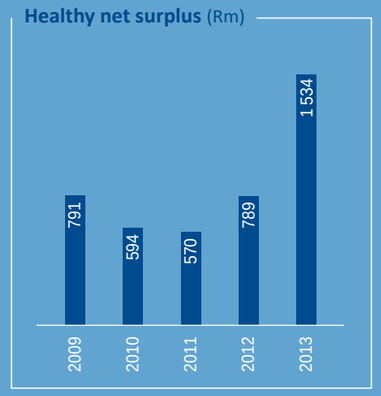
- Administrator of South Africa's largest open medical scheme, Discovery Health Medical Scheme (DHMS).
- DHMS is the only medical scheme in South Africa that has an AA+ rating from Global Credit Ratings for its claims paying and risk management capability – achieved for the past 14 years.
- DHMS has a 52% share of the open medical schemes market in South Africa.

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

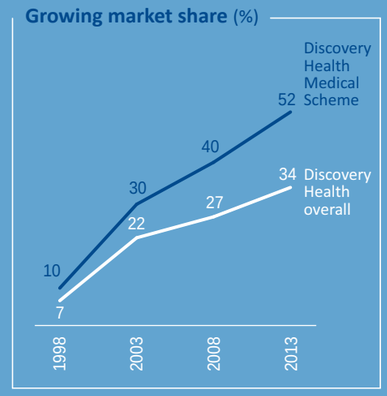


PERFORMANCE HIGHLIGHTS 2014

Healthy net surplus (Rm)

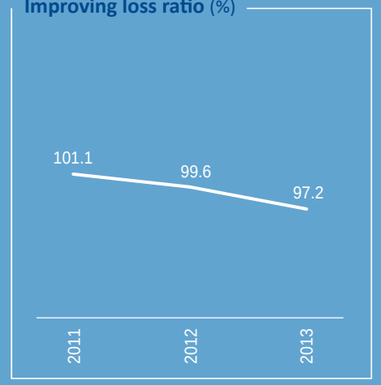


Growing market share (%)

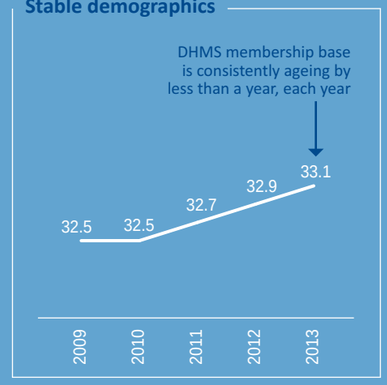


Normalised profit from operations for Discovery Health	
2014	**R1 854 million**
2013	R1 688 million
2012	R1 499 million

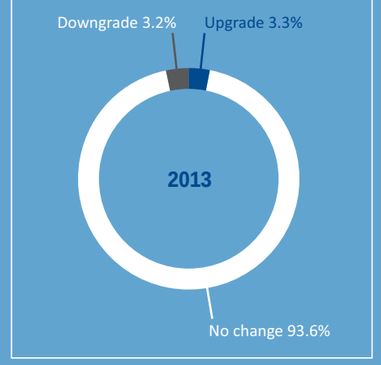
Improving loss ratio (%)



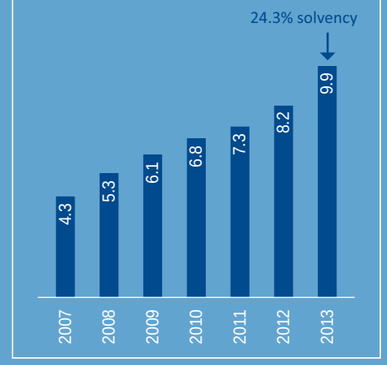
Stable demographics



Minimal plan movements



Increasing reserves (Rbn)



Operating profit **increased 10% to R1 854 million**

Discovery Health was recognised as the Healthcare Product Supplier of the year by the Financial Intermediaries Association (FIA) of Southern Africa for the 7th consecutive year

New business **increased 4% to R5 000 million**

Administration fees paid by Discovery Health Medical Scheme continue to decrease in real terms because of efficiencies gained

Lives covered for all schemes under management **increased to 2.9 million**

Discovery Health was awarded contracts to manage two new restricted schemes: Anglo Medical Scheme and BMW Employee Medical Aid Society

Discovery Health

PROGRESS ON OUR STRATEGIC OBJECTIVES FOR 2014

Strategic objectives	Progress report
Continue to provide benefit and contribution stability across the DHMS product range.	• Positive benefit enhancements were announced at year end. • A contribution increase of 8.9% was announced for 2013 to maintain and enhance benefits, strengthen the Scheme's competitive position, continue to build solvency while growing membership, and to ensure the financial strength and sustainability of the Scheme.
Ensure that all schemes under our management provide the broadest benefit choices at the lowest cost, with outstanding service to members.	• DHMS contributions are on average 14% lower than competitors on a plan-by-plan basis. • Discovery Health was ranked best in industry for its call centre, technology, administration, and claims payment service by the Private Healthcare Pulse survey for 2013/2014.
Drive further service and benefit innovations for members, healthcare professionals, and financial advisers.	• Discovery Health launched MyConsult with Cleveland Clinic, an online programme for members that enables their healthcare professionals to get a second opinion on complex diagnoses. • Discovery MedXpress service (Discovery Health's medicine delivery service) was expanded to include specialised high cost medicines. The new service includes procurement, dispensing, and delivery of these specialised medicines. • New features were introduced for the Discovery member app. The app has been downloaded 250 000 times with 160 000 monthly logins at the time of writing. • Additional functionality was added to Discovery HealthID, the electronic health record application used by doctors to improve quality of care for DHMS members.
Continue to leverage our scale, resources, and partnerships to stimulate and incentivise improvements in the efficiency, quality, and coordination of care delivered to members managed by Discovery Health, including the development of innovative, low-cost models of care delivery.	• Discovery Health expanded the Care Coordination Programme that facilitates high quality and coordinated care to very sick members. The programme currently caters for 60% of the eligible population in five regions.
Continue to use innovative product solutions to meet the needs of the lower-income market.	• KeyCare, the low-income plan of DHMS, had 401 900 lives at the end of June 2014. • DHMS launched KeyCare Access at the end of 2013 for 2014 – a new low-cost entry point for lower-income earners that provides cover in the healthcare areas that members value most.
Improve the quality and efficacy of Discovery's corporate wellness offerings to clients as part of a strategy to improve the health and wellness of our members.	• Discovery Health launched a new corporate wellness offering to 250 brokers and 5 000 Discovery employees, with rollout to our corporate clients during the second half of 2014.
Implement a framework for Treating Customers Fairly.	• Discovery Health has formally implemented a Treating Customers Fairly (TCF) framework in February 2014, based on the TCF outcomes stipulated by the Financial Services Board. The framework includes key fairness indicators that measure adherence to the defined TCF principles and objectives. As part of the rollout of the TCF framework, extensive training was undertaken by staff. An enhanced customer complaints process was implemented to enable effective corrective actions and continual improvement of customer experiences.
Improve the quality of healthcare services for members of all schemes managed by Discovery Health.	• Discovery Health implemented and expanded several quality improvement programmes including the Discovery Excellence Awards for Nurses, which are aimed at recognising quality of care from the nursing profession in hospitals; the Discovery Health KidneyCare programme; and other collaborative initiatives with health service providers.
Contribute to strengthening and sustaining South Africa's private healthcare system within the broader national healthcare system.	• Discovery Health is the largest contributor to the Joint Public Health Enhancement Fund (Social Compact), which provides funding for three major strategic projects identified by the Minister of Health in South Africa. • Discovery Health provided support and expertise in one National Health Insurance Pilot District. • The Discovery Foundation made grants of over R21 million towards the training of specialists in South Africa's public healthcare sector during the year under review. The Foundation has to date supported 245 recipients in advancing their specialist education and training.

Overview

Discovery Health manages the full spectrum of the healthcare needs of 2.9 million people through South Africa's largest open medical scheme, Discovery Health Medical Scheme (DHMS), and 13 restricted medical schemes. Discovery Health was founded in 1992 as a specialist health risk insurer with a focus on consumer-driven healthcare. Through structural innovations such as the Medical Savings Account, and through best-in-class claims and risk management assets and skills, Discovery Health has been successful in lowering the cost of healthcare.

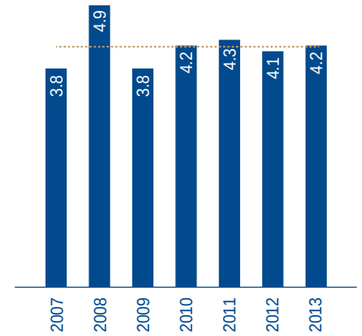
Our business has since evolved into a comprehensive healthcare offering that aims to integrate all aspects of healthcare, risk, wellness, quality of care, and technology into a cohesive healthcare ecosystem that addresses the needs of the patient and healthcare professionals. Discovery Health's evolution 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.

Globally, healthcare systems are increasingly battling the challenge of stubborn healthcare inflation, complex healthcare legislation and reform, an increasing burden of disease, new high-cost medical technologies, variable levels of care and value for patients, a changing demographic profile, as well as a shortage of healthcare professionals. Within this complex healthcare environment, Discovery Health works in partnership with DHMS and our restricted scheme clients, to ensure that members have access to the best quality care at the lowest cost, while ensuring the sustainability of all medical scheme clients over the long term, as well as supporting the healthcare profession in South Africa.

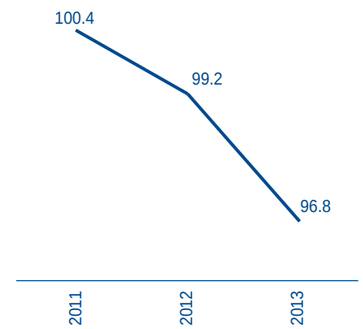
During the past year, we focused on investing in all categories of our business, including a significantly enhanced corporate wellness offering, expanded digital platforms that assist healthcare professionals to improve quality of care for Discovery Health members and that assist members and their healthcare professionals to interact more easily with us, as well as a number of initiatives to improve the quality of care that members receive.

Read *A Focus on Healthcare* in which we discuss how value can be created in healthcare. Page 32 of this Report.

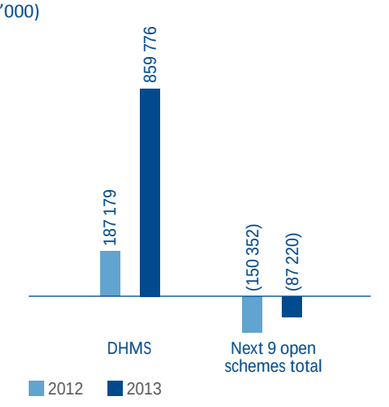
Lapse rate remains low and well below industry levels (%)



Improvement in claims experience and loss ratio

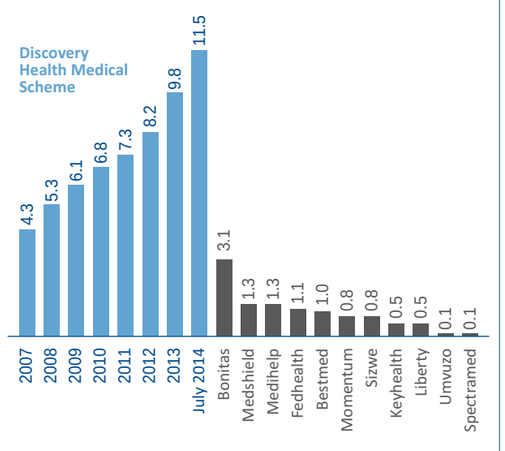


DHMS surplus trends
(R'000)

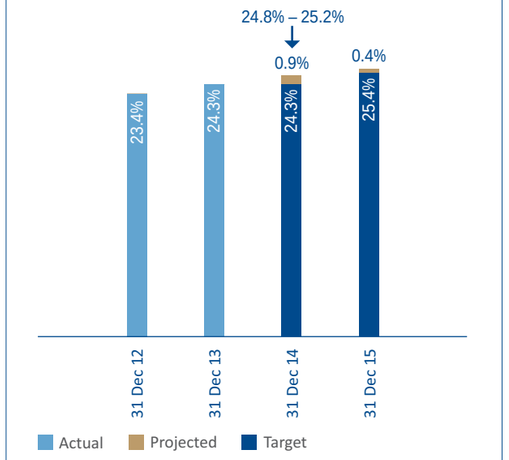


Discovery Health

Substantial reserve build up (Rbn)



Exceeding target solvency plans for DHMS



OUR FOCUS AREAS DURING THE PAST YEAR

ENSURE LOWEST HEALTHCARE COSTS OF ANY MEDICAL SCHEME IN SOUTH AFRICA

Discovery Health has been successful in maintaining cost inflation for medical scheme members at well below the industry average – a critical factor for medical schemes in addressing the cost pressure of medical inflation. Over a number of years, we have invested in developing an operating model to manage healthcare funding cost-effectively. This model brings together risk management assets, healthcare provider networks and assets, as well as digital tools, and leverages the powerful positive impact of Vitality on the health of Scheme members. The impact of this model reflects in Discovery Health Medical Scheme's (DHMS) lower average claims costs relative to all other open medical schemes – the Scheme's total healthcare claims costs, for example, were on average 18% less per beneficiary per month than the average of all other open medical schemes. In terms of the total potential claims expenditure for the Scheme, Discovery Health's interventions in the form of tariff negotiations, cost protection through provider networks, risk management savings, and Vitality are estimated to result in savings of 10% of claims costs for DHMS, equivalent to R3.7 billion in 2014.

As a result of scale efficiencies achieved, administration and managed care fees charged to DHMS have fallen in real terms by 2.2% per year since 2008.

Discovery Health Medical Scheme publishes an annual report each year. Read the Scheme's 2013 Integrated Annual Report here: www.discovery.co.za/info/2013DHMSReport

MAKE MEMBERS HEALTHIER THROUGH INCREASED VITALITY ENGAGEMENT AT HOME AND IN THE WORKPLACE

One of Discovery Health's key strategies is to use wellness interventions to proactively manage and reduce healthcare costs for DHMS and all restricted schemes under management. Vitality has been proven to have a long-term positive impact on healthcare costs through its ability to influence health behaviour and risks, thus improving the health status of actively engaged members.

Research done by Vitality in conjunction with leading academic institutions over the past few years, has shown that Vitality is successful in lowering healthcare costs, reducing the number of hospital admissions, as well as the average length of hospital stays. This is highly relevant in the global context of an escalating burden of chronic diseases of lifestyle, and the resulting impact on healthcare costs.

> "Between 2008 and 2013, medical schemes in South Africa have seen a 17% increase in costs due to an ageing population and the impact of chronic diseases of lifestyle. The number of members with chronic illnesses has increased from 16% to 21% between 2008 and 2013."

Chronic diseases of lifestyle are today a key driver of increasing healthcare costs. These diseases can, however, be prevented and their impact reduced by following a healthier lifestyle. An effective wellness approach to address lifestyle behaviour and the resulting risks, is thus critical in any strategy to reduce healthcare costs over the long term. Vitality has had a significant positive impact on the health behaviour of members of DHMS: for example, between 2011 and 2013 the Scheme has seen a 26% increase in preventive health screenings such as glucose, cholesterol, HIV, blood pressure, and pap smears. Preventive screenings are highly effective in detecting illnesses earlier and reducing the cost of treatments. The average cost per cancer treatment decreases by 9% when detected earlier with screening, as opposed to cases where no screening takes place. The evidence is clear when comparing the overall results of highly engaged members with those of inactive members: hospital admission rates are 10% lower, length of stay is 15% shorter, and cost per patient is 14% lower.

The workplace presents an important intervention point for wellness management due to the negative long-term impact of chronic diseases of lifestyle on business and economic performance, as well as the large proportion of the population that can be influenced in terms of changing health behaviour. In response to this need, Discovery Health partnered with Vitality to develop Discovery HealthyCompany, a comprehensive wellness solution for employers and clients of Discovery Health. This new initiative combines the world-class health and wellness, management capabilities of Discovery Health and Vitality, and draws on Vitality's global experience as a leader in corporate wellness to offer employers the platform, tools, and information to help make their employees healthier and more productive. Discovery HealthyCompany is provided as a value-added service at no additional charge to all Discovery Health corporate clients, and was rolled out in September 2014.

BUILD A DISCOVERY HEALTHCARE SYSTEM THAT ENSURES SUPERIOR QUALITY AND VALUE FOR MEMBERS

Globally, healthcare thought leaders are starting to understand that the complex nature of healthcare systems requires a collaborative approach by all stakeholders in order to address the growing challenges of rising costs and variable quality of care. Discovery Health has distilled these perspectives into Healthcare 2020 – our vision of a healthcare system centred around the needs of patients and aimed at ensuring that the system delivers value (defined as the best quality of care at the lowest possible cost) for patients. This model centres on a cohesive system where healthcare professionals work together in teams within integrated practice units and delivery systems. In this model, service providers are paid appropriately using innovative reimbursement alternatives to the fee-for-service models and health outcomes, costs, and value are continually measured as the basis for improvements.

To drive progress towards Healthcare 2020, Discovery Health has implemented a number of initiatives aimed at facilitating care coordination for patients and better flow of information between health professionals throughout the healthcare system. This is done through programmes that encourage greater collaboration and sharing of knowledge as well as better measurement, all of which will assist in improving quality of care and reducing healthcare costs over the long term. One example is the Discovery Health KidneyCare programme, which is aimed at improving the quality of care of Discovery Health members with kidney failure, and at lowering costs over the long term by lowering avoidable hospital admissions. The programme uses comprehensive data analysis to provide detailed quality of care reports to participating specialists and dialysis centres around South Africa. This encourages easy identification of underperforming units, which results in efforts by these units and their doctors to improve quality outcomes. The outcomes of this programme have been very positive: Discovery Health patients enrolled on the programme have a 4.2% lower mortality rate than the average chronic dialysis member. Since the start of the programme, we estimate that our schemes under management have saved approximately R50 million due to improvements in quality of care and networks.

During the year, we continued working with various healthcare societies and professionals to develop and implement a number of other care coordination programmes, including enhancements to the Seniors Care Coordination programme, which provides integrated care to elderly patients with memory and related issues. We have also invested significantly in further enhancements to HealthID, our healthcare information application for healthcare professionals. The app, which at the time of writing was used by over 1 200 doctors, with over 550 000 members having given consent to their doctors, is a critical part of our strategy to help improve the quality of care patients receive by enhancing access to health information. The enhancements released during the past year include a link to telemetric diabetes monitoring, a capability for healthcare professionals to add comments and notes, view Vitality data, and hospital event summary.



Discovery Health

ENSURE OUTSTANDING SCHEME FINANCIAL PERFORMANCE AND SUSTAINED, HEALTHY GROWTH

A key priority for Discovery Health is to ensure that Discovery Health Medical Scheme (DHMS) performs excellently from a financial perspective and that the Scheme continues to grow its membership base rapidly and sustainably. All of these performance metrics are critical for a medical scheme to remain sustainable, but are challenging to achieve. DHMS is today the benchmark open medical scheme in South Africa, covering more lives than the next nine largest open medical schemes combined, and achieving organic growth of 45 000 principal members in 2013, compared to 2 717 achieved by the next nine open medical schemes. DHMS is in excellent financial health, with over R11.5 billion in reserves, an aspect that gives members peace of mind in terms of the Scheme's ability to pay claims. During the year under review, DHMS added a further R1.6 billion to reserves, making it larger than the next nine open medical schemes in South Africa. Discovery Health Medical Scheme is expected to achieve the statutory 25% solvency level during 2014, and is projected to remain above that level going forward.

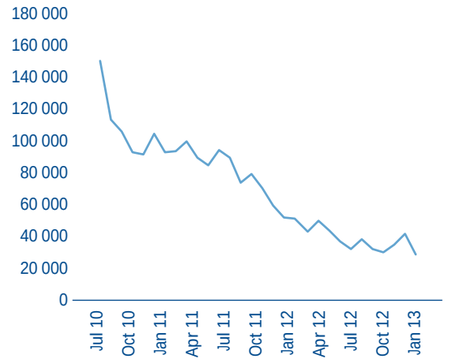
During this year, Discovery Health expanded and improved a direct-to-consumer channel to attract healthier and younger lives to DHMS. The growth of mobile and other digital technology is increasingly changing how consumers prefer to interact with businesses, resulting in more consumers being highly receptive to dealing with companies via digital channels. In response to this trend, we have implemented an easy-to-use direct-to-consumer channel, resulting in a high number of daily leads and a 25% conversion rate.

CREATE UNIQUE SERVICE EXPERIENCES AND SEAMLESS PATIENT JOURNEYS THROUGH THE HEALTHCARE SYSTEM FOR DHMS MEMBERS AND ALL SCHEMES UNDER MANAGEMENT

We understand that medical scheme members generally interact with the healthcare system when they are at their most vulnerable, and one of our key objectives is to assist Scheme members in navigating the complex healthcare environment simply and easily. In terms of servicing, we continue to invest in ensuring best-in-class administration, improved service levels, and the latest technology to guarantee that members experience excellent service.

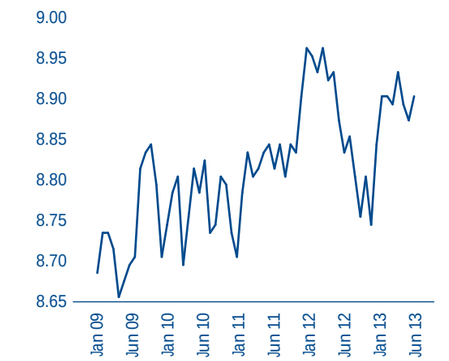
The investment in building the quality of service in Discovery Health is evident from industry awards and independent survey ratings. Discovery Health has been awarded the Financial Intermediary Association (FIA) award for Product Supplier of the Year since its inception in 2008, and is rated far ahead of industry peers on overall service aspects such as call centre service, technology, administration, and claims payments in the Private Healthcare Pulse survey of 2013/2014.

Quality improving (DPMO* decreasing)



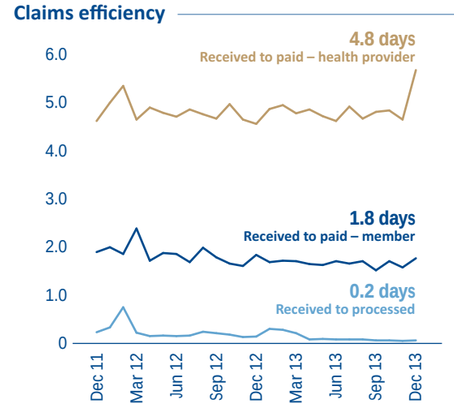
** Defects per million opportunities*

Member perception increasing (out of 10)



** Averages used for yearly figures*

Claims efficiency



Healthcare and legislative developments in South Africa

The Competition Commission Inquiry into the Private Healthcare Industry was established at the end of May 2014 to investigate whether the private healthcare industry is working effectively. The final framework for the Inquiry was published on 1 August 2014 and the Commission has called for submissions from all stakeholders by 31 October 2014. Discovery Health fully supports the Inquiry as it has the potential to contribute to a better understanding in South Africa of the challenges and opportunities facing our healthcare system, and hence to appropriate policy interventions to address these problems.

The National Treasury has published final regulations governing non-medical scheme health insurance products. These regulations make room for 'gap cover' and hospital cash plan products, but provide strict rules which will even the playing field between these products and medical schemes. Discovery Health firmly supports this regulatory approach, which is expected to be implemented during the first quarter of 2015.

OUR STRATEGIC OBJECTIVES FOR 2015



Dr Jonathan Broomberg
CEO, Discovery Health

- Build an integrated Discovery healthcare system that ensures 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 DHMS' competitive advantage through lower premiums and lower healthcare costs.
- Broaden access to quality healthcare by lowering costs, creating unique products, and applying innovative technologies.



Discovery Life Discovery Invest

Discovery Life and Discovery Invest – PRIMARY MARKET

DISCOVERY LIFE AND DISCOVERY INVEST

KEY FACTS ABOUT DISCOVERY LIFE

- Discovery Life is the largest writer of pure risk business in South Africa.
- Over 700 000 Discovery Life policyholders.
- 25% protection market share for Discovery Life.

KEY FACTS ABOUT DISCOVERY INVEST

- 140 000 Discovery Invest policies.
- 6 000 financial advisers choose Discovery Invest for their clients.
- Largest writer of endowment policies in South Africa.

DISCOVERY LIFE'S VISION

is to become the best life insurer in the world with disruptive products that meet customer needs in unique ways, demonstrably attract and retain healthier lives, and deliver loss ratios that are lower than the industry average.

DISCOVERY INVEST'S VISION

is to become a brilliant savings business of scale and to enjoy an excellent reputation with innovative products aligned to the core Discovery model and with access to superior asset management.

PERFORMANCE HIGHLIGHTS 2014

Assets under management of Discovery Invest at approximately **R42 billion** up **39%** from last year

Discovery Invest received the Financial Intermediaries Association of Southern Africa (FIA) Award for the

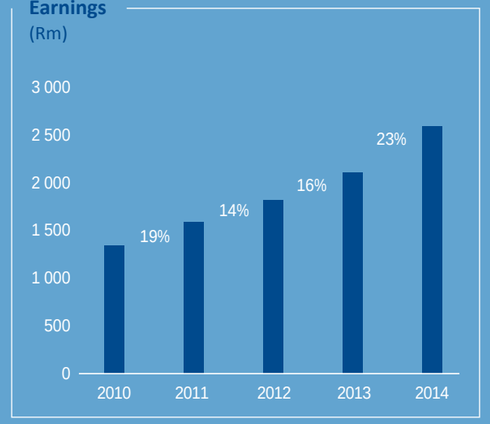
Best Recurring Premium Business in 2013

Total Discovery Life normalised profit from operations increased **23%** to **R2 591 million**

Lapse rate for Discovery Life continues to improve and measured lower than the expected rate for the period

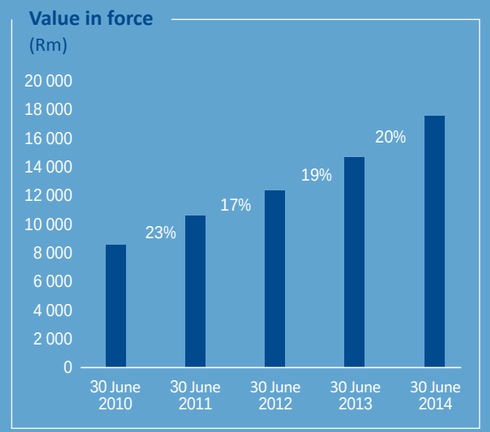
Discovery Life

Earnings
(Rm)



Discovery Life

Value in force
(Rm)



Discovery Life was awarded the

Best Long-term Insurer

in the 2013 Financial Intermediaries Association of Southern Africa (FIA) Awards

Discovery Life

Normalised profit from operations	
2014	**R2 591 million**
2013	R2 106 million
2012	R1 819 million

New business annualised premium income	
2014	**R2 013 million**
2013	R1 896 million
2012	R1 749 million

Discovery Invest

Assets under management	
2014	**R41 821 million**
2013	R30 153 million
2012	R25 086 million

Normalised profit from operations	
2014	**R331 million**
2013	R221 million
2012	R151 million

New business annualised premium income	
2014	**R1 396 million**
2013	R1 070 million
2012	R961 million

Claims experience for Discovery Life was better than expected and tracked lower than assumption – 86% of expected

Discovery Life and Discovery Invest

Discovery Life
PROGRESS ON OUR STRATEGIC OBJECTIVES FOR 2014

Strategic objectives	Progress report
Drive take-up of recently launched Life products and features (Severe Illness Benefit, Financial Integrator, and Vitality Memory).	Various special offers were introduced during the reporting period to drive take-up of new products and benefits: • Clients who purchase the 125% LifeTime Severe Illness Benefit (SIB) had their cover automatically upgraded to 200% at no additional charge. To date, there has been a steady growth in the 125% LifeTime SIB take-up, with 2 267 new 125% LifeTime SIB policies sold, 645 policies upgrading from the LifeTime1 offer to the 125% LifeTime SIB offer, and 2 684 policies upgrading from non-LifeTime SIB to the 125% LifeTime SIB. • The CoverBooster special offer was re-introduced and made available to policyholders until the end of July 2014. Clients who purchase qualifying Life Cover during this period received an additional 32% Life Cover free for three years, after which they will be able to buy the additional cover at a discount, based on their Vitality status over the three-year period.
Continue our preparation for the Solvency Assessment and Management (SAM).	Modeling development work for various aspects of Solvency Assessment and Management (SAM) is progressing as planned.
A continuous focus on enhancements to the Discovery Life product offering, including further integration opportunities with other Discovery businesses.	During the year under review, development work was done to launch product and benefit enhancements in August 2014. New benefits and products are being rolled out to the market.
Expand into the emerging market.	Rollout of the newly-launched funeral insurance product and development of distribution channels to service this market.

Discovery Invest
PROGRESS ON OUR STRATEGIC OBJECTIVES FOR 2014

Strategic objectives	Progress report
Drive take-up of new products and benefits launched for Discovery Invest.	Special offers were introduced to the market to drive take-up of new products and benefits. These included the Discovery 140:40 Accelerator structured note where the second special offer campaign closed with a trade size of approximately R57 million. A second special offer was the Offshore Special Offer.
Further strengthen our distribution channel.	We have increased the number of tied agents as well as the number of Business Consultants who provide service to these advisers.
Redesign the Discovery Invest website portal with additional functionality for clients and financial advisers.	During the year we started a project to address usability concerns and improve web usage, and to add web servicing capability. The project is scheduled to be completed in two phases, the first is expected to be completed by 31 December 2014 and the second servicing enhancement is expected to be completed by 31 March 2015.



Overview

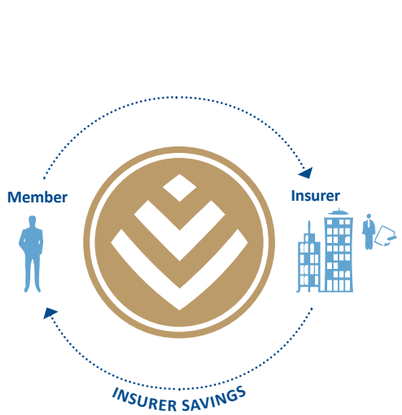
The South African life assurance market is highly competitive and sophisticated with a few key players dominating the market. The relative complexity of products means that sales are predominantly channelled through intermediaries, although the number of direct-to-consumer insurers has increased in recent years. Insurance models were typically based on a traditional insurance and risk product combination, which, by the 1990s in the middle of the financial crisis, did not deliver results for clients. Launched in 2000 with a different value proposition that separated risk and investment, Discovery Life became the largest writer of pure risk business in South Africa and today has over 700 000 policyholders.

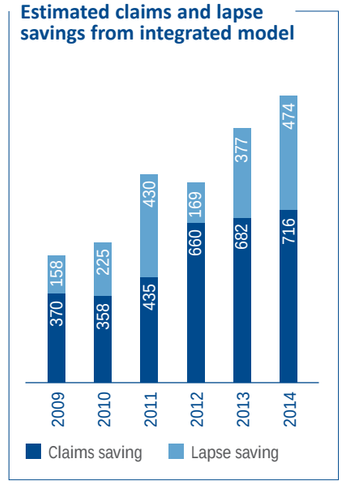
The structural change in protection products of separating risk from investment products have since become the standard in the industry.

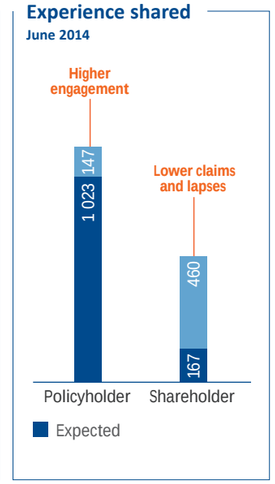
It is estimated that this innovation has resulted in savings for insurance clients of over R8 billion.

This model has evolved into a behavioural-linked insurance model that combines the wellness and data advantages of the Vitality programme, to firstly, introduce dynamic underwriting to Discovery Life's pricing model, and secondly, to channel savings back to the client for improved health and driving behaviour. The model is hugely successful in that it creates shared value for consumers and the life assurer. Consumers obtain more value as their policies are underwritten on an ongoing basis 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.

The Discovery Life model delivered exceptional shared value over the period

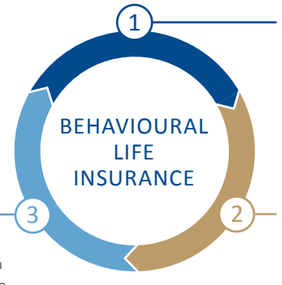






The Discovery Life model

Long-term value and sustainability result in lower claims for engaged members, higher levels of persistency, and extended whole-of-life premium guarantees.



1 COMPREHENSIVE AND RELEVANT COVER

Discovery Life offers the most comprehensive risk cover in the market. This is evidenced through winning the FIA Long-term Insurer Award in 2007, 2008, 2009, 2010, 2013, and 2014. Independent financial advisers have consistently chosen Discovery Life as their insurer of choice.

2 DYNAMIC PRICING

The integrated operating model provides clients with an upfront premium discount of up to 28%, and the ability to retain or increase this discount over time. We currently save our clients over R1 billion each year through the Integrator premium savings.

3 FINANCIAL BENEFITS THROUGHOUT THE CLIENT'S POLICY TERM

Clients are able to generate significant financial rewards through the PayBack and Cash Conversion benefits. To date we have paid over R837 million to our clients through the PayBack benefit, with a further R540 million due to be paid in the next year.

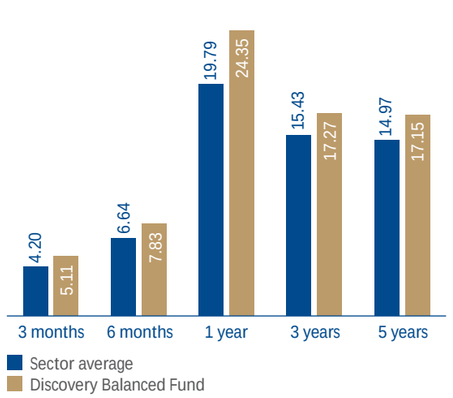
Discovery Life and Discovery Invest

Discovery Invest's value proposition to our clients centres on performance, protection, and efficiency. In the past, South Africa's investment industry was dominated by the large life companies. However, in the last decade, specialist asset managers have played in an increasingly important role as consumerism and the introduction of linked investment service providers (LISP) companies have driven down costs. Innovation in this industry has, however, been fairly limited when compared with international investment markets. Within this environment, Discovery Invest's objective has been to leverage the already efficient platform of the asset management industry in South Africa with our product development expertise.

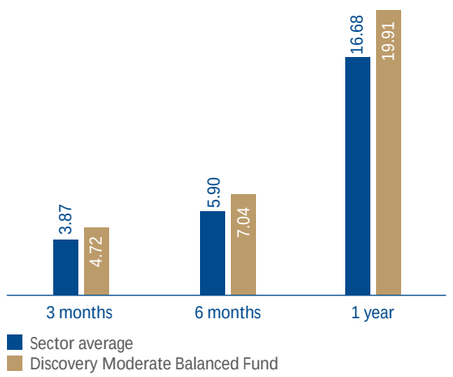
The aim is to offer investors innovative products that also provide a level of protection against market volatility by designing products to be tax- and fee-efficient. Our differentiated approach has resulted in substantial advantages for our clients; Discovery Invest has created R1 billion in value for clients with the Upfront Investment Integrator, a product that provides an upfront boost to investment values by leveraging the tax and health assets generated by the Discovery LIFE plan. In terms of fund performance, Discovery Invest has achieved strong growth in the South African retail investment market over the past five years. One of the factors driving this growth has been the Discovery Invest Funds. The Balanced Funds, one of the investment options under the Discovery Invest Funds, have consistently ranked among the top of their peer groups.



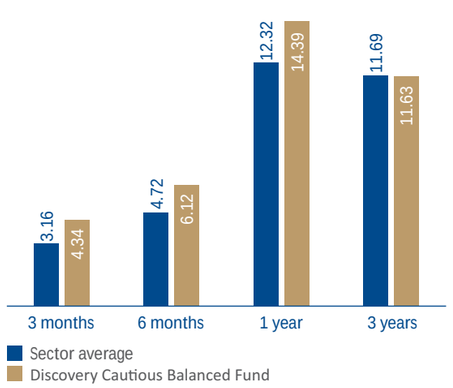
Discovery Balanced Fund (%)



Discovery Moderate Balanced Fund (%)



Discovery Cautious Balanced Fund (%)



OUR FOCUS AREAS DURING THE PAST YEAR

BENEFIT AND PRODUCT ENHANCEMENTS TO CONTINUE MEETING CLIENTS' NEEDS

During the period under review we worked extensively on product development to introduce new products and benefits to the market for both Discovery Life and Discovery Invest. The work manifested in the combined Discovery Life, Discovery Invest, and Discovery Insure product launch in August 2013.

We have extended the Discovery LIFE plan offering to cater for market segments with very specific needs with the following new products: the Business LIFE Plan, the Dollar LIFE Plan, and the LifeDrive Protector. The Business LIFE Plan provides protection and continuity for a client's business following a life-changing event. The Discovery LIFE Dollar Plan is South Africa's first authentic offshore life assurance policy and provides original risk protection offshore in US Dollars to match current or future international liabilities. The product includes life and disability cover, as well as cash conversion options. The LifeDrive Protector, a direct-to-consumer product, is predominantly aimed at Discovery Insure clients and offers unique risk protection for a client's family with trauma cover and a doubling of petrol cashback with Vitalitydrive.

> "In 2013, motor vehicle accidents accounted for one in five deaths for Discovery Life. This amounted to over R186 million in claims. The LifeDrive Protector is a standalone benefit that provides comprehensive life and motor vehicle trauma cover for clients and their families, and also rewards them for driving well."

During the year, Discovery Invest completed work on two new products which were launched in August 2014. These included an expanded range of Flexible Investment Plans that give clients access to three types of plans. Each were designed to meet clients' investment needs by providing high degrees of liquidity, cost-efficiency, and protection. The second product brought to market is the Discovery Top40+ Fund, a smart beta fund. This product is structured to provide clients with higher performance at lower levels of risk.

INITIATIVES TO BOOST NEW BUSINESS GROWTH

In addition to the new benefits launched in August, work was done on developing special offers for clients. This included the Double Guaranteed Payback Special Offer from Discovery Life that boosts the guaranteed payback amount for the first two years of a policy. This offer is applicable to all new business written between 15 August 2014 and 1 December 2014, and is expected to contribute to new business growth. In terms of Discovery Invest, various communication and sponsorship strategies have been implemented to encourage new business growth. These included a three-week radio campaign across multiple stations for the Capital200+ structured note and a five-year product that provides clients with exposure to the performance of the European and US Equity markets. The product was well received by the market and approximately R550 million was invested towards this product. Additional marketing campaigns included a sponsorship of a business news show on CNBC Africa and a weekly newspaper publication aimed at financial advisers.

Discovery Life quarterly market share (%)

Channel analysis in the affluent segment

Discovery Life and Discovery Invest

A FOCUS ON REGULATORY DEVELOPMENTS

In terms of regulatory matters, Discovery Life continued its preparation work for the implementation of the Solvency Assessment and Management (SAM) framework. As part of the transition towards SAM, the Financial Services Board (FSB) requires companies to report quarterly on its solvency position using the SAM basis. In addition to these quarterly reports, Discovery Life is working on modelling development work for risk appetite, Own Risk Solvency Assessment, and economic capital requirements, as planned.

OUR STRATEGIC OBJECTIVES FOR 2015



Herschel Mayers
CEO, Discovery Life and Discovery Invest

Discovery Life

- A continuous focus on enhancements to the Discovery Life product offering, including further integration opportunities with other Discovery businesses.
- Increase market share and maintain competitive advantage through integrated offerings.
- Development and preparation for the Solvency Assessment and Management (SAM) framework.
- Continue to focus and enhance the emerging market offering through distribution and product enhancements.

Discovery Invest

- Drive take-up of new products and benefits launched for Discovery Invest.
- Increase market share of net inflows and assets under management.
- Continued development of new products, taking into consideration industry-wide changes. This would include details in Retirement Reform and savings papers released by National Treasury as well as dispensations from the FSB and regulatory authorities.





Discovery Vitality – PRIMARY MARKET

DISCOVERY VITALITY

KEY FACTS ABOUT DISCOVERY VITALITY

- The largest scientifically-based wellness programme globally.
- Over 1.6 million members on the programme in South Africa.
- Over 400 000 HealthyFood members; over two million gym visits per month; over 1 200 health checks per day; over 15 planes a day worth of discounted flights.
- Engaged Vitality members live longer, healthier lives; have a 41% lower mortality risk and 9% lower morbidity risk.

DISCOVERY VITALITY'S VISION

is to be the most effective wellness programme in the world. In this way we aim to become an integral part of the healthcare system and to have a profound impact on our members' lives, with a demonstrable impact on their mortality and morbidity. By delivering scientifically-based interventions, powerful incentives, and access to world-class partners in a dynamic, intuitive, and seamless way we can drive positive risk selection, behaviour change, and retention, and support Discovery in becoming the world's best insurance company.



PERFORMANCE HIGHLIGHTS 2014

Every 3 seconds a Vitality member uses the HealthyFood benefit

Over one million discounted flights are booked in a year

Every 9.5 minutes a family gets to Gold Vitality Status

Every 10 seconds a discounted movie is watched at Ster-Kinekor

Normalised profit from operations (consolidated Vitality and DiscoveryCard business)	
June 2014	**R38 million**
June 2013	R35 million
June 2012	R5 million

Vitality members	
June 2014	**1 697 831**
June 2013	1 655 684
June 2012	1 600 944

DiscoveryCard accounts in issue	
June 2014	**246 783**
June 2013	243 593
June 2012	231 657

Over R2 million is spent on HealthyFood every day

1 288 members are finding out their Vitality Age every day

703 non-smoker declarations are completed every day

1 619 members take part in a Wellness Day every week

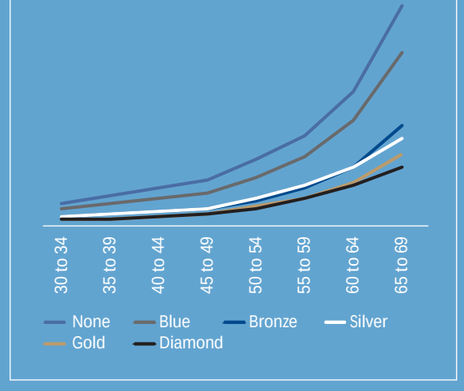
A comprehensive Corporate Wellness offering was launched during the year

DiscoveryCard continues to perform well, with a 8.76% share of the point-of-sale market

Every 1.2 seconds a member works out at a partner gym

Every 8 minutes a Fitness Assessment is completed

Mortality trends by Vitality status



High levels of engagement in the programme, with

85% of Vitality members engaged in preventive and health activities

Discovery Vitality

PROGRESS ON OUR STRATEGIC OBJECTIVES FOR 2014

Strategic objectives	Progress report
Develop member-specific wellness programmes.	A comprehensive wellness strategy has been developed and interventions implemented to address members who are at risk.
Broaden opportunities for members to participate in physical activity.	An expanded physical activity platform and additional partners were developed during the year and will be introduced for the 2015 benefit year.
Develop a corporate wellness offering for employers.	Discovery Vitality, along with Discovery Health, launched HealthyCompany, a comprehensive corporate wellness offering for corporate clients of Discovery Health.
Invest in simplifying and enhancing member service experiences and interactions.	Various initiatives are in progress to build a responsive, personalised, real-time mobile experience that provides tracking and benefit activation capabilities.

Overview

Vitality is Discovery's scientifically-based wellness programme, structured around actuarial and behavioural economics insights. The programme uses a tiered points approach to encourage members to know and improve their health status by taking part in various assessments and preventive health activities. Members have immediate access to lifestyle benefits and rewards that improve as they engage more with the programme. Vitality also links to a group of health and wellness providers that offer data linkages in terms of access to members' health behaviour, which in turn assists Vitality to understand how members change their behaviour and respond to incentives.

Launched in 1998, Vitality is today one of the largest wellness programmes globally with a combined member base of more than 3.2 million lives in the US, UK, China, Singapore, Australia, and South Africa, with close to 1.7 million members in South Africa alone. The programme is accredited by the Sports Science Institute of South Africa and is supported by the Vitality Institute globally. It has also developed research relationships and capabilities with leading global institutions, including the RAND Corporation, University of Cape Town, University of the Witwatersrand, Duke University, the University of Tulane, as well as the University of Pennsylvania.

Vitality has been proven to help reduce long-term healthcare costs by removing cost as a barrier to access health and wellness providers. It does this by encouraging people to adopt healthier lifestyle habits and thereby reducing mortality and morbidity risks for the Discovery Group. It underpins all Discovery's businesses and is an important mechanism to integrate products and deliver additional value to clients. The programme plays a key role in how Discovery Life's business model has evolved to using dynamic health and wellness data from members to assess their health risk over the lifetime of their policy. This enables Discovery Life to price risk more accurately and to generate additional value for clients through the savings that are realised in terms of improved health outcomes.

DiscoveryCard, which forms part of Vitality, is a new-generation credit card that provides a mechanism to further incentivise better health among members. It also provides further integration opportunities between our various product offerings.



OUR FOCUS AREAS DURING THE PAST YEAR

DRIVE ENGAGEMENT WITH THE APPROPRIATE INTERVENTIONS TO REDUCE MORTALITY AND MORBIDITY RISKS ACROSS THE BUSINESS

Over the past 17 years, we have developed considerable expertise and insight into the science of wellness programmes. We continually work with academic institutions on research projects into various aspects of wellness and behavioural economics. The outcomes from these projects enable us to understand the relationship between different behaviours and health outcomes, as well as how individuals behave given different circumstances. The body of knowledge built in this way ensures the correct clinical focus and means to sustain behaviour change for our membership base. This is critical given the escalating impact of chronic diseases of lifestyle on healthcare costs. The unique ability of Vitality to continually refine our approach to wellness through research presents an opportunity to shift wellness and health indicators significantly over time, resulting in improvements in mortality and morbidity risks that help reduce healthcare costs over time.

DEVELOP AND IMPLEMENT A COMPREHENSIVE CORPORATE WELLNESS OFFERING AS AN EFFECTIVE HEALTH INTERVENTION IN THE WORKPLACE

The workplace has been recognised as one of the key potential areas for wellness intervention to take place due to the large number of people who may be reached as well as the concern among business leaders and governments globally about the impact of chronic diseases of lifestyle on economic performance. During the reporting period, Vitality, together with Discovery Health, developed a comprehensive wellness solution for corporate employers that includes detailed reporting on key health indicators for employees, as well as a mechanism for referrals to wellness practitioners within the Discovery wellness network. Discovery HealthyCompany was launched to employers and financial advisers in May 2014 and rolled out to employers in September 2014.

INTRODUCE NEW BENEFITS AND PRODUCTS FOR OUR CLIENTS TO HELP THEM LEAD HEALTHIER LIVES

An important deliverable for Vitality during the year was to develop a set of new benefits and products that will not only attract new clients to Vitality but also encourage current members to engage in the programme, thereby improving their health and risk profile across the Discovery Group. Considerable work was done during the year to bring new products to market in September this year.

These included an extended physical activity platform with the launch of Vitality running and cycling clubs that recognises activities outside of the formal gym environment; a simplified but enhanced HealthyCare benefit across the two biggest retail pharmacy operators in South Africa, Clicks and Dischem; and a GP-led chronic care programme that ensures GPs are able to actively manage chronic conditions and which rewards members for actively engaging in their care. Significant work is currently being done to enhance the DiscoveryCard benefit to attract new cardholders from more affluent segments of the membership base, and roll out an enhanced VitalityBaby benefit that encourages and rewards parents for their children's wellbeing.

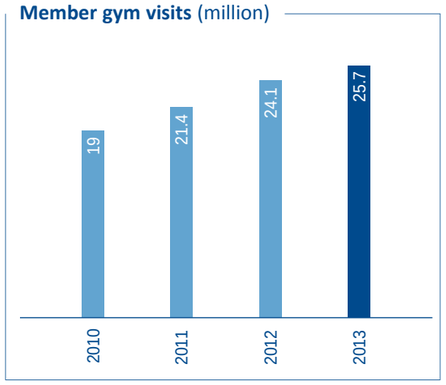


Discovery Vitality

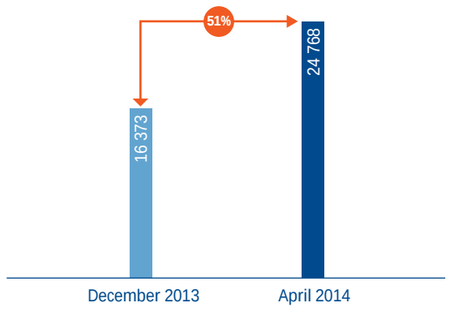
CASE STUDY

Members are increasingly engaging with Vitality and leading healthier lives

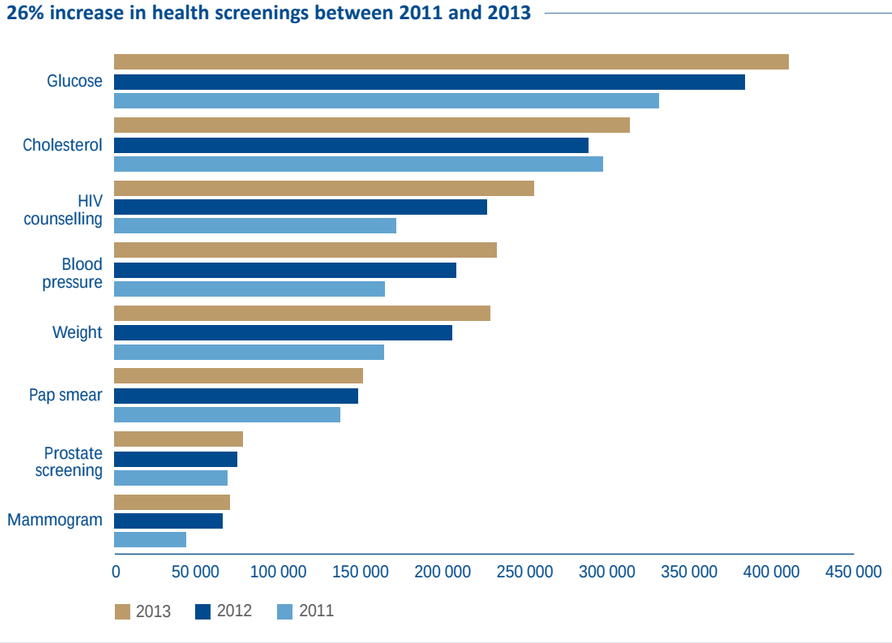
Member gym visits (million)



Significant increase in use of fitness devices



26% increase in health screenings between 2011 and 2013



CASE STUDY

Research on the state of children's health in South Africa

During the reporting period, Discovery Vitality completed a research project that aimed to assess the state of children's health in South Africa.

Findings from the report

The 2014 Healthy Active Kids South Africa (HAKSA) Report Card builds on the foundation of previous report cards from 2007 and 2010. The report reviews peer-reviewed research findings from the last five years, and compares the different areas to see where South Africa has improved or not. The scientific panel comprised academics and experts from six universities, the Medical Research Council of South Africa, the Sports Science Institute of South Africa, the Heart and Stroke Foundation of South Africa, and Discovery Vitality.

Some of the promising improvements detailed in the report are that fewer children are going to bed hungry and more are physically active at school. However, not nearly enough is being done to help children eat better and exercise more. The report reveals how South Africa stacks up against 14 other countries when compared on nine health indicators. South Africa is in joint last place in sedentary behaviour, towards the bottom of the countries surveyed for school healthy lifestyle support, and in the middle for organised sports participation, overall activity levels, active transport, and community support. South Africa has been ranked near the top in terms of government strategies to promote healthy lifestyles in children. This suggests a policy-implementation gap.



Patterns of rising obesity and inactivity in urban South African youth mirror global trends and have led to the shocking prediction that children born from 2000 onwards might, for the first time in many generations, have a shorter life expectancy than their parents. It is estimated that there are almost 19 million children in South Africa.

OUR STRATEGIC OBJECTIVES FOR 2015



Dr Shrey Viranna
CEO, Discovery Vitality

- Further develop concise wellness metrics and strategies to improve members' health, with a 10% improvement in mortality risk.
- Grow the Vitality membership as a percentage of the businesses that Vitality supports.
- Reduce operational costs to support long-term development capacity in Vitality.
- Develop and implement strategies to grow DiscoveryCard advances and turnover.
- Develop and implement strategies and initiatives to enhance employee morale and boost energy, and Employment Equity (EE) targets.

Discovery Insure – PRIMARY MARKET

DISCOVERY INSURE

KEY FACTS ABOUT DISCOVERY INSURE

- Discovery Insure tracks 75 000 cars in real time through telematics technology.
- Over 1.6 billion kilometres of driver behaviour data has been collected.
- Over R62 billion in assets are covered.
- R2 million claims are paid per day.
- 167 000 litres of fuel are purchased and subject to fuel rewards every day.
- Over R52 million in Excess Funder Account balances are available to pay vehicle excesses.
- On average, 120 clients are assisted every month through ImpactAlert, where Discovery Insure proactively contacts clients when we detect serious accidents.
- More than 250 000 weather alert messages have been sent to clients in Gauteng, South Africa's most densely populated province, resulting in savings of more than R1 million during one large hailstorm alone.
- Discovery Insure has a 27% lower rate of complaints with the Short Term Ombudsman, compared to the industry average of 33%.

DISCOVERY INSURE'S 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.

PERFORMANCE HIGHLIGHTS 2014

A strategic partnership was secured with Cambridge Mobile Telematics and a world-first smartphone app and Tag solution to monitor and improve driving was launched

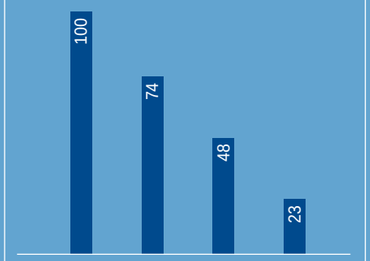
Number of Insure drivers

increased to 76 870

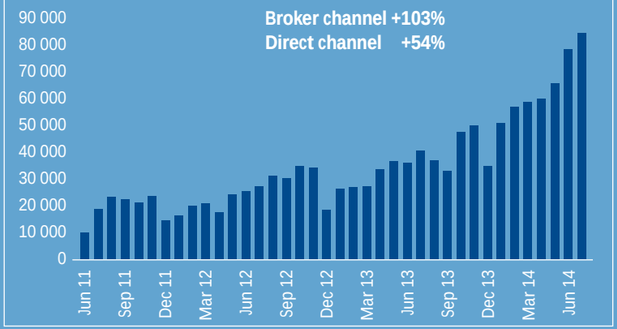
The loss ratio is trending downwards, despite the high new business levels and the associated reduction in average book duration

New business annualised premium income	
2014	**R632 million**
2013	R366 million
2012	R239 million

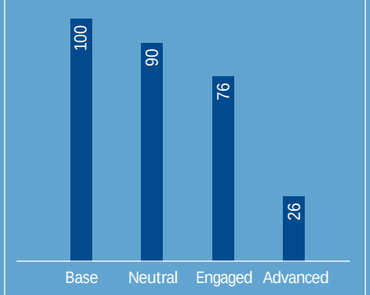
Loss ratio by driver status



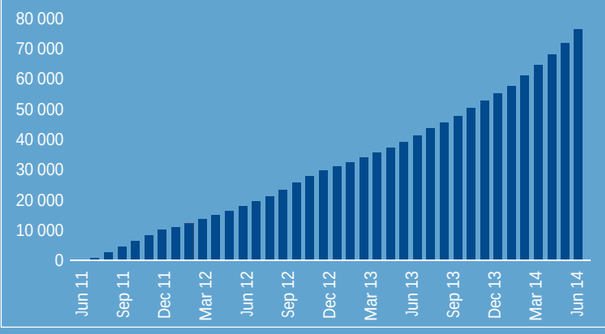
New business grew 73% (Rands)



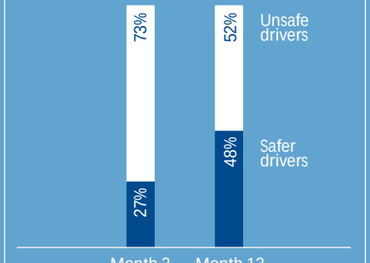
Lapse rate by driver status



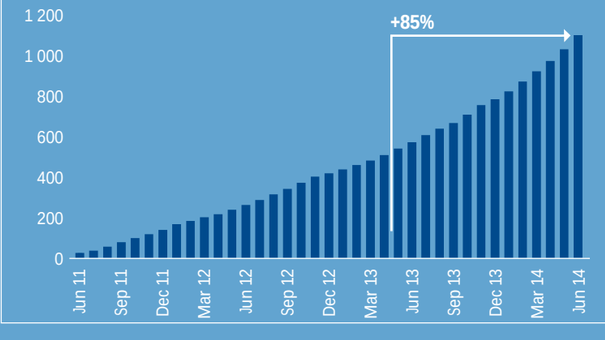
Cars covered >77 000



Change in driver status



In-force premium (Rands)



Discovery Insure

PROGRESS ON OUR STRATEGIC OBJECTIVES FOR 2014

Strategic objectives	Progress report
Gain ubiquitous awareness of the BP fuel benefit – 50% off fuel if you drive well – through above-the-line marketing and other actions.	Various advertising and marketing campaigns were rolled out during the year under review, including the Discovery Insure Driver Challenge campaign. This campaign resulted in over 60 000 drivers registering for the campaign at the time of writing the report.
Deliver powerful new business growth.	New Business Annualised Premium Income increased 73% to R632 million.
Manage loss ratios within the business expectations.	While the loss ratio is trending downwards overall, it measured higher than targets set for the financial year, mostly due to the extreme weather events and significantly higher new business volumes (which reduces average policy duration).
Create a step-change in service quality throughout the service chain.	Significant progress was made on all service measures. All client metrics exceeded the benchmark and intermediary feedback is at an all-time high. All key service platforms are now integrated and technology initiatives specifically focused on enhancing telematics. The Discovery Insure product launch and service innovation changes are in the final phases of implementation.

Overview

Discovery Insure is the short-term insurance company of Discovery Limited. The company was launched in 2011 and provides comprehensive vehicle and home insurance as well as a unique driver-behaviour programme that is firmly rooted in behavioural economics. Our vision with Discovery Insure is to create a nation of great drivers. The Insure business was developed around the understanding that the majority of road accidents are due to poor driving behaviour such as harsh braking and accelerating, speeding, and cornering – all of which are high-risk, but modifiable behaviours. Good drivers with responsible and safe driving habits cause fewer accidents, thereby making the roads safer and reducing the financial burden of road accidents on the economy. This is especially critical in light of South Africa's status as one of the most dangerous countries to drive. Our road fatality rate is 31.9 per 100 000 lives, compared to the US that has 12.3 fatalities per 100 000 lives. The economic cost is equally severe – road accidents account for 10% of the South African GDP compared to the US' 6% – more than double what South Africa spends on healthcare in the public sector.

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 the tools to improve driving. The impact of Vitalitydrive on driving behaviour has been exceptional as it not only enables us to gain a deeper insight into the high-risk behaviours that lead to accidents, but also how clients respond to incentives to change these behaviours. Over the past three years, we have seen a strong correlation between driver status (measured through driving behaviour), claims frequency, and cost. On average, clients' driving behaviour improves by more than 20% in the first 12 months of joining Discovery Insure, reflective of Discovery Insure's ability to influence behaviour through the use of incentives.

> "Discovery Insure provides clients with innovative, comprehensive insurance cover, while Vitalitydrive helps clients to improve their driving behaviour by rewarding them for driving well. Clients also have access to state-of-the-art safety features to keep them, and their families, safer on the roads."

We use the latest thinking in telematics technology to differentiate our product and service offering. Telematics technology has become mainstream as short-term insurers adopt the technology to offer clients premium reductions or other discounts (usage-based insurance products). Discovery Insure's approach is unique as it combines the benefits of telematics technology with insights from behavioural economics to systematically improve clients' driving behaviour. Sophisticated algorithms applied to significant sets of data allows us to transform all information gathered from a person's driving measurements into easily understandable measures of driving behaviour. The potential to leverage telematics, combined with increasing smartphone technology, is significant. This is especially the case when we analyse larger quantities of data and use it to enhance our product offering and as a result, benefit our clients. This also helps to improve pricing.

Discovery Insure is today the fastest-growing short-term insurer to enter the South African insurance market since 1988 and is already placed in the top 10% of personal lines short-term insurers by income.

OUR FOCUS AREAS DURING THE PAST YEAR

During the past year, we focused on developing our technology capability further, while also improving new business volumes, our service offering, and enhancing benefits for clients.

INVESTMENT IN DEVELOPING OUR TELEMATICS TECHNOLOGY CAPABILITY FURTHER

During the past year, we partnered with Cambridge Mobile Technology (CMT), a company founded by Massachusetts Institute of Technology Professors in the US. Through this partnership we developed the Discovery Insure app, a global first in combining mobile technology and behavioural economics to help people drive safer. The app was released on 1 June 2014 as part of the Discovery Insure Driving Challenge, a nationwide competition where South African drivers could win weekly prizes and a large overall prize for good driving. At the end of June 2014, the app was downloaded 54 000 times with 45 000 drivers using it. The app is the precursor to the smartphone enabled DQ-Track with Tag-offering, which was launched during August 2014 and which will be available to new and existing clients from November 2014.

During the financial year, Discovery Insure also signed a term sheet to acquire a minority equity stake in CMT. The new partnership will enable us to leverage our expertise in behavioural economics with the telematics capability and expertise of CMT.

GROWING NEW BUSINESS

New business premium income was significantly higher during the past financial year and tracked higher than our initial targets (111% of target). This is mainly due to the Insure Driving Challenge campaign, benefits, and product enhancements which were introduced towards the end of 2013.

INTRODUCING NEW BENEFITS AND PRODUCT ENHANCEMENTS

During the past year, we did considerable work to make Vitalitydrive more accessible by using the latest smartphone technology to allow members to earn more points, improve their driving more easily, and enjoy greater rewards. Smartphones now come standard with built-in accelerometers, gyroscopes, and GPS, making it possible to accurately measure movement, g-force, and location. The result is the smartphone-enabled DQ-Track that consists of the Discovery Insure app and Tag. The Tag is a patented device that gets placed easily into a client's car and has its own power source. It works together with the smartphone app to measure driving behaviour. It also ensures that only driving activity in the policyholder's insured vehicle is measured. Through the app we can now also reach motorcycle drivers as the Tag can be easily attached to a motorcycle, thereby extending the Vitalitydrive value proposition to a larger client base.

Clients will be able to earn more points and fuel rewards through new tools such as a series of online driving videos and specific points for limiting phone use while driving. Additional benefit enhancements include fuel rewards linked to the Gautrain (particularly beneficial for regular commuters), discounts on private drive services through Uber, and countrywide driving courses with Landrover.



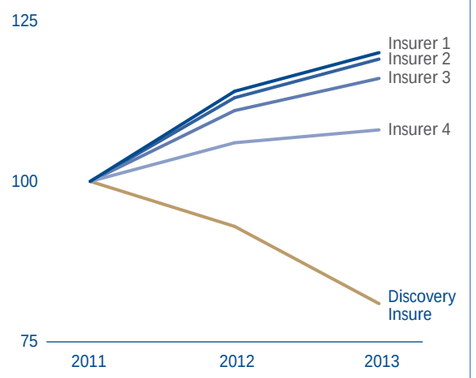
Discovery Insure

REDUCING LOSS RATIOS

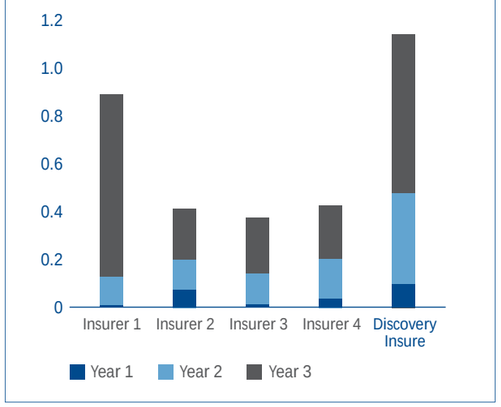
Over the past three years, insurance companies' financial results have come under pressure due to increased claims costs across the industry. The key drivers of these are the extreme weather events experienced over the last three years, such as flooding, fire, and hail, as well as a weaker Rand/Dollar exchange rate that is in turn driving vehicle parts inflation. Despite these cost pressures, we continue to focus on reducing our loss ratio through continued development of our claims procurement channel and enhancements to our rating methodology, which improves risk selection. Positive lapsation improves the loss ratio as clients with a worse risk profile will lapse at a greater rate than clients with a better risk profile. Clients with less risk also benefit from a higher level of fuel benefits which in turn contributes to positive lapse rates.

> "Discovery Insure's unique and differentiated offering lies in our ability to improve driver behaviour. Big data analytical capability leads to continued product, service, and driver behaviour innovations – all contributing to sustainable growth."

Change in loss ratio relative to 2011 (%)



Annualised premium income of new insurers since 1998 (R billion)



OUR STRATEGIC OBJECTIVES FOR 2015



Anton Ossip
CEO, Discovery Insure

- Implementation of the smartphone app and Tag solution for new and existing clients.
- Continued implementation of our strategies to bring the loss ratio closer to the long-term target.
- Maintain new business levels above target and lapse rates lower than targets.
- Implement the new product enhancements which were launched in August 2014.



PruHealth and PruProtect – SECOND PRIMARY MARKET

PRUHEALTH AND PRUPROTECT

KEY FACTS ABOUT PRUHEALTH AND PRUPROTECT

- Discovery has a 75% stake in the joint venture (JV) with Prudential plc.
- PruHealth is the fourth-largest insurer in the private medical insurance (PMI) market in the UK.
- PruHealth is the only PMI provider that integrates a comprehensive wellness solution within its health insurance product.
- PruProtect is the third-largest protection life assurer in the UK.

PRUHEALTH AND PRUPROTECT'S VISION is to entrench our unique Vitality-led behavioural insurance model as a new generation insurance category, manifesting in strong market share growth, a number three market position, excellent levels of member engagement, and market-leading profitability.



PERFORMANCE HIGHLIGHTS 2014

Combined operating profit
up 33% to R628 million

New business **up 35% to R2 129 million**

Combined client base of close to **800 000**

Loss ratios and lapse rates better than long-term assumptions

PRUHEALTH

Normalised profit from operations	
2014	**R202 million**
2013	R146 million
2012	R91 million

New business annualised premium income	
2014	**R1 246 million**
2013	R929 million
2012	R605 million

New business **up 34% to R1.2 billion**

Over 553 000 lives covered

Normalised operating profit
up 38% to R202 million

PRUPROTECT

Normalised profit from operations	
2014	**R426 million**
2013	R326 million
2012	R209 million

New business annualised premium income	
2014	**R883 million**
2013	R644 million
2012	R460 million

New business **up 37% to R883 million**

Normalised operating profit
up 31% to R426 million

New business market share in the intermediated market of 12%

PruHealth and PruProtect

PROGRESS ON OUR STRATEGIC OBJECTIVES FOR 2014

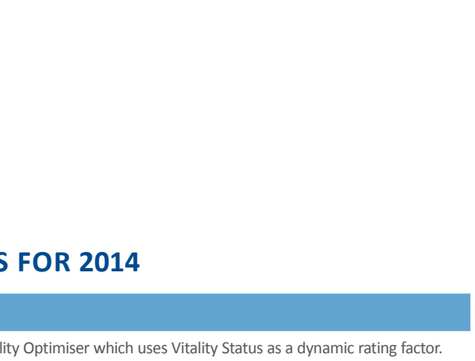
Strategic objectives	Progress report
Further develop the behavioural-linked insurance model in the UK.	• **PruProtect:** Launch of the Vitality Optimiser which uses Vitality Status as a dynamic rating factor. • **PruHealth:** Further integration of Vitality into the insurance design with the advent of the Vitality-linked No-claims Discount and Vitality-linked Excess.
Enhance Vitality engagement and motivate positive behaviour change.	• Ongoing expansion of the Vitality footprint, with 85% of the UK population within three miles of a Vitality partner. • On average, members engage with at least one Vitality partner every 10 seconds.
Develop direct distribution capability.	• Significant investment in above-the-line campaigns to drive lead generation. • Appointment of 20 Telesales executives to handle inbound calls, with investment in predictive lead-conversion models.
Invest in the Vitality brand as a mechanism for lifestyle insurance.	• Elevation of the Vitality brand as the lead brand for advertising and sponsorship purposes. • Activation of multi-dimensional sponsorships and partnerships, including Vitality as the official health and wellness partner of Liverpool, Arsenal, and Manchester City football clubs.

LOSS RATIO AND LAPSE RATES ARE WITHIN EXPECTATION

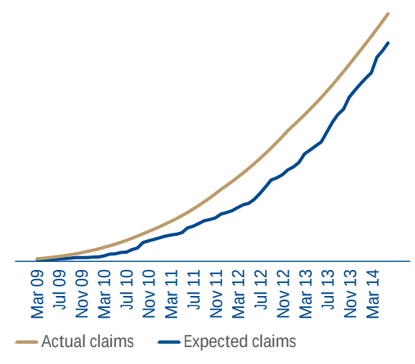
Loss ratio trends: PruHealth
(industry = 1)



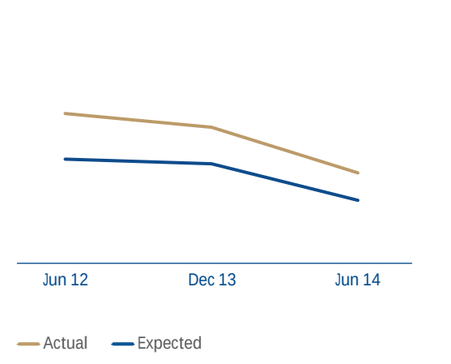
Lapse rate trends: PruHealth



Claims experience trends: PruProtect



Lapse rate trends: PruProtect



Overview

The protection market in the UK presents significant opportunity: it is the third-largest protection market in terms of Gross Written Premium (€), after the US and Japan. In the past year, the UK economy has expanded at its most rapid pace in six years, placing it well on track to be the fastest-growing Western economy this year. In terms of the protection market, research done by Barclays highlighted that nearly 60% of adults in the UK do not have protection cover, contributing to a staggering GBP£2.4 trillion protection gap for consumers.

At the same time, the National Health System (NHS) is facing severe challenges with concerns growing that the NHS will not be able to keep up with patient demand, unless major reforms to the way health services are structured and further investments in services, are undertaken. There is also a growing realisation about the importance of wellness and preventive measures to help curb the increasing burden of chronic diseases of lifestyle.

Within this environment, Discovery is aiming to build the best protection business in the UK through PruHealth and PruProtect. In terms of scale, growth, market position, brand equity, competitive differentiation, distribution, and financial strength, both businesses continue to perform well. The UK businesses are increasingly playing an important role in the overall Discovery Group performance with a current contribution of 15% to the overall new business growth of the Group, and 12% to operating profit.

Discovery is aiming to build the best protection business in the UK

PRUHEALTH — HEALTH INSURANCE

PRUPROTECT — LIFE INSURANCE

Vitality

Scale	**800 000 lives, R2.1 billion in new business, R628 million profit**
Growth	**45% profit growth and 40% new business growth over three years**
Position	**PruProtect number three player and 12% new business share, PruHealth number four**
Brand	**54% PruHealth awareness; 42% PruProtect awareness**
Vitality	**Full Vitality framework deployed; 85% of UK population within three miles of a Vitality partner**
Distribution	**8 000+ brokers, 18 franchises, in-house lead generation capability, two call centres**
Financial strength	**PruHealth at 1.3 x solvency, PruProtect at 1 x long-term insurance capital requirement**



PruHealth and PruProtect

OUR FOCUS AREAS DURING THE PAST YEAR

FURTHER DEVELOPING THE VITALITY FRAMEWORK IN THE UK

During the year, we continued our focus on further investing in, and rolling out, the Vitality framework in the UK in terms of the programme structure, technology, and partners. Member perception of the programme's ability to positively impact their health, is high and steadily improving with 51% of Vitality members agreeing that the programme encourages them to exercise more; 43% are encouraged to improve their diet; 33% better understand their health; 32% make more time to relax; and 26% are encouraged to lose weight.

In terms of member engagement in Vitality, we continue to see improvements as we focus our marketing activity on communication around Vitality engagement. The approach has been to combine high-touch communications, such as the Vitality member magazine, with triggered communications linked to Vitality Age, as well as a structured programme of health and wellness activity throughout the year. The rate of engagement that has followed has been excellent:

- 10 000 new Vitality Age completions each month, which represents a 40% growth year-on-year.
- On average, Vitality members exercise at a Virgin Active gym every 10 seconds.
- Vitality members watch a free movie at our partner cinemas, Vue and Cineworld, on average every 24 seconds.
- We provide free biometric health screenings to our members every 15 minutes on average through Vitality's national network of Lloyd's Pharmacies.
- Vitality members engage with Vitality travel partners, including Eurostar, Mr and Mrs Smith, and Mark Warner, on average every hour.

VITALITY PARTNERS IN THE UK

BUILDING THE VITALITY BRAND IN THE UK

The strategy in the UK has been to develop a new category of behavioural-linked insurance – Lifestyle Insurance – that explicitly lends equal weight to treatment and prevention in the product design. This integration between Vitality and the risk components of the product has created a unique point of differentiation for PruHealth and PruProtect, allowing for a more dynamic approach to underwriting and a more positive and engaging member journey on an ongoing basis. Significant work has taken place over the past 18 months to align the brand strategy to this new category classification, both from an above-the-line consumer perspective, and a below-the-line thought leadership perspective.

In this regard, we focused on three important areas to further build Vitality's brand and thought leadership position in the UK: intellectual leadership, sponsorship of global sport events and sports personalities, and sponsorship of mass participation events. During the year we concluded a prestigious sponsorship agreement of the Barclays Premier League champions, Manchester City, FA Cup winners Arsenal, and league runners up, Liverpool. As the official wellness partner of each club, we not only have the ability to co-develop content on health and wellbeing, but also to gain significant brand exposure through player image rights and match-day marketing presence.

The football partnerships are the latest additions to PruHealth and PruProtect's sponsorship portfolio, which includes associations with Vitality ambassadors Jessica Ennis-Hill, Jonny Wilkinson, and Lord Sebastian Coe, plus events such as The Vitality Run Series, PruHealth World Triathlon London, an official partnership of the UK's Test Match Grounds, and Sky News Sports bulletins.

During the year, we completed work on the second edition of Britain's Healthiest Company – a national initiative aimed at understanding the health issues facing corporate Britain, and how this impacts productivity and employee engagement. This year, we launched a new long-term academic partnership with the University of Cambridge and RAND Europe to assist in the survey design, analysis, and interpretation of the results. Although only in its second year, the initiative is one of the largest comprehensive surveys of employee health and wellbeing in the UK, with 82 companies and nearly 24 000 individual employees participating in the process. The data and insights from Britain's Healthiest Company provides a strong platform to further develop the PruHealth and PruProtect corporate proposition going forward.



INVESTMENT IN THE DISTRIBUTION CAPABILITY OF BOTH BUSINESSES

During the year under review, we continued with our investment in growing our distribution capability in the UK market, which now spans direct-to-consumer and direct-to-business, as well as intermediated franchise and broker channels. All channels aim to cater for the needs of different market segments. Our direct-to-consumer channel links directly to above-the-line marketing activity, where the increased brand awareness of Vitality has been successful in generating quality leads for PruHealth. An internal telesales capability has been developed to support this channel. Equally, we have invested in further rolling out the footprint of our unique franchise model, which now employs 180 Account Managers to service the needs of over 5 000 financial advisers across the UK. While the franchise channel was initially established to support the PruProtect business, it is becoming an increasingly relevant source of new business for PruHealth, importantly attracting business from non-traditional health insurance brokers.



TRANSITIONING PRUHEALTH TO A SINGLE ADMINISTRATION PLATFORM TO REALISE COST EFFICIENCIES

The migration of the Standard Life Healthcare book to a single administration platform remains on track with the aim of all clients being serviced on one administration and service platform by July 2016. We expect that the single system will result in significant efficiencies and cost savings for PruHealth of between GBP£5 million and GBP£8.1 million per annum.

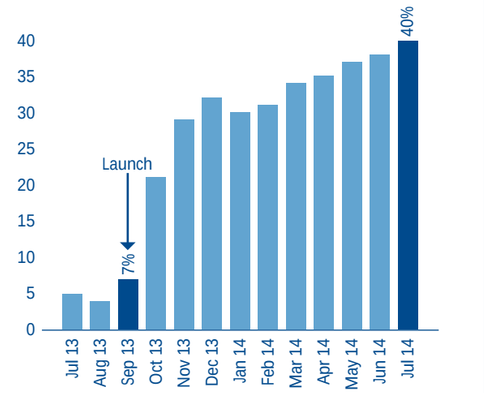
PruHealth and PruProtect

FOCUS ON MARKETING AND DISTRIBUTION OF VITALITY OPTIMISER, OUR FIRST INTEGRATED PRODUCT

During the reporting period, we launched the first truly integrated product, using the full Discovery integration philosophy, to the UK market. The Vitality Optimiser gives PruProtect clients an upfront discount when joining, and then uses dynamic underwriting based on Vitality engagement to assess and price risk more accurately throughout the client's policy lifetime. The Vitality Optimiser has resonated well among members and financial advisers, resulting in robust new business growth for PruProtect.

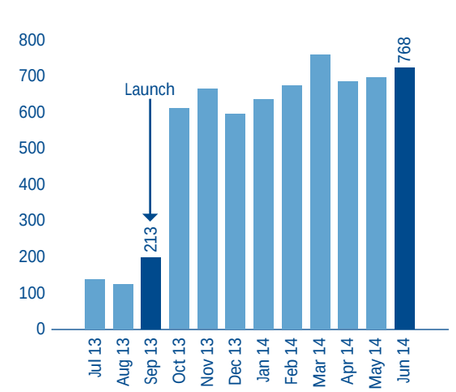
Members prefer Vitality Optimiser

% share of Vitality Optimiser



Brokers prefer integrated products

# of brokers selling Vitality Optimiser



OUR STRATEGIC OBJECTIVES FOR 2015 FOR PRUHEALTH AND PRUPROTECT

- Continue to invest in Vitality (i.e. partners, brand, engagement, and reach) in order to deliver better actuarial dynamics; thereby becoming the leading health and life insurer in the UK.
- Own and have more influence over distribution in order to become the leading new business writer in the profitable segments of the market that we choose to operate in.
- Continue to launch innovative products aligned to our core purpose of making people healthier and enhancing and protecting their lives.
- Maintain an agile governance framework and control environment which both protects and creates value for the business.



Neville Koopowitz
CEO, PruHealth



Herschel Mayers
CEO, PruProtect



PING AN HEALTH

KEY FACTS ABOUT PING AN HEALTH

- Number one comprehensive medical insurer in China.
- Discovery has a 25% share in the Ping An Health joint venture (JV) with Ping An Group.

PING AN HEALTH'S VISION is to create the top health insurance brand in China by offering consumers the broadest and best benefit choices at the lowest cost per unit of benefit, with the best customer experience and best reputation.





PERFORMANCE HIGHLIGHTS 2014

Ping An Health annualised premium income for group insurance products

increased by 37%

Increased traction gained with our product for the individual market

Growth in private health insurance as a new product category, now evident with Ping An Health playing an important role in driving growth in this market segment

Ping An Health's market share increased to approximately 30%

New business

up 119%

Ping An Health ranks first in the Chinese high-end group market by insurance premium income

Ping An Health

PROGRESS ON OUR STRATEGIC OBJECTIVES FOR 2014

Strategic objectives	Progress report
Retain the number one position in the group high-end market.	Ping An Health extended its number one position in China with market share currently at approximately 30%.
Develop our product offering and distribution capability further for the individual market.	• Launch of the Essential Health Protector – a product offering that provides cover for shortfalls and co-payments not covered under Social Health Insurance. • Ping An Health leveraged the Ping An Life distribution channel to distribute its products for the individual market. These products have been licensed under the Ping An Life product range. • Ping An Health's distribution network now comprises over 120 000 agents in the various regions where the products are sold, with considerable potential to tap into Ping An Group's national distribution footprint of 500 000 agents.
Enhance product benefits and services to meet the needs of our clients.	• In October 2013 we launched an enhanced Comprehensive Health Protector product to the market. • Enhancements to the Vitality product were introduced. These enhancements were aimed at making the customer experience more intuitive and to simplify the product to support a mobile experience.

Overview

Ping An Health is Discovery's joint venture with Ping An Insurance Group of China, with Discovery holding 25% ownership in Ping An Health. Ping An Group is one of the strongest retail brands in China, with access to 74 million individual and corporate consumers through its 4 000 branches and over 500 000 sales agents. The company's market capitalisation is currently close to USD$57 billion, making it the second highest after China Life Insurance Company, and worth more than many international insurers. The company is known for its strong brand equity and excellent distribution footprint throughout China.

Ping An Health was established in 2005 and provided health insurance, accident insurance, and related services. Discovery partnered with Ping An Health in 2009 when Discovery announced its intention to buy a 20% share in the company. Only three other specialist health insurers currently operate in China.

Today Ping An Health offers health insurance products for the group high-end market and developed products that provide cover for shortfalls and co-payments not covered under Social Health Insurance, as well as procedures not covered in state hospitals but in private facilities. This is an important step for Discovery as there is a growing understanding in the Chinese market by Chinese consumers of private healthcare insurance as an insurance product category. This increasing awareness of the need for private healthcare insurance provides Ping An Health with a tremendous opportunity for growth and scale and to capitalise on the start of the private health insurance market in China.

Similarly to the Chinese economy, which continues to outperform global averages with a GDP growth rate of 10% between 2000 and 2012 compared to the global average of 2.7%, the Chinese healthcare system is also experiencing fast growth. It is currently the fifth-largest in the world. Rapid demographic changes, compounded by the impact of chronic diseases of lifestyle associated with urbanisation and the growth in disposable income, are driving the growing need for healthcare services. Healthcare in China is funded through the State – Social Health Insurance – as well as through private funding. The Social Health Insurance System provides cover for a large proportion of the population, but strict coverage limits and co-payments result in an estimated 37% shortfall or out-of-pocket expenses for Chinese consumers. Based on an analysis done by Ping An Health on 10 000 medical bills from within Ping An Group, up to 50% of inpatient medical costs are not covered among its target client group in major urban centres.

Private health insurers typically offer limited cover products that focus on supplemental hospitalisation insurance or severe disease insurance. These are frequently offered as life insurance riders. This popular product category accounts for 57% of the existing RMB 86 billion private health insurance market. These products can, however, only meet a very limited need. An analysis done by Ping An Health shows that such products will only cover 5% of hospital admissions and 13% of actual treatment cost. The market for comprehensive medical reimbursement products is very small with the immature mid-market, offering substantial growth opportunity.

In addition, access to healthcare remains a challenge. Chinese consumers prefer care in public hospitals where the high demand for specialised services in renowned hospitals lead to very long queues in overcrowded class three hospitals. Patients often have to resort to strategies such as buying hospital appointments or paying others to queue for them. Healthcare is regarded as one of the top concerns for consumers who are often underinsured with many of them relying on personal savings to fund treatment, making the market highly receptive to healthcare insurance products.

An additional favourable development in the Chinese health insurance sector is the support from the government in the development of the private healthcare sector in terms of the expansion of healthcare services and access. As consumer demand grows, the private healthcare sector is increasingly being viewed as a very lucrative industry. This has far-reaching positive implications for private health insurers. With an increase in investment in private healthcare facilities, access to private healthcare and products to meet these needs, will continue to grow. In 2013, USD$10 billion was spent on healthcare-related transactions with significant investments in private hospital buy-outs and infrastructure.

Against this background, Ping An Health is positioned strongly to capitalise on favourable market conditions. Our strategy is to cater for two specific market segments: large employer groups (group high-end market) and consumers who purchase health insurance products in their own capacity. During the year, we focused on growing our market share in the employer group market while also ensuring we are well positioned to capitalise on the emerging individual market. In both markets we focused on a two-pronged strategy – enhancing our distribution capability and product offering.

OUR FOCUS AREAS DURING THE PAST YEAR

ESTABLISHING A STRONG FOUNDATION FOR PING AN HEALTH TO GROW MARKET SHARE IN BOTH THE EMPLOYER GROUP MARKET AND THE INDIVIDUAL MARKET

Ping An Health has occupied the number one position in the employer group high-end market for the past two years and our priority is to ensure we retain this position. Group Insurance products are sold through the distribution networks of Ping An P & C and Ping An Annuities. During the year we expanded this channel to include large, external corporate benefit employee broker houses. The take up of Ping An Health corporate insurance products by these brokerages reflect Ping An Health's increasing brand strength and awareness among this market. In addition to this, we also introduced enhancements to the group insurance product which resonated well with the market.

Importantly, our analysis shows that employer group insurance customers are a mix of first-time purchasers and large multinationals that reflect the growing awareness in this market of private healthcare insurance.

In terms of the individual market, Ping An Health offers two product types. The Comprehensive Health Protector ("Anxiang") offers cover for shortfalls on procedures and treatments not covered through the Social Health Insurance System, cover for treatments and procedures not covered by the State, as well as cover in private wards. The Vitality programme is included in this product. During the year, we introduced enhancements to this product, including enhancements to the Vitality programme.

The second product offering which was launched during the reporting period, the Essential Health Protector ("Ankang"), offers the same cover but excludes private ward cover and Vitality. This product is priced at approximately half the cost of the Comprehensive Health Protector. During the year under review, we licensed both products under the Ping An Life Group and in doing so, expanded our distribution footprint considerably. This strategy resulted in a significant uptake in sales.

In addition, across both market segments and all product categories, we focused on improving servicing, marketing and communication, as well as product pricing.

NEW LEADERSHIP TEAM AT PING AN HEALTH

During the year, Ping An Health appointed Mr Oliver Wang as the Chairperson and Chief Executive Officer of Ping An Health. Mr Wang was previously the Vice President of Alibaba and Ali Cloud General Manager, and brings a wealth of experience, expertise, and strategic knowledge to Ping An Health. The new leadership team at the helm of Ping An Health has already injected new energy into the operations of the business.

OUR STRATEGIC OBJECTIVES FOR 2015



Oliver Wang
CEO, Ping An Health

- To explore cross-selling opportunities inside the Ping An Group as there is tremendous potential to build our customer base.
- Open new market segments with innovative products.
- Build further capacity in our distribution channels including online sales and other emerging channels.

The Vitality Group and AIA Vitality

PARTNER MARKET

VITALITY GLOBALLY

THE VITALITY GROUP AND AIA VITALITY

KEY FACTS ABOUT THE VITALITY GROUP

- The Vitality Group is a leader in providing comprehensive reward-based wellness programmes to corporates in the US.
- Vitality's scientifically-based approach was further strengthened with the launch of The Vitality Institute in 2013.

KEY FACTS ABOUT AIA VITALITY

- AIA Vitality is a joint venture between Discovery Limited and AIA Group.
- Launched in 2013 and rolled out to AIA clients in Singapore and Australia.
- AIA Group is one of the leading insurers in the world with an extensive distribution footprint and significant brand equity.

OUR VISION is to entrench Vitality as the best-in-class wellness solution and provider globally.



PERFORMANCE HIGHLIGHTS 2014

THE VITALITY GROUP

Clients of The Vitality Group continued to show high levels of engagement in the programme

We published the key findings and recommendations of The Vitality Institute Commission on Health Promotion and the Prevention of Chronic Disease in Working-Age Americans

AIA VITALITY

Vitality membership growth and take-up increases

Early success is shown in Australia – AIA Vitality received the award for the most innovative risk product by the Association of Financial Advisers and received the 2014 Innovation Excellence Award at the CANSTAR Awards

The Vitality Group and AIA Vitality

Overview

The Vitality Group

Discovery's behavioural-linked business model has appeal for global insurers who are faced with the challenge of rising healthcare costs due to the burden of chronic disease. Chronic diseases of lifestyle are also increasingly impacting people at an earlier age and at a time when they need to be productive, adding to the economic burden of lower productivity, absenteeism, and reduced performance while at work.

Workplace wellness programmes are regarded as a solution for employers to improve employee health, lower healthcare cost coverage, and increase their own competitiveness. Within this environment, The Vitality Group, which offers standalone wellness solutions to healthcare carriers and employer groups, is increasingly being acknowledged as the top wellness provider in the US. The Vitality Group has attracted large employer groups, including a number of Fortune 500 companies, as clients.

AIA Vitality

Discovery's business model is also relevant in other geographical markets. In 2013, Discovery launched a joint venture with AIA Group, one of Asia's most prominent insurance groups. Through the joint venture, Discovery's Vitality programme will be applied to the life assurance environment, thereby transforming the traditional insurance model to a behavioural-linked insurance model. Offered as an auxiliary product on top of the AIA life insurance product, dynamic underwriting principles add a competitive advantage for AIA while at the same time delivering more value for clients. The AIA Vitality programme reflects the expertise and experience built up by Vitality in South Africa, including the philosophy and approach, structure of the incentives, and the quality of rewards partners.

PROGRESS ON OUR STRATEGIC OBJECTIVES FOR 2014

Strategic objectives	Progress report
Focus on building scale in the US.	• We expanded our distribution channel in order to strengthen our footprint with the Employee Benefit consulting houses. • We have more than doubled the size of the direct employer membership base and at the same time we significantly strengthened our infrastructure and servicing capacity.
Implement a powerful strategy to increase engagement levels in the Vitality programme.	• New benefits and products were launched: Amazon was added as a rewards partner and the HealthyFood network was extended to include over 6 000 stores. • Development started on building key digital capabilities, including an advanced device integration capability, a social platform and enhanced web and mobile applications.
Build up the thought leadership of Vitality through the various research initiatives of The Vitality Institute.	• We published the findings and recommendations of The Vitality Institute Commission on Health Promotion and the Prevention of Chronic Disease in Working-Age Americans. • The Vitality Webinar Series was launched. • We published white papers during the period and research is increasingly getting broader exposure in the media.
Provide a ready-made wellness solution that assists employers in ensuring compliance with the Affordable Care Act.	• We launched enhancements to the Vitality programme – employers can choose between two comprehensive plans: Activate and Elevate. • Enhancements were introduced in terms of wellness and employee reporting, account and implementation management, online resources, and the Vitality Champs programme.



OUR FOCUS AREAS FOR THE VITALITY GROUP

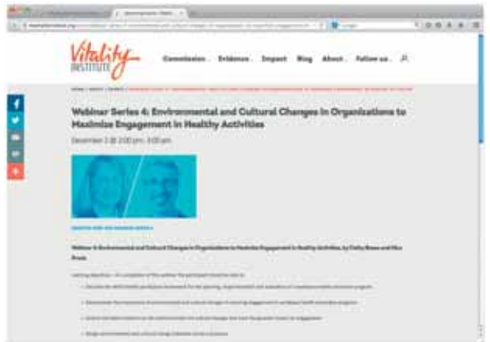
A FOCUS ON NEW BUSINESS DEVELOPMENT

During the year under review, our focus has been on creating broader awareness of the Vitality Group product offering and increased new business sales. To support our new business objectives, we expanded the sales channel by employing additional sales consultants. In terms of the Vitality product offering, we launched an entry level programme for employers, Activate; as well as Elevate, which is the enhanced programme with additional engagement features. We also introduced an expansion of the HealthyFood network to over 6 000 stores and introduced Amazon as a rewards partner.

In addition, The Vitality Group website has been redesigned with the objective of increasing traffic and converting prospects to the site into leads. The redesign has been highly successful with a 61% increase in traffic during the first month of the redesigned site.

CONTINUE INITIATIVES TO INCREASE VITALITY'S THOUGHT LEADERSHIP IN THE US

An important strategy for The Vitality Group is to strengthen Vitality's thought leadership position in the US. The key initiatives that form part of this strategy are The Vitality Institute, Vitality Webinar Series, and various white papers. The Vitality Institute published a substantial research document entitled 'Investing in Prevention: A National Imperative' during 2013. The report presents the key findings and recommendations of The Vitality Institute Commission on Health Promotion and the Prevention of Chronic Disease in Working-Age Americans. It is the result of more than a year of research and debate among top public health experts. The key findings from the report highlight that the US could save between USD$217 billion and USD$303 billion in annual healthcare costs if businesses and governments adopt existing evidence-based health promotion and chronic disease prevention methods. The report also notes that improving health promotion and chronic disease prevention efforts among working-age individuals is essential to strengthening the US' economic competitiveness.







The Vitality Group and AIA Vitality

ENCOURAGE ENGAGEMENT FROM MEMBERS AND PROVIDING COMMUNICATION SUPPORT TO EMPLOYERS

A third focus for the year was on encouraging members to engage with the Vitality programme through engagement-focused communication campaigns. The aim is to provide information support to members throughout the programme lifecycle. Activities included monthly newsletters of member engagement strategies and programme changes or updates, all distributed via account managers. The Vitality Group also started a targeted social media strategy to tailor wellness and engagement content to specific audiences, including financial advisers, clients, members, industry experts, news outlets, reporters, bloggers, and partners.

We enhanced our communication support for employers through a new toolkit that gives clients a consultative approach and best practices in terms of a communication strategy to their employees. The new toolkit includes new communication material such as tutorial videos and articles on key wellness topics.

OUR KEY FOCUS AREA FOR AIA VITALITY

IMPLEMENTING AND GROWING THE AIA VITALITY MEMBERSHIP BASE IN SINGAPORE AND AUSTRALIA

The AIA joint venture has been implemented in two regions: firstly, in Singapore and secondly, in Australia during the second half of the financial year. The market has been highly receptive to the Vitality philosophy and product, with take up in Singapore improving significantly since the product was launched in this market.

AIA Vitality in Australia has also gained industry recognition, with AIA Australia being awarded "most innovative risk product" by the Association of Financial Advisers; the business receiving an award in the Canstar Innovation Excellence Awards on 31 March 2014; and most recently, the internal product launch being awarded "Gold Quill Merit Award" from the International Association of Business Communicators in May 2014.

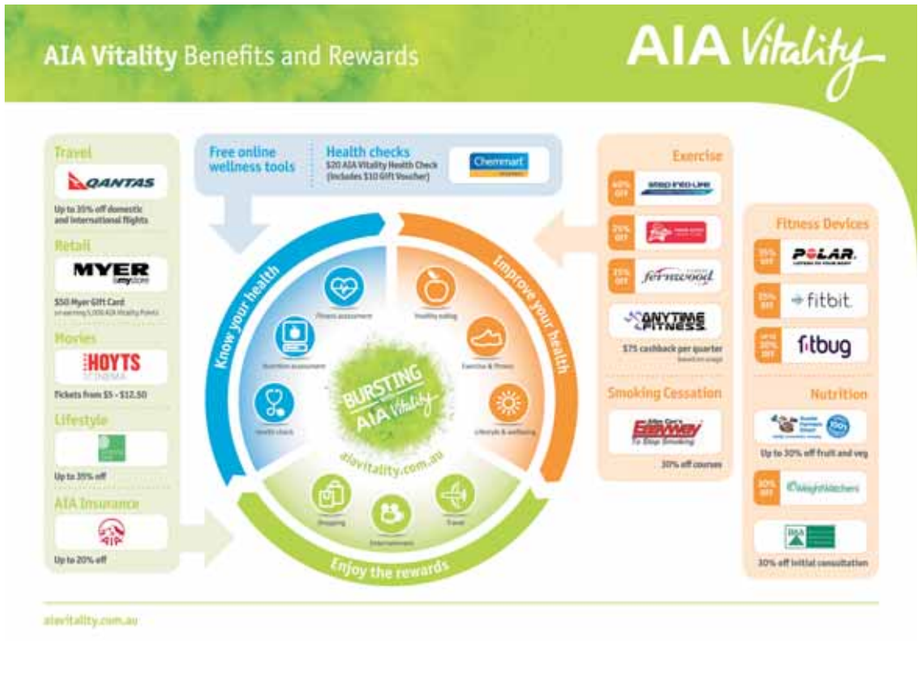
AIA Vitality continues on its path to take the Vitality business model to further countries in this region. Furthermore, we aim to take advantage of opportunities to integrate Vitality into additional products in Singapore and Australia.

OUR STRATEGIC OBJECTIVES FOR 2015 FOR THE VITALITY GROUP

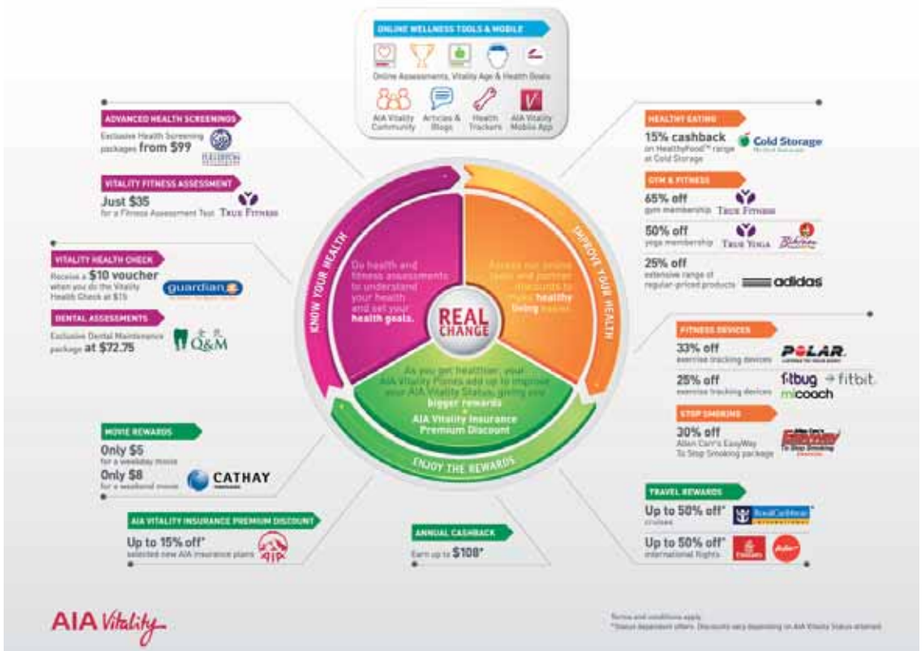
- Drive higher levels of engagement among our clients.
- Further increase the size of our sales force.
- Further strengthen the digital capabilities inherent in the programme.



THE VITALITY MODEL AND PARTNERS IN AUSTRALIA



THE VITALITY MODEL AND PARTNERS IN SINGAPORE



Discovery Limited Board of Directors



Dr Brian Brink
Non-Executive Director
(Independent)
BSc (Med), MBBCh, DA (SA)

Brian is the Chief Medical Officer of Anglo American plc and is a respected thought leader on the role of the private sector in improving health in developing countries. He has been a member of the private sector constituency on the board of The Global Fund to Fight AIDS, Tuberculosis, and Malaria since its inception in 2002. Brian has 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.



Steven Epstein
Non-Executive Director
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.



Herman Bosman
Non-Executive Director
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, and is a trustee of the Deutsche Bank South Africa Foundation. He is a Chartered Financial Analyst.



Richard Farber
Executive Director
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 on 1 July 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.



Jan Durand
Non-Executive Director
(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.



Adrian Gore
Executive Director and
Group Chief Executive
BSc (Hons), FFA, ASA, MAAA, FASSA

Adrian is the founder and Group Chief Executive of Discovery Limited. He chairs the South African chapter of Endeavor, a global non-profit organisation that identifies and assists high-growth entrepreneurs. Adrian serves on the World Economic Forum Global Health Advisory Board, the Mailman School of Public Health Board of Overseers (Columbia University), the Massachusetts General Hospital Global Health Advisory Board, and was recently invited to join the World Health Organisation Commission on Ending Childhood Obesity. In 1998, Adrian was recognised as South Africa's best entrepreneur by Ernst & Young; and in 2010, he was named the Sunday Times Business Leader of the Year.



Monty Hilkowitz
Non-Executive Director
and Chairperson
(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 Limited Board of Directors.



Dr Vincent Maphai
Non-Executive Director
(Independent)
BA, BA (Hons), M Phil, D Phil,
Advanced Management Programme
(Harvard University)

Vincent was, until the end of March 2014 when he went into retirement, 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.



Hylton Kallner
Executive Director
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 Health 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.



Herschel Mayers
Executive Director
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, he 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 PruProtect in the UK.



Neville Koopowitz
Executive Director
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 DiscoveryCard. 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 PruHealth and Vitality in the UK. He sits on the Health Committee of the Association of British Health Insurers.

Discovery Limited Board of Directors



Tito Mboweni

Non-Executive Director
(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). He was 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). He is an Honorary Professor in Economics at Stellenbosch University and a Fellow of the Stellenbosch Institute for Advanced Study (STIAS) as well as the Bellagio Rockefeller Centre, Italy. Tito currently serves as Chairperson of the Board of Nampak Limited, SacOil Holdings Limited, and Accelerate Property Fund. He is an International Advisor for Goldman Sachs International and member of the Total Marketing Consultative Committee for Africa and the Middle East. 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.



Les Owen

Non-Executive Director
(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 Officer of AXA SunLife in the UK from 1995 to 1999. Les brings to the Board extensive experience and expertise in international insurance markets. He is a Non-Executive Director of Jelf and Computershare Ltd, Royal Mail, Just Retirement, and CPP; and is Chairperson of the Discovery Limited Audit and Risk Committee.



Alan Pollard

Executive Director
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.



Dr Ayanda Ntsaluba

Executive Director
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.



John Robertson

Executive Director
BCom, CTA, CA (SA), HDipTax

John joined Discovery Health in April 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.



Sonja Sebotsa

Non-Executive Director
(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 were law, business, and economics. Until August 2007, she was an Executive Director of WDB Investment Holdings where she led the structuring of several of WDB's 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.



Barry Swartzberg

Executive Director
BSc, FFA, ASA, FASSA, CFP

Barry was a co-founder of Discovery Health 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). He is currently a Group Executive Director of Discovery Limited and is responsible for Discovery's international operations. He serves on the boards of Discovery Limited, The Vitality Group in the US, Ping An Health in China, and PruHealth and PruProtect in the UK, as well as Discovery Insure.



Tania Slabbert

Non-Executive Director
BA, MBA

Tania was Chief Executive Officer of WDB Investment Holdings for 10 years, during which time she managed the growth of the company's portfolio of investments. In October 2013 she was appointed Chief Executive Officer of the WDB Trust, the investment company's sole shareholder. In her new role, she continues to further the WDB Group's mission of sustainable economic development for rural women in South Africa by providing them with access to financial and non-financial resources. Before joining WDB, Tania spent four years in the diplomatic corps and several years in West Africa working in the non-governmental sector. Her other directorships include the Bidvest Group and Caxton.



Sindi Zilwa

Non-Executive Director
(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 title 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.

Corporate Governance Committees and Secretary

	Board of Directors	Audit and Risk Committee	Actuarial Committee	Social and Ethics Committee	Remuneration Committee	Executive Committee
MI Hilkowitz (Chairperson)	◊ 6/6				2/3	
A Gore (Group Chief Executive)	6/6			1/5		◊ M
P Cooper**	5/5				2/2	
HL Bosman*	1/1				0/1	
BA Brink	6/6			4/5		
J Durand	6/6				◊ 3/3	
SB Epstein	6/6					
R Farber	6/6		8/8	4/5		M
HD Kallner	5/6			3/5		M
NS Koopowitz	5/6					M
TV Maphai	6/6					
HP Mayers	6/6		4/8	2/5		M
A Ntsaluba	6/6			3/5		M
AL Owen	6/6	◊ 7/7	7/8			
A Pollard	5/6					M
JM Robertson	5/6			3/5		M
SE Sebotsa	5/6	7/7				
T Slabbert	6/6			3/5		
B Swartzberg	5/6		7/8	5/5		M
SV Zilwa	4/6	3/7		◊ 4/5		
J Broomberg[1]	5/6			2/5		M
KS Rabson[2]	6/6					M
P Tlhabi[1]	4/6			4/5		M
TT Mboweni*	2/3					
C Van Der Riet			◊ 8/8			
AB Rayner[3]			8/8			M
S Matisonn[3] [4]			6/8			M
RW Williams[3]			8/8			
R Lee[3]			7/8			
D Govender[4]						M
P Harvey[4]						M
L Izikowitz[4]						M
K Mayet[4]						M
R Noach[4]						M
G Novick[4]						M
A Ossip[4]						M
E Stipp[4]						M
B Sundelson[4]						M
P Thompson[4]**						M
R van Reenen[4]						M
S Vyvyan-Day[4]						M
S Viranna[4]						M
MJ Botha (Company Secretary)						

Key

** Appointed during the year*
*** Resigned during the year*
◊ Chairperson of the Committee
(1) Directors of Discovery Health (Pty) Ltd only
(2) Director of Discovery Life Ltd only
(3) Not Directors of Discovery
(4) Executive Management
M Member of the Discovery Group Executive Committee

Corporate Governance Report

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 our local and foreign business operations are managed in a responsible manner with a view to maintaining 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 as well as with the principles of King III. In assessing adherence to the King III principles, a compliance programme is in place to monitor the level of compliance across the Group at regular intervals. This report details 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/info/2014King3**

ETHICAL LEADERSHIP AND CORPORATE CITIZENSHIP

The Discovery Board governs the organisation in an effective and ethical manner to ensure that 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, 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 Sustainable Development Report, available online at **www.discovery.co.za/info/2014SDReport**

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



Corporate Governance Report

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 of the written terms of reference have recently been reviewed by the relevant committees.

Discovery's Board has a clear division of responsibilities between itself and the executive management. During the year, Discovery appointed two non-executive directors to the Board. At the time of writing this report, the Discovery Board consisted of 11 non-executive directors (eight are independent) and nine executive directors.

Board proceedings: The Board meets six times a year, with additional meetings arranged when necessary. The long- and short-term strategies of Discovery are discussed and agreed on 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 this is reviewed annually. The Charter provides directors with 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 power 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 has an ad-hoc sub-committee for the search and vetting of potential directors. This is done through a formal and transparent process. To ensure that the mix of skills, experience, and technical expertise of the directors remains 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.

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 by means of 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 external assessment was done and the Board was found to be effective. The Chairperson meets with individual directors on a one-to-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 performance 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 were provided. Going forward, a day will be set aside once a year as a training day for the Board on all legislative developments.

Management of directors' interest: 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 interest whenever it arises.

Trading in Discovery shares: Discovery adopted a policy enforcing closed periods that prohibit trading in shares by directors, senior executives, and employees a month before the interim and final financial period. All directors trading in shares require the prior approval of the Chairperson of the Board and senior management are required to notify the Financial Director 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. In this role, the Company Secretary maintains an arms-length relationship with the Board and is not a director at Discovery Limited. All 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 he is qualified to fulfil his duties and responsibilities to the Group.

BOARD COMMITTEES

Audit and Risk Committee

The Audit and Risk Committee is responsible for assisting the Board in terms of the financial reporting processes, internal controls, risk management, compliance with legislation, and internal and external audit processes.

The Committee consists of three highly skilled and experienced independent non-executive directors with extensive actuarial, insurance, economics, 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.

Audit and Risk Committee proceedings: The Audit and Risk Committee meets six times a year with the mandate to convene additional meetings as required. 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 scope 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 and Risk Committee on page 104 of the Integrated Annual Report.

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.

The PruHealth Group 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 required. 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.
- To consider the financial soundness valuation results of Discovery, including overall methodology and assumptions used to value the assets and liabilities of the Group.
- To consider the embedded value results of Discovery, including the overall methodology and assumptions used in the embedded value calculation.
- To review the external disclosure of the embedded value results of Discovery.
- To consider the capital position of Discovery.
- To review all reinsurance arrangements.

Social and Ethics Committee

The Social and Ethics Committee assists the Board in fulfilling 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 of executive directors and the Chairperson is a non-executive independent director. Two additional independent non-executive directors were appointed during the year. 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 is 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 advisors, or officers whose input might be required at the meeting.

The responsibilities of the Social and Ethics Committee are:

- To monitor the company's standing in terms of the 10 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.
- To review and approve a framework for Stakeholder Engagement and stakeholder engagement policy.
- To monitor the company's activities in respect of stakeholder relationships, including the company's advertising, public relations, and compliance with consumer protection laws.
- To monitor the company's performance in relation to good corporate citizenship as well as the environment, health, and public safety.
- To review and approve the Enterprise Development Policy, the Employment Equity Plan, the Preferential Procurement Policy, the Corporate Social Investment (CSI) strategy, and projects proposed by management.
- To review and approve, for recommendation to the Board, the Sustainable Development Strategy and key sustainability indicators.
- To consider and review the Ethics Framework, the Code of Conduct, and any complaints received by the Group.
- To make recommendations to the Board regarding any potential conflicts of interest of a material nature.

Corporate Governance Report

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 229.

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.
- To ensure that Discovery's employees are remunerated fairly and equitably taking into account Discovery's performance and external market trends.
- To make recommendations to the Board on the remuneration structures of non-executive directors.
- To ensure that the remuneration of executive directors is sufficient to attract, retain, and motivate employees.
- To approve a policy relating to bonus and share incentive schemes.

Group Executive Committee

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

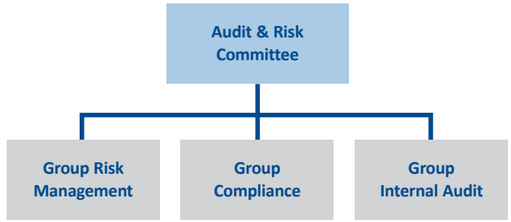
The Group Executive Committee is chaired by the Group Chief Executive and meets weekly.

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

CONTROL FUNCTIONS WITHIN DISCOVERY

To further strengthen the Board's responsibility to oversee governance, Independent Control Functions have been implemented at a Group Level. This has been delegated to the Audit and Risk Committee.

Overview of the Control Functions



Group Risk Management

The Discovery Board is ultimately responsible for the governance of risk management across the Group. 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 Audit and Risk Committee and Actuarial Committees have been given the responsibility to oversee the operational effectiveness of the risk management system.

The Group Risk Management function is headed up by the Chief Risk Officer who reports directly to the Group Chief Executive Officer and who is a member of the Group Executive Committee. The Group Risk Management function reports to all Audit and Risk Committee meetings on the current assessment of risks across the Group, the extent of mitigation plans and controls 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 are responsible for overseeing and providing guidance.

The Board reviews and approves the level of risk appetite and tolerance for every risk category to which each business is exposed. Many factors are considered when setting the appetite and tolerance levels. Some of these include considerations of business maturity, risk management maturity, Discovery's propensity to take 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. For more information on the Enterprise Risk Management Report, refer to page 92 of the Integrated Annual Report.

Group Compliance

The Group Compliance Function's primary responsibility is to assist the Board and the Chief Executive Officers to ensure that all local and international business operations are run with integrity, and comply with all applicable legal and regulatory requirements as well as international standards of best practice.

Group Compliance is responsible for implementing controls ensuring the appropriate management of Regulatory Compliance Risks. Group Compliance works closely with Group Risk Management but operates as a separate division within Discovery. This enables close alignment with the Risk Management Framework while ensuring that the regulatory exposures and opportunities within Discovery receive focused and appropriate attention.

The Chief Compliance Officer reports to the Audit and Risk Committee on all regulatory, legal, and supervisory developments and the impact that they may have on other relevant legislation. The Chief Compliance Officer also reports functionally to the Chairperson of the Audit and Risk Committee.

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

Requests for Information and Promotion of Access to Information Act: During the year under review, we received three requests for information in terms of Promotion of Access to Information (PAIA). Two of the requests were granted and one request was refused because the requestor was unable to adequately substantiate the nature of the rights that they were seeking to protect.

For more information details of the Compliance Report refer to page 96 of the annual report.

Group Internal Audit

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

Group Internal Audit is staffed with suitably qualified, competent, and ethical staff 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 and Risk Committee and the effectiveness of the function is also assessed. As far as possible, planning is coordinated with the external auditors in order to minimise duplication of audit effort.

The Audit and Risk 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:

- **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 and Risk Committee.
- **Combined Assurance:** Group Internal Audit annually provides an assessment to the Audit and Risk 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. They have appointed a Group Chief Information Officer whom they believe 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.
- The establishment of a formal process to oversee and manage all IT investments and capital expenditure.
- The establishment of a number of operational and strategic IT committees to ensure that the Group infrastructure appropriately supports business objectives and strategy.
- The implementation of a Business Continuity Framework to ensure that appropriate plans and controls are in place to ensure that all aspects of business resilience and disaster recovery are adequately dealt with.

Group Risk Management Report

Enterprise Risk Management provides a framework for managing risks which typically involves identifying particular events or circumstances that impact the ability of Discovery to meet its objectives (risks and opportunities), assessing them in terms of likelihood and magnitude of impact, assessing the controls in place to mitigate these risks, determining a response strategy where necessary, and monitoring progress. By identifying and proactively addressing these risks and opportunities, Discovery's local and international operations are able to protect and create value for its stakeholders.

Our policies and frameworks

In order 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 current regulatory requirements that have been proposed under the Solvency Assessment and Management (SAM) regime.

Our risk management strategy

Discovery is committed to being an organisation with a high-quality enterprise risk management capability that encompasses all its activities and tangibly contributes to growth in economic value of shareholder assets and the protection of policyholder and member benefits. This is achieved by:

- Fostering an environment where consideration of risk is embedded in Discovery's culture, business planning, decision-making, and day-to-day business activity.
- Being risk-conscious, risk-confident, and risk-selective. Risks are considered appropriate if they are well understood, generate the required risk-adjusted return (either financially or otherwise), and support Discovery's strategic objectives. Discovery actively seeks appropriate risks against the background of a clearly articulated risk appetite and business strategy.
- Seeking to avoid, mitigate, or transfer those risks for which Discovery has little or no appetite or where the expected risk-adjusted return is inadequate.
- Actively communicating the effectiveness and business benefits of risk management to all stakeholders.
- Continually developing and enhancing Discovery's Enterprise Risk Management capability in a manner that delivers business benefit.
- Providing reasonable and independent assurance to Discovery's senior management and Board.

The role of the risk management function

The risk management function is an independent function responsible for designing and ensuring the operational effectiveness of the risk management system. It coordinates and challenges risk information and ensures establishment of appropriate risk reporting procedures. By doing this it aims to:

- Assist the Board of Directors, the various Committees, and senior management in carrying out their respective responsibilities by coordinating risk management activities across Discovery.
- Identify the risks Discovery faces and evaluate the internal and external risk environment on an ongoing basis in order to assess potential risks as well as emerging risks as early as possible. This may include looking at risks from different perspectives, such as by territory or by line of business.
- Assess, challenge, aggregate, monitor, help manage, and otherwise address identified risks effectively. This includes assessing Discovery's capacity to absorb risk with due regard to the nature, probability, duration, correlation, and potential severity of risks, as well as assessing the adequacy of the control environment.
- Recommend Discovery's risk appetite to the Board for approval, including cascading down to an appropriate level of detail and monitoring the actual risk exposure against the Board-approved appetite.
- Gain and maintain an aggregated view of the risk profile of Discovery and its individual operations.
- Set standards and guidelines relating to risk management methodology and techniques of quantification.
- Conduct regular stress testing and scenario analyses, including those in respect to outliers or issues with a low probability but high potential impact.
- Regularly report to senior management, key persons in control functions, the Audit and Risk Committee, and the Board of Directors on Discovery's risk profile, risk events that have occurred, details of the risk exposures faced, and the related mitigating actions required.
- Incorporate a feedback loop based on appropriate and good quality information, management processes, and objective assessments.
- Conduct regular assessments of the risk management system and ensure that all necessary improvements are implemented.
- Document and report material adverse changes affecting Discovery's risk management system to the Board of Directors to help ensure that the Enterprise Risk Management Framework is maintained and improved.

Our Enterprise Risk Management process

The risk management process at Discovery aims to contribute towards both growth in economic value and the protection of policyholder and shareholder assets. This process involves:

Risk identification

The risk identification process seeks to determine those risks that would prevent Discovery from meeting its business objectives and therefore addresses all categories of risk. The risk identification process is performed at all levels of the organisation and follows either a bottom-up or top-down approach.

Bottom-up approach – involves a process of identifying, analysing, and evaluating the key operational risks and controls across all entities within the Group.

Top-down approach – involves routine risk assessments with executives and senior management who are involved in the strategic planning process and make decisions about risk and return that could significantly impact the Group's risk profile.

Risk analysis

The risk analysis process consists of two sub-processes:

Control Evaluation – Controls are identified, categorised, and assessed for each risk that has been identified during the risk identification process. Controls may either be a single control activity that is capable of mitigating the risk, or a number of control activities that, in combination, mitigate the risks to an acceptable level. Controls include all measures taken to mitigate potential liabilities and exposure to risks.

Residual Risk Assessment – Risks are classified based on the impact and likelihood of them occurring. The residual risk assessment assists in quantifying the exposure that Discovery has to a risk, after taking the control environment into account. A combination of both expert judgment and objective evidence is required to arrive at the appropriate risk rating.

Risk evaluation

The purpose of a risk evaluation is to implement or review management action plans to address unacceptable risk exposures, control weaknesses, risk incidents, and key risk indicator breaches. The decision to create an action plan is based on the residual risk rating. Risk evaluation will assist business in making decisions, based on the outcome of the risk analysis process. The management team at Discovery ensures that actions are tracked, communicated effectively, and implemented successfully for maximum benefit to be derived from the process.

Risk monitoring

Risks are continuously monitored. The process involves the planning and tracking of new risks, constantly reviewing existing risks, monitoring action plans and residual risks, as well as reviewing the execution of risk responses while evaluating their effectiveness.

Risk reporting

All risks are reported every two months, with detailed commentary on "medium high" and "high" risks as well as a summary of risk events that have occurred, in line with the Audit and Risk Committee schedule. Risk incidents are reported on a weekly basis to the Discovery Limited Executive Committee. The risk reporting process enables the effective monitoring and reporting of risk and capital management issues across Discovery and provides assurance that the Enterprise Risk Management Framework is operating as intended.

Group Risk Management Report

Our risk universe

In order to apply the risk management principles, the Group has defined a universe of risks that classifies various risks into similarly grouped classes or categories. In this structure the broader risk categories or risk themes are grouped as level one risks, of which there are eight. Under each of these level one risks sits a more detailed catalogue of specific sub-risks. The following level one risk types have been defined as part of Discovery's Enterprise Risk Management Framework.

Risk	Definition
Credit risk	The risk of potential loss arising from the failure of counterparties to meet their financial obligations for any reason when due.
Market risk	The risk that as a result of market movements, the company may be exposed to fluctuations in the value of, or income from, its assets and financial instruments, and the amount of its liabilities relative to what is expected.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people, systems, and/or external events.
Insurance risk	The risk of loss due to the occurrence, amount, and timing of insurance liabilities being different to that assumed.
Business risk	The risk that business performance will be below expectations as a result of negative variances in new business volumes, margin, lapse experience (for non-insurance entities), and expenses.
Regulatory risk	The risk of an adverse financial impact, reputational damage, a breakdown of the regulatory relationship, or regulatory sanctions being imposed as a result of non-compliance to emerging and/or existing regulatory requirements.
Strategic risk	The risk of the current and prospective impact on earnings or capital resulting from an inappropriate or defective strategy. The risk arises from an organisation's inability to implement appropriate business plans, strategies, or decisions. It also relates to the organisation's lack of responsiveness to industry changes.
Liquidity risk	The risk that the organisation, though solvent and profitable on a balance sheet basis, either does not have the cash (or near cash) resources or the ability to liquidate its assets to meet its obligations to policyholders, debtors, or capital providers (as they fall due).

How do we manage risk

Discovery uses the 'three lines of defence' governance model as a key tool of risk management. It is designed to promote transparency, accountability, and consistency within the risk management process through the clear identification of well-defined roles, the clear separation of business management, governance, and control structures, and the tracking of performance against accountabilities.

Overview of the Control Functions



The 'three lines of defence' model within the Discovery context, is illustrated below:



Line 1 – Business Unit Management

The 'first line of defence' consists of the day-to-day management and operations of the business and requires that the business is responsible for ensuring that a risk and control environment is established as part of day-to-day operations and for delivering strategy and optimising business performance within an agreed governance and risk framework.

Line 2 – Risk Management Function, Compliance Function, and Actuarial Control Function

The 'second line of defence' consists of an independent risk management and compliance management function that is responsible for designing and ensuring the operating effectiveness of the risk and compliance management system, supplemented by an Actuarial Control Function for the Discovery Life business.

Risk Management Function: Group Risk Management is an independent function 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 loops to the Board.

Compliance Function: 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 on its own initiative, and may obtain access to any records required to carry out its responsibilities.

Actuarial Control Function: The Actuarial Control 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 Control Function expresses an opinion on these calculations and ensures the establishment of appropriate reporting procedures and feedback loops to the Board.

Line 3 – Assurance

The 'third line of defence' comprises Discovery's assurance functions, i.e. internal and external audit. These functions provide an independent and balanced view of the effectiveness of the first and second line functions as defined above. On an annual basis, Group Internal Audit performs an 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.

Group Compliance Report

Compliance Risk refers to the risk that the controls and procedures implemented to comply with laws, regulations, supervisory requirements, or industry codes may be inadequate or ineffective, potentially resulting in legal or regulatory sanctions, financial loss, or loss to reputation.

Given our geographical 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 at Discovery.

Our approach to compliance

The Group Compliance function's primary responsibility is to assist the Board and the Chief Executive Officers to ensure that all local and international business operations are run with integrity, comply with all applicable legal and regulatory requirements and international standards of best practice. Discovery has no risk appetite to knowingly fail to adhere to any of the regulatory requirements. The Group will seek to avoid any breach of regulation that may result in enforcement action by a regulator and any instance of non-compliance is investigated and the appropriate action taken.

Regulatory change management

- Identification and analysis of regulatory changes impacting the Group and co-ordination of work within the business to adhere to the requirements.

Guidance and support

- **Maintain regulatory frameworks:** Regulatory requirements impacting the business environments are identified and the controls around these requirements assessed to ensure that regulatory exposure within the Group is managed appropriately.
- **Advice and support to business:** Ongoing support and advice to the business on the impact of regulatory requirements on the operations.

Monitoring and assurance

- Independent assessment of the effectiveness and appropriateness of controls within the business environment. This work is specifically focused around controls for regulatory requirements.
- A risk-based approach is used to determine the scope, extent, and frequency of these reviews.

Regulatory training

- Training programmes are established to ensure that all Discovery employees receive the appropriate and required regulatory training applicable to their roles and responsibilities within the Group.

While the South African business operations are supported by experienced compliance officers within the centralised compliance team, our international business areas are supported by dedicated compliance teams in their respective environments. The work of these teams is closely aligned to the standards and guidelines in place within the Group Compliance Function in South Africa.

This allows the Group Compliance Function to set standards and guidelines applicable to both the local and international business operations, to perform independent monitoring, and to provide easy access to technical expertise in terms of specific regulatory requirements.

The structure of the function enforces the independence of the compliance function and ensures that dedicated focus is given to compliance matters throughout all business areas in the Group. This is a very important component of good corporate governance and is a requirement of King III and other legislation.

Group Compliance is also responsible for the implementation and monitoring of an Anti-Money Laundering Control Framework within the Group.

Regulatory environment

Discovery is regulated by several local and international Regulatory Authorities. Contact with our regulators takes place through authorised individuals on both a formal and informal basis. We always seek to maintain a relationship of trust and transparency with our regulators. Our key regulators are:

Financial Services Board (FSB)	The FSB regulates non-banking sectors of the financial services industry including pension funds, long-term and short-term insurance, collective investment schemes, and financial advisory and intermediary services.
National Credit Regulator (NCR)	The NCR was established to regulate the South African credit industry.
Council for Medical Schemes (CMS)	The CMS was established to provide regulatory supervision of private health financing through medical schemes.
Financial Intelligence Centre (FIC)	The FIC was established to identify the proceeds of unlawful activities and to combat money laundering activities.
Department of Trade and Industry (DTI)	The DTI focuses on consumer protection and develops legislation to encourage appropriate business practices and to enable consumers to exercise their rights.
National Consumer Commissioner (NCC)	The Office of the Consumer Commissioner was established with the implementation of the Consumer Protection Act in April 2011 and is responsible for establishing consumer rights.
Financial Conduct Authority (FCA, United Kingdom)	The FCA's strategic objective is to ensure that the financial services market functions well and to ensure that the following objectives are met: • Secure an appropriate degree of protection for consumers. • Protect and enhance the integrity of the financial system in the UK. • Promote effective competition in the interests of consumers.
Prudential Regulatory Authority (PRA, United Kingdom)	The PRA is responsible for the prudential regulation and supervision of banking and non-banking institutions in the UK. The PRA serves to promote the safety and soundness of regulated institutions and contribute to securing appropriate protection for policyholders.
Information Commissioner's Office (United Kingdom)	The independent regulatory office deals with the Data Protection Act 1998 and the Privacy and Electronic Communications (EC Directive) Regulations 2003 across the UK.
Guernsey Financial Services Commission (GFSC, United Kingdom)	The GFSC is the regulatory body for the finance sector in the Bailiwick of Guernsey. The Commission's primary objective is to regulate and supervise financial services in Guernsey.

Our focus areas during the past year

- **Continuing our efforts to ensure the protection of our clients' rights and personal information:** We have made progress over the last 12 months with various projects across the business focused on strengthening controls and procedures to protect our clients' personal information. We plan for a number of initiatives to be completed and delivered over the next 12 months, in line with the recent finalisation of the Protection of Personal Information Bill in Parliament.
- **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.
- **Implementation of the Solvency and Assessment and Management (SAM) framework:** Discovery's project to implement the requirements of the SAM framework is making good progress and is aligned with the proposals initiated by the FSB. We are actively participating in the FSB industry programme in this regard.
- **Continued strengthening of our Information Security Controls:** We have completed a number of projects during the past year focused on formalising and strengthening our Information Security Framework. Information security remains a key element of the Protection of Personal Information (PPI) programme within Discovery. As such, we will continue to focus on this over the next 12 months.

Regulatory developments and focus areas for the coming year

A number of new regulatory requirements will have an impact on the business areas during the coming year. These are:

- **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.
- **Solvency Assessment and Management and Solvency II:** 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. 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.
- **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.
- **Retail Distribution Review:** During the next year we will be 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.

Remuneration Report

This report sets out the remuneration philosophy and salient features of the remuneration policies adopted by Discovery in respect of executive management, employees, and non-executive directors.

Remuneration philosophy

The remuneration philosophy 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 performers so that all employees can positively contribute to our strategy and values. The process is designed to support the successful execution of the organisational 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.

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

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. Therefore, a rigorous objective-setting process is in place to ensure alignment of the best interests of our employees with that of our shareholders and other stakeholders to create a successful organisation. For base pay, Discovery takes cognisance of the 50th percentile of the financial services market. However, Discovery's philosophy is to pay above the market average where required, to attract the best talent, especially for critical skills. In addition, Discovery pays short-term performance-based incentives to its employees that enable the individual to earn above market levels if their performance supports this.

Responsibility for developing and governing remuneration

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 an independent expert.

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

- Approving remuneration packages for executive directors.
- Approving policy relating to bonus and share incentive schemes.
- Recommending the non-executive directors' fees.
- Reviewing the annual salary increase process and the increases of all senior executives.
- Ensuring alignment of remuneration practices with Discovery's overall remuneration philosophy.

The Remuneration Committee has delegated some of its functions to the Internal Remuneration Committee. 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 advisors to assist in tracking market trends related to all levels of employees, including PE Corporate Services, Mabili Reward, Remchannel Financial Reward Survey, and 21st Century Business and Pay Solutions.

Remuneration Committee membership

JJ Durand is the Chairperson of the Remuneration Committee. Other Remuneration Committee members are MI Hilkowitz, H Bosman (appointed 1 July 2014), and P Cooper who resigned on 10 April 2014. T Slabbert and M Olivier (independent remuneration expert), who both have experience in this area, attend the meeting by invitation. M Olivier has been replaced by B Olivier as independent remuneration expert, effective June 2014.

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

	August 2013	October 2013	June 2014*
MI Hilkowitz	•	•	X
JJ Durand (Chairperson)	•	•	•
P Cooper – resigned 10 April 2014	•	•	n/a

**The June 2014 meeting resolutions were ratified by members subsequent to the meeting.*

All Remuneration Committee members have the relevant skills and experience to perform their duties.

Remuneration for Executive Directors

The Executive Directors on Discovery's Board as at 30 June 2014 were:

- A Gore
- R Farber
- HD Kallner
- NS Koopowitz
- HP Mayers
- Dr A Ntsaluba
- A Pollard
- JM Robertson
- B Swartzberg

All Executive Directors are employed on employment contracts that may be cancelled between one month and three months' notice by either the Executive or the Company.

Remuneration packages for executive directors comprise the following components:

1. Guaranteed component

Approach	All executive directors receive a guaranteed element of remuneration. This is based on cost to company. Cost to company comprises a fixed cash portion and compulsory benefits (medical aid, life cover, and retirement fund membership).
Positioning	Comparative studies of peer groups and similar size companies are used with market survey data to ensure positioning of pay in line with the Group's remuneration philosophy. International benchmarks are considered for HP Mayers, A Pollard, and NS Koopowitz, taking into account their international duties. All of Discovery's executive directors receive guaranteed remuneration in line with market levels, taking into account their responsibilities.
Year-on-year increases	For the current year, the executive directors received increases on their basic salaries ranging from 3% to 8% over the prior year.

2. Short-term incentives

Approach	Short-term incentives are designed to reward executive directors for achieving stipulated strategic annual objectives, thereby ensuring that a significant portion of executive directors' cost is variable.
Positioning	Executive directors' short-term incentives comprise two components: • An annual personal incentive linked to individual goals for each director. • A 'profit pool' element which allows senior management to share in profit if the Group's performance is above certain profit hurdles. Typically the split between individual and profit pool components is 25% and 50% of salary respectively. 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.
Performance conditions	For each short-term incentive component, there is a threshold below which no incentive is paid. For the profit pool element, executive directors can share in profit if the Group's performance is above certain profit hurdles. These thresholds are set strategically based on the business plan.
Bonuses paid	For the financial year, the executive directors received bonuses ranging from 60% to 100% of their basic salaries. Short-term incentives are paid in arrears in September each year for the previous financial year. Accordingly, the details in respect of short-term incentives disclosed for the year ended 30 June 2014, substantially reflect the incentives paid in September 2013 for performance for the financial year ended 30 June 2013.

3. Long-term incentives

Approach	Long-term incentives aim to encourage executive directors to execute the long-term strategy of the Group successfully to achieve its long-term objectives. Executive directors take part in the Group's phantom share-based incentive scheme.
Phantom share-based incentive scheme	Discovery operates a phantom share-based incentive scheme that gives executive directors a bonus that is calculated according to Discovery's share price performance. The incentives are paid in cash.
Nature of awards and vesting periods	The 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, subject to the vesting criteria. This cost thereof is then included in the remuneration of the executives in the year of payment. As a result, there is a timing difference between the performance of the Company and the reflection of the related remuneration. This is an inevitable consequence of retention being a key objective of the scheme. For example, the units allocated to executives in September 2012 which vest from September 2014 (FY2015) will be paid over four years with the first payment in October 2014. This payment will reflect in the executive's remuneration in the 2015 financial year. Discovery has implemented a programme to hedge out the economic risk linked to the share price based on the anticipated payout of the incentive. As the scheme is a phantom bonus scheme, there is no dilution created by these awards.
Size of the award allocation	The value of the annual allocation of the phantom share-based incentive scheme at the date of allocation is performance based and is in the range of 30% to 60% of annual guaranteed pay. Each year the Remuneration Committee uses the prior year's allocation and current salary level in assessing the allocation and ensures that final allocation is related to performance.

Remuneration Report

The Remuneration Committee regularly reviews the Group's long-term incentive scheme to ensure alignment to both the Group's long-term objectives and any relevant changes in tax legislation.

Remuneration for senior management and employees

Remuneration packages for senior management and employees contain some or all of the following components, depending on the individual's level in the Group and contribution to the key initiatives:

1. Guaranteed component

Approach	All permanent employees who are not in a sales function, irrespective of level, receive a guaranteed element of remuneration. This is based on cost to company and comprises a fixed cash portion as well as compulsory benefits (medical aid, life cover, and retirement fund membership). Employees in a sales function receive variable monthly remuneration linked directly to their productivity. The level of this remuneration is also benchmarked to the financial services market.
Positioning	The guaranteed portion of the remuneration package is set taking into account base pay at the 50th percentile of the financial services market, and the skills of the specific employee.
Year-on-year increases	Increases in the guaranteed component are determined in line with market movements, and reflects individual performance.

2. Short-term incentives

Approach	At a management level, Discovery uses short-term incentives to encourage the achievement of stipulated semi-annual and annual objectives, thereby ensuring that a significant portion of pay is variable and linked to performance.
Positioning	Senior management's short-term incentives comprise two components (depending on their level): • A six-monthly personal incentive linked to individual goals for each employee. • A 'profit pool' element which allows senior management to share in profit if the Group's performance is above certain profit hurdles. 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.
Performance conditions	The performance-related pay of employees in many business areas relate directly to their function and is paid monthly, bi-annually, or annually. Discovery encourages managers to include an element of performance-related pay in all employees' packages. On occasion, additional payments are made to employees outside of the formal incentive structure in recognition of exceptional performance or innovation. None of these payments were material in the current year.

3. Long-term incentives

Approach	Senior management takes part in the Group's phantom share-based incentive scheme as described above for executive directors.
Positioning	The overall individual performance is taken into account when the Remuneration Committee decides on each individual allocation. It is the view of the Remuneration Committee that the incentive scheme is a direct link to the company's performance through the share price. In addition, the scheme is primarily intended to attract and retain competent employees.
Nature of awards and vesting periods	The 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, subject to the vesting criteria.
Size of the award allocation	The value of the annual allocation of the phantom share-based incentive scheme at the date of allocation is performance based, and is in the range of 30% to 60% of annual guaranteed pay. Each year the Remuneration Committee uses the prior year's allocation and current salary level in assessing the allocation and ensures that final allocation is related to performance.

The Remuneration Committee regularly reviews the Group's long-term incentive scheme to ensure alignment to both the Group's long-term objectives and any relevant changes in tax legislation.

Remuneration for non-executive directors

Non-executive directors' fees are reviewed annually and benchmarked against industry standards to ensure the fees remain competitive. The Remuneration Committee reviews fees, ensures that the professional benchmarking is done, and makes recommendations to the Board for consideration. Following recommendations from the Remuneration Committee, the Board proposes the fees for non-executive directors for shareholder approval.

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 BEE transaction in 2005. This initiative was approved because the Board believed it highly necessary to secure the services of Black non-executive directors with the relevant skills and experience.

At the Annual General Meeting held on 1 December 2009, shareholders approved a phantom share scheme for Ms SE Sebotsa, a Black non-executive director, to replicate participation in the Discovery BEE transaction.

Only Black non-executive directors participate in a phantom share-based incentive scheme.

Non-executive directors' fees

The Board determines the fees for non-executive directors, following a recommendation from the Remuneration Committee. The fees are reviewed annually taking into consideration the individual 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. The fee structure has two components which include a retainer and 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.

The fee structure for 2014 and proposed 2015 financial years, is shown below:

	2013/2014	2014/2015
Retainer for the Chairperson of the board	R2 835 500	R3 000 000
SA-based board retainer	R145 700	R154 000
SA-based board attendance fees	R24 280 per meeting	R25 700 per meeting
SA-based committee chairperson retainer	R181 000	R190 000
SA-based committee members retainer	R104 000	R110 000
SA-based committee chairperson attendance fees	R19 300 per meeting	R22 000 per meeting
SA-based committee member attendance fee	R13 300 per meeting	R14 000 per meeting
US-based board retainer	USD 35 535	USD 36 800
US-based board attendance fee	USD 5 900 per meeting	USD 6 100 per meeting
UK-based board retainer	GBP 26 950	GBP 28 000
UK-based board attendance fee	GBP 4 500 per meeting	GBP 4 700 per meeting
UK-based committee chairperson retainer	GBP 25 600	GBP 26 500
UK-based committee chairperson attendance fee	GBP 2 500 per meeting	GBP 2 600 per meeting
UK-based committee member retainer	GBP 8 000	GBP 8 300
UK-based committee member attendance fee	GBP 1 000 per meeting	GBP 1 100 per meeting
Non-resident director travel allowance	–	USD 2 500 per meeting

The non-executive director fees were compared to external benchmarks and a few anomalies were noted. With the exception of the anomalies, the non-executive directors' proposed fee increases for FY2015 are approximately 6% for South African Rand-based fees, approximately 4% for United Kingdom Pound, and 3.6% for United States Dollar-based fees. The anomalies have been increased slightly in order to align with the benchmarks.

ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2014

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Directors' **responsibility statement**

for the year ended 30 June 2014

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

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

The directors have reviewed Discovery's budget and flow of funds forecast for the year to 30 June 2015. On the basis of this review, and in light of the current financial position and available cash resources, the directors have no reason to believe that Discovery will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the Annual Financial Statements.

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

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

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

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

Discovery's external auditors, PricewaterhouseCoopers Inc., have audited the Annual Financial Statements and their unqualified report appears on page 106.

The Annual Financial Statements of Discovery for the year ended 30 June 2014, which appear on pages 107 to 235, have been approved by the Board of Directors on 2 September 2014 and are signed on its behalf by:

A Gore
Chief Executive Officer

R Farber
Financial Director

Certificate by **the Company Secretary**

for the year ended 30 June 2014

It is hereby certified in terms of section 88(2)(e) of the Companies Act, that Discovery Limited has for the year ended 30 June 2014 lodged with the Registrar of Companies all such returns as are required by a public company in terms of this Act and that all such returns are true, correct and up to date.

MJ Botha
Company Secretary
2 September 2014

Report of the **Audit and Risk Committee**

for the year ended 30 June 2014

We are pleased to present our report for the financial year ended 30 June 2014. The Audit and Risk Committee (the Committee) is an independent statutory committee. Duties are delegated to the Committee by the Board of Directors of Discovery Limited (Discovery).

The scope of the Committee extends to all activities of Discovery Limited and its subsidiaries, both locally and internationally. The Committee also acts as the statutory Audit Committee of Discovery Life Limited.

AUDIT COMMITTEE TERMS OF REFERENCE

The Committee has adopted formal Terms of Reference that have been approved by the Board of Directors and are reviewed at least annually. The Committee has conducted its affairs in compliance with its Terms of Reference and has discharged the responsibilities contained therein.

AUDIT COMMITTEE MEMBERS, MEETING ATTENDANCE AND ASSESSMENT

The Committee is constituted as per section 94(4) of the Companies Act and consists of three independent, non-executive directors. It meets at least four times per annum as per its Terms of Reference, and in the year ended 30 June 2014 met seven times.

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

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

Committee member	Qualifications	Number of meetings held during the year ended 30 June 2014	Number of meetings attended
AL Owen (Chairman)	BSc (Hons), FIA, FPMI	7	7
SE Sebotsa	LLB (Hons), MA	7	7
SV Zilwa	BCompt (Hons), CTA, CA (SA)	7	3

An externally facilitated assessment of the effectiveness of the Committee was carried out during the year ending 30 June 2014. The results of the assessment found the functioning of the Committee to be effective.

ROLE AND RESPONSIBILITIES

Statutory duties

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

The Committee executed its duties in accordance with its Terms of Reference and applicable laws and regulations in force during the year ended 30 June 2014.

External auditor appointment and independence

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

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

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

The Committee, following consultation with executive management, approved the engagement letter, terms, audit plan and budgeted audit fees for the year ending 30 June 2014.

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

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

Financial statements and accounting practices

The Committee has reviewed the accounting policies and the consolidated and separate financial statements of Discovery and is satisfied that they are appropriate and comply with International Financial Reporting Standards. The Committee concluded that Discovery is a going concern. A process has been established to receive and deal appropriately with any concerns and complaints relating to the accounting and reporting practices of Discovery. No matters have been raised in the financial year.

Internal financial controls

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

Internal Audit

The Committee has reviewed and approved the Internal Audit Charter and has approved the Annual Internal Audit Plan which has been prepared on a risk based approach. The performance of the Chief Audit Executive has been reviewed by the Committee which is satisfied with his performance and independence. An internal effectiveness evaluation of the internal audit function is conducted annually and based on these results, it was found to be both independent and effective in discharging its responsibilities. An independent quality assurance review is conducted every five years and the next one will be carried out in 2015.

IT Governance

The Committee is responsible for reviewing the adequacy and effectiveness of the control framework and governance structures implemented within the IT environment. Based on the results of this review, the Committee considers the control framework and governance structures within the IT environment to be adequate and effective. The results of the Committee's review of the disaster recovery and business resilience has found them to be functioning effectively.

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

The Committee reviewed and satisfied itself of the appropriateness of the expertise, resources and experience of Discovery's finance function, including the Financial Director, Mr R Farber.

Whistle blowing

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

Ethics and compliance

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

Risk management

The Committee monitors the risk management processes for Discovery through review of reports from and discussions with Discovery's internal and external auditors, risk management function and management.

The Committee is satisfied that the system and process of risk management is effective.

Combined assurance

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

OPINION

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

The Committee has reviewed the consolidated and separate financial statements of Discovery Limited for the year ended 30 June 2014 and, based on the information provided to the Committee, considers that Discovery complies, in all material respects, with the requirements of the Companies Act and International Financial Reporting Standards.

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

AL Owen
Chairman: Audit and Risk Committee
2 September 2014

Independent **auditor's report**
for the year ended 30 June 2014

TO THE SHAREHOLDERS OF DISCOVERY LIMITED

We have audited the consolidated and separate financial statements of Discovery Limited set out on pages 110 to 235, which comprise the statements of financial position as at 30 June 2014 and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Discovery Limited as at 30 June 2014 and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 30 June 2014, we have read the Directors' Report, the Audit and Risk Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.



PricewaterhouseCoopers Inc.
Director: **AG Taylor**
Registered Auditor

Sunninghill
2 September 2014

Directors' **report**
for the year ended 30 June 2014

The directors present their 15th annual report, which forms part of the consolidated and separate financial statements of Discovery Limited for the year ended 30 June 2014.

NATURE OF BUSINESS

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

- Discovery Health Proprietary Limited (Discovery Health).
- Discovery Life Limited (Discovery Life).
- Discovery Life Collective Investments Proprietary Limited (Discovery Life Collective Investments).
- Discovery Life Investment Services Proprietary Limited (Discovery Life Investment Services).
- Discovery Life Nominees Proprietary Limited.
- Discovery Third Party Recovery Services Proprietary Limited (DTPRS).
- Discovery Vitality Proprietary Limited (Discovery Vitality).
- Discovery Investment Management Proprietary Limited (dormant).
- Discovery Insure Limited (Discovery Insure).
- Destiny Health Inc. – this company holds Discovery's interests in Destiny Health Management Company LLC, Destiny Health Insurance Company, Destiny Health Administration Company (dormant) (Destiny Health); The Vitality Group Inc. and The Vitality Group LLC (The Vitality Group), which are incorporated in the United States of America.
- Discovery Group Europe Limited, previously Discovery Offshore Holdings Limited, which is incorporated in England and Wales.
- Prudential Health Holdings Limited – this company holds Discovery's interests in Prudential Health Limited, Prudential Health Services Limited, Prudential Health Insurance Limited, Insure Your Health Limited and KYS Paid Limited, which are incorporated in England and Wales (PruHealth).
- Discovery Vitality International Asia Private Limited.
- Vitality International Services Asia Private Limited.

"Discovery Limited and its subsidiaries" are referred to herein as Discovery or the Group. The subsidiaries are wholly-owned with the exception of Destiny Health in which the Company has a 99.98% interest, PruHealth and The Vitality Group LLC in which the Company has a 75% interest.

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

- Discovery Balanced Fund.
- Discovery Cautious Balanced Fund.
- Discovery Diversified Income Fund.
- Discovery Dynamic Equity Fund.
- Discovery Equity Fund.
- Discovery Flexible Property Fund.
- Discovery Global Balanced Fund of Funds.
- Discovery Global Contrarian Equity Feeder Fund.
- Discovery Global Equity Feeder Fund.
- Discovery Moderate Balanced Fund.
- Discovery Money Market Fund.
- Discovery Target Retirement 2010 Fund.
- Discovery Target Retirement 2015 Fund.
- Discovery Target Retirement 2020 Fund.
- Discovery Target Retirement 2025 Fund.
- Discovery Target Retirement 2030 Fund.
- Discovery Target Retirement 2035 Fund.
- Discovery Target Retirement 2040 Fund.
- Discovery Target Retirement 2045 Fund.

Directors' **report**
for the year ended 30 June 2014 continued

REVIEW OF RESULTS
Profit attributable to ordinary shareholders is R3 246 million, a 57% increase from profits of R2 063 million reported in the prior financial year. Normalised headline earnings increased by 24% to R3 457 million.

SHARE CAPITAL
The share capital of the Company at 30 June 2014 was as follows:

Class of shares	Authorised number of shares	Issued number of shares
Ordinary shares of 0.1 cent per share	1 000 000 000	591 872 390
A preference shares	40 000 000	–
B preference shares	20 000 000	8 000 000
C preference shares	20 000 000	–

DIVIDENDS
The following interim dividends were paid during the current financial year:
- Preference share dividend of 428.49315 cents per share, paid on 17 March 2014.
- Ordinary share dividend of 73 cents per share, paid on 24 March 2014.

The directors are of the view that the Discovery Group is adequately capitalised at this time. On the statutory basis the capital adequacy requirement of Discovery Life was R522 million (2013: R455 million) and was covered 3.8 times (2013: 4.0 times).

B preference share cash dividend declaration:
On 28 August 2014, the directors declared a gross cash dividend of 442.19178 cents (375.86301 cents net of dividend withholding tax) per B preference share for period 1 January 2014 to 30 June 2014. The dividend has been declared from income reserves and no secondary tax on companies' credits have been used. 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, 12 September 2014
Shares commence trading "ex" dividend	Monday, 15 September 2014
Record date	Friday, 19 September 2014
Payment date	Monday, 22 September 2014

B preference share certificates may not be dematerialised or rematerialised between Monday, 15 September 2014 and Friday, 19 September 2014, both days inclusive.

Ordinary share cash dividend declaration:
Notice is hereby given that the directors have declared a final gross cash dividend of 78.0 cents per ordinary share, out of income reserves for the year ended 30 June 2014. The Company has utilised secondary tax on companies' credits amounting to 2.5298 cents per share. The balance of the dividend of 75.47020 cents per share will be subject to a dividend withholding tax at a rate of 15%, which will result in a net dividend of 66.67947 cents per share to those shareholders who are not exempt.

The issued ordinary share capital at the declaration date is 591 872 390 ordinary shares.

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Friday, 3 October 2014
Shares commence trading "ex" dividend	Monday, 6 October 2014
Record date	Friday, 10 October 2014
Payment date	Monday, 13 October 2014

Share certificates may not be dematerialised or rematerialised between Monday, 6 October 2014 and Friday, 10 October 2014, both days inclusive.

DIRECTORATE AND SECRETARY
Details of the directors, their emoluments, participation in share incentive schemes and interests in the Company are reflected on pages 229 to 234.

The following changes were made to the Board of Discovery Limited during the current financial year:
- Mr Tito Mboweni was appointed as a non-executive director with effect from 1 January 2014.
- Mr Peter Cooper resigned as a non-executive director with effect from 10 April 2014.
- Mr Herman Bosman was appointed as a non-executive director with effect from 14 April 2014.

Mr Les Owen, Dr Vincent Maphai, Ms Sonja Sebotsa and Ms Tania Slabbert retire by rotation at the forthcoming Annual General Meeting of shareholders and are eligible and available for re-election.

Mr MJ Botha continues in office as Company Secretary. His details are reflected on page 229.

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

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

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

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

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

SPECIAL RESOLUTIONS

Passed by Discovery Limited
The following special resolutions were approved during the financial year at the Annual General Meeting of shareholders held on Tuesday, 3 December 2013:

Special resolution number 1:
Basis for calculating the remuneration of the non-executive directors for services as directors of the Company for the financial year ending 30 June 2014.

Special Resolution Number 2:
The Board authorised by way of a renewable general authority, that the Company and/or its subsidiaries may purchase its own ordinary shares, upon such terms and conditions and in such amounts as the Board may from time to time determine, subject to the Memorandum of Incorporation (MOI), the provisions of the Companies Act and the JSE Listings Requirements.

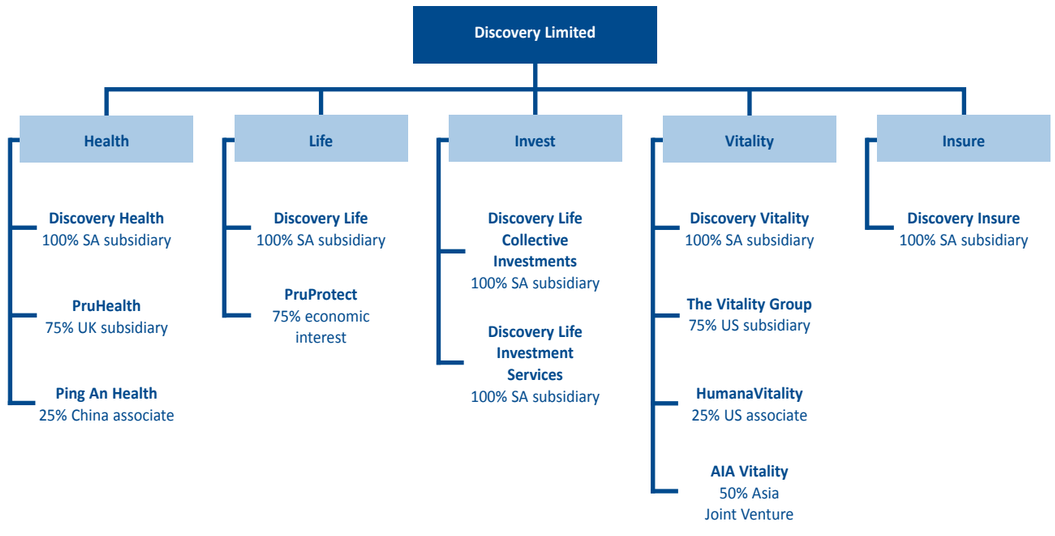
Special Resolution Number 3:
To the extent required by the Companies Act, the Board may, subject to compliance with the requirements of the Company's MOI, the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time, authorise the Company to provide direct or indirect financial assistance as contemplated in section 44 and/or section 45 of the Companies Act by way of loans, guarantees, the provision of security or otherwise.

Passed by subsidiaries of Discovery Limited
No special resolutions were passed by the subsidiaries of Discovery Limited during the year ended 30 June 2014.

Group **accounting policies**
for the year ended 30 June 2014

GENERAL INFORMATION

Discovery Limited is listed in the insurance sector of the JSE Limited and is an integrated financial services organisation, specialising in health insurance, life assurance, investments and savings products, wellness, short-term insurance and credit card products. Below is a graphical representation of the material operating companies of the Group:



1. Health

Discovery Health

Discovery Health provides administration services and managed care services to the Discovery Health Medical Scheme as well as 12 closed schemes.

Discovery Health offered the insurance of private ward and overseas cover benefits. Members that had taken up this benefit before the distribution of it ceased, had the option to continue with this benefit. These benefits were written through Discovery Life.

PruHealth

The PruHealth product offers policyholders in the United Kingdom, cover for a range of private healthcare-related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions. It specifically excludes emergency cover, maternity cover and cover for chronic conditions.

Policies offered by PruHealth are annual contracts which can be cancelled or the premiums adjusted on renewal.

Ping An Health

Ping An Health offers policyholders in China, cover for a range of private healthcare-related claims.

2. Life

Discovery Life

Discovery Life offers a range of insurance and financial solutions to both individual and group policyholders. The Discovery Life products reflect Discovery's underlying philosophy to make members healthier and to enhance and protect their lives.

Discovery Life offers some unique benefits that integrate with the benefits offered by Discovery Health, Discovery Vitality and Discovery Invest.

Individual life insurance

Discovery Life Plan
The Discovery Life Plan provides protection against a comprehensive spectrum of risks, including life, disability, severe illness and income continuation cover.

Health Plan Protector
The Health Plan Protector will fund contributions to the Discovery Health plans in the event of death, disability or severe illness. It further rewards members for positive health management through the payback benefit.

Discovery Retirement Optimiser
The Retirement Optimiser offers funding for retirement and offers benefits that could together with the Life Plan, capitalise unneeded risk cover to boost retirement funding.

DiscoveryCard Protector
The DiscoveryCard Protector will cover the outstanding balance on the DiscoveryCard in the event of death, disability or severe illness. It further provides a monthly benefit for a defined period equal to the average DiscoveryCard spend in the six-month period prior to the life-changing event.

Global Education Protector
The Global Education Protector funds education costs for children in the event of death, disability or severe illness of the insured life. Cover is provided to the earlier of the insured life reaching age 65 or the child reaching age 24. This benefit can be purchased on a stand-alone basis.

Supplementary Cancer Protector
The Supplementary Cancer Protector provides defined benefits to help cover non-medical costs associated with cancer. Benefits vary based on the severity of the cancer diagnosis.

Funeral Cover
The Funeral Cover benefit will pay out a defined lump sum in the event of death which can be used to cover the costs of a funeral. This lump sum is doubled in the event of accidental death. An education benefit is automatically included at a defined amount which aims to fund the education costs for children upon death of the principal member or spouse. Additional memorial and grocery benefits may be added to the policy as an option.

Group life insurance

Discovery Group Life offers a comprehensive spectrum of protection benefits on a group basis. Life cover, severe illness, disability and income continuation benefits are offered.

PruProtect

PruProtect is Discovery's life insurance offering to policyholders in the United Kingdom. It sells pure protection policies and is based on the Vitality structure that enables dynamic pricing to be employed in the UK life assurance market.

Group **accounting policies**

for the year ended 30 June 2014 continued

3. Invest

Discovery Invest

Discovery Invest offers, through a range of investment fund choices, including Discovery managed unit trusts, a comprehensive and flexible range of investment choices. These products are sold through a number of investment wrappers or preserver retirement funds.

4. Vitality

Discovery Vitality

Discovery Vitality offers the Group's clients health and lifestyle benefits with selected partners. This business includes the DiscoveryCard which is offered to Discovery policyholders within South Africa. The lifestyle benefits offered by Discovery Vitality are subject to change and can be adjusted on a monthly basis.

The Vitality Group and HumanaVitality

The Vitality Group and HumanaVitality offers the Vitality programme in the US on a stand-alone basis by wrapping it around other health plans and employer groups.

AIA Vitality

AIA Vitality offers the Vitality programme in Singapore, which is wrapped around and integrated with life and health insurance products offered by AIA Group Limited.

5. Insure

Discovery Insure

Discovery Insure provides motor vehicle, household and other short-term risk insurance products to the South African market. Discovery Insure product offerings include, but are not limited to, the following benefits:

Vitalitydrive

Discovery Insure encourages safe driving through Vitalitydrive, a programme that gives rewards for improved driving. The programme uses the latest motor vehicle telematics technology to develop a scientific measure of driver behaviour.

If a policyholder insures both their car and home with Discovery Insure, and drive well, they can earn up to 50% of their BP fuel spend back every month (fuel cash back). The fuel cash back can be used to either reduce the premium that the policyholder is required to pay for the month in question or alternatively, at the election of the policyholder, have their fuel cash back doubled and paid into an excess funder account (EFA). The fuel rewards will depend on the number of points earned in the month. Furthermore, if the policyholder drives well, up to 10% of their car premiums will be paid into the EFA each month.

The funds in the EFA can be used to pay the excess liability a member incurs as a result of a valid claim for any motor vehicle insured under the policy. After three years, up to 50% of the funds available in the EFA can be withdrawn. If the policy lapses, the member forfeits the amount deferred in the EFA.

Young Adult Plan

The Young Adult Plan is available to drivers younger than 26 years and includes the following benefits:

- 25% of their car insurance premiums paid into a Rewards Fund every six months, which they can spend on whatever they want.
- A further R200 paid into the Rewards Fund each month if they avoid driving late at night.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented, except for changes required by the mandatory adoption of new and revised International Financial Reporting Standards (IFRS), discussed in the table below, as well as a change to the accounting policy for insurance contracts. Refer to note 44 to the Annual Financial Statements, for the impact of these changes.

Accounting policy change for insurance contracts – recognition and measurement

Previously, the valuation for policyholder liabilities of South African policies did not include contractual inflation related premium increases or any associated increase in cover levels at the valuation date. The valuation has been changed to include all contractual premium and benefit increases. Discovery believes the change provides more relevant information as these increases are contractual.

In accordance with IAS 8, the change has been applied retrospectively but has resulted in no change to the current or prior year results as Discovery's discretionary margins have absorbed this change.

1. Basis of presentation

The consolidated and separate financial statements have been prepared in accordance with IFRS, as well as the South African Companies Act. They have been prepared in accordance with the going concern principle using the historical cost basis except where otherwise stated in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Discovery's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are outlined in note 4 to the Annual Financial Statements.

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

New and amended standards adopted by the Group

The following standards and amendments are mandatory for Discovery's 2014 financial year and have been adopted. With the exception of IFRS 10, these new accounting standards and amendments have not had any material impact on the Group's results but may have resulted in changes to disclosure in the Annual Financial Statements.

Standard	Scope
IAS 1 (Amendment): Presentation of financial statements	The amendment clarifies the disclosure requirements for comparative information when a third statement of financial position is provided.
IAS 19 (Amendment): Employee benefits	The amendment makes significant changes to the recognition and measurement of defined benefit pension expense, termination benefits, the definitions of short-term and other employee benefits and to the disclosures for all employee benefits.
IAS 27 (revised 2011): Separate financial statements	This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.
IAS 28 (revised 2011): Associates and joint ventures	This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.
IAS 32 (Amendment): Financial instruments: Presentation	The amendment clarifies that income tax related to distributions is recognised in the income statement and income tax related to the costs of equity transactions is recognised in equity.
IAS 34 (Amendment): Interim financial reporting	A measure of total assets and liabilities is required for an operating segment in interim financial statements if such information is regularly provided to the chief operating decision maker and there has been a material change in those measures since the last annual financial statements.
IFRS 7 (Amendment): Financial instruments: disclosures	This amendment aims to enhance the existing asset and liability offsetting disclosures.
IFRS 10: Consolidated financial statements	This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. Control will not be determined just by reference to the economic interest. An investor will control an investee when: • It has power over the investee. • It has exposure, or rights, to variable returns from its involvement with the investee, and • It has the ability to use its power over the investee to affect the amount of the investor's returns. See note 44 to the Annual Financial Statements, for the impact of this statement on Discovery's results.

Group **accounting policies**
for the year ended 30 June 2014 continued

Standard	Scope
IFRS 11: Joint arrangements	This standard identifies two types of joint arrangements, namely joint operations and joint ventures and focuses on the rights and obligations of the arrangement, rather than its legal form. The standard stipulates the accounting for these joint arrangements and has removed the option of proportional consolidation of joint ventures.
IFRS 12: Disclosures of interest in other entities	This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.
IFRS 10, 11 and 12: Amendment to the transition requirements	The amendment clarifies that the date of initial application is the first day of the annual period in which IFRS 10 is adopted. Entities adopting IFRS 10 should assess control at the date of initial application; the treatment of comparative figures depends on this assessment. The amendment also requires certain comparative disclosures under IFRS 12 upon transition.
IFRS 13: Fair value measurement	This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS.

New standards, amendments and interpretations to published standards not yet effective

The following new standards, amendments and interpretations to existing standards have been published and are not yet effective for the current financial year. Discovery has not early adopted them and unless otherwise stated, it is not expected that they will have any material impact on Discovery's results but may result in additional disclosures in the Annual Financial Statements.

Standard/interpretation	Scope	Effective for annual periods beginning on or after stated date
IAS 16 (Amendment): Property, plant and equipment and IAS 38 (Amendment): Intangible assets	Both standards are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. The carrying amount of the asset is restated to the revalued amount. The split between gross carrying amount and accumulated depreciation is treated in one of the following ways: • Either the gross carrying amount is restated in a manner consistent with the revaluation of the carrying amount, and the accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses, or • The accumulated depreciation is eliminated against the gross carrying amount.	1 July 2014
IAS 24 (Amendment): Related party disclosure	The standard is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (the management entity).	1 July 2014
IAS 32 (Amendment): Financial instruments: Presentation	The amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position.	1 January 2014
IAS 36 (Amendment): Impairment of assets	These amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal.	1 January 2014
IAS 39 (Amendment): Financial instruments: Recognition and measurement	The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a CCP meets specified criteria.	1 January 2014
IFRS 2 (Amendment): Share-based payments	The amendment clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition'.	1 July 2014
IFRS 3 (Amendment): Business combinations	The standard is amended to clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, 'Financial instruments: Presentation'. The standard is further amended to clarify that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit or loss.	1 July 2014
IFRS 8 (Amendment): Operating segments	The standard is amended to require disclosure of the judgements made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. The standard is further amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported.	1 July 2014
IFRS 10: Consolidated financial statements; IFRS 12: Disclosures of interest in other entities; and IAS 27: Consolidated and separate financial statements	The amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made in IFRS 12 to introduce disclosures that an investment entity needs to make.	1 January 2014
IFRS 9: Financial instruments (2009)	This standard introduces new requirements for the classification and measurement of financial assets by introducing a fair value through other comprehensive income category for certain debt instruments. It also contains a new impairment model which will result in earlier recognition of losses. No changes were introduced for the classification and measurement of financial liabilities, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. It also includes the new hedging guidance that was issued in November 2013. These changes are likely to have significant impact on entities that have significant financial assets in particular institutions. *Potential impact:* Currently, Discovery's shareholder investments are designated as available-for-sale financial assets. This results in the realised gains being recognised in profit or loss. If Discovery chooses to continue with this classification, the realised gains will not be recycled to profit or loss. This designation will be reviewed and the appropriate classification will be selected upon adoption of this standard.	1 January 2018
IFRS 13 (Amendment): Fair value measurement	When IFRS 13 was published, paragraphs B5.4.12 of IFRS 9 and AG79 of IAS 39 were deleted as consequential amendments. This led to a concern that entities no longer had the ability to measure short-term receivables and payables at invoice amounts where the impact of not discounting is immaterial. The IASB has amended the basis for conclusions of IFRS 13 to clarify that it did not intend to remove the ability to measure short-term receivables and payables at invoice amounts in such cases.	1 July 2014
IFRS 15: Revenue from contracts with customers	Establishes principles for reporting useful information to users of the financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.	1 January 2017
IFRIC 21: Accounting for levies	The standard sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses diversity in practice around when the liability to pay a levy is recognised.	1 January 2014

New and amended standards and interpretations not relevant for Discovery's operations

Standard/interpretation	Scope	Effective for annual periods beginning on or after stated date
IAS 16 (Amendment): Property, plant and equipment	The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment.	1 January 2013
IAS 19 (Amendment): Employee benefits	The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service.	1 July 2014
IFRS 1 (Amendment): First time adoption	The amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS and adds an exception to the retrospective application of IFRS.	1 January 2013

Group **accounting policies**

for the year ended 30 June 2014 continued

Standard/interpretation	Scope	Effective for annual periods beginning on or after stated date
IFRS 1 (Amendment): First time adoption	The amendment clarifies that an entity may apply IFRS 1 more than once under certain circumstances and when an entity can choose to adopt IAS 23: Borrowing costs. It also clarifies that a first-time adopter should provide the supporting notes for all statements presented.	1 January 2013
IFRS 14: Regulatory deferral accounts	This is an interim standard on the accounting for certain balances that arise from rate-regulated activities. Rate regulation is a framework where the price that an entity charges to its customers for goods and services is subject to oversight and/or approval by an authorised body.	1 January 2016
IFRIC 20: Stripping costs in the production phase of a surface mine	The interpretation clarifies there can be two benefits accruing to an entity from stripping activity and considers when and how to account separately for these benefits as well as how to measure these benefits both initially and subsequently.	1 January 2013

2. Consolidation

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

2.1 Business combinations

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a business is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the acquisition date. On an acquisition-by-acquisition basis, Discovery recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, being the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired, is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

2.2 Subsidiaries

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

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

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

2.3 Non-controlling interests

Non-controlling interests can be measured at either:

- The proportionate share in the fair value of the identifiable net assets of the subsidiary at acquisition date, or
- Fair value.

This measurement choice is not an accounting policy choice and Discovery will apply this at acquisition date per business combination transaction.

Non-controlling interests are treated as equity participants of the subsidiary company. Therefore, all transactions of Discovery with non-controlling interest in their capacity as owners, where there is no change in control, are treated as transactions within equity. In such transactions the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of Discovery.

2.4 Puttable non-controlling interests

Put options granted to the non-controlling interests of Discovery's subsidiaries entitle the non-controlling interest to sell its interest in the subsidiary to Discovery at contracted dates.

In such case, Discovery has consolidated 100% of the subsidiaries results and has recognised the fair value of the non-controlling interest, being the present value of the estimated future purchase price, as a financial liability in the statement of financial position. In raising this liability, the non-controlling interest is derecognised and the excess is debited to retained earnings in the statement of changes in equity.

Interest is recorded in respect of this liability within finance costs using the effective interest rate method. The estimated future purchase price is fair valued at each reporting date and any changes in the value of the liability as a result of changes in the assumptions used to estimate the future purchase price are recorded in profit or loss.

2.5 Associates and joint ventures

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

A joint venture is a joint arrangement whereby the parties that have joint control of an arrangement have rights to the net assets of the arrangement.

Discovery recognises its interest in an associate or a joint venture as an investment and accounts for that investment using the equity method. Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise Discovery's share of the profit or loss of the investee after the date of acquisition. Discovery's share of the investee's profit or loss is recognised in profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in Discovery's proportionate interest in the investee arising from changes in the investee's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. Discovery's share of those changes is recognised in other comprehensive income.

Discovery discontinues equity accounting when the carrying amount of the investment in an associate or a joint venture reaches zero, unless it has incurred obligations, guaranteed obligations or made payments on behalf of the associate or the joint venture. Discovery resumes equity accounting only after its share of the profits equals the share of losses not recognised. Discovery increases the carrying amount of investments with its share of the associate's or joint venture's income when equity accounting is resumed.

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

Profits and losses resulting from upstream and downstream transactions between Discovery and its associates or joint ventures are recognised in Discovery's financial statements only to the extent of unrelated investor's interests in the associate or joint venture. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Discovery will discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:

(a) If the investment becomes a subsidiary, Discovery will account for its investment in accordance with IFRS 3 and IAS 27.
(b) If the retained interest in the former associate or joint venture is a financial asset, Discovery will measure the retained interest at fair value. The fair value of the retained interest will be regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. Discovery will recognise in profit or loss any difference between:
    (i) The fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture, and
    (ii) The carrying amount of the investment at the date the equity method was discontinued.
(c) When Discovery discontinues the use of the equity method, it will account for all amounts previously recognised in other comprehensive income in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.

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

Group **accounting policies**

for the year ended 30 June 2014 continued

3. Foreign currency translation

3.1 Functional and presentation currency

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

3.2 Transactions and balances

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

- The settlement of trading transactions are included in the results of operating activities in profit or loss.
- The settlement of financing transactions and from the translation at year-end exchange rates of assets and liabilities denominated in foreign currencies are recognised in profit or loss as foreign exchange gains and losses.
- Qualifying cash flow hedges and qualifying net investment hedges are deferred in the statement of comprehensive income and are recycled to profit or loss in the periods in which the hedged item affects profit or loss.

3.3 Group companies

The results and financial position of all Discovery entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position.
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at rates at the date of the transactions).
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognised in the foreign currency translation reserve in the statement of comprehensive income. When a foreign operation is partially disposed of or sold, such exchange differences are recognised in profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

4. Property and equipment

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

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

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

Leasehold improvements	Shorter of estimated life or period of lease
Computer equipment and operating systems	3 – 5 years
Computer software packages	3 years
Furniture, fittings and equipment	5 – 10 years
Motor vehicles	4 years
Telematics devices	4 – 5 years

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

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

5. Intangible assets

5.1 Computer software development costs

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

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

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

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

Computer software development costs recognised as assets are amortised over their useful lives, which is between three to seven years. The amortisation is reflected under marketing and administration expenses in profit or loss.

5.2 Deferred acquisition costs – insurance and investment contracts

The accounting policy for deferred acquisition costs relating to insurance and investment contracts is detailed in accounting policies 13 and 14. The amortisation of deferred acquisition costs is reflected under acquisition costs in profit or loss.

5.3 Other intangible assets

Discovery does not attribute value to internally developed trademarks, patents and similar rights and assets, including franchises and management contracts and expenses the costs incurred to profit or loss in the period in which they are incurred.

6. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of Discovery's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or group of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

7. Financial assets

Discovery classifies its financial assets into the following categories:

- Financial assets at fair value through profit or loss.
- Available-for-sale financial assets.
- Loans and receivables.
- Derivative financial instruments at fair value through profit or loss or carried as a hedge.

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

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

Group **accounting policies**

for the year ended 30 June 2014 continued

7.1 Financial assets at fair value through profit or loss

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

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

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

Derivatives are also classified as held for trading unless they are designated as hedges.

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

- Held in internal funds to match insurance and investment contract liabilities that are linked to the changes in fair value of these assets. The designation of these assets to be at fair value through profit or loss eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.
- Managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to Discovery's key management personnel.

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

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

7.2 Available-for-sale financial assets

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

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

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

7.3 Loans and receivables

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

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

7.4 Fair value

The fair values of quoted and listed investments are based on current closing prices. Investments in unit trusts are valued at their repurchase price and are allocated to the security in which the unit trust is predominantly invested for disclosure the statement of financial position. If the market for a financial asset is not active, Discovery establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

8. Derivative financial instruments

Discovery initially recognises derivative financial instruments in the statement of financial position at fair value on the date which a derivative contract is entered into (the best evidence of fair value on day one is the transaction price) and subsequently re-measures these instruments at their fair value. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Discovery designates certain derivatives as either:

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

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

8.1 Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest rate method is used, is amortised to profit or loss over the period to maturity.

8.2 Cash flow hedge

Discovery recognises the effective portion of fair value changes of derivatives that are designated and qualify as cash flow hedges and prove to be highly effective in relation to the hedged risk, in the cash flow hedging reserve in the statement of comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Non-financial asset or liability

Amounts accumulated in the statement of other comprehensive income are recycled to profit or loss in the period in which the hedged item will affect profit or loss. Where the forecast transaction or a foreign currency firm commitment results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred are transferred from the statement of comprehensive income and included in the initial measurement of the cost of the non-financial asset or liability.

Financial asset or liability

Amounts accumulated in the statement of other comprehensive income are recycled to profit or loss in the period in which the hedged item will affect the profit or loss. Where the forecast transaction subsequently results in the recognition of a financial asset or liability, gains or losses deferred in equity are transferred from the statement of comprehensive income when the financial asset or liability is sold or impaired.

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

8.3 Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of all such derivative instruments are recognised immediately in profit or loss.

Group **accounting policies**

for the year ended 30 June 2014 continued

9. Impairment of assets

9.1 Financial assets carried at amortised cost

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

Objective evidence includes one or more of the following events:

- Significant financial difficulty of the issuer or debtor.
- A breach of contract, such as default or delinquency in payments.
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation.
- The disappearance of an active market for that financial asset because of financial difficulties.
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in Discovery, including:
  - Adverse changes in the payment status of issuers or debtors of Discovery.
  - National or local economic conditions that correlate with defaults on the assets of Discovery.

Discovery first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If Discovery determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

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

9.2 Financial assets carried at fair value

Discovery assesses at each reporting period whether there is objective evidence that an available-for-sale financial asset is impaired, including in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit or loss – is removed from the statement of comprehensive income and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not subsequently reversed. The impairment loss is reversed through profit or loss if, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

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

9.3 Impairment of other non-financial assets

Assets, including intangible assets and deferred acquisition costs, other than those relating to insurance contracts (see accounting policy 13), that are subject to amortisation, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Such indicators include continued losses, changes in technology, market, economic, legal and operating environments.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is measured using the higher of the fair value less costs to sell and the value-in-use. Value-in-use is the present value of projected cash flows covering the remaining useful life of the asset. An impairment charge is recognised as a loss in profit or loss immediately.

10. Offsetting financial instruments

Discovery offsets financial assets and liabilities and reports the net balance in the statement of financial position where:

- There is a current legally enforceable right to set off, and
- There is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

11. Cash and cash equivalents

Cash and cash equivalents comprise:

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

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

12. Share capital

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

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

13. Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. Discovery defines as significant insurance risk the possibility of having to pay benefits, on the occurrence of an insured event, that are significantly more than the benefits payable if the insured event did not occur.

Discovery developed its accounting policies for insurance contracts before the adoption of IFRS 4. As provided for in IFRS 4, Discovery continues to apply the same accounting policies for the recognition and measurement of obligations arising from insurance contracts that it issues and reinsurance contracts that it holds.

13.1 Recognition and measurement

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

13.1.1 Individual life insurance

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

Valuation of policyholder liabilities

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

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

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

Group **accounting policies**
for the year ended 30 June 2014 continued

Discretionary and compulsory margins are therefore added to the best estimate assumptions within the following framework:
- All margins are at least equal to the compulsory margins prescribed by regulations.
- For the discount rate and lapse rate margins, the direction of the margins may vary based on policy type and duration to ensure that the margin is in the conservative direction, overall.
- Given the level of uncertainty in the best estimate assumptions for lapse, mortality and morbidity margins are added to protect against future possible adverse experience.
- Additional margins are added to allow for the release of profit over the term of the policy.
- Margins are released over the term of a policy in line with the risk borne.
- The best estimate assumptions and margins are reset at every valuation date to reflect the underlying profitability of the portfolio.
- Assets under insurance contracts are not used to offset the liability under the pure investment benefits of the policy.

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

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

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

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

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

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

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

13.1.2 Group life insurance

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

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

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

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

13.1.3 Health insurance

These contracts insure policyholders against healthcare-related claims.

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

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

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

13.1.4 Short-term insurance

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

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

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

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

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

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

Acquisition costs
Acquisition costs for these contracts comprise all direct costs arising from the sale of insurance contracts and are recognised in profit or loss over the life of the contract.

Excess funder account (EFA)
As discussed on page 112, the fuel cash back can be used to either reduce the premium that the policyholder is required to pay for the month in question or can be doubled and paid into an EFA.

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

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

When the member uses funds in the EFA to pay for his excess, the excess is paid by Discovery Insure and an expense is included in claims in the statement of comprehensive income.

Where the member withdraws the funds after three years, the member is paid out in cash and an expense is disclosed against insurance premium revenue in the income statement.

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for the year ended 30 June 2014 continued

13.2 Embedded derivatives
A unit-linked insurance contract is an insurance contract with an embedded derivative linking payments on the contract to units of an investment fund purchased with the consideration received from the contract holders. This embedded derivative meets the definition of an insurance contract and is therefore not accounted for separately from the host insurance contract. The liability for such contracts is adjusted for all changes in the fair value of the underlying assets.

Discovery does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or amount based on a fixed amount and an interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host insurance contract and meet the definition of a derivative. Embedded derivatives that are separated from the host contract are fair valued through profit or loss.

13.3 Liability adequacy test
At the reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to profit or loss initially by writing off deferred acquisition costs and by subsequently establishing a provision for losses arising from the liability adequacy test.

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

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

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

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

In certain cases there is a gain or loss at inception of a reinsurance contract:
- Where these amounts relate to a reimbursement of expenses the gain is disclosed as a recovery of expenses from reinsurers.
- Other gains or losses are amortised over the life of the insurance policies on the same basis as the profit is expected to emerge.

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

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

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

Valuation of policyholder liabilities

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

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

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

Premium revenue

All premiums under investment contracts are recorded as deposits to investment contract liabilities and claims incurred on investment contracts are recorded as deductions from investment contract liabilities.

Fees on investment contracts

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

A deferred revenue liability (DRL) is recognised in respect of upfront fees directly attributable to a contract, that are charged for securing the investment management service contract. The DRL is then released to revenue when the services are provided, over the expected duration of the contract on an appropriate basis.

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

Deferred acquisition costs

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

The asset represents the Group's contractual right to benefit from providing asset management services and is amortised over the expected life of the contract on an appropriate basis.

15. Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

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

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

Temporary differences arise primarily from the difference between accounting and tax balances arising from insurance contracts, depreciation of property and equipment, effect of accounting for leases as a finance lease, effect of straight-lining of operating leases, revaluation of certain financial assets and liabilities, provisions for leave pay, provisions for share-based payments and tax losses carried forward. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income.

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

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

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

Group **accounting policies**
for the year ended 30 June 2014 continued

17. Employee benefits

17.1 Post-employment benefits
Discovery operates defined contribution schemes, the assets of which are held in separate trustee-administered funds.

These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Discovery employees. Qualified actuaries perform annual valuations.

For defined contribution plans, Discovery pays contributions to privately administered pension insurance plans on a mandatory basis. Discovery has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

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

Equity-settled share-based compensation plans

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

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

Cash-settled share-based compensation plans

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

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

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

17.4 Profit share and bonus plan
Discovery recognises a liability and an expense for bonuses and profit-sharing in staff costs, based on a formula where there is a contractual obligation or where there is a past practice that has created a constructive obligation.

18. Trade and other payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less from the reporting date. If not, they are presented as non-current liabilities.

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

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

Provisions are measured as the present value of management's best estimate of the expenditure required to settle the obligation at the reporting date. The pre-tax discount rate used to determine the present value reflects current market assessments of the time value of money. The increase in the provision due to the passage of time is recognised as interest expense.

Discovery recognises a provision for an onerous contract when the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligations under the contract.

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

21. Revenue recognition

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

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

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

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

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

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

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

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

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

Group **accounting policies**

for the year ended 30 June 2014 continued

22. Leases

22.1 Finance leases

Discovery classifies leases as finance leases where it assumes substantially all the benefits and risks of ownership.

Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. Discovery allocates each lease payment between the liability and finance costs to achieve a constant rate on the finance balance outstanding. The interest component of the finance cost is recognised in profit or loss over the lease period. The assets acquired are depreciated over the useful life of the assets, unless it is not probable that Discovery will take ownership of the assets, in which case the assets are depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

22.2 Operating leases

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

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

23. Marketing and administration expenses

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

24. Finance costs

Finance costs are recognised as an expense in profit or loss on an accrual basis using the effective interest rate method.

25. Direct and indirect taxes

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

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

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

Taxation in respect of the South African life insurance operations is determined using the four funds method applicable to life insurance companies.

26. Dividend distribution

Dividend distribution to Discovery Limited's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved.

27. Segment reporting

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

An operating segment is a component of an entity:

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

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

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

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

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

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

Statement of **financial position**

at 30 June 2014

R million	Notes	Group 2014 Audited	Group 2013 Audited and restated	Group 2012 Audited and restated
Assets				
Assets arising from insurance contracts	5	**17 999**	14 398	11 591
Property and equipment	6	**666**	533	251
Intangible assets including deferred acquisition costs	7	**2 344**	1 828	1 608
Goodwill	8.3	**2 239**	1 859	1 542
Investment in associates	9.1	**551**	402	341
Financial assets				
– Equity securities	10	**19 830**	14 951	9 370
– Equity linked notes	10	**1 672**	1 281	6 480
– Debt securities	10	**10 318**	5 353	3 100
– Inflation linked securities	10	**483**	208	321
– Money market securities	10	**8 028**	8 130	5 729
– Derivatives	11	**588**	541	149
– Loans and receivables including insurance receivables	12	**3 110**	2 884	1 882
Deferred income tax	23	**406**	370	348
Current income tax asset		**46**	32	18
Reinsurance contracts	13	**266**	226	201
Cash and cash equivalents	14	**3 650**	2 103	2 884
Total assets		**72 196**	55 099	45 815
Equity				
Capital and reserves				
Ordinary share capital and share premium	15.1	**2 582**	1 470	1 503
Preference share capital	15.2	**779**	779	779
Other reserves		**1 501**	1 253	670
Retained earnings		**12 549**	10 204	8 778
		17 411	13 706	11 730
Non-controlling interest		**–**	2	1
Total equity		**17 411**	13 708	11 731
Liabilities				
Liabilities arising from insurance contracts	16	**25 797**	19 075	14 319
Liabilities arising from reinsurance contracts	17	**2 247**	1 499	1 367
Financial liabilities				
– Puttable non-controlling interests	18	**4 494**	3 782	2 893
– Negative reserve funding	19	**4 684**	2 813	1 264
– Borrowings at amortised cost	20	**572**	660	402
– Investment contracts at fair value through profit or loss	21	**8 264**	6 410	8 312
– Derivatives	11	**10**	28	35
– Trade and other payables	22	**3 752**	3 004	2 114
Deferred income tax	23	**4 647**	3 784	3 075
Deferred revenue	24	**157**	151	116
Employee benefits	25	**154**	138	116
Current income tax liability		**7**	47	71
Total liabilities		**54 785**	41 391	34 084
Total equity and liabilities		**72 196**	55 099	45 815

Income **statement**

for the year ended 30 June 2014

R million	Notes	Group 2014 Audited	Group 2013 Audited and restated
Insurance premium revenue		**23 090**	17 703
Reinsurance premiums		**(2 182)**	(2 043)
Net insurance premium revenue	26	**20 908**	15 660
Fee income from administration business		**5 863**	4 819
Vitality income		**2 492**	1 958
Investment income	27	**414**	324
– investment income earned on shareholder investments and cash		**152**	132
– investment income on assets backing policyholder liabilities		**262**	192
Net realised gains on available-for-sale financial assets	28	**231**	1
Net fair value gains on financial assets at fair value through profit or loss	29	**4 278**	2 129
Net income		**34 186**	24 891
Claims and policyholders' benefits		**(11 718)**	(8 773)
Insurance claims recovered from reinsurers		**1 809**	1 693
Net claims and policyholders' benefits	30	**(9 909)**	(7 080)
Acquisition costs	31	**(4 296)**	(3 531)
Marketing and administration expenses	32	**(10 146)**	(7 974)
Amortisation of intangibles from business combinations	7, 9, 32	**(187)**	(186)
Recapture of reinsurance		**–**	(336)
Recovery of expenses from reinsurers		**360**	139
Transfer from assets/liabilities under insurance contracts		**(3 726)**	(1 735)
– change in assets arising from insurance contracts		**2 816**	2 352
– change in liabilities arising from insurance contracts		**(5 795)**	(3 953)
– change in liabilities arising from reinsurance contracts	17	**(747)**	(134)
Fair value adjustment to liabilities under investment contracts	21	**(1 224)**	(630)
Profit from operations		**5 058**	3 558
Puttable non-controlling interests fair value adjustment	18	**(201)**	(133)
Finance costs	34	**(220)**	(220)
– finance costs raised on puttable non-controlling interest financial liability		**(157)**	(165)
– other finance costs		**(63)**	(55)
Foreign exchange gains	35	**18**	40
Share of net losses from equity accounted investments	9	**(14)**	(22)
Profit before tax		**4 641**	3 223
Income tax expense	36	**(1 327)**	(1 092)
Profit for the year		**3 314**	2 131
Profit attributable to:			
– ordinary shareholders		**3 246**	2 063
– preference shareholders		**68**	68
– non-controlling interest		**–**	–
		3 314	2 131
Earnings per share for profit attributable to ordinary shareholders of the Company during the year (cents):	37		
– basic		**574.2**	372.2
– diluted		**559.8**	367.1

Statement of **comprehensive income**
for the year ended 30 June 2014

R million	Group 2014 Audited	Group 2013 Audited and restated
Profit for the year	**3 314**	2 131
Items that are or may be reclassified subsequently to profit or loss:		
Change in available-for-sale financial assets	**(3)**	196
– unrealised gains	**272**	224
– capital gains tax on unrealised gains	**(87)**	(27)
– realised gains transferred to profit or loss	**(231)**	(1)
– capital gains tax on realised gains	**43**	*
Currency translation differences	**256**	235
– unrealised gains	**285**	284
– deferred tax on unrealised gains	**(29)**	(49)
Cash flow hedges	**(32)**	96
– unrealised gains	**51**	172
– deferred tax on unrealised gains	**(9)**	(33)
– current tax on unrealised gains	**4**	(4)
– gains recycled to profit or loss	**(87)**	(54)
– tax on recycled gains	**9**	15
Share of other comprehensive income from equity accounted investments	**27**	56
– change in available-for-sale financial assets	**(*)**	(1)
– currency translation differences	**27**	57
Other comprehensive income for the year, net of tax	**248**	583
Total comprehensive income for the year	**3 562**	2 714
Attributable to:		
– ordinary shareholders	**3 494**	2 646
– preference shareholders	**68**	68
– non-controlling interest	**–**	–
Total comprehensive income for the year	**3 562**	2 714

* *Amount is less than R500 000.*

Statement of **cash flows**
for the year ended 30 June 2014

R million	Notes	Group 2014 Audited	Group 2013 Audited and restated
Cash flow from operating activities		**2 813**	871
Cash generated by operations	38.1	**8 412**	2 637
Net purchase of investments held to back policyholder liabilities		**(6 036)**	(1 983)
		2 376	654
Dividends received		**362**	238
Interest received		**802**	617
Interest paid		**(63)**	(55)
Taxation paid	38.2	**(664)**	(583)
Cash flow from investing activities		**(1 102)**	(1 261)
Net purchase of financial assets		**(228)**	(741)
Purchase of equipment		**(208)**	(302)
Purchase of intangible assets		**(512)**	(181)
Increase in investment in associate		**(133)**	–
Purchase of businesses		**(21)**	(37)
Cash flow from financing activities		**(176)**	(671)
Proceeds from issuance of ordinary shares	38.3	**1 032**	1
Proceeds from issuance of preference shares	38.3	**45**	77
Share buy-back		*****	–
Share issue costs		**(2)**	–
Dividends paid to ordinary shareholders		**(810)**	(670)
Dividends paid to preference shareholders		**(68)**	(68)
Non-controlling interest share buy-backs		**(3)**	–
Settlement of puttable non-controlling interest liability		**(352)**	–
Repayment of borrowings	38.4	**(18)**	(11)
Net increase/(decrease) in cash and cash equivalents		**1 535**	(1 061)
Cash and cash equivalents at beginning of the year		**1 887**	2 884
Exchange gains on cash and cash equivalents		**98**	64
Cash and cash equivalents at end of the year	14	**3 520**	1 887

* *Amount is R12 441.*

Statement of changes **in equity**

for the year ended 30 June 2014

R million	Attributable to equity holders of the Company: Share capital and share premium	Preference share capital	Share-based payment reserve	Revaluation reserve[1]	Translation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total
Year ended 30 June 2013										
At beginning of the year	1 503	779	319	58	254	39	8 778	11 730	1	11 731
Total comprehensive income for the year	–	68	–	195	292	96	2 063	2 714	–	2 714
Profit for the year	–	68	–	–	–	–	2 063	2 131	–	2 131
Other comprehensive income	–	–	–	195	292	96	–	583	–	583
Transactions with owners	(33)	(68)	–	–	–	–	(637)	(738)	1	(737)
Increase in treasury shares	(39)	–	–	–	–	–	33	(6)	–	(6)
Proceeds from treasury shares	6	–	–	–	–	–	–	6	–	6
Non-controlling interest share issues	–	–	–	–	–	–	–	–	1	1
Dividends paid to preference shareholders	–	(68)	–	–	–	–	–	(68)	–	(68)
Dividends paid to ordinary shareholders	–	–	–	–	–	–	(670)	(670)	–	(670)
At end of the year	1 470	779	319	253	546	135	10 204	13 706	2	13 708
Year ended 30 June 2014										
At beginning of the year	**1 470**	**779**	**319**	**253**	**546**	**135**	**10 204**	**13 706**	**2**	**13 708**
Total comprehensive income for the year	**–**	**68**	**–**	**(3)**	**283**	**(32)**	**3 246**	**3 562**	**–**	**3 562**
Profit for the year	–	**68**	–	–	–	–	**3 246**	**3 314**	–	**3 314**
Other comprehensive income	–	–	–	**(3)**	**283**	**(32)**	–	**248**	–	**248**
Transactions with owners	**1 112**	**(68)**	**–**	**–**	**–**	**–**	**(901)**	**143**	**(2)**	**141**
Share buy-back[2]	*	–	–	–	–	–	–	*	–	*
Share issue	**1 030**	–	–	–	–	–	–	**1 030**	–	**1 030**
Share issue costs	**(2)**	–	–	–	–	–	–	**(2)**	–	**(2)**
Increase in treasury shares	**(22)**	–	–	–	–	–	**14**	**(8)**	–	**(8)**
Delivery of treasury shares	**105**	–	–	–	–	–	**(105)**	–	–	–
Proceeds from treasury shares	**1**	–	–	–	–	–	–	**1**	–	**1**
Non-controlling interest share issues	–	–	–	–	–	–	–	–	**1**	**1**
Non-controlling interest share buy-back	–	–	–	–	–	–	–	–	**(3)**	**(3)**
Dividends paid to preference shareholders	–	**(68)**	–	–	–	–	–	**(68)**	–	**(68)**
Dividends paid to ordinary shareholders	–	–	–	–	–	–	**(810)**	**(810)**	–	**(810)**
At end of the year	**2 582**	**779**	**319**	**250**	**829**	**103**	**12 549**	**17 411**	**–**	**17 411**

(1) This reserve relates to the revaluation of available-for-sale financial assets.
(2) Amount is R12 441.

Of the R12 549 million (2013: R10 204 million) held in retained earnings, R4 179 million (2013: R3 401 million) is distributable. The balance is held to meet the capital requirements in various Group companies.

Notes to the annual **financial statements**

for the year ended 30 June 2014

1. SEGMENT INFORMATION

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

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

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

(ii) **Life South Africa:** offers a range of insurance and financial solutions to the Group's clients against the financial impact of lifestyle-changing events in South Africa.

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

(iv) **Vitality South Africa:** offers health and lifestyle benefits with selected partners to the Group's clients. This segment includes the DiscoveryCard which is offered to clients within South Africa.

(v) **Health United Kingdom:** offers consumer-engaged private medical insurance products to employer groups and individuals in the United Kingdom, together with Prudential Assurance Company Limited. All contracts in this segment are short-term insurance contracts.

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

(vii) **New business development:** includes expenses incurred to investigate new products and markets as well as start-up businesses and acquisitions including but not limited to The Vitality Group in the United States of America, Ping An Health in China, AIA Vitality in Asia and Discovery Insure in South Africa.

(viii) **All other segments:** includes those segments that do not meet the quantitative thresholds set out in IFRS 8 and cannot be aggregated with another reportable segment. It includes costs incurred by Discovery Limited and Discovery Group Europe Limited.

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

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

(i) The PruProtect results are reclassified to account for the contractual arrangement as a reinsurance contract under IFRS 4.

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

(iii) Investment income on assets backing policyholder liabilities is included as part of the normalised profit from operations but is included together with shareholder investment income for IFRS purposes.

R million	SA Health	SA Life	SA Invest	SA Vitality	UK Health	UK Life	New business development	All other segments	Segment total	IFRS reporting adjustments: UK Life	IFRS reporting adjustments: DUT	IFRS reporting adjustments: Normalised profit adjustments	IFRS total
30 June 2014													
Income statement													
Insurance premium revenue	16	8 522	6 336	–	6 259	1 920	603	–	23 656	(566)	–	–	23 090
Reinsurance premiums	(2)	(1 186)	–	–	(925)	(566)	(69)	–	(2 748)	566	–	–	(2 182)
Net insurance premium revenue	14	7 336	6 336	–	5 334	1 354	534	–	20 908	–	–	–	20 908
Fee income from administration business	4 453	204	837	–	94	–	265	–	5 853	–	–	10	5 863
Guarantee received from HumanaVitality	–	–	–	–	–	–	10	–	10	–	–	(10)	–
Vitality income	–	–	–	1 886	215	–	391	–	2 492	–	–	–	2 492
Investment income on assets backing policyholder liabilities	–	204	–	–	47	–	11	–	262	–	–	(262)	–
Finance charge on negative reserve funding	–	–	–	–	–	(202)	–	–	(202)	202	–	–	–
Inter-segment funding*	–	(448)	448	–	–	–	–	–	–	–	–	–	–
Net fair value gains on financial assets at fair value through profit or loss	–	1 010	2 382	–	–	–	–	–	3 392	–	886	–	4 278
Net income	4 467	8 306	10 003	1 886	5 690	1 152	1 211	–	32 715	202	886	(262)	33 541
Claims and policyholders' benefits	(2)	(4 139)	(2 718)	–	(4 263)	(455)	(415)	–	(11 992)	274	–	–	(11 718)
Insurance claims recovered from reinsurers	–	896	–	–	852	274	61	–	2 083	(274)	–	–	1 809
Net claims and policyholders' benefits	(2)	(3 243)	(2 718)	–	(3 411)	(181)	(354)	–	(9 909)	–	–	–	(9 909)
Acquisition costs	–	(1 434)	(541)	(67)	(503)	(1 458)	(91)	–	(4 094)	(202)	–	–	(4 296)
Marketing and administration expenses													
– depreciation and amortisation	(183)	(31)	–	–	(38)	–	(40)	(1)	(293)	–	–	–	(293)
– other expenses	(2 428)	(1 385)	(328)	(1 781)	(1 834)	(745)	(1 172)	(66)	(9 739)	(114)	–	–	(9 853)
Recovery of expenses from reinsurers	–	–	–	–	292	–	68	–	360	–	–	–	360
Transfer from assets/liabilities under insurance contracts													
– change in assets arising from insurance contracts	–	1 156	–	–	–	388	–	–	1 544	1 272	–	–	2 816
– change in liabilities arising from insurance contracts	–	(26)	(5 752)	–	6	(2)	(21)	–	(5 795)	–	–	–	(5 795)
– change in liabilities arising from reinsurance contracts	–	(747)	–	–	–	1 272	–	–	525	(1 272)	–	–	(747)
Fair value adjustment to liabilities under investment contracts	–	(5)	(333)	–	–	–	–	–	(338)	–	(886)	–	(1 224)
Normalised profit/(loss) from operations	1 854	2 591	331	38	202	426	(399)	(67)	4 976	(114)	–	(262)	4 600
Investment income earned on shareholder investments and cash	32	39	16	7	5	–	14	39	152	–	–	262	414
Net realised gains on available-for-sale financial assets	–	228	2	–	–	–	–	1	231	–	–	–	231
Amortisation of intangibles from business combinations	–	–	–	–	–	–	–	(187)	(187)	–	–	–	(187)
Puttable non-controlling interest fair value adjustment	–	–	–	–	–	–	–	(201)	(201)	–	–	–	(201)
Finance costs	(22)	–	–	–	(2)	(2)	–	(196)	(222)	2	–	–	(220)
Foreign exchange gains/(losses)	–	–	5	–	(55)	–	–	68	18	–	–	–	18
Share of net losses from equity accounted investments	–	–	–	–	–	–	(14)	–	(14)	–	–	–	(14)
Profit before tax	1 864	2 858	354	45	150	424	(399)	(543)	4 753	(112)	–	–	4 641
Income tax expense	(523)	(760)	(97)	(13)	2	(112)	25	39	(1 439)	112	–	–	(1 327)
Profit for the year	1 341	2 098	257	32	152	312	(374)	(504)	3 314	–	–	–	3 314

** 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.*

Notes to the annual **financial statements**

for the year ended 30 June 2014 continued

1. SEGMENT INFORMATION continued

R million	SA Health	SA Life	SA Invest	SA Vitality	UK Health	UK Life	New business development	All other segments	Segment total	IFRS reporting adjustments: UK Life	IFRS reporting adjustments: DUT	IFRS reporting adjustments: Normalised profit adjustments	IFRS total
30 June 2013													
Income statement													
Insurance premium revenue	16	7 189	4 520	–	4 744	1 128	296	–	17 893	(190)	–	–	17 703
Reinsurance premiums	(2)	(1 299)	–	–	(733)	(190)	(9)	–	(2 233)	190	–	–	(2 043)
Net insurance premium revenue	14	5 890	4 520	–	4 011	938	287	–	15 660	–	–	–	15 660
Fee income from administration business	4 061	140	555	–	34	–	11	–	4 801	–	–	18	4 819
Guarantee received from HumanaVitality	–	–	–	–	–	–	18	–	18	–	–	(18)	–
Vitality income	–	–	–	1 660	100	–	198	–	1 958	–	–	–	1 958
Investment income on assets backing policyholder liabilities	–	141	–	–	51	–	–	–	192	–	–	(192)	–
Finance charge on negative reserve funding	–	–	–	–	–	(124)	–	–	(124)	124	–	–	–
Inter-segment funding*	–	(360)	360	–	–	–	–	–	–	–	–	–	–
Net fair value gains on financial assets at fair value through profit or loss	–	501	976	–	–	–	–	–	1 477	–	652	–	2 129
Net income	4 075	6 312	6 411	1 660	4 196	814	514	–	23 982	124	652	(192)	24 566
Claims and policyholders' benefits	(2)	(3 648)	(1 538)	–	(3 281)	(192)	(223)	–	(8 884)	111	–	–	(8 773)
Insurance claims recovered from reinsurers	3	1 004	–	–	668	111	18	–	1 804	(111)	–	–	1 693
Net claims and policyholders' benefits	1	(2 644)	(1 538)	–	(2 613)	(81)	(205)	–	(7 080)	–	–	–	(7 080)
Acquisition costs	–	(1 497)	(401)	(73)	(379)	(1 011)	(46)	–	(3 407)	(124)	–	–	(3 531)
Marketing and administration expenses													
– depreciation and amortisation	(164)	(29)	(1)	–	(20)	–	(15)	(1)	(230)	–	–	–	(230)
– other expenses	(2 224)	(1 198)	(256)	(1 552)	(1 166)	(549)	(640)	(54)	(7 639)	(105)	–	–	(7 744)
Recovery of expenses from reinsurers	–	–	–	–	139	–	–	–	139	–	–	–	139
Transfer from assets/liabilities under insurance contracts													
– change in assets arising from insurance contracts	–	1 189	–	–	–	1 073	–	–	2 262	90	–	–	2 352
– change in liabilities arising from insurance contracts	–	117	(4 026)	–	(11)	(10)	(23)	–	(3 953)	–	–	–	(3 953)
– change in liabilities arising from reinsurance contracts	–	(134)	–	–	–	90	–	–	(44)	(90)	–	–	(134)
Fair value adjustment to liabilities under investment contracts	–	(10)	32	–	–	–	–	–	22	–	(652)	–	(630)
Normalised profit/(loss) from operations	1 688	2 106	221	35	146	326	(415)	(55)	4 052	(105)	–	(192)	3 755
Recapture of reinsurance	–	–	–	–	(336)	–	–	–	(336)	–	–	–	(336)
Investment income earned on shareholder investments and cash	29	34	13	7	6	–	14	29	132	–	–	192	324
Net realised gains on available-for-sale financial assets	–	1	–	–	–	–	–	–	1	–	–	–	1
Amortisation of intangibles from business combinations	–	–	–	–	–	–	–	(186)	(186)	–	–	–	(186)
Puttable non-controlling interest fair value adjustment	–	–	–	–	–	–	–	(133)	(133)	–	–	–	(133)
Finance costs	(13)	–	–	–	(1)	(3)	–	(206)	(223)	3	–	–	(220)
Foreign exchange gains/(losses)	7	–	4	–	(10)	–	5	34	40	–	–	–	40
Share of net losses from equity accounted investments	–	–	–	–	–	–	(22)	–	(22)	–	–	–	(22)
Profit before tax	1 711	2 141	238	42	(195)	323	(418)	(517)	3 325	(102)	–	–	3 223
Income tax expense	(491)	(595)	(62)	13	–	(102)	2	41	(1 194)	102	–	–	(1 092)
Profit for the year	1 220	1 546	176	55	(195)	221	(416)	(476)	2 131	–	–	–	2 131

* *The inter-segment funding of R360 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.*

Notes to the annual **financial statements**

for the year ended 30 June 2014 continued

2. MANAGEMENT OF INSURANCE RISK

Discovery enters into contracts that carry insurance risk or financial risk or both. The following table analyses the various contracts offered by the Group and the risks these contracts transfer.

Contracts offered by the Group	Contract type	Insurance risk	Financial risk
Discovery Life			
– Discovery Life Plan	Insurance	✓	
– Health Plan Protector	Insurance	✓	
– Discovery Retirement Optimiser: Linked	Unit-linked insurance	✓	✓
– Discovery Retirement Optimiser: Guaranteed	Insurance	✓	
– DiscoveryCard Protector	Insurance	✓	
– Global Education Protector	Insurance	✓	
– Supplementary Cancer Protector	Insurance	✓	
– Funeral Cover	Insurance	✓	
– Group Life	Insurance	✓	
– Destiny Provident Fund	Unit-linked investment		✓
– Destiny Benefit Fund (liquidated 31 January 2014)	Unit-linked investment		✓
Discovery Invest			
– Unit-linked contracts without significant insurance risk	Unit-linked investment		✓
– Unit-linked contracts with significant insurance risk	Unit-linked insurance	✓	✓
– Guaranteed return plans	Insurance	✓	✓
– Fixed annuities	Insurance	✓	✓
Discovery Insure			
– Short-term insurance	Insurance	✓	
PruHealth			
– Individual product	Insurance	✓	
– SME product	Insurance	✓	
– Corporate product	Insurance	✓	
PruProtect			
– PruProtect Life Plan	Insurance	✓	
– Over 50s life cover	Insurance	✓	
– Vitality Optimiser	Insurance	✓	

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

- **Management of insurance risks:** pages 142 to 161
- **Management of financial risks:** pages 161 to 180

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

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

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

Discovery assumes the following risks transferred from insurance contracts:

- Automatic increase take-up rate.
- Capital adequacy requirements and protection against adverse experience.
- Concentration risk.
- Currency risk.
- Expense risk.
- Lapse and surrender risk.
- Liquidity risk.
- Market and mismatching risk.
- Modelling and data risk.
- Operational/implementation risk.
- Policy wording/legal risks.
- Regulatory risk.
- Reputational risk.
- Tax risk.
- Underwriting experience risk.

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

2.1 Discovery Life and Discovery Invest

2.1.1 Product descriptions

Discovery Life offers policyholders a range of insurance and financial solutions. The Discovery Life products reflect Discovery's underlying philosophy to make members healthier and to enhance and protect their lives.

Discovery Life offers some unique benefits that integrate with the benefits offered by Discovery Health, Discovery Vitality, DiscoveryCard and Discovery Invest.

Discovery Life Plan

The Discovery Life Plan provides protection against a comprehensive spectrum of risks. Discovery Life offers a Classic Life Plan with broad and comprehensive protection for the policyholder and his or her immediate family and an Essential Life Plan which offers cost effective protection for the principal policyholder and his or her spouse.

The Discovery Life Plan covers:

- Life Cover Benefits.
- Disability Benefits.
- Severe Illness Benefits.
- Income Continuation Benefits.

The Life Fund forms the base amount of cover insured under the Life Plan (the basic sum assured amount). The Life Fund can be linked to a benefit escalation rate, for example inflation, and will then automatically increase at each policy anniversary. The Life Fund can also be linked to global investment markets and a selection of currencies via the Global Linkage Benefit to provide additional protection in real terms and in foreign currencies. The Cover Integrator allows for an increase in the Life Fund at a significantly reduced premium and further rewards policyholders for managing their health by engaging in Vitality. The Financial Integrator increases the Life Fund and offers protection against adverse financial events such as asset price depreciation, increases in interest rates, rand depreciation and high severe illness claims. The Financial Integrator fluctuates on an annual basis to offer protection against the adverse financial events.

The key risk benefits are then defined as a percentage of the Life Fund. The Life Fund is reduced by the amount of benefits paid from the Life Fund. The Life Fund can be protected against claims by means of the Minimum Protected Fund. Multiple claims are allowed against the Life Fund from the same benefit.

Notes to the annual **financial statements**

for the year ended 30 June 2014 continued

2. MANAGEMENT OF INSURANCE RISK continued

There are a number of risk benefits that are defined in monetary terms or in form of indemnity benefits, rather than being expressed as a percentage of the Life Fund. These benefits include:

- Income Continuation Benefit.
- Global Education Benefit.
- Global Health Protector.

The Life Plan has unique features allowing policyholders to add benefits for other family members. The Global Education Protector, Global Health Protector, Childbirth Benefit, Child Severe Illness Benefit, Parent Severe Illness Benefit and Family Trauma Benefit allow protection for the whole immediate family.

By actively maintaining and improving their health, Discovery Life policyholders, through the Integrator Benefit, could receive premium discounts and refunds of premiums.

The Life Plan provides whole of life cover. Premium guarantees are offered and quantified on most benefits. For example, the premiums for Life Cover are guaranteed not to increase by more than 25% for any 10 year period.

The Life CoverBooster can also be added to the Life Plan. This benefit provides 32% additional life cover at no additional premium for 3 years. After 3 years, clients have guaranteed insurability that they can buy up the additional cover at a discount of up to 15%. In addition, the Life CoverBooster provides a 5% cash conversion whereby 5% of the CoverBooster amount will be paid out as a cash lump sum at age 65 to supplement retirement savings.

Premiums are payable monthly. There are various funding methods that allow policyholders a choice of premium funding patterns. A combination of level premium funding patterns, annually increasing premium patterns and ten-yearly stepped premium funding patterns are offered. The higher the compulsory future premium increase, the lower the starting premium.

At 30 June 2014 there were 303 370 Life Plans with an annualised premium income of R6 142 million (2013: 293 611 Life Plans with an annualised premium income of R5 425 million). The annualised premium income is calculated by multiplying the monthly in-force premium at 30 June by 12 months.

Health Plan Protector

The Health Plan Protector will fund contributions to the Discovery Health Medical Scheme in the event of death, disability or severe illness. It further rewards members for positive health management through the payback benefit and Health Dividends. The Health Plan Protector can be added to the Life Plan or can be bought on a stand-alone basis. The Health Plan Protector provides cover up to age 65, however premiums are not guaranteed.

At 30 June 2014 there were 45 436 Health Plan Protector policies with an annualised premium income of R209 million (2013: 50 139 Health Plan Protector policies with an annualised premium income of R209 million).

Discovery Retirement Optimiser

The Discovery Retirement Optimiser offers funding for retirement and offers unique benefits that could together with the Life Plan, capitalise unneeded risk cover to boost retirement funding. Policyholders have a choice of linked investment portfolios or a portfolio that offers a guaranteed return in real terms.

As at 30 June 2014 there were 59 745 Discovery Retirement Optimiser policies of which 53 225 policies are linked to the Life Plan. These policies have an annualised premium income of R1 227 million (2013: 55 011 Discovery Retirement Optimiser policies, 49 917 of these policies were linked to the Life Plan, with an annualised premium income of R1 014 million).

DiscoveryCard Protector

The DiscoveryCard Protector will cover the outstanding balance on the DiscoveryCard in the event of death, disability or severe illness. It further provides a monthly benefit for a defined period equal to the average DiscoveryCard spend in the six month period prior to the life changing event.

At 30 June 2014 there were 10 959 DiscoveryCard Protector policies with an annualised premium income of R12 million (2013: 12 212 policies with an annualised premium income of R12 million).

Global Education Protector

The Global Education Protector funds education costs for children in the event of death, disability or severe illness of the insured life. Cover is provided to the earlier of the insured life reaching age 65 or the child reaching age 24. This benefit can be purchased on a stand-alone basis.

At 30 June 2014 there were 2 172 stand-alone Global Education Protector policies with an annualised premium income of R7 million (2013: 2 673 stand-alone Global Education Protector policies with an annualised premium income of R8 million).

Supplementary Cancer Protector

The Supplementary Cancer Protector benefit will pay defined monthly amounts which can be used to meet costs that arise when a family is affected by cancer.

At 30 June 2014 there were 7 646 stand-alone Supplementary Cancer Protector policies with an annualised premium income of R20 million (2013: 7 699 Supplementary Cancer Protector policies with an annualised premium income of R18 million).

Funeral Cover

The Funeral Cover benefit will pay out a defined lump sum in the event of death which can be used to cover the costs of a funeral. This lump sum is doubled in the event of accidental death. An education benefit is automatically included at a defined amount which aims to fund the education costs for children upon death of the principal member or spouse. Additional memorial and grocery benefits may be added to the policy as an option.

At 30 June 2014 there were 3 049 stand-alone Funeral Cover policies with an annualised premium income of R8 million (2013: 860 stand-alone Funeral Cover policies with an annualised premium income of R2 million).

Group Life

Discovery Life offers a comprehensive spectrum of protection benefits on a group basis. Life Cover, Severe Illness, Disability and Income Continuation Benefits are offered on a group basis. The policies offered under Group Life can be cancelled or the premiums adjusted at the end of the contract term (usually one year).

At 30 June 2014 there were 393 800 lives covered under group policies with an annualised premium income of R1 277 million (2013: 354 534 lives covered under group policies with an annualised premium income of R1 060 million).

Discovery Invest

Discovery Invest offers investors access to a comprehensive and flexible range of investment solutions which can be tailored to the needs of every investor.

A range of investment wrappers are provided to ensure flexibility and to optimise the investments according to the investment objectives and time horizon of the investor. A wrapper is the legal structure that allows policyholders to make underlying investments with different tax and other legal implications.

The following wrappers are available:

- **Endowment:** A medium-term investment vehicle that provides tax efficiencies for an investor with a five to ten year time horizon.
- **Flexible investment:** A flexible investment vehicle that allows tailor made investment solutions whilst providing immediate access to funds.
- **Retirement plan:** A long-term investment vehicle providing a tax efficient structure for saving towards retirement.
- **Preserver plans:** An investment vehicle that helps to ensure retirement benefits continue to grow on a tax efficient basis once a policyholder has left the retirement plan of an employer.
- **Retirement income plan:** Fixed and linked annuities are provided giving flexibility to meet retirement needs.

A comprehensive range of investment fund choices are provided including unique Discovery Invest funds. The funds include:

- **Discovery Invest funds:** Includes a comprehensive range of Discovery Invest's single and multi-manager funds across a range of asset classes.
- **Dynamically protected funds:** Unique Discovery Invest funds that are designed to protect investors against the major risks associated with investment choice, for example, underperformance by fund, asset class and geographic region.
- **Special purpose funds:** These funds are designed to provide solutions to investors looking to save for specific goals, such as retirement. These funds provide alternative and innovative management expertise.
- **External funds:** Discovery Invest provides a broad range of externally managed funds.

Notes to the annual **financial statements**

for the year ended 30 June 2014 continued

2. MANAGEMENT OF INSURANCE RISK continued

Integrating Invest and Discovery Life products reduces the cost of investment and enhances benefits available under the Invest plans.

- **Investment Integrator:** Uses inter alia the health improvements from Vitality and tax efficiencies created to offer a cost effective endowment and increase the value of the investment. A fee reduction of up to 100% can be achieved on both administration and asset management fees.
- **Annuity Integrator:** By releasing the value of a policyholder's life cover at retirement, the Annuity Integrator creates enhanced benefits for Discovery Retirement Income Plan investors. The benefits include increased retirement income, protection against longevity, protection against ill-health and protection against poor performance of underlying assets.
- **Guaranteed return plans:** Guaranteed return plans include the following:
  - The Guaranteed Growth Plan is a single premium endowment that provides a guaranteed return at the end of five years.
  - The Guaranteed Income Plan provides a guaranteed return at the end of five years on the chosen percentage of the lumpsum contribution. The remainder of the lumpsum will provide a monthly or annual income.
- **Upfront Investment Integrator:** Provide an upfront boost to the investment values provided on the Endowment plan.
- **Life Booster:** Provide a boost to the investment fund value on death of between 5% and 15% depending on the member's Vitality status.

At 30 June 2014 there were 100 172 Invest plans with an annualised premium equivalent of R4 233 million (2013: 82 854 Invest plans with an annualised premium equivalent of R3 333 million). The annualised premium equivalent includes 10% of the value of single premium policies.

2.1.2 Insurance risks

Market and mismatching risk

Mismatching risk is the risk that movements in assets and liabilities are out of line given changes in market conditions as defined on page 161.

Discovery Life

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

The expected future cash flows utilised in the calculation of assets under insurance contracts were as follows:

R million	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2014					
Discovery Life	**1 506**	**6 227**	**6 878**	**11 552**	**62 603**
2013					
Discovery Life	1 419	5 223	6 085	10 381	20 885

The value of assets under insurance contracts of R15 604 million (2013: R13 461 million) is calculated by discounting the expected future cash flows shown above. The effect of discounting is R73 162 million (2013: R30 532 million). The discount rate is set with reference to the prevailing risk free SA gilt yield. The value of assets under insurance contracts is subject to interest rate risk.

The increase in cash flows at later durations can largely be attributed to the explicit modelling of movements in Vitality status for Discovery Life which has been introduced in June 2014. Undiscounted cash flows after year 20 increased from R20 885 million to R62 603 million. The discounted value of cash flows after year 20 increased from R1 583 million to R2 593 million (or from 12% of the full present value of cash flows to 17%).

Reconciliation of the assets under insurance contracts disclosed in the cash flows above to the statement of financial position (note 5):

R million	2014	2013
Assets arising from insurance contracts at end of year	**16 327**	13 534
Adjusted for:		
– Unit-linked policyholder liabilities	**5 233**	3 437
– Assets arising from insurance contracts relating to PruProtect	**(5 956)**	(3 510)
Discovery Life value of assets under insurance contracts	**15 604**	13 461

Discovery Invest

For Discovery Invest, the insurance related cash outflows are matched with a combination of a release of policyholder assets (net of retained fees), investment return on these assets and Discovery Life cash flows.

The expected future cash flows in the calculation of liabilities under insurance contracts were as follows:

R million	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2014					
Discovery Invest	**(2 287)**	**(4 336)**	**540**	**1 062**	**722**
2013					
Discovery Invest	(878)	(4 613)	506	776	444

The value of the liabilities under insurance contracts of R5 150 million (2013: R4 286 million) is calculated by discounting the expected future cash flows as shown above. The effect of discounting is a decrease of R851 million (2013: R521 million). The discount rate is set with reference to the prevailing risk free SA gilt yield.

Reconciliation of the liabilities under insurance contracts disclosed in the cash flows above to the statement of financial position (note 16):

R million	2014	2013
Long-term insurance contract liabilities with fixed and guaranteed terms	**6 669**	5 540
Negative insurance liability included in unit-linked insurance contracts	**(1 519)**	(1 254)
Discovery Invest value of liabilities under insurance contracts	**5 150**	4 286

There is thus a risk that a change in the risk free SA gilt yield could cause a change in the value of the assets and liabilities under insurance contracts.

The outstanding claims and incurred but not reported claims are mostly short-term in nature and have consequently been matched with cash.

The risk under the Global Linkage Benefit is fully reinsured and Discovery does not face any net direct market risk. In the event of the reinsurer defaulting, the investments held by the reinsurer to hedge their risk relating to the Global Linkage Benefit, will be ceded to Discovery Life.

Automatic increase take-up rate

The majority of Discovery Life Plan policyholders have selected policies with automatic contractual premium and benefit increases.

Recurring premium Invest plans have various automatic increase options ranging from 0% up to 20% per annum. A CPI-linked option is also available. The majority of Invest policyholders have selected plans with automatic benefit increases.

The automatic increases increase the profitability of the plans to Discovery over time since the cash flows under the policy are maintained in real terms.

Lapse and surrender risk

Policyholders have the option to discontinue or reduce contributions at any time.

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

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

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

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

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

Notes to the annual **financial statements**

for the year ended 30 June 2014 continued

2. MANAGEMENT OF INSURANCE RISK continued

The lapse risk is managed as follows:

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

  Integration between different product offerings across Discovery enhances the value proposition of the overall package of products from Discovery. For example, Vitality provides unique rewards and benefits to members who have proven to be a credible risk differentiator. Premium discounts are available to policyholders who actively engage in a healthier lifestyle and utilise the Vitality benefit. Better terms are thus offered to healthy lives compared to less healthy lives.

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

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

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

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

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

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

Underwriting experience risk

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

On guaranteed annuities there is a risk that mortality experience is lower than expected and thus income payments continue for longer than expected. The guaranteed annuity book of Discovery Life was insignificant at 30 June 2014. Discovery Life does not offer any deferred annuities where the annuity rate at a future point in time is guaranteed for new entrants.

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

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

There is a risk that the emergence of a new disease or epidemic can increase the number of claims.

The risks are managed through:

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

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

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

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

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

  Overall, Discovery Life has experienced better than anticipated claims experience during every reporting period since its inception in 2001.

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

  Financial underwriting is applied to ensure that the policyholder can justify the amount of cover applied for. Premium loadings and exclusions are applied where high risks are identified. For Integrated policies, Discovery Life can dynamically adjust certain premiums using the information from the health claims experience of a policyholder who is also a member of the Discovery Health Medical Scheme and Vitality. This provides Discovery Life with an advantageous position in the market.

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

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

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

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

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

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

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

Expense risk

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

Modelling and data risk

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

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

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

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

2. MANAGEMENT OF INSURANCE RISK continued

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

Operational/Implementation risk

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

Regulatory risk

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

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

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

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

Tax risk

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

External tax advice is obtained as required to ensure that products are structured in a tax efficient way. Uncertainty currently exists with regards to potential changes to the taxation of life insurers following the release of the 2014 Taxation Laws Amendment Bill with suggested changes to the taxation of risk business.

Currency risk

All of Discovery Life's insurance benefits are Rand denominated, with the exception of the Global Linkage Benefit, a benefit where the sum insured can be linked to global investment markets or a selection of currencies. The Global Linkage Benefit is fully reinsured. Discovery Life thus does not have significant net currency risk.

Capital adequacy requirements and protection against adverse experience

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

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

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

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

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

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

At 30 June 2014, the statutory capital adequacy requirement was R522 million and was covered 3.8 times (2013: the statutory capital adequacy requirement was R455 million and was covered 4.0 times).

Looking towards the future anticipated solvency regime (Solvency Assessment and Management, or SAM) expected to be implemented from 1 January 2016, Discovery Life has calculated its solvency position on a QIS3 basis at 30 June 2013 and 30 June 2014. A consistent level of solvency cover, comfortably in excess of the statutory minimum, was observed at both these valuation dates.

Liquidity risk

Liquidity risk arises due to a timing mismatch between the assets and liabilities.

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

Currently, Discovery Life's expected outflows are mostly long-term and the main liquidity requirement is to fund acquisition expenses on new business and unexpected fluctuations in benefit payments. As discussed in 3.4.3, Discovery invests primarily in liquid financial assets. There is a need to meet liquidity requirements under the growing Guaranteed Plan book. Liquidity requirements are managed to ensure a liquidity buffer is maintained to meet potential outflows if exit rates are higher than expected. The liquidity risk on the existing portfolio is thus relatively small.

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

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

R million	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2014					
Discovery Life	**950**	**5 200**	**8 228**	**20 988**	**102 386**
Discovery Invest	**476**	**1 229**	**1 263**	**2 499**	**1 357**
2013					
Discovery Life	650	4 176	7 901	19 246	48 017
Discovery Invest	349	951	1 093	2 138	1 007

The cash flows in the table above differ from those disclosed on page 146, since these are based on best estimate free cash flows after meeting policyholder liabilities. Cash flows arising under investment management contracts are also included. No allowance has been made for new business and related expenses.

The increase in cash flows at later durations can largely be attributed to the explicit modelling of movements in Vitality status for Discovery Life which has been introduced in June 2014. Undiscounted cash flows after year 20 increased from R48 017 million to R102 386 million. The discounted value of cash flows after year 20 increased from R2 933 million to R4 813 million (or from 20% of the full present value of cash flows to 27%).

Policy wording/legal risks

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

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

2. MANAGEMENT OF INSURANCE RISK continued

Reputational risk

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

Reputational risks are controlled in that all decisions to repudiate claims are reviewed by the Chief Medical Officer and legal advice is obtained where necessary.

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

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

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

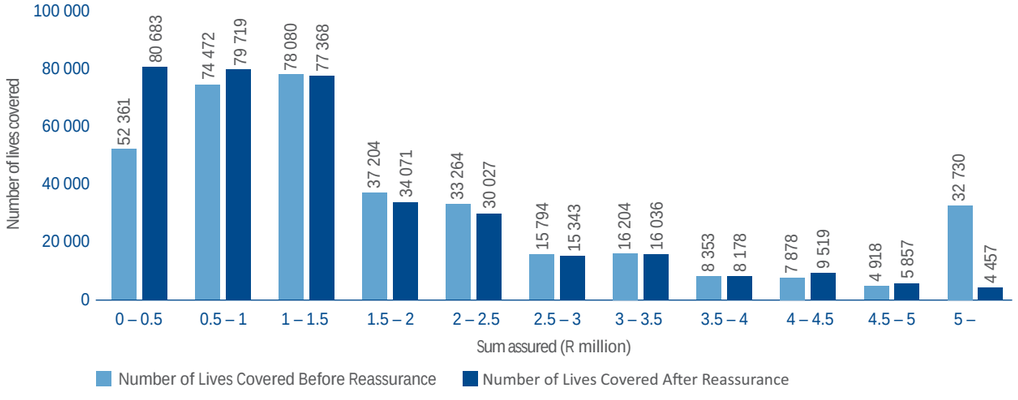
Concentration risk

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

  Discovery Life maintains a well-diversified portfolio of policies. Reinsurance is further used to protect against the concentration of risk. Catastrophe reinsurance protects against accumulation of claims from a single event, for example an airplane crash. The catastrophe reinsurance covers single event disasters for up to R400 million where the net of reinsurance impact is greater than R40 million.

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

Impact of reassurance on exposure to large claims

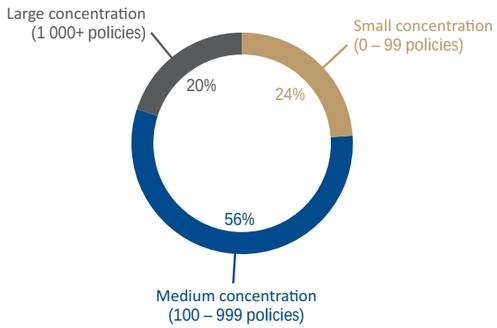


- *Withdrawal concentration risk*
  There is a financial risk of the withdrawal of a block of policies written by a single independent intermediary.

  Discovery Life has a well-diversified book of business by source of new business and spread across more than 7 700 (2013: 7 800) brokers and agents.

  The maximum exposure of Discovery Life to a single intermediary is smaller than 1.5% (2013: 1%) and to a group of intermediaries is 2% (2013: 2%) as a percentage of total premium income.

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



2.1.3 Sensitivity analysis

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

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

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

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

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

The following sensitivities are provided under insurance risk:

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

Notes to the annual **financial statements**

for the year ended 30 June 2014 continued

2. MANAGEMENT OF INSURANCE RISK continued

Assets under insurance contracts in the statement of financial position include assets for both Discovery Life and PruProtect. The total assets under insurance contracts less reinsurance recoveries are R16 327 million (2013: R13 534 million) (refer note 5). R5 956 million (2013: R3 510 million) of this relates to PruProtect. The sensitivities in the table below relate to Discovery Life.

	Assets under insurance contracts R million	Change from base assumption %
Base: June 2014 assumptions	**10 371**	
Lapses +10% (eg. from x% to 1.1x%)	**8 857**	**(14.6)**
Lapses -10% (eg. from x% to 0.9x%)	**12 227**	**17.9**
Investment return and inflation -1% (eg. from 5% to 4%)	**11 136**	**7.4**
Investment return and inflation +1% (eg. from 5% to 6%)	**9 690**	**(6.6)**
Expense assumption +10%	**10 135**	**(2.3)**
Expense assumption -10%	**10 607**	**2.3**
Mortality and morbidity +10%	**7 870**	**(24.1)**
Mortality and morbidity -10%	**13 000**	**25.4**
Base: June 2013 assumptions	10 024	
Lapses +10% (eg. from x% to 1.1x%)	8 698	(13.2)
Lapses -10% (eg. from x% to 0.9x%)	11 637	16.1
Investment return and inflation -1% (eg. from 5% to 4%)	11 528	15.0
Investment return and inflation +1% (eg. from 5% to 6%)	8 759	(12.6)
Expense assumption +10%	9 820	(2.0)
Expense assumption -10%	10 228	2.0
Mortality and morbidity +10%	7 802	(22.2)
Mortality and morbidity -10%	12 331	23.0

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

For long-term insurance liabilities relating to fixed and guaranteed contracts and unit-linked contracts (refer to reconciliation on page 146), the sensitivities are detailed in the table below:

	Liabilities under insurance contracts R million	Change from base assumption %
Base: June 2014 assumptions	**5 150**	
Lapses +10% (eg. from x% to 1.1x%)	**5 179**	**0.6**
Lapses -10% (eg. from x% to 0.9x%)	**5 117**	**(0.6)**
Investment return and inflation -1% (eg. from 5% to 4%)	**5 350**	**3.9**
Investment return and inflation +1% (eg. from 5% to 6%)	**4 959**	**(3.7)**
Expense assumption +10%	**5 168**	**0.4**
Expense assumption -10%	**5 131**	**(0.4)**
Mortality and morbidity +10%	**5 161**	**0.2**
Mortality and morbidity -10%	**5 138**	**(0.2)**
Base: June 2013 assumptions	4 286	
Lapses +10% (eg. from x% to 1.1x%)	4 309	0.5
Lapses -10% (eg. from x% to 0.9x%)	4 261	(0.6)
Investment return and inflation -1% (eg. from 5% to 4%)	4 456	4.0
Investment return and inflation +1% (eg. from 5% to 6%)	4 125	(3.8)
Expense assumption +10%	4 300	0.3
Expense assumption -10%	4 272	(0.3)
Mortality and morbidity +10%	4 296	0.2
Mortality and morbidity -10%	4 277	(0.2)

2.2 Discovery Insure

2.2.1 Product description

The policies underwritten by Discovery Insure are as follows:

Motor

Provides cover for loss, damage and liabilities arising from the use or ownership of motor vehicles. The cover includes comprehensive, third party, fire, theft and third party liability cover.

Property

Provides cover for loss or damage from specified events – such as fire, storm, theft etc. – to movable and immovable property belonging to the insured.

Liability

Provides cover for risks relating to the insured incurring personal liability to specified third parties which are not specifically covered under another insurance contract.

At 30 June 2014, 73% (2013: 74%) of insurance premium revenue related to motor policies and 27% (2013: 26%) to property policies.

2.2.2 Insurance risks

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

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

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

Underwriting strategy

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

2. MANAGEMENT OF INSURANCE RISK continued

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

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

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

Reinsurance strategy

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

Concentrations of risk

There is a risk that a concentration of risk can lead to worse than expected claims experience. Discovery Insure is exposed to a concentration of insurance risk in the Gauteng province of South Africa where 60% (2013: 62%) of the company's total sum insured is domiciled. In order to manage this concentration of insurance risk, the company has entered into a catastrophe excess of loss reinsurance treaty that would limit the loss of the company to pre-determined levels following the occurrence of a localised catastrophe in this area.

2.3 PruHealth

2.3.1 Product description

PruHealth offers three main product types:

Individual product

This is offered to the retail market either direct or via a broker. The product features include:

- **Private Medical Insurance:** Cover is offered for a range of private healthcare-related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions.
- **Starter discounts:** Discounts are available based on answers to healthcare questions.
- **Renewal discounts:** Discounts are offered at renewal depending on claims and Vitality status.
- **Vitality rewards:** A full Vitality package is offered, including gym offering and healthcare-related rewards.

SME product

This is an age-rated product offered to small groups (2-100) either direct or via a broker. The product features include:

- **Private Medical Insurance:** Cover is offered for a range of private healthcare-related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions.
- **Renewal discounts for employers:** Discounts are offered at renewal depending on loss ratio.
- **Cashback:** Employees may be eligible for cash bonuses depending on the amount claimed during the period and their Vitality status and depending on the PruHealth cover selected by their employer.
- **Vitality rewards:** A full Vitality package is offered, including gym offering and healthcare-related rewards.

Corporate product

This is a product offered by brokers and employee benefit consultants. The product features include:

- **Private Medical Insurance:** Cover is offered for a range of private healthcare-related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions.
- **Cashback:** Companies can select their desired level of cashback with PruHealth. If selected, employees are eligible for cash bonuses depending on the amount claimed during the period and their Vitality status.
- **Vitality rewards:** A full Vitality package is offered, including gym offering and healthcare-related rewards.

At 30 June 2014, there were 552 365 PruHealth members with an annualised premium income of GBP 382.5 million (2013: 553 388 PruHealth members with an annualised premium income of GBP 354.8 million).

2.3.2 Insurance risks

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

The key areas of risk are premium pricing, claims volatility and failing to meet target levels of business. Monthly meetings are held to review recent actual experience against that expected in the financial forecast for sales and lapse rates and all revenue items including premium income and claims incurred. The standard terms and conditions applicable to the company's products mitigate the risk of late reporting of claims. Recent claims experience is monitored against expected to ensure that PruHealth's current pricing assumptions are reasonable and formal pricing reviews are conducted by the Actuarial and Pricing department at least twice each year. On an annual basis, the financial forecast is fully reviewed taking into account both emerging actual experience and anticipated future experience. PruHealth measures profitability and solvency using a financial model of the business that projects in-force and expected new business cash flows.

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

PruHealth currently has quota share agreements in place with three reinsurers with an outstanding balance of GBP 42 million at year end.

Capital adequacy requirements and protection against adverse experience

PruHealth maintains shareholder capital to meet substantial deviations in experience.

At 30 June 2014, the statutory capital adequacy requirement was GBP 79.5 million (2013: GBP 74 million). PruHealth currently holds capital resources that are 34% (2013: 40%) in excess of the highest level of capital resources requirement.

2.3.3 IBNR calculation

PruHealth adopts two reserving methodologies. Firstly, the 'chain ladder' approach which assumes that there is stability in the delays from treatment date to payment date and therefore future payments can be estimated using historical experience. Secondly, an 'independent measure' approach applied to the most recent treatment months, which assumes that the total costs arising from each month of treatment can be estimated independent of any payments already made. The Reserving Committee considers both of these independent measures when setting the actual reserves.

The IBNR is GBP 34 million at 30 June 2014 (2013: GBP 34 million), which approximates one and a half month's worth of claims. This is the expected delay in claims reporting estimate by the two approaches discussed above.

2.4 PruProtect

2.4.1 Product description

PruProtect Life Plan

The PruProtect plan is a lifestyle protection plan which allows customers to select from a menu of benefits which includes:

- Life cover.
- Serious illness cover.
- Capital disability cover.
- Income protection insurance.
- Family income cover.
- Education cover.
- Health cover.
- Waiver of premium on death, serious illness and/or incapacity.
- Additional optional serious illness cover for children.

The PruProtect plan has at its basis a Plan Account. The Plan Account defines the amount paid out under any benefit that is attached to it (the sum assured). The benefits that are attached to the Plan Account are expressed as a percentage of the Plan Account's value.

The Plan Account can be structured to provide cover that is level, increasing or decreasing.

The PruProtect plan can be written on a single or joint life basis and cover may be stand-alone or limited to the Plan Account whereby claims would accelerate payment of the Plan Account. Premiums are payable monthly in advance and can be guaranteed or reviewable. Premiums can either be level, increase at a fixed rate or increase at a rate related to the Retail Price Index in the UK. The plan does not offer any surrender value.

The PruProtect plan provides extensive severity-based cover for serious illness.

At 30 June 2014, there were 199 901 PruProtect policies with an annualised premium income of GBP 132 million (2013: 153 671 PruProtect policies with an annualised premium income of GBP 101 million).

2. MANAGEMENT OF INSURANCE RISK continued

Vitality Optimiser

The Vitality Optimiser offers an upfront premium discount that varies in size depending on the policy term. Depending on engagement in the Vitality wellness programme, the premium discount can be increased, maintained or will be eroded over time.

2.4.2 Insurance risks

PruProtect takes a proactive approach to managing its risk. Risk management processes are employed to ensure business units identify and control the risks to which they are exposed. Discovery has a 75% interest in PruProtect, with Prudential Assurance Company Limited (PAC) holding the balance of 25%. Innovation is a strong focus of PruProtect and is driven by the combined experience of PAC and Discovery. PruProtect benefits from internal as well as the governance structures of PAC and Discovery.

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

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

Market and mismatching risk

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

Lapse risk

Policyholders have the option to discontinue or reduce contributions at any time.

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

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

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

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

The lapse risk is managed as follows:

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

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

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

- *Commission clawback*
  PruProtect predominantly distributes via independent intermediaries.

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

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

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

Underwriting experience risk

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

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

There is a risk that the emergence of a new disease or epidemic can increase the number of claims.

The risks are managed through:

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

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

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

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

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

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

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

Expenses

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

Modelling and data risk

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

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

Any changes made to the model are reviewed.

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

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

Operational/Implementation risk

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

Regulatory risk

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

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

Notes to the annual **financial statements**

for the year ended 30 June 2014 continued

2. MANAGEMENT OF INSURANCE RISK continued

Tax risk

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

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

Currency risk

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

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

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

Solvency capital requirements and protection against adverse experience

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

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

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

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

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

- Death risk.
- Expense risk.
- Market risk.
- Health risk.

The amount of capital that ultimately needs to be held by a life insurance company in the UK is the larger of the Pillar 1 and Pillar 2 results. Due to the unique nature of the relationship, PruProtect is required to provide capital to PAC equal to 1 times the Pillar 1 capital requirement.

Liquidity risk

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

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

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

Policy wording/legal risks

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

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

Reputational risk

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

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

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

Concentration risk

- *Claims experience risk*
  There is a risk that a concentration of risk can lead to worse than expected experience. PruProtect maintains a well-diversified portfolio of policies. Reinsurance is further used to protect against the concentration of risk. Reinsurance removes the exposure to large individual claims.
- *Withdrawal concentration risk*
  There is a financial risk of the withdrawal of a block of policies written by a single independent intermediary. PruProtect has a well-diversified book of business by source of new business and spread across more than 18 600 (2013: 12 000) brokers and agents. The maximum exposure of PruProtect to a single intermediary is smaller than 1% (2013: 3.5%) in annualised premium income.

3. MANAGEMENT OF FINANCIAL RISK

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

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

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

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

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

Financial risks are managed by Discovery as follows:

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

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

To assist in the analysis of the financial risks that Discovery is exposed to, the statement of financial position has been divided into the following categories:

- Unit-linked investment contracts.
- Unit-linked insurance contracts.
- Other insurance contracts.
- Shareholder financial assets and liabilities.
- Shareholder non-financial assets and liabilities.

The table on page 142 lists the contracts that Discovery offers and the category they are included in for financial risk disclosures.

Notes to the annual **financial statements**

for the year ended 30 June 2014 continued

3. MANAGEMENT OF FINANCIAL RISK continued

The following tables reconcile the Group statement of financial position to the classes of risks and the categories listed on the previous page:

R million	Total	Unit-linked investment contracts	Unit-linked insurance contracts	Insurance contracts	Shareholder: Financial assets and liabilities	Shareholder: Other assets and liabilities
30 June 2014						
Assets arising from insurance contracts	17 999	–	(5 233)	23 232	–	–
Financial instruments at fair value through profit or loss:						
Listed:						
– Equity securities	17 626	5 411	12 156	59	–	–
– Equity linked notes	2 954	515	2 439	–	–	–
– Debt securities	7 882	1 076	2 903	3 903	–	–
– Inflation linked securities	456	119	148	189	–	–
– Money market securities	355	81	269	5	–	–
Unlisted:						
– Equity securities	11	2	9	–	–	–
– Debt securities	353	3	6	344	–	–
– Money market securities	3 116	763	2 341	12	–	–
Available-for-sale financial instruments:						
Listed:						
– Equity securities	891	–	–	–	891	–
– Equity linked notes	27	–	–	–	27	–
– Debt securities	1 631	–	–	–	1 631	–
– Inflation linked securities	77	–	–	–	77	–
– Money market securities	2 888	–	–	–	2 888	–
Unlisted:						
– Debt securities	138	–	–	–	138	–
– Money market securities	1 926	–	–	–	1 926	–
Derivative financial instruments at fair value:						
– Hedges	585	–	–	–	585	–
– Non-hedges	3	–	–	–	3	–
Loans and receivables:						
– Insurance receivables	1 155	–	–	–	1 155	–
– Other	1 955	76	281	–	1 598	–
Reinsurance contracts	266	–	–	266	–	–
Cash and cash equivalents	3 650	322	598	2	2 728	–
Other assets	6 252	–	–	–	–	6 252
Total assets	72 196	8 368	15 917	28 012	13 647	6 252
Liabilities arising from insurance contracts	25 797	–	15 630	10 167	–	–
Liabilities arising from reinsurance contracts	2 247	–	–	2 247	–	–
Puttable non-controlling interests	4 494	–	–	–	4 494	–
Negative reserve funding	4 684	–	–	–	4 684	–
Borrowings at amortised cost	572	39	91	–	442	–
Investment contracts at fair value through profit or loss	8 264	8 264	–	–	–	–
Derivative financial instruments at fair value:						
– Hedges	3	–	–	–	3	–
– Non-hedges	7	–	–	–	7	–
Trade and other payables	3 752	65	196	–	3 491	–
Other liabilities	4 965	–	–	–	–	4 965
Total liabilities	54 785	8 368	15 917	12 414	13 121	4 965

In the statement of financial position, investments in unit trusts are allocated to the security in which the unit trust is predominantly invested. In the table above, the look-through basis has been applied to the unit trust balances to assist in the identification of Discovery's financial risks.

R million	Total	Unit-linked investment contracts	Unit-linked insurance contracts	Insurance contracts	Shareholder: Financial assets and liabilities	Shareholder: Other assets and liabilities
30 June 2013						
Assets arising from insurance contracts	14 398	–	(2 883)	17 281	–	–
Financial instruments at fair value through profit or loss:						
Listed:						
– Equity securities	14 251	4 568	9 646	37	–	–
– Equity linked notes	502	84	418	–	–	–
– Debt securities	4 558	400	1 224	2 934	–	–
– Inflation linked securities	219	67	48	104	–	–
– Money market securities	911	153	758	–	–	–
Unlisted:						
– Equity securities	9	3	6	–	–	–
– Debt securities	14	12	2	–	–	–
– Money market securities	2 753	857	1 703	193	–	–
Available-for-sale financial instruments:						
Listed:						
– Equity securities	939	–	–	–	939	–
– Equity linked notes	13	–	–	–	13	–
– Debt securities	510	–	–	–	510	–
– Inflation linked securities	48	–	–	–	48	–
– Money market securities	3 666	–	–	–	3 666	–
Unlisted:						
– Debt securities	135	–	–	–	135	–
– Money market securities	1 395	–	–	–	1 395	–
Derivative financial instruments at fair value:						
– Hedges	536	–	–	–	536	–
– Non-hedges	5	–	–	–	5	–
Loans and receivables:						
– Insurance receivables	893	–	–	–	893	–
– Other	1 991	227	478	2	1 284	–
Reinsurance contracts	226	–	–	226	–	–
Cash and cash equivalents	2 103	180	203	–	1 720	–
Other assets	5 024	–	–	–	–	5 024
Total assets	55 099	6 551	11 603	20 777	11 144	5 024
Liabilities arising from insurance contracts	19 075	–	9 575	9 500	–	–
Liabilities arising from reinsurance contracts	1 499	–	–	1 499	–	–
Puttable non-controlling interests	3 782	–	–	–	3 782	–
Negative reserve funding	2 813	–	–	–	2 813	–
Borrowings at amortised cost	660	82	132	1	445	–
Investment contracts at fair value through profit or loss	6 410	6 410	–	–	–	–
Derivative financial instruments at fair value:						
– Hedges	10	–	–	–	10	–
– Non-hedges	18	1	–	–	17	–
Trade and other payables	3 004	58	88	–	2 858	–
Other liabilities	4 120	–	–	–	–	4 120
Total liabilities	41 391	6 551	9 795	11 000	9 925	4 120

The financial risks associated with each category are discussed below.

Notes to the annual **financial statements**

for the year ended 30 June 2014 continued

3. MANAGEMENT OF FINANCIAL RISK continued

3.1 Unit-linked investment contracts

Unit-linked investment contracts relate to contracts where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. The market risk (including equity price, interest rate and currency risk) for these contacts is therefore borne by the policyholder. Discovery holds the assets on which the unit prices are based and as a result there is no mismatch.

	Investments held at risk of investment policyholders	
R million	**June 2014**	**June 2013**
Financial assets at fair value through profit or loss:		
Listed:		
– Equity securities	**5 411**	4 568
– Equity linked notes	**515**	84
– Debt securities	**1 076**	400
– Inflation linked securities	**119**	67
– Money market securities	**81**	153
Unlisted:		
– Equity securities	**2**	3
– Debt securities	**3**	12
– Money market securities	**763**	857
Loans and receivables	**76**	227
Cash and cash equivalents	**322**	180
Total assets	**8 368**	6 551
Total policyholder liabilities	**8 368**	6 551

3.1.1 Market risk

Discovery's primary exposure to market risk from these contracts is the volatility in asset management fees due to the impact of interest rate, equity price and currency movements on the fair value of the assets held in the linked funds, on which the investment management fees are based. A decrease of 10% in the value of the assets would reduce the asset management fees by R17 million per annum (2013: R13 million).

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

3.1.2 Credit risk

To manage the credit risk, Discovery has appointed reputable external asset managers to manage these investments.

3.1.3 Liquidity risk

Certain contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. This surrender value is equal to or less than the carrying amount of the contract liabilities. If all the contracts with this option were surrendered at the financial year-end, a loss of R199 million (2013: R165 million) would have been recorded in profit or loss. This loss results from the DAC and DRL relating to these contracts being impaired, but the impact is reduced by the surrender penalties receivable.

A maturity analysis based on the earliest contractual repayment date would present 100% (2013: 100%) of the policyholder liabilities due within one year. The assets held to match these policyholder liabilities are realisable in the short-term.

3.2 Unit-linked insurance contracts

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

	Investments held at risk of insurance policyholders	
R million	**June 2014**	**June 2013**
Assets arising from insurance contracts	**(5 233)**	(2 883)
Financial assets at fair value through profit or loss:		
Listed:		
– Equity securities	**12 156**	9 646
– Equity linked notes	**2 439**	418
– Debt securities	**2 903**	1 224
– Inflation linked securities	**148**	48
– Money market securities	**269**	758
Unlisted:		
– Equity securities	**9**	6
– Debt securities	**6**	2
– Money market securities	**2 341**	1 703
Loans and receivables	**281**	478
Cash and cash equivalents	**598**	203
Total assets	**15 917**	11 603
Total policyholder liabilities	**15 917**	9 795

3.2.1 Market risk

Discovery's primary exposure to market risk from these contracts is the volatility in asset management fees due to the impact of interest rate, equity price and currency movements on the fair value of the assets held in the linked funds, on which the investment management fees are based. A decrease of 10% in the value of the assets would reduce the asset management fees by R47 million per annum (2013: R31 million).

The assets arising from insurance contracts of R5 233 million (2013: R2 883 million) is included in the sensitivity analysis presented on page 154 in respect of assets arising from insurance contracts.

3.2.2 Credit risk

To manage the credit risk, Discovery has appointed reputable external asset managers to manage these investments.

3.2.3 Liquidity risk

A maturity analysis based on the earliest contractual repayment date would present R16 035 million (2013: R10 829 million) of the liabilities as due on the earliest period of the table (between 0 and one year) and R1 079 million (2013: R457 million) of the liabilities would be due between one and five years. The assets held to match these policyholder liabilities are very liquid.

All contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. This surrender value is equal to or less than the carrying amount of the contract liabilities. If all the contracts with this option were surrendered at the financial year-end, a loss of R1 645 million (2013: R1 336 million) would have been recorded in profit or loss. This loss results from the impairment of assets arising from insurance contracts relating to these contracts, but the impact is reduced by the surrender penalties receivable.

Notes to the annual **financial statements**

for the year ended 30 June 2014 continued

3. MANAGEMENT OF FINANCIAL RISK continued

3.3 Insurance contracts

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

R million	June 2014	June 2013
Assets arising from insurance contracts	**23 232**	17 281
Financial assets at fair value through profit or loss:		
Listed:		
– Equity securities	**59**	37
– Debt securities	**3 903**	2 934
– Inflation linked securities	**189**	104
– Money market securities	**5**	–
Unlisted:		
– Debt securities	**344**	–
– Money market securities	**12**	193
Loans and receivables	**–**	2
Reinsurance contracts	**266**	226
Cash and cash equivalents	**2**	–
Total assets	**28 012**	20 777
Total policyholder liabilities	**12 414**	11 000

3.3.1 Market risk

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

Based on guidance from SAP 104, these movements are captured in the resilience Capital Adequacy Requirement (CAR) and an amount of R36 million is included in the CAR at 30 June 2014 (2013: R74 million) to protect against potential mismatches between assets and liabilities.

3.3.2 Credit risk

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

R million	Total	AAA	AA+ AA AA-	A+ A A-	Govt	Not rated
At 30 June 2014						
Financial assets at fair value through profit or loss:						
– Debt securities	**4 247**	**150**	**848**	**206**	**3 042**	**1**
– Inflation linked securities	**189**	**–**	**–**	**–**	**189**	**–**
– Money market securities	**17**	**3**	**11**	**2**	**–**	**1**
	4 453	**153**	**859**	**208**	**3 231**	**2**
At 30 June 2013						
Financial assets at fair value through profit or loss:						
– Debt securities	2 934	101	453	5	2 375	–
– Inflation linked securities	104	–	–	–	104	–
– Money market securities	193	56	129	1	–	7
	3 231	157	582	6	2 479	7

3.3.3 Liquidity risk

The liquidity risk for assets and liabilities arising from insurance contracts are discussed in insurance risks on page 151.

The financial investments held at fair value through profit or loss are realisable in the short-term.

3.4 Shareholder financial assets and liabilities

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

R million	June 2014	June 2013
Available-for-sale financial assets:		
Listed:		
– Equity securities	**891**	939
– Equity linked notes	**27**	13
– Debt securities	**1 631**	510
– Inflation linked securities	**77**	48
– Money market securities	**2 888**	3 666
Unlisted:		
– Debt securities	**138**	135
– Money market securities	**1 926**	1 395
Derivative financial instruments at fair value:		
– Hedges	**585**	536
– Non-hedges	**3**	5
Loans and receivables	**2 753**	2 177
Cash and cash equivalents	**2 728**	1 720
Total financial assets	**13 647**	11 144
Puttable non-controlling interests	**4 494**	3 782
Negative reserve funding	**4 684**	2 813
Borrowings at amortised cost	**442**	445
Derivative financial instruments at fair value:		
– Hedges	**3**	10
– Non-hedges	**7**	17
Trade and other payables	**3 491**	2 858
Total financial liabilities	**13 121**	9 925

3.4.1 Market risk

Equity price risk

Investments

Discovery is exposed to equity price risk because of investments held by the Group and classified on the consolidated statement of financial position as available-for-sale. To manage its equity risk arising from investments in equity securities, the Group diversifies its portfolio.

For shareholder investments, a 10% increase in the equity markets would result in a profit of R69 million before tax (2013: R51 million). A 10% decrease in the equity markets would result in a loss of R54 million before tax (2013: R37 million). This impact would be recognised in the statement of comprehensive income. The sensitivity is based on the assumption that the equity markets had increased/decreased by 10% with all other variables held constant.

Hedge derivative instruments

Discovery is also exposed to equity price risk through its cash-settled share incentive schemes, namely the Phantom share scheme and the Acquisition share scheme, the details of which is described in note 33. To manage this risk, Discovery has purchased various instruments from BBB or A- rated South African banks to hedge a portion of its exposure to changes in the Discovery share price.

i) Phantom share scheme

As at 30 June 2014, approximately 90.8% (2013: 87.7%) of this exposure is hedged. The hedges were designed to be highly effective, where the terms of the hedge or return swaps substantially match that of the phantom share scheme on a per instrument basis. Combinations of return swaps and call options were designated on a unit for unit basis to substantially match the terms of the phantom share and call option units.

3. MANAGEMENT OF FINANCIAL RISK continued

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

Maturity date	Strike Price	Number of call options
2013		
30 September 2014	54.75	1 050 000
30 September 2015	54.75	1 000 000
30 September 2016	54.75	950 000
30 September 2017	54.75	900 000
2014		
30 September 2014	**54.75**	**1 050 000**
30 September 2015	**54.75**	**1 000 000**
30 September 2015	**84.76**	**575 000**
30 September 2016	**54.75**	**950 000**
30 September 2016	**84.76**	**545 000**
30 September 2017	**54.75**	**900 000**
30 September 2017	**84.76**	**515 000**
30 September 2018	**84.76**	**485 000**

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

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

Maturity date	Strike Price	Number of return swaps
2013		
30 September 2013	34.33 – 39.21	2 837 662
30 September 2014	35.08 – 79.69	2 642 678
30 September 2015	38.37 – 79.69	1 864 000
30 September 2016	39.21 – 79.69	1 160 000
30 September 2017	39.21 – 79.69	410 000
2014		
30 September 2014	**35.08 – 84.71**	**2 682 678**
30 June 2015	**84.01**	**363 000**
30 September 2015	**38.37 – 84.71**	**2 232 000**
30 June 2016	**84.01**	**363 000**
30 September 2016	**39.21 – 84.71**	**1 512 000**
30 June 2017	**84.01**	**374 000**
30 September 2017	**54.71 – 84.71**	**668 000**
30 September 2018	**84.71**	**242 000**

The fair value of the return swaps are calculated by discounting the future cash flows of the instruments.

ii) Acquisition share scheme

As at 30 June 2014, approximately 85% (2013: 87.7%) of this exposure is hedged. The hedges were designed to be highly effective, where the terms of the hedge or return swaps substantially match that of the acquisition share scheme on a per instrument basis.

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

Maturity date	Strike Price	Number of return swaps
2013		
30 June 2014	54.76 – 79.69	655 000
30 June 2015	54.76 – 84.06	695 804
30 June 2016	59.00 – 84.06	520 500
30 June 2017	59.00 – 84.06	95 000
30 June 2018	84.06	32 000
2014		
30 June 2015	**54.76 – 96.94**	**811 304**
30 June 2016	**59.00 – 96.94**	**588 500**
30 June 2017	**59.00 – 96.94**	**789 000**
30 June 2018	**84.06 – 96.94**	**81 000**
30 June 2019	**96.94**	**36 800**

At 30 June 2014, the fair value of the derivative instruments purchased to hedge the Phantom and Acquisition share schemes, is R585 million (2013: R521 million). A deposit of R168 million and R219 million (refer to note 22) was received from ABSA Bank Limited and Standard Bank of South Africa Limited respectively, to secure this receivable (2013: R132 million and R343 million respectively).

Interest rate risk

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

Notes to the annual **financial statements**

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3. MANAGEMENT OF FINANCIAL RISK continued

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

R million	Carrying amount	Fixed	Floating	Non-interest bearing
At 30 June 2014				
Available-for-sale financial assets:				
– Equity securities	**891**	**–**	**–**	**891**
– Equity linked notes	**27**	**–**	**–**	**27**
– Debt securities	**1 769**	**960**	**807**	**2**
– Inflation linked securities	**77**	**77**	**–**	**–**
– Money market securities	**4 814**	**1 318**	**3 496**	**–**
Derivative financial instruments at fair value:				
– Hedges	**585**	**342**	**–**	**243**
– Non-hedges	**3**	**2**	**1**	**–**
Loans and receivables	**2 753**	**138**	**81**	**2 534**
Cash and cash equivalents	**2 728**	**–**	**2 728**	**–**
Total financial assets	**13 647**	**2 837**	**7 113**	**3 697**
Puttable non-controlling interests	**4 494**	**–**	**4 494**	**–**
Negative reserve funding	**4 684**	**–**	**4 684**	**–**
Borrowings at amortised cost	**442**	**40**	**402**	**–**
Derivative financial instruments at fair value:				
– Hedges	**3**	**3**	**–**	**–**
– Non-hedges	**7**	**1**	**6**	**–**
Trade and other payables	**3 492**	**–**	**387**	**3 105**
Total financial liabilities	**13 122**	**44**	**9 973**	**3 105**
At 30 June 2013				
Available-for-sale financial assets:				
– Equity securities	939	–	–	939
– Equity linked notes	13	–	–	13
– Debt securities	645	212	433	–
– Inflation linked securities	48	48	–	–
– Money market securities	5 061	1 250	3 807	4
Derivative financial instruments at fair value:				
– Hedges	536	377	–	159
– Non-hedges	5	4	1	*
Loans and receivables	2 177	–	86	2 091
Cash and cash equivalents	1 720	–	1 720	–
Total financial assets	11 144	1 891	6 047	3 206
Puttable non-controlling interests	3 782	–	3 782	–
Negative reserve funding	2 813	–	2 813	–
Borrowings at amortised cost	445	42	403	–
Derivative financial instruments at fair value:				
– Hedges	10	10	–	–
– Non-hedges	17	–	10	7
Trade and other payables	2 858	–	475	2 383
Total financial liabilities	9 925	52	7 483	2 390

* *Amount is less than R500 000.*

Investments

For shareholder investments, a 1% increase in the local interest rate would result in an increase of R20 million before tax (2013: R7 million). A 1% decrease in the local interest rate would result in a decrease of R19 million before tax (2013: R7 million). The sensitivity is based on the assumption that the interest rate had increased/decreased by 1% with all other variables held constant.

Borrowings at amortised cost and hedge derivative

Discovery has long-term borrowings at a floating rate which exposes Discovery to cash flow interest rate risk. This risk has been managed by using a floating-to-fixed interest rate swap. This interest rate swap has the economic effect of converting the borrowings from floating to fixed rates. The loan is repayable on 10 September 2017.

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

	June 2014		June 2013	
R million	Nominal value	Fair value liability	Nominal value	Fair value liability
Maturity date:				
10 September 2017	**400**	**3**	400	8

Non-hedge derivative financial instruments

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

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

R million	Notional amount	Fair value asset	Fair value liability
June 2014			
Interest rate contracts:			
– fixed for floating swaps	**(157)**	**1**	**(5)**
– fixed for fixed swaps	**(1)**	*****	**–**
– floating for fixed swaps	**(83)**	**2**	**(1)**
– inflation for floating swaps	**(6)**	**-**	**(1)**
	(247)	**3**	**(7)**
June 2013			
Interest rate contracts:			
– fixed for floating swaps	(190)	1	(10)
– fixed for fixed swaps	(1)	*	–
– floating for fixed swaps	(80)	4	*
	(271)	5	(10)

* *Amount is less than R500 000.*

Puttable non-controlling interests

The puttable non-controlling interest liability is the present value of the estimated purchase price at the expected option exercise date. This exposes Discovery to interest rate risk and the movement in the applicable government bond yield curve (UK government bond curve for Prudential Health Holdings Limited and US government bond curve for The Vitality Group LLC) used to discount the liability will be taken to profit or loss.

If the interest rate had increased by 1% with all other variables held constant, the post-tax profit for the year would increase by R236 million (2013: R149 million). If the interest rate had decreased by 1% with all other variables held constant, the post-tax profit for the year would decrease by R252 million (2013: R161 million).

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3. MANAGEMENT OF FINANCIAL RISK continued

Currency risk

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

R million	Total	Rand	GBP in UK subsidiary	GBP other	USD in US subsidiary	USD other	Other currencies
At 30 June 2014							
Available-for-sale financial assets:							
Listed:							
– Equity securities	**891**	**615**	**–**	**35**	**–**	**163**	**78**
– Equity linked notes	**27**	**27**	**–**	**–**	**–**	**–**	**–**
– Debt securities	**1 631**	**1 602**	**–**	**–**	**16**	**13**	**–**
– Inflation linked securities	**77**	**77**	**–**	**–**	**–**	**–**	**–**
– Money market securities	**2 888**	**1 874**	**1 014**	**–**	**–**	**–**	**–**
Unlisted:							
– Debt securities	**138**	**138**	**–**	**–**	**–**	**–**	**–**
– Money market securities	**1 926**	**1 030**	**864**	**–**	**–**	**32**	**–**
Derivative financial instruments at fair value:							
– Hedges	**585**	**585**	**–**	**–**	**–**	**–**	**–**
– Non-hedges	**3**	**3**	**–**	**–**	**–**	**–**	**–**
Loans and receivables	**2 753**	**2 017**	**497**	**–**	**98**	**–**	**141**
Cash and cash equivalents	**2 728**	**1 454**	**906**	**–**	**163**	**166**	**39**
Total financial assets	**13 647**	**9 422**	**3 281**	**35**	**277**	**374**	**258**
Puttable non-controlling interests	**4 494**	**–**	**4 218**	**–**	**276**	**–**	**–**
Negative reserve funding	**4 684**	**–**	**4 684**	**–**	**–**	**–**	**–**
Borrowings at amortised cost	**442**	**442**	**–**	**–**	**–**	**–**	**–**
Derivative financial instruments at fair value:							
– Hedges	**3**	**3**	**–**	**–**	**–**	**–**	**–**
– Non-hedges	**7**	**7**	**–**	**–**	**–**	**–**	**–**
Trade and other payables	**3 491**	**2 488**	**894**	**–**	**104**	**–**	**5**
Total financial liabilities	**13 121**	**2 940**	**9 796**	**–**	**380**	**–**	**5**
At 30 June 2013							
Available-for-sale financial assets:							
Listed:							
– Equity securities	939	487	–	52	–	106	294
– Equity linked notes	13	13	–	–	–	–	–
– Debt securities	510	473	–	–	15	–	22
– Inflation linked securities	48	40	–	–	–	–	8
– Money market securities	3 666	1 381	2 279	–	–	4	2
Unlisted:							
– Debt securities	135	135	–	–	–	–	–
– Money market securities	1 395	1 364	–	–	–	5	26
Derivative financial instruments at fair value:							
– Hedges	536	523	–	–	–	11	2
– Non-hedges	5	5	–	–	–	–	–
Loans and receivables	2 177	1 795	307	–	56	17	2
Cash and cash equivalents	1 720	1 334	224	1	79	11	71
Total financial assets	11 144	7 550	2 810	53	150	154	427
Puttable non-controlling interests	3 782	307	3 221	–	254	–	–
Negative reserve funding	2 813	–	2 813	–	–	–	–
Borrowings at amortised cost	445	445	–	–	–	–	–
Derivative financial instruments at fair value:							
– Hedges	10	10	–	–	–	–	–
– Non-hedges	17	10	7	–	–	–	–
Trade and other payables	2 858	2 231	566	–	55	–	6
Total financial liabilities	9 925	3 003	6 607	–	309	–	6

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

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

	USD	GBP
30 June 2014	**10.63**	**18.17**
30 June 2013	10.01	15.22

Investments

Discovery has offshore assets in its investment portfolios. These offshore investments are made for the purpose of seeking international diversification. There is a risk to future earnings that the value of these assets reduces due to a strengthening in the Rand. Performance of foreign currency assets is benchmarked against the MSCI World Index.

Hedge derivative financial instruments

(i) Forward exchange contracts (FECs)

To manage its foreign exchange risk arising from future commercial transactions, Discovery enters into FECs. In the prior financial year, Discovery agreed to buy US Dollars from third party banks which were BBB- rated. The fair values of these contracts has been included in financial liabilities. Discovery entered into these agreements to hedge the foreign currency risk for expenses expected to be paid in the future. The FECs have been designated as a cash flow hedge of a forecast transaction and firm commitment. Gains and losses on the FECs are initially included in equity and once the expense is incurred the gain/loss is transferred to profit or loss.

Outstanding contracts at 30 June 2013 were:

Contract	USD	ZAR	Rate	Maturity date
1	**250 000**	**2 492 875**	**9.97**	**15/07/2013**

There are no outstanding contracts at 30 June 2014.

3. MANAGEMENT OF FINANCIAL RISK continued

(ii) Collar options

In the prior financial year, Discovery purchased collar options from BBB and BBB- rated South African banks to hedge the exposure to Chinese Yuan in future transactions with Ping An Health.

The fair value of these contracts has been included in financial assets. Gains and losses on the options are included in equity and once the expense is incurred the gain/loss is transferred to profit or loss.

Outstanding contracts at 30 June 2013 were:

Maturity date	Call or Put	USD	Strike Price	ZAR	CNY	Fair value R million
31/07/2013	Call	7 000 000	9.106	63 742 000	–	
31/07/2013	Put	7 000 000	9.106	63 742 000	–	7
31/07/2013	Call	5 000 000	9.102	45 510 000	–	
31/07/2013	Put	5 000 000	9.102	45 510 000	–	4
31/07/2013	Call	11 494 253	6.264	–	72 000 000	
31/07/2013	Put	11 494 253	6.264	–	72 000 000	2
31/07/2013	Call	324 823	6.1572	–	2 000 000	
31/07/2013	Put	324 823	6.1572	–	2 000 000	*
31/07/2013	Call	324 670	6.1601	–	2 000 000	
31/07/2013	Put	324 670	6.1601	–	2 000 000	*
31/07/2013	Call	486 208	6.1702	–	3 000 000	
31/07/2013	Put	486 208	6.1702	–	3 000 000	*

* *Amount is less than R20 000.*

There are no outstanding contracts at 30 June 2014.

Non-hedge derivative financial instruments

(i) Zero cost collar

In the prior financial year, PruHealth invested in fixed term deposits with a BBB rated bank, which included a zero cost collar arrangement with a cap of 13.70 ZAR:GBP and a collar of 12.75 ZAR:GBP. The deposits are held in GBP until maturity, at which point they:

- Mature in ZAR at a rate of 13.70 if the spot rate at maturity is 13.70 or higher.
- Mature in ZAR at a rate of 12.75 if the spot rate at maturity is 12.75 or lower.
- Mature, at the choice of PruHealth, in either GBP or ZAR at the spot rate if that spot rate at maturity is higher than 12.75 but lower than 13.70.

The investment structure provides access to the rates of return offered in South Africa, but on a GBP denominated fixed term deposit, and at the same time reduces the PruHealth exposure to changes in foreign currency for ZAR denominated recharges from Discovery group entities.

The contracts tabled below, matured during the current financial year, and there are no outstanding contracts at 30 June 2014.

Contract	Cap	Collar	GBP	Maturity date
1	13.70 ZAR:GBP	12.75 ZAR:GBP	166 809	23/07/2013
2	13.70 ZAR:GBP	12.75 ZAR:GBP	166 809	23/08/2013
3	13.70 ZAR:GBP	12.75 ZAR:GBP	166 809	23/09/2013

3.4.2 Credit risk

Key areas where Discovery is exposed to credit risk are:

- **Financial investments comprising money market and debt instruments entered to invest surplus shareholder funds** – Discovery is exposed to the issuer's credit standing on these instruments which is monitored by the CCIC by setting a minimum credit rating. Regulations in the various jurisdictions in which Discovery operates have the effect of limiting exposure to individual issuers due to the inadmissibility of assets if specified limits are breached. Discovery has appointed reputable asset managers to manage these instruments. Information regarding the aggregated credit risk exposure for debt and money market instruments categorised by credit ratings is provided below.
- **Cash and cash equivalents** – This risk is managed by monitoring exposure to external financial institutions against approved limits per institution. Credit ratings are provided below.
- **Certain accounts within the statement of financial position category of loans and receivables** – The management of this risk is discussed in detail on page 176.
- **Reinsurance assets comprising receivables raised for expected recoveries on projected claims (Discovery's liability as primary insurer is not discharged) and amounts due from reinsurers in respect of claims already paid** – This risk is limited as risk premiums are paid monthly to reinsurers and claims can be offset against risk premiums. Further, it is expected that there will be little build-up of actuarial liability on the reinsurers' side. The risk thus mainly arises following a period of higher than expected claims. Credit ratings of reinsurers are taken into account in reinsurance placement decisions. Credit exposure to reinsurers is also limited through the use of several reinsurers. Reinsurance is placed with reputable international companies directly or through their national offices. The reinsurance companies used by Discovery are rated A or higher by A.M. Best.
- **On some investment products Discovery issues a guaranteed policy to the policyholder and the asset is guaranteed by a third party** – There is thus a risk to Discovery in the event of the third party defaulting. Credit risk is reduced by the choice and spread of third party providers.

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

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

R million	Total	AAA	AA+ AA AA-	A+ A A-	BBB BBB+	Govt	Not rated
At 30 June 2014							
Available-for-sale financial assets:							
– Debt securities	1 769	124	718	301	31	593	2
– Inflation linked securities	77	1	1	5	–	70	–
– Money market securities	4 814	1 231	2 263	927	380	–	13
Cash and cash equivalents	2 728	169	721	351	1 486	–	1
	9 388	1 525	3 703	1 584	1 897	663	16
At 30 June 2013							
Available-for-sale financial assets:							
– Debt securities	645	68	303	143	1	130	–
– Inflation linked securities	48	–	33	1	–	14	–
– Money market securities	5 061	1 109	1 451	1 034	1 467	–	–
Cash and cash equivalents	1 720	80	67	311	1 240	–	22
	7 474	1 257	1 854	1 489	2 708	144	22

3. MANAGEMENT OF FINANCIAL RISK continued

Credit risk relating to loans and receivables

Discovery's shareholders loans and receivables including insurance receivables at 30 June comprise:

R million	Ref	2014	2013
Insurance receivables:			
Premium debtors	i	**173**	176
Less provision for impairment of premium debtors		**(36)**	(23)
Reinsurance debtors (refer to page 175)		**1 018**	740
Other receivables:			
AIA Vitality Company Limited	ii	**151**	18
Agents and brokers	iii	**186**	182
Cash-in-transit debtor		**92**	6
Closed scheme debtors	iv	**40**	34
Digicore loan receivable		**–**	35
Discovery Health Medical Scheme	iv	**478**	415
Discovery Unit Trust debtors		**1**	6
FNB joint venture receivable		**34**	45
Humana		**29**	64
Loans to BEE initiatives		**69**	51
Prepayments		**266**	213
PruProtect working capital funding		**–**	41
Purchased receivables		**18**	33
Road accident fund claims		**–**	11
Value-added tax		**8**	6
Vitality partner debtors		**11**	16
Other debtors		**352**	219
Less provision for impairment of other loans and receivables		**(137)**	(111)
		2 753	2 177

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

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

ii. Included in the balance due from AIA Vitality Company Limited (AIAV), is a loan of SGD 3.7 million (R32 million), granted to AIA Vitality (Singapore) Pte Limited (AIAVS), the wholly-owned subsidiary of AIAV. Discovery has received a guarantee from AIAV as support for the repayment of the loan obligation.

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

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

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

R million	Gross 2014	Impairment 2014	Gross 2013	Impairment 2013
Not past due	**2 636**	**(17)**	2 056	(23)
30 days	**74**	**(9)**	78	(7)
60 days	**32**	**(6)**	24	(6)
90 days	**20**	**(5)**	7	(3)
120 days	**15**	**(1)**	3	(3)
150 days	**13**	**(3)**	6	(5)
>150 days	**136**	**(132)**	137	(87)
Total	**2 926**	**(173)**	2 311	(134)

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

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

R million	2014	2013
Balance beginning of year	**134**	170
Increase in provision	**45**	5
Amounts utilised during the period	**(6)**	(41)
Balance at 30 June	**173**	134

3.4.3 Liquidity risk

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

Cash held by the operating entities is managed by Group treasury. Group treasury invests it in interest-bearing accounts, time deposits and money market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. At the reporting date, the shareholders held money market funds and cash and cash equivalents of R7 542 million (2013: R6 781 million) and other liquid assets of R3 015 million (2013: R2 964 million).

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

R million	Ref	Total	< 1 year	1 – 5 years	5 – 10 years	>10 years	Open ended
At 30 June 2014							
Puttable non-controlling interests	**i, ii**	**5 769**	**–**	**–**	**5 769**	**–**	**–**
Negative reserve funding	**iii**	**4 684**	**–**	**44**	**204**	**4 436**	**–**
Borrowings net of interest rate swap	**i**	**559**	**59**	**500**	**–**	**–**	**–**
Derivative financial instruments at fair value:							
– Non-hedges		**7**	**2**	**5**	**–**	**–**	**–**
Trade and other payables		**3 491**	**2 666**	**650**	**2**	**–**	**173**
Total		**14 510**	**2 727**	**1 199**	**5 975**	**4 436**	**173**
At 30 June 2013							
Puttable non-controlling interests	i, ii	4 900	307	–	4 593	–	–
Negative reserve funding	iii	2 813	276	–	2 537	–	–
Borrowings net of interest rate swap	i	624	60	564	–	–	–
Derivative financial instruments at fair value:							
– Non-hedges		18	–	6	7	5	–
Trade and other payables		2 858	2 180	671	–	–	7
Total		11 213	2 823	1 241	7 137	5	7

i. These amounts do not agree to the statement of financial position as these are the undiscounted contractual payments.

ii. Refer to note 4.4 for the contractual worst case scenarios.

iii. The negative reserve funding liability represents the acquisition costs that are funded by the Prudential Assurance Company on behalf of PruProtect. 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, PruProtect would be required to repay these liabilities from other resources.

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3. MANAGEMENT OF FINANCIAL RISK continued

3.5 Capital risk management

Capital adequacy risk is the risk that there are insufficient capital reserves to cover capital requirements. The Group aims to maintain a capital balance that is sufficient to meet its current and projected future obligations and strategic capital requirements.

The Group's objectives when managing capital are:

- To comply with the statutory capital requirements required by the regulators of the insurance markets where the Group operates.
- To maintain a capital buffer in excess of the statutory capital requirements in order to reduce the risk of breaching the statutory requirement in the event of deviations from the main assumptions affecting the Group's insurance businesses.
- To ensure that sufficient capital is available to fund the Group's working capital and strategic capital requirements.

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

Management regard share capital, share premium, perpetual preference shares, retained earnings and other reserves as capital when managing capital.

The table below summarises the minimum required capital across the Group subsidiaries and the actual solvency capital held for each of them at 30 June:

			Actual solvency	
Insurance operations	**Jurisdiction**	**Statutory solvency requirement**	**2014**	**2013**
Discovery Life	South Africa	1 x Statutory Capital Adequacy Requirement (CAR)	**375%**	400%
Discovery Life Investment Services	South Africa	13/52 x annualised operational expenses	**146%**	229%
Discovery Life Collective Investments (DLCI)	South Africa	13/52 x annualised operational expenses plus a portion of risk capital on investments held by DLCI	**269%**	367%
Discovery Insure	South Africa	1 x Statutory Capital Adequacy Requirement (CAR)	**264%**	216%
Prudential Health Limited	United Kingdom	Capital determined under the Individual Capital Adequacy Standards (ICAS) framework	**128%**	142%
Prudential Health Insurance Limited	United Kingdom	Capital determined under the Individual Capital Adequacy Standards (ICAS) framework	**142%**	142%

3.6 Fair value estimation

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

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

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

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

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

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

R million	Level 1	Level 2	Level 3	Total
30 June 2014				
Financial assets				
Financial instruments at fair value through profit or loss:				
– Equity securities	**18 937**	**6**	**–**	**18 943**
– Equity linked notes	**–**	**1 642**	**–**	**1 642**
– Debt securities	**7 551**	**931**	**–**	**8 482**
– Inflation linked securities	**412**	**–**	**–**	**412**
– Money market securities	**2 291**	**983**	**–**	**3 274**
Available-for-sale financial instruments:				
– Equity securities	**887**	**–**	**–**	**887**
– Equity linked notes	**–**	**30**	**–**	**30**
– Debt securities	**1 834**	**2**	**–**	**1 836**
– Inflation linked securities	**71**	**–**	**–**	**71**
– Money market securities	**4 748**	**6**	**–**	**4 754**
Derivative financial instruments at fair value:				
– Hedges	**–**	**585**	**–**	**585**
– Non-hedges	**–**	**3**	**–**	**3**
	36 731	**4 188**	**–**	**40 919**
Financial liabilities				
Puttable non-controlling interests (Refer to note 4.4 and note 18)	**–**	**–**	**4 494**	**4 494**
Negative reserve funding	**–**	**4 684**	**–**	**4 684**
Borrowings at amortised cost	**–**	**572**	**–**	**572**
Derivative financial instruments at fair value:				
– Hedges	**–**	**3**	**–**	**3**
– Non-hedges	**–**	**7**	**–**	**7**
	–	**5 266**	**4 494**	**9 760**
30 June 2013				
Financial assets				
Financial instruments at fair value through profit or loss:				
– Equity securities	8 815	5 184	–	13 999
– Equity linked notes	–	1 267	–	1 267
– Debt securities	3 652	1 157	–	4 809
– Inflation linked securities	196	–	–	196
– Money market securities	149	2 797	–	2 946
Available-for-sale financial instruments:				
– Equity securities	724	228	–	952
– Equity linked notes	–	14	–	14
– Debt securities	33	511	–	544
– Inflation linked securities	7	5	–	12
– Money market securities	2 630	2 554	–	5 184
Derivative financial instruments at fair value:				
– Hedges	–	536	–	536
– Non-hedges	–	5	–	5
	16 206	14 258	–	30 464

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for the year ended 30 June 2014 continued

3. MANAGEMENT OF FINANCIAL RISK continued

R million	Level 1	Level 2	Level 3	Total
30 June 2013				
Financial liabilities				
Puttable non-controlling interests (Refer to note 4.4 and note 18)	–	–	3 782	3 782
Negative reserve funding	–	2 813	–	2 813
Borrowings at amortised cost	–	660	–	660
Derivative financial instruments at fair value:				
– Hedges	–	10	–	10
– Non-hedges	–	18	–	18
	–	3 501	3 782	7 283

In the current year, investments in unit trusts have been assessed as level 1, as the fair value derives from observable market data and are traded in an active market.

3.7 Offsetting financial assets and financial liabilities

Financial assets

The following financial assets are subject to offsetting:

R million	Gross financial assets	Gross offsetting financial liabilities	Net amount presented
30 June 2014			
Cash and cash equivalents	**3 720**	**(70)**	**3 650**
30 June 2013			
Cash and cash equivalents	2 143	(40)	2 103

Financial liabilities

The following financial liabilities are subject to offsetting:

R million	Gross financial liabilities	Gross offsetting financial assets	Net amount presented
30 June 2014			
Trade and other payables	**3 833**	**(81)**	**3 752**
30 June 2013			
Trade and other payables	3 018	(14)	3 004

Cash collateral

To reduce the credit risk exposure from the hedge derivative instruments purchased (refer to note 3.4.1), Discovery has entered into collateral agreements with the relevant financial institutions to post cash collateral periodically, equal to the fair value of the derivatives. A total of R387 million cash collateral is being held by Discovery at 30 June 2014 (2013: R475 million).

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

4.1 Consolidation of entities in which the Group holds less than 50%

Discovery has analysed its relationship with the Discovery Unit Trusts and has determined that it has significant power to direct the relevant activities of the funds, has sufficient exposure to the variable returns of the funds and the ability to use its power over the investee to affect its returns. Based on this analysis Discovery has concluded that it has control of the Discovery Unit Trusts even if the economic interest is less than 50% and is therefore required to consolidate these funds.

Of the 19 Discovery Unit Trusts consolidated at 30 June 2014 (June 2013: 19 funds), Discovery holds less than a 50% economic interest in three of these funds (June 2013: three funds).

4.2 Goodwill and goodwill impairment

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

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

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

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

Recoverable amount of goodwill at 30 June 2014

Discovery tests each cash-generating unit (CGU) containing goodwill for impairment on an annual basis. An impairment loss is recognised whenever the carrying amount of a CGU exceeds its recoverable amount. The recoverable amount of each CGU is estimated as the present value of future cash flows that are expected to be derived from the asset i.e. its value-in-use. The value-in-use is calculated as the present value of the best estimate pre-tax cash flows for each CGU over a 10 year projection period plus a terminal value calculated using a 2% per annum terminal growth rate assumption.

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

4.3 Equity linked notes

Discovery Life has invested in equity linked notes offered by international banks in order to back certain unit-linked contract liabilities. The calculation of the daily value of the equity linked investments is made by the provider of the note. Discovery Life does, however, have procedures in place to ensure that these prices are correct. Aside from the daily reasonableness checks versus similar funds and movement since the prior day's price, the fund values are calculated with reference to a specific formula or index, disclosed to the policyholders, which is recalculated by Discovery Life in order to check if the price provided by the provider is correct.

4.4 Puttable non-controlling interest liability

During the 2011 financial year, put options were granted to the non-controlling interests of three of Discovery's subsidiaries. The put options entitle the non-controlling interest to sell its interest in the subsidiary to Discovery at contracted dates.

The following put options were issued:

- PAC has the option to sell its 25% shareholding in Prudential Health Holdings Limited to Discovery, between 1 March 2015 and 30 April 2015 or after each succeeding one year period thereafter, at the fair market value.
- Humana has the option to sell its 25% shareholding in The Vitality Group LLC to Discovery, seven years after acquisition or after each succeeding two year period, at the fair market value less a 15% discount.
- The Discovery Insure preference shareholders had the option to sell its 25% shareholding in Discovery Insure to Discovery, four, five or seven years after acquisition, at the fair market value.

In accordance with IAS32, Discovery has consolidated 100% of the subsidiaries results and has 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 raising this liability, the non-controlling interest is derecognised and the excess of the liability is debited to retained earnings in the statement of changes in equity.

Interest is recorded in respect of this liability within finance costs using the effective interest rate method. The estimated purchase price is reconsidered at each reporting date and any changes in the value of the liability as a result of changes in the assumptions used to estimate the future purchase price will be recorded in profit or loss.

The puttable non-controlling interest liability is calculated as the present value of the non-controlling interests' share of the expected redemption value, discounted from the expected option exercise date to the reporting date. There are therefore two steps to the put option liability valuation process:

- Estimation of the expected redemption value at the expected option exercise date.
- Discounting the expected redemption value to the reporting date using a discount rate equal to an appropriate cost of debt.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES continued

Estimating the expected redemption value

Prudential Health Holdings Limited (PHHL)

Prudential has the option to sell its 25% shareholding in PHHL to Discovery between 1 March 2015 and 30 April 2015 or after each succeeding one year period thereafter, at the fair market value. For valuation purposes, it is assumed that the option will be exercised in 2020, when the current contractual rights and obligations will be renegotiated with PAC.

The contractual agreement specifies that the redemption value will be calculated as follows:

- The redemption value for PruHealth will be calculated as the projected tangible net asset value plus a value per life insured multiplied by the number of lives insured, at the valuation date.
- The redemption value for PruProtect will be calculated as the projected value of in-force business at the valuation date plus the value of 3 years' new business.

If the option is exercised at the earliest date, management's best estimate is that the value would be approximately half of the carrying value at 30 June 2014.

The Vitality Group LLC

Humana has the option to sell its 25% shareholding in TVG to Discovery, seven years after acquisition or after each succeeding two year period, at the fair market value less a 15% discount. For valuation purposes, it is assumed that the option will be exercised in 2020.

The fair market value is calculated as the projected tangible net asset value at the valuation date plus the present value of the projected future cash flows discounted to the valuation date.

If the option is exercised at the earliest date, management's best estimate is that the value would be approximately a third of the carrying value at 30 June 2014.

Discovery Insure

In August 2013, subject to regulatory approval, Discovery Insure's preference shareholders agreed to sell their 25% shareholding in Discovery Insure Limited to Discovery Limited for R352 million. This approval was received in December 2013 and the transaction was settled.

Calculating the discount rate

The discount rate is calculated as the cost of debt using an appropriate risk free interest rate plus the Discovery credit spread.

The risk free interest rate is derived from the applicable government bond yield curve (UK government bond curve for PruHealth and PruProtect and US government bond curve for The Vitality Group LLC) based on the number of years between the reporting date and the expected option exercise date.

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

The insurance policies issued by Discovery Life are valued using various methodologies and assumptions. The methodology is described in accounting policy 13.1. The assumptions used are best estimate assumptions, with the addition of explicit compulsory margins required by SAP 104 of the Actuarial Society of South Africa and the discretionary margins described on page 124 of the accounting policies. The process used to decide on best estimate assumptions is described below:

Experience investigations

Experience investigations into lapse, mortality, morbidity, expenses and other key accounting estimates are performed at every valuation date.

The data for the months since the previous valuation date forms the basis of each investigation. The experience of prior periods is also considered to establish trends and add credibility to the results.

The most recent experience investigations were performed at 30 June 2014.

Mortality and morbidity

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

The assumptions are modified for each policy based on actual data available from underwriting performed on the policy.

The assumptions are compared against standard industry tables for reasonability. The key mortality and morbidity assumptions are reviewed and benchmarked against the industry by independent actuarial consultants to ensure that the assumptions are reasonable, upon implementation of significant new products.

An adjustment is made to the standard mortality and morbidity assumptions to reflect the expected impact of engagement in the Vitality programme.

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

Surrender and lapse rates

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

Lapse assumptions are varied between different types of policies where the lapse experience is expected to differ significantly. Allowance is made for the estimated impact of the economic environment. An adjustment is made to the lapse assumptions to reflect the expected impact of engagement in the Vitality programme.

Taxation

Future tax is allowed for according to the current tax legislation and current tax rates.

The current and expected future tax position of each policyholder's tax fund is taken into account in setting the tax assumption.

The individual policyholders' fund (IPF) is currently in an excess expense (XE) position and hence no tax is payable on the interest earned on policyholders' funds within the IPF. Consequently, no allowance is made for tax relief on expenses within the IPF.

Current forecasts are that the IPF will remain in an XE position. No deferred tax is raised for the XE position. Tax relief on expenses is allowed for in PruProtect, for policies sold prior to January 2013.

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

It is assumed that future tax on statutory profits will be payable at the prevailing company tax rate of 28% (2013: 28%) in South Africa. The prevailing tax rate in the UK is 23% (2013: 23%).

Economic assumptions/Investment returns

The discount rate is set equal to the estimate of the risk free investment return rate. The risk free rate is calculated with reference to the risk free yield curve. A single risk free rate is then derived appropriate to the weighted duration of the cash flows and rounded to the nearest quarter of a percent. The risk free rate at 30 June 2014 was set at 9.25% p.a. (2013: 8.5% p.a.).

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

Cash:	Risk free -1.5%
Fixed interest:	Risk free
Equity:	Risk free +3.5%
Consumer price inflation:	Risk free -4%

For PruProtect, the risk free rate is set in line with the market observed investment return of fixed interest assets of appropriate term and nature, less a margin to protect against adverse experience. The best estimate inflation assumption is set in line with long-term UK inflation expectations and observed real yields consistent with the term of the liabilities.

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

Notes to the annual **financial statements**

for the year ended 30 June 2014 continued

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES continued

Expense assumptions

Renewal expense assumptions are based on the results of the latest expense and budget information.

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

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

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

HIV/AIDS

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

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

Reinsurance

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

The Global Linkage Benefit is fully reinsured. The cost of the future reinsurance is dependent on the cost at which the reinsurer can hedge the liabilities under this benefit. Assumptions are made around the cost at which the reinsurer can hedge the benefits, based on current and historic costs of the hedging structures.

Automatic premium increases

Automatic premium increases could include both contractual and voluntary increases. No allowance is made for voluntary premium increases when calculating liabilities under insurance contracts in Discovery Life. Contractual premium increases are defined as increases that cannot be cancelled by the policyholder without altering the terms of the benefits provided under the policy. Contractual increases are included in the calculation of policyholder liabilities.

Policy alterations

In the calculation of policyholder liabilities, no allowance is made for policy alterations over time in accordance with actuarial guidance.

Changes in assumptions

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

Modelling and assumptions changes were made to the valuation at 30 June 2014 to ensure that assumptions are in line with the best estimate of future experience. The total effect of these changes was a decrease in the liabilities on the Financial Soundness Valuation basis of R231 million (2013: R107 million increase).

In addition to this, the discretionary margins were reset to reflect the underlying profitability of the overall portfolio. The reset of margins increased the liabilities on the Financial Soundness Valuation basis by R374 million (2013: R422 million decrease). See note 5 for an analysis of these changes.

Sensitivities

The sensitivity of the policyholder liabilities on the Financial Soundness Valuation basis is set out on pages 154 and 155.

5. ASSETS ARISING FROM INSURANCE CONTRACTS

R million	Group 2014	Group 2013
Long-term insurance contracts – gross	**17 999**	14 398
Less: ceded to reinsurers (refer to note 17)	**(1 672)**	(864)
Long-term insurance contracts – net	**16 327**	13 534
Current	**2 764**	2 342
Non-current	**18 796**	14 629
Variable[1]	**(5 233)**	(3 437)
	16 327	13 534
Movement in assets arising from insurance contracts		
Balance at beginning of the year	**13 534**	10 838
Movement for the year:		
Expected movement in policyholder liabilities	**(3 846)**	(2 686)
Unwinding of discount rate	**1 255**	1 039
New business written	**3 693**	3 051
Experience variances	**1 038**	522
Economic	**148**	83
Operational	**890**	439
Modelling and method changes	**759**	94
Benefit enhancements	**9**	–
Changes in assumptions	**(528)**	(201)
Economic	**(575)**	168
Operational	**47**	(369)
Changes in margins[2]	**(374)**	422
Exchange rate difference	**787**	455
Balance at end of the year	**16 327**	13 534

(1) The variable portion relates to unit-linked policyholder liabilities of the Discovery Retirement Optimiser product which is attached to a Life Plan. The maturity of this liability is dependent of policyholder behaviour.

(2) In line with accounting policy 13.1, the best estimate assumptions and margins are reset at every valuation date to reflect the underlying profitability of the overall portfolio. Assumptions and margins are not set on new business in isolation but on a portfolio level.

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6. PROPERTY AND EQUIPMENT

R million	Furniture, fittings and equipment	Computer equipment and operating systems	Leasehold improve-ments	Motor vehicles	Telematics devices	Total
Year ended 30 June 2013						
Opening carrying amount	69	68	109	5	–	251
Exchange differences	1	26	3	*	–	30
Purchase of businesses	2	–	–	–	–	2
Additions	21	308	22	4	–	355
Disposals						
– Cost	(2)	*	–	(1)	–	(3)
– Accumulated depreciation	2	*	–	1	–	3
Depreciation charge	(25)	(44)	(33)	(3)	–	(105)
Closing carrying amount	68	358	101	6	–	533
At 30 June 2013						
Cost	258	511	221	21	–	1 011
Accumulated depreciation	(190)	(153)	(120)	(15)	–	(478)
Carrying amount	68	358	101	6	–	533
Year ended 30 June 2014						
Opening carrying amount	**68**	**358**	**101**	**6**	–	**533**
Exchange differences	**2**	**51**	**3**	–	–	**56**
Additions	**20**	**65**	**49**	**8**	**82**	**224**
Impairment						
– Cost	–	–	–	–	(5)	(5)
– Accumulated depreciation	–	–	–	–	*	*
Depreciation charge	**(24)**	**(70)**	**(34)**	**(4)**	**(10)**	**(142)**
Closing carrying amount	**66**	**404**	**119**	**10**	**67**	**666**
At 30 June 2014						
Cost	**237**	**636**	**278**	**28**	**77**	**1 256**
Accumulated depreciation	**(171)**	**(232)**	**(159)**	**(18)**	**(10)**	**(590)**
Carrying amount	**66**	**404**	**119**	**10**	**67**	**666**

** Amount is less than R500 000.*

7. INTANGIBLE ASSETS INCLUDING DEFERRED ACQUISITION COSTS

		Deferred acquisition costs		Business acquisitions[2]			
R million	Software	Investment management contracts	Insurance contracts[1]	Customer contracts[3]	Prudential brand	Renewal commission	Total
Year ended 30 June 2013							
Opening carrying amount	180	235	174	846	173	–	1 608
Foreign currency adjustment on translation	4	–	36	144	31	–	215
Additions	224	117	310	–	–	–	651
Purchase of businesses	–	–	–	–	–	1	1
Amortisation charge	(125)	–	–	(157)	(20)	–	(302)
Disposal	(43)	–	–	–	–	–	(43)
Deferred acquisition costs amortised	–	(36)	(266)	–	–	–	(302)
Closing carrying amount	240	316	254	833	184	1	1 828
At 30 June 2013							
Cost	760	316	254	1 283	239	1	2 853
Accumulated amortisation	(520)	–	–	(450)	(55)	–	(1 025)
Carrying amount	240	316	254	833	184	1	1 828
Year ended 30 June 2014							
Opening carrying amount	**240**	**316**	**254**	**833**	**184**	**1**	**1 828**
Foreign currency adjustment on translation	**23**	–	**50**	**152**	**34**	–	**259**
Additions	**539**	**104**	**582**	–	–	–	**1 225**
Amortisation charge	**(149)**	–	–	**(150)**	**(26)**	**(1)**	**(326)**
Disposal							
– cost	**(33)**	–	–	–	–	–	**(33)**
– accumulated amortisation	**6**	–	–	–	–	–	**6**
Impairment							
– cost	**(7)**	–	–	–	–	–	**(7)**
– accumulated amortisation	**4**	–	–	–	–	–	**4**
Deferred acquisition costs amortised	–	**(49)**	**(563)**	–	–	–	**(612)**
Closing carrying amount	**623**	**371**	**323**	**835**	**192**	–	**2 344**
At 30 June 2014							
Cost	**1 286**	**371**	**323**	**1 531**	**285**	**1**	**3 797**
Accumulated amortisation	**(663)**	–	–	**(696)**	**(93)**	**(1)**	**(1 453)**
Carrying amount	**623**	**371**	**323**	**835**	**192**	–	**2 344**

(1) This intangible asset relates to health insurance contracts only.
(2) Intangibles identified in the acquisition of business combinations are amortised over their remaining useful lives and tested for impairment at each reporting date. There was no indication of impairment for the current reporting period.
(3) Customer contracts represents the value of in-force business acquired in the Standard Life Healthcare business combination.

Notes to the annual **financial statements**

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8. BUSINESS COMBINATIONS

8.1 KYS Paid Limited

On 30 April 2014, Prudential Health Holdings Limited (PHHL), acquired 100% of the share capital of KYS Paid Limited (KYS) for GBP 1.2 million.

KYS operates under an exclusive arrangement with PruHealth to generate leads and set appointments for prospective SME customers for the PruHealth Direct Sales Force.

The following benefits are expected to result from the acquisition of this entity:

- Ownership of the leads database.
- Reduction in overhead expenses.
- 28.5% of commission paid by PruHealth is currently being paid to KYS, which will now be paid to a PruHealth group company.
- Opportunity to increase the leads conversion rate by using the PruHealth internal teams.

Discovery has allocated the purchase price as follows:

	GBP	R million#
Tangible net asset value:		
– Property and equipment	194 118	3
– Trade and other receivables	1 448	*
– Cash and cash equivalents	55 931	1
Liabilities assumed:		
– Trade and other payables	(117 481)	(2)
– Deferred income tax	(7 824)	*
– Current income tax liability	(69 331)	(1)
	56 861	1
Intangible assets:		
– Goodwill	1 137 807	21
Deemed consideration paid	1 194 668	22

 # Translated at closing rate at 30 June 2014, which is the rate they are included in the statement of financial position.
** Amount is less than R500 000.*

Goodwill, which represents the future new business expected to be written by PruHealth, is not amortised, but is assessed for possible impairment at each reporting date and the impairment is recorded in profit or loss, if necessary.

Post-acquisition revenue and profit or loss of acquired entity

The table below discloses the post-acquisition revenue and profit or loss that has been included in the Group's income statement at 30 June 2014:

R million	2014
Revenue	–
Loss for the period	(1)

Revenue and profit or loss of acquired entity from 1 July 2013

The table below discloses the revenue and profit or loss that would have been included in the Group's income statement at 30 June 2014, if the acquisition date was 1 July 2013:

R million	2014
Revenue	4
Loss for the period	(2)

8. BUSINESS COMBINATIONS continued

8.2 Insure Your Health Limited

On 25 March 2013, PHHL established a wholly-owned subsidiary named Insure Your Health Limited, and acquired 100% of the share capital for GBP 1.9 million.

The activities of this company comprise:

- Sales of Private Medical Insurance (PMI) products for a small panel of providers for individual PMI products.
- Sales of PMI products for PruHealth for SME products on an exclusive basis.
- Sales of individual protection products for a small panel of providers.

To set-up the business, Insure Your Health acquired the assets of the three businesses namely, Insured Health Limited, Insured Limited and Employed Health Limited. The 'assets' include:

- Plant and equipment.
- Leasehold property.
- Commission debts.
- Business information.
- Each other asset which is used in connection with the business.
- Each right that the business has against another person which relates to the business.

The initial purchase price is
(1) GBP 1.9 million plus,
(2) An amount equal to the estimated commission debtors, plus
(3) An amount in advance relating to the future renewal commission stream.
Both (2) and (3) are subject to a 13-month true-up process.

Discovery has allocated the purchase price as follows:

	GBP	R million*
Tangible net asset value:		
– Property and equipment	142 367	2
– Commission debtors	325 402	5
– Prepayments	50 888	1
Intangible assets:		
– Future renewal commission stream	100 000	2
Goodwill	2 002 259	30
Deemed consideration paid	2 620 916	40

** Translated at closing rate at 30 June 2013.*

The intangible asset identified in the table above was included in the statement of financial position of the Group and was amortised over 12-months from date of purchase.

Goodwill, which represents the future new business expected to be written by PruHealth, is not amortised, but is assessed for possible impairment at each reporting date and the impairment is recorded in profit or loss, if necessary.

Post-acquisition revenue and profit or loss of acquired businesses

The table below discloses the post-acquisition revenue and profit or loss that has been included in the Group's income statement at 30 June 2013:

R million	2013
Revenue	14
Loss for the period	(3)

Notes to the annual **financial statements**

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8. BUSINESS COMBINATIONS continued

8.3 Goodwill recognised through business combinations

Goodwill, which represents the value of future business expected to be written, is not amortised, but is assessed for possible impairment at each reporting date. The impairment is recorded in profit or loss, if necessary. At 30 June 2014 there was no indication that goodwill is impaired.

Reconciliation of goodwill	Date of acquisition	GBP million	R million
Balance at 1 July 2012			
Goodwill recognised from the following business combinations and allocated to the PruHealth CGU:			
– PruHealth Holdings Limited	31 July 2010	86.9	942
– Standard Life Healthcare	31 July 2010	33.2	360
– Insure Your Health	25 March 2013	2.0	30
Net exchange differences from purchase date to 30 June 2013			527
Balance at 30 June 2013		122.1	1 859
Goodwill recognised from the following business combinations and allocated to the PruHealth CGU:			
– KYS Paid Limited	30 April 2014	**1.1**	**21**
Net exchange differences arising during the year			**359**
Balance at 30 June 2014		**123.2**	**2 239**

9. EQUITY-ACCOUNTED INVESTEES

9.1 Investment in associates

Set out below are the associates of the Group at 30 June:

	Place of business and country of incorporation	% of interest	
		2014	2013
Ping An Health Insurance Company of China, Limited	China	**25%**	20%
HumanaVitality LLC	USA	**25%**	25%
Healthcode Limited	UK	**20%**	20%

Ping An Health

Ping An Health offers policyholders in China cover for a range of private healthcare-related claims. In October 2013, Discovery Limited purchased a further 5% in Ping An Health for RMB 82.2 million, resulting in a 25% holding.

HumanaVitality

HumanaVitality offers the Vitality programme in the US on a stand-alone basis by wrapping it around other health plans and employer groups.

Upon formation of HumanaVitality LLC, TVG contributed a perpetual royalty-free license to the Vitality IT systems, the Vitality name and associated marks and a perpetual, royalty-free license to the Vitality intellectual property, exclusively for use in the United States, for its 25% shareholding. This contribution was valued at USD 12.5 million and disclosed as an investment in associate in the statement of financial position. HumanaVitality recognised an intangible asset, being intellectual property, for the same value which is amortised to profit or loss on a straight-line basis over a 3-year period. The amortisation has been included in 'amortisation of intangibles from business combinations' in the income statement.

For the first three years of business, Humana paid a guarantee to Discovery which was recorded as a guarantee received from HumanaVitality in the segmental information. The guarantee was received as follows; December 2011: USD 1 million, December 2012: USD 2 million and December 2013: USD 2 million. Discovery only started to share in the profits of this associate from 1 January 2014.

9. EQUITY-ACCOUNTED INVESTEES continued

The following table summarises the financial information of each of the Group's associates. The amounts disclosed are 100% of the entities results.

	Ping An Health		HumanaVitality		Healthcode		Total	
R million	2014	2013	2014	2013	2014	2013	2014	2013
Current assets	**1 499**	1 530	**23**	25	**34**	30	**1 556**	1 585
Non-current assets	**447**	367	**1 089**	779	**–**	–	**1 536**	1 146
Current liabilities	**(1 033)**	(919)	**(197)**	(132)	**(23)**	(21)	**(1 253)**	(1 072)
Non-current liabilities	**(112)**	(139)	**(109)**	(81)	**–**	–	**(221)**	(220)
Net assets	**801**	839	**806**	591	**11**	9	**1 618**	1 439
Group's share of net assets	**200**	168	**39**	–	**2**	2	**241**	170
Revenue	**341**	316	**882**	591	**45**	34	**1 268**	941
Net profit/(loss)	**(217)**	(112)	**181**	80	*	1	**(36)**	(31)
Other comprehensive income	**(2)**	(5)	**(7)**	4	**–**	–	**(9)**	(1)
Total comprehensive income	**(219)**	(117)	**174**	84	*	1	**(45)**	(32)
Group's share of profit/(loss)	**(52)**	(22)	**38**	–	*	*	**(14)**	(22)
Group's share of total comprehensive income	**(52)**	(23)	**38**	–	**–**	–	**(14)**	(23)
Amortisation on intangible asset recognised	**–**	–	**(10)**	(9)	**–**	–	**(10)**	(9)

** Amount is less than R500 000.*

Reconciliation of summarised financial information

Reconciliation of summarised financial information presented to the carrying amount of interest in associates

	Ping An Health		HumanaVitality		Healthcode		Total	
R million	2014	2013	2014	2013	2014	2013	2014	2013
Summarised financial information								
Opening net assets 1 July	**839**	768	**591**	469	**9**	6	**1 439**	1 243
Profit/(loss) for the year	**(217)**	(112)	**181**	80	*	1	**(36)**	(31)
Other comprehensive income	**(2)**	(5)	**(7)**	4	**–**	–	**(9)**	(1)
Increase in share capital and share premium	**126**	–	**–**	–	**–**	–	**126**	–
Foreign exchange differences	**55**	188	**41**	38	**2**	2	**98**	228
Closing net assets	**801**	839	**806**	591	**11**	9	**1 618**	1 439
Interest in associates	**200**	168	**39**	–	**2**	2	**241**	170
Intangible asset recognised	**–**	–	**100**	102	**–**	–	**100**	102
Goodwill	**160**	91	**–**	–	**–**	–	**160**	91
Increase in consideration paid	**50**	39	**–**	–	**–**	–	**50**	39
Carrying value at 30 June	**410**	298	**139**	102	**2**	2	**551**	402

9. EQUITY-ACCOUNTED INVESTEES continued

9.2 Investment in joint venture

On 10 May 2013, Discovery Vitality International Asia Private Limited (a 100% subsidiary of Discovery Limited), contributed HK$ 1000 for 50% of the ordinary share capital of AIA Vitality Company Limited (AIA Vitality), which is incorporated in Asia.

The principal activities of AIA Vitality is the development of wellness programmes for integration with Life and/or Health products offered by AIA Company Limited and/or its affiliates (AIA Group) and providing exclusive services to the AIA Group for the distribution of certain jointly developed insurance products by the AIA Group.

The following table summarises the financial information of AIA Vitality. The amounts disclosed are 100% of the entity's results.

R million	2014	2013
Current		
Cash and cash equivalents	**155**	80
Other current assets	**92**	70
Total current assets	**247**	150
Financial liabilities (excluding trade payables)	**(52)**	(50)
Other current liabilities (including trade payables)	**(19)**	(24)
Total current liabilities	**(71)**	(74)
Non-current		
Assets	**127**	11
Financial liabilities (excluding trade payables)	**(309)**	–
Net assets	**(6)**	87
Revenue	**22**	*
Depreciation and amortisation	**(41)**	(3)
Interest income	*	–
Interest expense	**(1)**	–
Income tax expense	–	–
Net profit/(loss)	**(180)**	(119)
Other comprehensive income	*	–
Total comprehensive income	**(180)**	(119)
Group's share of loss – limited to consideration paid	–	*
Group's share of total comprehensive income – limited to consideration paid	–	*

* *Amount is less than R500 000.*

Reconciliation of summarised financial information

Reconciliation of summarised financial information presented to the carrying amount of interest in the joint venture

R million	2014	2013
Summarised financial information		
Opening net assets 1 July	**87**	–
Issuance of ordinary shares	*	*
Issuance of preference shares	**85**	203
Profit/(loss) for the year	**(180)**	(119)
Other comprehensive income	*	–
Foreign exchange differences	**2**	3
Closing net assets	**(6)**	87

R	2014	2013
Consideration paid	**1 189**	1 189
Share of loss – limited to consideration paid	**(1 189)**	(1 189)
Carrying value at 30 June	**–**	–

10. FINANCIAL ASSETS – INVESTMENTS

R million	Group 2014	Group 2013
The Group's investment in financial assets are summarised by measurement category in the table below:		
Available-for-sale financial assets:	**7 578**	6 706
– Equity securities	**887**	952
– Equity linked notes[1]	**30**	14
– Debt securities	**1 836**	544
– Inflation linked securities	**71**	12
– Money market securities	**4 754**	5 184
Financial assets at fair value through profit or loss:	**32 753**	23 217
– Equity securities	**18 943**	13 999
– Equity linked notes[1]	**1 642**	1 267
– Debt securities	**8 482**	4 809
– Inflation linked securities	**412**	196
– Money market securities	**3 274**	2 946
Total investments	**40 331**	29 923
Listed	**33 948**	25 348
Unlisted	**6 383**	4 575
	40 331	29 923

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

Maturity profile:

- It is management's intention to hold the available-for-sale financial assets as a long-term investment but may utilise these funds when required by business.
- Financial assets at fair value through profit or loss are held to back policyholder liabilities. Except for R1 079 million (2013: R457 million) which will be held to back unit-linked insurance contracts with a maturity profile between 1 and 5 years (refer to page 165), the balance can be withdrawn in the short-term.

11. DERIVATIVE FINANCIAL INSTRUMENTS

R million	Group 2014 Assets	Group 2014 Liabilities	Group 2013 Assets	Group 2013 Liabilities
Phantom share scheme – cash flow hedge	**251**	**–**	259	(2)
Phantom share scheme – fair value hedge	**334**	**–**	264	–
Collar options	**–**	**–**	13	–
Interest rate swap	**–**	**(3)**	–	(8)
Non-hedge derivatives	**3**	**(7)**	5	(18)
	588	**(10)**	541	(28)
Current	**202**	**(1)**	161	–
Non-current	**386**	**(9)**	380	(28)
	588	**(10)**	541	(28)

Refer to page 167 to 174 for a detailed description of the derivative financial instruments listed above.

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12. LOANS AND RECEIVABLES INCLUDING INSURANCE RECEIVABLES

R million	Group 2014	Group 2013
Receivables arising from insurance and reinsurance contracts:		
– Premium debtors	**173**	176
– Less provision for impairment of premium debtors	**(36)**	(23)
– Reinsurance debtors	**1 018**	740
Other loans and receivables:		
– AIA Vitality Company Limited	**151**	18
– Agents and brokers	**187**	182
– Cash-in-transit debtors	**232**	111
– Closed scheme debtors	**40**	34
– Digicore loan	**–**	35
– Discovery Health Medical Scheme	**478**	415
– Discovery Unit Trust debtors	**220**	608
– FNB card receivable	**34**	45
– Humana receivable	**29**	64
– Loans to BEE initiatives	**69**	51
– Prepayments	**266**	213
– PruProtect working capital funding	**–**	41
– Purchased receivables	**18**	33
– Road accident fund claims	**–**	11
– Value-added tax	**8**	6
– Vitality partner debtors	**11**	16
– Other debtors	**349**	219
– Less provision for impairment of other loans and receivables	**(137)**	(111)
Total loans and receivables	**3 110**	2 884
Current	**2 889**	2 742
Non-current	**221**	142
	3 110	2 884
The fair value approximates the carrying value of the loans and receivables.		

13. REINSURANCE CONTRACTS

Reinsurers' share of insurance contract liabilities	**266**	226
Current	**266**	226
Amounts due from reinsurers in respect of claims paid and reported by the Group on the contracts that are reinsured are included in loans and receivables (refer to note 12).		

14. CASH AND CASH EQUIVALENTS

Cash at bank and in hand	**2 808**	1 562
Short-term deposits	**842**	541
	3 650	2 103
The effective interest rate on local cash and cash equivalents was between 4.5% to 5.51% (2013: 4.9% to 5.34%) with an average maturity between 11 to 92 days (2013: 13 to 54 days).		
Cash and cash equivalents include the following for the purposes of the statement of cash flows:		
Cash and cash equivalents	**3 650**	2 103
Bank overdraft (note 20)	**(130)**	(216)
	3 520	1 887

15. SHARE CAPITAL AND SHARE PREMIUM

15.1 Ordinary share capital and share premium

	Issued		Treasury shares			
R million	Share capital	Share premium	Discovery Health	BEE share trust	BEE transaction partners	Total outstanding
At 1 July 2012	1	1 617	(14)	(37)	(64)	1 503
Share movements:						
– treasury shares delivered	–	6	–	–	–	6
– treasury share purchases	–	–	–	(5)	(34)	(39)
At 30 June 2013	1	1 623	(14)	(42)	(98)	1 470
Share movements:						
– treasury shares delivered	*	**1 031**	**–**	**–**	**105**	**1 136**
– treasury share purchases	**–**	**–**	**–**	**(8)**	**(14)**	**(22)**
Share issue costs	**–**	**(2)**	**–**	**–**	**–**	**(2)**
At 30 June 2014	**1**	**2 652**	**(14)**	**(50)**	**(7)**	**2 582**

* *Amount is less than R500 000.*

		Treasury shares			
Number of shares	Issued	Discovery Health	BEE share trust	BEE transaction partners	Total outstanding
At 1 July 2012	591 872 390	(680 268)	(1 761 270)	(35 061 579)	554 369 273
Share movements:					
– treasury shares delivered	–	–	277 543	–	277 543
– treasury share purchases	–	–	(100 000)	(533 890)	(633 890)
At 30 June 2013	591 872 390	(680 268)	(1 583 727)	(35 595 469)	554 012 926
Share movements:					
– treasury shares delivered	**–**	**–**	**117 931**	**20 270 560**	**20 388 491**
– treasury share purchases	**–**	**–**	**(95 000)**	**(171 342)**	**(266 342)**
At 30 June 2014	**591 872 390**	**(680 268)**	**(1 560 796)**	**(15 496 251)**	**574 135 075**

The total authorised number of ordinary shares is 1 billion (2013: 1 billion), with a par value of 0.1 cent per share.

Refinancing of BEE transaction by a BEE partner

In September 2005, Discovery concluded a BEE transaction pursuant to which 38 725 909 shares were issued to a consortium of BEE parties. 17 703 273 of these shares were issued to WDB Discovery Investment Proprietary Limited (WDB) at R0.113 each, being one of the BEE consortium members. The difference between the market value of the ordinary shares issued to the BEE parties and the subscription consideration represented an outstanding funded amount provided by Discovery shareholders (funded amount). (Refer to note 33.2)

In December 2013, WDB decided to refinance the funded amount provided by Discovery with a third-party financial institution, which resulted in the following transactions:

– The repurchase by Discovery of 12 440 910 Discovery shares held by WDB at a price of R0.001 per share to repay the funded amount. The remaining 5 262 363 shares were retained by WDB as fully paid.
– The issue to WDB by Discovery of 12 440 910 new Discovery shares at a price of R82.75 per Discovery share (representing the 30 day VWAP to 4 December 2013).

The treasury shares decreased by 20 270 560, being the 17 703 273 shares from the original transaction, as well as 2 567 287 shares that were purchased with the dividends received by WDB. This increased share premium by R1 135 million.

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15. SHARE CAPITAL AND SHARE PREMIUM continued

15.2 Preference share capital

R million	Group 2014	Group 2013
Authorised		
20 000 000 class B voluntarily redeemable non-convertible preference shares of R100 each	**2 000**	2 000
Issued		
8 000 000 class B voluntarily redeemable non-convertible preference shares of R100 each	**800**	800
Share issue costs	**(21)**	(21)
At 30 June	**779**	779

The preference shares are non-compulsory, non-cumulative, non-participating, non-convertible, voluntarily redeemable no par value preference shares and were issued at a coupon rate of 85% of prime rate. With the introduction of dividend withholding tax on 1 April 2012, the coupon rate on the preference shares was increased to 100% of the prime rate.

16. LIABILITIES ARISING FROM INSURANCE CONTRACTS

Gross		
Short-term liabilities:		
– claims reported and loss adjustment expenses	**3 304**	2 566
– claims incurred but not reported	**1 096**	859
– EFA liability	**25**	16
– unearned premiums	**592**	519
Long-term liabilities:		
– unit-linked insurance contracts	**14 111**	9 575
– with fixed and guaranteed terms	**6 669**	5 540
Total liabilities arising from insurance contracts, gross	**25 797**	19 075
Recoverable from reinsurers		
Short-term liabilities:		
– claims incurred but not reported	**(266)**	(226)
Total reinsurers' share of liabilities arising from insurance contracts (refer to note 13)	**(266)**	(226)
Net		
Short-term liabilities:		
– claims reported and loss adjustment expenses	**3 304**	2 566
– claims incurred but not reported	**830**	633
– EFA liability	**25**	16
– unearned premiums	**592**	519
Long-term liabilities:		
– unit-linked insurance contracts	**14 111**	9 575
– with fixed and guaranteed terms	**6 669**	5 540
Total liabilities arising from insurance contracts, net	**25 531**	18 849
Current	**6 951**	4 570
Non-current	**2 950**	3 450
Variable[1]	**15 630**	10 829
	25 531	18 849

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

16. LIABILITIES ARISING FROM INSURANCE CONTRACTS continued

Movements in the liabilities are as follows:

	2014			2013		
R million	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Claims reported and loss adjustment expenses						
Notified claims	**2 566**	–	**2 566**	1 926	–	1 926
Incurred but not reported	**859**	**(226)**	**633**	732	(201)	531
Balance at beginning of the year	**3 425**	**(226)**	**3 199**	2 658	(201)	2 457
Cash paid for claims settled in the year	**(928)**	**146**	**(782)**	(687)	89	(598)
Increase/(decrease) in liabilities:						
– arising from current year claims	**2 335**	**(161)**	**2 174**	1 781	(96)	1 685
– arising from prior year claims	**(582)**	–	**(582)**	(430)	–	(430)
Net exchange differences	**150**	**(25)**	**125**	103	(18)	85
Total at end of the year	**4 400**	**(266)**	**4 134**	3 425	(226)	3 199
Notified claims	**3 304**	–	**3 304**	2 566	–	2 566
Incurred but not reported	**1 096**	**(266)**	**830**	859	(226)	633
Total at end of the year	**4 400**	**(266)**	**4 134**	3 425	(226)	3 199
EFA liability						
Balance at beginning of the year	**16**	–	**16**	3	–	3
Increase in the year	**9**	–	**9**	14	–	14
Cash paid	–	–	–	(1)	–	(1)
Total at end of the year	**25**	–	**25**	16	–	16
Provisions for unearned premiums						
Balance at beginning of the year	**519**	–	**519**	439	–	439
Release in the year	**(26)**	–	**(26)**	(2)	–	(2)
Net exchange differences	**99**	–	**99**	82	–	82
Total at end of the year	**592**	–	**592**	519	–	519

** Amount is less than R500 000.*

R million	Group 2014	Group 2013
Long-term insurance contracts		
Unit-linked insurance contracts		
Balance at beginning of the year	**9 575**	6 593
Premiums received	**4 738**	3 746
Fair value adjustment	**2 086**	1 346
Withdrawals	**(1 567)**	(1 567)
Fees	**(455)**	(273)
Movement in negative insurance liability	**(266)**	(270)
Balance at end of the year	**14 111**	9 575
With fixed and guaranteed terms		
Balance at beginning of the year	**5 540**	4 626
Expected movement in policyholder liabilities	**(1 006)**	(416)
Unwinding of discount rate	**256**	257
New business written	**1 622**	1 028
Experience variances	**255**	45
Change in assumptions	**2**	–
Balance at end of the year	**6 669**	5 540

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17. LIABILITIES ARISING FROM REINSURANCE CONTRACTS

R million	Group 2014	Group 2013
Lapse risk treaties	**575**	635
Reinsurance recoveries relating to assets arising from insurance contracts (refer to note 5)	**1 672**	864
	2 247	1 499
Balance at beginning of the year	**1 499**	1 367
Increase in liability	**747**	134
– Gross increase in liability	**1 097**	394
– Net reinsurance premiums paid	**(350)**	(260)
Net lapse risk treaties	**1**	(2)
Balance at end of the year	**2 247**	1 499
Current	**251**	226
Non-current	**1 996**	1 273
	2 247	1 499

18. PUTTABLE NON-CONTROLLING INTERESTS

During the 2011 financial year, put options were granted to the non-controlling interests of three of Discovery's subsidiaries. The put options entitle the non-controlling interest to sell its interest in the subsidiary to Discovery at contracted dates.

The following put options were issued:

- The Prudential Assurance Company has the option to sell its 25% shareholding in Prudential Health Holdings Limited to Discovery, between 1 March 2015 and 30 April 2015 or after each succeeding one year period thereafter, at the fair market value.
- Humana has the option to sell its 25% shareholding in The Vitality Group LLC to Discovery, seven years after acquisition or after each succeeding two year period, at the fair market value less a 15% discount.
- The Discovery Insure preference shareholders had the option to sell its 25% shareholding in Discovery Insure to Discovery, between five and seven years after acquisition, at the fair market value. In August 2013, subject to regulatory approval, Discovery Insure's preference shareholders agreed to sell their 25% shareholding in Discovery Insure Limited to Discovery Limited for R352 million. This approval was received in December 2013 and the transaction was settled. Normalised headline earnings includes an allocation for the non-controlling interest share of losses to the end of November 2013, being R26 million.

The aggregate effects on Discovery's results at 30 June are as follows:

R million	Group 2014	Group 2013
Balance at beginning of the year	**3 782**	2 893
Further share issues to non-controlling interests	**45**	77
Finance costs recognised in profit or loss	**157**	165
Fair value adjustments:	**201**	133
– resulting from a change in interest rates	**(54)**	(55)
– resulting from a change in assumptions	**255**	188
Put option exercised	**(352)**	–
Net exchange differences arising during the period	**661**	514
Closing value of puttable non-controlling interest liability	**4 494**	3 782

19. NEGATIVE RESERVE FUNDING

Negative reserve funding	**4 139**	2 537
Finance charge payable on negative reserve funding	**545**	276
	4 684	2 813

The negative reserve funding liability represents the acquisition costs that are funded by the Prudential Assurance Company on behalf of PruProtect. 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, PruProtect would be required to repay these liabilities from other resources.

20. BORROWINGS AT AMORTISED COST

R million	Group 2014	Group 2013
Bank borrowings	**402**	402
Bank overdraft	**130**	216
Finance lease liability	**40**	42
	572	660
Current	**153**	232
Non-current	**419**	428
	572	660

Bank borrowings

In order to fund the acquisition of Standard Life Healthcare, Discovery borrowed R400 million from FirstRand Bank Limited. The salient terms of the loan are the following:

Lender:	FirstRand Bank Limited
Type of borrowings:	Senior debt
Interest rate:	Floating
Security:	Pledge of shares in Discovery Life Limited
Maturity date:	10 September 2017
Callable/Convertible:	Not applicable

The borrowings are repayable on maturity and interest is paid quarterly. The interest rate has been fixed through interest rate swaps.

The loan agreement imposes certain restrictions on Discovery's operations, including a limitation on total borrowings. A breach of these restrictions would require immediate repayment of any outstanding balance.

Capitalised finance lease liability

Lease liabilities are not secured as the rights to the leased assets remain with the lessee in event of default.

R million	Minimum lease payments	Finance cost	Present value
30 June 2014			
Due within one year	**24**	**(3)**	**21**
Due between two and five years	**21**	**(2)**	**19**
	45	**(5)**	**40**
30 June 2013			
Due within one year	18	(4)	14
Due between two and five years	31	(3)	28
	49	(7)	42

21. INVESTMENT CONTRACTS AT FAIR VALUE THROUGH PROFIT OR LOSS

R million	Group 2014	Group 2013
The movements during the year were as follows:		
Balance at beginning of the year	**6 410**	8 317
Premiums received	**2 846**	3 845
Fees deducted from account balances	**(1)**	(3)
Account balances paid on withdrawal and other terminations in the year	**(2 215)**	(6 379)
Fair value adjustment	**1 224**	630
Balance at end of the year	**8 264**	6 410
Variable[1]	**8 264**	6 410

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

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

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22. TRADE AND OTHER PAYABLES

R million	Group 2014	Group 2013
Digicore payable	**12**	–
Discovery Unit Trust creditors	**197**	168
Due to reinsurers	**23**	103
Payables and accrued liabilities	**1 339**	953
Payroll creditors	**776**	767
Policyholder unallocated funds	**394**	95
PruProtect working capital funding	**163**	–
Security deposits on derivatives	**387**	475
Straight-lining operating lease payments	**40**	46
Value-added tax	**48**	46
Other creditors	**373**	351
	3 752	3 004
Current	**2 928**	2 325
Non-current	**824**	679
	3 752	3 004

23. DEFERRED INCOME TAX

Deferred tax asset	**406**	370
– Current	**95**	85
– Non-current	**311**	285
Deferred tax liability	**(4 647)**	(3 784)
– Current	**(82)**	(37)
– Non-current	**(4 565)**	(3 747)
	(4 241)	(3 414)
Movement summary		
Balance at beginning of the year	**(3 414)**	(2 727)
Income statement charge	**(714)**	(549)
Deferred tax on cash flow hedge charged to other comprehensive income	**–**	(18)
Capital gains taxation on market value adjustments and realised gains charged to other comprehensive income	**(44)**	(25)
Deferred tax on unrealised translation gains charged to other comprehensive income	**(29)**	(49)
Exchange differences	**(40)**	(46)
Balance at end of the year	**(4 241)**	(3 414)

23. DEFERRED INCOME TAX continued

Deferred taxation comprises:

R million	Opening balance	Charge for the year	Closing balance
Year ended 30 June 2014			
Assessed loss in Company Policyholders' Fund	**40**	**–**	**40**
Assessed loss in subsidiaries	**89**	**7**	**96**
Capital gains tax on unrealised gains on available-for-sale financial instruments	**(44)**	**(44)**	**(88)**
Cash flow hedge	**(20)**	**–**	**(20)**
Deferred acquisition costs	**(88)**	**(16)**	**(104)**
Deferred revenue	**8**	**1**	**9**
Difference between accounting and tax balances arising from insurance contracts	**(3 409)**	**(797)**	**(4 206)**
Difference between wear and tear and depreciation	**(20)**	**1**	**(19)**
Fair value hedge	**(36)**	**(4)**	**(40)**
Gains on disposal of intellectual property	**(35)**	**1**	**(34)**
Intangibles recognised on acquisition of businesses	**(234)**	**27**	**(207)**
Operating leases	**11**	**(1)**	**10**
Prepayments	**(18)**	**4**	**(14)**
Provisions	**52**	**10**	**62**
Share-based payments	**110**	**–**	**110**
Unrealised forex gain	**(67)**	**(49)**	**(116)**
Unutilised special transfer balances	**237**	**30**	**267**
Other	**10**	**3**	**13**
	(3 414)	**(827)**	**(4 241)**
Year ended 30 June 2013			
Assessed loss in Company Policyholders' Fund	41	(1)	40
Assessed loss in subsidiaries	76	13	89
Capital gains tax on unrealised gains on available-for-sale financial instruments	(19)	(25)	(44)
Cash flow hedge	(2)	(18)	(20)
Deferred acquisition costs	(66)	(22)	(88)
Deferred revenue	6	2	8
Difference between accounting and tax balances arising from insurance contracts	(2 780)	(629)	(3 409)
Difference between wear and tear and depreciation	(26)	6	(20)
Fair value hedge	(15)	(21)	(36)
Gains on disposal of intellectual property	(31)	(4)	(35)
Intangibles recognised on acquisition of businesses	(245)	11	(234)
Operating leases	9	2	11
Prepayments	(18)	–	(18)
Provisions	40	12	52
Share-based payments	69	41	110
Unrealised forex gain	(8)	(59)	(67)
Unutilised special transfer balances	240	(3)	237
Other	2	8	10
	(2 727)	(687)	(3 414)

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

R million	Group 2014	Group 2013
Discovery Life – Individual Policyholders' Fund calculated in terms of the four funds approach	**14 367**	13 789
Discovery Insure	**561**	399
Destiny Health (will begin to expire in 2019)	**2 316**	2 131
Prudential Health Limited	**2 669**	1 408
	19 913	17 727

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for the year ended 30 June 2014 continued

24. DEFERRED REVENUE

R million	Group 2014	Group 2013
Balance at 1 July	**151**	116
Income deferred	**121**	104
Income recognised through profit or loss	**(115)**	(70)
Foreign currency adjustment on translation	**–**	1
Balance at 30 June	**157**	151
Current	**28**	89
Non-current	**129**	62
	157	151

25. EMPLOYEE BENEFITS

Leave pay		
Opening balance	**138**	116
Additional provisions raised	**37**	40
Used during the year	**(21)**	(18)
Closing balance	**154**	138
Current	**133**	123
Non-current	**21**	15
	154	138

26. NET INSURANCE PREMIUM REVENUE

Health	**5 348**	4 025
Recurring premiums	**6 275**	4 760
Reinsurance premiums	**(927)**	(735)
Individual life and invest	**13 863**	10 589
Recurring premiums	**9 543**	8 005
Single premiums	**5 461**	3 678
Reinsurance premiums	**(1 141)**	(1 094)
Group life	**1 163**	759
Recurring premiums	**1 208**	964
Reinsurance premiums	**(45)**	(205)
Short-term insurance	**534**	287
Recurring premiums	**603**	296
Reinsurance premiums	**(69)**	(9)
	20 908	15 660
Insurance premium revenue	**23 090**	17 703
Outward reinsurance premiums	**(2 182)**	(2 043)
	20 908	15 660

27. INVESTMENT INCOME

R million	Group 2014	Group 2013
Available-for-sale financial assets	**174**	216
– Interest	**162**	205
– Dividends	**14**	12
– Investment charges	**(2)**	(1)
At amortised cost interest income	**17**	10
Cash and cash equivalents interest income	**223**	98
	414	324
Attributable to:		
– shareholders	**152**	132
– policyholders	**262**	192
	414	324

28. NET REALISED GAINS ON AVAILABLE-FOR-SALE FINANCIAL ASSETS

Realised gains	**244**	13
– Equity securities	**183**	–
– Debt securities	**5**	13
– Foreign assets	**55**	–
– Money market securities	**1**	–
Realised losses	**(13)**	(12)
– Equity securities	**(3)**	–
– Debt securities	**(9)**	(9)
– Money market securities	**(1)**	(3)
	231	1

29. NET FAIR VALUE GAINS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Investment income	**867**	704
– Interest	**519**	474
– Dividends	**348**	230
Net realised (loss)/gains	**(20)**	92
Net fair value gains	**3 609**	1 501
Investment charges	**(178)**	(168)
	4 278	2 129

Notes to the annual **financial statements**

for the year ended 30 June 2014 continued

30. NET CLAIMS AND POLICYHOLDERS' BENEFITS

R million	Group 2014	Group 2013
Health insurance claims	**3 413**	2 612
Gross claims	**4 265**	3 283
Less: Reinsurance recoveries	**(852)**	(671)
Individual life insurance claims	**2 150**	1 895
Death	**1 210**	1 299
Disability	**1 282**	1 146
Payback benefits	**454**	276
Less: Reinsurance recoveries	**(796)**	(826)
Group life insurance claims	**876**	550
Death	**458**	409
Disability	**518**	319
Less: Reinsurance recoveries	**(100)**	(178)
Individual investment benefits	**3 116**	1 818
Surrenders	**2 848**	1 631
Guaranteed payments	**80**	46
Annuity payments	**188**	141
Short-term insurance claims	**354**	205
Gross claims	**415**	223
Less: Reinsurance recoveries	**(61)**	(18)
	9 909	7 080
Claims and policyholders' benefits	**11 718**	8 773
Insurance claims recovered from reinsurers	**(1 809)**	(1 693)
Net claims and policyholders' benefits	**9 909**	7 080

31. ACQUISITION COSTS

Commission expenses	**4 370**	3 656
Movement in deferred acquisition costs (refer to note 7)	**(74)**	(125)
	4 296	3 531

32. MARKETING AND ADMINISTRATION EXPENSES

R million	Group 2014	Group 2013
Marketing and administration expenses comprises:		
Employee costs	**4 543**	3 966
Marketing and distribution costs	**598**	460
IT systems and consumables	**661**	565
Building-related and office costs	**541**	496
Depreciation and amortisation	**293**	230
Vitality benefit costs	**1 851**	1 493
Other costs	**1 659**	764
	10 146	7 974
Marketing and administration expenses include the following:		
Amortisation of intangible assets (refer to note 7)		
Software	**149**	125
Amortisation of intangible assets from business combination[1]	**187**	186
– acquisition of Standard Life Healthcare	**177**	177
– acquisition of The Vitality Group (refer to note 9)	**10**	9
	336	311
Auditors' remuneration		
Audit fees		
– current year	**32**	21
– prior year	*****	1
Fees for other services	**2**	1
	34	23
Depreciation on property and equipment (refer to note 6)		
Computer equipment and operating systems	**70**	44
Furniture, fittings and equipment	**24**	25
Leasehold improvements	**34**	33
Motor vehicles	**4**	3
Telematics devices	**10**	–
	142	105
Employee costs		
Salaries, wages and allowances	**3 499**	3 113
Medical aid fund contributions	**187**	158
Defined contribution provident fund contributions	**170**	140
Social security levies	**99**	86
Share-based payment expenses		
– cash-settled	**406**	450
– gain on fair value hedge	**(145)**	(250)
Staff training	**22**	21
Recruitment fees	**39**	41
Temporary staff	**121**	59
Provision for leave pay	**32**	38
Other	**113**	110
	4 543	3 966

(1) The transactions relating to business combinations are not included in marketing and administration expenses as it is disclosed separately in the income statement.

** Amount is less than R500 000.*

Directors' and prescribed officers' remuneration is included in employee costs. Refer to Directorate for detailed disclosure.

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for the year ended 30 June 2014 continued

32. MARKETING AND ADMINISTRATION EXPENSES continued

R million	Group 2014	Group 2013
Operating lease charges		
Land and buildings	**201**	192
Computer and office equipment	**61**	59
	262	251
Professional fees		
Actuarial fees	**2**	2
Technical and other	**348**	258
	350	260
Repairs and maintenance expenditure		
Computer repairs and maintenance	**27**	23
Furniture and equipment maintenance	**1**	1
Office repairs and maintenance	**5**	4
Software maintenance	**302**	239
	335	267
Other operating costs		
Impairment of receivables	**9**	3
Foreign exchange losses on supplier balances	**55**	16

33. SHARE-BASED PAYMENT EXPENSES

33.1 Staff incentive schemes

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

1. BEE staff share trust

5 290 000 Discovery Limited's shares were issued to the BEE staff share trust for current and future employees. 95 000 additional shares were purchased by the BEE staff share trust during the current year (2013: 100 000), for future allocations to employees. The trust consists of two components; the allocation scheme and the option scheme as described below.

Allocation scheme

Shares have been allocated to senior black employees based on level of seniority and length of past service. The shares vest to employees two, three, four and five years after allocation at a rate of 25% per annum. On each vesting date, the trustees shall distribute to the employees the allocated shares to which the employee may be entitled.

Option scheme

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

2. The Vitality Group stock option plan

Options are granted at fair value price at date of grant. The fair value price was USD 0.55 as per the valuation performed at 30 September 2011. Options vest 33.3% per year for three years and must be exercised within three years of the date that 100% vest otherwise the options expire.

3. The Vitality Group phantom stock plan

Participants earn a cash bonus based on allocation of bonus scheme units which in turn are linked to the performance of the Vitality Group Inc. share price. The bonus is earned if the participant is employed on each vesting date. For units issued in October 2011, the vesting of the units is two, three and four years or two, three, four and five years after allocation of the bonus units, depending upon the length of service of the employee.

4. The Discovery Limited phantom scheme

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

The 2008 – 2011 allocations consist of units that replicate the economics of a Discovery Limited share. The 2012 and 2013 allocations were predetermined combinations of units that replicate the economics of a Discovery Limited share and units that replicate the economics of a call option over a Discovery Limited share.

5. Acquisition schemes

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

The share option schemes mentioned in 1 and 2 on the previous page have been classified as equity-settled schemes and therefore a share-based payment reserve has been recognised.

The schemes mentioned in 3,4 and 5 have been classified as cash-settled schemes and a liability is raised in terms of IFRS 2.

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

Date granted	Option price	Final vesting date	Shares under option at beginning of year	Options granted during year	Options delivered during year	Options cancelled or adjusted during year	Shares under option at end of year
1. BEE staff share trust							
13/09/2005 – 30/06/2006	R0.00	13/09/2010	11 066	–	(11 066)	–	–
01/07/2008 – 30/06/2009	R23.99	31/10/2013	30 000	–	(30 000)	–	–
01/07/2008 – 30/06/2009	R0.00	01/04/2014	10 000	–	(10 000)	–	–
01/07/2010 – 30/06/2011	R34.90	30/09/2015	35 458	–	(11 819)	–	23 639
01/07/2010 – 30/06/2011	R0.00	30/03/2016	16 144	–	(4 992)	–	11 152
01/07/2011 – 30/06/2012	R0.00	30/09/2017	301 446	–	(62 020)	(15 000)	224 426
01/07/2012 – 30/06/2013	R0.00	30/09/2018	105 228	–	–	–	105 228
01/07/2013 – 30/06/2014	R0.00	30/09/2019	–	236 619	–	–	236 619
2. The Vitality Group stock option plan							
01/10/2008	USD 0.38	01/10/2012	10 000	–	–	–	10 000
3. The Vitality Group phantom stock plan							
01/10/2011	USD 0.00	01/10/2015	1 102 439	–	(516 156)	(90 910)	495 373
01/10/2012	USD 0.00	01/10/2016	2 579 505	–	(218 184)	(218 184)	2 143 137
01/10/2013	USD 0.00	01/10/2017	–	2 954 933	–	–	2 954 933
4. The Discovery Limited phantom scheme							
30/09/2008	R0.00	30/09/2013	785 949	–	(779 700)	(6 249)	–
01/07/2009	R0.00	30/09/2013	1 473 529	–	(1 473 530)	1	–
30/09/2009	R0.00	30/09/2014	1 432 583	–	(713 492)	(33 313)	685 778
30/09/2010	R0.00	30/09/2015	2 292 836	–	(765 329)	(45 975)	1 481 532
30/09/2011	R0.00	30/09/2016	3 744 200	–	(940 550)	(123 500)	2 680 150
30/09/2012	R54.75	30/09/2017	4 860 285	–	–	(164 410)	4 695 875
30/09/2012	R0.00	30/09/2017	1 620 095	–	–	1 594	1 621 689
01/07/2013	R0.00	30/09/2017	–	2 060 241	–	–	2 060 241
30/09/2013	R84.76	30/09/2018	–	2 484 807	–	(57 902)	2 426 905
30/09/2013	R0.00	30/09/2018	–	1 242 382	–	(28 951)	1 213 431

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33. SHARE-BASED PAYMENT EXPENSES continued

Date granted	Option price	Final vesting date	Shares under option at beginning of year	Options granted during year	Options delivered during year	Options cancelled or adjusted during year	Shares under option at end of year
5. Acquisition schemes							
01/07/2008 to 30/06/2009	R0.00	30/06/2014	37 996	–	(35 657)	(2 339)	–
01/07/2009 to 30/06/2010	R0.00	30/06/2015	81 310	–	(33 822)	(15 936)	31 552
01/07/2010 to 30/06/2011	R0.00	30/06/2016	803 635	–	(716 013)	(10 971)	76 651
01/07/2011 to 30/06/2012	R0.00	30/06/2017	1 229 262	–	(245 197)	(97 299)	886 766
01/07/2012 to 30/06/2013	R0.00	30/06/2018	747 186	–	(55 759)	135 667	827 094
01/07/2013 to 30/06/2014	R0.00	30/06/2019	–	956 637	–	(66 634)	890 003

The fair value of options was calculated at year-end on a Black-Scholes model using the following assumptions:

	Spot price	Exercise price	Option term	Volatility	Dividend yield
BEE staff share trust					
– originally issued on 13 September 2005	R21.47	R21.47	2 to 5 years	32.7% to 35.5%	–
Phantom scheme					
– issued on 30 September 2012	R97.15	R54.75	up to 3.25 years	33.4% to 33.5%	1.65
– issued on 30 September 2013	R97.15	R84.76	up to 4.25 years	33.4% to 33.6%	1.65
Vitality Group Inc. stock option plan	USD 0.375	USD 0.375	6.25 years	14.1%	–

The Phantom schemes and Acquisition schemes are cash-settled and are thus repriced at each reporting date. The fair value of shares granted under these schemes during the current financial year, has been calculated using the closing share price on 30 June 2014 of R97.15.

33.2 Black Economic Empowerment (BEE) transaction and IFRS 2

Discovery concluded a BEE transaction in September 2005 pursuant to which 38 725 909 shares were issued to BEE parties as follows:

BEE parties	Number of shares	Subscription price per share
Dlamini SPV	200 000	0.00
Zilwa SPV	200 000	0.00
WDBIH SPV	17 703 273	0.11
Maphai SPV	1 106 455	1.72
Discovery Foundation	14 226 181	0.00
BEE staff share trust	5 290 000	0.00

The shares issued to the Dlamini SPV, the Zilwa SPV and the WDBIH SPV were settled on 15 April 2009, 9 December 2010 and in December 2013 respectively, and are no longer outstanding in terms of the BEE transaction. Refer to note 15.1 for detail of the refinancing of the BEE transaction with the WDBIH SPV.

Mechanics of the transaction with BEE partners other than BEE staff share trust (BEE parties)

The difference between the market value of the ordinary shares issued to the BEE parties of R715 million and the subscription consideration of R3.9 million represents an outstanding funded amount provided by Discovery shareholders (the funded amount). The BEE parties will provide Discovery and its subsidiaries with a right to purchase, at the end of ten years, such number of ordinary shares at 0.1 cent per share (the par value) that will provide Discovery with a notional return on this funded amount (the Discovery repurchase agreement).

In order to allow the BEE parties to retain the full number of Discovery shares originally issued to them, the BEE parties will have a right to simultaneously acquire from Discovery, at the then thirty-day volume-weighted average price per Discovery share, the same number of shares repurchased by Discovery in terms of the Discovery repurchase agreement.

Shares acquired by the BEE parties rank pari passu with existing Discovery shares. The BEE parties have undertaken to utilise any dividend or capital distributions made by Discovery to acquire additional Discovery shares in the market within three months of the date of any distribution.

34. FINANCE COSTS

R million	Group 2014	Group 2013
Interest expense on:		
– Bank loan	**39**	41
– Finance lease liability	**4**	5
– Accounts payable balances	**20**	9
– Puttable non-controlling interest liabilities	**157**	165
	220	220

35. FOREIGN EXCHANGE GAINS

Net foreign exchange gains	**18**	40

The net foreign exchange gains arise primarily from the settlement of foreign subsidiary intercompany balances.

36. TAXATION

Charge for the year:		
Current taxation	**613**	543
South African normal taxation	**568**	534
South African capital gains taxation	**45**	9
Deferred taxation	**714**	549
	1 327	1 092
	%	**%**
Taxation rate reconciliation		
Effective taxation rate	**28.7**	35.9
Prior year adjustments	**0.0**	(0.4)
Subsidiary losses not provided for	**(2.4)**	(4.1)
Capital profits and dividend income	**0.9**	0.4
Disallowed expenditure	**(0.8)**	(4.0)
Tax rate decrease in the UK	**0.7**	0.4
Tax rate differences	**0.4**	(0.1)
Other permanent differences	**0.5**	(0.1)
Standard rate of taxation	**28.0**	28.0

For South African entities that are in a tax paying position, tax has been provided at 28% (2013: 28%) and secondary tax on companies at 10% (up to 31 March 2012) in the financial statements.

Current taxation relating to Discovery Life is determined by applying the four funds method of taxation applicable to life insurers.

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37. EARNINGS PER SHARE

	Group 2014	Group 2013
Basic earnings per share		
Earnings per share is based on net profit after tax attributable to ordinary shareholders and the weighted number of ordinary shares in issue.		
Earnings attributable to ordinary shareholders (R million)	**3 246**	2 063
Weighted number of ordinary shares in issue (000's)	**565 471**	554 165
Basic earnings per share (cents)	**574.2**	372.2
Diluted earnings per share		
Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Discovery has two categories of dilutive potential ordinary shares namely:		
– shares issued from the staff share trusts which have not been delivered to participants		
– shares issued to BEE parties		
Weighted average ordinary shares in issue (000's) adjusted for:	**565 471**	554 165
– Weighted average ordinary shares in the staff share trusts (000's)	**590**	467
– Weighted average ordinary shares issued to BEE parties (000's)	**13 986**	7 211
	580 047	561 843
Diluted earnings per share (cents)	**559.8**	367.1
Headline earnings		
Headline earnings per share is based on the net profit after tax attributable to ordinary shareholders adjusted for items of a capital nature and the weighted average number of ordinary shares in issue.		
Headline earnings reconciliation (R million)		
Earnings attributable to ordinary shareholders	**3 246**	2 063
Adjusted for:		
– Realised gains on available-for-sale financial instruments	**(231)**	(1)
– Capital gains tax on realised profit on available-for-sale financial instruments	**43**	*
– Impairment of property, plant and equipment	**3**	–
– Impairment of intangible assets	**3**	–
Headline earnings	**3 064**	2 062
Headline earnings per share (cents):		
– Undiluted	**542.0**	372.0
– Diluted	**528.4**	367.0
Normalised headline earnings (R million)		
Headline earnings	**3 064**	2 062
– Recapture of reinsurance	**–**	336
– Amortisation of intangibles from business combinations[1]	**187**	186
– Tax on amortisation of intangibles from business combinations	**(71)**	(55)
– Fair value adjustment to puttable non-controlling interest financial liability[2]	**201**	133
– Finance costs raised on puttable non-controlling interest financial liability[2]	**157**	165
– Non-controlling interest allocation if no put options	**(81)**	(40)
– Final dividend accrued for preference shareholders	**–**	*
Normalised headline earnings	**3 457**	2 787
Normalised headline earnings per share (cents):		
– Undiluted	**611.3**	502.9
– Diluted	**595.9**	496.0

(1) Refer to note 32.
(2) Refer to note 18 for detail of puttable non-controlling interests.
** Amount is less than R500 000.*

38. CASH FLOW INFORMATION

R million	Group 2014	Group 2013
38.1 Cash generated by operations		
Profit before taxation	**4 641**	3 223
Adjusted for:		
Investment income	**(1 193)**	(855)
Realised investment gains and losses	**(211)**	(93)
Financing costs	**220**	220
Premiums, claims and investment charges for liabilities under investment contracts	**630**	(2 537)
Non-cash items:		
Amortisation of software	**149**	125
Amortisation of intangibles from business combinations	**187**	186
Deferred acquisition costs	**(74)**	(125)
Deferred revenue	**6**	34
Depreciation	**142**	105
Gain on fair value hedge	**(173)**	(250)
Impairment of property and equipment	**5**	–
Impairment of intangible assets	**3**	–
Operating lease payments in advance	**(6)**	8
Provision for bad debts	**39**	(22)
Provision for employee incentive schemes	**–**	2
Provision for employee benefits	**16**	22
Puttable non-controlling interest fair value adjustment	**201**	133
Share-based payment expenses	**406**	450
Share of net losses in associates	**14**	22
Transfer to liabilities under reinsurance contracts	**747**	134
Transfer to assets/liabilities under insurance contracts	**2 979**	1 601
Fair value adjustment to liabilities under investment contracts	**1 224**	630
Translation differences	**85**	44
Unearned premiums	**(26)**	(2)
Unrealised gains on foreign exchange	**(68)**	(35)
Unrealised gains on investments at fair value through profit or loss	**(3 519)**	(1 506)
Working capital changes:		
Loans and receivables including insurance receivables	**(72)**	(580)
Trade and other payables	**2 060**	1 703
	8 412	2 637
38.2 Taxation paid		
Balance at beginning of the year	**(15)**	(53)
Taxation charged for the year in the income statement	**(1 327)**	(1 194)
Adjustment for movement in deferred taxation	**714**	549
Acquisition of subsidiary	**(1)**	–
Taxation recoverable from consortium relief – PruHealth	**–**	102
Taxation charged to other comprehensive income	**4**	(4)
Interest received from SARS	**–**	2
Balance at end of the year	**(39)**	15
Taxation paid	**(664)**	(583)
38.3 Proceeds from issuance of shares		
Preference shares issued in Discovery Insure Limited	**45**	77
Ordinary shares issued in Discovery Limited	**1 031**	–
Ordinary shares issued in The Vitality Group LLC to non-controlling interest	**1**	1
	1 077	78
38.4 Repayment of borrowings		
Balance at beginning of the year	**660**	402
Assets purchased on finance lease	**16**	53
Net investment purchases on bank overdraft facility	**(86)**	216
Balance at end of the year	**(572)**	(660)
	18	11

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39. DIVIDENDS PER SHARE

39.1 Dividends per ordinary share

The dividends paid in 2014 totalled R814 million and comprised a final dividend of 64.5 cents per share paid on 14 October 2013 and an interim dividend of 73 cents per share paid on 24 March 2014.

The dividends paid in 2013 totalled R672 million and comprised a final dividend of 53.5 cents per share paid on 15 October 2012 and an interim dividend of 60 cents per share paid on 25 March 2013.

39.2 Dividends per preference share

The dividends paid in 2014 totalled R68 million and comprised a final dividend of 421,50685 cents per share paid on 23 September 2013 and an interim dividend of 428,49315 cents per share paid on 17 March 2014.

The dividends paid in 2013 totalled R68 million and comprised a final dividend of 414,73973 cents per share paid on 25 September 2012 and an interim dividend of 431,23288 cents per share paid on 18 March 2013.

40. COMMITMENTS

R million	Group 2014	Group 2013
40.1 Capital commitments		
Capital expenditure approved but not contracted for at the reporting date is as follows:		
Property and equipment	**196**	46
Intangible assets	**177**	145
	373	191
40.2 Operating lease commitments		
Discovery has various operating lease agreements. Most leases contain renewal options. Lease terms do not contain restrictions on Discovery's activities concerning dividends, additional debt or further leasing.		
Discovery leases certain computer and office equipment under operating leases. The remaining periods of the leases are from one month to five years. The future minimum commitments are as follows:		
Due within one year	**63**	65
Due within two to five years	**80**	119
Cash flow commitment	**143**	184
Discovery leases certain land and buildings under operating leases. The remaining periods of the leases are from nine months to eighteen years. The future minimum commitments in terms of the leases of land and buildings, including Discovery's operational head office, are as follows:		
Due within one year	**205**	168
Due within two to five years	**659**	491
Due after five years	**5 472**	25
Cash flow commitment	**6 336**	684
Accrued to a liability (refer to note 22)	**(40)**	(46)
Net commitment	**6 296**	638

In February 2014, Discovery concluded an agreement to develop Discovery's new head office and is expecting to take occupation on 1 January 2018. The initial rental will be approximately R233 million per annum and will escalate at a rate of 7% per annum compounded annually. The initial lease period, commencing 1 November 2017, is for 15 years with the option to renew.

41. CONTINGENCIES

The Group is exposed to the following contingencies at 30 June 2014:
A claim of USD 14 million has been instituted for fees, ongoing compensation and damages, against The Vitality Group by a consulting company for services allegedly rendered. The Vitality Group believes that the claim is without merit and is defending the matter. The Vitality Group has filed two counter claims totalling USD 2 million in this matter.

42. RELATED PARTIES

List of related parties as defined:

Subsidiaries

Details of subsidiaries directly owned by Discovery Limited are contained in Company note 1.

Associates and Joint Ventures

Details of Discovery's associates and joint ventures are contained in note 9.

Corporate investors

RMI Holdings Limited has a 25.01% shareholding in Discovery Limited. Included in the RMI Holdings group structure are the following subsidiaries which are also considered to be related parties:

- OUTsurance Holdings Limited.
- RMBSI Investments Proprietary Limited.

Discovery did not enter into any transactions with these related parties during the current or prior financial year.

Key management personnel

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

A list of the directors and prescribed officers of Discovery Limited can be found on page 229.

It is not considered necessary to disclose details of key management family members and their influenced or controlled separate entities. To the extent specific transactions have occurred between Discovery and these related parties (as defined in IAS 24) the details are included in the aggregate disclosure contained below under key management and where significant, full details of all relationships and terms of the transactions are provided.

Transactions with related parties

For purposes of this section Discovery Limited will be referred to as the Company and where relevant, amounts are excluding VAT.

Discovery Health Medical Scheme (DHMS)

Discovery Health administers DHMS and provides managed care services for which it charges an administration fee and a managed healthcare fee respectively. These fees are determined on an annual basis and approved by the trustees of DHMS. The fees totalled R4 046 million (2013: R3 714 million). Discovery offers the members of DHMS access to the Vitality programme. Interest between Discovery and DHMS is calculated at call rates on the daily outstanding balance. Interest paid to DHMS amounted to R51 641 (2013: R77 016).

Discovery Third Party Recovery Services (DTPRS) paid DHMS R13.2 million (2013: R19.8 million) to purchase all the risks and rewards of ownership to the claims due from the Road Accident Fund up to 31 December 2013 (2013: up to 31 December 2012).

DTPRS also provides a service to DHMS to recover all claims that are due from the Compensation for Occupational Injuries and Diseases. DTPRS received R10.3 million (2013: R9.1 million) for this service.

Discovery Vitality receives monthly contributions from DHMS members that have activated the Vitality Wellness programme through various product integrations. The membership fees totalled R1 156 million (2013: R992 million).

DHMS owes Discovery R478 million (2013: R415 million) at year-end.

Closed schemes

Discovery Health administers the following restricted membership medical schemes:

- Anglo Medical Scheme (effective 1 January 2014).
- Anglovaal Group Medical Scheme.
- BMW Employees Medical Aid Scheme (effective 1 January 2014).
- LA Health Medical Scheme.
- Lonmin Medical Scheme.
- Naspers Medical Scheme.
- Quantum Medical Aid Society.
- Remedi Medical Scheme.
- Retail Medical Scheme.
- TFG Medical Aid Scheme.
- Tsogo Sun Group Medical Scheme.
- University of KwaZulu-Natal Medical Scheme.

42. RELATED PARTIES continued

Closed schemes continued

Discovery Health charges these schemes administration fees which are determined on an annual basis and approved by the trustees of the respective closed schemes. The fees totalled R330 million (2013: R290 million).

Discovery Vitality receives monthly contributions from the closed scheme members that have activated the Vitality Wellness programme through various product integrations. The membership fees totalled R42 million (2013: R52 million).

Amounts due to Discovery at year-end totalled R40 million (2013: R34 million).

Discovery Franchises

Discovery has established a network of 38 franchises in order to establish a national footprint for its products. Discovery has paid R234 million (2013: R227 million) in fees to the franchises.

The franchises participate in the Acquisition Scheme (refer to note 33 for further details). During the year, R11 million (2013: R14 million) was accrued for in terms of this scheme.

The Discovery Foundation

The Discovery Foundation was launched in 2006 and is an independent shareholder of Discovery, with its own trustees. It forms one arm of Discovery's Black Economic Empowerment transaction. The principal aim of the Discovery Foundation is to invest in the education and training of medical specialists and the development of academic and research centers, with particular focus on those areas with greatest need.

The Discovery Foundation received contributions from Discovery of R18.4 million during the year (2013: R15 million). Discovery also paid a management fee of R2 million (2013: R2 million).

The Discovery Fund

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

The Discovery Fund received contributions from Discovery of R19.8 million during the year (2013: R16.3 million). Discovery also paid a management fee of R1 million (2013: R1 million).

Discovery staff retirement funds

A pension and provident fund has been set-up specifically for the Discovery staff. Contributions made to this fund during the year amounted to R119 million (2013: R112 million). The pension and provident fund has invested R526 million (2013: R417 million) in Discovery Invest Target Retirement Funds.

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

(i) Discovery Limited key management personnel's compensation, paid by the Company or on behalf of the Company for services rendered to Discovery Limited, is detailed in the Directorate on pages 229 and 230.

(ii) Aggregate details of insurance, annuity and investment transactions between Discovery Limited, any subsidiary, associate or joint venture of Discovery Limited and key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management:

Insurance contracts

	Aggregate insured cover		Premiums received		Claims paid	
R'000	2014	2013	2014	2013	2014	2013
Life insurance	**563 853**	473 909	**3 365**	2 822	**–**	–
Short-term insurance	**376 460**	272 584	**1 657**	1 137	**467**	664

Investment contracts

	Investment value		Premiums received		Withdrawal benefits		Investment returns	
R'000	2014	2013	2014	2013	2014	2013	2014	2013
Investment contacts	**51 852**	43 063	**2 127**	28 238	**(653)**	–	**7 316**	4 458

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

PruHealth health insurance

	Premiums received		Claims paid	
R'000	2014	2013	2014	2013
Health insurance	**21**	15	**–**	185

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

Vitality loyalty programme

	Premiums received		Amounts paid	
R'000	2014	2013	2014	2013
Vitality benefits	**28**	24	**549**	301

DiscoveryCard

	Card fees received		Discounts paid	
R'000	2014	2013	2014	2013
DiscoveryCard	**164**	152	**109**	93

Key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management accrued 399 364 Discovery miles as part of the DiscoveryCard loyalty programme for the year ended 30 June 2014 (2013: 228 576).

(v) Loans from subsidiary companies to key management personnel amounted to R4.8 million at 30 June 2014 (2013: R15.2 million). Interest received on these loans amounted to R0.4 million (2013: R0.7 million).

(vi) Aggregate shareholdings of key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management, in Discovery Limited as at 30 June 2014 was 88 155 064 ordinary shares (2013: 91 561 063 ordinary shares).

Notes to the annual **financial statements**

for the year ended 30 June 2014 continued

42. RELATED PARTIES continued

(vii) During the current financial year the following transactions occurred between Discovery and key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management:

- Discovery acquired paintings to the value of R0.4 million (2013: R1.2 million) from a company controlled by a family member of key management personnel.
- Sponsorship and enterprise development grants to the value of R2.6 million (2013: R1.5 million) were made to organisations where members of key management personnel have significant influence.
- Discovery paid R2.9 million (2013: R1 million) in legal fees to a company in which a non-executive director of Discovery has significant influence.

43. EVENTS AFTER REPORTING DATE

African Bank Investments Limited

After year-end there was a credit event reported for African Bank Investments Limited. Discovery is only affected through indirect money market and equity unit trust investments and the exposure for shareholders and policyholders is immaterial.

B preference share cash dividend declaration:

On 28 August 2014, the directors declared a gross cash dividend of 442,19178 cents (375,86301 cents net of dividend withholding tax) per B preference share for period 1 January 2014 to 30 June 2014. The dividend has been declared from income reserves and no secondary tax on companies' credits has been used. 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 were as follows:

Last day of trade to receive a dividend	Friday, 12 September 2014
Shares commence trading "ex" dividend	Monday, 15 September 2014
Record date	Friday, 19 September 2014
Payment date	Monday, 22 September 2014

B preference share certificates may not be dematerialised or rematerialised between Monday, 15 September 2014 and Friday, 19 September 2014, both days inclusive.

Ordinary share cash dividend declaration:

On 2 September 2014, the directors declared a final gross cash dividend of 78.0 cents per ordinary share, out of income reserves for the year ended 30 June 2014. The Company has utilised secondary tax on companies' credits amounting to 2,52980 cents per share. The balance of the dividend of 75,47020 cents per share will be subject to a dividend withholding tax at a rate of 15%, which will result in a net dividend of 66,67947 cents per share to those shareholders who are not exempt.

The issued ordinary share capital at the declaration date is 591 872 390 ordinary shares.

The salient dates for the dividend were as follows:

Last day of trade to receive a dividend	Friday, 3 October 2014
Shares commence trading "ex" dividend	Monday, 6 October 2014
Record date	Friday, 10 October 2014
Payment date	Monday, 13 October 2014

Share certificates may not be dematerialised or rematerialised between Monday, 6 October 2014 and Friday, 10 October 2014, both days inclusive.

44. CHANGES IN ACCOUNTING POLICIES

44.1 IFRS 10: Consolidated financial statements

Under IFRS 10, subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when it has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Discovery has applied IFRS 10 retrospectively in accordance with the transition provisions of IFRS 10. Discovery consequently re-examined the impact of this standard on all its investments and this resulted in certain reclassifications of investments in the Discovery Unit Trusts and PruProtect.

Discovery Unit Trusts (DUT)

Previously, investments in the Discovery Unit Trusts in which Discovery had an economic interest of less than 50% of the total fund value were designated as financial assets. The adoption of IFRS 10 has resulted in the consolidation of all Discovery Unit Trusts even if the economic interest is less than 50% as Discovery has significant power to direct the relevant activities of the fund and has sufficient exposure to the variable returns of the funds.

PruProtect

PruProtect is a contractual arrangement established by Prudential and Discovery, giving Discovery the ability to sell life insurance in the UK market in Prudential's long-term fund. In the past, Discovery has consolidated this segment of the Prudential's long-term fund. Under IFRS 10, PruProtect does not meet the definition of an entity for consolidation purposes and therefore cannot be consolidated. The PruProtect contractual arrangement was reconsidered and it was considered most appropriate to account for the contract as a reinsurance contract under IFRS 4. PruProtect sells the insurance policy using Prudential's license and passes the risks and rewards onto the Discovery Group using the contractual arrangement. The net result will be the same as if PruProtect was consolidated as a subsidiary, but certain lines within the income statement and statement of financial position will be disclosed differently. The segmental disclosure for PruProtect is unchanged from prior years but an additional column has been added to show the adjustments to account for the PruProtect business as a reinsurance contract in the IFRS income statement.

The tables below show the effects on the statement of financial position, the income statement and the statement of cash flows. There was no effect on the statement of other comprehensive income, statement of changes in equity and earnings per share.

Impact on statement of financial position

	30 June 2013			1 July 2012		
R million	DUT	PruProtect	Total adjustments	DUT	PruProtect	Total adjustments
Assets:						
Assets arising from insurance contracts	–	(9)	(9)	–	(90)	(90)
Financial assets						
– Equity securities	241	–	241	4 274	–	4 274
– Debt securities	29	–	29	265	–	265
– Inflation linked securities	36	–	36	64	–	64
– Money market securities	16	–	16	–	–	–
– Loans and receivables including insurance receivables	1	(178)	(177)	53	(368)	(315)
Reinsurance contracts	–	(11)	(11)	–	–	–
Cash and cash equivalents	41	–	41	955	–	955
Total increase/(decrease)	364	(198)	166	5 611	(458)	5 153
Liabilities:						
Liabilities arising from insurance contracts	–	(11)	(11)	–	–	–
Liabilities arising from reinsurance contracts	–	(9)	(9)	–	(90)	(90)
Financial liabilities						
– Investment contracts at fair value through profit or loss	361	–	361	5 397	–	5 397
– Trade and other payables	3	(178)	(175)	214	(368)	(154)
Total increase/(decrease)	364	(198)	166	5 611	(458)	5 153
Equity:						
Retained earnings	–	–	–	–	–	–

44. CHANGES IN ACCOUNTING POLICIES continued

Impact on the income statement

R million	Year ended June 2013 DUT	PruProtect	Total adjustments
Insurance premium revenue	–	(190)	(190)
Reinsurance premiums	–	190	190
Net fair value gains on financial assets at fair value through profit or loss	30	–	30
Claims and policyholders' benefits	–	111	111
Insurance claims recovered from reinsurers	–	(111)	(111)
Acquisition costs	–	(124)	(124)
Marketing and administration expenses	–	(105)	(105)
Transfer from assets/liabilities under insurance contracts			
– change in assets arising from insurance contracts	–	90	90
– change in liabilities arising from reinsurance contracts	–	(90)	(90)
Fair value adjustment to liabilities under investment contracts	(30)	–	(30)
Finance costs	–	127	127
Profit before tax	–	(102)	(102)
Income tax expense	–	102	102
Net increase/(decrease) on profit for the year	–	–	–

Impact on statement of cash flows

R million	Year ended June 2013 DUT	PruProtect	Total adjustments
Cash flow from operating activities	(910)	–	(910)
Cash generated by operations	(3 678)	85	(3 593)
Net purchases of investments held to back policyholder liabilities	2 768	–	2 768
Interest paid	–	127	127
Taxation paid	–	(212)	(212)
Cash flow from investing activities	(4)	–	(4)
Net purchases of financial assets	(4)	–	(4)
Net decrease in cash and cash equivalents	(914)	–	(914)
Net increase in cash and cash equivalents at the beginning of the year	955	–	955
Net increase in cash and cash equivalents at the end of the year	41	–	41

44.2 Accounting policy change for insurance contracts – recognition and measurement

Previously, the valuation for policyholder liabilities of South African policies did not include contractual inflation related premium increases or any associated increase in cover levels at the valuation date. The valuation has been changed to include all contractual premium and benefit increases. Discovery believes the change provides more relevant information as these increases are contractual.

In accordance with IAS 8, the change has been applied retrospectively but has resulted in no change to the current or prior year results.

Discovery Limited

Company statement of **financial position**
at 30 June 2014

R million	Notes	Company 2014	Company 2013
Assets			
Investments in subsidiaries	1	**5 656**	5 271
Investment in associate	2	**399**	263
Financial assets			
– Money market	4	**303**	539
– Debt securities	4	**405**	–
– Derivatives	9	**–**	13
– Loans and receivables		**–**	39
– Loan to subsidiary	5	**1 071**	871
Cash and cash equivalents	13.3	**2**	*
Total assets		**7 836**	6 996
Equity			
Capital and reserves			
Ordinary share capital and share premium	6.1	**2 773**	1 744
Preference share capital	6.2	**779**	779
Other reserves		**304**	319
Retained earnings		**2 533**	3 144
Total equity		**6 389**	5 986
Liabilities			
Financial liabilities			
– Borrowings at amortised cost	7	**402**	402
– Derivatives	8	**3**	8
– Trade and other payables		**926**	530
Deferred income tax	9	**115**	65
Current income tax liabilities		**1**	5
Total liabilities		**1 447**	1 010
Total liabilities and equity		**7 836**	6 996

* *Amount is less than R500 000.*

Discovery Limited

Company statement of **comprehensive income**

for the year ended 30 June 2014

R million	Notes	Company 2014	Company 2013
Investment income	10	**895**	1 957
Marketing and administration expenses		**(12)**	(19)
Net impairment of investment in subsidiaries	11	**(685)**	421
Profit from operations		**198**	2 359
Finance costs		**(38)**	(40)
Foreign exchange gains		**172**	135
Profit before tax		**332**	2 454
Taxation	12	**(61)**	(46)
Profit for the year		**271**	2 408
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Change in available-for-sale financial assets		**4**	2
– unrealised gains		**4**	2
– capital gains tax on unrealised gains		*****	*
Cash flow hedges		**(19)**	19
– unrealised gains/(losses)		**(4)**	17
– deferred tax on unrealised gains/losses		**1**	(1)
– current tax on unrealised gains/losses		**–**	(4)
– (gains)/losses recycled to profit or loss		**(17)**	9
– tax on gains/losses recycled to profit or loss		**1**	(2)
Other comprehensive income for the year, net of tax		**(15)**	21
Total comprehensive income for the year		**256**	2 429

** Amount is less than R500 000.*

Discovery Limited

Company statement of **cash flows**

for the year ended 30 June 2014

R million	Notes	Company 2014	Company 2013
Cash flow from operating activities		**1 234**	1 261
Cash generated by operations	13.1	**418**	(613)
Dividends received		**813**	1 896
Interest received		**53**	26
Interest paid		**(38)**	(40)
Taxation paid	13.2	**(12)**	(8)
Cash flow from investing activities		**(1 379)**	(523)
Increase investment in subsidiary		**(1 083)**	(507)
Increase investment in associate		**(132)**	(16)
Purchase of financial assets		**(164)**	–
Cash flow from financing activities		**147**	(740)
Proceeds from issuance of ordinary shares		**1 030**	–
Share issue costs		**(1)**	–
Share buy-back		******	–
Dividends paid to ordinary shareholders		**(814)**	(672)
Dividends paid to preference shareholders		**(68)**	(68)
Net increase/(decrease) in cash and cash equivalents		**2**	(2)
Cash and cash equivalents at beginning of the year		*****	2
Cash and cash equivalents at end of the year	13.3	**2**	*

** Amount is less than R500 000.*
*** The amount R12 441.*

Discovery Limited

Company statement of **changes in equity**

for the year ended 30 June 2014

R million	Share capital	Share premium	Preference share capital	Hedging reserve	Share-based payment reserve	Revaluation reserve*	Retained earnings	Total
Year ended 30 June 2013								
At beginning of the year	1	1 743	779	(2)	300	–	1 476	4 297
Total comprehensive income for the year	–	–	–	19	–	2	2 408	2 429
Profit for the year	–	–	–	–	–	–	2 408	2 408
Other comprehensive income	–	–	–	19	–	2	–	21
Transactions with owners	–	–	–	–	–	–	(740)	(740)
Dividends paid to ordinary shareholders	–	–	–	–	–	–	(672)	(672)
Dividends paid to preference shareholders	–	–	–	–	–	–	(68)	(68)
Balance at 30 June 2013	1	1 743	779	17	300	2	3 144	5 986
Year ended 30 June 2014								
At beginning of the year	**1**	**1 743**	**779**	**17**	**300**	**2**	**3 144**	**5 986**
Total comprehensive income for the year	–	–	–	**(19)**	–	**4**	**271**	**256**
Profit for the year	–	–	–	–	–	–	**271**	**271**
Other comprehensive income	–	–	–	**(19)**	–	**4**	–	**(15)**
Transactions with owners	–	**1 029**	–	–	–	–	**(882)**	**147**
Issue of capital	–	**1 030**	–	–	–	–	–	**1 030**
Share issue costs	–	**(1)**	–	–	–	–	–	**(1)**
Dividends paid to ordinary shareholders	–	–	–	–	–	–	**(814)**	**(814)**
Dividends paid to preference shareholders	–	–	–	–	–	–	**(68)**	**(68)**
Balance at 30 June 2014	**1**	**2 772**	**779**	**(2)**	**300**	**6**	**2 533**	**6 389**

** This reserve relates to the revaluation of available-for-sale financial assets.*

Discovery Limited

Notes to the **annual financial statements**

for the year ended 30 June 2014

1. INVESTMENTS IN SUBSIDIARIES

	Issued ordinary capital R million		Effective percentage holding %		Investment in subsidiaries[3] R million		Amounts owing to subsidiary[4] R million	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Discovery Life	**1 416**	1 416	**100**	100	**1 697**	1 697	–	–
Discovery Health	**271**	271	**100**	100	**469**	469	**919**	521
Discovery Vitality	*	*	**100**	100	**7**	7	–	–
Discovery Vitality International Asia	**124**	32	**100**	100	**113**	26	–	–
Discovery Life Investment Services	**3**	3	**100**	100	**3**	3	–	–
Discovery Life Collective Investments	**15**	15	**100**	100	**15**	15	–	–
Discovery Insure	**745**	411	**100**	75	**374**	111	–	–
Destiny Health Inc.[1]	**1 790**	1 574	**99**	99	**48**	–	–	–
Discovery Group Europe Limited[2]	**2 943**	2 943	**100**	100	**2 930**	2 943	–	–
					5 656	5 271	**919**	521

** Amount is R1 000.*

(1) Incorporated in the United States of America.
(2) Previously Discovery Offshore Holdings Limited, incorporated in England and Wales.
(3) Investments in subsidiaries include cost less impairments and the value of share options issued to subsidiary staff.
(4) Included in trade and other payables.

Discovery Limited has pledged its share investment in Discovery Life Limited as security for the borrowings raised. See Company note 7 for details of the borrowings.

2. INVESTMENT IN ASSOCIATE

R million	Company 2014	Company 2013
Investment in Ping An Health	**399**	263

Refer to Group note 9 for detailed disclosure of the investment in associate.

3. INVESTMENT IN JOINT VENTURE

Refer to Group note 10 for detailed disclosure of the investment in joint venture.	–	–

4. FINANCIAL ASSETS – INVESTMENTS

Available-for-sale financial assets:		
– Debt securities	**405**	–
– Money market	**303**	539
	708	539

A collateral cession for the full proceeds of the Company's endowment policy has been noted in favour of FirstRand Bank Limited. At 30 June 2014, the endowment policy comprises R405 million in debt securities.

In notes 4.1 to 4.3, the look-through basis has been applied to the financial assets, to assist in the identification of Discovery's financial risks.

4. FINANCIAL ASSETS – INVESTMENTS continued

4.1 Interest rate risk

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

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

R million	Carrying amount	Fixed	Floating	Non-interest bearing
2014				
Available-for-sale financial assets:				
– Debt securities	**345**	**19**	**326**	**–**
– Money market securities	**363**	**56**	**307**	**–**
Loan to subsidiary	**1 071**	**–**	**1 071**	**–**
Cash and cash equivalents	**2**	**–**	**2**	**–**
	1 781	**75**	**1 706**	**–**
2013				
Available-for-sale financial assets:				
– Money market securities	539	–	539	–
Loan to subsidiary	871	–	871	–
Cash and cash equivalents	*	–	*	–
	539	–	539	–

* *Amount is less than R500 000.*

4.2 Credit risk

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

Key areas where Discovery Limited is exposed to credit risk are:

- **Financial assets comprising money market and debt instruments** – Discovery Limited is exposed to the issuer's credit standing on these instruments which is monitored by the CCIC by setting a minimum credit rating. The aggregate credit risk exposure for financial assets categorised by credit ratings is provided in the table below.
- **Cash and cash equivalents** – This risk is managed by monitoring exposure to external financial institutions against approved limits per institution. Credit ratings are provided below.

The following table provides information regarding the credit risk exposure categorised by Fitch credit ratings:

R million	Total	AAA	AA+ AA AA-	A+ A A-	BBB	Not rated
2014						
Available-for-sale financial assets:						
– Debt securities	**345**	**17**	**202**	**105**	**21**	**–**
– Money market securities	**363**	**13**	**299**	**51**	*	**–**
Cash and cash equivalents	**2**	**–**	**–**	**–**	**2**	**–**
	710	**30**	**501**	**156**	**23**	**–**
2013						
Available-for-sale financial assets:						
– Money market securities	539	–	539	–	–	–
Cash and cash equivalents	*	–	–	–	*	–
	539	–	539	–	*	–

* *Amount is less than R500 000.*

4.3 Liquidity risk

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

Cash flow forecasting is performed by Discovery Limited and liquidity requirements are monitored to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Company's debt financing plans and covenant compliance.

Cash held by Discovery Limited is managed by treasury. Treasury invests it in interest-bearing accounts, time deposits and money-market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide headroom as determined by the above-mentioned forecasts. At the reporting date, Discovery Limited had money market funds and cash and cash equivalents of R365 million (2013: R539 million).

4. FINANCIAL ASSETS – INVESTMENTS continued

The table below analyses Discovery Limited's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date:

R million	Total	<1 year	1 – 5 years	5 – 10 years	>10 years	Open ended
2014						
Borrowings net of interest rate swap*	**514**	**35**	**479**	**–**	**–**	**–**
Trade and other payables	**926**	**921**	**–**	**–**	**–**	**5**
	1 440	**956**	**479**	**–**	**–**	**5**
2013						
Borrowings net of interest rate swap*	574	41	533	–	–	–
Trade and other payables	530	526	–	–	–	4
	1 104	567	533	–	–	4

* *These amounts do not agree to the statement of financial position as these are the undiscounted contractual payments.*

5. LOAN TO SUBSIDIARY

R million	Company 2014	Company 2013
Balance at beginning of the year	**871**	701
Exchange differences	**172**	135
Interest receivable	**28**	35
	1 071	871

The loan granted to Discovery Group Europe Limited consists of two tranches of GBP 35.5 million and GBP 14.5 million, repayable on 7 September 2017 and 23 December 2015 respectively and carry interest at 400 base points above LIBOR.

6. SHARE CAPITAL AND SHARE PREMIUM

6.1 Ordinary share capital and share premium

Authorised		
1 billion ordinary shares with a par value 0.1 cent per share	**1 000**	1 000
Issued		
591 872 390 ordinary shares with a par value 0.1 cent per share	**1**	1
Share premium	**2 772**	1 743
At 30 June	**2 773**	1 744

6.2 Preference share capital

Authorised		
20 000 000 class B voluntarily redeemable non-convertible preference shares of R100 each	**2 000**	2 000
Issued		
8 000 000 class B voluntarily redeemable non-convertible preference shares of R100 each	**800**	800
Share issue costs	**(21)**	(21)
At 30 June	**779**	779

The preference shares are non-cumulative, non-participating, non-convertible, voluntarily redeemable no par value preference shares and were issued at a coupon rate of 85% of prime rate. With the introduction of dividend withholding tax on 1 April 2012, the coupon rate on the preference shares was increased to 100% of the prime rate.

7. BORROWINGS AT AMORTISED COST

R million	Company 2014	Company 2013
Bank borrowings	**402**	402
Current	**2**	2
Non-current	**400**	400
	402	402

Bank borrowings
In order to fund the acquisition of Standard Life Healthcare, Discovery borrowed R400 million from FirstRand Bank Limited. The salient terms of the loan are the following:

Lender:	FirstRand Bank Limited
Type of borrowings:	Senior debt
Interest rate:	Floating
Security:	Pledge of shares in Discovery Life Limited
Maturity date:	10 September 2017
Callable/Convertible:	Not applicable

The borrowings are repayable on maturity. Interest is paid quarterly. The interest rate has been fixed through interest rate swaps.

The loan agreement imposes certain restrictions on Discovery's operations, including a limitation on total borrowings. A breach of these restrictions would require immediate repayment of any outstanding balance.

8. DERIVATIVE FINANCIAL INSTRUMENTS

R million	2014 Assets	2014 Liabilities	2013 Assets	2013 Liabilities
Collar option	–	–	13	–
Interest rate swap	–	**3**	–	8
	–	**3**	13	8
Current	–	–	13	–
Non-current	–	**3**	–	8
	–	**3**	13	8

Refer to page 171 and 174 for a detailed description of the derivative financial instruments listed above.

9. DEFERRED INCOME TAX

R million	Company 2014	Company 2013
Deferred tax asset	**1**	–
– Current	**–**	–
– Non-current	**1**	–
Deferred tax liability	**(116)**	(65)
– Non-current	**(116)**	(65)
	(115)	(65)
Movement summary:		
Balance at beginning of the year	**(65)**	(24)
Deferred tax on cash flow hedge charged to other comprehensive income	**(2)**	(3)
Deferred tax on unrealised foreign exchange gains on loan to subsidiary	**(48)**	(38)
Balance at end of the year	**(115)**	(65)
Deferred taxation comprises:		
Capital gains tax on unrealised gains on available-for-sale financial instruments	*	*
Cash flow hedge	**1**	2
Unrealised forex gain	**(116)**	(67)
	(115)	(65)

* *Amount is less than R500 000.*

10. INVESTMENT INCOME

Available-for-sale interest income	**13**	23
Dividends received from subsidiaries	**813**	1 896
At amortised cost interest income	**43**	35
Cash and cash equivalents interest income	**26**	3
	895	1 957

11. NET IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES

Destiny Health Inc.	**168**	136
Discovery Insure	**423**	149
Discovery Vitality Asia	**94**	6
	685	291
Discovery Group Europe Limited – impairment reversed	**–**	(712)
	685	(421)

12. TAXATION

South African normal taxation		
Current tax	**13**	8
Prior year under provision	*	–
Deferred tax	**48**	38
	61	46
	%	**%**
Taxation rate reconciliation		
Effective taxation rate	**18.29**	1.85
Prior year under provision	**(0.09)**	–
Permanent differences	**9.80**	26.15
Standard rate of taxation	**28.00**	28.00

* *Amount is less than R500 000.*

13. CASH FLOW INFORMATION

R million	Company 2014	Company 2013
13.1 Cash generated by operations		
Profit before taxation	**332**	2 454
Adjusted for:		
Investment income	**(895)**	(1 957)
Finance costs	**38**	40
Unrealised foreign exchange gain	**(172)**	(135)
Non-cash items:		
Impairment of investments in subsidiaries	**685**	(421)
Working capital changes:		
Loans and receivables	**34**	60
Trade and other payables	**396**	(654)
	418	(613)
13.2 Taxation paid		
Balance at beginning of the year	**(5)**	(2)
Taxation charged for the year in the statement of comprehensive income	**(61)**	(46)
Taxation charged to other comprehensive income	**–**	(4)
Adjustment for movement in deferred taxation	**48**	38
Amount due from SARS transferred from subsidiary	**5**	1
Balance at end of the year	**1**	5
	(12)	(8)
13.3 Cash and cash equivalents		
Cash at bank and in hand	**2**	*

* *Amount is less than R500 000.*

14. CONTINGENCIES

Discovery Limited has provided the following guarantees:

- Discovery Limited has provided a guarantee in favour of HSBC Bank in the amount of USD 3 million for the working capital facility of Destiny Health Inc.
- In terms of the shareholders' agreement between Discovery Group Europe Limited, The Prudential Assurance Company Limited and Prudential Health Limited, Discovery Limited has guaranteed the obligations of Discovery Group Europe Limited to The Prudential Assurance Company Limited and Prudential Health Limited in terms of this agreement.
- Discovery Health Proprietary Limited provides certain administration and ancillary services to PruHealth in terms of the Insurance Intermediary Services agreement. Discovery Limited has guaranteed the obligations of Discovery Health Proprietary Limited in terms of this agreement.
- PruHealth has provided certain volume guarantees to its reinsurance providers. Discovery Limited has guaranteed these obligations.
- In terms of the Master Relationship Agreement with Humana Inc., Discovery Limited has guaranteed the obligations of The Vitality Group LLC to Humana Inc.
- In terms of the Joint Venture Agreement with AIA Company Limited, Discovery Limited has guaranteed the obligations of Discovery Vitality International Asia Private Limited to AIA Company Limited in terms of this agreement.
- In terms of the agreement entered into with Digicore Holdings Limited and C-Track (SA) Proprietary Limited, Discovery Limited has guaranteed the obligations of Discovery Insure to Digicore Holdings Limited.
- In terms of the agreement entered into with Hannover Reinsurance, Discovery Limited has guaranteed the obligations of Discovery Insure to Hannover Reinsurance.

15. SPECIAL RESOLUTIONS

Refer to page 109 of the Directors' Report for a list of the special resolutions approved during the current financial year.

16. EVENTS AFTER REPORTING DATE

Refer to Group note 43 for a list of the events after reporting date.

Directorate

for the year ended 30 June 2014

DISCOVERY LIMITED'S DIRECTORS AND PRESCRIBED OFFICERS

Executive directors

A Gore
R Farber
HD Kallner
NS Koopowitz
HP Mayers
Dr A Ntsaluba
A Pollard
JM Robertson
B Swartzberg

Non-executive directors

MI Hilkowitz
HL Bosman (appointed 14 April 2014)
Dr BA Brink
P Cooper (resigned 10 April 2014)
JJ Durand
SB Epstein
Dr TV Maphai
TT Mboweni (appointed 1 January 2014)
AL Owen
SE Sebotsa
T Slabbert
SV Zilwa

Prescribed officers

Dr J Broomberg
K Rabson
Dr P Tlhabi

Company secretary

MJ Botha
155 West Street, Sandton
PO Box 786722, Sandton, 2146

REMUNERATION AND FEES

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	–	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	–	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[2]	75	–	–	–	–	–	75
P Cooper[2]	764	–	–	–	–	–	764
JJ Durand[3]	535	–	–	–	–	–	535
SB Epstein[4]	1 782	–	–	882	–	–	2 664
Dr TV Maphai	370	–	–	–	–	–	370
TT Mboweni	146	–	–	–	–	–	146
AL Owen	2 108	–	–	–	–	–	2 108
SE Sebotsa	633	–	–	5 223	–	–	5 856
T Slabbert[5]	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) Director's fees for services rendered by P Cooper and HL Bosman were paid to Rand Merchant Insurance Holdings Limited.
(3) Director's fees for services rendered by JJ Durand were paid to Remgro Limited.
(4) Included in director's fees for SB Epstein is US$ 100 000 for services rendered as director of TVG Inc.
(5) Director's fees for services rendered by T Slabbert were paid to WDB Investment Holdings Proprietary Limited.

Directorate continued

for the year ended 30 June 2014

REMUNERATION AND FEES continued

Payments to directors for the year ended 30 June 2013 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	–	3 876	5 163	3 090	581	136	12 846
R Farber	–	3 171	3 463	5 424	158	74	12 290
HD Kallner	–	3 268	4 002	10 022	163	87	17 542
NS Koopowitz	732	10 134	10 887	–	579	163	22 495
HP Mayers	–	5 604	6 361	8 236	661	215	21 077
Dr A Ntsaluba	–	2 920	2 435	–	510	89	5 954
A Pollard	–	3 699	1 731	6 078	169	134	11 811
JM Robertson	–	2 779	4 244	5 021	564	60	12 668
B Swartzberg	–	3 431	4 751	7 979	452	89	16 702
Sub-total	732	38 882	43 037	45 850	3 837	1 047	133 385
Prescribed officers							
Dr J Broomberg	–	3 218	4 382	8 200	241	76	16 117
K Rabson	–	2 703	4 118	10 027	337	217	17 402
Dr P Tlhabi	–	2 378	2 013	3 548	128	58	8 125
Sub-total	–	8 299	10 513	21 775	706	351	41 644
Non-executive							
MI Hilkowitz	2 663	–	–	–	–	–	2 663
Dr BA Brink[2]	409	–	–	–	–	–	409
P Cooper[3]	767	–	–	–	–	–	767
JJ Durand[4]	497	–	–	–	–	–	497
SB Epstein[5]	1 505	–	–	223	–	–	1 728
Dr TV Maphai	273	–	–	–	–	–	273
V Mufamadi	137	–	–	–	–	–	137
AL Owen	1 505	–	–	–	–	–	1 505
SE Sebotsa	557	–	–	2 682	–	–	3 239
T Slabbert[6]	544	–	–	–	–	–	544
SV Zilwa	849	–	–	–	–	–	849
Sub-total	9 706	–	–	2 905	–	–	12 611
Total	10 438	47 181	53 550	70 530	4 543	1 398	187 640
Less: paid by subsidiaries	(10 438)	(47 181)	(53 550)	(70 530)	(4 543)	(1 398)	(187 640)
Paid by holding company	–	–	–	–	–	–	–

(1) "Other benefits" comprise medical aid contributions, travel and other allowances.
(2) Director's fees for services rendered by Dr BA Brink were paid to Anglo American South Africa Limited.
(3) Director's fees for services rendered by P Cooper were paid to Rand Merchant Insurance Holdings Limited.
(4) Director's fees for services rendered by JJ Durand were paid to Remgro Limited.
(5) Included in director's fees for SB Epstein is US$ 100 000 for services rendered as director of TVG Inc.
(6) Director's fees for services rendered by T Slabbert were paid to WDB Investment Holdings Proprietary Limited.

DIRECTORS' PARTICIPATION IN SHARE INCENTIVE SCHEMES

Discovery's directors and prescribed officers participate in the various share incentive schemes offer by the Group and their participation is disclosed below. Refer to Group note 33.1 for a detailed description of the various schemes offered.

Discovery Limited phantom share scheme

Directors and prescribed officers participation as at 30 June 2014:

Directors and prescribed officers	Outstanding shares	Date granted	Strike price R	Final vesting date	Value at 30 June 2014 R
J Broomberg	8 075	30/09/2009	–	30/09/2014	**784 486**
	20 000	30/09/2010	–	30/09/2015	**1 943 000**
	31 050	30/09/2011	–	30/09/2016	**3 016 508**
	17 260	30/09/2012	–	30/09/2017	**1 676 809**
	51 780	30/09/2012	54.75	30/09/2017	**2 401 425**
	11 893	30/09/2013	–	30/09/2018	**1 155 405**
	23 786	30/09/2013	84.76	30/09/2018	**727 178**
	84 337	01/07/2013	–	30/06/2017	**8 193 340**
R Farber	13 142	30/09/2009	–	30/09/2014	**1 276 721**
	21 452	30/09/2010	–	30/09/2015	**2 084 013**
	33 375	30/09/2011	–	30/09/2016	**3 242 381**
	18 553	30/09/2012	–	30/09/2017	**1 802 424**
	55 659	30/09/2012	54.75	30/09/2017	**2 581 323**
	13 592	30/09/2013	–	30/09/2018	**1 320 463**
	27 184	30/09/2013	84.76	30/09/2018	**831 061**
	108 434	01/07/2013	–	30/06/2017	**10 534 363**
A Gore	13 142	30/09/2009	–	30/09/2014	**1 276 745**
	21 452	30/09/2010	–	30/09/2015	**2 084 013**
	33 375	30/09/2011	–	30/09/2016	**3 242 381**
	18 553	30/09/2012	–	30/09/2017	**1 802 424**
	55 659	30/09/2012	54.75	30/09/2017	**2 581 323**
	20 388	30/09/2013	–	30/09/2018	**1 980 694**
	40 776	30/09/2013	84.76	30/09/2018	**1 246 591**
	108 434	01/07/2013	–	30/06/2017	**10 534 363**
HD Kallner	8 075	30/09/2009	–	30/09/2014	**784 486**
	21 452	30/09/2010	–	30/09/2015	**2 084 013**
	33 375	30/09/2011	–	30/09/2016	**3 242 381**
	18 553	30/09/2012	–	30/09/2017	**1 802 424**
	55 659	30/09/2012	54.75	30/09/2017	**2 581 323**
	13 592	30/09/2013	–	30/09/2018	**1 320 463**
	27 184	30/09/2013	84.76	30/09/2018	**831 061**
	108 434	01/07/2013	–	30/06/2017	**10 534 363**
NS Koopowitz	180 723	01/07/2013	–	30/06/2017	**17 557 239**
HP Mayers	13 142	30/09/2009	–	30/09/2014	**1 276 745**
	21 452	30/09/2010	–	30/09/2015	**2 084 013**
	33 375	30/09/2011	–	30/09/2016	**3 242 381**
	18 553	30/09/2012	–	30/09/2017	**1 802 424**
	55 659	30/09/2012	54.75	30/09/2017	**2 581 323**
	13 592	30/09/2013	–	30/09/2018	**1 320 463**
	27 184	30/09/2013	84.76	30/09/2018	**831 061**
	108 434	01/07/2013	–	30/06/2017	**10 534 363**
A Ntsaluba	18 553	30/09/2012	–	30/09/2017	**1 802 424**
	55 659	30/09/2012	54.75	30/09/2017	**2 581 323**
	13 592	30/09/2013	–	30/09/2018	**1 320 463**
	27 184	30/09/2013	84.76	30/09/2018	**831 061**
	108 434	01/07/2013	–	30/06/2017	**10 534 363**

Directorate continued

for the year ended 30 June 2014

DIRECTORS' PARTICIPATION IN SHARE INCENTIVE SCHEMES continued

Discovery Limited phantom share scheme continued

Directors and prescribed officers	Outstanding shares	Date granted	Strike price R	Final vesting date	Value at 30 June 2014 R
A Pollard	13 142	30/09/2009	–	30/09/2014	**1 276 745**
	21 452	30/09/2010	–	30/09/2015	**2 084 013**
	33 375	30/09/2011	–	30/09/2016	**3 242 381**
	6 184	30/09/2012	–	30/09/2017	**600 776**
	18 552	30/09/2012	54.75	30/09/2017	**860 395**
	4 587	30/09/2013	–	30/09/2018	**445 627**
	9 175	30/09/2013	84.76	30/09/2018	**280 495**
	144 578	01/07/2013	–	30/06/2017	**14 045 753**
K Rabson	8 075	30/09/2009	–	30/09/2014	**784 486**
	20 000	30/09/2010	–	30/09/2015	**1 943 000**
	31 050	30/09/2011	–	30/09/2016	**3 016 508**
	17 260	30/09/2012	–	30/09/2017	**1 676 809**
	51 780	30/09/2012	54.75	30/09/2017	**2 401 425**
	11 893	30/09/2013	–	30/09/2018	**1 155 405**
	23 786	30/09/2013	84.76	30/09/2018	**727 178**
	84 337	01/07/2013	–	30/06/2017	**8 193 340**
JM Robertson	13 142	30/09/2009	–	30/09/2014	**1 276 745**
	21 452	30/09/2010	–	30/09/2015	**2 084 013**
	33 375	30/09/2011	–	30/09/2016	**3 242 381**
	18 553	30/09/2012	–	30/09/2017	**1 802 424**
	55 659	30/09/2012	54.75	30/09/2017	**2 581 323**
	13 592	30/09/2013	–	30/09/2018	**1 320 463**
	27 184	30/09/2013	84.76	30/09/2018	**831 061**
	108 434	01/07/2013	–	30/06/2017	**10 534 363**
B Swartzberg	13 142	30/09/2009	–	30/09/2014	**1 276 745**
	21 452	30/09/2010	–	30/09/2015	**2 084 013**
	33 375	30/09/2011	–	30/09/2016	**3 242 381**
	18 553	30/09/2012	–	30/09/2017	**1 802 424**
	55 659	30/09/2012	54.75	30/09/2017	**2 581 323**
	13 592	30/09/2013	–	30/09/2018	**1 320 463**
	27 184	30/09/2013	84.76	30/09/2018	**831 061**
	108 434	01/07/2013	–	30/06/2017	**10 534 363**
SE Sebotsa	19 965	01/12/2009	–	30/09/2014	**1 939 600**
	60 000	01/12/2009	28.23	30/09/2014	**4 135 291**
P Tlhabi	8 075	30/09/2009	–	30/09/2014	**784 486**
	17 500	30/09/2010	–	30/09/2015	**1 700 125**
	31 050	30/09/2011	–	30/09/2016	**3 016 508**
	17 260	30/09/2012	–	30/09/2017	**1 676 809**
	51 780	30/09/2012	54.75	30/09/2017	**2 401 425**
	11 893	30/09/2013	–	30/09/2018	**1 155 405**
	23 786	30/09/2013	84.76	30/09/2018	**727 178**
	84 337	01/07/2013	–	30/06/2017	**8 193 340**

DIRECTORS' PARTICIPATION IN SHARE INCENTIVE SCHEMES continued

The Vitality Group Inc. phantom stock plan

Directors and prescribed officers participation as at 30 June 2014:

Directors and prescribed officers	Outstanding shares	Date granted	Exercise price US$	Final vesting date	Value at 30 June 2014 US$
SB Epstein	90 910	01/10/2011	0.55	01/10/2014	**50 000**
	163 636	01/10/2012	0.55	01/10/2015	**90 000**
A Pollard	436 364	01/10/2012	0.55	01/10/2016	**240 000**

The PruHealth and PruProtect phantom share schemes

Directors and prescribed officers participation as at 30 June 2014:

Directors and prescribed officers	Outstanding shares	Date granted	Exercise price GBP	Final vesting date	Value at 30 June 2014 GBP
NS Koopowitz	27 341	01/03/2012	14.63	31/10/2015	**535 063**
	10 000	01/03/2012	10.00	31/10/2015	**405 100**
	23 878	01/11/2013	20.94	31/10/2017	**600 532**

BEE share scheme

Directors and prescribed officers participation as at 30 June 2014:

Directors and prescribed officers	Outstanding shares	Date granted	Exercise price R	Final vesting date	Value at 30 June 2014 R
A Ntsaluba	150 000	30/09/2011	–	30/09/2016	**14 572 500**

Directorate continued

for the year ended 30 June 2014

DIRECTORS' INTERESTS IN SHARES

According to the Register of Directors' Interests, maintained by Discovery in accordance with the provisions of section 30(4)(d) of the Companies Act, directors and prescribed officers of Discovery have disclosed the following interest in the ordinary shares of the Company at 30 June:

Directors and prescribed officers	Direct beneficial	Indirect beneficial	Total 2014	Direct beneficial	Indirect beneficial	Total 2013
R Farber	**226 057**	**–**	**226 057**	226 057	–	226 057
A Gore	**–**	**46 010 492**	**46 010 492**	–	47 222 951	47 222 951
HD Kallner	**167 661**	**–**	**167 661**	167 661	–	167 661
NS Koopowitz	**–**	**1 008 136**	**1 008 136**	–	676 856	676 856
HP Mayers	**312 606**	**7 724 497**	**8 037 103**	312 606	7 724 497	8 037 103
A Ntsaluba	**25 000**	**–**	**25 000**	–	–	–
A Pollard	**1 633 099**	**–**	**1 633 099**	1 633 840	–	1 633 840
JM Robertson	**1 404 439**	**3 390 812**	**4 795 251**	1 404 639	3 390 481	4 795 120
B Swartzberg	**3 484 227**	**20 068 276**	**23 552 503**	3 484 227	22 624 429	26 108 656
Dr J Broomberg	**220 175**	**–**	**220 175**	220 175	–	220 175
K Rabson	**–**	**900 000**	**900 000**	–	900 000	900 000
Dr P Tlhabi	**12 140**	**–**	**12 140**	22 140	–	22 140
H Bosman	**–**	**70 000**	**70 000**	–	–	–
Dr BA Brink	**32 000**	**–**	**32 000**	30 000	–	30 000
P Cooper	**–**	**–**	**–**	55 076	55 016	110 092
SB Epstein	**19 250**	**–**	**19 250**	19 250	–	19 250
Dr TV Maphai	**149**	**1 270 070**	**1 270 219**	149	1 253 335	1 253 484
AL Owen	**30 668**	**–**	**30 668**	30 668	–	30 668
SE Sebotsa	**78 250**	**–**	**78 250**	39 950	–	39 950
SV Zilwa	**–**	**67 060**	**67 060**	–	67 060	67 060
	7 645 721	**80 509 343**	**88 155 064**	7 646 438	83 914 625	91 561 063

There has been no change in the directors' interests in Discovery Limited's shares between 30 June 2014 and the date of publication of this annual report.

Analysis of shareholders

for the year ended 30 June 2014

	Number of shareholders	%	Number of shares	%
Shareholder spread				
1 – 1 000 shares	17 213	70.29	6 076 179	1.03
1 001 – 10 000 shares	5 990	24.46	17 596 977	2.97
10 001 – 100 000 shares	1 022	4.17	31 105 763	5.26
100 001 – 1 000 000 shares	196	0.80	57 536 926	9.72
1 000 001 shares and over	68	0.28	479 556 545	81.02
	24 489	**100.00**	**591 872 390**	**100.00**
Distribution of shares				
Corporate holding	2	0.01	148 048 168	25.01
Charity	11	0.04	1 428 291	0.24
Custodians	30	0.12	5 200 205	0.88
Exchange-traded fund	8	0.03	1 572 943	0.27
Foreign government	2	0.01	222 497	0.04
Hedge fund	8	0.03	954 470	0.16
Black Economic Empowerment	8	0.03	53 461 878	9.03
Pension funds	208	0.85	84 175 344	14.22
Private investor	216	0.88	120 540 990	20.37
Insurance companies	28	0.11	10 030 906	1.69
Investment trusts	7	0.03	2 512 961	0.42
Local authority	2	0.01	131 969	0.02
Unit trusts and mutual funds	293	1.20	95 678 608	16.17
Other managed funds	125	0.51	32 550 118	5.50
University	4	0.02	301 037	0.05
Venture capital	5	0.02	414 801	0.07
Sovereign wealth	29	0.12	17 685 001	2.99
Remainder	23 503	95.98	16 962 203	2.87
	24 489	**100.00**	**591 872 390**	**100.00**
Public/non-public shareholders				
Non-public shareholders	27	0.12	339 476 777	57.35
– Directors of the Company	16	0.07	85 752 679	14.49
– Empowerment*	5	0.02	53 339 398	9.01
– Own holdings	1	0.01	680 268	0.11
– Key management personnel	3	0.01	1 132 315	0.19
– Strategic holdings (more than 5%)	2	0.01	198 572 117	33.55
Public shareholders	24 462	99.88	252 395 613	42.65
	24 489	**100.00**	**591 872 390**	**100.00**

* *Included in empowerment are 1 270 070 shares that are held by a director of Discovery Limited.*

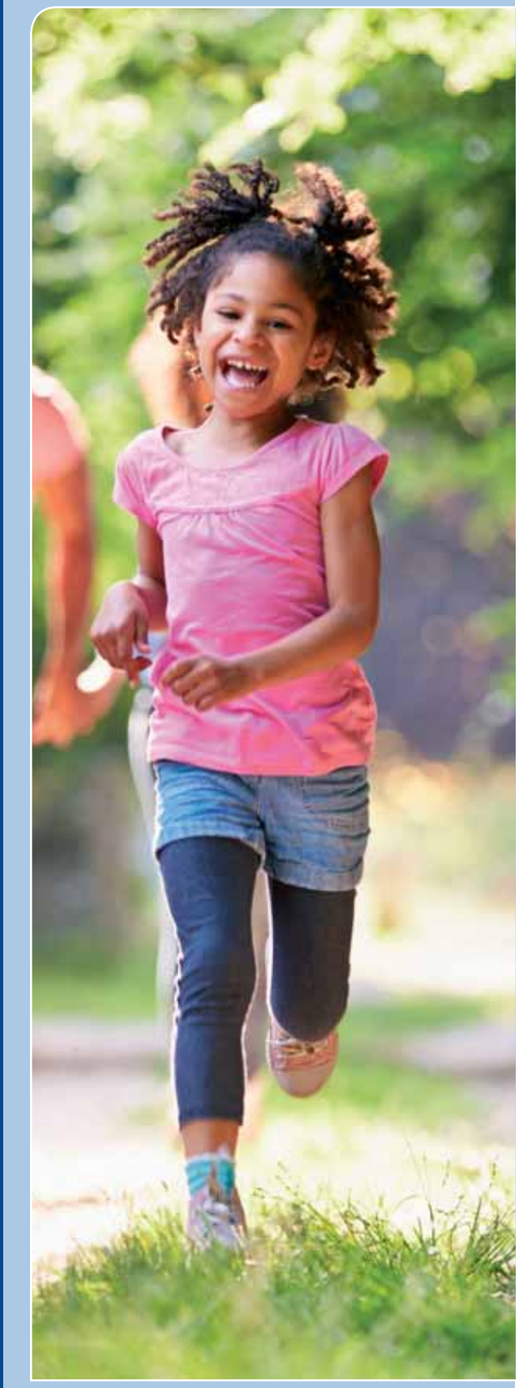
	Number of shares	%
Beneficial shareholders' holding of 5% or more		
Rand Merchant Insurance Holdings Limited	148 048 168	25.01
Government Employees Pension Fund	50 523 949	8.54
A Gore	46 010 492	7.77

EMBEDDED VALUE STATEMENT

AND ADDITIONAL INFORMATION

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Discovery

Five-year **review**

for the year ended 30 June 2014

	Group 2010	Group 2011	Group 2012	Group 2013	Group 2014	Compound growth %
New business API (R million)	7 618	7 543	9 390	10 610	**12 196**	12%
Gross inflows under management (R million)						
Gross inflows under management	41 235	50 052	56 914	65 657	**78 013**	17%
Less: Collected on behalf of third parties	(28 813)	(32 198)	(36 369)	(40 813)	**(46 002)**	12%
Gross income of Group	12 422	17 854	20 545	24 844	**32 011**	27%
Income statement extracts (R million)						
Profit from operations	2 514	2 914	3 553	3 558	**5 058**	19%
Headline earnings	1 545	1 638	2 129	2 062	**3 064**	19%
Abnormal expenses	6	390	187	725	**393**	
Normalised headline earnings	1 551	2 028	2 316	2 787	**3 457**	22%
Diluted normalised headline earnings per share (cents)	278.8	365.5	416.9	496.0	**595.9**	21%
Statement of financial position extracts (R million)						
Total assets	20 994	30 905	45 815	55 099	**72 196**	36%
Shareholders' funds	8 382	8 973	11 731	13 708	**17 411**	20%
Embedded value						
Embedded value (R million)	22 558	26 890	30 246	35 721	**43 050**	18%
Diluted embedded value per share (R)	40.31	47.86	53.78	63.30	**74.13**	16%
Key ratios						
Return on average equity (%)	22	30	21	17	**21**	
Return on average assets (%)	10	10	6	4	**5**	
Capital adequacy requirement (times)	8.0	3.6	4.4	4.0	**3.8**	
Exchange rates						
Rand/US$						
– Closing	7.66	6.77	8.19	10.01	**10.63**	
– Average	7.59	6.96	7.78	8.94	**10.43**	
Rand/GBP						
– Closing	11.48	10.84	12.83	15.22	**18.17**	
– Average	11.96	11.08	12.35	13.98	**17.06**	
Share statistics						
Number of ordinary shares in issue						
– Weighted average (000's)	554 117	554 847	554 930	554 165	**565 471**	
– Diluted weighted average (000's)	556 257	555 056	555 538	561 843	**580 047**	
– End of period (000's)	591 953	591 872	591 872	591 872	**591 872**	
Price/diluted headline earnings (times)	12.6	10.5	12.5	16.9	**16.3**	
Share price (cents per share):						
– High	3 700	4 095	5 233	8 700	**9 831**	
– Low	2 535	3 410	5 174	5 280	**7 110**	
– Closing	3 505	3 855	5 200	8 406	**9 715**	
Market capitalisation (R million)	20 748	22 817	30 777	49 753	**57 500**	

Assurance report **of the independent auditors**
for the year ended 30 June 2014

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 2014, as set out on pages 239 to 247 (the "Report"). The Report is prepared for the purpose of setting out the embedded value of the Group for the year-ended 30 June 2014. The directors of Discovery Limited are responsible for the preparation and presentation of the Report in accordance with the basis set out on page 239 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 239 of the embedded value statement.

Basis of Accounting
Without modifying our conclusion, we draw attention to page 239 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 2014. 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 2014 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: **Andrew Taylor**
Registered Auditor

Sunninghill
2 September 2014

Embedded **value statement**
for the year ended 30 June 2014

The embedded value of Discovery at 30 June 2014 consists of the following components:
- the free surplus attributed to the covered 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 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 subsidiaries 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 PruProtect, PruHealth and PruHealth Insurance Limited (previously Standard Life Healthcare). For The Vitality Group (USA), AIA Vitality, 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 August 2010, Discovery acquired Standard Life Healthcare and increased its shareholding in the Prudential joint venture from 50% to 75%. During 2011, Discovery announced a venture with Humana in the United States and launched a short term insurer, Discovery Insure in South Africa. Put options were granted to the non-controlling parties in these subsidiaries. The put option entitles the non-controlling party to sell its interest in the subsidiary to companies within the Discovery Group at specified future dates.

In December 2013, following regulatory approval, Discovery Limited purchased Discovery Insure's preference shareholders' 25% shareholding in Discovery Insure for R352 million. Discovery Limited now holds 100% of the issued capital of Discovery Insure.

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.

In August 2011, Discovery raised R800 million through the issue of non-cumulative, non-participating, non-convertible preference shares. For embedded value purposes, the capital raised, 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 2014. A copy of the auditors' unqualified review report is available for inspection at the company's registered office.

Embedded **value statement**

for the year ended 30 June 2014 continued

TABLE 1: GROUP EMBEDDED VALUE

R million	30 June 2014	30 June 2013	% change
Shareholders' funds	**17 411**	13 706	27
Adjustment to shareholders' funds from published basis[1]	**(11 799)**	(9 611)	
Adjusted net worth	**5 612**	4 095	
– Free surplus	**2 311**	1 338	
– Required capital[2]	**3 301**	2 757	
Value of in-force covered business before cost of required capital	**38 368**	32 383	
Cost of required capital	**(930)**	(757)	
Discovery Limited embedded value	**43 050**	35 721	21
Number of shares (millions)[3]	**574.1**	554.0	
Embedded value per share	**R74.98**	R64.48	16
Diluted number of shares (millions)	**591.2**	591.2	
Diluted embedded value per share[4]	**R74.13**	R63.30	17

(1) A breakdown of the adjustment to shareholders' funds is shown in the table below:

R million	*30 June 2014*	*30 June 2013*
Life net assets under insurance contracts	*(11 691)*	*(9 458)*
PruHealth and PruHealth Insurance Limited deferred acquisition costs	*(243)*	*(190)*
PruProtect receivable relating to the Unemployment Cover benefit	*(34)*	*(32)*
Goodwill and intangible assets (net of deferred tax) relating to the acquisition of Standard Life Healthcare and the Prudential joint venture	*(2 550)*	*(1 983)*
Unwind puttable non-controlling interest liability	*3 511*	*2 663*
Non-controlling share of profits/losses included in retained earnings	*(13)*	*168*
Net preference share capital raised	*(779)*	*(779)*
	(11 799)	*(9 611)*

(2) The required capital at June 2014 for Life is R1 043 million (June 2013: R909 million), for Health and Vitality is R614 million (June 2013: R553 million), for PruHealth and PruHealth Insurance Limited is R1 154 million (June 2013: R987 million) and for PruProtect is R490 million (June 2013: R308 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 PruHealth, 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 PruProtect, the required capital was set equal to the UK Pillar 1 capital requirement.

(3) In December 2013, Discovery's BEE partner, WDB Discovery Investment Proprietary Limited (WDB), refinanced the funding provided by Discovery with a third-party financial institution. This resulted in the delivery of 17 703 273 shares to WDB in respect of the original transaction, as well as 2 567 287 shares that were purchased with the dividends received by WDB.

(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 2014			
Health and Vitality	**13 879**	**(209)**	**13 670**
Life and Invest[1]	**20 701**	**(481)**	**20 220**
PruHealth[2]	**2 762**	**(130)**	**2 632**
PruProtect[2]	**1 026**	**(110)**	**916**
Total	**38 368**	**(930)**	**37 438**
at 30 June 2013			
Health and Vitality	12 405	(190)	12 215
Life and Invest[1]	17 213	(340)	16 873
PruHealth[2]	2 003	(167)	1 836
PruProtect[2]	762	(60)	702
Total	32 383	(757)	31 626

(1) Included in the Life and Invest value of in-force covered business is R735 million (June 2013: R576 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 R18.17/GBP (June 2013: R15.22/GBP). The values for PruHealth and PruProtect reflect Discovery's 75% shareholding in the joint venture.

TABLE 3: GROUP EMBEDDED VALUE EARNINGS

	Year ended	
R million	30 June 2014	30 June 2013
Embedded value at end of period	**43 050**	35 721
Less: Embedded value at beginning of period	**(35 721)**	(30 246)
Increase in embedded value	**7 329**	5 475
Net change in capital	**(1 020)**	21
Dividends paid	**878**	717
Transfer to hedging reserve	**30**	(85)
Embedded value earnings	**7 217**	6 128
Annualised return on opening embedded value	**20.2%**	20.3%

Embedded **value statement**

for the year ended 30 June 2014 continued

TABLE 4: COMPONENTS OF GROUP EMBEDDED VALUE EARNINGS

R million	Year ended 30 June 2014 Net worth	Cost of required capital	Value of in-force covered business	Embedded value	Year ended 30 June 2013 Embedded value
Total profit from new business (at point of sale)	**(1 730)**	**(124)**	**4 102**	**2 248**	1 860
Profit from existing business					
• Expected return	**2 735**	**32**	**467**	**3 234**	2 826
• Change in methodology and assumptions[1]	**676**	**(44)**	**(611)**	**21**	(200)
• Experience variances	**(13)**	**5**	**1 441**	**1 433**	992
Acquisition of Discovery Insure joint venture[2]	**(297)**	**–**	**–**	**(297)**	–
Increase in goodwill and intangibles	**(256)**	**–**	**–**	**(256)**	(22)
Other initiative costs[3]	**(466)**	**–**	**21**	**(445)**	(425)
Non-recurring expenses	**(23)**	**–**	**–**	**(23)**	(19)
Acquisition costs[4]	**(3)**	**–**	**1**	**(2)**	(4)
Finance costs	**(37)**	**–**	**–**	**(37)**	(35)
Foreign exchange rate movements	**466**	**(42)**	**562**	**986**	798
Return on shareholders' funds[5]	**355**	**–**	**–**	**355**	357
Embedded value earnings	**1 407**	**(173)**	**5 983**	**7 217**	6 128

(1) The changes in methodology and assumptions will vary over time to reflect adjustments to the model and assumptions as a result of changes to the operating and economic environment. The current period's changes are described in detail in Table 6 below (for previous periods refer to previous embedded value statements).
(2) This item represents the difference between the purchase price of R352 million and R55 million relating to the minority share of Discovery Insure's tangible net asset value at the acquisition date.
(3) This item reflects Group initiatives including expenses relating to the investment in The Vitality Group, AIA Vitality and Discovery Insure.
(4) Acquisition costs relate to commission paid on Life 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.
(5) The return on shareholders' funds is shown net of tax and management charges.

TABLE 5: EXPERIENCE VARIANCES

R million	Health and Vitality Net worth	Health and Vitality Value of in-force	Life and Invest Net worth	Life and Invest Value of in-force	PruHealth Net worth	PruHealth Value of in-force	PruProtect Net worth	PruProtect Value of in-force	Total
Renewal expenses	(11)	–	13	1	(89)	–	2	–	**(84)**
Other expenses	(8)	–	–	–	–	–	–	–	**(8)**
Lapses and surrenders	29	328	(82)	362	–	(1)	(12)	6	**630**
Mortality and morbidity	–	–	306	(127)	98	–	9	–	**286**
Policy alterations[1]	–	48	(396)	289	–	–	(2)	8	**(53)**
Premium and fee income	24	117	(74)	(72)	–	–	–	–	**(5)**
Economic assumptions	–	–	(4)	219	–	–	–	–	**215**
Commission	–	–	–	–	24	–	–	–	**24**
Tax[2]	(4)	–	174	(193)	(26)	–	(10)	–	**(59)**
Reinsurance	–	–	(0)	0	(14)	–	–	–	**(14)**
Maintain modelling term[3]	–	190	–	101	–	57	–	–	**348**
Vitality benefits	25	–	–	–	8	–	–	–	**33**
Other	62	1	(51)	106	0	5	(4)	1	**120**
Total	117	684	(114)	686	1	61	(17)	15	**1 433**

(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.
(3) The projection term for Health and Vitality, Life, Group Life and PruHealth at 30 June 2014 has not been changed from that used in the 30 June 2013 embedded value calculation. Therefore, an experience variance arises because the total term of the in-force covered business is effectively increased by 12 months.

TABLE 6: METHODOLOGY AND ASSUMPTION CHANGES

R million	Health and Vitality Net worth	Health and Vitality Value of in-force	Life and Invest Net worth	Life and Invest Value of in-force	PruHealth Net worth	PruHealth Value of in-force	PruProtect Net worth	PruProtect Value of in-force	Total
Modelling changes[1]	–	(8)	(367)	131	–	–	(34)	2	**(276)**
Expenses	–	(48)	(7)	(57)	–	–	39	(11)	**(84)**
Lapses[2]	–	–	1	(238)	–	2	(28)	23	**(240)**
Mortality and morbidity	–	–	–	–	–	11	–	–	**11**
Benefit enhancements	–	–	(10)	(21)	–	–	–	–	**(31)**
Vitality benefits	–	–	–	–	–	(12)	–	–	**(12)**
Tax	–	–	–	–	–	–	–	33	**33**
Economic assumptions	–	264	10	185	–	159	(32)	6	**592**
Premium and fee income	–	–	14	44	–	–	–	–	**58**
Reinsurance[3]	–	–	813	(797)	219	(181)	58	(142)	**(30)**
Other	–	–	–	–	–	(0)	–	–	**(0)**
Total	–	208	454	(753)	219	(21)	3	(89)	**21**

(1) For Health, the embedded value calculation previously allowed for an increase in the lapse assumption after year 10 of the projection term. The model has now been adjusted to allow for a level lapse rate over the projection term. For Life, the impact of expected movements in Vitality statuses has been included in the model.
(2) The Invest lapse assumptions were strengthened to reflect uncertainty about long duration experience.
(3) For Life and PruHealth, the reinsurance item primarily relates to the impact of the financing reinsurance arrangements. For PruProtect, the reinsurance item relates to the restructuring of the risk reinsurance.

Embedded **value statement**

for the year ended 30 June 2014 continued

TABLE 7: EMBEDDED VALUE OF NEW BUSINESS

R million	Year ended 30 June 2014	Year ended 30 June 2013	% change
Health and Vitality			
Present value of future profits from new business at point of sale	**570**	396	
Cost of required capital	**(19)**	(16)	
Present value of future profits from new business at point of sale after cost of required capital	**551**	380	45
New business annualised premium income[1]	**2 858**	1 783	60
Life			
Present value of future profits from new business at point of sale[2]	**1 191**	1 033	
Cost of required capital	**(52)**	(44)	
Present value of future profits from new business at point of sale after cost of required capital	**1 139**	989	15
New business annualised premium income[3]	**2 163**	1 923	12
Annualised profit margin[4]	**6.3%**	6.4%	
Annualised profit margin excluding Invest Business	**10.1%**	10.0%	
PruHealth[5]			
Present value of future profits from new business at point of sale	**118**	54	
Cost of required capital	**(21)**	(20)	
Present value of future profits from new business at point of sale after cost of required capital	**97**	34	185
New business annualised premium income (Rand)[6]	**761**	525	45
Annualised profit margin[4]	**2.3%**	1.2%	
PruProtect[7]			
Present value of future profits from new business at point of sale	**493**	480	
Cost of required capital	**(32)**	(23)	
Present value of future profits from new business at point of sale after cost of required capital	**461**	457	1
New business annualised premium income (Rand)	**647**	483	34
Annualised profit margin[4]	**10.0%**	12.8%	

(1) Health new business annualised premium income is the gross contribution to the medical schemes. For embedded value purposes, Health new business was previously defined as new individuals and members of new employer groups, and included additions to first year business. The definition of new business has been adjusted and now also includes new members who have been added to existing employer groups where the member has a choice of medical scheme. These members were previously included in the embedded value as a positive lapse experience variance. The impact of the change in definition has resulted in a R132 million increase in the Health value of new business as at June 2014.
The new business annualised premium income shown above excludes premiums in respect of members who join an existing employer after the first year 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 2014.
The total Health and Vitality new business annualised premium income written over the period was R5 206 million (June 2013: R5 036 million).

(2) Included in the Life and Invest value of new business is R39 million (June 2013: R14 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 recognized in the value of new business.

(3) 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 163 million (June 2013: R1 923 million) (single premium APE: R865 million (June 2013: R614 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 both automatic premium increases of R773 million (June 2013: R651 million) and servicing increases of R473 million (June 2013: R392 million) was R3 409 million (June 2013: R2 966 million) (single premium APE: R904 million (June 2013: R644 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.

(4) The annualised profit margin is the value of new business expressed as a percentage of the present value of future premiums.

(5) In line with actual experience, the PruHealth lapse and loss ratio assumptions have been adjusted to allow for the impact of duration. While this change has resulted in an increase in the annualised new business profit margin, the overall levels of these assumptions are unchanged and the change had no impact on the value of in-force.

(6) PruHealth 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 2014.

(7) PruProtect 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 2014	30 June 2013
Beta coefficient			
South Africa		**0.40**	0.49
United Kingdom		**0.40**	0.49
Equity risk premium (%)			
South Africa		**3.50**	3.50
United Kingdom		**4.00**	4.00
Risk discount rate (%)			
Health and Vitality		**10.650**	10.215
Life and Invest		**10.650**	10.215
PruHealth		**4.24**	4.97
PruProtect		**5.50**	4.97
Rand/GB Pound Exchange Rate			
Closing		**18.17**	15.22
Average		**17.06**	13.98
Medical inflation (%)			
South Africa		**8.25**	7.50
United Kingdom		**6.50**	7.00
Expense inflation and CPI (%)			
South Africa		**5.25**	4.50
United Kingdom	– PruHealth	**3.30**	3.30
	– PruProtect	**3.30**	3.30
Pre-tax investment return (%)			
South Africa	– Cash	**7.75**	7.00
	– Bonds	**9.25**	8.50
	– Equity	**12.75**	12.00
United Kingdom	– PruHealth investment return	**3.16**	2.37
	– PruProtect investment return	**3.90**	3.85
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 value of in-force		**40 years**	40 years
– Group Life		**10 years**	10 years
– PruHealth		**20 years**	20 years

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 PruHealth assumptions were derived from internal experience, augmented by industry information.

PruProtect assumptions were derived from internal experience, where available, augmented by reinsurance, industry and Discovery 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 value of new business are the actual costs incurred excluding expenses of an exceptional or non-recurring nature.

Embedded **value statement**

for the year ended 30 June 2014 continued

TABLE 8: EMBEDDED VALUE ECONOMIC ASSUMPTIONS continued

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 PruHealth and PruProtect was based on the single interest rate derived from the risk-free zero coupon sterling yield curve. In the past, the PruProtect assumption was set with reference to the expected return on matching assets (or liabilities in the case of negative reserves) held on the Prudential balance sheet. 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 PruHealth required capital amounts will be fully backed by cash. The PruProtect required capital amount is assumed to earn the same return as the assets backing the PruProtect policyholder liabilities. Allowance has been made for tax and investment expenses in the calculation of the cost of 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 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 PruHealth cost of required capital is calculated using the difference between the risk discount rate and the net of tax cash return. The PruProtect 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. The Discovery beta coefficient reflects the historic performance of the Discovery share price relative to the market and 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 the non-financial risks which have not been modelled explicitly. The sensitivity of the embedded value and the value of new business at 30 June 2014 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

	Health and Vitality			Life and Invest		PruHealth		PruProtect[2]			
R million	Adjusted net worth	Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	Embedded value	% change
Base	5 612	13 879	(209)	20 701	(481)	2 762	(130)	1 026	(110)	**43 050**	
Impact of:											
Risk discount rate +1%	5 612	13 056	(235)	18 523	(423)	2 573	(201)	895	(140)	**39 660**	(8)
Risk discount rate -1%	5 612	14 795	(178)	23 363	(552)	2 975	(50)	1 192	(72)	**47 085**	9
Lapses -10%	5 612	14 409	(219)	22 484	(515)	3 169	(137)	1 116	(123)	**45 796**	6
Interest rates -1%[1]	5 612	13 836	(198)	21 297	(516)	2 743	(205)	1 429	(128)	**43 870**	2
Equity and property market value -10%	5 520	13 879	(209)	20 543	(481)	2 762	(130)	1 026	(110)	**42 799**	(1)
Equity and property return +1%	5 612	13 879	(209)	20 870	(481)	2 762	(130)	1 026	(110)	**43 218**	0
Renewal expenses -10%	5 612	15 336	(193)	20 946	(479)	3 000	(130)	1 009	(109)	**44 992**	5
Mortality and morbidity -5%	5 612	13 879	(209)	21 951	(471)	3 728	(130)	1 007	(108)	**45 258**	5
Projection term +1 year	5 612	14 087	(211)	20 877	(484)	2 798	(130)	1 026	(110)	**43 465**	1

(1) All economic assumptions were reduced by 1%.
(2) The sensitivity impact on the PruProtect 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 value of new business.

TABLE 10: VALUE OF NEW BUSINESS SENSITIVITY

	Health and Vitality		Life and Invest		PruHealth		PruProtect			
R million	Value of new business	Cost of required capital	Value of new business	Cost of required capital	Value of new business	Cost of required capital	Value of new business	Cost of required capital	Value of new business	% change
Base	570	(19)	1 191	(52)	118	(21)	493	(32)	**2 248**	
Impact of:										
Risk discount rate +1%	524	(22)	968	(46)	91	(31)	455	(41)	**1 898**	(16)
Risk discount rate -1%	635	(16)	1 458	(60)	148	(10)	541	(21)	**2 675**	19
Lapses -10%	618	(20)	1 404	(56)	166	(22)	564	(35)	**2 619**	16
Interest rates -1%[1]	582	(18)	1 259	(56)	116	(31)	519	(36)	**2 335**	4
Equity and property return +1%	576	(19)	1 222	(52)	118	(21)	493	(32)	**2 285**	2
Renewal expense -10%	674	(19)	1 220	(52)	156	(21)	512	(32)	**2 438**	8
Mortality and morbidity -5%	576	(19)	1 295	(51)	231	(21)	519	(31)	**2 499**	11
Projection term +1 year	589	(19)	1 209	(52)	123	(21)	493	(32)	**2 290**	2
Acquisition costs -10%	595	(19)	1 285	(52)	133	(21)	535	(32)	**2 424**	8

(1) All economic assumptions were reduced by 1%.

Additional **financial information**

for the year ended 30 June 2014

The following financial information has not been audited and has been provided for information purposes only.

NEW BUSINESS ANNUALISED PREMIUM INCOME

New business annualised premium income increased 15% for the year ended 30 June 2014 when compared to the same period in the prior year.

R million	June 2014	June 2013	% change
Discovery Health	**5 000**	4 820	4
Discovery Life	**2 013**	1 896	6
Discovery Invest	**1 396**	1 070	30
Discovery Vitality	**206**	216	(5)
Discovery Insure	**632**	366	73
PruHealth	**1 246**	929	34
PruProtect	**883**	644	37
The Vitality Group	**164**	94	74
HumanaVitality	**317**	420	(25)
Ping An Health*	**339**	155	119
New business API of Group	**12 196**	10 610	15

* *The comparative for Ping An Health has been reduced by R216 million to exclude the Fund Product which has been discontinued during the current financial year.*

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, HumanaVitality and Ping An Health, new business API is calculated based on the date of policy inception.

GROSS INFLOWS UNDER MANAGEMENT

Gross inflows under management increased 19% for the year ended 30 June 2014 when compared to the same period in the prior year.

R million	June 2014	June 2013	% change
Discovery Health	**46 395**	41 050	13
Discovery Life	**8 726**	7 329	19
Discovery Invest	**11 249**	9 089	24
Discovery Insure	**610**	298	105
Discovery Vitality	**1 886**	1 660	14
PruHealth	**6 568**	4 878	35
PruProtect	**1 920**	1 128	70
The Vitality Group	**402**	216	86
Other new business development	**257**	9	2 756
Gross inflows under management	**78 013**	65 657	19
Less: collected on behalf of third parties	**(46 002)**	(40 813)	13
Discovery Health	**(41 926)**	(36 973)	13
Discovery Invest	**(4 076)**	(3 840)	6
Gross income of Group	**32 011**	24 844	29

Gross inflows under management measures the total funds collected by Discovery and is an accurate measure of the growth of Discovery.

NORMALISED PROFIT FROM OPERATIONS

The following table shows the main components of the normalised profit from operations for the year ended 30 June 2014:

R million	June 2014	June 2013	% change
Discovery Health	**1 854**	1 688	10
Discovery Life	**2 591**	2 106	23
Discovery Invest	**331**	221	50
Discovery Vitality	**38**	35	9
PruHealth	**202**	146	38
PruProtect	**426**	326	31
Normalised profit from existing operations	**5 442**	4 522	20
Development and other segments	**(466)**	(470)	1
Normalised profit from operations	**4 976**	4 052	23

SIGNIFICANT ITEMS IN THE INCOME STATEMENT

Share-based payments

Included in marketing and administration expenses, in employee costs, is R371 million (2013: R450 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 2014, approximately 90.8% (2013: 87.7%) of this exposure was hedged. Fair value gains of R145 million (2013: R250 million) relating to the hedge were recognised in profit or loss resulting in a net expense to Discovery of R226 million (2013: R200 million).

Put options in subsidiaries

During the 2011 financial year, put options were granted to the non-controlling interests of three of Discovery's subsidiaries, entitling the non-controlling interest to sell its interest in the subsidiary to Discovery at contracted dates at fair value. In accordance with IAS 32, Discovery has 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). Interest in respect of this liability of R157 million has been recorded in finance costs for the year ended 30 June 2014 (2013: R165 million), using the effective interest rate method. The estimated purchase prices have been reconsidered at 30 June 2014 and a fair value adjustment of R201 million has been captured to profit or loss (2013: R133 million).

In August 2013, subject to regulatory approval, Discovery Insure's preference shareholders agreed to sell their 25% shareholding in Discovery Insure Limited to Discovery Limited for R352 million. This approval was received in December 2013 and the transaction was settled. Normalised headline earnings includes an allocation for the non-controlling interest share of losses to the end of November 2013, being R26 million.

Aggregate effects on Discovery's results at 30 June 2014:

R million	Total
Value of puttable non-controlling interests at 1 July 2013	**3 782**
Further share issues to non-controlling interests	**45**
Finance costs recognised in profit or loss	**157**
Fair value adjustments recognised in profit or loss:	**201**
– resulting from a change in interest rates	**(54)**
– resulting from a change in assumptions	**255**
Put option exercised	**(352)**
Net exchange differences arising during the year allocated to the translation reserve	**661**
Value of puttable non-controlling interests at 30 June 2014	**4 494**

Additional **financial information**

for the year ended 30 June 2014 continued

SIGNIFICANT ITEMS IN THE STATEMENT OF FINANCIAL POSITION

Investments in associates and subsidiaries

Ping An Health

In October 2013, following regulatory approval, Discovery Limited purchased a further 5% in Ping An Health for RMB 82.2 million, resulting in a 25% holding.

Discovery Insure

In December 2013, following regulatory approval, Discovery Limited purchased Discovery Insure's preference shareholders' 25% shareholding in Discovery Insure for R352 million. Discovery Limited now holds 100% of the issued capital of Discovery Insure.

EMBEDDED VALUE

The embedded value of Discovery, representing the sum of the shareholders' net assets and the present value of the expected future profits arising from the existing in-force insurance business less an allowance for the cost of capital, was R43.1 billion at 30 June 2014 (2013: R35.7 billion). The embedded value calculation includes the shareholders' net assets at the values reflected in the consolidated statement of financial position on page 132.

The analysis of the main components of the Group embedded value is set out on below.

R million	Health and Vitality	Life and Invest	PruHealth	PruProtect	Other	Total
Value of in-force business at 30 June 2013	12 215	16 873	1 836	702	–	31 626
Expected return (in-force business)	1 206	1 672	143	6	–	3 027
Release of profits (in-force business)	(1 485)	(1 029)	(164)	(54)	–	(2 732)
Value of new business	794	2 617	376	191	–	3 978
Expected return (new business)	48	131	15	10	–	204
Release of profits (new business)	0	(0)	4	(4)	–	0
Experience variances	684	686	61	15	–	1 446
Methodology changes	208	(753)	(21)	(89)	–	(655)
Other	–	23	382	139	–	544
Value of in-force business at 30 June 2014	13 670	20 220	2 632	916	–	37 438
Shareholders' funds per Balance Sheet	804	13 383	3 629	(398)	(7)	17 411
Adjustment to shareholders' funds	–	(11 691)	(243)	(34)	169	(11 799)
Embedded value at 30 June 2014	14 474	21 912	6 018	484	162	43 050

More detail on the components of each of these items, including the methodology and assumptions made in calculating the embedded value of Discovery, can found in the Embedded Value Statement on pages 239 to 247.

EMBEDDED VALUE continued

Reconciliation of embedded value earnings

The movement in the embedded value in the year under review can be reconciled to the accounting earnings of the Group as follows:

R million	12 months to 30 June 2014	Value of In-force	Cost of required Capital	Impact on Income Statement	Adjustment to Shareholders Funds	Statement of Changes in Equity
Total profit from new business (at point of sale)	**2 248**	4 102	(124)	(1 730)	–	–
– Health and Vitality	**551**	813	(19)	(243)	–	–
– Life	**1 139**	2 670	(52)	(1 479)	–	–
– PruHealth	**97**	396	(21)	(278)	–	–
– PruProtect	**461**	223	(32)	270	–	–
Profit from existing business						
Expected return	**3 234**	467	32	2 735	–	–
– Health and Vitality	**1 254**	(239)	8	1 485	–	–
Expected transfer from VIF to net worth	**–**	(1 485)	–	1 485	–	–
Unwinding of the risk discount rate	**1 254**	1 246	8	–	–	–
– Life	**1 803**	791	(17)	1 029	–	–
Expected transfer from VIF to net worth	**–**	(1 029)	–	1 029	–	–
Unwinding of the risk discount rate	**1 803**	1 820	(17)	–	–	–
– PruHealth	**160**	(43)	41	162	–	–
Expected transfer from VIF to net worth	**2**	(163)	3	162	–	–
Unwinding of the risk discount rate	**158**	120	38	–	–	–
– PruProtect	**17**	(42)	–	59	–	–
Expected transfer from VIF to net worth	**1**	(64)	6	59	–	–
Unwinding of the risk discount rate	**16**	22	(6)	–	–	–
Change in methodology and assumptions	**21**	(611)	(44)	676	–	–
– Health and Vitality	**208**	209	(1)	–	–	–
– Life	**(299)**	(675)	(78)	454	–	–
– PruHealth	**198**	(65)	44	219	–	–
– PruProtect	**(86)**	(80)	(9)	3	–	–
Experience variances	**1 433**	1 441	5	(13)	–	–
– Health and Vitality	**801**	690	(6)	117	–	–
– Life	**572**	680	6	(114)	–	–
– PruHealth	**62**	62	(1)	1	–	–
– PruProtect	**(2)**	9	6	(17)	–	–
Acquisition of Discovery Insure Joint Venture	**(297)**	–	–	–	(297)	–
Increase in goodwill and intangibles	**(256)**	–	–	–	(256)	–
Other initiatives	**(445)**	21	–	(466)	–	–
Non-recurring expenses	**(23)**	–	–	(23)	–	–
Acquisition costs	**(2)**	1	–	(3)	–	–
Finance costs	**(37)**	–	–	(194)	157	–
Foreign Exchange Rate Movements	**986**	562	(42)	(41)	224	283
– Intangibles					(393)	
– DAC					(44)	
– Puttable NCI Liability					661	
Return on shareholders' funds	**355**	–	–	358	–	(3)
– Unrealised gain on investments and realised gain on investments transferred to income statement	**(3)**	–	–	–	–	(3)
– Health and Vitality investment income	**13**	–	–	13	–	–
– Life investment income	**307**	–	–	307	–	–
– PruHealth investment income	**38**	–	–	38	–	–
Amortisation of Intangibles	**–**	–	–	(109)	109	–
– Amortisation of intangibles from business combinations	**–**	–	–	(82)	82	–
– Minority Interest (Intangibles)	**–**	–	–	(27)	27	–
PruHealth and PruProtect DAC	**–**	–	–	11	(11)	–
Puttable non-controlling interest fair value adjustment	**–**	–	–	(201)	201	–
Other Minority Interest (Discovery Insure, PruHealth and PruProtect)	**–**	–	–	81	(81)	–
Life assets under insurance contracts	**–**	–	–	2 233	(2 233)	–
Embedded value earnings	**7 217**	5 983	(173)	3 314	(2 187)	280

Notes