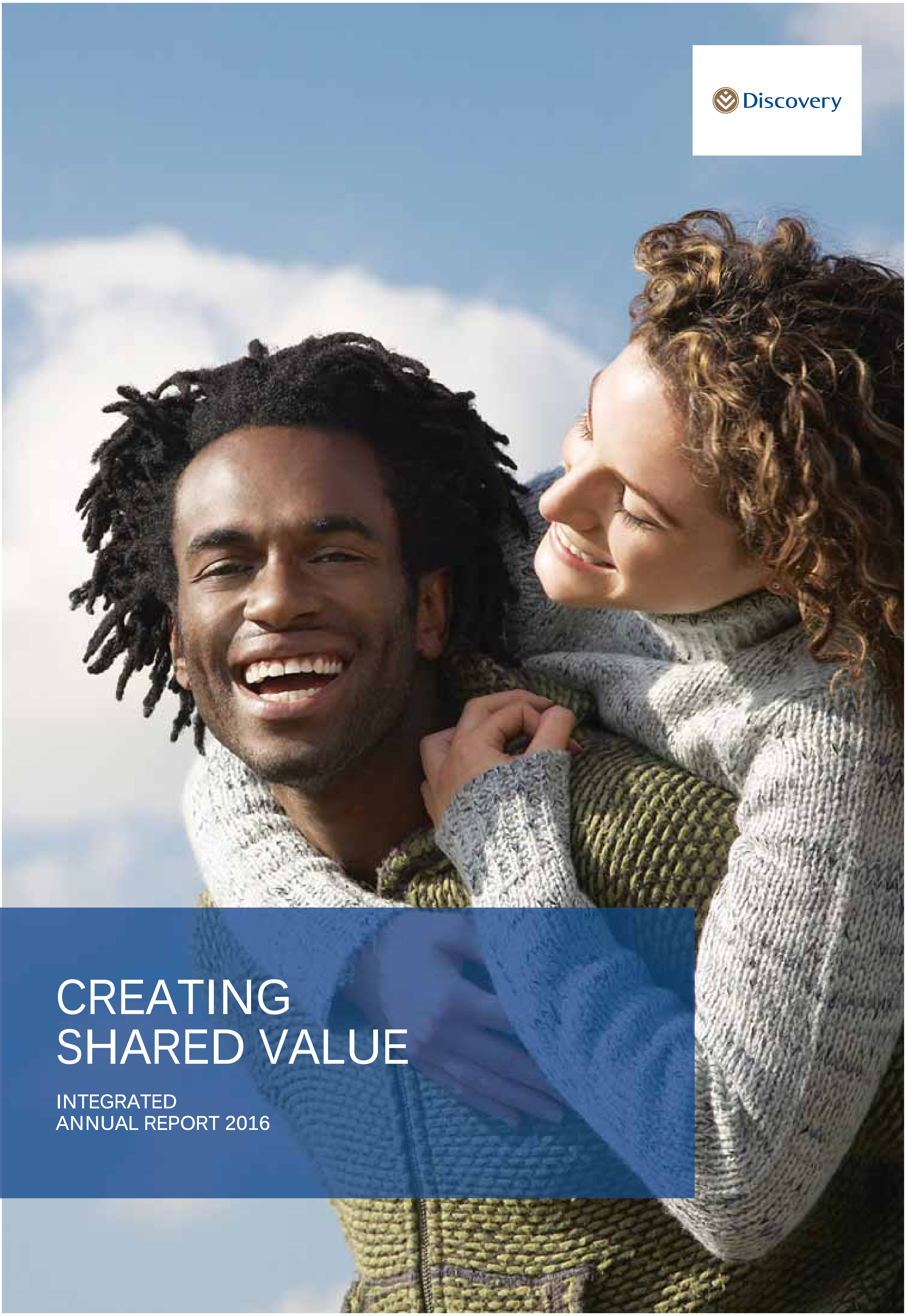


Discovery

CREATING SHARED VALUE

INTEGRATED
ANNUAL REPORT 2016

CONTENTS

Discovery was established as a small specialist health insurer two decades ago, with a clear core purpose:

to make people healthier and enhance and protect their lives.

Driven by constant innovation over the years, we have created a multifaceted, integrated financial services organisation that employs a shared-value insurance model to change the way insurance works.

NEW BUSINESS UP
22%
to R16 231 million*

* Excluding R4.2 billion for Bankmed

NORMALISED OPERATING PROFIT UP
11%
to R6 407 million

INVESTMENT FOR GROWTH UP
73%
to R823 million

ABOUT THIS REPORT

This report has been prepared in line with the guidelines of the International Integrated Reporting Council. Building on our reporting in previous years, we have aimed to make this document more concise, presenting our readers with a complete picture of our shared-value insurance model and strategy, but remaining focused on the issues that are material to the business and stakeholders.

This integrated annual report is supplemented by a separate Sustainable Development Report and website, in which we provide additional detail about our contribution to achieving global and local sustainable development objectives. Our Sustainable Development Report is prepared in accordance with the G4 guidelines of the Global Reporting Initiative (GRI) at a core level and is also our first Communication of Progress to the United Nations Global Compact (UNGC). Discovery became a UNGC signatory in June 2015.

Scope and boundary

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

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

Material issues for reporting

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

We discuss material issues throughout our report and include a summary on page 30.

Discovery and King III

During the year under review, Discovery complied with the mandatory principles of governance, as contained in the JSE Listings Requirements, as well as with the principles of King III. In assessing adherence to King III principles, a compliance programme is in place whereby the level of compliance of the Group is monitored at regular intervals. Read our report on King III at www.discovery.co.za/info/Governance.

Approval by the Discovery Board of Directors

The Discovery Limited Board of Directors approved the Discovery Integrated Annual Report on 6 October 2016, based on the recommendation of Discovery's Audit Committee.

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

Monty Hilkowitz

Preparation of Discovery's Annual Financial Statements

for the year ended 30 June 2016:

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

Statement from Discovery Group Internal Audit

Discovery Group Internal Audit performed a limited review of the statements and quantitative data contained in the Discovery 2016 Integrated Annual Report, with the exception of the Annual Financial Statements.

Set out below is a summary of the procedures performed pertaining to the financial and non-financial information as contained in the Integrated Report, as well as for the Key Performance Indicators (KPIs) and the Global Reporting Initiative (GRI) indicators in the People and Sustainable Development Report for the year ending 30 June 2016, which were included in the scope of the limited assurance engagement.

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

Based on the evidence obtained in completing this limited assurance engagement, Discovery Group Internal Audit believes that the information (quantitative and qualitative), disclosed in the Integrated Annual Report, sufficiently and appropriately represents the Group's performance for the year ended 30 June 2016.

Comments

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

Contact us

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

How we report to our stakeholders

Together with our integrated annual report, there are other reports and publications we make available to stakeholders. These reports provide detailed information on Discovery and our economic, financial, and social performance during the financial year, as well as our prospects.

Integrated Annual Report

Our integrated annual report provides an analysis of our financial, economic, and social performance in relation to our business strategy going forward.

www.discovery.co.za/info/2016integratedreport

Annual Financial Results Presentation

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

www.discovery.co.za/info/2016annualresults

Full Annual Financial Statements

This presents the full financial statements and administration requirements (AGM notice, proxy form).

www.discovery.co.za/info/2016financials

Sustainable Development Report and associated website

These chart Discovery's relationship with the broader society and describes how we work with social and business partners to achieve common sustainable development goals.

www.discovery.co.za/info/2016SDReport

King III Register

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

www.discovery.co.za/info/2016King3

Governance

This year we include a summarised governance section focusing on governance, compliance and regulation. Detailed reports can be found on the website.

www.discovery.co.za/info/governance

HOW WE PERFORMED DURING THE YEAR

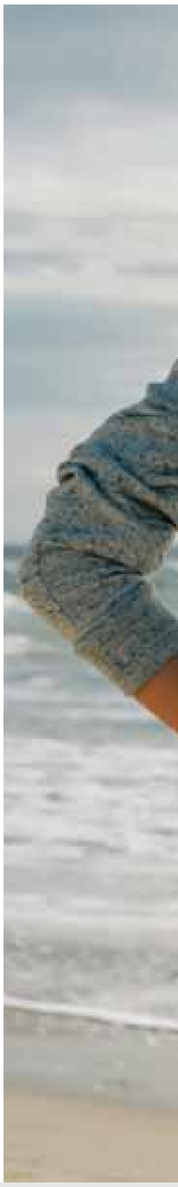
This year showed a strong financial and operating performance, with continued investment in new initiatives.

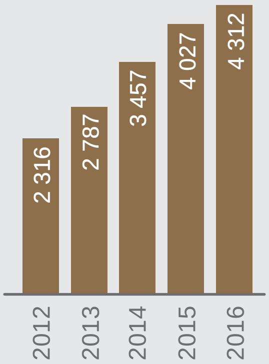
The financial performance for the period was characterised by three distinctive features:

1. **Solid performance by existing businesses.** This was driven by Discovery Health, Discovery Life, Discovery Invest, and Discovery Insure. VitalityHealth's performance was notable for its progress in the second half of the year.

2. **A substantial spend on new initiatives, funded by debt and a rights issue.** This marked a 73% increase over the previous year, equal to 13% of earnings.

3. **Robust performance in spite of a volatile economic environment.** In Discovery's primary market of South Africa, the Group had to face a depreciating currency, rising interest rates and economic assumption changes. In Discovery's second primary market of the United Kingdom (UK), Discovery faced both currency sensitivity and a record-low interest rate environment due to the UK's intended exit from the European Union.





Normalised headline earnings

Up 7% to R4 312 million

New business annualised premium income

Increased 22% to R16 231 million

Key highlights:

The resilience of Discovery's primary markets of South Africa and the United Kingdom in challenging economic environments

Sustained investment, including:

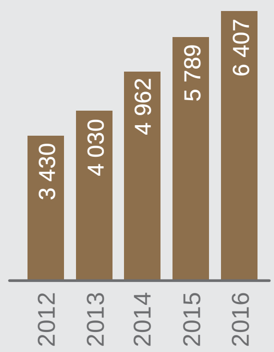
A continuing roll-out of Vitality Shared-Value Insurance to new markets

Adjacent expansion in our primary markets with the intention to enter banking in South Africa

Refining the science of the Vitality Shared-Value Insurance model further through the methodology that underpins Vitality Active Rewards with Apple Watch

Growth in embedded value

Up 2% to R53 080 million



Normalised profit from operations

Up 11% to R6 407 million

REVIEW FROM ADRIAN GORE

Discovery Chief Executive

The financial and societal success of shared-value insurance has made it a compelling proposition to other insurers. Discovery has continued to enhance the sophistication of its business model to export it to leading insurers around the world.

Our business model is even more relevant than before, as we have the ability to offer health, protection and savings products that create and share value and are dynamic, and allow people to manage their evolving health and wellness needs throughout their lives and be rewarded for improvements.

Continued replication and advancement of Discovery's unique business model

When Discovery started almost 25 years ago, the complexity of the South African healthcare environment at the time provided a powerful and relevant incubator for innovation. South Africa's high disease burden, the undersupply of doctors and Discovery's desire to build an inclusive, community-rated health insurance system necessitated a new paradigm for addressing healthcare challenges. This was in the form of wellness and prevention, typically under-consumed because benefits are hidden while the cost and effort required are immediate, as opposed to healthcare, typically overconsumed as benefits are immediate while price is hidden.

Societal need – rather than being an external force and source of opportunism – has always been fundamental to our business strategy and culture. As outlined in this year's integrated annual report, Discovery's business model reflects this. It incentivises members to improve their health, provides access to a broad range of wellness and prevention pathways for them to do so, measures engagement clinically and actuarially, and uses the actuarial surplus generated from improved health to fund further incentives.

Discovery has succeeded in triggering a positive systemic change that rewards lower-risk behaviour and enables the dynamic pricing of mortality, morbidity, and health risk. This shared-value insurance model encourages members to become healthier, and rewards them for doing so, with their premiums increasing or decreasing based on their engagement. As a result, we experience lower claims rates, with a higher retention rate for healthier lives. Through our health-promotion programme, Vitality, we deliver health and value for our clients, our partner insurers, and society at large. Refer to page 22.

As outlined on page 22, it is evident that the societal needs Discovery identified and responded to, have only become more acute. Risk is now predominantly driven by four lifestyle behaviours – poor diet, physical inactivity, excessive alcohol intake and tobacco use – which drive four chronic diseases (cardiovascular disease, diabetes, chronic lung disease, and various cancers). However, most life underwriting in the industry remains static and fails to account for the health improvements people make during their lifetime.

Technology is also playing a bigger role, with health promotion becoming more personalised, due to wearable devices. This has profound implications, given that insurers, alongside governments, are the only stakeholders with the capacity to monetise the positive effects of health behaviour change.

Our business model is even more relevant than before, as we have the ability to offer health, protection and savings products that create and share value and are dynamic, and allow people to manage their evolving health and wellness needs throughout their lives and be rewarded for improvements. This paves the way for growth in existing sectors and territories, expansion into new territories in existing sectors, and expansion into adjacent sectors and new business and product lines. These aspects are outlined in this integrated annual report on pages 36 and 37.

The financial and societal success of shared-value insurance has resulted in it becoming a compelling proposition to other insurers. Discovery has continued to enhance the sophistication of its business model to export it to leading insurers around the world. It has done so through the establishment of the Global Vitality Network.

The Global Vitality Network consists of partner insurers that employ the Vitality Shared-Value Insurance model and participate in collective network assets, such as opportunities for growth through the strength of the partner insurers themselves, global reward partnerships, technology collaborations, and academic and media partnerships.

This is a system of partner insurers that employ the Vitality Shared-Value Insurance model and participate in collective network assets. These include opportunities for growth through the strength of the partner insurers themselves, global reward partnerships, technology collaborations, and academic and media partnerships. Over the past five years, Discovery has entered into partnerships with AIA in Asia and Australia, Generali in Europe, John Hancock in the US, John Hancock's parent company Manulife in Canada, and Ping An in China. Recently, Discovery announced a partnership with leading Japanese insurer Sumitomo. All these organisations now act as ambassadors and proponents of shared-value insurance.

Discovery has continued to expand into adjacent industries, by extending shared-value insurance from our original product offering of health insurance and protection. In the past five years, the Group has developed a highly successful short-term insurance offering that employs the Vitality philosophy to encourage safer driving. Research shows that people are as irrational about their driving as they are about their health. Using the latest telematics technology, driving behaviour is tracked and measured, and drivers are incentivised to reduce their driving risk. Emerging evidence validates that driving behaviour improves as a result, with benefits for the driver (fewer accidents and cash back on fuel spend), ourselves as the insurer through fewer claims, and society at large in the form of safer roads for other drivers and pedestrians. Refer to pages 75 to 77.

Given the irrationality at play in savings behaviour, there is an opportunity for the shared-value insurance model to disrupt traditional banking business – Discovery's next targeted adjacency. During the year under review, important progress was made in achieving the Group's strategy of entering into banking in South Africa.

The expansion of Discovery's model through a new insurance category – Vitality Shared-Value Insurance

One area that has received significant focus over the past few years is the execution required to export the Group's shared-value insurance model to new markets. To achieve this, Discovery has reorganised the management of global partnerships, giving rise to a division called Discovery Partner Markets. This division oversees the international roll-out of the model, providing systems, consulting support and governance to its partners, while partners act as franchisees, acquiring licences to use the Vitality Shared-Value Insurance model and related assets, in exchange for a "franchise fee" and a share of premiums.

The underlying strength of the Discovery Partner Markets proposition is being supported through the expansion of the Vitality Shared-Value Insurance model and the Global Vitality Network. The Vitality Shared-Value Insurance model has now been adopted by six partner companies in 14 markets around the world with Vitality impacting close to four million lives globally (including South Africa). In Europe, Generali launched in two markets over the past six months. In the more established partner markets, Discovery is seeing evidence of the efficacy of the Vitality Shared-Value Insurance model in the Group's results.

Supporting Discovery's ambition to develop international partnerships, considerable work was done with Apple to develop a global wellness infrastructure, namely Vitality Active Rewards with Apple Watch. This enables the real-time measurement and incentivising of wellness behaviour, as well as creating personalised goals for members. The success of Vitality Active Rewards with Apple Watch in changing wellness behaviour and segmenting insurance risk in South Africa and the United States has advanced the science underpinning the Vitality Shared-Value Insurance model.

Results during the first six months of the benefit being available to clients, showed dramatic and sustained behaviour change, with a 20% increase in physical activity for those who engaged in the benefit, and 81% for those clients with the Apple Watch. This is the most successful benefit of Vitality to date, as measured by take-up and engagement, with engaged members expected to demonstrate lower morbidity and mortality experience than other Vitality members over the long term. The benefit was also recently launched in China through Ping An Life. It will be attached to Ping An Life's flagship life insurance product, available through its one million strong agency force. This presents a meaningful opportunity to elevate the Vitality brand in China. Vitality Active Rewards will be rolled out globally over the next 12 months.

Going forward, the Group's focus will be on refining the way in which shared value is measured. Discovery's participation in major national and international initiatives exploring the concept and measurement of shared value will enable the Group to maintain thought leadership in this area, and contribute to its further development.

The year under review

The year under review was notable for three reasons. First, for a solid performance in our established businesses and a stronger performance in the second half of the year; a sustained investment in growth, including a continuing roll-out of Vitality Shared-Value Insurance to new markets; adjacent expansion in Discovery's Primary Markets with the intention to enter banking in South Africa; and refinements in the science underpinning the business model through the Vitality Active Rewards methodology. Secondly, it was marked by challenging market conditions, which showed the resilience of our business model in Discovery's primary markets of South Africa and the United Kingdom.

Discovery made a total investment of R823 million in new initiatives over the course of the year, funded by both debt and a rights issue. This marks a 73% increase over the previous year, equal to 13% of earnings, and double the long-term average investment between 2011 and 2015. Although this had a dampening effect on short-term profits, this investment is expected to be profit-enhancing in the long term.

In Discovery's primary market of South Africa, progress was made with respect to Discovery's intention to enter banking. The licensing and regulatory processes commenced and while the licence application is pending regulatory approval, key engagements are underway with the South African Reserve Bank and other regulatory bodies. Discovery has attracted a combination of senior seasoned bankers. With Discovery executives, they will lead the execution and delivery of the banking business. It is in the process of finalising operating processes, including system selection. Insights are being developed that will be utilised in the design of our final product offering.

Businesses in South Africa and the United Kingdom continued to gain market share and demonstrated robustness in new business and financial performance. This validates the relevance of the Vitality Shared-Value Insurance model in a complex operating and macro-environment.

Discovery Health and Discovery Life delivered strong performances overall, with normalised operating profit increasing by 12% and 18% respectively for the second half of 2016 compared with the second half of 2015.

Discovery Health's performance exceeded expectations in a period characterised by high healthcare inflation driven by higher hospital use. Discovery Health continued its significant investment in digital healthcare assets, with further expansion in the functionality and coverage of HealthID, the country's leading electronic health record system. This is now in regular use by over one million members and almost 50% of doctors treating members of Discovery Health's client medical schemes. The fully digital healthcare plan – the Discovery Health Medical Scheme Smart Plan – has also continued to prove successful in attracting a younger demographic. Discovery Life showed accelerated growth and performance while increasingly recognising and rewarding better health and longevity, and sharing gains from health improvements through paybacks from actuarial surplus – highlighting the value derived by healthy clients.

Vitality UK, Discovery's second primary market, delivered a strong performance, and demonstrated its resilience in an uncertain political and economic environment. Both VitalityHealth and VitalityLife continued to realise the benefits of Vitality. VitalityHealth experienced strong new business growth over the period, with particularly strong growth in the profitable individual market – up by 44% – and direct-to-market channels, which now comprise almost 40% of new business. VitalityLife produced a strong performance in the face of complex changes and achieved success in positioning its new-generation risk offering in the market. This was evident in the strong continued adoption of the Vitality-integrated model over the period, with the Vitality Optimiser product comprising over 60% of all new business sales. The performance of all Discovery businesses is discussed in detail in the business reviews.

The Discovery Foundation, now in its tenth year, has been instrumental in retaining doctors in public health, advancing research in crucial areas of medicine and supporting improved health outcomes in rural areas. In the past 10 years, over R160 million in grants has been awarded, supporting the education and training requirements of some 300 healthcare specialists and institutions.

Discovery as a force for social good

Discovery is active in supporting healthier and more prosperous communities (see Discovery's Sustainable Development Report pages 38 to 39 for additional detail). Initiatives such as the Discovery Foundation, now in its tenth year, has been instrumental in retaining doctors in public health, advancing research in crucial areas of medicine and supporting improved health outcomes in rural areas. In the past 10 years, over R160 million in grants has been awarded, supporting the education and training requirements of some 300 healthcare specialists and institutions.

One of Discovery's core values is intellectual leadership. A pioneering approach to the development of shared-value products and services in the insurance sector has created financial capital for the Discovery business, shareholders and members, and other significant benefits, as described throughout our integrated annual report.

Discovery's intellectual capital is an asset for the Group, underpinning the expansion of the Vitality Shared-Value Insurance model to international markets. We therefore invest continually in training and development initiatives for employees (see our online Sustainable Development Report).

Discovery is also proud to be a catalyst in creating opportunities for employment and economic development. Given existing pressures on government and businesses, the most sustainable way to create jobs at the required rate is to stimulate the development of and to support different stages of small and medium enterprises (SMEs). Discovery is privileged to be part of an initiative under guidance of the South African Minister of Finance, Pravin Gordhan, to develop a solution in response to the varied challenges small and medium businesses face. Following consultation with experts across the private, public and non-profit sectors, the SA SME Fund was announced in September 2016. This Fund, seeded with capital from the private sector, will be additive to the ecosystem of existing SME support. Its aim will be to give high-potential entrepreneurs and SMEs the opportunity to create jobs, access to accredited funders, professional services and mentors.

Discovery's other partnerships, which include active participation in international bodies such as the United Nations Global Compact, business partnerships through initiatives such as Britain's Healthiest Company, and social partnerships such as with the City of Johannesburg, enrich our intellectual capital by improving an understanding of the context in which Discovery operates and enabling the Group to shape our environment for greater social benefit. Through a leadership role, Discovery with pharmaceutical company Novo Nordisk, in a recently-announced United Nations Global Compact initiative, aims to improve understanding of the role of health in sustainable development and to develop metrics against which businesses can report their health and wellness impacts. Refer to Discovery's Sustainable Development Report pages 50 to 51.

People as one of Discovery's most important assets

Employees play a critical role in enabling the Group to achieve its business objectives. In South Africa in particular, there is a clear imperative to achieve an inclusive and transformed workforce that equitably represents all sectors of society. Recruiting and retaining black South Africans in senior positions remain a key priority. Discovery competes with other businesses in South Africa for a limited pool of talent and the Group has therefore set a target of 25% representation by employment equity candidates in each of the business unit executive committees. We have met this target in all but two business units.

Some of the many initiatives undertaken to support transformation in Discovery's workforce include:

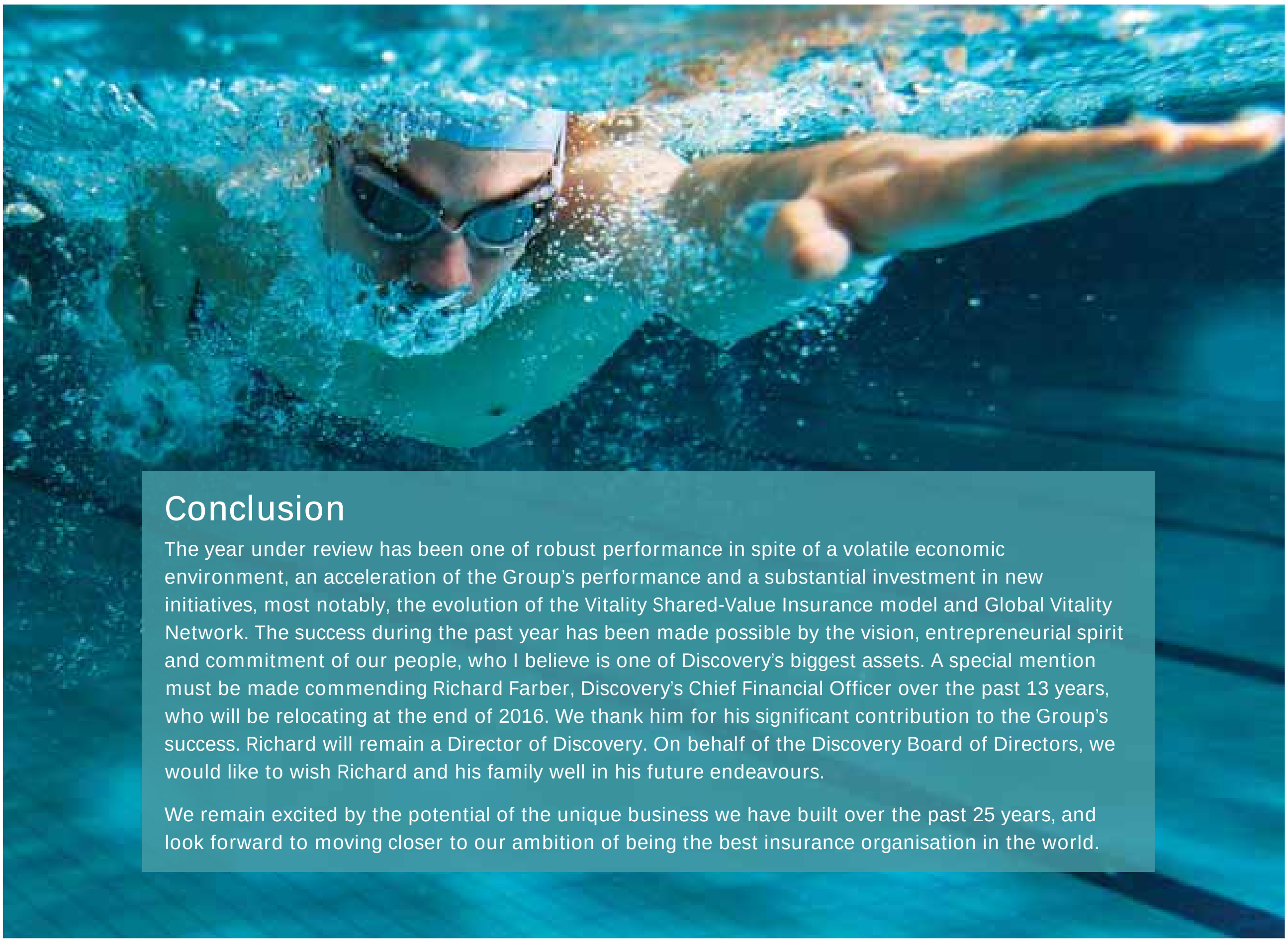
- Sourcing black talent through the Discovery network of employees
- Developing talented black employees
- Encouraging equity employees to develop skills classified as scarce and critical
- Providing new bursaries for the children and families of long-serving equity employees, who wish to acquire scarce and critical skills

Globally, Discovery invests significantly in employee health and wellness awareness, as there is recognition for the strong link between employee health, wellness and productivity. Discovery therefore provides detailed reporting on the health of our employees. See pages 26 to 35 of Discovery's Sustainable Development Report.

Looking forward

Discovery set an ambitious 2018 vision in 2014 to be the best insurer in the world and a powerful force for social good. The Group continues to make progress towards achieving these goals. In the longer term, Discovery will continue to leverage the shared-value insurance philosophy that underpins all businesses and initiatives in our markets and adjacencies, and we will continue to invest in new initiatives that are profit and society-enhancing. Over time, Discovery is building businesses that will become additions to the Group's portfolio and which will track well above economic growth. Discovery is well capitalised to fund further growth initiatives and has buffers in place to withstand adverse economic circumstances, while safeguarding future earnings and maintaining acceptable levels of debt.

Discovery's strategy will continue to be one of strong organic growth and building the Vitality Shared-Value Insurance model globally.



Conclusion

The year under review has been one of robust performance in spite of a volatile economic environment, an acceleration of the Group's performance and a substantial investment in new initiatives, most notably, the evolution of the Vitality Shared-Value Insurance model and Global Vitality Network. The success during the past year has been made possible by the vision, entrepreneurial spirit and commitment of our people, who I believe is one of Discovery's biggest assets. A special mention must be made commending Richard Farber, Discovery's Chief Financial Officer over the past 13 years, who will be relocating at the end of 2016. We thank him for his significant contribution to the Group's success. Richard will remain a Director of Discovery. On behalf of the Discovery Board of Directors, we would like to wish Richard and his family well in his future endeavours.

We remain excited by the potential of the unique business we have built over the past 25 years, and look forward to moving closer to our ambition of being the best insurance organisation in the world.

REVIEW FROM RICHARD FARBER

Discovery Chief Financial Officer

Discovery is a well-diversified business, by industry and geography. This, together with unique and valuable benefit and service differentiators, will enable us to continue to perform well.

The full-year period ending 30 June 2016 showed a robust performance by the Group. **Normalised profit from operations increased to R6.4 billion (+11%) and new business increased to R16.2 billion (+22%)** (excluding R4.2 billion in respect of the Bankmed Medical Scheme administration and managed care services contract taken on in the prior year).

This full-year performance was robust and driven by an acceleration in the latter half of the year with operating profit increasing 14% versus 7% in the first half. Normalised headline earnings increased to R4.3 billion (+7%). The reduction in headline earnings to R3 641 million from R5 285 million was due to the accounting treatment from the acquisition of Prudential's remaining stake in the UK joint venture in November 2014. The excess between the consideration paid and the carrying amount of the puttable non-controlling interest's financial liability was included as a profit in headline earnings in the prior year. This is reversed out when calculating normalised headline earnings. Embedded value grew to R53 billion (+2%), with the muted growth driven by an increase in the risk discount rate used to value the business, due to observed market economic factors.

Financial highlights for 2016

1. VitalityLife commenced writing new business on its own licence with effect from 1 January 2016. In terms of the funding for statutory capital requirements, part of the proceeds of the rights issue concluded in April 2015 was allocated to VitalityLife and is expected to be sufficient for its statutory capital requirements for a number of years to come. New business strain (commission and acquisition costs) will be funded by a combination of full risk transfer financial reinsurance and debt. This replaces the negative reserve funding previously provided by Prudential Assurance Company Limited (Prudential).

2. Costs related to the rebranding of PruHealth and PruProtect to VitalityHealth and VitalityLife totalling R365 million in the year ended 30 June 2016, have been excluded from normalised headline earnings.

3. At the end of June 2016, Discovery finalised the syndicated refinancing of our R3 billion bridging loan (replacing all of our South African borrowings). We now have the following long-term facilities:

   – A fixed-rate term loan facility of R1.6 billion was entered into with Rand Merchant Bank, a division of FirstRand Bank Limited.

   The facility has the following profile:
   - R500 million at a fixed interest rate of 10.79% per annum, payable quarterly in arrears, with capital repayable on 10 June 2021.
   - R1.1 billion at a fixed interest rate of 10.44% per annum, payable quarterly in arrears, with an amortising capital profile, having the first repayment on 10 June 2019 and final settlement on 10 June 2021.

   A subsidiary of the Discovery Group issued 1 400 A preference shares at an issue price of R1 million each (a total of R1.4 billion), by way of a private placement to Investec Bank Limited. The preference shares were issued at a fixed coupon rate of 8.015% per annum, paid bi-annually. The shares are cumulative, non-participating, non-convertible preference shares and redeemable on 29 June 2021.

4. In December 2015, Discovery paid R1.4 billion to FirstRand Bank Limited (FRB) to increase its economic interest in the Discovery branded FNB credit card (Discovery Card) from 20% to 74.99%. The increase in economic interest was realised through Discovery's subscription for redeemable preference shares in the share capital of FRB.

   In terms of IAS 38: Intangible Assets, the preference shares have been disclosed as an intangible asset in the Statement of Financial Position as the substance of the arrangement is a right to receive an additional 54.99% of the profits generated by Discovery Card. This will be amortised through profit or loss, as profits are expected to emerge and added back into the calculation of normalised headline earnings.

   R121 million is receivable in respect of the 54.99% profits generated by Discovery Card from 1 July 2015 to 30 June 2016. As the contractual rights under the preference shares were only finalised in April 2016, any profits earned prior to that, being R86 million, represent an adjustment to the purchase price of the intangible asset rather than income received. This therefore reduced the value of the intangible asset recognised and was added to normalised headline earnings.

Read our capital discussion on page 14 of this report.

Challenges experienced in 2016

1. In our primary market of South Africa, the current economic climate poses challenges for our industry and our business. With an expectation of rising inflation and interest rates, low GDP growth and a weak currency, our members, clients and policyholders will face challenging economic times over the next 12 to 24 months. This raises the risk of lower new business volumes, increased lapses and the buying down of cover. However, Discovery is a well-diversified business, by industry and geography, which together with unique and valuable benefit and service differentiators will enable us to perform well relative to the wider industry.

2. We closely monitor metrics that reflect the impact of these economic conditions on Discovery. We continue to experience low lapse rates in Discovery Health and Discovery Life, low missed debit orders across our businesses and our credit card book continues to perform extremely well relative to the market. In Discovery Health, we have seen a slowdown in the growth of new members joining existing employers in Discovery Health Medical Scheme – a reflection of a slower-growing economy. This resulted in lives administered by Discovery Health Medical Scheme increasing by 1.5% for the financial year.

3. As outlined in our annual financial results presentation, in our international business of VitalityHealth we experienced challenges moving to our own system infrastructure following the migration from the Transitional Services Agreement with Standard Life Healthcare. This resulted in significant claims adjustments and increased operating expenses totalling £5 million in the first six months of the financial year.

4. On 24 June 2016, the announcement of Brexit sent shockwaves through the global economy. United Kingdom (UK) GDP growth expectations were revised downwards and the Bank of England reduced interest rates. The decline in UK bond yields resulted in increased life-product capital requirements, release of margins and a reduced ability to absorb future adverse outcomes.

Discovery's objective regarding capital management is capital optimisation and value creation for the Group while keeping within the Group's stated risk appetite, meeting regulatory requirements, and allowing for the Group's investment strategy.

Capital, capital management and the use of financial reinsurance

A key focus area for the business during the year under review was capital and capital management. Capital refers to:

- Required capital: This is the amount of capital needed to act as a shock absorber to protect against losses arising from adverse events and to maintain regulatory and economic solvency. This includes both the minimum capital requirements as per the relevant regulatory regime and any additional buffer required by the Group's risk appetite.
- Funding available: This is the amount of liquid and tangible assets across the Group (in excess of what is required to meet the entities' statutory or required capital requirement), which can be made available to the Group to meet funding requirements (for example to fund growth, new strategic initiatives and Group dividend payments). This would include funding for new business strain.

Discovery's objective regarding capital management is capital optimisation and value creation for the Group while keeping within the Group's stated risk appetite, meeting regulatory requirements, and allowing for the Group's investment strategy.

The objective of capital optimisation and value creation will be realised by:

- Optimising the risk-adjusted return on capital
- Reducing the cost of capital
- Maximising expected earnings
- Ensuring the most efficient deployment of capital to entities within the Group.

In capital allocation decisions, forecast return is expected to be at least equal to the Group's required hurdle rate of risk-free +10%.

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

			Actual solvency	
Insurance operations	Jurisdiction	Statutory solvency requirement	2016	2015
Discovery Life	South Africa	1 x Statutory Capital Adequacy Requirement (CAR)	356%	386%
Discovery Life Investment Services	South Africa	13/52 x annualised operational expenses	281%	201%
Discovery Life Collective Investments (DLCI)	South Africa	13/52 x annualised fixed operational expenses plus a portion of risk capital on investments held by DLCI	218%	308%
Discovery Insure	South Africa	1 x Statutory Capital Adequacy Requirement (CAR)	265%	266%
VitalityHealth Limited	United Kingdom	Highest capital requirement determined under the Solvency II Directive	140%	–
VitalityHealth Insurance Limited	United Kingdom	Highest capital requirement determined under the Solvency II Directive	481%	–
VitalityLife Limited	United Kingdom	1 x Solvency Capital Requirement under Solvency II	295%	n/a

The Solvency Assessment and Management regulatory regime, expected to be effective in South Africa in 2017, will implement a Group statutory capital requirement. Discovery has been monitoring and reporting the Group's statutory capital position to the Financial Services Board as part of the industry-wide parallel-run exercise. The implications of the new regime have been considered in formulating the capital management strategy going forward.

Financial Leverage Ratio

As part of the capital management process, the Group monitors its capital structure utilising the Financial Leverage Ratio (FLR). This ratio is calculated as total debt divided by total debt plus total equity. The Group's strategy is to maintain a prudent FLR broadly in line with industry norms. In line with the Group's risk appetite statement, an FLR of less than 28% needs to be maintained.

The table below summarises the Financial Leverage Ratio at 30 June:

R million	2016	2015
– Negative reserve funding	4 248	5 437
– Borrowings at amortised cost	5 400	954
– Guarantees issued for reinsurance contracts	1 322	1 274
Total debt and guarantees	10 970	7 665
Total equity	30 607	27 356
Financial Leverage Ratio (%)	26.4%	21.9%

Borrowings at amortised cost

An analysis of borrowings at amortised cost from 2015 to 2016 is provided below

	2016 Rm	2015 Rm	Change Rm
SA borrowings	3.014	402	2.612
UK borrowings	2.226	506	1.720
Other	160	46	114
Total	5.400	954	4.446

South African borrowings

The increase in South African borrowings is largely attributable to a timing difference as part of the proceeds from the rights issue in April 2015 which was earmarked for VitalityLife statutory capital, and used to repay the R1.5 billion bridging loan incurred in the acquisition of Prudential's remaining stake in the UK joint venture (November 2014). This was to minimise interest costs until the statutory capital was required to be paid across to VitalityLife. This took place in December 2015 ahead of the granting of our life insurance licence in the UK and required the raising of a "replacement" bridge loan of R1.5 billion. In addition, funding was required for other parts of the Discovery Group.

UK borrowings

The growth in UK borrowings (HSBC) of R1,720 million (£87 million), needs to be viewed in the context of the reduction in Negative Reserve Funding of £68 million (R1,189 million). Prior to April 2015, the new business costs of the VitalityLife business (Negative Reserves) were funded by Prudential. This was replaced by drawing down on facilities provided by HSBC to fund the acquisition of new business.

Financial reinsurance

- Cash financial reinsurance with recourse
  VitalityHealth and Discovery Insure have made use of financial reinsurance as a financing tool for acquisition costs. Discovery Insure's use of financial reinsurance was discontinued from 1 July 2015. As these short-term businesses are unable to defer acquisition costs or create negative reserves, the receipt from the reinsurer is recognised in income upfront in the year received. Thereafter, the repayment to the reinsurer and the cost of funding are expensed to the income statement. As guarantees have been provided for the repayment of balances owing to the reinsurers, these outstanding balances are included as debt in our calculation of the FLR.
- Cash financial reinsurance without recourse
  With effect from 1 January 2016, VitalityLife used cash financial reinsurance as a means of funding. The impact on earnings over the duration of the contract is limited to the cost of funding. Discovery Life's and VitalityLife's cash financing reinsurance is full risk transfer reinsurance so the reinsurer accepts full risk (and some upside) on their reinsured block of business. As there are no guarantees or recourse if the experience is worse than expected (for example, higher lapses or higher claims), the outstanding balances are not considered as borrowings and are excluded from our calculation of the FLR.
- Cashless financial reinsurance
  Discovery Life utilises cashless financial reinsurance achieved by combining the sale of guaranteed endowments with a reinsurance structure which, together with the negative reserve, allows cash generated by guaranteed endowments to be freed up as capital. In other words, cash is received from the policyholders and the reinsurer protects against the lapse risk (the reinsurance piece is cashless). As no cash is received from the reinsurer, there is no liability to the reinsurer and no impact on the FLR.

Translation impact of the rand exchange on income from operations outside South Africa

The Group's net income from operations outside South Africa is translated into rand at average exchange rates for consolidation purposes. A weaker average exchange rate during 2016 resulted in an increase in the rand equivalent of foreign profits (mostly GBP denominated) and an increase in the rand equivalent of foreign losses (mostly USD and Chinese RMB denominated).

Average exchange rate	2016	2015	% change
Rand/GBP	21.44	18.04	19%
Rand/USD	14.6	11.49	27%
Rand/RMB	2.25	1.85	22%

Q & A with Richard Farber

Some common questions and concerns raised during our engagement with investors and analysts throughout the financial year, are answered below.

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

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

Q *Are you concerned by Discovery Life's cash flows?*

No, there are significant acquisition costs incurred in writing long-term insurance contracts which are recovered over the life of the policy. With a fast-growing business such as Discovery Life, significant investment is required to fund new business acquisition costs. The key issue is that this investment must generate acceptable returns in the long term. We are comfortable that the new policies we are writing meet or exceed our hurdle rate of risk-free +10%. Despite the upfront cash requirement, Discovery Life generated R2 262 million in cash over the period before financial reinsurance and new business strain.

Q *Is your 2018 ambition still achievable?*

Our 2018 ambition is a stretch target aimed at motivating our employees to deliver on our short to medium-term business objectives. We continue to work towards the deliverables that we have set for ourselves as part of that ambition. We recognise that our ambition demands urgency per market and business, despite the strong performance across the Group. We appreciate that some elements (such as our profit target) of our articulated ambition will be harder to achieve than others, but the organisation is still driven to achieve our ambition.

Q *How does Discovery manage the risk of increased global competition in the wellness space?*

The topic of wellness has been growing in prominence over a decade and the rise in consumer awareness around health issues, coupled with new technologies such as wearable devices, all point to increased competition. We are mindful of this issue and invest heavily but purposefully in research and development, data analytics and global expertise in clinical skills and behavioural economics to be at the forefront of product innovation. To stay a leader Discovery has adopted the following approach:

- Stay true to the science of wellness and continue to invest in our extensive knowledge of this
- Use our scale to form unique and innovative partnerships – where possible on a global level. Our recent partnership with Apple Watch is a prime example of this
- Access and leverage the appropriate technologies to ensure we have the best capabilities
- Generate and analyse significant volumes of data linking lifestyle behaviours to mortality and morbidity risks
- Form and be at the centre of a network of insurers using a shared-value approach to insurance, creating a global scale that is difficult to replicate.

Watch the interview with Richard Farber at www.discovery.co.za/info/CFOReport

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WHERE WE OPERATE

Discovery operates in its primary markets in South Africa and the United Kingdom, where it owns and operates the financial service provider or insurer. In partner markets, Discovery partners with leading global insurers in their markets to implement the Vitality Shared-Value Insurance model and lead innovation in the financial services and insurance sectors.

6.9 million lives impacted worldwide

11 811 employees worldwide

PARTNER MARKETS

Through its partner markets, Discovery operates in the US, Canada, Europe and Pan-Asia. In these markets, we offer shared-value insurance products (Vitality integrated with life assurance).

In China, Discovery has a 25% partnership with the Ping An Group of China through Ping An Health and offers private health insurance cover in this market. Shared-value insurance products are offered with Ping An Life (Vitality integrated with life assurance).

We also offer corporate wellness solutions to clients in the US through The Vitality Group.

Manulife

Shared-value insurance offering (Vitality integrated with life assurance)

Vitality

Standalone corporate wellness programme

John Hancock | Vitality

Shared-value insurance offering (Vitality integrated with life assurance)

GLOBAL VITALITY NETWORK

The Global Vitality Network is an alliance of leading insurers worldwide who are applying the Vitality Shared-Value Insurance model in their markets. The mandate of this alliance is to increasingly harness the scale, geographic diversity and innovations of global partnerships to positively impact the lives of clients and the future sustainability of Discovery's insurance partners.

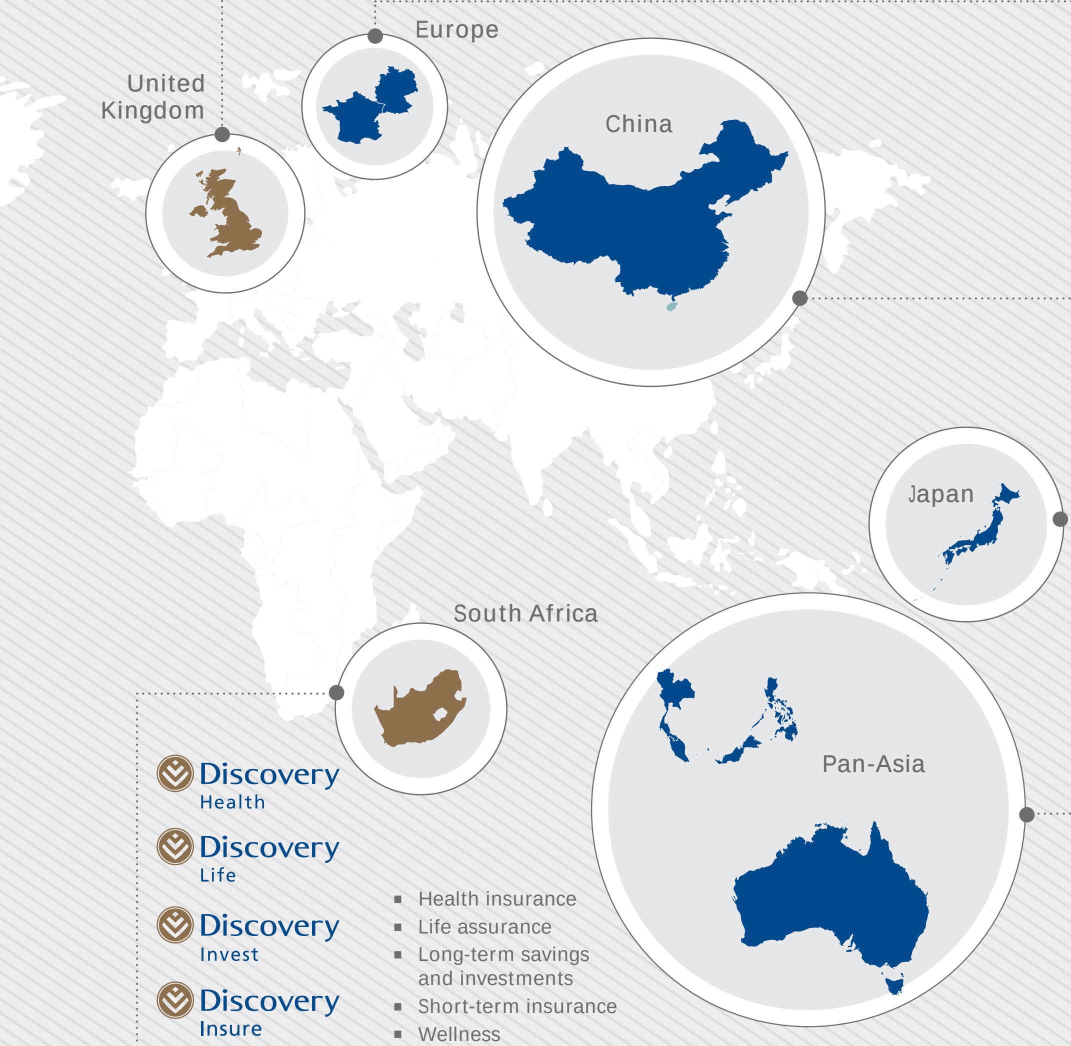
PRIMARY MARKETS

In Discovery's primary markets (South Africa and the UK), the emphasis has been on building the Group's business model and using it as a platform to develop unique insurance businesses. In South Africa, Discovery operates in the industries of health insurance, life assurance, long-term savings and investments, short-term insurance, credit card and wellness. In the UK, Discovery operates in the private medical insurance, long-term protection and wellness markets.

In our primary markets, Vitality is offered either as an integrated part of, or in conjunction with, our insurance products. Vitality supports Discovery's broader business by increasing product integration and cross-selling opportunities across the Discovery portfolio of products.

Vitality

- Private medical insurance
- Long-term protection products



Discovery Health
Discovery Life
Discovery Invest
Discovery Insure
Discovery Vitality
Discovery Card

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

GENERALI Vitality

- Germany and France
- Shared-value insurance offering (Vitality integrated with life assurance)

中国平安 PING AN

- Health insurance
- Shared-value insurance offering (Vitality integrated with life assurance)

SUMITOMO LIFE

Shared-value insurance offering (Vitality integrated with life assurance)

AIA Vitality

- Australia, Singapore, Hong Kong, Malaysia, Thailand and the Philippines
- Shared-value insurance offering (Vitality integrated with life assurance)

OUR BUSINESS MODEL

The unique Vitality Shared-Value Insurance model is a powerful and dynamic form of insurance that actively promotes health and monetises health engagement.

The model guides, incentivises, and provides clients with access to a broad range of wellness and prevention tools. It measures health engagement clinically and actuarially, thereby enabling the dynamic pricing of mortality, morbidity, and health risk. Protection product structures are based on this dynamic pricing that enables more accurate pricing at the start of a policy. As a result, premiums increase or decrease based on clients' Vitality engagement.

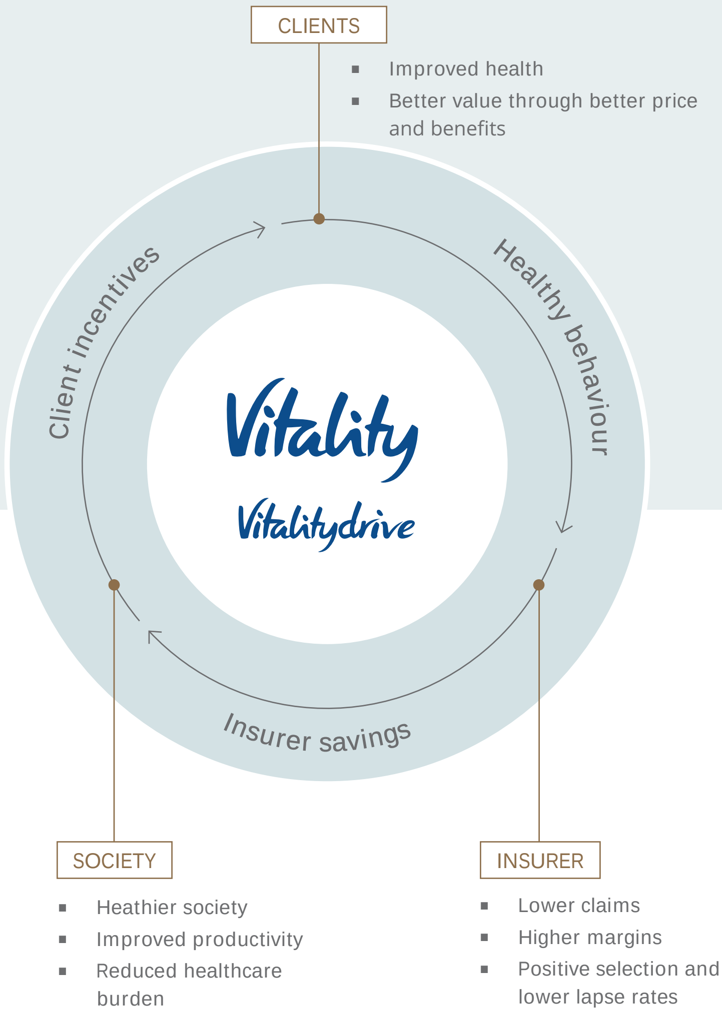
The model therefore embeds health-promotion methodology in insurance systems in a way that enables risk savings and dynamic pricing.

The impact from an actuarial and competitive perspective is significant. This model creates more value through lower price points and better benefits, attracts better lives, encourages positive behavioural change, and has lower claims rates with better selective lapse rates. This has resulted in unique price competitiveness and a significant margin uplift. In this way, our model continues to create shared value.

The Vitality Shared-Value Insurance model responds to macro and market trends by adopting a comprehensive view of a client's integrated risk choices and by using incentives to encourage positive behaviour change that lowers their risk profile.

Vitality Shared-Value Insurance

We use our understanding of behavioural economics to design products that help people change the behaviour that influences risk most, and in doing so, create long-term value for the insurer, our clients and society.

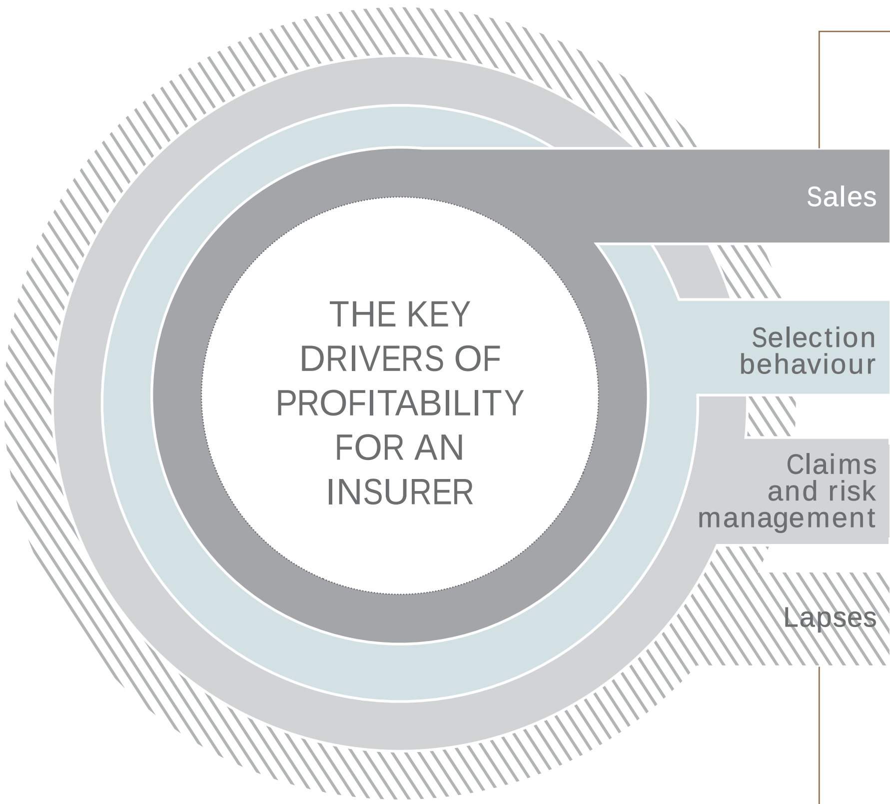


Macro trends our business model responds to

1. The nature of insurance risk is increasingly impacted by health and lifestyle behaviour. The competitiveness of insurance companies can increase through an ability to encourage behavioural change.
2. Technology is an enabler in insurance, creating the ability to more accurately track and segment risk and reward behavioural change.
3. A growing social responsibility is required by insurers, given the increasing complexity and evolving needs of clients.

OUR BUSINESS PROPOSITION: SHARED-VALUE INSURANCE

Our model offers a unique value proposition for our clients, partner insurers and broader society.



How the Vitality Shared-Value Insurance model can positively impact profitability drivers

- Comprehensive and innovative insurance products, attractive rewards and incentives, boost new business levels.
- Clients receive more value from integrated products, and the higher value perceived by consumers results in an increased take-up of integrated products.

Discovery's products attract healthier lives which have a positive selection effect and impact the risk profile of the business.

Vitality encourages positive behaviour change. A direct, positive correlation exists between better risk profiles and lower claims costs.

Hospital admission days per patient and length of stay are significantly lower for patients who engage in fitness activities.*

- Clients who engage with the Vitality programme have lower lapse rates. Lapse rates improve the more clients engage in the programme.
- The longer clients remain with Discovery, and the more they engage with Vitality, the better the impact on mortality and morbidity rates.
- Positive selective lapses of unhealthy lives.

The Vitality Shared-Value Insurance model delivers better health and value for clients, superior actuarial dynamics for the insurer and a healthier, more prosperous society.

- For **Discovery Health**, clients' engagement with Vitality improves health outcomes and lowers healthcare costs for the insurer
- Dynamic underwriting in **Discovery Life**, based on Vitality engagement, results in the dynamic pricing of premiums throughout the policyholder's life
- In **Discovery Invest**, health-related investment enhancements encourage healthier lifestyle behaviour and increased savings and investments from consumers
- **Discovery Insure** applies the Vitality methodology by encouraging safer driving behaviour through the use of driver behaviour tracking and incentives
- For **partner insurers** globally, the model allows for Vitality to be integrated with an insurance product, thereby offering the insurer an accurate and proven method of measuring the effect of health-promotion strategies on client risk profiles, and implementing dynamic underwriting and pricing based on Vitality engagement.

* *Vitality Insured Persons Study, a series of studies undertaken with the involvement of researchers from the UCT Sports Science Institute of South Africa, and Harvard University.*

Actuarial outcomes

81% higher premium size for integrated policies

60% higher sales of ancillary products

21% lower rate of mortality for clients with integrated policies

8-fold increase in the proportion of highly-engaged Vitality members since 2008

R1 535 annual saving per beneficiary for clients highly engaged in fitness activities through Vitality*

37% lower rate of mortality for clients who remain with Discovery compared to clients who lapsed

Higher value of new business

Integrated policies generate

3.7 times

more value for the insurers in terms of new business, than non-integrated policies

SHARED VALUE GENERATED THROUGH THE VITALITY SHARED-VALUE INSURANCE MODEL

Better health and mortality experience and significant financial incentives

- Morbidity and mortality improve drastically over time due to the impact of Vitality, thereby lowering the cost of insurance
- Lapses are lower for engaged Vitality members versus clients who are not engaged in the programme. This positively impacts client retention and embedded value for the insurer
- The rate of accidents is far lower for Discovery Insure clients compared with the national South African average, which reduces the cost of insurance
- Improved mortality and morbidity have a positive impact on a country's economic development
- Cumulative Discovery Life PayBack amount paid to clients up to June 2016 of R2.6 billion.

HOW WE MEASURE THE SUCCESS OF OUR STRATEGY AND BUSINESS MODEL

We included a Group dashboard this year to ensure stakeholders can get an overview of our progress.

	Measure	2016	2015
STRATEGY MEASURES	New products launched each year	New products and benefits launched in all Discovery businesses during 2015 and 2016	New products and benefits launched in all Discovery businesses during 2014 and 2015
STRATEGY MEASURES	Roll-out of the business model	Launch of the Global Vitality Network	The Vitality Shared-Value Insurance model was present in 14 markets worldwide (at the time of writing the report).
FINANCIAL MEASURES	Normalised headline earnings	R4 312 million	R4 027 million
FINANCIAL MEASURES	Embedded value	R53 080 million	R52 295 million
FINANCIAL MEASURES	Solvency	All businesses meet the minimum capital and solvency requirements. See page 15 of this report	
FINANCIAL MEASURES	Return on capital greater than risk-free rate of return +10%	Five-year average ROC of 18%. ROC in 2016 was depressed by the rights issue in 2015	
FINANCIAL MEASURES	New business annualised premium income	R16 231 million	R13 332 million
FINANCIAL MEASURES	Value of new business (Discovery Life and Discovery Invest)	R1 488 million (on a consistent economic basis with the previous year)	R1 212 million
FINANCIAL MEASURES	Growth in normalised profit from operations of between 20% and 25%	11%	17%

Lapse rates, loss ratios and solvency are measured at business level, but are not disclosed due to competitive sensitivity.

		2016	2015
SERVICE MEASURES	Member perception scores	8.73	8.79
	Broker/franchise perception scores*	8.73	8.55
PEOPLE MEASURES	Employee turnover	11.10%	11.20%
	Employee engagement surveys, Net Promoter Score	35%	21%
	Number of employees who have completed leadership development programmes at year end	308	211
	Number of employees participating in wellness days	5 740	6 128

* *Member and broker perception scores on service received, are calculated each month for The Vitality Group, Discovery Insure, Discovery Card, Discovery Vitality, Discovery Health, VitalityHealth, Discovery Invest and Discovery Life. Online surveys are triggered once a client has had an interaction with a service area. Data presented is an average across the service areas with each company weighted according to the number of survey responses received.*

THIS YEAR'S MARKET CONTEXT

This year's operating environment has become more challenging with increasing economic fluctuations that impacted consumer confidence negatively.

In South Africa, increasing interest rates and a depreciating currency impacted consumers negatively. The Group's earnings, embedded value and solvency position remained strong despite these challenging conditions, mainly as a result of the prudent way the Group has been structured. Strategies such as geographic and industry diversification and product design that links to economic factors and accurately matches price to risk, have significantly increased the resilience of the Group in the face of significant economic and non-economic stresses.

With an expectation of rising inflation and interest rates, low GDP growth and a weak currency, consumers will face difficult times over the next 12 to 24 months. For insurers, this raises the risk of lower new business volumes, increased lapses and buying down of cover.

1

Diversification by industry and geography

The Group operates in South Africa, the UK, Europe, the US, and across Asia. It is diversified across various aspects of the insurance and financial industries and is well positioned to expand further into adjacent industries.

DISCOVERY'S PERFORMANCE IN THE CURRENT ECONOMIC ENVIRONMENT

Our business model has four key factors that strengthen the Group's ability to address market fluctuations and remain robust despite economic volatility.

2

Products matched to key economic variables

Product premium increases, ie Annualised Premium Increases (APIs), are linked to Consumer Price Index (CPI). The Group is therefore protected in a high inflationary environment.

3

A higher net-worth client base

The Group operates largely in the higher net-worth market, a sector of the population that is more resilient to market and economic pressures.

4

Dynamic pricing model

The model allows for dynamic risk assessment and more accurate pricing of individual clients, based on their Vitality engagement and lifestyle choices. If a client changes their behaviour towards more healthy life choices, they are rewarded either through incentives or through improved policy pricing. Client engagement in Vitality leads to the ability to price risk and products more accurately, resulting in improved actuarial dynamics and higher levels of profitability for Discovery.

OUR RISKS AND MATERIAL ISSUES

Regulatory risk due to significant regulatory change, and increasing regulatory complexity

SPECIFIC RISKS

The regulatory environment, both in South Africa and internationally, continues to experience significant change. The most tangible short-term risks include:

- Proposed amendments to the Income Tax Act for South African life insurers, which, if implemented, may significantly advance expected future tax payments that may present cash-flow risk.
- The Retail Distribution Review, which could result in changes to the distribution model with a subsequent impact on new business for some of Discovery's South African businesses.
- The Protection of Personal Information Act, Treating Customers Fairly and amendments to the Financial Intelligence Centre Act requirements which present implementation risk.
- The implementation of statutory capital requirements by the Solvency Assessment and Management regulation, expected to be effective in 2017.

BUSINESS ACTIONS

The compliance function oversees and guides all proposed regulatory developments and undertakes active stakeholder management with regulators. Discovery engages both directly and through its representation on industry and professional bodies, with regulators and lawmakers.

Availability of adequate funding to pursue strategic goals

SPECIFIC RISKS

Achievement of Discovery's strategic objectives and growth initiatives requires significant funding resources in terms of both development and solvency capital. There is a risk in not being able to source sufficient capital, both from internal resources and external suppliers of capital.

BUSINESS ACTIONS

Capital requirements are modelled and monitored regularly throughout the year and discussed at various forums, including at Board meetings. Access to a range of capital solutions, including retained earnings, debt and financial reinsurance, ensures that Discovery can pursue its growth agenda with adequate funding resources.

Material issues in 2016

Responding to the current challenging economic conditions and further strengthening the resilience of our business model

Expanding and successfully translating our Vitality Shared-Value Insurance to new markets and sectors

Managing our capital requirements in support of sustained growth

Ability to grow and deliver against ambitious business plans for new and existing key strategic initiatives

SPECIFIC RISKS

We have ambitious plans to grow our businesses across multiple fronts. There is a risk that these business plans will not be achieved due to ineffective strategies, products and services, or due to insufficient management availability and implementation capabilities.

BUSINESS ACTIONS

Governance structures across the Group oversee the development of strategies and implementation of key initiatives to manage the dynamic pace of growth and innovation. Industry trend analysis and big data analytics enable Discovery to keep ahead of market changes and to respond to these in a proactive manner.

A structured project management programme ensures that delivery against business plans is well executed.

Insurance risks, such as lapse rates, mortality and morbidity, and interest rates

SPECIFIC RISKS

Given its multiple licensed insurance entities, Discovery is exposed to material insurance risks, both in the life and non-life sectors in the UK and South African markets. These risks include the claims experience exceeding expectations, lapse and reinvestment risk, particularly for the UK level premium risk business.

BUSINESS ACTIONS

These risks are managed by:

- Ensuring that the underwriting risk policies for each of the licensed insurance entities are robust and embedded in the business
- Ensuring that adequate reinsurance arrangements are in place
- Using skilled actuarial resources to understand the risks associated with the insurance businesses and implementing mitigating actions
- Ensuring each business attains sufficient scale to effectively diversify the insurance risks underwritten
- Conducting regular experience analyses
- Developing products that contain risk-mitigating features for the insurer.

Information-system performance and data security

SPECIFIC RISKS

Discovery's businesses are supported by the extensive use of technology, including complex data analytics. Discovery therefore faces risks associated with:

- The stability and continuity of critical systems and applications, which may negatively impact client experience and business performance
- The integrity of data which, if not maintained correctly, could lead to inappropriate decisions and losses due to incorrect claims, payments and collections
- The accumulation of "technical debt" resulting from the need to keep up with technology applications and the pace of innovation at Discovery
- The protection of data, which may increase exposure to cyber attacks, and internal and external theft or misuse.

BUSINESS ACTIONS

Specific actions include:

- Implementing business continuity and systems performance management processes
- Implementing "cyber-cover" insurance and specific detection and monitoring tools to identify data and access breaches
- Implementing projects to manage technical debt and replace legacy technology while working with Management and Board Committees
- Monitoring of any data breaches and ensuring its reporting through compliance
- Ensuring various quality assurance processes are in place to monitor the integrity of data.

Client retention and new business growth in a volatile economic environment

SPECIFIC RISKS

Discovery operates in a highly-competitive environment and is considered a market leader in a number of areas. Discovery is therefore exposed to risks associated with:

- Loss of market share to new entrants and targeted competition from existing players
- Business volumes being impacted by changes in the economic environment
- The ability of existing clients to maintain their premium payments in a challenging economic environment.

BUSINESS ACTIONS

Discovery's strategy to retain and grow its client base includes providing best-in-class insurance products and services. Vitality provides clients with additional value through health and lifestyle benefits and product integration, which contribute to lower lapse levels. Through innovation and designing products and services that improve our client experience, Discovery is able to retain and grow its client base.

Cross-company integration risk relating to Vitality and the Vitality Shared-Value Insurance model

SPECIFIC RISKS

Discovery's model and the integrated nature of the Discovery businesses rely on behavioural change that produces savings, which can be shared with clients. To a large extent this is distilled into a Vitality status. The alignment of this Vitality status with healthy behaviours and improved clinical outcomes is fundamental to the business model. There is a risk that the achievement of a particular Vitality status is not aligned with the underlying behaviours required to produce the savings assumed in the various benefit designs, resulting in a financial loss for the business.

BUSINESS ACTIONS

To mitigate this risk, regular monitoring of experience is conducted. Adjustment of the Vitality operating model and status-achievement criteria ensures that wellness behaviours and health outcomes are aligned with status criteria and the value of integrated benefits.

PROGRESS ON OUR 2018 VISION AND OBJECTIVES

In 2014 we set an ambition for 2018 to be the best insurer in the world and a powerful force for social good. This vision was created to develop stretch targets and ambitious goals for Discovery people. We continue to progress on our goals, and remain focused on driving our strategy forward towards medium to long-term value creation.

	Objective	Our progress by 2016
Scale and relevance	R10 billion in pre-tax earnings Be the top-two provider in the markets where we operate	**R6.4 billion** All businesses are on track to be a top-two provider. Refer to the individual business reviews for detailed market position.
Business model	A unique business model delivering superior actuarial dynamics and a winning client proposition	▪ Lower mortality and morbidity rates ▪ Lower lapse rates ▪ Better selection
Financial excellence	20% to 25% growth in operating earnings Return on capital of risk-free +10%	▪ 17% five-year compound annual growth rate (CAGR) in operating earnings ▪ Return on capital of 13% versus 17.5% in the prior year. The calendar year was impacted by the additional shares issued following the rights issue in April 2015.
Social impact	Reach 15 million members and make them healthier	**6.9 million** lives impacted
Global positioning	International markets must contribute significantly to earnings (25% of total) and to the client footprint of the Group	While not profitable yet, major investments in building The Global Vitality Network and a streamlined product offering for our Partner Markets have significantly boosted Discovery's international position, profitability potential and client reach.
Exceptional people	Recognition as employer of choice for all critical skills	▪ Significant work has been done during the year to improve our employer value proposition ▪ Investment is made in strategies to attract and retain talent ▪ Discovery was announced as a winner in two categories in the 2016 South African Graduate Employers Association Awards. The Awards are held every year to highlight the most highly-rated organisations that students would like to work for across 24 sectors, voted for by students and recent graduates.

OUR LONG-TERM TRACK RECORD

Looking back at our performance and track record, we measure our performance in terms of our five-year historic new-business growth rate with earnings measured through the five-year compound annual growth rate (CAGR). Measurement is provided for established, emerging and new businesses.

New business API and earnings five-year CAGR

New business API
10%

Earnings
14%

Established businesses

Earnings growth is a function of inflation, economic growth and efficiencies

Discovery Health,
Discovery Life

New business API
25%

Earnings
33%

Emerging businesses

Earnings growth > 20% pa
Gearing effect on earnings growth

Discovery Invest,
Vitality UK

Earnings invested
13%

New businesses

Three to five years to break even
Invest 8% to 10% of earnings

Discovery Insure,
Ping An Health, AIA Vitality,
The Vitality Group,
John Hancock Vitality,
Generali Vitality

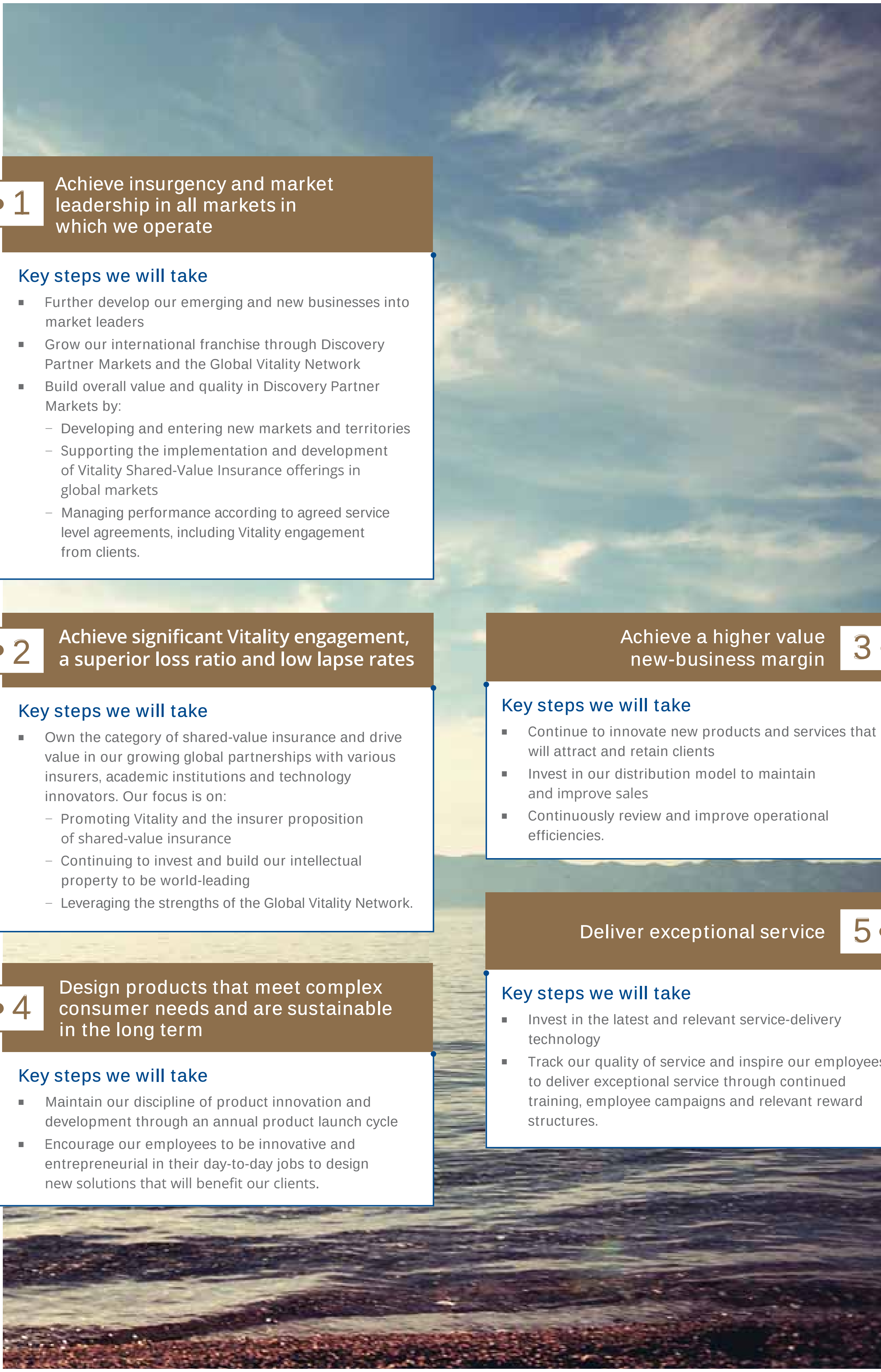
Measurement for new businesses is in terms of % earnings invested

OUR LONG-TERM FOCUS AREAS

We will continue to focus on significant investment in new products and innovation, developing them into emerging businesses that exhibit strong financial and operating profit growth.

Our strategy will continue to be one of strong organic growth, using our repeatable business model in adjacent industries and new markets, supported by a strong Vitality base.

Over time, these emerging businesses will become additions to our portfolio that track well above economic growth.



1 Achieve insurgency and market leadership in all markets in which we operate

Key steps we will take

- Further develop our emerging and new businesses into market leaders
- Grow our international franchise through Discovery Partner Markets and the Global Vitality Network
- Build overall value and quality in Discovery Partner Markets by:
  - Developing and entering new markets and territories
  - Supporting the implementation and development of Vitality Shared-Value Insurance offerings in global markets
  - Managing performance according to agreed service level agreements, including Vitality engagement from clients.

2 Achieve significant Vitality engagement, a superior loss ratio and low lapse rates

Key steps we will take

- Own the category of shared-value insurance and drive value in our growing global partnerships with various insurers, academic institutions and technology innovators. Our focus is on:
  - Promoting Vitality and the insurer proposition of shared-value insurance
  - Continuing to invest and build our intellectual property to be world-leading
  - Leveraging the strengths of the Global Vitality Network.

3 Achieve a higher value new-business margin

Key steps we will take

- Continue to innovate new products and services that will attract and retain clients
- Invest in our distribution model to maintain and improve sales
- Continuously review and improve operational efficiencies.

4 Design products that meet complex consumer needs and are sustainable in the long term

Key steps we will take

- Maintain our discipline of product innovation and development through an annual product launch cycle
- Encourage our employees to be innovative and entrepreneurial in their day-to-day jobs to design new solutions that will benefit our clients.

5 Deliver exceptional service

Key steps we will take

- Invest in the latest and relevant service-delivery technology
- Track our quality of service and inspire our employees to deliver exceptional service through continued training, employee campaigns and relevant reward structures.

OUR LEADERSHIP

Discovery Executive Directors and Group Executive


Adrian Gore
Group Chief Executive


Richard Farber
Chief Financial Officer


Hylton Kallner
Chief Executive Officer, Discovery Life


Neville Koopowitz
Chief Executive Officer, VitalityHealth


Herschel Mayers
Chief Executive Officer, VitalityLife


Dr Ayanda Ntsaluba
Group Executive Director, Discovery


Alan Pollard
Chief Executive Officer, The Vitality Group


John Robertson
Group Chief Information Officer


Barry Swartzberg
Chief Executive Officer, Discovery Partner Markets

Chairperson, Non-executive Director


Monty Hilkowitz
(Independent)

Group Executive and Prescribed Officers of the Board


Dr Jonathan Broomberg
Chief Executive Officer, Discovery Health


Dr Penny Moumakwa
Head of Discovery People and Sustainable Development


Kenny Rabson
Chief Executive Officer, Discovery Invest

Discovery Non-executive Directors


Herman Bosman


Dr Brian Brink
(Independent)


Sonja De Bruyn Sebotsa
(Independent)


Steven Epstein


Faith Khanyile


Vincent Maphai
(Independent)


Tito Mboweni
(Independent)


Les Owen
(Independent)


Sindi Zilwa
(Independent)

The detailed CVs of our leadership team can be found in the Governance section of this report. See page 120.

Group Executive


Anton Ossip
Chief Executive Officer, Discovery Insure


Dr Shrey Viranna
Chief Executive Officer, Discovery Vitality

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A FOCUS ON VITALITY

Discovery Vitality underpins all our businesses. It is the largest scientifically-based wellness programme globally, with more than 2.4 million lives impacted in South Africa in 2016. It forms the foundation of the global Vitality Shared-Value Insurance model. This model, developed through Discovery's experience in wellness and insurance over the past 21 years, acts as a catalyst for change in the insurance industry. It simultaneously provides material benefits to members, insurers and society; and is being scaled through the Global Vitality Network of leading global insurers that are using the model in their markets to transform their offerings, and the healthy longevity of their clients.

Vitality is a wellness programme that was developed around three key areas that have the highest potential to impact health outcomes in the long term.

Vitality

01 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

02 Members can tailor a wellness solution based on their individual risk factors and their preferences, making the programme easy and effective to use

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

In our primary markets of South Africa and the UK, Vitality is offered either as an integrated part of, or in conjunction with, other insurance products. **Globally, it is the core element of our intellectual property offering to insurance partners in 14 markets. It has resulted in the Global Vitality Network – an alliance of international insurers that have adopted the Vitality Shared-Value Insurance model.**

Partner insurers have a combined client base of over 160 million insurance clients, and the majority rank within the **2016 Fortune 500 index.** These partners include:

VITALITY GROUP AND JOHN HANCOCK FINANCIAL (US); MANULIFE (CANADA); VITALITY UK (UK); GENERALI (EUROPE); PING AN (CHINA); AIA (SOUTH-EAST ASIA)

Vitality also supports Discovery's broader business by increasing product integration and cross-selling opportunities across the Discovery portfolio of products.

Impact of the Vitality Shared-Value Insurance model

The success of the Vitality Shared-Value Insurance model is evidenced through our experience: wide-spread member engagement in our programmes leads to a consequent reduction in risk, resulting in substantial value returned to members through better health, lower mortality and significant financial incentives.

Engagement

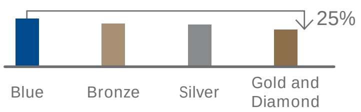
250 000 Vitality Health Checks per year

90 million workouts tracked per year

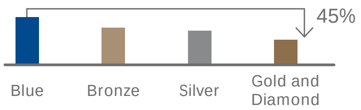
4.5 billion kms of driving data

Risk improvement by Vitality status

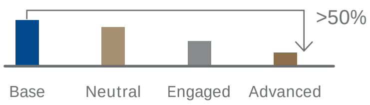
Health insurance claims



Life insurance mortality



Short-term insurance motor vehicle accidents



Member value

R2 billion in Life PayBack and R1 billion in HealthyFood cash back paid

1 million discounted flights booked a year

2.5 million discounted movies watched a year

1.5 million free Vitality Active Rewards drinks redeemed

See our Sustainable Development Report for additional information on the social contribution of our business and the way in which we support the achievement of society's sustainable development goals

Evolution of the Vitality Shared-Value Insurance model in 2016

The reach of the Global Vitality Network – together with the rise of wearable devices pivoting the industry towards a more digital world – accelerated the rollout of our model globally. Vitality Shared-Value Insurance assets can now be implemented on a global scale. The most recent application of this is Vitality Active Rewards with Apple Watch. The importance of physical activity and its strong correlation to lower mortality has seen Vitality collaborate with Apple to create a scalable platform – Vitality Active Rewards with Apple Watch. This offering combines the functionality and appeal of Apple Watch with frequent incentives to encourage healthy behaviour.

Vitality members' physical activity engagement with Apple Watch generates actuarial surplus that is used to fund the cost of Apple Watch for highly-engaged members.

Early results from South Africa demonstrate that physical activity has increased by 20% for those engaged in the benefit and 81% for those who use Apple Watch, and that engagement in other wellbeing activities beyond physical activity has been jump-started.

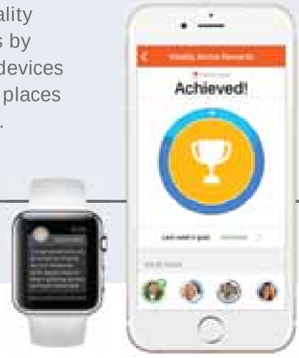
Vitality Active Rewards is now being rolled out actively throughout the business and we will continue to expand and develop the model further during 2017.

VITALITY ACTIVE REWARDS

Vitality relies on three simple steps to improve clients' health. It has resulted in significant client engagement to date, which plays a major role in improving health outcomes.

Vitality's most recent product innovation, Vitality Active Rewards, recognises that inactivity accounts for a large portion of the preventable disease burden and that physical activity often serves as a jump-start for further health and wellness engagement. It therefore encourages increased physical activity, better nutrition and a higher uptake of screening and wellness checks, by providing real-time incentives to participants.

The product tracks Vitality clients' physical activity and rewards them with real-time benefits from partners on the achievement of personalised physical activity goals. It is an evolution of the Vitality model that clearly establishes Vitality as a pioneer in its sector. Through Vitality Active Rewards, we have been able to take a leadership position in health and wellness by combining personalised health and wellness pathways with the provision of wearable devices and regular rewards to encourage positive behavioural change. Vitality Active Rewards places Discovery at the forefront of insurance that is dynamic, personalised and tech-enabled.



Vitality engagement through the years

24 289 056

Number of gym visits for all lives during the financial year

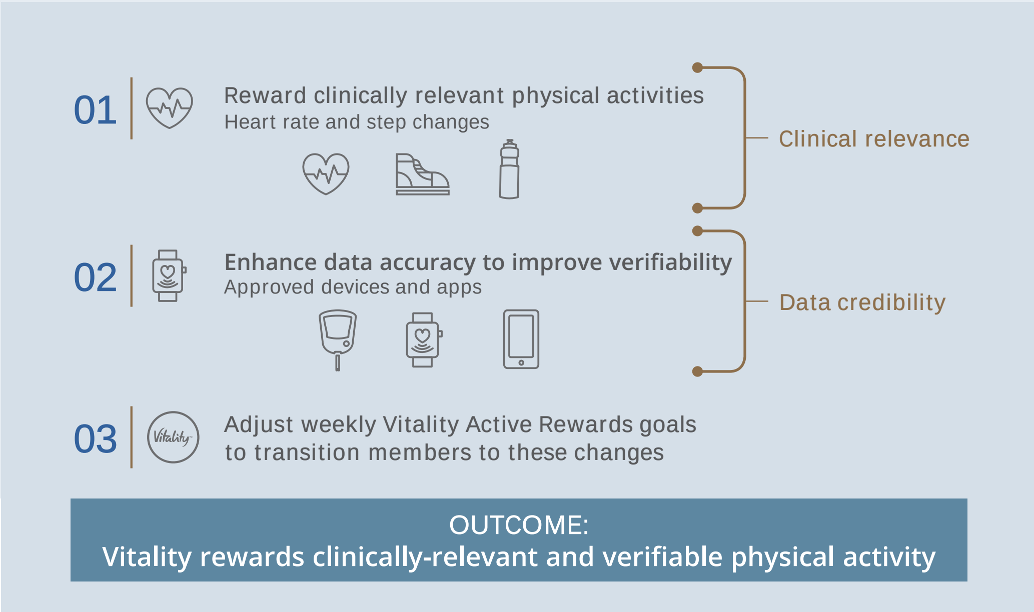
1 176 195 number of discounted flights during the financial year

5 127 000 number of discounted flights between 2008 and 2016

Close to **185 million** gym visits between 2001 and 2016

Over **R6 billion** spent on healthy food items between 2009 and 2016

Refinements to ensure Vitality's clinical relevance and credibility



Vitality was developed in response to many of the trends that are emerging in the global insurance market:

- Disruptive technology, changing markets and consumer expectations that require insurers to become more client-centric and use technology to strengthen relationships with clients
- The rise of wearable devices and the quantified self. Health monitoring is one of the primary reasons for the use of wearable devices, particularly among millennials. They can play an important role in determining premiums, given their ability to provide insights into risks related to actual behaviour
- More connected sources of data that use predictive analytics to address the increase in fraudulent claims and losses and that help to evaluate risks.

Vitality Active Rewards has changed the nature of clients' engagement with Vitality and has been one of the most successful Vitality benefits to date. It has resulted in significant increases in engagement and has been highly successful in engaging those with a low level of physical activity. Based on its success to date, Vitality Active Rewards has the potential to shift inactive clients to become more physically active.

However, the launch of Vitality Active Rewards across our business has presented some challenges. Since its introduction, periodic refinements were made to adjust the model dynamically and to motivate the right health behaviour. Members across all initial fitness levels have become more physically active than they were before joining, and it is important to ensure the benefit encourages the correct behaviour and health outcomes.

The introduction of Vitality Active Rewards has also further sharpened our focus on data integrity and client service. These are two critical issues for the business, given the personalised nature of the programme and the data on which it relies.

With the introduction of Vitality Active Rewards, a high level of service was required as demand for the programme was higher than anticipated. Measures have now been put in place to address short-term spikes in demand for service and to manage higher volumes of client queries generated as a result of the programme's introduction.

We continue to focus on data protection globally.

See our Governance section on page 112 and the business reviews for information on how we manage this issue in our business.

The future outlook for Vitality

The growth of the Vitality Shared-Value Insurance model internationally is testament to the strength of the model and the robust and detailed nature of the intellectual property we have generated in Discovery.

In the year ahead, we aim to develop the Vitality programme further by refining Vitality assessments to be more outcomes based, as well as through further product enhancements and innovation that encourage higher physical activity levels.

DISCOVERY HEALTH

Discovery Health is the leading medical scheme administrator in South Africa, providing administration and managed care services to over 3.2 million beneficiaries. The business has a market share of over 38% in the overall medical scheme market in South Africa, and manages 17 restricted medical schemes on behalf of leading corporate clients, as well as Discovery Health Medical Scheme, South Africa's largest open medical scheme.

Area of operation

South Africa

Dr Jonathan Broomberg
Discovery Health,
Chief Executive Officer

OUR PERFORMANCE IN 2016

New business annualised premium income
+22% to
R6 577 million
excluding the take-on of Bankmed

Operating profit
+12% to
R2 265 million

Discovery Health delivered a strong performance during the year under review.

Normalised operating profit increased by 12% to R2 265 million, and new business annualised premium income increased off a significant base by 22% to R6 577 million (excluding the once-off take-on of Bankmed Medical Scheme in the previous year).

The period was characterised by high healthcare inflation across the industry. Despite this, Discovery Health and all of our client medical schemes continued to perform strongly, due to ongoing investment in best-in-class health system innovation. Discovery Health also maintained strong progress in the restricted scheme environment, and now has a total of 17 leading corporate medical schemes under management, comprising a total of 550 943 beneficiaries.

The onboarding of Glencore and Bankmed proceeded smoothly and further increased the scale of our portfolio in the closed medical schemes market.

DISCOVERY HEALTH MEDICAL SCHEME

On average, every working day, Discovery Health facilitates the following for Discovery Health Medical Scheme members:

R1.4 million	2 890	1 516	R169 million	158
saved through fraud and forensic investigation	hospital admissions	new beneficiaries joined	paid out for claims	births

PERFORMANCE MEASURES OF DISCOVERY HEALTH MEDICAL SCHEME*

Sustained and stable growth of the Scheme continues.

The Scheme achieved a net beneficiary growth of **2.16%** in 2015 from an already high base to **2 691 852** beneficiaries.

3.24% average growth in main members.

The industry's highest **AA+** independent credit rating for claims-paying ability was awarded to the Scheme for the 15th year in a row. The Scheme remains the only open medical scheme in South Africa to have achieved this rating.

25.98% statutory solvency level, which was equivalent to **R12.9 billion** in reserves at the end of 2015.

53.0% of the current market share in the South African open medical scheme market.

33.86 is the average age of beneficiaries. The Scheme's membership base has consistently aged by less than a year each year, showing the Scheme's ability to attract and retain younger members.

* *Discovery Health Medical Scheme data is reported for the calendar year 1 January 2015 to 31 December 2015.*

SHARED-VALUE BENEFITS AND UNIQUE FEATURES OF DISCOVERY HEALTH

The success of Discovery Health is due to our ability to offer a fully integrated, value-driven healthcare operating system to our clients, centred on meeting the full spectrum of healthcare needs of client medical schemes. Discovery Health successfully operates beyond traditional administration and managed-care services, and provides ongoing product innovation, best-in-class service excellence, effective claims risk and fraud management, as well as the coordination and management of the quality of clinical services accessed by our clients. We deploy world-class actuarial, analytical, clinical, and research and development capabilities at every point in the medical scheme product cycle.

At the heart of Discovery Health's drive to make people healthier is Vitality. Through Vitality, Discovery Health can offer members of client medical schemes innovative solutions that help address their health risks and make them healthier, in line with the Vitality Shared-Value Insurance business model.

Discovery's shared-value approach enables a value-based healthcare system that lowers healthcare costs, resulting in lower contributions compared to competitors, and measurable improvements in the quality of care. These are reflected in superior outcomes for members of client medical schemes, namely lower morbidity and mortality rates, lower hospitalisation rates and shorter hospital stays. The success of the model is also demonstrated by the sustained strong performance of Discovery Health Medical Scheme, and of the restricted medical schemes under our management.

To address the many challenges in the current healthcare environment, and to deliver on our mandate of providing a fully integrated healthcare management system for clients, Discovery Health continues to develop unique assets and products. Recent developments and enhancements include:

Discovery HealthID

Discovery HealthID is South Africa's first and most extensive digital healthcare platform for doctors. It enables them to access their patients' electronic health records through an iPad or a computer. HealthID provides doctors with a more complete view of patients' medical history and test results. This ensures better integration and coordination of healthcare, reduces the likelihood of serious medical errors and duplication or unnecessary tests. Its value-add has resulted in increased engagement from members and healthcare professionals. HealthID is now in regular use by over one million members and almost 50% of doctors treating members of Discovery Health's client schemes.

Personal Health Programmes

These programmes incentivise general practitioners (GPs) as well as members with diabetes or heart disease, to work together to improve the quality of care and the quality of life for patients. Since the programme's start in 2015, and as a result of the improved health of enrolled members, we have recorded a significant reduction in specialist visits, hospital admissions, re-admissions and casualty visits by medical scheme members with these conditions.

Discovery HomeCare

Discovery HomeCare is a unique home-based healthcare service for medical scheme members that offers high-quality nursing and care-worker support in the comfort of the patient's home. Not only does Discovery HomeCare offer support and convenience for patients with specific conditions, it also helps achieve savings in healthcare costs with treatment being rendered in the convenience of the member's home. This reduces the rate of hospital admissions.

PROGRESS TOWARDS OUR 2016 STRATEGIC OBJECTIVES

In our previous report, we outlined strategic objectives in a number of key areas. In this section we report on our progress.

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

Our vision for an integrated healthcare system is set out in *Healthcare 2020*, available on the Discovery website, which focuses on the needs of patients, and identifies opportunities to create greater value for members of client medical schemes at the lowest possible cost. It envisages a cohesive system where healthcare professionals work in teams in integrated practice units and delivery systems, and are paid using innovative alternatives to current fee-for-service models such as value-based reimbursement models.

To date, several value-based contracts have been developed with healthcare providers, including hospitals and doctor groupings. We are also actively engaging with other healthcare providers to identify ways of reducing healthcare costs. All provider contracts going forward will aim to include measures relating to the quality of care and clinical outcomes.

During the year, Discovery Health published information on the Discovery Health website on patients' experience of care at hospital level through our **Patient Survey Score (PaSS)** initiative.

Since the publication of this information, it has been viewed more than **16 000** times.

Over the past two years, our data indicates that the average PaSS summary score has increased by **8%**, suggesting a material improvement in patient experience in hospitals.

This may in part be attributable to the fact that hospital managers and clinical staff are now aware that patient experience is being measured and reported on in the public domain. In the next phase, we intend to extend these measures of hospital experience to include specific clinical outcomes.

PROGRESS TOWARDS OUR 2016 STRATEGIC OBJECTIVES continued

2 The creation of a unique and outstanding service experience for members at every client touchpoint

Our service experience has been strengthened in a number of ways during the year, including enhanced care coordination for patients, and the improved flow of information between health professionals throughout the healthcare system, underpinned by our digital assets.

Important new enhancements to service-delivery capacity included HealthID, Personal Health Programmes and Discovery HomeCare. We also introduced a new Executive Wellness offering, which provides a highly differentiated and valuable service for executives and senior business leaders. Executives receive an efficient and comprehensive health assessment, as well as personalised coaching in their offices or at their homes.

Discovery Health's continued focus on compliance, service and communication has seen low complaint levels from members of client medical schemes. Out of nearly 44 million claims made annually by members of Discovery Health Medical Scheme, fewer than 800 complaints were made to the regulator, the Council for Medical Schemes in 2015.

Discovery Health Medical Scheme member complaints to the Council for Medical Schemes in 2015

0.28 per 1 000 beneficiaries

Fewer than 800 complaints per year out of 43.8 million claims

As recognition of our continued value-add, Discovery Health was the recipient of the **2016 Financial Intermediaries Association (FIA) Award**, an award we have received every year since its introduction in 2008. In addition, Discovery Health was also the winner in the **2016 Sunday Times Top Brands Awards** in the Medical Aid category.

3 Make members healthier through increased Vitality engagement

Vitality is at the core of our shared-value insurance model and supports our efforts to help people be healthier. The use of Vitality within Discovery's model addresses modifiable health risk factors and enhances members' health by incentivising health-promoting behaviour such as regular exercise, healthier nutrition and regular screening.

The impact of Vitality is significant, and increased engagement in the programme over time leads to substantially improved health outcomes.

Externally-verified research clearly indicated that patients with chronic conditions who are highly engaged in Vitality have between 10% and 30% lower healthcare costs, shorter stays in hospital and fewer hospital admissions. The impact of exercise on hospital admissions is profound. A survey of Vitality members has shown that those who exercise twice a week are 13% less likely to be admitted to hospital than those who rarely exercise. The greatest benefit is evident in the impact on mortality. Members on the two highest Vitality statuses have an eight-year longer life expectancy (at age 65) compared to members who are not on Vitality, or on the lowest status.

2016

Over **53%** of members on medical schemes under Discovery Health's management are also members of Vitality.

36% of members are actively engaged in Vitality, a steady increase from previous years.

The increase in engagement with Vitality can be attributed to the introduction of Vitality Active Rewards during the financial year. **Vitality Active Rewards** has been successful in increasing the level of Vitality engagement through a proposition which enables Vitality members to set weekly exercise goals to access more immediate rewards and feedback.

Read A Focus on Vitality on page 42 for more information

Discovery Health

4

Ensure consistent, excellent financial performance and sustained, healthy growth

Discovery Health's value proposition has resulted in significant success in tenders for the contracts to manage new restricted medical scheme clients.

Discovery Health now provides services to 17 leading corporate restricted medical schemes, with several more attractive prospects in the pipeline. With the addition of the Bankmed and Glencore medical schemes, our market share in the overall medical scheme market has increased to 38%.

We have also ensured ongoing steady growth in Discovery Health Medical Scheme, despite difficult economic conditions in South Africa. This can be attributed to our model of delivering value to members, enabling the widest range of scheme options with the best available cover at the lowest contributions in the market. The new Discovery Health Medical Scheme Smart Plan, which was designed by incorporating Discovery Health's digital assets, is attracting younger and healthier members to Discovery Health Medical Scheme. Members who are actively engaged in Vitality demonstrate lower lapse rates and healthcare costs than non-engaged members.

Distribution channels are also increasingly efficient. Face-to-face consultations with financial advisers remain the primary distribution channel for medical schemes in South Africa and play an integral role by ensuring that clients understand product choices.

We are, however, experiencing a growing trend in the number of consumers that engage with medical schemes through digital channels, which are now integral to attracting younger members.

Discovery Health has developed a number of digital solutions:

A direct-to-consumer channel

An online application channel for new medical scheme members

The SmartAdvisor app

An iPad app that makes it easier for financial advisers to engage with existing medical scheme members and to sign on new clients

The Discovery Health Medical Scheme Smart Plan

A cost-efficient and technologically advanced health plan available through the Discovery app for members

FOCUS: Using technology and partnerships to create value

One example of how Discovery Health is using digital technology to grow the medical scheme market is the Discovery Health Medical Scheme Smart Plan.

The Smart Plan:

- Integrates digital platforms, network providers and medical services in a seamless member journey
- Offers the best value for money in the South African open medical scheme market, due to its use of digital technology and smart networks to significantly reduce healthcare costs
- Has contributions that are just over 22% lower than the average contributions of comparable health plans of other medical schemes.

By incorporating technology, the Scheme is able to attract technology-savvy consumers who are empowered to manage their own health plans and spending.

The Smart Plan was launched in January 2016, and now has approximately 10 418 principal members. It has been particularly helpful in attracting new members with a younger demographic profile to the Discovery Health Medical Scheme.

A further strategic focus area for Discovery Health is the rapidly advancing field of genome sequencing. Through our partnership with Human Longevity Inc., **we offer DNA sequencing** at the lowest price globally, thereby giving members useful and interesting insights into their genetic heritage, and ultimately leading the way towards personalised medicine, nutrition and exercise programmes.

We also invest in the training of medical specialists in South Africa's public sector through the **Discovery Foundation**. Since its inception 10 years ago, the Foundation has made grants of over R160 million to train and support more than 300 medical specialists and institutions in areas where there is the greatest need.

PROGRESS TOWARDS OUR 2016 STRATEGIC OBJECTIVES continued

5

Increase the competitive advantage of Discovery Health Medical Scheme through lower contributions and healthcare costs

Discovery Health actively manages the cost of healthcare through an integrated operating model and various healthcare innovations and assets. These collectively help to counteract medical inflation, which represents a material challenge for medical scheme members and employers. In South Africa, the inflationary impact of new hospital construction has exacerbated this trend with a significant increase in admission rates in comparison to historical norms. Other contributing factors include an increasing burden of disease and chronic illnesses, longer hospital stays and technological and medical advances that frequently result in demand for extremely expensive medicine and treatment with the cost increased by unfavourable exchange-rate dynamics.

In part, addressing these healthcare inflation challenges requires a continued focus on fraud and forensics, particularly in the context of the current economic situation. Between 2013 and 2015, an estimated R1.04 billion was saved through the detection and prevention of fraud. An estimated R928 million was saved in cumulative rehabilitation as a result of high claimers and offenders positively modifying their behaviour to within normal thresholds.

In 2015, Discovery Health's managed-care initiatives, (which included a focus on fraud, tariffs and alternative reimbursement models, benefit and funding policy, medicine, and surgical items and devices) resulted in savings of R4.3 billion for members of Discovery Health Medical Scheme. An additional saving of R1 billion was achieved for Discovery Health Medical Scheme and its members through Vitality. This combined saving of R5.36 billion resulted in an effective 16.18% reduction in Discovery Health Medical Scheme's risk claims for 2015.

An analysis of the value generated for the Scheme demonstrated that members of Discovery Health Medical Scheme received a return of R3.30 for every R1.00 in managed-care fees paid by the Scheme to Discovery Health.

Members of Discovery Health Medical Scheme also received additional value through Discovery Health's administration fees, which despite the increasing complexity and intensity of services offered, have increased below inflation since 2008.

Administration fees account for 7.8% of gross contribution income, lower than the 8.9% average charged to other open medical schemes by competitors.

We estimate that members of Discovery Health Medical Scheme received R1.82 in value for every R1.00 paid to Discovery Health for both administration and managed-care fees.

By addressing the increasing costs of healthcare holistically and adopting an approach that combines Vitality engagement with an integrated healthcare system offering, Discovery Health Medical Scheme can offer substantially lower-cost healthcare contributions than the rest of the market. In 2015, Discovery Health Medical Scheme's contributions were 14% lower than the average for the next nine largest open medical schemes, when compared on a plan-for-plan basis.

6

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

Mobile and digital technologies, such as wearable devices and big data, are driving significant change in global healthcare systems. These technologies empower patients and their doctors by enabling them to manage their health and healthcare costs, improve coordination and quality of care, and to enhance the overall healthcare experience. Staying abreast of these emerging technologies and insights from data is a catalyst for new and unique product designs.

Every year we invest substantially in new technology and innovation to improve our value proposition and that of our client medical schemes to attract more members. In the 2016 financial year:

Discovery Health invested more than **R330 million** in such innovations.

7

Optimally navigate the regulatory environment

The health industry is highly regulated, and ensuring full compliance with all applicable regulations while maintaining successful growth is a key objective for Discovery Health. We believe that an enabling and effective regulatory environment is one that balances consumer protection, market stability and economic efficiency.

We continue to monitor and actively participate in a number of regulatory processes, including:

The Health Market Inquiry

This is a wide-ranging inquiry under the auspices of the Competition Commission, which is evaluating all issues impacting the cost of private healthcare, with a particular focus on issues that hinder competition and impact consumers negatively.

Discovery Health is actively engaging in the Inquiry, and has provided extensive data and written submissions covering many of the issues of interest to the Inquiry. The outcome of the Inquiry is expected at the end of 2016.

National Health Insurance

In alignment with the objectives of South Africa's National Development Plan, the vision for a National Health Insurance (NHI) system is to provide high-quality healthcare for all citizens, regardless of their socio-economic status. Discovery Health fully supports the objectives set out in the NHI White Paper (published in December 2015). This is a proposed roadmap for strengthening the national healthcare system at all levels.

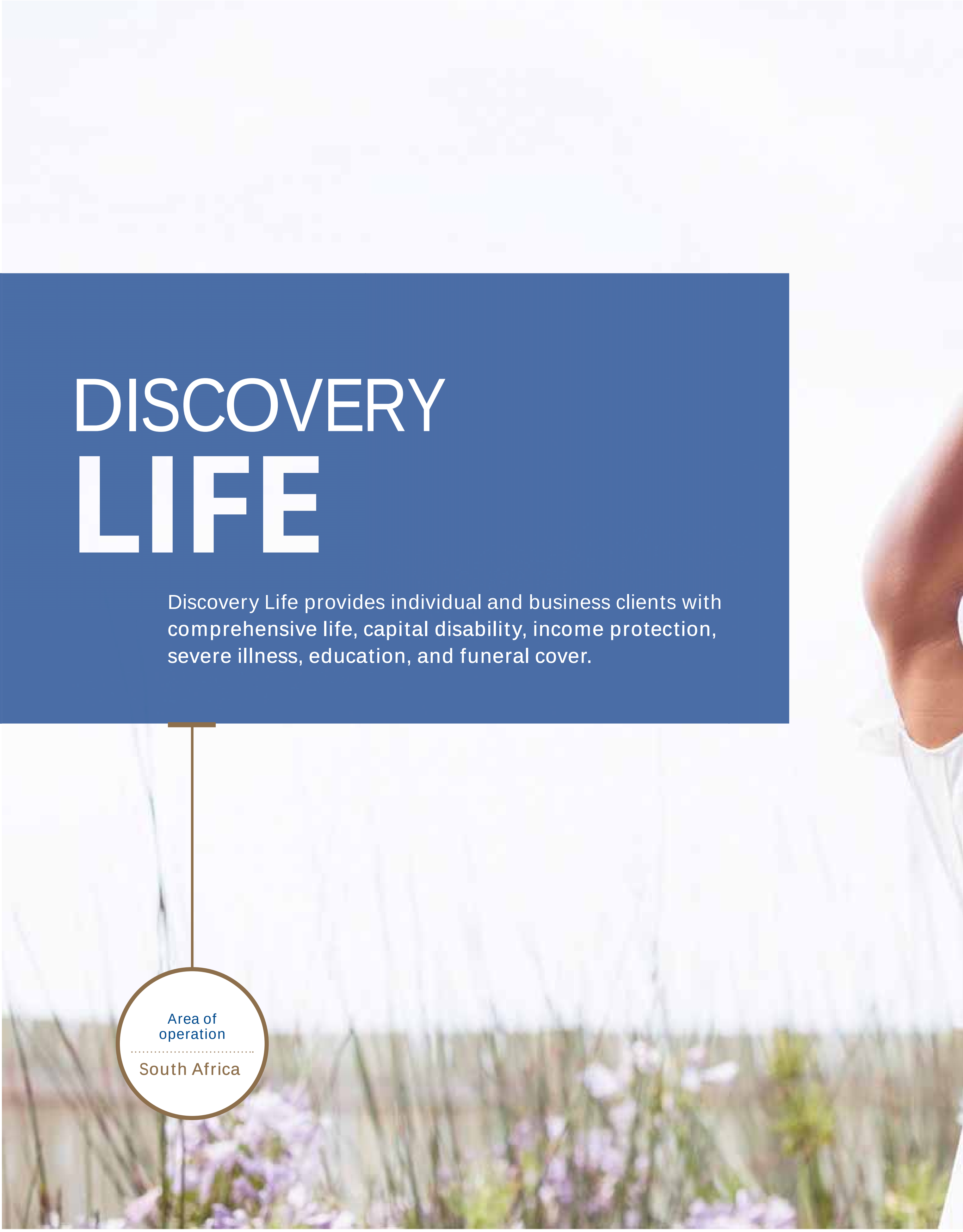
We believe that medical schemes have an important role to play and can continue to operate alongside the NHI, and that a smooth interface between the NHI and the private healthcare system should be a key outcome of this policy process. Discovery Health is working closely with the National Department of Health and other stakeholders to ensure that the final NHI policy is optimal, and that it leverages the assets of the entire national healthcare system, including the private healthcare sector.

OUTLOOK AND STRATEGIC OBJECTIVES FOR 2017

We are making sustained progress on many of the issues which are material to the business and to the health industry. We believe there is great potential for the use of technology to continue to improve and personalise patient care, and to manage healthcare costs.

Our focus areas for 2017 will be on tackling the persistent high healthcare costs through the roll-out of strategic risk management initiatives, increasing the competitive advantage of Discovery Health Medical Scheme through lower contributions, and using our digital assets to enhance value and create unique and outstanding service innovations for members and for the medical schemes under management.

1. Decisively increase Discovery Health Medical Scheme's competitive advantage through lower contributions and lower healthcare costs.
2. Broaden access to quality healthcare by lowering costs, creating unique products and applying innovative technologies.
3. Create unique value and outstanding service experiences for members at every touchpoint in the healthcare system.
4. Make members of client medical schemes healthier through increased Vitality engagement.
5. Ensure consistent, excellent financial performance and sustained healthy growth of our client medical schemes.



DISCOVERY **LIFE**

Discovery Life provides individual and business clients with comprehensive life, capital disability, income protection, severe illness, education, and funeral cover.

Area of operation

South Africa

OUR PERFORMANCE IN 2016

During the year, we continued our focus on increasing our market share through product enhancements, marketing initiatives and a focus on our distribution channel.

New business increased by 5% to R2 347 million and earnings by 14% to R3 373 million for the year under review. Value In Force (VIF) increased by 10.9% using constant economic assumptions. When taking the more conservative risk discount rate assumption into account, driven by an increased beta adjustment at the end of the period, the VIF reduced by 1.6% to R18.9 billion. The Value of New Business (VNB) margin of 8.9% as at the end of June 2016 was achieved as a result of improving the new business mix.

Discovery Life remains well capitalised and generated R2 262 million in cash from the existing book (Individual and Group Life). This was utilised largely to continue funding further growth of the Discovery Life business through new business acquisitions.

Despite a challenging economic environment, Discovery Life continued to perform well. Lapse rates were significantly lower than expected (84% of expected), particularly for policies integrated with Discovery Health and those with higher Vitality statuses. Policyholders received additional value from paybacks (from actuarial surplus) of 18% of claims value – highlighting the shared value created by healthy clients.

Increasing market share continues to be a major area of strategic focus for us. We continue to work towards increasing our market position through a combination of strategies, including product enhancements, continuing growth in the Independent Financial Adviser (IFA) network and a step up in our marketing efforts, with additional roadshows for advisers to provide information on product updates and targeted sales campaigns.

Hylton Kallner

Discovery Life,
Chief Executive Officer

PERFORMANCE MEASURES

FOR THE FINANCIAL YEAR

Over **400 000** individual policyholders, **435 168** group risk lives and **28.8%** market share in the retail-affluent life insurance segment

Lapse rates were significantly lower than expected (84% of expected rate)

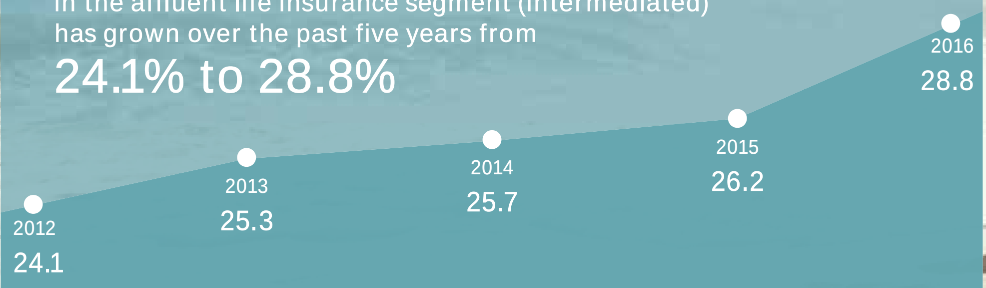
Earnings increased by **14%** to **R3 373 million** with a strong second half performance of 18% versus the prior period

Discovery Life remains well capitalised with cash generated of **R2 262 million** (Individual and Group Life) from existing business before financial reinsurance and new business strain

New business increased by **5%** to **R2 347 million**

New business protection market share

in the affluent life insurance segment (intermediated) has grown over the past five years from **24.1% to 28.8%**



SHARED-VALUE BENEFITS AND UNIQUE FEATURES OF DISCOVERY LIFE

We use data on clients' health, wellness and driving patterns to assess and dynamically underwrite client risk.

- Clients pay far more accurate premiums that reflect the dynamic nature of their risk profiles. These premiums are offered at the lowest price at policy inception, and can be sustained through client engagement in Vitality and health and clinical improvements.

- Claims and lapse rates are far lower compared to traditional insurance models, particularly for Vitality-engaged clients who realise the benefits of greater investment in their own health and wellness through Vitality.

- Discovery Life is a positive force in shaping the health outcomes of clients, encouraging and incentivising them to engage in behaviours that improve their health and life expectancy. This manifests in market-leading new business, mortality and persistency metrics that deliver superior, sustainable margins and Value of New Business (VNB) over the long term.

Product innovation at Discovery Life

Discovery Life's product innovation strategy aims to achieve a more precise approach to segmenting clients and stratifying risk, by enabling increasingly accurate levels of feedback through the Vitality programme. This results in the development of customised clinical pathways for individual clients who are at risk due to non-communicable diseases, while also offering value to healthy clients through unique lifestyle rewards and financial incentives.

New products that expand revenue streams and margin uplift were launched after the financial year end. We follow a formal product innovation cycle that results in new products and innovations introduced to the market on a yearly basis.

Vitality underwriting intelligence facilitates clinical assessment, risk segmentation, stratification and rating, and Vitality engagement determines dynamic pricing.

The enhanced Vitality Health Check and Vitality Age with comprehensive measurement of key health metrics provide the basis for Vitality underwriting.

Discovery Dollar Life Plan

The Dollar Life Plan is the only South African, authentic offshore life policy denominated in the most widely-used currency, the United States dollar. The product has performed well, with the premium for in-force Dollar Life Plan policies averaging $223.31 per month.

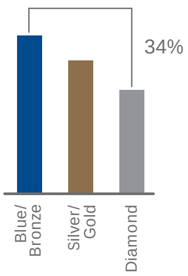
THE POSITIVE IMPACT OF LONG-TERM INVESTMENT IN A SHARED-VALUE INSURANCE MODEL

Over time, providing incentives to promote healthy lifestyles and good driving behaviours have resulted in a significant change in the risk pool that is insured by Discovery Life.

Clients become significantly healthier and the rewards incentivising this behaviour also result in clients retaining their policies for longer.

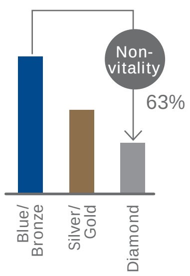
The impact of the Vitality Shared-Value Insurance model on claims is significant. Mortality experience for highly engaged clients is approximately 34% lower than for clients who do not actively engage in managing their health.

Impact of Vitality status on total claims

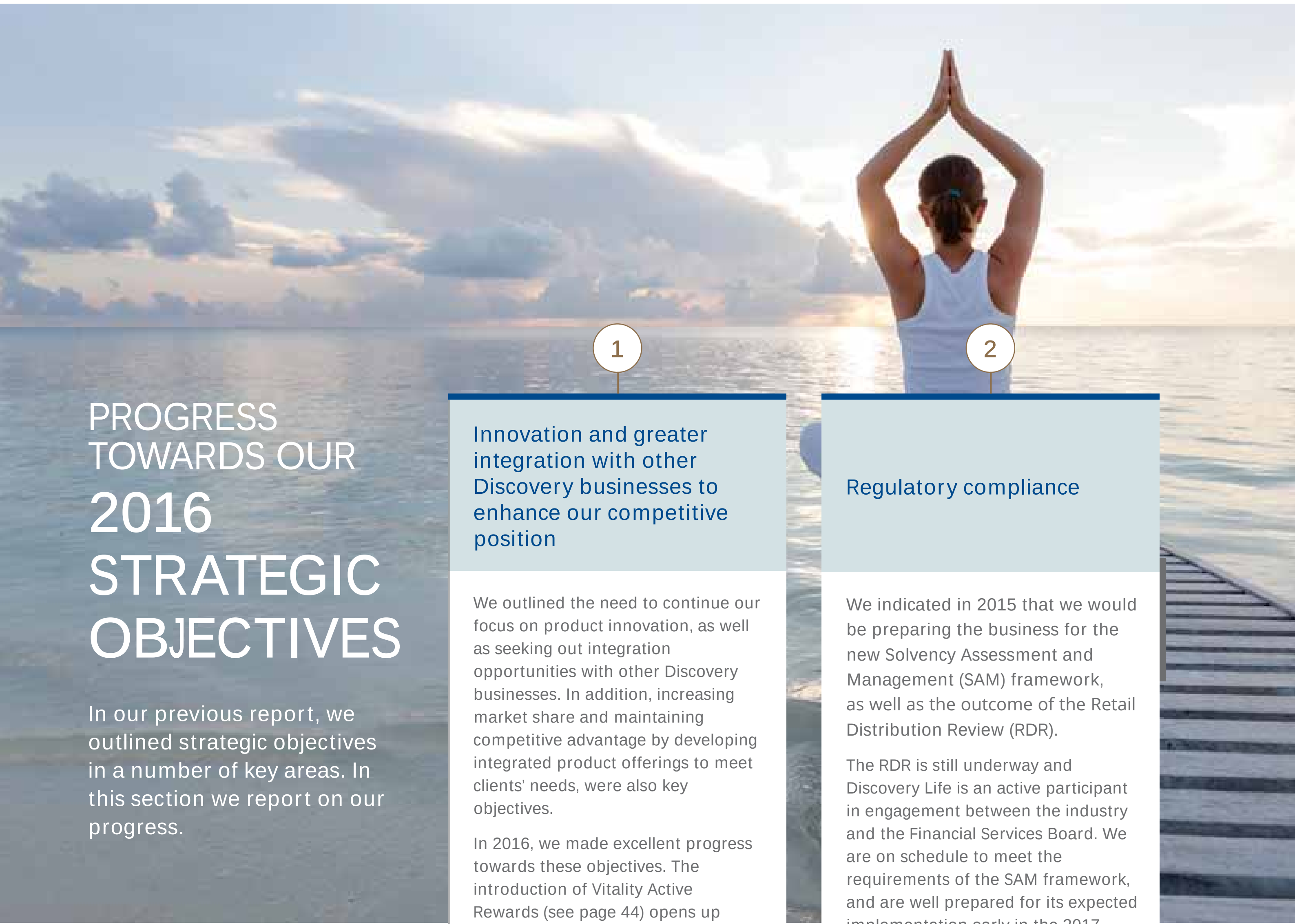


There is a major impact on retention, with lapse rates for engaged clients more than 63% lower than for clients who do not engage in the Vitality programme.

Impact of Vitality status on lapses



The impact of Vitality engagement is powerful and creates significant value in the Discovery Life portfolio, in a way that is challenging for competitors to replicate.



PROGRESS TOWARDS OUR 2016 STRATEGIC OBJECTIVES

In our previous report, we outlined strategic objectives in a number of key areas. In this section we report on our progress.

Discovery Life plays a key role in Discovery's portfolio of businesses, generating significant financial value in South Africa and building a platform for the development of a growing network of financial advisers.

In international markets, where Discovery partners with other insurers to incorporate the Vitality Shared-Value Insurance model into life assurance, the intellectual capital generated in Discovery Life underpins the Group's value proposition to new and existing partners.

1 Innovation and greater integration with other Discovery businesses to enhance our competitive position

We outlined the need to continue our focus on product innovation, as well as seeking out integration opportunities with other Discovery businesses. In addition, increasing market share and maintaining competitive advantage by developing integrated product offerings to meet clients' needs, were also key objectives.

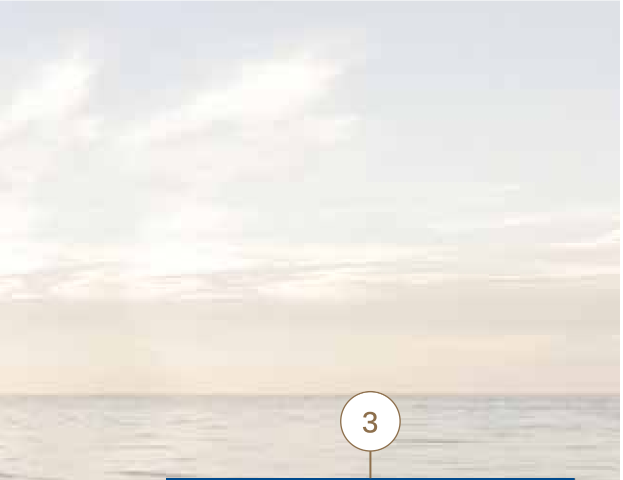
In 2016, we made excellent progress towards these objectives. The introduction of Vitality Active Rewards (see page 44) opens up further avenues for cross-selling opportunities across the Group. It enabled us to introduce Active Integrator that allows clients to benefit from wellness discounts for physical activity without needing the full Vitality programme.

The difficult economic climate in the South African market continues to be a challenge as consumers search for value. Despite these conditions, our business model proved to be resilient, with low lapse rates experienced during the year. As we further refine our model, for example with the closer integration of Vitality Health Checks with Discovery Life products to more accurately price risk and place clients on pathways to improve their health, we expect a more compelling value proposition for healthy clients, as well as strong retention levels that will increase our overall market position.

2 Regulatory compliance

We indicated in 2015 that we would be preparing the business for the new Solvency Assessment and Management (SAM) framework, as well as the outcome of the Retail Distribution Review (RDR).

The RDR is still underway and Discovery Life is an active participant in engagement between the industry and the Financial Services Board. We are on schedule to meet the requirements of the SAM framework, and are well prepared for its expected implementation early in the 2017 calendar year.



3

Growing our distribution channels and networks

In our 2015 report, we discussed the need to develop current and emerging distribution channels for our products.

This has been a significant area of focus for the business during the year. Our direct and tied marketing channels have performed well and consistently attract quality new business.

We also grew our presence in the independent adviser distribution network. Some structural challenges exist in this channel, such as an increasing age profile of independent advisers in the South African market. It remains a difficult proposition to attract young people into the financial advisory industry under the current incentive structure, the absence of sign-on bonuses and uncertainties around the Retail Distribution Review.

Our response has been to continue our investment in intensive training programmes for both new and existing financial advisers. A cornerstone of our strategy is to attract high-calibre advisers in all channels capable of meeting the requirements of our clients in the retail-affluent segment. Our products are actuarially complex and our advisers play a critical role in supporting consumers with accurate and valuable advice.

Discovery Financial Adviser Academy

The Discovery Financial Adviser Graduate Programme aims to recruit university graduates and develop them into world-class Discovery financial advisers. Close to 100 selected candidates have been recruited to attend 12 weeks of rigorous full-time training, focusing on Discovery's integrated product range, financial planning, investments, taxation and sales approach. This training was followed by sales under mentorship from some of Discovery's Sales Managers. The programme provides an unparalleled path of professional development and mentorship, underpinned by best-in-class sales techniques and productivity initiatives. Depending on its success, a broader geographic rollout will take place in future.

OUTLOOK AND STRATEGIC OBJECTIVES FOR 2017

During 2017 we will continue to focus on product innovation and integration, as well as on the development of distribution channels. We intend to further pursue potential opportunities for growth in direct distribution channels.

In terms of the regulatory environment, we await the results of the Retail Distribution Review. Having already identified many of the steps that will be required to comply with the expected outcome of the review, Discovery LIfe is well-prepared to implement the required changes.

We are also seeking to harness technology more effectively to pursue better service provision to clients, including more immediate underwriting processing and policy activation.

Our long-term growth strategy targets positive cash flow and the growth and development of a high-quality suite of innovative products and engaged clients. We will continue to pursue a pricing and product strategy which balances these objectives.

1. Maintain a continued strong focus on growth in market share through investment in product innovation, current and emerging distribution channels, and accelerated new business processes.
2. Further develop the comprehensive risk evaluation, underwriting and managed care integration capabilities to enable finer risk stratification, improved pricing, incentives and health improvement for both healthy and traditionally high-risk clients.
3. Ensure the business remains informed and prepared for the implementation of all phases of regulatory development, including the Protection of Personal Information (POPI Act), Retail Distribution Review, Treating Customers Fairly, and licensing requirements.

DISCOVERY INVEST

Discovery Invest aims to **deliver superior returns to investors** by offering innovative investment products that are aligned to the Vitality Shared-Value Insurance model and are both tax and fee efficient.

Area of operation

South Africa

Discovery Invest

OUR PERFORMANCE IN 2016

Discovery Invest experienced excellent performance over the reporting period. The business targets market leadership with continued product innovation in the investment savings industry in South Africa. The focus this year has been on launching market-leading pre and post-retirement products.

Over the reporting period, new business in Discovery Invest grew by 17% to R1 932 million. Assets under administration increased by 21% to R60.95 billion. This strong performance has seen operating profit increase by 22% to R563 million. As a consequence of efficiencies from greater scale, the income from asset management fees net related of costs, increased by 46%.

We have seen strong interest in the range of retirement products underpinned by the Vitality Shared-Value Insurance model. These products recognise increased retirement needs due to longevity and incentivise responsible investment behaviour.

The potential exists to create a more innovative value proposition for clients invested in these products and to link assets more effectively to liabilities to ensure greater prosperity in retirement. Important next steps will be to design behavioural mechanisms to incentivise optimal retirement provision, and to incorporate the best asset-allocation techniques and big data to target client-specific retirement liabilities.

Kenny Rabson

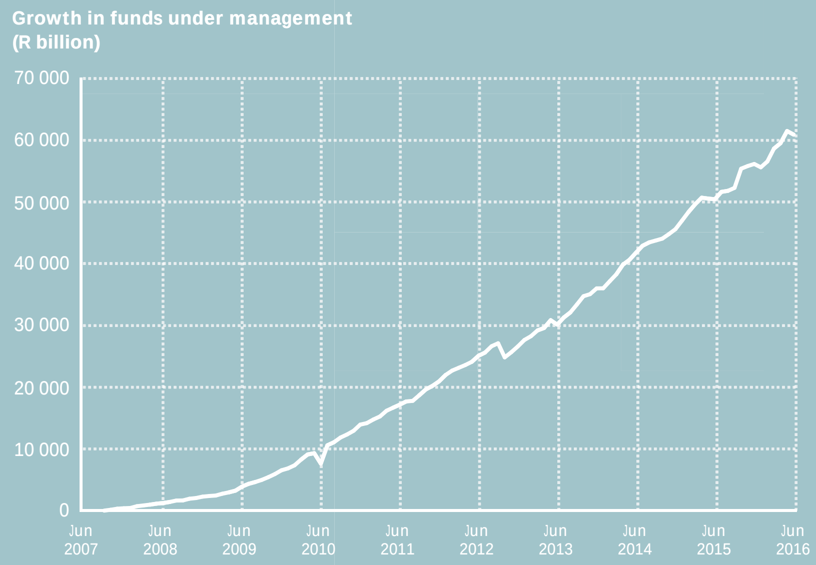
Discovery Invest,
Chief Executive Officer

Discovery Invest

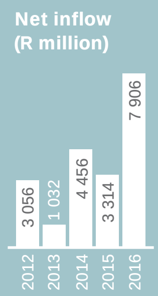
PERFORMANCE MEASURES
FOR THE FINANCIAL YEAR

Service scores from our sales channels continued to improve during the period due to a focus on training, and investment in self-service technology.

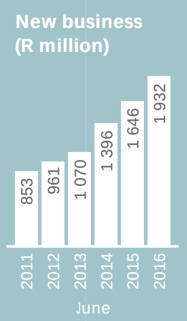
Having reached the landmark **R50 billion** in assets under administration during 2015, Discovery Invest further increased these assets by 21% in 2016 to **R60.95 billion.**



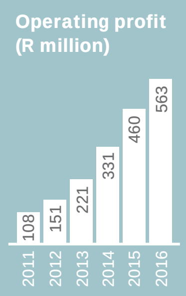
Growth in assets under direct administration was driven by excellent net flows into Discovery unit trusts. With net flows of **R1.4 billion** (Q1) and **R1.9 billion** (Q2) Discovery unit trusts were among the top five retail flow takers (excluding money markets) in South Africa in quarter one and quarter two of 2016.



New business generated in 2016 increased by **17%** over the previous year, with all distribution channels showing positive growth.



We continued with strong growth in operating profit, with growth of **22%** to **R563 million** during the past year.



SHARED-VALUE BENEFITS AND UNIQUE FEATURES OF DISCOVERY INVEST

Significant social benefits are created when clients are supported in responsible pre and post-retirement planning.

Our research has consistently indicated that a greater focus on longevity and wellness by clients supports financial responsibility and responsible retirement planning. Funds remain invested for a longer period, generating surplus profits and thus improving the profitability of our business, as well as creating benefit for clients and society.

Based on our experience of implementing behaviour-based products in other business areas, we believe there is potential for short-term incentives to be used to create greater engagement by individuals in saving and financial planning. A more effective way of communicating the positive impact of investment and savings is also required, potentially based on targets for retirement saving.

The business has developed products that recognise increased retirement needs due to longevity. These products incentivise investment behaviour, such as responsible withdrawals after retirement.

Our September 2015 product updates continued to show the importance of shared value in the design of pre and post-retirement products. We focused on higher retirement funding needs, given increased longevity as a result of improved health, as well as rewarding clients for responsible income withdrawals post-retirement.

These products resonated with client needs and sales on linked and retirement annuity products increased by 65% year-on-year. In addition, these products have driven increased take-up of Discovery managed funds for new business sales for retirement annuities and linked annuities. Encouragingly, there was also a 15% reduction in income-withdrawal rates on linked annuities since these products were introduced.

Discovery Invest

PROGRESS TOWARDS OUR 2016 STRATEGIC OBJECTIVES

In our previous report, we outlined strategic objectives in a number of key areas. In this section we report on our progress.

1 Increase market share and growth in assets under our administration through the development of innovative offerings, aligned and integrated with other Discovery business areas

During the year, assets under our administration experienced growth of 21% to reach R60.95 billion by June 2016.

We continued to look for innovative ways of encouraging saving, applying the same shared-value principles that have been successful in other businesses within Discovery.

A critical component of our growth will be to expand our distribution channels beyond those traditionally reached by Discovery products. Distribution through independent financial advisers (IFAs) is a particularly important focus of our growth strategy. We market our funds aggressively to this channel, and have dedicated investment specialists as well as individually allocated Executive Relationship Managers to ensure the best service offering.

Currently, 76% of our business originates from tied agents and 24% from independent financial advisers. While we have strong links with generalist advisers in the independent channel, we would like to improve our profile among wealth and corporate advisory specialists to broaden and diversify our distribution network.

Our September 2015 product updates continued to show the importance of shared value in the design of pre and post-retirement products. We focused on higher retirement funding needs, given increased longevity as a result of improved health, as well as rewarding clients for responsible income withdrawals post-retirement.

Ensuring that the business and the client achieve the maximum benefit from integrating products across the Discovery portfolio is also a relatively complex process. We are continually looking at ways to construct optimal personal pathways for clients, which ensure that the right balance is struck between benefits gained by both the client and the business, as well as retaining clients for an optimal period.

We track and investigate lapse and paid-up rates carefully to understand the causes. Lapse rates during 2016 were lower than expected. However, paid-up rates were above expectations as a result of a new way of calculating this metric. Policies are now considered to be paid-up if premiums are not paid for three months. We believe the increase in paid-up rates is in part due to the difficult economic environment. Our product development will continue to focus on the needs of clients and to reward responsible saving and investment behaviour.

In the coming year, we will continue to invest in the development of digital tools and shared-value initiatives that provide clients with incentives to support responsible investing. We expect these to include additional targeted savings products, best-in-the-market asset-allocation modelling and new website functionality to both personalise our retirement savings solutions and to make them more dynamic.

PROGRESS TOWARDS OUR 2016 STRATEGIC OBJECTIVES continued

2

Continue to deliver superior returns through innovative investment products

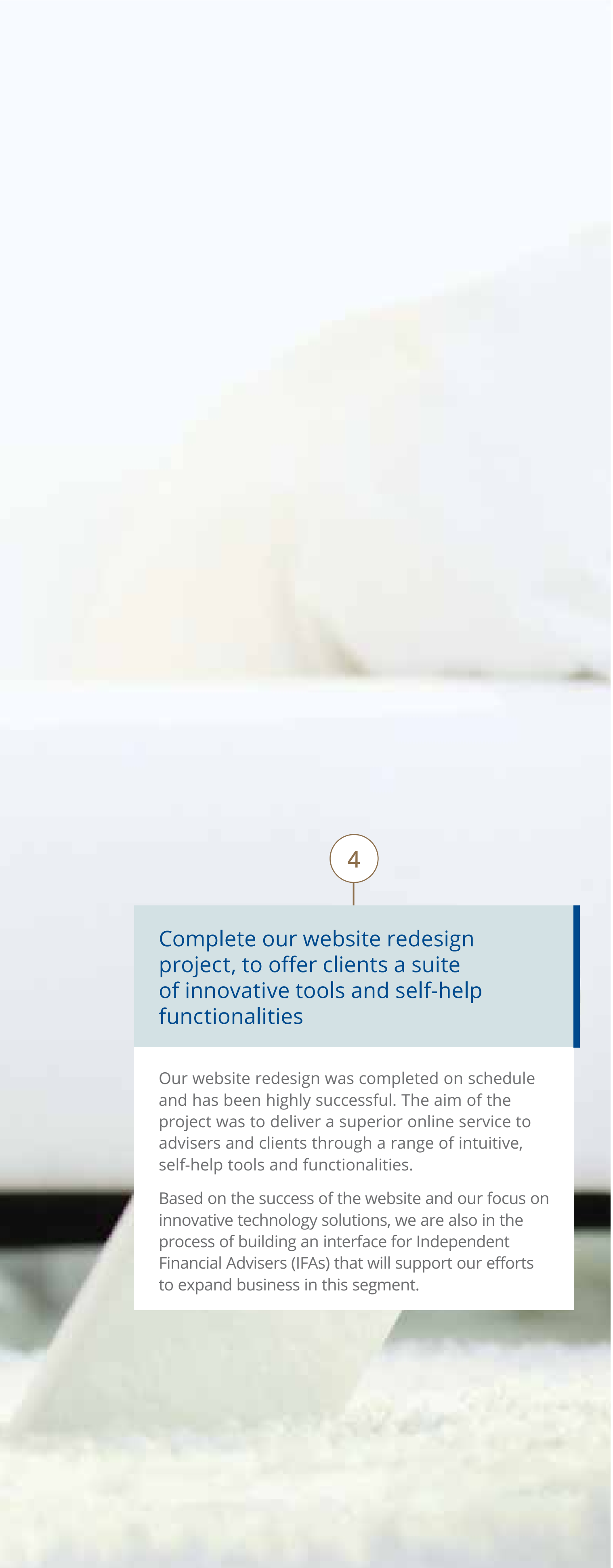
Discovery funds have performed well in a difficult investment environment. The Discovery Balanced Fund was particularly successful and has been in the top two flow takers in the Association for Savings and Investment South Africa (ASISA) Retail South African Multi-Asset High Equity for all four quarters in the financial year. Conditions in global equity markets affected funds with exposure to this segment, while South African conditions have been volatile.

3

Continue to monitor the potential impact of regulatory changes and focus on preparing to meet changes relating to new retirement regulation and the outcome of the Retail Distribution Review (RDR)

The RDR is still underway and Discovery is an active participant in engagement between the industry and the Financial Services Board (FSB). Having identified many of the steps that will be required to comply with the expected outcome of the review, we believe that we are in a good position to implement any changes that will be necessary as a result of the new regulations.

Changes in the tax structure will also have an impact on the business in the forthcoming period and we will need to determine which of our policies will move to the new risk fund within the timeframe allocated in the regulation. An initial assessment was performed based on various scenarios and will be finalised following ratification by the Discovery Board. Our objective is to ensure that both Discovery Life and Discovery Invest continue to be well positioned following the changes to the taxation regulation.



4

Complete our website redesign project, to offer clients a suite of innovative tools and self-help functionalities

Our website redesign was completed on schedule and has been highly successful. The aim of the project was to deliver a superior online service to advisers and clients through a range of intuitive, self-help tools and functionalities.

Based on the success of the website and our focus on innovative technology solutions, we are also in the process of building an interface for Independent Financial Advisers (IFAs) that will support our efforts to expand business in this segment.

OUTLOOK AND STRATEGIC OBJECTIVES FOR 2017

The business will look to grow sales and profitably through new channels and new products to offset the anticipated impact of upcoming tax changes.

We aim to be a leader in the retirement space and to target a top position in this sector.

Although we are significantly smaller than many of the more dominant players in this sector, we remain a fast-growing business and will continue to identify ways to consolidate our position, based on an innovative approach to investment built on the chassis of the Vitality Shared-Value Insurance model.

To maintain our excellent service scores, we will continue to focus on service innovation, and to improve the online experience for both clients and financial advisers.

1. **Continue to focus on rewarding clients for optimal retirement provision through innovative investment products.**
2. **Identify further integration opportunities with other Discovery businesses to offer clients exceptional value.**
3. **Continue to monitor the potential impact of regulatory changes.**
4. **Identify ways to broaden the distribution network through differentiated service and products.**
5. **Review the management of the investment platform to further improve efficiency and identify unique ways to differentiate the business and its offerings.**

DISCOVERY INSURE

Discovery Insure is a provider of short-term vehicle and home insurance, **insuring assets of R144 billion, including over 145 000 vehicles.** Its innovative driver-behaviour programme Vitalitydrive encourages safer driving through measuring driver behaviour and rewarding good driving.

Area of operation

South Africa

OUR PERFORMANCE IN 2016

Business growth progressed well despite a difficult economic environment.

Discovery Insure showed positive new business growth for the year of 7% (R841 million), with a strong second half (14% to R439 million). The business remains on track to break even during the next financial year.

As we take the business to scale, we are able to extend our understanding of driver behaviour and use data generated more effectively, to design relevant rewards that will further encourage safer driving. For example, we are now able to offer upfront bonuses based on client profiles that are adjusted dynamically as the policy progresses and clients interact with the Vitalitydrive programme. The introduction of Vitality Active Rewards, tailored for Discovery Insure products, has further increased engagement and encouraged safer driving. As a result, we have substantially improved the quality of new business and our ability to attract and select high-quality clients.

Growth in financial-adviser business is key to our distribution strategy as it represents a more sustainable distribution channel. The hybrid distribution model proved effective, achieving growth of 30% for intermediated business for the year. Direct business is driven primarily by advertising and continues to be a valuable new business stream.

Anton Ossip

Discovery Insure,
Chief Executive Officer

The depreciation of the rand against the US dollar had a negative impact on the business, as the price of imported parts and replacement vehicles increases proportionally to a weaker rand. While the weaker rand poses an industry-wide risk for all insurers who rely on imported vehicle parts, this risk was mitigated by Discovery Insure's claims frequency that continued to decrease as the average policy duration increased. This highlights the tremendous value of improved driver behaviour as a result of engagement in Vitalitydrive. Safer driving manifested in lower accident rates, which has helped to dampen the effect of claims inflation on the loss ratio. Over the year, engaged drivers had a 28% lower loss ratio than unengaged drivers.

The relatively weak economic environment also had an impact on consumers who are increasingly price sensitive and switching policies more often or lapsing completely in some cases. Discovery Insure is differentiated from other competitors as its value proposition to clients does not revolve around price but rather the value of safer driving, unique safety features and valuable rewards. Lower lapse rates – which can be attributed to the overall Discovery Insure value proposition – show that our business model is resilient in a tougher economic environment.

We continue to actively work with the South African regulator to monitor changes in our business environment to meet the requirements of the Solvency Assessment and Management (SAM) framework. The annual submission of the SAM results as at 30 June 2016 will be audited for the first time.

The first own risk and solvency assessment (ORSA) was submitted to the Financial Services Board in 2016. The ORSA is a comprehensive document that includes processes and procedures to identify, assess, monitor, manage and report the short and long-term risks, as well as determine the capital resources necessary to ensure that the overall solvency needs are met.

PERFORMANCE MEASURES
FOR THE FINANCIAL YEAR

145 000 vehicles insured

New business increased by 7% for the year to **R841 million**

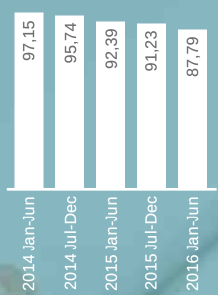
Loss ratio increased by **2%** mainly due to rand-dollar depreciation

Combined ratio improved by **4%** driven by expense efficiencies and reaching scale

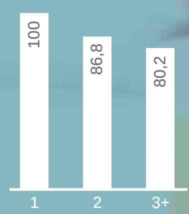
The frequency of accidents among Vitalitydrive members decreased

Drivers who stay in our portfolio for longer experience lower loss ratios

Motor accident frequency (%)

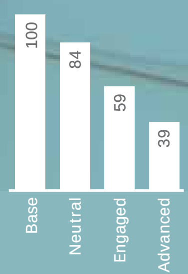


Loss ratio by duration (%)

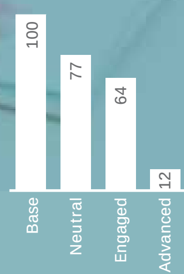


Drivers engaging with the programme have fewer claims and less severe accidents

Claims frequency by status



Claims severity by status



SHARED-VALUE BENEFITS AND UNIQUE FEATURES OF DISCOVERY INSURE

Discovery Insure offers products that are unique in the South African market, with clients being rewarded for improving their driving behaviour.

Discovery Insure offers rewards such as up to 50% of fuel and Gautrain travel costs in cash back to clients as they improve their driving behaviour. Dynamic pricing of policies is also being rolled out to reinforce the link between safe driving and insurance premiums. This enables clients to benefit from lower-cost policies that are underpinned by better driving behaviour, rather than price competition alone.

Since founding the business in 2011, data relating to driving behaviour has been gathered through our continually-evolving telematics technology. This data forms the basis of our model, which measures the frequency and severity of accidents based on driver performance, driver awareness and vehicle condition. Clients receive regular feedback and improved driver behaviour is rewarded.

South African roads are among the most dangerous in the world. The improvements in driver behaviour have a broader societal impact as they reduce both the human and economic cost of road accidents and fatalities.

Telematics data is used to safeguard clients by alerting emergency services in the event of an accident and ensuring the provision of emergency support where necessary. Similarly, in the case of a vehicle hijacking, call centres are able to detect abnormal driving patterns and alert owners to the potential theft of vehicles or calling for assistance if this is required.

Motor insurance represents the greatest segment of Discovery Insure's portfolio. The business also offers comprehensive building, household content and portable possessions insurance with unique safety benefits and quick, fair and efficient claims processing.

Discovery Insure received international recognition for its **smartphone app** and **sensor technology** at the **Gartner Annual Symposium in Barcelona** in November 2015, as "the most innovative new digital product".

Discovery Insure achieved first place in the **2015 Sunday Times Top Brands Survey** in the short-term insurance category. The awards reflect the views of consumers. This was an encouraging vote of confidence in our business model and an endorsement of the value offered by Discovery Insure.

How Shared-Value Insurance works in Discovery Insure

CLIENTS

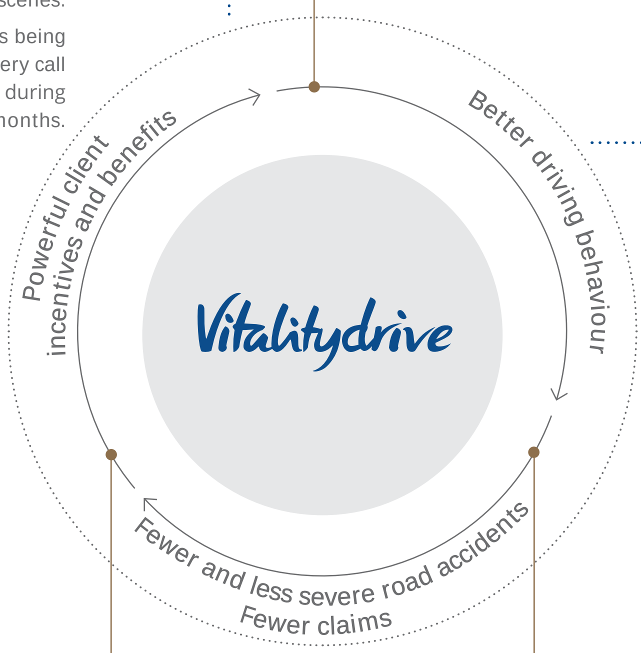
- Benefit from up to 50% of fuel and Gautrain spend in cash back for safe driving behaviour.
- Are proactively supported in the event of an accident or in the case of vehicle theft.
- Become more aware of risks on the road, reducing the likelihood and severity of an accident.
- Are able to access responsible choices at an affordable price. Examples include significant discounts on Uber trips, thereby supporting clients to avoid driving under the influence of alcohol. It also offers a viable alternative to driving at night when the risk of an accident is heightened.

Our clients enjoy rewards and protection

Over two million Vitalitydrive card swipes at BP in the past year.

Over 400 ImpactAlert notifications each month with more than 100 ER24 ambulances dispatched to accident scenes.

Emergency services being dispatched by Discovery call centres in 2 991 cases during the past six months.



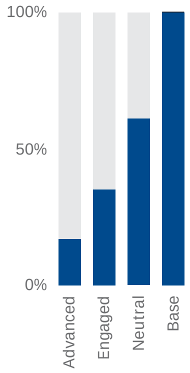
Our clients drive better

Smartphone-enabled DQ-Track clients reduce their accident risk by 15% within the first month.

Frequent users of the app and sensor technology have reduced late-night driving by 15%.

Our roads are safer

Lapse rate by Vitalitydrive engagement



SOCIETY

- Benefits from improved road safety and a reduction in road traffic accidents and fatalities, which carry a high cost in both human and economic terms.
- Certain Discovery Insure benefits encourage clients to use public transport, thereby reducing emissions associated with vehicle use.

INSURER

- Achieves a structurally lower loss rate.
- Benefits from a lower lapse rate.
- Retains high-quality clients for longer in the portfolio, with a loss ratio and lapse rate that improve the longer they remain.

PROGRESS TOWARDS OUR 2016 STRATEGIC OBJECTIVES

In our previous report, we outlined strategic objectives in a number of key areas. In this section we report on our progress.

1 Business growth

Our unique approach to insurance has enabled us to enter a well-developed market with several players and to compete effectively for business on the basis of positive structural change rather than cost. We are now in the top 10 short-term insurance companies by market share. We are also the fastest-growing short-term insurer in South Africa to date.

Innovative marketing campaigns have boosted new business. Direct sales make up approximately half of our new business, but during the financial period we saw an increase of 30% in business acquired through financial advisers. We continue to invest in this segment, as it yields a stronger and more sustainable portfolio of clients.

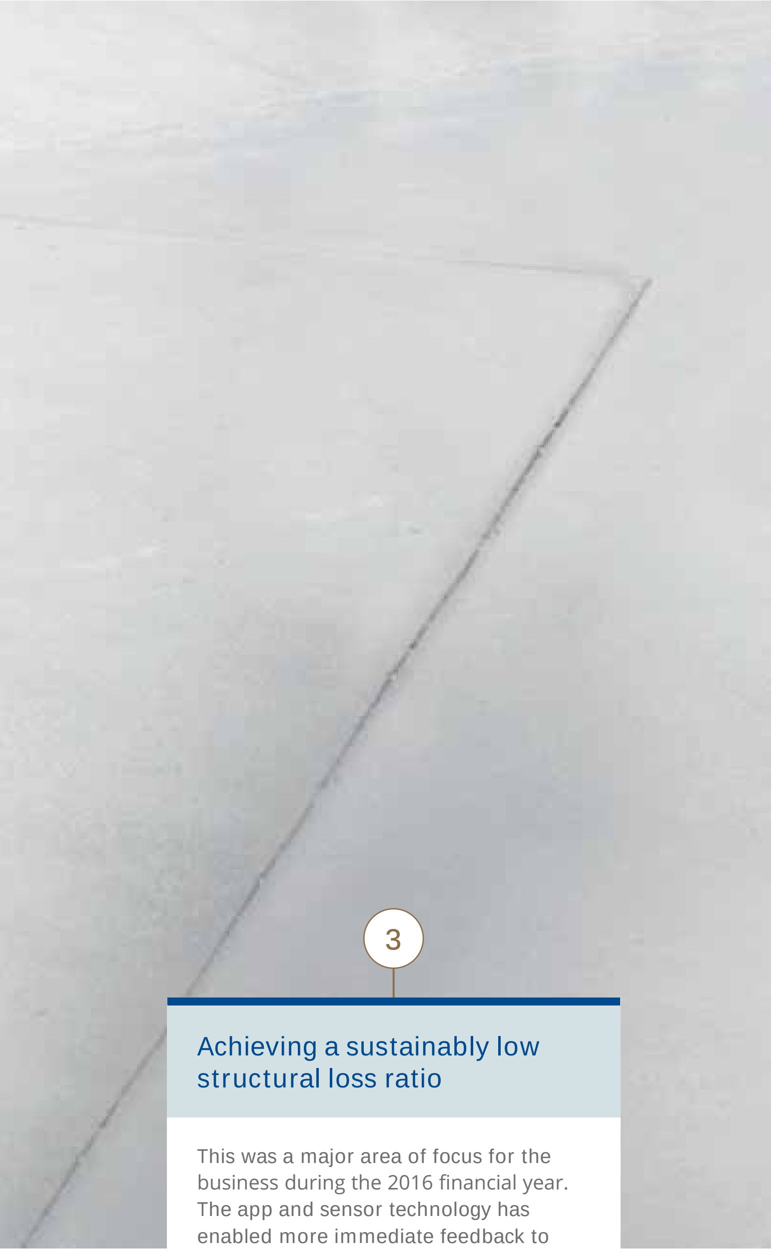
Business growth is also achieved through product innovation and development, which enables us to successfully attract and retain clients.

Vitalitydrive-engaged clients had a 28% lower loss ratio than unengaged clients.

2 Product expansion through innovation, increased engagement and the uptake of app and sensor technology

Improvements in telematics technology have been implemented to enhance the quality and frequency of feedback on driving behaviour. This is being used by a growing number of clients. App and sensor technology has been taken up by 45% of new clients in our portfolio. Drivers using the app and sensor have made significant and sustained improvements in driving behaviour. A 15% improvement in driver scores was achieved by adopters of this technology.

The business also benefits from an ever-growing database with approximately four billion kilometres of driver data now available. This is an important element in our ability to develop new products that deliver value based on driver behaviour.



3

Achieving a sustainably low structural loss ratio

This was a major area of focus for the business during the 2016 financial year. The app and sensor technology has enabled more immediate feedback to both clients and Discovery Insure – a feature that positively influences driver behaviour, resulting in a decrease in accident frequency.

We have also taken action to further curtail insurance fraud. As with all insurance providers, we tend to experience an increase in insurance fraud during a difficult economic period. Our unique telematics data allows us to assess the likely damage following a motor accident and assists in identifying the relevant parts used in the repair process.

Discovery Insure's benefit structure also contributes to a sustainable decrease in our loss ratio, as we specifically focus on areas where clients' behaviour patterns can expose them to risks.

OUTLOOK AND STRATEGIC OBJECTIVES FOR 2017

During the next financial year, we will continue to seek ways of improving our use of telematics technology to achieve further reductions in the frequency of accidents.

We will work to maintain growth in high-quality new business and to improve the overall quality of business in our portfolio. This will be achieved by encouraging further improvements in driver behaviour through improved technology, driver behaviour feedback and incentives.

We have been encouraged by our progress to date in innovating in the competitive short-term insurance industry. The business is expected to break even in the 2017 financial year, only six years since it was founded. This can be attributed to the strength of the underlying model and excellence in our service delivery, both of which deliver unparalleled value to clients.

1. Increase sales and maintain growth momentum to improve our market presence and entrench our position within the short-term insurance industry in South Africa.
2. Achieve a sustainably low structural loss ratio by making use of our distinctive business model to increase engagement, and to attract and retain clients by rewarding them for better driving behaviour.
3. Continue to invest in the development of world-class technology and products that integrate Discovery Insure with other Discovery behaviour-based products to create enhanced value for clients.

VITALITY UK

The 2016 financial year was the first year of full ownership of these businesses, which were previously operated in partnership with Prudential plc. in the United Kingdom (UK).

VitalityLife provides individual and business clients with life, capital disability, severe illness and income protection cover.

VitalityHealth offers an integrated medical insurance and wellness proposition to individuals and predominantly small and medium enterprise (SME) clients.

Area of operation

United Kingdom

OUR PERFORMANCE IN 2016

Business growth progressed well despite the difficult economic environment.

VitalityHealth is nearing completion of a system migration that will result in a single product construct and administration platform across all legacy portfolios.

During the period, **VitalityHealth** exited the Transitional Services Agreement (TSA) with Standard Life for the administration of the former Standard Life Healthcare book of business. Unbudgeted costs of approximately £5 million were incurred in relation to exiting this agreement and migrating the portfolio to VitalityHealth's administration system. The business has now started to realise the benefit of the extensive investment made following the exit from the agreement, with management expenses reducing by 4.5% in the second half of the year, and service levels and claims efficiency both improving.

For the full year, profit was down 17% to R186 million (down 30% in GBP) as a result of the exceptional expenses incurred for the exit from the TSA in the first half of the year.

The combination of a 20% improvement in new business momentum overall (43% in the individual market), strong actuarial dynamics, and the emergence of operating efficiencies, resulted in a 35% improvement in operating profit for the second half of the year compared with the previous year (measured in GBP).

VitalityLife produced a strong performance in the face of complex changes: a volatile economic climate, including record low interest rates, the impact of Solvency II, and moving onto its own licence. New business increased by 23% in rand terms to R1 332 million (up 4% in GBP) and normalised profit grew by 25% to R678 million (up 5% in GBP).

Neville Koopowitz
VitalityHealth,
Chief Executive Officer

Herschel Mayers
VitalityLife,
Chief Executive Officer

PERFORMANCE MEASURES

FOR THE FINANCIAL YEAR

Collectively, VitalityHealth and VitalityLife cover close to one million lives. VitalityLife is the third largest protection life assurer in the UK, with a total new business sales market share of 11.7% in the independent financial adviser protection market.

The business also continued to grow its distribution footprint, which now stands at 20 franchises. VitalityHealth experienced strong new business growth and market share is 10%.

Adoption levels of the Vitality Optimiser have increased significantly since its launch in 2013. Currently 60% of new clients access the Vitality Optimiser product.

VitalityHealth's loss ratio and lapse rates continue to be among the lowest in the industry, demonstrating the significant health and retention benefits of the Vitality programme.

One of the measures of success of our shared-value proposition in the market is the level of client engagement in the Vitality wellness programme. Encouraging engagement in the programme is a key objective of both VitalityHealth and VitalityLife.

By the end of the 2016 financial year, engagement in the programme in the United Kingdom was at an all-time high:

Almost two-thirds of new individual members through our direct-to-consumer channel earned Vitality points in the first 21 policy days.

Over the last two years, the number of biometric health screens and the number of members undertaking physical activity have both increased by over five times. The number of members using the HealthyFood benefit has increased by over three times.

The number of members assessing their Vitality Age (a measure of how healthy you are relative to your actual age) has increased by almost three times.

As a result of their engagement, Vitality members received £51.5 million in Vitality benefits and rewards over the past year.

We shifted behaviour among people most at risk and reduced their risk factors:

- 35% of smokers
- 43% of people who are physically inactive
- 30% of people with poor nutrition habits

Moved into the healthy range for each behaviour over a one-year period

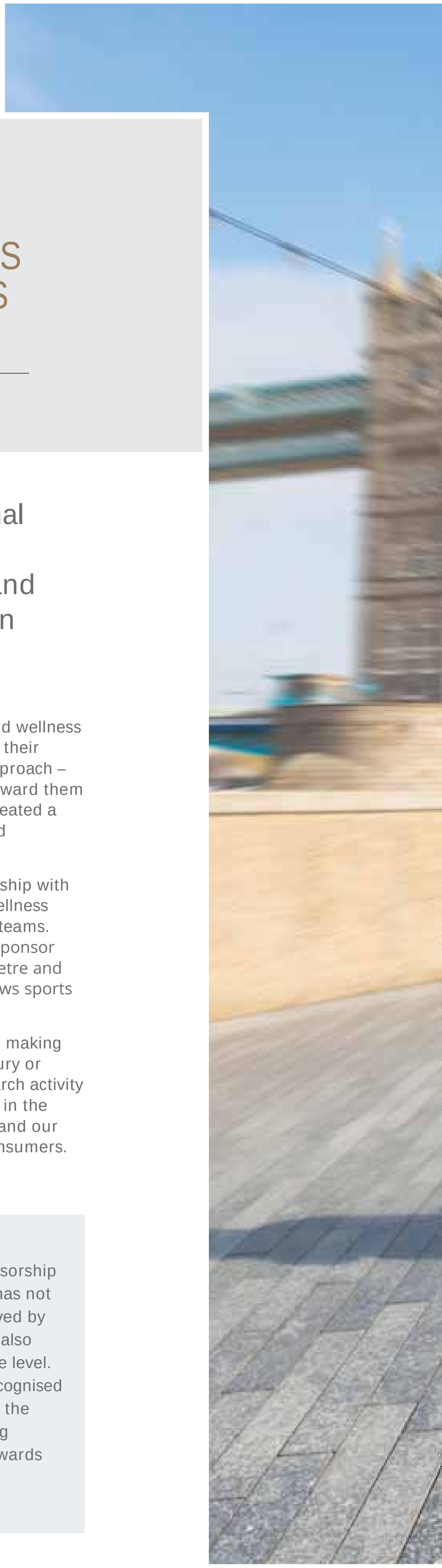
The programme has also created value for employers. Members who successfully reduced their Vitality Age over a one-year period also reduced absenteeism rates at work by 23% over the same period.

The Vitality programme in the UK is a true demonstration of shared value

1 At a financial level, the Vitality programme has supported strong new business growth and excellent actuarial dynamics

2 Members have benefited from the financial value of discounts and rewards, as well as better health

3 Society has benefited from healthier, more productive employees who have a lower reliance on the National Health Service (NHS)



SHARED-VALUE BENEFITS AND UNIQUE FEATURES OF VITALITY UK

The strength and ubiquity of the National Health Service in the UK, results in a significant under-investment in health and wellness in the private sector, both at an employer level and among individual consumers.

As such, there is a need to increase public awareness of health and wellness issues, and to create greater accountability among consumers for their wellbeing. This informs Vitality's product, brand and marketing approach – from a product perspective we inform people of their risks and reward them for making healthy choices. From a brand perspective, we have created a retail franchise around health through our sponsorship assets and marketing campaigns.

Sponsorship assets include a football health and wellness partnership with Liverpool, Arsenal and Manchester City and a rugby health and wellness partnership with the England, Scotland and Wales national rugby teams. We are also the cricket test match ground sponsor and headline sponsor of England netball. The Vitality Run Series, which include 10 kilometre and half-marathon runs across the UK, and sponsorship of the Sky News sports bulletin, also make up these assets.

Positive framing of our advertising campaigns, where we focus on making people healthier rather than mitigating the effects of sickness, injury or death, has resonated strongly with consumers and has driven search activity related to the Vitality brand. This manifested in a noticeable uplift in the significant acquisition of new business following the sponsorship and our advertising presence, particularly among previously uninsured consumers.

The marketing, sponsorship and brand strategy has not only been well received by consumers, but was also well received at trade level. VitalityHealth was recognised as the New Brand of the Year at the Marketing Society Excellence Awards in 2016.

Analysis of data relating to over 6 600 UK-based Vitality members **shows that previously sedentary individuals who increased their** activity levels to the minimum of 150 minutes per week, are able to extend their life expectancy by more than three years.

VitalityHealth offers a holistic healthcare solution that integrates prevention and health promotion programmes with traditional illness cover. Through Vitality, clients are encouraged to understand and improve their health, with regular wellness checks and discounts for the use of health facilities and the purchase of health-related equipment such as bicycles. Overall Vitality engagement across all aspects of the programme has increased to record levels over the period.

Vitality Active Rewards, which was pioneered in the United Kingdom, offers Vitality members weekly incentives for completing their physical activity goals. It has resulted in record levels of physical activity engagement with Vitality and significant early evidence of real behavioural change among members in the complex area of physical activity.

To further develop the momentum we have achieved around physical activity, Vitality recently launched a national campaign called Everyday Athlete. The campaign is targeted at both Vitality and non-Vitality members and aims to further inspire physical activity by encouraging people to make small changes to everyday behaviour to gain long-term health benefits. The campaign will further survey the public at various intervals to add to the evidence base around the effect of small amounts of regular activity on physical and mental wellbeing outcomes.

A proprietary primary healthcare platform, Vitality GP, enables virtual GP consultations for members and the creation of personal health pathways that integrate the provision of wellness activities through the Vitality wellness programme with sickness treatment through the Private Medical Insurance policy. Unique in the UK's private healthcare market, VitalityHealth clients can access private care without the need for a referral from a National Health Service GP.

Behaviour change as a result of Vitality Active Rewards

Vitality Active Rewards, which was initiated in the United Kingdom, saw significant behaviour change in the complex area of physical activity engagement, with 34% of Vitality members who had not previously engaged in physical activity doing so for the first time as part of the programme. The most significant behaviour change was seen among those Vitality members who were most at risk for lifestyle conditions due to physical inactivity and poor nutrition. This demonstrates the power of Vitality Active Rewards and of physical activity to trigger positive changes across a number of lifestyle behaviours.

Vitality Life clients can participate in Vitality through the Vitality Optimiser, which integrates VitalityLife products through Vitality.

VitalityLife offers a unique proposition in the market by enabling clients to benefit from Vitality rewards, including upfront premium discounts, dynamic pricing and PayBack benefits according to their health profile. Take-up of this product is increasing, with close to 60% of new clients now choosing Vitality Optimiser.

PROGRESS TOWARDS OUR
2016 STRATEGIC OBJECTIVES

In our previous report, we outlined strategic objectives in a number of key areas. In this section we report on our progress.

VitalityHealth

During the 2016 financial year, we targeted business growth, while maintaining new business margin. We worked on developing a more sophisticated approach to pricing to improve our ability to target profitable new business segments and we introduced further innovations into our Vitality programme, with the objective of stimulating further wellness engagement and behaviour change.

The private medical insurance market in the UK has shown moderate growth following the contraction that occurred in the years immediately after the financial crisis. The challenge for the industry remains to grow the market, particularly among non-traditional purchasers of health insurance. VitalityHealth has seen success as a result of the prevention and wellness emphasis within our product, which appeals to younger, healthier people who are not traditional purchasers of private medical insurance.

VitalityHealth experienced strong new business growth over the period, with new business up by 43% to R1 161 million in rand terms (up 20% in GBP), with particularly strong growth in the profitable individual market. This was up by 44%. Direct-to-market channels now comprise almost 40% of overall new business.

During the financial year, we elevated our thought leadership position in workplace wellness through our Britain's Healthiest Workplace initiative (formerly Britain's Healthiest Company). Two enhancements to this initiative in 2016 included a new global media partnership with the Financial Times, through which results and insights from the initiative were published to a global audience, as well as additions to our Advisory Board which oversees the rigour and quality of the initiative. The Advisory Board includes new representation from Public Health England, the government body charged with improving the health of the nation.

The 2016 initiative saw significant growth in comparison with previous years, with over 150 organisations and close to 35 000 employees participating. In addition, participation included an increasingly broad spectrum of private and public sector organisations, giving a more diverse cross-section of UK employers.

Refer to the Sustainable Development Report, pages 32 to 33 for more information on Britain's Healthiest Workplace programme.

During the year, we aimed to enhance existing digital and online capabilities to introduce a true multi-channel service environment.

VitalityHealth launched its new member app in February 2016. The app engages members at a transactional level, allowing them to track activity and redeem rewards directly. In addition, a new online platform for employers, Employer Zone, was launched in 2016, allowing employers to track their billing and membership information. The new Vitality website was launched in September 2015, marking the move away from the previous PruHealth UK domain name.

We also indicated that we would focus on ensuring Solvency II compliance for VitalityHealth by 1 January 2016, putting in place all the necessary reporting processes.

VitalityHealth has completed all reporting requirements relating to Solvency II compliance so far, with additional documentation due in November 2016. The solvency coverage at 30 June 2016 was 140%.

VitalityLife

A key objective was to ensure all requirements were met for a successful licence application.

VitalityLife was awarded its life assurance licence in January 2016 and started writing new business on the new licence on 1 January 2016.

We indicated that we would focus on enhancements to the VitalityLife product offering, including further integration opportunities with other Discovery offerings.

VitalityLife achieved success in positioning its new-generation risk offering in the market, evident in the strong continued adoption of the Vitality-integrated model over the period, with the Vitality Optimiser product comprising 60% of all new business sales. Overall claims for Vitality Optimiser cases were 40% lower compared to non-Vitality Optimiser cases. Furthermore, VitalityLife received an award recognising the innovative nature of its Interest Rate Optimiser product.

OUTLOOK AND STRATEGIC OBJECTIVES FOR 2017

We expect Vitality and the innovative Vitality Active Rewards benefit to further increase awareness around physical activity. This will further support our new business growth, client retention and unique value offered.

Going forward, we expect new business momentum to be maintained, as well as further efficiencies to be realised from the move to a single operating platform.

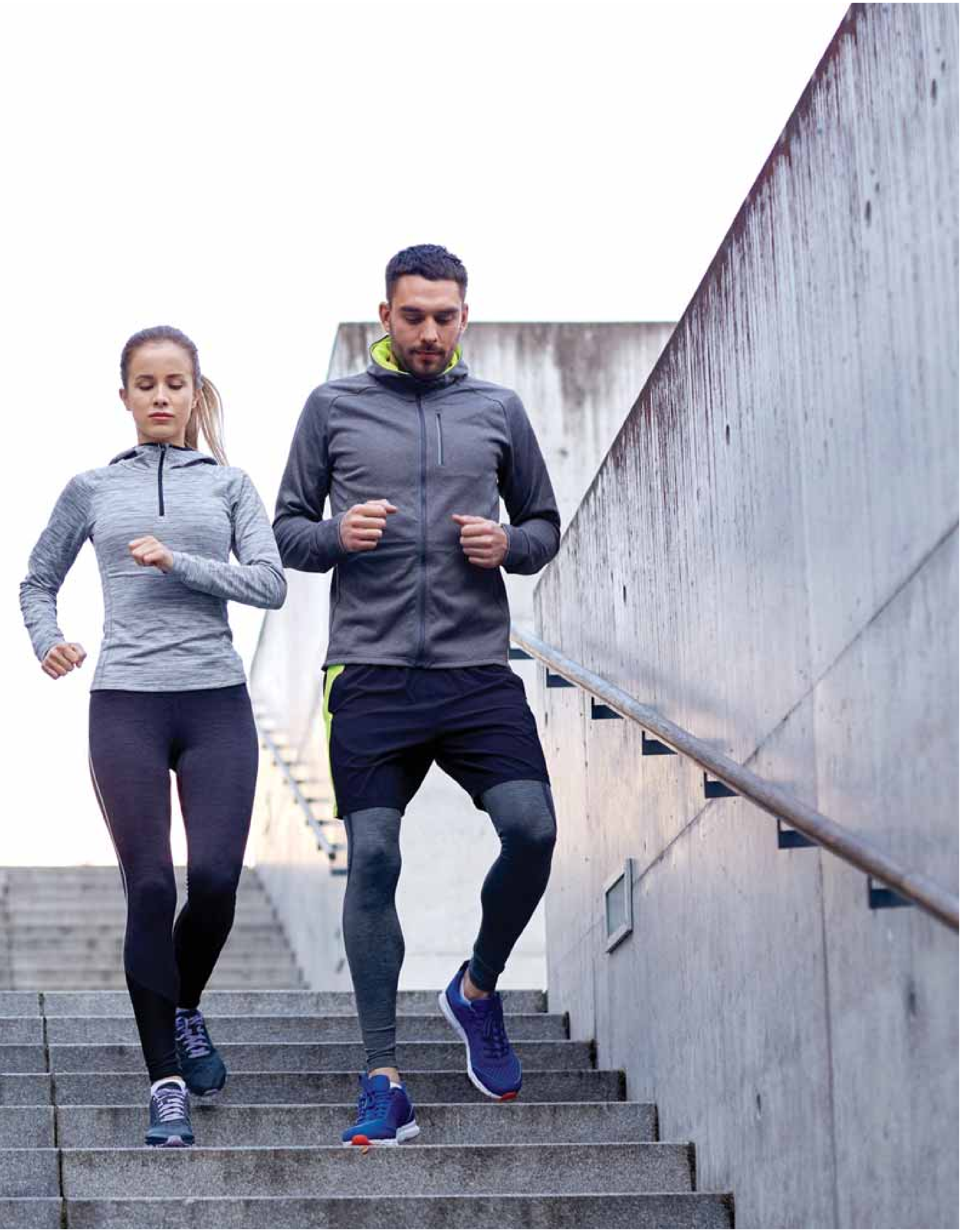
1. Support continued new business growth and retention through brand, product and service investment.
2. Transform service to advisers through delivery of a new adviser service platform.
3. Increase Vitality wellness engagement across the insurance book, with a corresponding positive effect on claims and lapses.
4. Continue our intellectual leadership through national campaigns such as Britain's Healthiest Workplace and Everyday Athlete.

DISCOVERY PARTNER MARKETS

To ensure maximum leverage of the company's assets and intellectual property internationally, Discovery has built joint ventures and partnerships with leading insurers expanding beyond its primary markets of South Africa and the United Kingdom.

Areas of operation

China, the US and Canada, Europe, Pan-Asia



There has been sustained investment into the rollout of Vitality Shared-Value Insurance to new markets. This has manifested in the Global Vitality Network, a network of the world's top insurers offering Vitality Shared-Value Insurance alongside Discovery in 14 international markets.

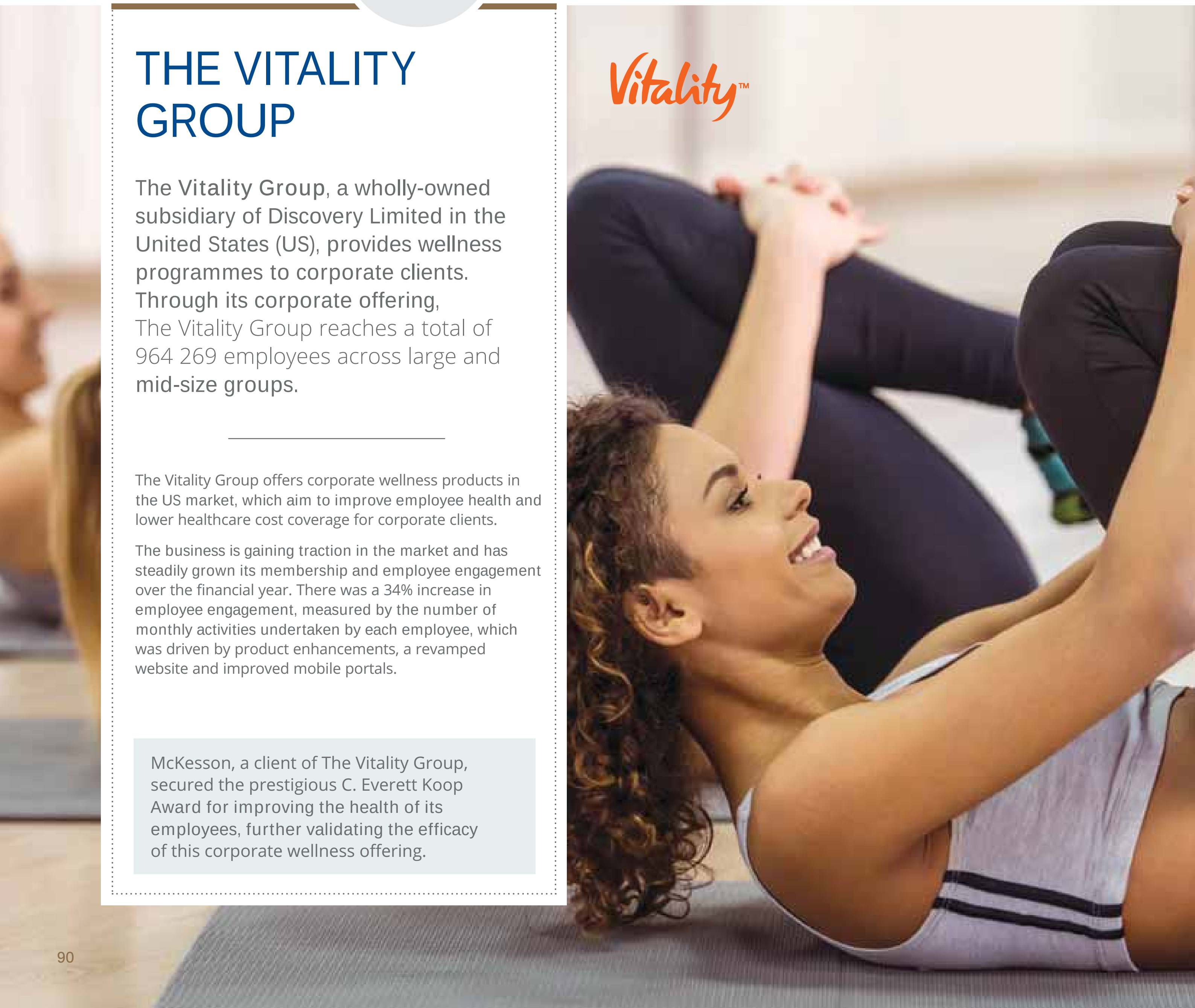
THE VITALITY GROUP

The Vitality Group, a wholly-owned subsidiary of Discovery Limited in the United States (US), provides wellness programmes to corporate clients. Through its corporate offering, The Vitality Group reaches a total of 964 269 employees across large and mid-size groups.

The Vitality Group offers corporate wellness products in the US market, which aim to improve employee health and lower healthcare cost coverage for corporate clients.

The business is gaining traction in the market and has steadily grown its membership and employee engagement over the financial year. There was a 34% increase in employee engagement, measured by the number of monthly activities undertaken by each employee, which was driven by product enhancements, a revamped website and improved mobile portals.

McKesson, a client of The Vitality Group, secured the prestigious C. Everett Koop Award for improving the health of its employees, further validating the efficacy of this corporate wellness offering.



中国平安 PING AN

健行天下 Vitality

PING AN HEALTH

In China, Discovery has a 25% equity stake in Ping An Health, the largest comprehensive medical insurer in the country. Ping An Health provides private healthcare policies to corporates and individuals in the Chinese market.

Discovery's partner in Ping An Health is the Ping An Insurance Group of China, a prominent insurer with strong brand equity and an excellent distribution footprint. In addition to this partnership, Discovery has also reached an agreement with the broader Ping An Insurance Group to incorporate the Vitality Shared-Value Insurance model as an additional benefit to life insurance products.

Ping An Health has pioneered private health insurance in China and remains the only private medical insurer catering for individual members in the country.

Ping An Health incorporated the Vitality Shared-Value Insurance model into its cover, making it possible for members and the insurer to benefit from the sustained wellness engagement of insured lives.

The number of health insurance lives covered by Ping An Health has increased from 418 832 at June 2015 to 555 348 at June 2016, and the business has been re-energised through management changes that have brought in senior executives with extensive experience suited to further grow the business.

Currently, more than half a million members enjoy Vitality Shared-Value Insurance benefits in China, and this number is growing rapidly. With the introduction of Vitality Active Rewards to the territory in 2016, the Ping An Health membership base is expected to grow even further, with accompanying improvements in the health and wellness outcomes of engaged members. The Vitality Active Rewards benefit will be attached to Ping An Life's flagship life insurance product, available through its one million strong agency force, which presents a meaningful opportunity to elevate the Vitality Shared-Value Insurance brand in China.

Ping An Health has experienced impressive new business sales of

RMB151 million and RMB595 million

in the Group and Individual segments respectively. This represents an increase of 27% for group sales and 50% for individual sales compared with the corresponding period in 2015.

In other partnerships across Discovery Partner Markets, in Canada, Japan, Pan-Asia and Europe, Discovery operates a franchise model. We partner with leading insurers as they integrate Vitality Shared-Value Insurance into their health or life insurance products.

In these markets, Discovery's remuneration is a formula based on the actuarial, health and wellness improvements that result from policyholder engagement through the Vitality Shared-Value Insurance model, products and benefits.

In the European, US and Pan-Asian markets, the intellectual property developed in the Vitality Shared-Value Insurance model is delivered through partnerships across Discovery Partner Markets.

We use our past experience in each new market and product rollout, with customisation of the model taking place to comply with local regulations, including in critical areas such as data protection and sovereignty.

The Vitality Shared-Value Insurance model developed for partner markets is capital-light and generates significant benefit for Discovery, its partners and their clients. We achieve this by improving the member engagement in wellness activities, resulting in improved health outcomes. These outcomes lead to better actuarial outcomes for the insurance products offered and to greater profitability, which is in part used to reward clients for improving their health.

Discovery's earnings from these partnerships are based on a formula that takes into account the success of the model, including mortality and morbidity data, embedded value and sales. Contracts are typically long term, taking into account that benefits for insurers and their clients are realised over time.

As the business grows to scale and we develop expertise in customising Vitality Shared-Value Insurance for new markets, we anticipate that deployment and implementation will progressively improve.

Past investments are now yielding evidence of the efficacy of the Vitality Shared-Value Insurance model in the more-established Discovery Partner Markets. The business remains on track to grow into a significant earnings contributor to Discovery with limited capital deployed.

DISCOVERY HAS ESTABLISHED PARTNERSHIPS WITH FIVE LARGE INSURERS COVERING MULTIPLE TERRITORIES

AIA Vitality

AIA VITALITY

The period was particularly noteworthy for AIA Vitality, with the Vitality Shared-Value Insurance model now being part of the core offering in six AIA markets: Singapore, Australia, Hong Kong, the Philippines, Thailand and Malaysia. There is an opportunity to introduce Vitality Shared-Value Insurance to additional AIA markets.

GENERALI Vitality

GENERALI VITALITY

In Europe, we have progressed rapidly since signing an agreement with Generali in 2014. Generali Vitality launched to the public in Germany in June 2016 with the first sales occurring in July. The initial market response has been exceptional, with new business doubling the sales achieved before the launch. Generali also intends to launch in France on 1 January 2017, followed shortly by a launch in Austria.

JOHN HANCOCK VITALITY

In the US market, the relationship with John Hancock continues to flourish. The Protection Universal Life, Term, and Indexed Universal Life products are available in the majority of states, and the remaining states are expected to help drive sales, once approved. Since its launch, John Hancock Vitality has received numerous awards and garnered significant media attention for its transformative approach to life insurance.

MANULIFE VITALITY

John Hancock's parent company, Manulife, launched Manulife Vitality in Canada in September 2016, pioneering the Vitality Shared-Value Insurance model in Canada. Manulife has more than 20 million clients in 22 countries.

SUMITOMO LIFE

We are also excited by our recently concluded partnership with Sumitomo Life Insurance Company in Japan. Our partner in the Japanese market is a substantial and respected life insurer, with over 10 million policies in force and $18.1 billion in annualised premiums.

Japan is the second-largest life insurance market globally after the US. It has an ageing population, with 80% of mortality related to non-communicable diseases. There is substantial opportunity to influence behaviour positively and improve health outcomes. In addition, the Japanese insurance market faces rising medical costs and the government is eager for initiatives that will alleviate this burden.

Discovery will gain valuable experience in customising the Vitality Shared-Value Insurance model for an older market, where incentives relating to physical activity may need to be presented differently.

PROGRESS TOWARDS OUR 2016 STRATEGIC OBJECTIVES

In our previous report, we outlined strategic objectives in a number of key areas. In this section we report on our progress.

1 Increasing Vitality engagement

As our international operations grow, we continually refine our operating structures to maintain focus on product innovation that will secure high levels of engagement. To this end, we are working with our partners to accelerate the development of product roadmaps for each market to enable the integration of Vitality into more insurance products.

The introduction of Vitality Active Rewards has boosted engagement levels across markets and is set to continue doing so as it is rolled out in additional markets. Our partnership with Apple Watch has also played a major role in improving engagement. By partnering with a global and aspirational technology partner, it has allowed us to strongly incentivise engagement and increase levels of physical activity among clients.

2 Building the capacity to implement our partner market strategy

In Ping An Health in particular, we have built capacity during the year through changes to the senior management team. We are looking to further realise economies of scale as this business grows.

New market roll-outs have progressed well. In particular, the launch of Generali Vitality in Germany was highly successful and demonstrated our strengths in the areas of product and systems deployment. Our objective is to speed up the process of bringing our products to market and to reduce the associated costs even further.

Continued investments in our technical and IT infrastructure are required to build the partner markets business and bring it to scale. We are currently developing a consistent core systems product that will help accelerate this objective and reduce the degree of product customisation required for each new market.

3 Ensuring regulatory compliance

Regulatory requirements differ across our international markets, and each territory is focused on putting the required systems in place to meet local requirements for data sovereignty.

In the US market, we have invested significantly in developing the expertise required to maintain regulatory compliance in The Vitality Group, where data integrity and privacy is a material issue.

Barry Swartzberg
Discovery Partner Markets, Chief Executive Officer

Alan Pollard
The Vitality Group, Chief Executive Officer

OUTLOOK AND STRATEGIC OBJECTIVES FOR 2017

Discovery Partner Markets has made substantial progress in building a coherent international product offering and brand for Discovery. Our long-term growth strategy relies on growing to scale in businesses where we have taken equity ownership and on expanding into new markets, products and partners through the Vitality Shared-Value Insurance model.

We expect continued membership growth in both Ping An Health and The Vitality Group, along with increased coverage of products, markets and partners across Discovery Partner Markets. Our newly-implemented partnership with Generali has the long-term potential of roll-out to all 19 markets where they operate.

The ongoing implementation of Vitality Active Rewards will continue to be a key driver of increased engagement in wellness activities, leading to improved financial performance. Our global partnership with Apple Watch gives us the leverage to build an international brand with a strong identity based on our core offering.

During the forthcoming year, we will also focus on building stronger and more productive distribution channels in all markets and on improving both the coordination and efficiency between product and market teams.

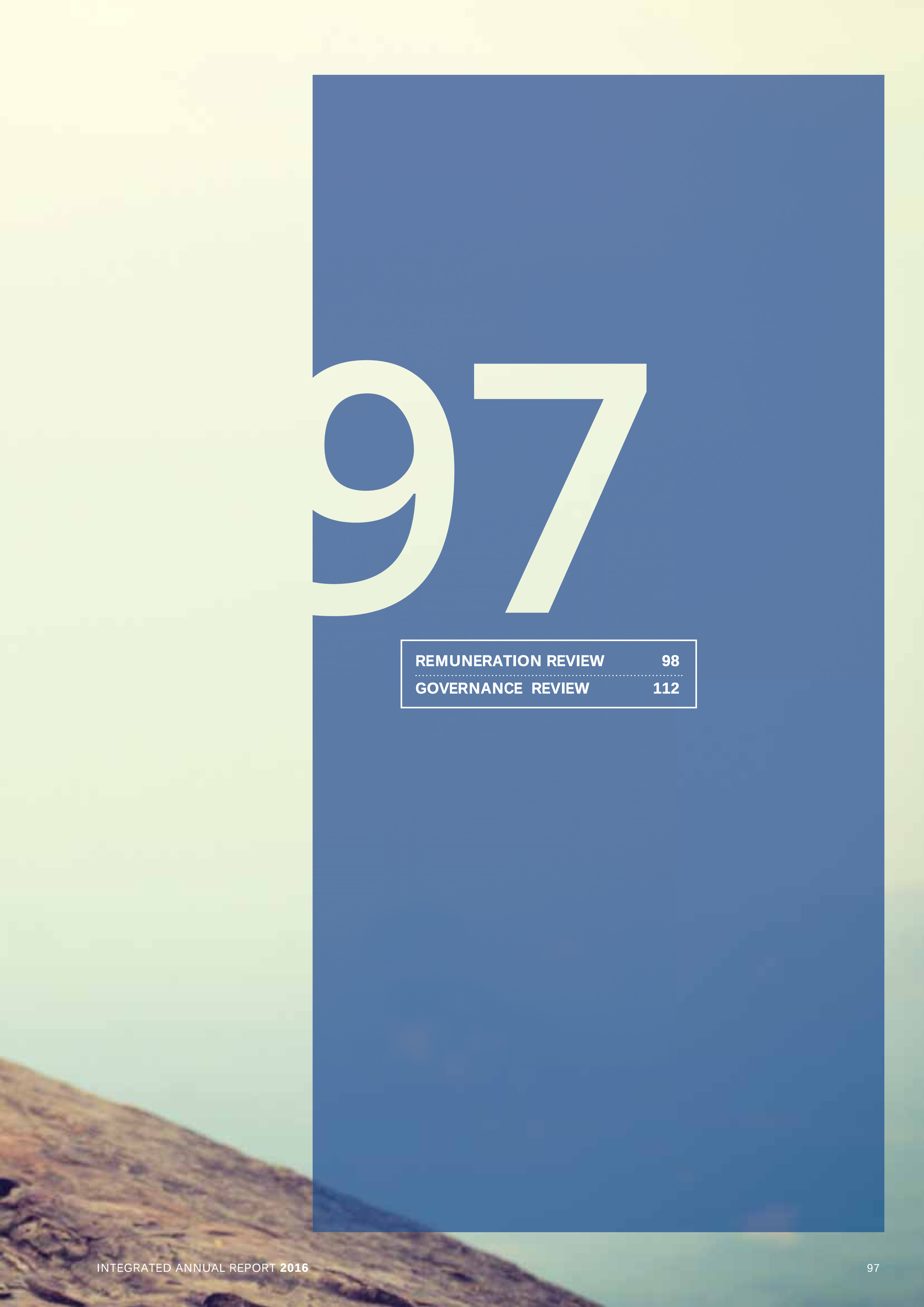
Looking specifically at the various operations within Discovery Partner Markets, we believe Ping An Health has the potential to deliver long-term profitable growth and scale. The existing agency workforce in Ping An Insurance is a million-strong one with 15% actively engaged in selling our health products. Healthcare reform has been identified as a key focus in the Chinese government's new five-year plan, with State spending under pressure. Ping An Health has identified healthcare as a key strategic investment for the Group and has undergone the requisite management restructure to steer the business in that direction.

In The Vitality Group, our strategy has a few clear objectives: increase products, volumes and profile; and identify aligned opportunities.

In our partnerships across Discovery Partner Markets, we aim to further streamline our systems and operations to position the business for further growth.

We believe the model offers the potential for excellent returns over the long term. Given that each new partnership takes at least five years to mature and generate returns, we anticipate the business will gradually build to profitability following sustained investment.

1. Continue to build innovative products and differentiated service propositions for the joint venture businesses and partnerships.
2. Identify stronger and more productive distribution channels in all markets.
3. Continue to invest in our technical and other infrastructure to build the partner markets business to scale, and to reduce cost and time required for implementation in new markets.
4. Develop a consistent core offer and customise products only where necessary for implementation in each market.
5. Drive the ongoing implementation of Vitality Active Rewards and engagement across Discovery Partner Markets.
6. Continue securing global partnerships to grow the Global Vitality Network and raise the profile and benefits of the Vitality Shared-Value Insurance model.



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REMUNERATION REVIEW

In line with our values of great people and liberating the best in our people, Discovery aims to be an employer of choice, with a firm belief that the long-term success of our organisation is directly linked to the calibre of our people and the working environment we create.

Remuneration policy

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

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

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

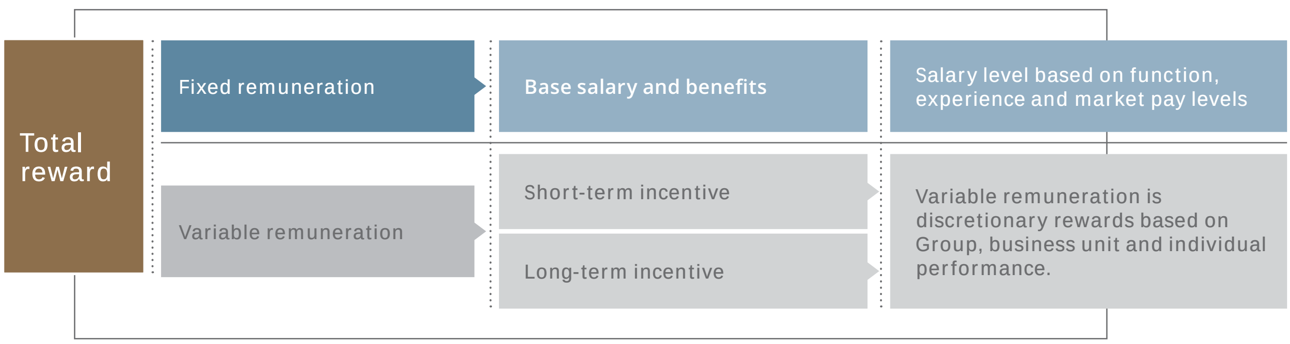
- We offer pay packages that are competitive in the market to attract and retain the right people
- Pay for performance is at the heart of our remuneration philosophy – exceptional performance is recognised and rewarded
- We believe in pay that is fair and we conduct regular internal and external salary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

Remuneration structure

Our remuneration structure supports the successful execution of our strategy by:

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

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



Fixed remuneration

The purpose and key components of our general reward arrangements are summarised below:

Element	Purpose	Detail
Base salary	To attract and retain employees.	Our aim is to remain competitive and we therefore use international remuneration benchmarks for employees in our international operations. We take into account the 50th percentile of the financial services market and pay above market average where required to attract the best talent, especially for critical skills. Increases take effect on 1 July each year and are based on individual performance and market inflation.
Compulsory benefits	To encourage retirement savings and to cater for unforeseen life events.	Pension and provident fund plans, disability and death cover, and medical insurance, are compulsory benefits.
Optional benefits	To enhance the package available to employees.	Access to Discovery crèche and gym.

Variable remuneration

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

Element	Purpose	Detail
Short-term incentive	To incentivise achievement of stipulated semi-annual and annual short-term objectives.	Individual awards are based on Group, business unit and individual performance (utilising both financial and non-financial metrics).
Long-term incentive	To incentivise the top 5% of employees (executive management and, by exception, senior management) to execute the long-term strategy of the Group successfully.	Individual allocations are based on overall individual performance. Incentive awards for performance are primarily linked to the share price and are intended to attract and retain talent.

Short-term incentive awards

How we determine short-term incentive awards

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

For management (top 10% of total employees), short-term incentives are paid bi-annually in arrears in March and September each year and comprise two components (depending on management level):

1

A personal incentive linked to individual goals for each employee

2

A profit pool which allows executive management (top 2% of total employees) to share in profit if the Group's performance is above certain profit hurdles

Personal incentives

Individual performance is determined by:

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

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

September payout

The September payout is based on the audited results of the previous financial year.

March payout

The annual profit pools are based on a profit hurdle related to the change in operating profit of the Group. Thirty percent of the expected pool value is paid as a guaranteed drawdown following the interim results period.

The Remuneration Committee approves the overall incentive level and the Group profit pool level, and oversees the principles applied in allocating these incentives 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.

Key performance areas for 2016 included:

Key performance area	Metrics	Weighting
Insurgency and market leadership	New business API	15% – 20%
Comprehensive and differentiated products to meet complex consumer needs	Innovation	10% – 15%
Engagement in the Vitality programme	Active Rewards activations; Apple Watch activations; % of base earning >1 000 Fitness points	10% – 15%
Superior actuarial dynamics	Loss ratios; Lapse rates; Value of new business	10% – 20%
Exceptional service ecosystem	Member perception scores; Broker/franchise perception scores; Member-based research scores	10% – 20%
Financial excellence and superior returns	Growth in normalised profit from operations	10% – 35%
Diverse workforce	Employment equity	7.5% – 15%

The split between individual and profit-pool components for different levels of management:

Employee category % of total cost to company	Personal incentive	Profit pool
Executive Director	25%	50%
Prescribed Officer	25%	35%
General Manager	25%	15% – 25%
Deputy General Manager/Principal Specialist	20% – 30%	10%
Manager/Divisional Manager	15% – 20%	

Rewards for executive management

Based on achievements against various performance thresholds, components of short-term incentives paid in March 2015 and September 2015 relating to performance in the 2015 financial year, were as follows:

Chief Executive Officer (CEO)

The CEO, Adrian Gore, was awarded a bonus of 17.98% of his annual guaranteed cost to company (CTC) in respect of his individual component and 48.42% of his annual guaranteed CTC in respect of the profit pool.

Chief Financial Officer (CFO)

The CFO, Richard Farber, was awarded a bonus of 28.65% of his annual guaranteed CTC in respect of his individual component and 48.42% of his annual guaranteed CTC in respect of the profit pool.

Remaining South African Executive Directors

The remaining local Executive Directors were on average awarded a bonus of 18.48% of their annual guaranteed CTC in respect of their individual components and 48.42% of their annual guaranteed CTC in respect of the profit pool.

Prescribed Officers

Prescribed Officers were on average awarded a bonus of 37.02% of their annual guaranteed CTC in respect of their individual components and 24.2% of their annual guaranteed CTC in respect of the profit pool.

Long-term incentive plans

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

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

Plan	Purpose	Detail
Phantom share-based incentive plan	This incentive plan for performance links directly to the Group's performance based on the share price. This is primarily intended to attract and retain critical employees.	▪ Overall individual performance and level is taken into account when the Remuneration Committee decides on each individual allocation ▪ The value of the annual allocation on the date of allocation is in the range of 18% to 36% of fixed remuneration. Each year the Remuneration Committee considers the previous year's allocations and current salary level in assessing the allocation ▪ Participants earn a cash bonus based on the allocation of the bonus scheme units, which in turn are linked to the performance of the Discovery share price ▪ Units are issued in September each year. The vesting of the units takes place in equal tranches over two, three, four and five years after allocation ▪ As the scheme is a phantom bonus scheme, there is no dilution created by these awards ▪ Discovery has implemented a programme to hedge against the economic risk linked to the share price based on the anticipated payout of the incentive. The phantom shares are subject to threshold performance criteria. This criteria is compound growth in normalised Headline Earnings Per Share (HEPS) exceeding a hurdle rate of CPI +1.5%.
Phantom option-based incentive plan	This incentive plan links directly to the Group's performance based on the growth in the share price. The plan is primarily intended to attract and retain critical employees.	▪ Overall individual performance and level is taken into account when the Remuneration Committee decides on each individual allocation ▪ The value of the annual allocation on the date of allocation is in the range of 12% to 24% of fixed remuneration. Each year the Remuneration Committee considers the previous year's allocations and current salary level in assessing the allocation ▪ Participants earn a cash bonus based on the allocation of the bonus scheme units, which in turn are linked to the growth in the Discovery share price ▪ Units are issued in September each year. The vesting of the units takes place in equal tranches over two, three, four and five years after allocation ▪ As the scheme is a phantom bonus scheme, there is no dilution created by these awards ▪ Discovery has implemented a programme to hedge out the economic risk linked to the share price based on the anticipated payout of the incentive. 2008 to 2011 Allocations were only made in the phantom share-based incentive plan. From 2012 Allocations consisted of a fixed combination of the phantom share-based incentive plan and the phantom option-based incentive plan.

Plan	Purpose	Detail
Black economic empowerment staff share trust	The trust is intended to recruit and retain senior black talent.	Shares or options, or both, are allocated to attract or retain senior black employees who are highly skilled. The allocations are based on level of seniority. Vesting takes place in equal tranches over two, three, four and five years after allocation.
Start-up long-term incentive plan for new ventures	These plans are intended to attract and retain talent for our new businesses and to foster an owner-manager culture. These are restricted to executives in new ventures, such as Discovery Insure.	Allocation may be in the form of phantom shares or shares in the new entity. Performance criteria is a hurdle rate relating to value created over cost of capital. Vesting periods vary by plan.
Executive outperformance scheme	This scheme is intended to recognise and reward executives who contribute to the transformation of the business and the achievement of our 2018 ambition of "becoming the best insurance organisation in the world and a powerful force for social good". Restricted to the Group Executive Committee.	Individual performance criteria are linked to the 2018 ambition. Highly stretched measures have been set. Vesting of the units takes place in equal tranches over two, three and four years after allocation.

Remuneration Committee governance

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

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

- Ensuring alignment with Discovery's overall remuneration philosophy
- Ensuring alignment with the latest governance standards
- Reviewing annual salary increase parameters
- Reviewing and approving all short-term and long-term incentive structures and monitoring overall liability
- Approving and reporting to the Board on all remuneration elements for the CEO and Executive Directors
- Reviewing remuneration packages for executive management, including heads of control functions (Heads of risk, compliance and internal audit functions)
- Reviewing the total quantum, Director allocation and vesting criteria if applicable in the phantom share scheme
- Regularly reviewing incentive schemes to ensure continued contribution to shareholder value
- Recommending the base for Non-Executive Directors' fees to the Board for shareholder approval.

The Remuneration Committee may, at its sole discretion, waive or amend the performance criteria for variable remuneration should extraordinary circumstances arise.

The Remuneration Committee has delegated certain of its functions to the Internal Remuneration Committee (comprising the Executive Directors and Prescribed Officers). This latter body is responsible for:

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

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

Remuneration Committee membership

Jan Durand resigned as Chairperson of the Remuneration Committee on 13 January 2016. Other Remuneration Committee members are Monty Hilkowitz and Herman Bosman. Sonja De Bruyn Sebotsa was appointed as Chairperson of the Remuneration Committee on 25 August 2016. The Remuneration Committee met four times during the past financial year and attendance was as follows:

	27 August 2015	20 October 2015	26 November 2015	27 June 2016
H Bosman	√	√	√	√
JJ Durand (Chairperson)	√	√	X	N/A
MI Hilkowitz	√	√	√	√

All Remuneration Committee members have the relevant skills and experience to perform their duties. The majority of Remuneration Committee members have no business or other relationships that could materially interfere with their independent judgement. The Remuneration Committee members are also members of key oversight committees to monitor risk trends across the Group.

The Chairperson of the Internal Remuneration Committee, Barry Swartzberg, and members of executive management, 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. T Slabbert (until her resignation as a Non-Executive Director on 22 October 2015) and B Olivier (independent remuneration expert), who both have experience in this area, attended the Remuneration Committee meetings by invitation.

Remuneration of Executive Directors

Evaluation of Executive Directors' Performance

The performance of the Executive Directors is based on:

1. Business performance
2. Transformation
3. Innovation
4. Achievement of strategic initiatives for the year.

Quantitative elements have predetermined measures while qualitative elements are linked to strategic objectives.

This is determined in advance each year and is agreed to by the Remuneration Committee.

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

Terms of employment

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

Non-Executive Directors

Non-Executive Directors receive a combination of fixed and meeting fees for their participation on the Board and Board Committees. Non-Executive Directors do not receive annual incentive awards.

The Board proposes the fees of Non-Executive Directors, following a recommendation from the Remuneration Committee. The fees are reviewed annually by taking into consideration the individual's responsibilities and Board Committee membership. The Chairperson is not present when his remuneration is reviewed. In addition, from time to time, the fees are benchmarked to other local and international financial services companies and companies with similar market capitalisations. This ensures that fees remain competitive. Recommendations are made to the Board for consideration.

The Board member fee structure has two components:

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

The Chairperson of the Board receives an all-inclusive retainer and does not receive any other fees or a retainer for attendance at Board or Committee meetings.

Following recommendations from the Remuneration Committee, the Board proposes the fees for Non-Executive Directors for shareholder approval.

Fee structure for 2016 and proposed structure for 2017

R million	Proposed 2016/2017	2015/2016
Retainer for the Chairperson of the Board	R3 834 000	R3 600 000
SA-based Board retainer	R172 210	R161 700
SA-based Board attendance fees	R28 755 per meeting	R27 000 per meeting
SA-based committee Chairperson retainer	R212 470	R199 500
SA-based committee member's retainer	R123 000	R115 500
SA-based committee Chairperson attendance fees	R24 600 per meeting	R23 100 per meeting
SA-based committee member's attendance fee	R15 655 per meeting	R14 700 per meeting
US-based Board retainer	USD38 660	USD37 720
US-based Board attendance fee	USD6 405 per meeting	USD6 250 per meeting
UK-based Board retainer	GBP29 420	GBP28 700
UK-based Board attendance fee	GBP4 940 per meeting	GBP4 820 per meeting
UK-based committee Chairperson retainer	GBP27 840	GBP27 160
UK-based committee Chairperson attendance fee	GBP2 730 per meeting	GBP2 665 per meeting
UK-based committee member retainer	GBP8 405	GBP8 200
UK-based committee member attendance fee	GBP1 160 per meeting	GBP1 130 per meeting
Non-resident Director travel allowance	USD2 640 per return leg	USD2 575 per return leg

The proposed fees for Non-Executive Directors for the 2017 financial year are based on an increase of 6.5% for fees in Rand and 2.5% for fees in US Dollars and Pounds.

Terms for Non-Executive Directors

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

Directorate

2016 Remuneration and fees

Payments to Directors for the year ended 30 June 2016 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	–	5 898	3 690	7 852	845	257	18 542
R Farber	–	3 789	3 035	7 710	190	116	14 840
HD Kallner	–	3 822	2 920	8 820	191	114	15 867
NS Koopowitz[2]	–	17 646	9 572	35 211	697	506	63 632
HP Mayers[3]	–	11 214	7 454	8 664	1 228	310	28 870
Dr A Ntsaluba	–	3 409	2 664	12 132	536	182	18 923
A Pollard[4]	–	6 318	2 774	10 015	155	240	19 502
JM Robertson	–	3 355	2 337	7 932	682	58	14 364
B Swartzberg	–	4 065	2 981	7 710	479	116	15 351
Sub-total	–	59 516	37 427	106 046	5 003	1 899	209 891
PRESCRIBED OFFICERS							
Dr J Broomberg	–	3 851	2 381	7 483	256	118	14 089
K Rabson	–	3 473	2 305	7 570	343	255	13 946
Dr P Moumakwa	–	2 714	1 680	6 702	271	79	11 446
Sub-total	–	10 038	6 366	21 755	870	452	39 481
NON-EXECUTIVE							
MI Hilkowitz	3 600	–	–	–	–	–	3 600
Dr BA Brink	891	–	–	–	–	–	891
HL Bosman[5]	1 153	–	–	–	–	–	1 153
SE De Bruyn Sebotsa	924	–	–	–	–	–	924
JJ Durand[6]	439	–	–	–	–	–	439
SB Epstein[7]	1 243	–	–	1 792	–	–	3 035
F Khanyile[8]	276	–	–	–	–	–	276
Dr TV Maphai	817	–	–	–	–	–	817
TT Mboweni	444	–	–	–	–	–	444
AL Owen[9]	3 697	–	–	–	–	–	3 697
T Slabbert[8]	267	–	–	–	–	–	267
SV Zilwa	1 214	–	–	–	–	–	1 214
Sub-total	14 965	–	–	1 792	–	–	16 757
Total	14 965	69 554	43 793	129 593	5 873	2 351	266 129
Less: paid by subsidiaries	(14 965)	(69 554)	(43 793)	(129 593)	(5 873)	(2 351)	(266 129)
Paid by holding company	–	–	–	–	–	–	–

1 *"Other benefits" comprise medical aid contributions, travel and other allowances.*
2 *Salary and incentives are paid in GBP.*
3 *Salary paid in GBP from January 2016. Prior to that paid in rand.*
4 *Salary and incentives are paid in USD.*
5 *Director's fees for services rendered by HL Bosman were paid to Rand Merchant Insurance Holdings Limited.*
6 *Director's fees for services rendered by JJ Durand were paid to Remgro Limited.*
7 *Included in Director's fees for SB Epstein is USD100 000 for services rendered as a Director of TVG Inc. Directors' fees are paid in USD.*
8 *Directors' fees for services rendered by T Slabbert and F Khanyile were paid to WDB Investment Holdings Proprietary Limited.*
9 *Director's fees are paid in GBP.*

2015 Remuneration and fees continued

Payments to Directors for the year ended 30 June 2015 for services rendered are as follows:

R'000	Services as Directors	Basic salary	Perfor-mance bonus	Phantom scheme bonus	Provident fund contributions	Other benefits[1]	Total
EXECUTIVE							
A Gore	–	4 288	3 831	4 480	643	206	13 448
R Farber	–	3 618	2 977	4 480	181	102	11 358
HD Kallner	–	3 645	3 115	3 984	182	104	11 030
NS Koopowitz[2]	–	14 232	7 658	17 857	787	441	40 975
HP Mayers	–	6 999	5 393	4 480	735	259	17 866
Dr A Ntsaluba	–	3 209	3 055	7 429	561	163	14 417
A Pollard[3]	–	4 852	1 979	4 720	120	184	11 855
JM Robertson	–	3 244	2 794	4 480	650	7	11 175
B Swartzberg	–	3 420	3 240	4 480	579	106	11 825
Sub-total	–	47 507	34 042	56 390	4 438	1 572	143 949
PRESCRIBED OFFICERS							
Dr J Broomberg	–	3 613	2 522	11 551	271	103	18 060
K Rabson	–	3 176	2 432	3 763	397	241	10 009
Dr P Moumakwa	–	2 557	1 822	3 641	255	80	8 355
Sub-total	–	9 346	6 776	18 955	923	424	36 424
NON-EXECUTIVE							
MI Hilkowitz	3 000	–	–	–	–	–	3 000
Dr BA Brink	718	–	–	–	–	–	718
HL Bosman[4]	918	–	–	–	–	–	918
JJ Durand[5]	696	–	–	–	–	–	696
SB Epstein[6]	4 772	–	–	953	–	–	5 725
Dr TV Maphai	778	–	–	–	–	–	778
TT Mboweni	314	–	–	–	–	–	314
AL Owen[7]	2 658	–	–	–	–	–	2 658
SE De Bruyn Sebotsa	684	–	–	6 176	–	–	6 860
T Slabbert[8]	584	–	–	–	–	–	584
SV Zilwa	1 044	–	–	–	–	–	1 044
Sub-total	16 166	–	–	7 129	–	–	23 295
Total	16 166	56 853	40 818	82 474	5 361	1 996	203 668
Less: paid by subsidiaries	(16 166)	(56 853)	(40 818)	(82 474)	(5 361)	(1 996)	(203 668)
Paid by holding company	–	–	–	–	–	–	–

1 *"Other benefits" comprise medical aid contributions, travel and other allowances.*
2 *Salary and incentives are paid in GBP.*
3 *Salary and incentives are paid in USD.*
4 *Directors' fees for services rendered by HL Bosman were paid to Rand Merchant Insurance Holdings Limited.*
5 *Directors' fees for services rendered by JJ Durand were paid to Remgro Limited.*
6 *Included in Directors' fees for SB Epstein is USD100 000 for services rendered as a Director of TVG Inc. Directors' fees are paid in USD.*
7 *Directors' fees are paid in GBP.*
8 *Directors' fees for services rendered by T Slabbert were paid to WDB Investment Holdings Proprietary Limited.*

Directors' participation in share incentive schemes

Discovery's Executive Directors and Prescribed Officers participate in the various share incentive schemes offered by the Group. Their participation is disclosed below. Refer to Group Annual Financial Statements note 33.1 of the Discovery Limited annual financial statements for a detailed description of the various schemes offered.

Discovery Limited phantom share scheme

Directors' and Prescribed Officers' participation as at 30 June 2016:

Executive Directors and Prescribed Officers	Outstanding shares	Date granted	Strike price R	Final vesting date	Value at 30 June 2016 R
J Broomberg	10 350	30/09/2011	–	30/09/2016	1 267 875
	8 630	30/09/2012	–	30/09/2017	1 057 175
	25 890	30/09/2012	54.75	30/09/2017	1 791 734
	8 920	30/09/2013	–	30/09/2018	1 092 700
	17 840	30/09/2013	84.76	30/09/2018	769 088
	39 554	01/07/2013	–	30/06/2017	4 794 353
	10 967	30/09/2014	–	30/09/2019	1 343 458
	21 934	30/09/2014	97.89	30/09/2019	773 587
	8 433	30/09/2015	–	30/09/2020	1 033 043
	16 866	30/09/2015	134.94	30/09/2020	430 137
R Farber	11 125	30/09/2011	–	30/09/2016	1 362 813
	9 277	30/09/2012	–	30/09/2017	1 136 433
	27 830	30/09/2012	54.75	30/09/2017	1 925 958
	10 194	30/09/2013	–	30/09/2018	1 248 765
	20 388	30/09/2013	84.76	30/09/2018	878 958
	36 325	01/07/2013	–	30/06/2017	4 402 977
	12 534	30/09/2014	–	30/09/2019	1 535 415
	25 068	30/09/2014	97.89	30/09/2019	884 119
	31 870	30/09/2015	–	30/09/2020	3 904 075
	63 739	30/09/2015	134.94	30/09/2020	1 625 549
A Gore	11 125	30/09/2011	–	30/09/2016	1 362 813
	9 277	30/09/2012	–	30/09/2017	1 136 433
	27 830	30/09/2012	54.75	30/09/2017	1 925 958
	15 291	30/09/2013	–	30/09/2018	1 873 148
	30 582	30/09/2013	84.76	30/09/2018	1 318 437
	32 112	01/07/2013	–	30/06/2017	3 892 232
	18 801	30/09/2014	–	30/09/2019	2 303 123
	37 601	30/09/2014	97.89	30/09/2019	1 326 144
	14 456	30/09/2015	–	30/09/2020	1 770 860
	28 913	30/09/2015	134.94	30/09/2020	737 374
HD Kallner	11 125	30/09/2011	–	30/09/2016	1 362 813
	9 277	30/09/2012	–	30/09/2017	1 136 433
	27 830	30/09/2012	54.75	30/09/2017	1 925 958
	10 194	30/09/2013	–	30/09/2018	1 248 765
	20 388	30/09/2013	84.76	30/09/2018	878 958
	54 488	01/07/2013	–	30/06/2017	6 604 466
	55 441	30/09/2014	–	30/09/2019	6 791 523
	110 882	30/09/2014	97.89	30/09/2019	3 910 680
	9 638	30/09/2015	–	30/09/2020	1 180 655
	19 275	30/09/2015	134.94	30/09/2020	491 574
NS Koopowitz	80 521	01/07/2013	–	30/06/2017	9 759 933

Directors' participation in share incentive schemes continued

Discovery Limited phantom share scheme continued

Executive Directors and Prescribed Officers	Outstanding shares	Date granted	Strike price R	Final vesting date	Value at 30 June 2016 R
HP Mayers	11 125	30/09/2011	–	30/09/2016	1 362 813
	9 277	30/09/2012	–	30/09/2017	1 136 433
	27 830	30/09/2012	54.75	30/09/2017	1 925 958
	10 194	30/09/2013	–	30/09/2018	1 248 765
	20 388	30/09/2013	84.76	30/09/2018	878 958
	51 945	01/07/2013	–	30/06/2017	6 296 257
	12 534	30/09/2014	–	30/09/2019	1 535 415
	25 068	30/09/2014	97.89	30/09/2019	884 119
	9 638	30/09/2015	–	30/09/2020	1 180 655
	19 275	30/09/2015	134.94	30/09/2020	491 574
A Ntsaluba	9 277	30/09/2012	–	30/09/2017	1 136 433
	27 830	30/09/2012	54.75	30/09/2017	1 925 958
	10 194	30/09/2013	–	30/09/2018	1 248 765
	20 388	30/09/2013	84.76	30/09/2018	878 958
	44 317	01/07/2013	–	30/06/2017	5 371 632
	12 534	30/09/2014	–	30/09/2019	1 535 415
	25 068	30/09/2014	97.89	30/09/2019	884 119
	9 638	30/09/2015	–	30/09/2020	1 180 655
	19 275	30/09/2015	134.94	30/09/2020	491 574
A Pollard	11 125	30/09/2011	–	30/09/2016	1 362 813
	3 092	30/09/2012	–	30/09/2017	378 770
	9 276	30/09/2012	54.75	30/09/2017	641 951
	3 440	30/09/2013	–	30/09/2018	421 400
	6 881	30/09/2013	84.76	30/09/2018	296 661
	38 747	01/07/2013	–	30/06/2017	4 696 509
	4 178	30/09/2014	–	30/09/2019	511 805
	8 356	30/09/2014	97.89	30/09/2019	294 706
	3 213	30/09/2015	–	30/09/2020	393 593
	6 425	30/09/2015	134.94	30/09/2020	163 858
K Rabson	10 350	30/09/2011	–	30/09/2016	1 267 875
	8 630	30/09/2012	–	30/09/2017	1 057 175
	25 890	30/09/2012	54.75	30/09/2017	1 791 734
	8 920	30/09/2013	–	30/09/2018	1 092 700
	17 840	30/09/2013	84.76	30/09/2018	769 088
	40 967	01/07/2013	–	30/06/2017	4 965 580
	10 967	30/09/2014	–	30/09/2019	1 343 458
	21 934	30/09/2014	97.89	30/09/2019	773 587
	30 665	30/09/2015	–	30/09/2020	3 756 463
	61 330	30/09/2015	134.94	30/09/2020	1 564 111
JM Robertson	11 125	30/09/2011	–	30/09/2016	1 362 813
	9 277	30/09/2012	–	30/09/2017	1 136 433
	27 830	30/09/2012	54.75	30/09/2017	1 925 958
	10 194	30/09/2013	–	30/09/2018	1 248 765
	20 388	30/09/2013	84.76	30/09/2018	878 958
	39 958	01/07/2013	–	30/06/2017	4 843 275
	12 534	30/09/2014	–	30/09/2019	1 535 415
	25 068	30/09/2014	97.89	30/09/2019	884 119
	9 638	30/09/2015	–	30/09/2020	1 180 655
	19 275	30/09/2015	134.94	30/09/2020	491 574

Discovery Limited phantom share scheme continued

Executive Directors and Prescribed Officers	Outstanding shares	Date granted	Strike price R	Final vesting date	Value at 30 June 2016 R
B Swartzberg	11 125	30/09/2011	–	30/09/2016	1 362 813
	9 277	30/09/2012	–	30/09/2017	1 136 433
	27 830	30/09/2012	54.75	30/09/2017	1 925 958
	10 194	30/09/2013	–	30/09/2018	1 248 765
	20 388	30/09/2013	84.76	30/09/2018	878 958
	36 325	01/07/2013	–	30/06/2017	4 402 977
	12 534	30/09/2014	–	30/09/2019	1 535 415
	25 068	30/09/2014	97.89	30/09/2019	884 119
	9 638	30/09/2015	–	30/09/2020	1 180 655
	19 275	30/09/2015	134.94	30/09/2020	491 574
P Moumakwa	10 350	30/09/2011	–	30/09/2016	1 267 875
	8 630	30/09/2012	–	30/09/2017	1 057 175
	25 890	30/09/2012	54.75	30/09/2017	1 791 734
	8 920	30/09/2013	–	30/09/2018	1 092 700
	17 840	30/09/2013	84.76	30/09/2018	769 088
	29 524	01/07/2013	–	30/06/2017	3 578 642
	10 967	30/09/2014	–	30/09/2019	1 343 458
	21 934	30/09/2014	97.89	30/09/2019	773 587
	8 433	30/09/2015	–	30/09/2020	1 033 043
	16 866	30/09/2015	134.94	30/09/2020	430 137

The Vitality Group Inc. phantom share plan

Executive Directors' and Prescribed Officers' participation as at 30 June 2016:

Directors and Prescribed Officers	Outstanding shares	Date granted	Exercise price USD	Final vesting date	Value at 30 June 2016 USD
SB Epstein	53 571	01/10/2013	0.75	01/10/2016	40 178
	111 112	01/10/2014	0.75	01/10/2017	83 334
	120 000	01/10/2015	0.75	01/10/2018	90 000
A Pollard	145 455	01/10/2012	0.75	01/10/2016	109 091
	292 585	01/10/2013	0.75	01/10/2017	219 439
	469 221	01/10/2014	0.75	01/10/2018	351 916
	346 287	01/10/2015	0.75	01/10/2019	259 715

The VitalityHealth and VitalityLife phantom share schemes

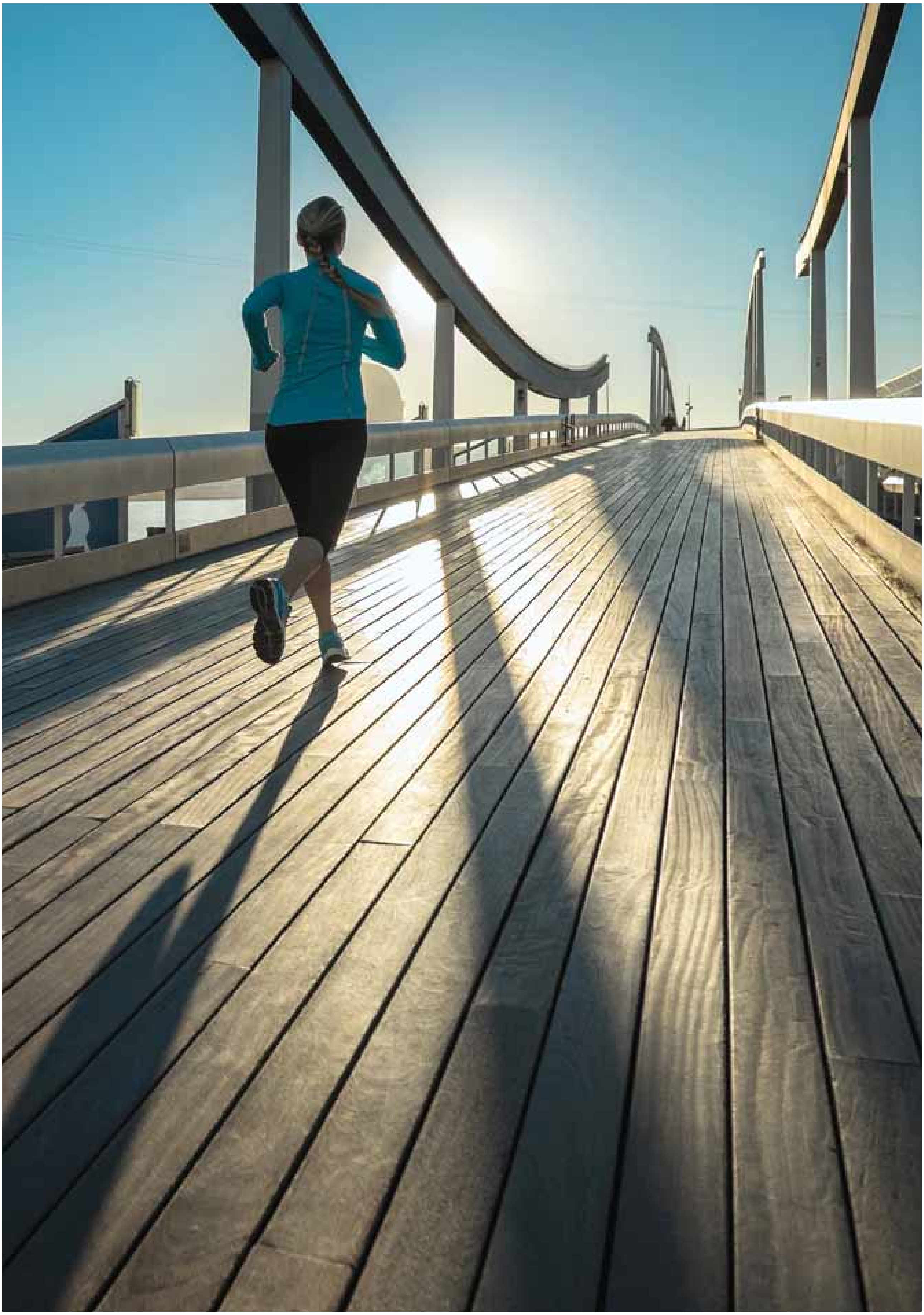
Executive Directors' and Prescribed Officers' participation as at 30 June 2016:

Directors and Prescribed Officers	Outstanding shares	Date granted	Exercise price GBP	Final vesting date	Value at 30 June 2016 GBP
NS Koopowitz	19 978	2015	154.13	2019	153 960
	19 873	2015	–	2019	515 466
	15 919	01/11/2013	–	31/10/2017	443 280
HP Mayers	19 978	2016	154.13	31/12/2018	153 960

Black Economic Empowerment share scheme

Executive Directors' and Prescribed Officers' participation as at 30 June 2016:

Directors and Prescribed Officers	Outstanding shares	Date granted	Exercise price R	Final vesting date	Value at 30 June 2016 R
A Ntsaluba	50 000	30/09/2011	–	30/09/2016	6 125 000

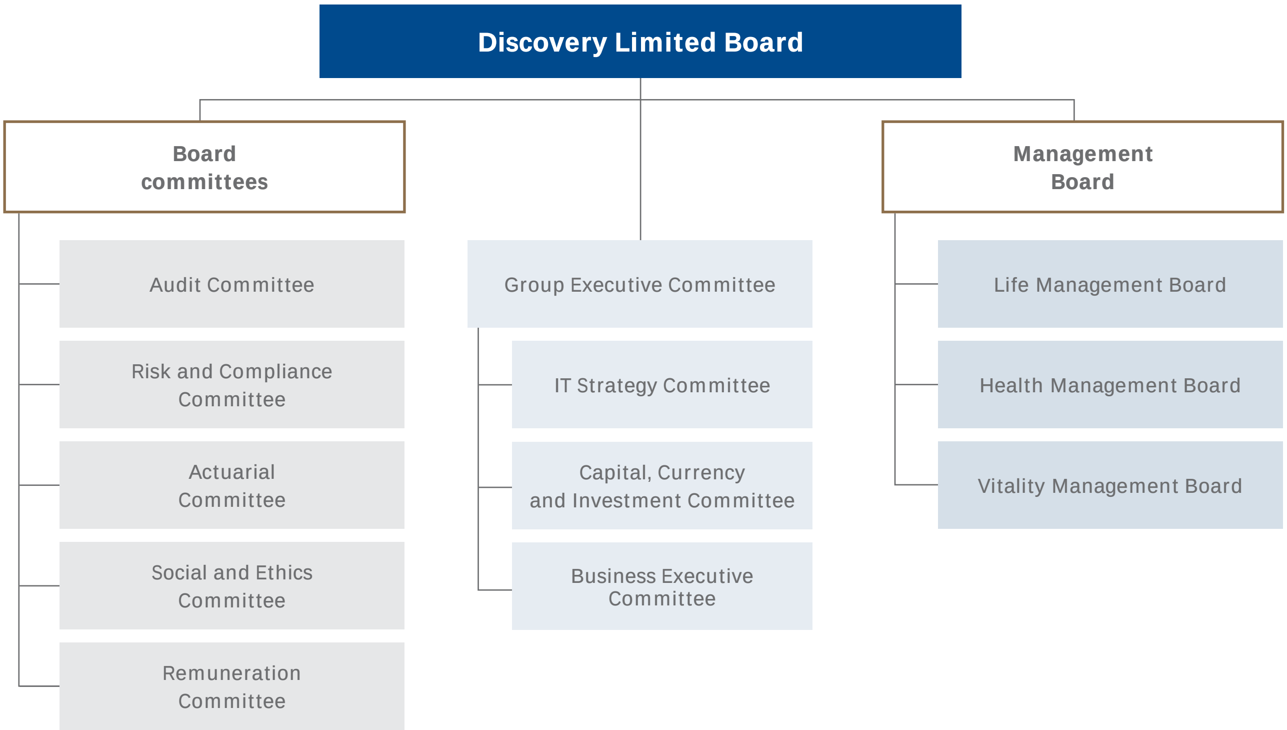


GOVERNANCE REVIEW

CORPORATE GOVERNANCE, RISK AND COMPLIANCE OVERVIEW

The Discovery Board of Directors is supported by Board committees, and is ultimately responsible and accountable for the governance of the Group. This includes overseeing all business operations and strategic initiatives, and the risk management and compliance of the Group. All committees that support the Board have specific responsibilities and written terms which are reviewed annually.
The Chairperson of each committee reports to the Board at every Board meeting.

Overview of the Discovery Limited Corporate Governance Structure



Our detailed Governance Report is available on Discovery's website www.discovery.co.za/Governance

The Discovery Board and activities during the year

The Board meets six times a year. Directors discuss the long and short-term strategies of the Group and engage with executive management on execution and progress. A Board Charter, which sets out the roles and responsibilities of the Board, has been adopted. A comprehensive review was done during the year to align the Board Charter with emerging global governance and regulatory requirements.

Chairperson and Group Chief Executive

The Chairperson is an independent Non-executive Director and is responsible for leading the Board. The Group Chief Executive is responsible for providing ethical leadership and ensuring the operations are aligned with the strategy. The roles of the Chairperson and Group Chief Executive are independent and separate. The division of responsibilities ensures balance and that no individual has unrestricted decision-making authority. Both parties operate in terms of distinct mandates issued and approved by the Board.

The Board evaluates the performance and independence of the Chairperson annually. The results of the assessment for the past financial year found that he fulfilled his duties and responsibilities independently and to the satisfaction of the Board in the best interest of the company and its stakeholders. Succession plans, which are reviewed and updated annually, are in place for the Group Chief Executive, as well as the senior executives within the Group.

Chief Financial Officer

The Audit Committee assessed the qualifications, experience and financial knowledge of the Chief Financial Officer and is satisfied that his expertise and experience are appropriate to meet the responsibilities of the position. The committee is also satisfied as to the appropriateness, expertise and adequacy of resources of the Finance Division within Discovery.

Company Secretary

The Company Secretary is responsible for the administration of the Board and Board sub-committees by ensuring sound corporate governance procedures are followed and maintained. The Board has evaluated the competencies and effectiveness of the Company Secretary, as required in terms of legislative and regulatory requirements. The evaluation process includes an assessment of the Company Secretary's qualifications , skills, knowledge and experience. The Board is satisfied that the Company Secretary is qualified to fulfill his duties and responsibilities to the Board.

The Board confirms that the Company Secretary is not a Director of the Group and maintains an arm's length relationship with the Board. All Board members have unlimited access to the advice and services of the Company Secretary.

Meetings of the Board and committees

Discovery appointed one new Director during the financial year. There were two resignations. The Board acknowledges Jan Durand and Tania Slabbert for their commitment and skills throughout their tenure.

	Board meeting	Audit Committee	Risk and Compliance Committee[(*)]	Actuarial Committee[(*)]	Social and Ethics Committee[(*)]	Remuneration Committee
INDEPENDENT NON-EXECUTIVE DIRECTORS						
MI Hilkowitz[#] (Board)	6/6					4/4
BA Brink	6/6		6/6		6/7	
J Durand[†]	3/3	3/3				2/3
TV Maphai	6/6					
TT Mboweni	4/6		4/6			
AL Owen	6/6	6/6	6/6[©]	8/10		
SE De Bruyn Sebotsa[#] (Remuneration)	4/6	6/6	4/6		2/2	0/0
SV Zilwa[#] (Social and Ethics)	6/6	5/6	5/6		7/7	
NON-EXECUTIVE DIRECTORS						
HL Bosman	6/6		6/6	9/10	4/7	4/4
SB Epstein	6/6					
F Khanyile	4/4				2/3	
T Slabbert[†]	1/2				3/4	
EXECUTIVE DIRECTORS						
A Gore (Group CE)	6/6				1/7	
R Farber (CFO)	6/6		6/6	10/10	6/7	
HD Kallner	6/6				5/7	
NS Koopowitz	6/6					
HP Mayers	6/6		6/6	7/10		
A Ntsaluba	6/6				2/7	
A Pollard	5/6					
JM Robertson	6/6		6/6		3/7	
B Swartzberg	6/6				4/7	4/4
GROUP EXECUTIVES (PRESCRIBED OFFICERS)						
J Broomberg (Discovery Health)	5/6		5/6		3/7	
KS Rabson (Discovery Invest)	6/6					
P Moumakwa (Discovery Health)	6/6				6/7	
INDEPENDENT CHAIRMAN						
C van der Riet[#] (Actuarial)				10/10		

* *These committees include members of management.*
† *Resigned December 2015.*
\# *Chairperson.*

Supporting committees and their responsibilities

Audit Committee

Independent Non-executive Directors	Non-executive Directors	Executive Directors	Members of management
3	–	–	–

The Audit Committee assists the Board in ensuring financial reporting throughout the Group is accurate and reliable. Three highly-skilled and experienced independent Non-executive Directors are elected at the Annual General Meeting on recommendation of the Board. The head of finance, senior management and auditing representatives attend the meetings.

Risk and Compliance Committee

Independent Non-executive Directors	Non-executive Directors	Executive Directors	Members of management
5	1	4	4

The Risk and Compliance Committee ensures risk and compliance management and internal control systems are adequate and effective. Six highly-skilled and experienced Non-executive Directors and eight members of the executive management meet six times a year. The Chairperson of the Board, Chairperson of the Actuarial Committee, executive management team, and auditing representatives attend these meetings.

Actuarial Committee

Independent Non-executive Directors	Non-executive Directors	Executive Directors	Members of management	Independent actuarial experts
1	1	2	2	3 (1 is the Chairperson)

The Actuarial Committee provides assurance to the Board on the accuracy of the calculations and the appropriateness of the assumptions underlying the liabilities and the capital of the Group. Independent and external experts provide an independent and unbiased perspective on industry and actuarial matters impacting Discovery. The committee is chaired by a non-Board member recognised as a technical leader in the actuarial industry. VitalityHealth and VitalityLife in the UK, as well as Discovery Insure, have separate Actuarial Committees that are responsible for actuarial matters relevant to their businesses.

Social and Ethics Committee

Independent Non-executive Directors	Non-executive Directors	Executive Directors	Members of management
3	1	7	–

The Social and Ethics Committee assists the Board in monitoring social and economic development, as well as ethics and transformation within the Group. The committee consists of Non-executive and Executive Directors. The Chairperson is an independent Non-executive Director. Two additional independent Non-executive Directors were appointed during the year.

Remuneration Committee

Independent Non-executive Directors	Non-executive Directors	Executive Directors	Members of management
2	1	–	–

Three Non-executive Directors advise the Board on the Group's remuneration strategies, principles and employment policies.

Management Boards

	Independent Non-executive Directors	Executive Directors	Members of management	Independent specialists
Life Management Board	3	5	–	1
Health Management Board	2	7	2	–
Vitality Management Board	1	8	6	–

The Management Boards were established to assist the Board in overseeing the strategic outlook and objectives of the business, considering developments and proposals, as well as risks and product and actuarial issues. It also reviews the results and performance of the business and ensures that objectives are aligned to the overall Group ambition and strategic outlook. They escalate any material issues to the Board for consideration.

Governance Structure for VitalityUK

VitalityLife and VitalityHealth have a Board and Governance structure that is independent from the Discovery Group and meets the regulatory requirements in the UK. The Board of Directors consists of two Executive Directors, two Non-executive Directors and seven independent Non-executives. The Board has delegated certain responsibilities to a number of Board Committees, each with an appropriate terms of reference and mandate to support the Board with its control and oversight of the business. The Chairpersons of the Actuarial, Risk, Audit, Nominations and External Remuneration Committees are experienced independent Non-executive Directors. The majority of the members of these committees is aligned to regulatory Requirements and industry best practice.

Oversight of the day-to-day operations has been delegated to the CEOs of the business who are supported by an experienced Executive Team.

Group Executive Committee

Independent Non-executive Directors	Non-executive Directors	Executive Directors	Members of management
–	–	11	15

Group Executive Committee members are mandated and responsible for implementing the strategies approved by the Board and for managing the affairs of the Group. The Group Executive Committee meets weekly and is chaired by the Group Chief Executive.

A Gore (Chairperson)	S Matisonn	E Stipp
A Ntsaluba	D Govender	B Sundelson
HP Mayers	P Harvey	R van Reenen
HD Kallner	L Izikowitz	S Vyvyan-Day
A Pollard	K Mayet	S Viranna
R Farber	R Noach	KS Rabson
JM Robertson	J Broomberg	P Moumakwa
NS Koopowitz	A Ossip	AB Rayner
B Swartzberg	BJS Hore	

Control functions to support governance

To further strengthen the Board's governance, Discovery has adopted a "three lines of defence" governance model. The risk and compliance management functions aim to ensure the effectiveness of the enterprise risk management programme and to provide the Board and its sub-committees with a detailed overview of its effective implementation. The internal and external audit functions provide independent assurance on the strength of the internal control environment within Discovery.

Three lines of defence model

Discovery Limited Board

Group Executive Committee
Company Executive Committee
Capital, Currency and Investment Committee

Discovery Limited Audit Committee
Discovery Limited Risk and Compliance Committee
Discovery Limited Actuarial Committee

Management | **Risk monitoring and assurance**

First line of defence

- Executive committees
- Management of operations.

Second line of defence

- Risk Management function
- Compliance function
- Actuarial function.

Third line of defence

- Internal audit
- External audit
- Other assurance providers.

Business unit management

This consists of the day-to-day management and operation of the business. The business delivers on the strategy and optimises business performance within an agreed governance and risk framework.

Risk Management, Compliance and Actuarial Control functions

The Risk and Compliance Management functions ensure that risk and compliance management systems within Discovery are operating effectively. The Actuarial Control function supplements these functions for the Discovery Group and its regulated entities.

Risk Management function

The Group's Risk Management function is an independent function from Operational Management and is responsible for designing and ensuring the operational effectiveness of the risk management system for all risk types. The function coordinates and challenges information on risk management and ensures the establishment of appropriate risk reporting procedures and feedback 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 obtain access to any records required to carry out its responsibilities.

Actuarial function

For the life insurance entities in the Group, the Actuarial Control function informs the Board and the Actuarial Committee of the reliability and adequacy of the calculation of technical provisions, capital requirements, premiums, pricing activities and compliance with related statutory and regulatory requirements. The head of the Actuarial Control function is a regulated role (ie the Statutory Actuary in South Africa) that expresses an opinion on these calculations and ensures the establishment of appropriate reporting procedures and feedback to the Board.

For the non-life insurance entities in the Group, the head of the Actuarial Control function is not a regulated role. However, the Actuarial Control function still oversees the reliability and adequacy of the calculation of technical provisions, capital requirements, premium, pricing activities and compliance with related statutory and regulatory requirements.

Assurance

This consists of Discovery's independent Assurance functions, such as internal and external audit. They provide an independent and balanced view of the effectiveness of the first and second-line functions. The effectiveness of the risk management system is audited annually. The findings from these assessments are reported to the various governance bodies within the organisation.

The UK business has its own Compliance, Risk Management, Actuarial Control, and internal audit functions that are overseen by the Group.

Key focus areas for risk management during the year

Focus areas	Our progress to date
Solvency Assessment and Management (SAM) and Solvency II readiness	We anticipate that SAM in South Africa will come into effect in 2017, while Solvency II in Europe became effective on 1 January 2016. During the reporting year, most of the key processes became embedded in business operations. These included: ▪ Parallel runs of the SAM position and completion of the second mock Own Risk and Solvency Assessment (ORSA) reports for Discovery Life, Discovery Insure and Discovery Limited which were submitted to the Financial Services Board ▪ Submission of the first official quarterly Solvency II returns to the Prudential Regulatory Authority in the UK for VitalityHealth Limited, VitalityLife Limited and Discovery Group Europe Limited ▪ Preparation of a mock ORSA report for VitalityHealth Limited which was submitted to the Prudential Regulatory Authority and a dry-run ORSA report for VitalityLife Limited ▪ An annual review of all Board-approved risk policies, frameworks and risk appetite statements across Discovery entities and confirmation of compliance with these policies ▪ The requirements of both SAM and Solvency II will be further integrated into our operations. We await the final legislative requirements on SAM and will adapt our current processes as required ▪ The process of analysing and understanding the need for any required change to the operating model and capital structure of the Group in response to the SAM and Solvency II requirements will continue.
Enhancing the combined assurance model	During the reporting year, the Risk Management function was tasked with coordinating combined assurance on behalf of the Board. Progress was made in creating a best-practice framework and establishing the key Governance Committee to drive combined assurance activities across the Group. The integrated assurance plan for the 2016/2017 year is being developed, which will result in a revised methodology and application of combined assurance. We will continue to enhance our approach to combined assurance to maximise the value derived from the risk management, compliance, and internal and external audit activities to ensure there are no gaps in providing assurance to our stakeholders. Analysis of the King IV recommendations and what these mean for our risk management framework and methodology will be completed.
Enhancing risk management capacity	Risk management capacity was further strengthened during the reporting year through filling key vacancies and the acquisition of skills identified during a gap analysis. Significant progress was made with the appointment of first-line risk officers within the remaining businesses across the Group.
Enhancing the Group capital measurement and management process	The capital management process will be further enhanced, including an evaluation of the structures used to review and approve the allocation of capital and to measure return. A capital management framework will be implemented to drive capital efficiency and its effective use, combined with enhanced analytic tools.
Value-added risk services	The number of independent risk reviews and ad hoc management requests completed, increased during the year. This allowed for an increased level of consulting services to business and enhancements to the risk and control environment through value-adding recommendations.
Implementation of a risk management software solution	A risk management software system will be implemented to enable enhanced risk intelligence and streamlined processes.

Key focus areas for compliance during the year

Focus areas	Our progress to date
Solvency Assessment and Management and Solvency II We have been focusing on the implementation of the Pillar II requirements, as set out in the draft Insurance Laws Amendment Bill. Work around the Capital Requirements in Pillar I of the programme is ongoing and we are actively participating in industry and regulatory initiatives. The implementation of the Solvency II requirements in the UK is also on track and we continue our participation in the programme and responding to information requests from UK regulators.	During the financial year, the Regulator changed the implementation of the SAM framework in South Africa to 1 January 2017. We have made substantial progress towards implementation of this framework in Discovery. The Solvency II programme in our UK business has been effective from 1 January 2016 and is now fully operational.
Implementation of the Twin Peaks regulatory framework We are cooperating with industry bodies and are committed to implementing an appropriate regulatory framework in Discovery to address the requirements emerging from the Financial Sector Regulation and Insurance Bills.	The regulatory process around the financial sector regulations and the Insurance Bills is still ongoing and we have completed a detailed analysis of the impact on Discovery. We are also cooperating closely with industry bodies and the Regulator during this process.
Implementation of the Retail Distribution Review (RDR) framework We expect that the proposals, once published, could have an impact on how we remunerate our intermediaries.	The Financial Services Board published further information around the RDR framework and the three phases of implementation in December 2015. We are actively involved in initiatives with the Regulator to finalise the phase-one proposals, which is expected early in 2017. We have conducted a detailed analysis of the impact these proposals would have on Discovery and have identified the areas where changes would be required.
Continued strengthening of our information security controls to protect our clients' information We have completed a number of projects during the year which focus on formalising and strengthening our information security framework.	We have made substantial progress with our Information Security Programme in the Group and will continue to work on this in the coming year. We are also monitoring the developments around the appointment of the Information Commissioners and development of the Regulations of the Protection of Personal Information (POPI) Act.
Retirement reform We continue to monitor developments around retirement reform and the amendments on the tax payable on retirement funds to ensure we provide the best possible solution to our clients.	We continue to closely monitor developments.

Key Governance focus areas for 2017

Information Security and Data Privacy

South African and international developments around Information Security and Data Privacy remain a key focus to the business with the finalisation of the EU Data Privacy Directive, as well as developments around the Protection of Personal Information (POPI) Act in South Africa.

We remain focused on completing a number of projects that will address key Data Privacy objectives within the Group over the next 12 months.

We have also started working on the impact that the EU Data Privacy Directive will have on our international business ventures, particularly our business in the UK. This is in anticipation of the directive becoming effective in 2018.

Work is ongoing to align our data management strategy across the Group to international Data Privacy requirements and standards.

Increasing transparency and engagement in general insurance

The Financial Conduct Authority proposed amended rules around client disclosures at renewal of policies.

We are actively involved in industry initiatives and forums dealing with these proposals and will be monitoring developments and the impact on our business in the coming year.

Treating Customers Fairly (TCF)

Work is ongoing to embed the TCF principles in the South African business and to develop the infrastructure to effectively report on our progress and identify possible TCF concerns within the business environment.

Anti-Money Laundering developments (AML)

We expect the amendments to the AML regulatory environment in South Africa to come into effect within the next year.

We have conducted a detailed impact assessment and have initiated a project across all South African businesses to implement the appropriate frameworks and controls to comply with the new requirements.

Financial Sector Regulations and Insurance Bills

We continue to monitor the developments around the Financial Sector Regulations and the Insurance Bills and is actively participating in industry and regulatory initiatives around this process. Both of these Bills are expected to become effective during the first half of 2017.

We have also conducted a detailed analysis of the potential impact of these Bills on Discovery and will be focusing on the implementation of these requirements over the next financial year.

Corporate Governance developments

The KING IV Code on Corporate Governance is expected later this year and Discovery remains fully committed to the implementation of a world-class Corporate Governance framework.

We have established a number of projects aimed to review and consider the implications of the new King Code and to implement appropriate controls and processes to address the new requirements.

Retail Distribution Review (RDR)

The RDR framework is expected to be implemented in three phases over the next two to three years. During this time, we will remain actively involved in industry initiatives around the implementation of the RDR proposals.

We have conducted a detailed analysis of the phase I proposals, which is expected to be implemented in the next year, and are monitoring the progress on the development of these proposals.

In the coming year, we will complete further analysis on the phases II and III proposals and will continue our cooperation with the Regulator in this regard.

National Health Insurance (NHI)

Discovery Health is supportive of this initiative and we are continuing with our engagement on the development of this in South Africa.

Amendments to the Long-term Insurance Taxation framework

We have analysed the impact on Discovery Life and are actively participating in various industry forums in this regard.

Discovery is engaging with both National Treasury, the South African Revenue Services and the Financial Services Board, and discussions around the finalisation of these amendments are ongoing.

DETAILED CVs OF OUR LEADERSHIP

DISCOVERY LIMITED BOARD OF DIRECTORS

Adrian Gore (52)

▲⁕ Group Chief Executive
BSc (Hons), FFA, ASA, MAAA, FASSA

Adrian is the founder and Chief Executive Officer of the Discovery Group. He is a Fellow of the Actuarial Society of South Africa and of the Faculty of Actuaries (Edinburgh), an Associate of the Society of Actuaries (Chicago), and a member of the American Academy of Actuaries. In 1998, he was recognised as South Africa's Best Entrepreneur by Ernst & Young, and in 2004, was chosen as South Africa's leading CEO in the annual MoneyWeb CEO's CEO of the Year Awards. In 2008, he received the Investec Award for Considerable Contribution in a Career/Profession, and in 2010, he was named as the Sunday Times Business Leader of the Year. In 2016, Adrian received a Doctor of Commerce from the University of the Witwatersrand (Honorius Causa) and chairs the South African Chapter of Endeavor. He sits on the World Economic Forum Industry Agenda Council on Future Health, on the Columbia University Mailman School of Public Health Board of Overseers, and on the Massachusetts General Hospital Global Health Advisory Board. He has also been invited to sit on the Brookings Institute's International Advisory Council. Alongside these commitments, he works with other leaders to stimulate entrepreneurship in South Africa.

Richard Farber (45)

▲⁕ Chief Financial Officer
BCom (Hons), CA(SA), FCMA

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

Hylton Kallner (41)

▲⁕ Chief Executive Officer, Discovery Life
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. Hylton joined Discovery in October 1996, and has held various positions, including that of Chief Marketing Officer. He was appointed to the Board of Discovery Limited in 2010. In January 2016, he was appointed as Chief Executive Officer of Discovery Life and continues to oversee the Group's Marketing and Distribution divisions.

Neville Koopowitz (52)

▲⁕ Chief Executive Officer, VitalityHealth
BCom, CFP

Neville joined Discovery as Marketing Director in 1996 and played a key role in defining and building the Discovery brand, as well as in developing Discovery's sales and distribution network. His particular focus area was 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 also responsible for the launch of Discovery Card. In 2005, he was appointed as Chief Executive Officer of Discovery Health; a position he held until his move to the UK in 2010. He is currently the Chief Executive Officer of VitalityHealth in the UK. He sits on the Health Committee of the Association of British Health Insurers.

Herschel Mayers (56)

▲⁕ Chief Executive Officer, VitalityLife
BSc (Hons), FIA, FASSA

Herschel qualified as an actuary in 1986 and is a Fellow of the Institute of Actuaries. He joined Liberty Life after qualifying, and as a member of their Executive Committee, served as the Head of Individual and Group Business, Underwriting and Systems, Technology, Product Development, and Finance. Herschel joined Discovery in 2000 as the Managing Director of Discovery Life. In 2001, he was appointed to the Board of the Life Offices Association (LOA) and he currently serves on the Board of the Association for Savings and Investment South Africa (previously LOA). In January 2006, Herschel was appointed as Chief Executive Officer of Discovery Life and Discovery Invest. He held this position until December 2015.

Dr Ayanda Ntsaluba (56)

▲⁕ Group Executive Officer
MBChB, MSc (Lond), FCOG (SA)

Before joining Discovery in 2011, Ayanda served as Director General of the Department of International Relations and Cooperation. 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 plays an instrumental role in Discovery's overall strategic planning, particularly within the healthcare system and in Discovery's international expansion strategy.

Alan Pollard (47)

▲⁕ Chief Executive Officer, The Vitality Group
BSc (Hons), FIA, FASSA

Alan, a qualified actuary, joined Discovery in 1994 and was Head of Research and Development where he was responsible for the design and development of 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.

John Robertson (68)

▲⁕ Group Chief Information Officer
BCom, CTA, CA(SA), HDipTax

John joined Discovery in 1993 and was responsible for information technology strategy, systems development, information technology infrastructure, 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, shared services and facilities.

Barry Swartzberg (51)

▲⁕ Chief Executive Officer, Discovery Partner Markets
BSc, FFA, ASA, FASSA, CFP

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

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

Herman Bosman (47)

●
LLM (cum laude), CFA

Herman is the Chief Executive Officer of RMB Holdings and Rand Merchant Investment Holdings, having joined the companies in April 2014. Before this, he was Chief Executive Officer of Deutsche Bank South Africa (2006 to 2013) and Head of Corporate Finance at Rand Merchant Bank (2000 to 2006). In these capacities, Herman acted as professional adviser 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 OUTsurance, RMI Investment Managers, Endeavor South Africa and Business and Arts South Africa.

Dr Brian Brink (64)

● **(Independent)**
BSc (Med), MBBCh, DMed (Hon)

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

Sonja De Bruyn Sebotsa (44)

● **(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 finance for SMEs through the Identity Development Fund. Sonja's areas of study include law, business, and economics. Until 2007, she was an Executive Director of Women's Development Bank (WDB) Investment Holdings where she led the structuring of several of its investment transactions. Before this, she was a Vice President in the investment banking division of Deutsche Bank, where she worked in Mergers and Acquisitions and Corporate Finance in South Africa and the UK.

Steven Epstein (73)

●
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. For over 30 years, he has played a unique role in establishing the concept that healthcare organisations need a dedicated form of legal representation.

Monty Hilkowitz (76)

▼ ● **(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. Monty has been self-employed since 1989 and has been involved in investment management, financial services, and insurance interests in several countries. He is currently a Director of Acuvest, a specialist financial services company in Ireland and serves as Chairperson of Pioneer International. Monty is Chairperson of the Discovery Board of Directors.

Faith Khanyile (49)

●
BA Econ, MBA (Finance), HDIP Tax,
Executive Leadership Programme

Faith is a founding member and the CEO of WDB Investment Holdings (WDBIH). She has extensive experience in financial services, corporate and investment banking, and strategy development. She held various senior and executive roles with Standard Bank, Corporate & Investment Bank (2001 to 2013). She was responsible for strategy, relationship and business development, and served on their Executive and Credit Committees. Before joining Standard Bank, Faith was with Brait Private Equity and seconded to start and manage WDBIH (1995 to 2000). She completed a BA Economics degree with Honors at Wheaton College, USA, has an MBA (Finance) from Bentley Graduate School of Business, and completed an HDIP Tax. She also participated in the Columbia University Executive Leadership Programme in 2007 and was awarded the Doctor of Law by Wheaton College in May 2016.

Vincent Maphai (64)

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

Vincent was the Director of Corporate Affairs and Transformation at SAB. Previously, he was the Southern African Chairperson of BHP Billiton. He has accumulated experience of 20 years in the academic profession, and 15 years as a senior executive in the private sector. Vincent has served on the Boards of various companies as Non-executive Chairperson, including the SABC and the Presidential Review Commission into the restructuring of the public sector. He currently holds an academic position at Williams College in Massachusetts. Vincent is the Chairperson of the Discovery Foundation.

Tito Mboweni (57)

● **(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 to 2009) and also Chairperson of the Committee of Central Bank Governors. He is the former Deputy Head of the ANC's Department of Economic Policy (1990 to 1994) and the Head of the ANC Policy Department (1994 to 1998). Tito currently serves as Chairperson of the Board of Nampak Ltd, SacOil Holdings Ltd, and Accelerate Property Fund, as well as African Center for Economic Transformation. He is an Advisor for Goldman Sachs International and a member of the Advisory Board for Total Oil Marketing's Strategic Consultative Committee for Africa and Middle East, a Non-executive Director for PPC Ltd and is South Africa's Representative to the BRICS New Development Bank's Board of Directors as a Non-executive Director. In December 2012, he was elected to the ANC's 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 Fundraising Committee for the Nelson Mandela Children's Hospital. He was appointed as the Chairman of the Board of the Tourism Business Council of South Africa in August 2016.

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

Les Owen (67)

● **(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 to 2006) and Chief Executive of AXA Sun Life in the UK (1995 to 1999). Les brings extensive experience and expertise in international insurance markets to the Board. He is a Non-executive Director of Computershare Ltd and Royal Mail plc. Les joined the Board of Discovery in 2007 and is Chairperson of the Discovery Limited Audit Committee and the Risk and Compliance Committee.

Sindi Zilwa (49)

● **(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. She received the Businesswoman of the Year Award from the Executive Women's Club in 1998, and in 2008, the Woman of Substance Award by the African Women Chartered Accountants Forum. In 2014, she received an Overall Professional Woman of the Year by SAPSA and in 2016, she was acknowledged as the Outstanding CEO of the Black Audit Firm's Award. She serves on the Boards of Aspen, Metrofile, and Gijima. In 2013, she authored her first book, *ACE Model-Winning Formula for Audit Committees* which is used by the Institute of Directors to train Audit Committee members, and has recently published *Creating Effective Boards and Committees*.

Group Executive

Anton Ossip (42)

* CEO Discovery Insure
BEconSc (cum laude), FIA, FASSA

Anton has played a critical role in the development of Discovery Insure since joining in July 2011. Before joining Discovery, he occupied a range of executive positions at Alexander Forbes over 13 years. Anton was CEO of Risk and Insurance, CEO of Alexander Forbes Insurance and CEO of AF Financial Services. His broad expertise across the disciplines of short-term and long-term insurance, as well as financial services, has played a key part in the evolution of Discovery Insure. Anton has been a Director of the South Africa Actuarial Development Programme since June 2010, a Board member of the South African Insurance Association since 2012 and he was past president of the Insurance Institute of South Africa.

Dr Shrey Viranna (41)

* CEO Discovery Vitality
MbCHB

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

Group Executive and Prescribed Officers of the Board

Dr Jonathan Broomberg (55)

■ * CEO Discovery Health
MBBCh, BA (Hons), MSc, PhD

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

Kenny Rabson (48)

■ * CEO Discovery Invest
BSc FIA, FASSA

Kenny joined Discovery in 2000 as a founding member of Discovery Life. He was responsible for all actuarial functions in Discovery Life and Discovery Invest, with particular focus on product development and strategy of these companies. Kenny was appointed as CEO of Discovery Invest in January 2016. Before joining Discovery, he worked at Liberty Life in their corporate valuations area, performing the annual valuations and analysis of surplus work. He qualified as an actuary through the Institute of Actuaries in the UK in 1994 and moved to Liberty's product development area where he established his skills in product development. This culminated in Kenny establishing Liberty's linked investment product company in 1997.

Dr Penny Moumakwa (52)

■ * Head of Discovery People and Sustainable Development
MbCHB

Penny joined Discovery in 2005 and has held various leadership positions. She is currently the Head of Human Resources, Enterprise Development and Social Responsibility for Discovery, and is a director of Discovery Health. She is also a member of the Board of Witkoppen Clinic and African Health Placements. Penny qualified as a medical doctor in 1987 and worked in both the public and private sectors as a clinician until 1996.

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

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STATEMENT OF FINANCIAL POSITION

at 30 June 2016

R million	Group 2016 Audited	Group 2015 Audited and restated	Group 2014 Audited and restated
ASSETS			
Assets arising from insurance contracts	33 815	28 144	23 044
Property and equipment	1 052	727	666
Intangible assets including deferred acquisition costs	4 584	2 526	2 344
Goodwill	2 447	2 375	2 239
Investment in equity-accounted investees	491	505	551
Financial assets			
– Available-for-sale investments	9 794	9 454	7 578
– Investments at fair value through profit or loss	50 948	40 132	32 753
– Derivatives	590	825	588
– Loans and receivables including insurance receivables	4 891	3 884	3 110
Deferred income tax	824	690	406
Current income tax asset	97	5	46
Reinsurance contracts	410	362	266
Cash and cash equivalents	8 634	6 251	3 650
Total assets	118 577	95 880	77 241
EQUITY			
Capital and reserves			
Ordinary share capital and share premium	8 300	7 488	2 582
Perpetual preference share capital	779	779	779
Other reserves	1 934	2 024	1 501
Retained earnings	19 594	17 065	12 549
	30 607	27 356	17 411
Non-controlling interest	–	–	–
Total equity	30 607	27 356	17 411
LIABILITIES			
Liabilities arising from insurance contracts	44 673	37 236	30 842
Liabilities arising from reinsurance contracts	4 894	3 827	2 247
Financial liabilities			
– Puttable non-controlling interests	–	–	4 494
– Negative reserve funding	4 248	5 437	4 684
– Borrowings at amortised cost	5 400	954	572
– Investment contracts at fair value through profit or loss	13 514	10 059	8 264
– Derivatives	49	7	10
– Trade and other payables	8 563	5 506	3 752
Deferred income tax	6 035	5 077	4 647
Deferred revenue	291	192	157
Employee benefits	169	152	154
Current income tax liability	134	77	7
Total liabilities	87 970	68 524	59 830
Total equity and liabilities	118 577	95 880	77 241

INCOME STATEMENT

for the year ended 30 June 2016

R million	Group 2016 Audited	Group 2015 Audited and restated	% change
Insurance premium revenue	33 074	27 694	
Reinsurance premiums	(4 316)	(3 113)	
Net insurance premium revenue	28 758	24 581	
Fee income from administration business	7 651	6 630	
Vitality income	3 844	3 029	
Receipt arising from reinsurance contracts	–	1 250	
Investment income	745	507	
– investment income earned on shareholder investments and cash	265	188	
– investment income earned on assets backing policyholder liabilities	480	319	
Net realised gains on available-for-sale financial assets	5	188	
Net fair value gains on financial assets at fair value through profit or loss	2 720	3 124	
Net income	43 723	39 309	
Claims and policyholders' benefits	(19 163)	(15 805)	
Insurance claims recovered from reinsurers	3 586	2 503	
Net claims and policyholders' benefits	(15 577)	(13 302)	
Acquisition costs	(6 185)	(5 294)	
Marketing and administration expenses	(14 789)	(12 251)	
Amortisation of intangibles from business combinations	(275)	(227)	
Recovery of expenses from reinsurers	1 346	447	
Transfer from assets/liabilities under insurance contracts	(1 745)	(2 541)	
– change in assets arising from insurance contracts	5 591	4 651	
– change in assets arising from reinsurance contracts	41	81	
– change in liabilities arising from insurance contracts	(6 250)	(5 693)	
– change in liabilities arising from reinsurance contracts	(1 127)	(1 580)	
Fair value adjustment to liabilities under investment contracts	(695)	(912)	
Profit from operations	5 803	5 229	11
Puttable non-controlling interest fair value adjustment	–	1 661	
Gain from business combination	8	–	
Finance costs	(293)	(197)	
– finance costs raised on puttable non-controlling interest financial liability	–	(64)	
– other finance costs	(293)	(133)	
Foreign exchange gains	18	40	
Realised gain from the sale of associate	–	7	
Share of net (losses)/profits from equity-accounted investments	(66)	26	
Profit before tax	5 470	6 766	(19)
Income tax expense	(1 740)	(1 214)	(43)
Profit for the year	3 730	5 552	(33)
Profit attributable to:			
– ordinary shareholders	3 655	5 480	(33)
– preference shareholders	75	72	
– non-controlling interest	–	–	
	3 730	5 552	(33)
Earnings per share for profit attributable to ordinary shareholders of the company during the year (cents):			
– undiluted	573,1	914,8	(37)
– diluted	568,8	902,2	(37)

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2016

R million	Group 2016 Audited	Group 2015 Audited	% change
Profit for the year	3 730	5 552	
Items that are or may be reclassified subsequently to profit or loss:			
Change in available-for-sale financial assets	4	(92)	
– unrealised gains	24	72	
– capital gains tax on unrealised gains	(16)	(11)	
– realised gains transferred to profit or loss	(5)	(188)	
– capital gains tax on realised gains	1	35	
Currency translation differences	62	492	
– unrealised gains	86	504	
– tax on unrealised gains	(24)	(12)	
Cash flow hedges	(195)	58	
– unrealised (losses)/gains	(129)	143	
– tax on unrealised losses/gains	14	(23)	
– gains recycled to profit or loss	(95)	(75)	
– tax on recycled gains	15	13	
Share of other comprehensive income from equity-accounted investments	39	65	
– change in available-for-sale financial assets	(11)	13	
– currency translation differences	50	52	
Other comprehensive income for the year, net of tax	(90)	523	
Total comprehensive income for the year	3 640	6 075	(40)
Attributable to:			
– ordinary shareholders	3 565	6 003	(41)
– preference shareholders	75	72	
– non-controlling interest	–	–	
Total comprehensive income for the year	3 640	6 075	(40)

HEADLINE EARNINGS

for the year ended 30 June 2016

R million	Group 2016 Audited	Group 2015 Audited	% change
Normalised headline earnings per share (cents):			
– undiluted	676,3	672,2	1
– diluted	671,1	663,0	1
Headline earnings per share (cents):			
– undiluted	571,1	882,4	(35)
– diluted	566,7	870,2	(35)
The reconciliation between earnings and headline earnings is shown below:			
Net profit attributable to ordinary shareholders	3 655	5 480	
Adjusted for:			
– gains from business combination	(8)	–	
– gains on disposal of property and equipment net of tax	(2)	–	
– realised gains on available-for-sale financial assets net of CGT	(4)	(153)	
– realised gain from sale of associate including deferred tax reversal	–	(42)	
Headline earnings	3 641	5 285	(31)
– accrual of dividends payable to preference shareholders	(4)	(1)	
– additional 54.99% share of DiscoveryCard profits capitalised to intangible assets	86	–	
– amortisation of intangibles from business combinations net of deferred tax	224	170	
– costs relating to the AIA restructure	–	87	
– deferred tax asset recognised on VitalityHealth assessed losses	–	(295)	
– fair value adjustment to puttable non-controlling interest financial liability	–	(1 661)	
– finance costs raised on puttable non-controlling interest financial liability	–	64	
– non-controlling interest allocation if no put options	–	(42)	
– rebranding and business acquisitions expenses	365	420	
Normalised headline earnings	4 312	4 027	7
Weighted number of shares in issue (000's)	637 608	598 946	
Diluted weighted number of shares (000's)	642 534	607 290	

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2016

R million	Share capital and share premium	Preference share capital	Share-based payment reserve
	Attributable to equity holders of the Company		
Year ended 30 June 2016			
At beginning of year	7 488	779	319
Total comprehensive income for the year	–	75	–
Profit for the year	–	75	–
Other comprehensive income	–	–	–
Transactions with owners	812	(75)	–
Increase in treasury shares	(5)	–	–
Proceeds from treasury shares	*	–	–
Share issue	817	–	–
Share issue costs	*	–	–
Share buy-back	*	–	–
Dividends paid to preference shareholders	–	(75)	–
Dividends paid to ordinary shareholders	–	–	–
At end of year	8 300	779	319
Year ended 30 June 2015			
At beginning of year	2 582	779	319
Total comprehensive income for the year	–	72	–
Profit for the year	–	72	–
Other comprehensive income	–	–	–
Transactions with owners	4 906	(72)	–
Proceeds from rights-issue	5 000	–	–
Rights-issue costs	(94)	–	–
Delivery of treasury shares	*	–	–
Dividends paid to preference shareholders	–	(72)	–
Dividends paid to ordinary shareholders	–	–	–
At end of year	7 488	779	319

1 This relates to the fair value adjustments of available-for-sale financial assets
** Amount is less than R500 000*

Attributable to equity holders of the Company						
Available-for-sale investments[1]	Translation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total
171	1 373	161	17 065	27 356	–	27 356
(7)	112	(195)	3 655	3 640	–	3 640
–	–	–	3 655	3 730	–	3 730
(7)	112	(195)	–	(90)	–	(90)
–	–	–	(1 126)	(389)	–	(389)
–	–	–	–	(5)	–	(5)
–	–	–	–	*	–	*
–	–	–	–	817	–	817
–	–	–	–	*	–	*
–	–	–	–	*	–	*
–	–	–	–	(75)	–	(75)
–	–	–	(1 126)	(1 126)	–	(1 126)
164	1 485	(34)	19 594	30 607	–	30 607
250	829	103	12 549	17 411	–	17 411
(79)	544	58	5 480	6 075	–	6 075
–	–	–	5 480	5 552	–	5 552
(79)	544	58	–	523	–	523
–	–	–	(964)	3 870	–	3 870
–	–	–	–	5 000	–	5 000
–	–	–	–	(94)	–	(94)
–	–	–	–	*	–	*
–	–	–	–	(72)	–	(72)
–	–	–	(964)	(964)	–	(964)
171	1 373	161	17 065	27 356	–	27 356

STATEMENT OF CASH FLOWS

for the year ended 30 June 2016

R million	Group 2016 Audited	Group 2015 Audited
Cash flow from operating activities	985	3 415
Cash generated by operations	8 481	5 340
Receipt arising from reinsurance contracts	–	1 250
Net purchase of investments held to back policyholder liabilities	(9 597)	(5 232)
Working capital changes	1 699	1 711
	583	3 069
Dividends received	171	499
Interest received	1 478	923
Interest paid	(277)	(131)
Taxation paid	(970)	(945)
Cash flow from investing activities	(2 428)	(2 229)
Net proceeds/(purchase) of financial assets	286	(1 656)
Purchase of property and equipment	(465)	(172)
Proceeds from disposal of property and equipment	20	7
Purchase of intangible assets	(2 253)	(559)
Proceeds from disposal of intangible assets	4	9
Increase in investment in associate	–	(59)
Disposal of investment in associate	–	201
Purchase of businesses	(20)	–
Cash flow from financing activities	4 009	1 485
Proceeds from rights-issue	–	5 000
Rights-issue costs	–	(94)
Proceeds from issuance of ordinary shares	817	–
Share buy-back	*	–
Share issue costs	*	–
Dividends paid to ordinary shareholders	(1 130)	(964)
Dividends paid to preference shareholders	(75)	(72)
Settlement of puttable non-controlling interest liability	–	(2 844)
Increase in borrowings	7 608	1 992
Repayment of borrowings	(3 211)	(1 533)
Net increase in cash and cash equivalents	2 566	2 671
Cash and cash equivalents at beginning of year	6 251	3 520
Exchange (losses)/gains on cash and cash equivalents	(203)	60
Cash and cash equivalents at end of year	8 614	6 251
Reconciliation to statement of financial position		
Cash and cash equivalents	8 634	6 251
Bank overdraft included in borrowings at amortised cost	(20)	–
Cash and cash equivalents at end of year	8 614	6 251

* *Amount is less than R500 000*

ADDITIONAL INFORMATION

at 30 June 2016

Fair value hierarchy of financial instruments

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

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

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

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

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

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

	30 June 2016			
R million (audited)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss:				
– Equity securities	20 049	–	–	20 049
– Equity linked notes	–	2 462	–	2 462
– Debt securities	10 238	731	–	10 969
– Inflation linked securities	429	–	–	429
– Money market securities	601	4 157	–	4 758
– Mutual funds	12 281	–	–	12 281
Available-for-sale financial instruments:				
– Equity securities	151	–	–	151
– Equity linked notes	–	5	–	5
– Debt securities	91	189	–	280
– Inflation linked securities	5	–	–	5
– Money market securities	299	1 571	–	1 870
– Mutual funds	7 483	–	–	7 483
Derivative financial instruments at fair value:				
– Hedges	–	521	–	521
– Non-hedges	–	69	–	69
	51 627	9 705	–	61 332
Financial liabilities				
Derivative financial instruments at fair value:				
– Hedges	–	29	–	29
– Non-hedges	–	20	–	20
	–	49	–	49

ADDITIONAL INFORMATION continued

at 30 June 2016

R million (audited)	30 June 2015 Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss:				
– Equity securities	10 584	–	–	10 584
– Equity linked notes	–	2 576	–	2 576
– Debt securities	6 947	605	–	7 552
– Inflation linked securities	218	–	–	218
– Money market securities	157	1 013	–	1 170
– Mutual funds	18 032	–	–	18 032
Available-for-sale financial instruments:				
– Equity securities	65	–	–	65
– Equity linked notes	–	19	–	19
– Debt securities	66	466	–	532
– Money market securities	152	840	–	992
– Mutual funds	7 846	–	–	7 846
Derivative financial instruments at fair value:				
– Hedges	–	824	–	824
– Non-hedges	–	1	–	1
	44 067	6 344	–	50 411
Financial liabilities				
Derivative financial instruments at fair value:				
– Hedges	–	4	–	4
– Non-hedges	–	3	–	3
	–	7	–	7

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

Specific valuation techniques used to value financial instruments in level 2

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

(a) The fair value of call options is calculated on a Black-Scholes model.

(b) The fair value of the return swaps is calculated by discounting the future cash flows of the instruments.

(c) The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

Exchange rates used in the preparation of these results

	USD	GBP
30 June 2016		
– Average	14,60	21,44
– Closing	14,73	19,78
30 June 2015		
– Average	11,49	18,04
– Closing	12,18	19,19

SEGMENTAL INFORMATION

for the year ended 30 June 2016

R million	SA Health	SA Life	SA Invest	SA Vitality
Income statement				
Insurance premium revenue	16	11 008	8 934	–
Reinsurance premiums	(1)	(2 014)	–	–
Net insurance premium revenue	15	8 994	8 934	–
Fee income from administration business	5 582	284	1 274	–
Vitality income	–	–	–	2 253
Investment income earned on assets backing policyholder liabilities	–	349	–	–
Finance charge on negative reserve funding	–	–	–	–
Inter-segment funding[1]	–	(452)	452	–
Net fair value gains on financial assets at fair value through profit or loss	–	675	1 248	–
Net income	5 597	9 850	11 908	2 253
Claims and policyholders' benefits	(1)	(6 401)	(5 010)	–
Insurance claims recovered from reinsurers	1	1 658	–	–
Net claims and policyholders' benefits	–	(4 743)	(5 010)	–
Acquisition costs	–	(1 760)	(710)	(82)
Marketing and administration expenses				
– depreciation and amortisation	(253)	(23)	–	–
– other expenses	(3 079)	(1 523)	(454)	(2 127)
Recovery of expenses from reinsurers	–	–	–	–
Transfer from assets/liabilities under insurance contracts				
– change in assets arising from insurance contracts	–	3 429	–	–
– change in assets arising from reinsurance contracts	–	17	–	–
– change in liabilities arising from insurance contracts	–	(1 518)	(5 053)	–
– change in liabilities arising from reinsurance contracts	–	(354)	–	–
Fair value adjustment to liabilities under investment contracts	–	(2)	(118)	–
Share of net (losses)/profits from equity-accounted investments	–	–	–	–
Normalised profit/(loss) from operations	2 265	3 373	563	44
Investment income earned on shareholder investments and cash	90	77	19	14
Net realised gains on available-for-sale financial assets	–	1	4	–
Rebranding and business acquisitions expenses	–	–	–	–
Gain from business combination	–	–	–	–
Amortisation of intangibles from business combinations	–	–	–	–
Finance costs	(37)	(15)	–	–
Foreign exchange gains/(losses)	–	–	(1)	–
Profit before tax	2 318	3 436	585	58
Income tax expense	(646)	(954)	(163)	(16)
Profit for the year	1 672	2 482	422	42

1 *The inter-segment funding of R452 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.*

UK Health	UK Life	All other segments	Segment total	IFRS reporting adjustments: UK Life[2]	IFRS reporting adjustments: DUT[3]	IFRS reporting adjustments: Normalised profit adjustments[4]	IFRS total
8 530	3 854	1 558	33 900	(826)	–	–	33 074
(2 030)	(884)	(213)	(5 142)	826	–	–	(4 316)
6 500	2 970	1 345	28 758	–	–	–	28 758
41	–	470	7 651	–	–	–	7 651
561	67	963	3 844	–	–	–	3 844
62	–	69	480	–	–	(480)	–
–	(632)	–	(632)	632	–	–	–
–	–	–	–	–	–	–	–
–	59	–	1 982	–	738	–	2 720
7 164	2 464	2 847	42 083	632	738	(480)	42 973
(6 357)	(781)	(1 043)	(19 593)	430	–	–	(19 163)
1 771	436	150	4 016	(430)	–	–	3 586
(4 586)	(345)	(893)	(15 577)	–	–	–	(15 577)
(617)	(2 218)	(166)	(5 553)	(632)	–	–	(6 185)
(197)	(1)	(117)	(591)	–	–	–	(591)
(2 637)	(1 264)	(2 372)	(13 456)	(214)	(163)	(365)	(14 198)
686	660	–	1 346	–	–	–	1 346
–	1 035	–	4 464	1 127	–	–	5 591
6	10	15	48	(7)	–	–	41
366	(17)	(35)	(6 257)	7	–	–	(6 250)
–	354	–	–	(1 127)	–	–	(1 127)
–	–	–	(120)	–	(575)	–	(695)
1	–	(67)	(66)	–	–	–	(66)
186	678	(788)	6 321	(214)	–	(845)	5 262
7	14	44	265	–	–	480	745
–	–	–	5	–	–	–	5
(365)	–	–	(365)	–	–	365	–
–	–	8	8	–	–	–	8
–	–	(275)	(275)	–	–	–	(275)
(7)	(18)	(216)	(293)	–	–	–	(293)
(30)	–	49	18	–	–	–	18
(209)	674	(1 178)	5 684	(214)	–	–	5 470
29	(237)	33	(1 954)	214	–	–	(1 740)
(180)	437	(1 145)	3 730	–	–	–	3 730

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

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

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

4 *Investment income earned on assets backing policyholder liabilities is included as part of the normalised profit from operations in the segmental disclosure, but is included together with shareholder investment income for IFRS purposes.*

SEGMENTAL INFORMATION continued

for the year ended 30 June 2015

Audited and restated

R million	SA Health	SA Life	SA Invest	SA Vitality
Income statement				
Insurance premium revenue	16	9 711	7 821	–
Reinsurance premiums	(2)	(1 579)	–	–
Net insurance premium revenue	14	8 132	7 821	–
Fee income from administration business	4 881	248	1 106	–
Vitality income	–	–	–	2 051
Receipt arising from reinsurance contracts	–	1 250	–	–
Investment income earned on assets backing policyholder liabilities	–	240	3	–
Finance charge on negative reserve funding	–	–	–	–
Inter-segment funding[1]	–	(457)	457	–
Net fair value gains on financial assets at fair value through profit or loss	–	688	1 680	–
Net income	4 895	10 101	11 067	2 051
Claims and policyholders' benefits	(1)	(5 173)	(5 296)	–
Insurance claims recovered from reinsurers	1	1 226	–	–
Net claims and policyholders' benefits	–	(3 947)	(5 296)	–
Acquisition costs	(5)	(1 606)	(713)	(64)
Marketing and administration expenses				
– depreciation and amortisation	(211)	(28)	–	–
– other expenses	(2 648)	(1 490)	(430)	(1 945)
Recovery of expenses from reinsurers	–	–	–	–
Transfer from assets/liabilities under insurance contracts				
– change in assets arising from insurance contracts	–	2 899	–	–
– change in assets arising from reinsurance contracts	–	(8)	–	–
– change in liabilities arising from insurance contracts	–	(1 370)	(4 015)	–
– change in liabilities arising from reinsurance contracts	–	(1 580)	–	–
Fair value adjustment to liabilities under investment contracts	–	(3)	(153)	–
Share of net profits from equity accounted investments	–	–	–	–
Normalised profit/(loss) from operations	2 031	2 968	460	42
Investment income earned on shareholder investments and cash	67	33	15	9
Net realised gains on available-for-sale financial assets	–	187	1	–
Rebranding and business acquisitions expenses	–	–	–	–
Costs relating to AIA restructure	–	–	–	–
Amortisation of intangibles from business combinations	–	–	–	–
Puttable non-controlling interest fair value adjustment	–	–	–	–
Finance costs	(29)	(7)	–	–
Foreign exchange gains/(losses)	–	1	4	–
Realised gain from sale of associate	–	–	–	–
Profit before tax	2 069	3 182	480	51
Income tax expense	(595)	(877)	(132)	(15)
Profit for the year	1 474	2 305	348	36

1 *The inter-segment funding of R457 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.*
The segment information is presented on the same basis as reported to the Chief Executive Officers of the reportable segments. The segment total is then adjusted for accounting reclassifications and entries required to produce IFRS compliant results. These adjustments include the following:
2 *The VitalityLife results are reclassified to account for the contractual arrangement in respect of the business written on the statement of financial position of Prudential Assurance Company Limited, as a reinsurance contract under IFRS 4.*
3 *The Discovery Unit Trusts (DUT) are consolidated into Discovery's results for IFRS purposes. In the Segment information the DUT column includes the effects of consolidating the unit trusts into Discovery's results, effectively being the income and expenses relating to units held by third parties.*
4 *Investment income earned on assets backing policyholder liabilities is included as part of the normalised profit from operations in the segmental disclosure, but is included together with shareholder investment income for IFRS purposes.*

				IFRS reporting adjustments			
UK Health	UK Life	All other segments Restated[5]	Segment total	UK Life[2]	DUT[3]	Normalised profit adjustments[4]	IFRS total
6 958	2 629	1 102	28 237	(543)	–	–	27 694
(1 314)	(543)	(218)	(3 656)	543	–	–	(3 113)
5 644	2 086	884	24 581	–	–	–	24 581
97	–	298	6 630	–	–	–	6 630
323	25	630	3 029	–	–	–	3 029
–	–	–	1 250	–	–	–	1 250
50	–	26	319	–	–	(319)	–
–	(314)	–	(314)	314	–	–	–
–	–	–	–	–	–	–	–
–	–	–	2 368	–	756	–	3 124
6 114	1 797	1 838	37 863	314	756	(319)	38 614
(4 393)	(471)	(715)	(16 049)	244	–	–	(15 805)
1 140	244	136	2 747	(244)	–	–	2 503
(3 253)	(227)	(579)	(13 302)	–	–	–	(13 302)
(535)	(1 914)	(143)	(4 980)	(314)	–	–	(5 294)
(107)	–	(67)	(413)	–	–	–	(413)
(2 125)	(860)	(1 657)	(11 155)	(176)	–	(420)	(11 751)
316	–	131	447	–	–	–	447
–	10	–	2 909	1 742	–	–	4 651
89	7	–	88	(7)	–	–	81
(276)	(13)	(26)	(5 700)	7	–	–	(5 693)
–	1 742	–	162	(1 742)	–	–	(1 580)
–	–	–	(156)	–	(756)	–	(912)
–	–	26	26	–	–	–	26
223	542	(477)	5 789	(176)	–	(739)	4 874
6	–	58	188	–	–	319	507
–	–	–	188	–	–	–	188
(366)	–	(54)	(420)	–	–	420	–
–	–	(87)	(87)	–	–	–	(87)
–	–	(227)	(227)	–	–	–	(227)
–	–	1 661	1 661	–	–	–	1 661
(4)	–	(157)	(197)	–	–	–	(197)
(23)	–	58	40	–	–	–	40
–	–	7	7	–	–	–	7
(164)	542	782	6 942	(176)	–	–	6 766
295	(176)	110	(1 390)	176	–	–	(1 214)
131	366	892	5 552	–	–	–	5 552

5 *Change in presentation*
At each reporting date, Discovery must review whether the segments being disclosed still comply with IFRS8 – Segment reporting. Based on this review, the operating segments that were previously reported in the "New Business Development" segment no longer meet the aggregation criteria. As they do not meet the quantitative thresholds either, they have moved to the "All other segments" column. Comparative disclosure has been updated to be consistent with the current year disclosure. New business development previously included The Vitality Group in the United States of America, Ping An Health in China, AIA Vitality in Asia and Discovery Insure in South Africa, as well as expenses incurred to investigate new products and markets.

REVIEW OF GROUP RESULTS continued

for the year ended 30 June 2016

New business annualised premium income

New business annualised premium income decreased 7% for the year ended 30 June 2016 when compared to the same period in the prior year. However, when excluding R4.2 billion in respect of the Bankmed Medical Scheme administration and managed care services contract taken on in the prior year, new business annualised premium income increased 22%.

R million	June 2016	June 2015	% change
Discovery Health – DHMS	4 901	4 442	10
Discovery Health – Closed Schemes excluding Bankmed take-on	1 676	956	75
Discovery Life	2 347	2 231	5
Discovery Invest	1 932	1 646	17
Discovery Insure	841	789	7
Discovery Vitality	187	223	(16)
VitalityHealth	1 161	814	43
VitalityLife	1 332	1 079	23
The Vitality Group	122	161	(24)
Ping An Health	1 732	991	75
New business API of Group excluding Bankmed take-on	16 231	13 332	22
Bankmed take-on	–	4 200	
New business API of Group	16 231	17 532	(7)

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.

The new business API in the table above differs from the new business API disclosed in the embedded value largely as a result of:

- The timing of inclusion of policyholders in the calculation of new business API. In the embedded value, new business is included from the earlier of the date that the first premium has been received or when the policy is on risk, whereas in the table above, new business is included when the policy has been contractually committed.
- Inclusion of automatic premium increases and servicing increases on existing life policies. These are excluded in the embedded value, but included in the table above.

For The Vitality Group and Ping An Health, the embedded value definition of new business is used in the table above.

Refer to the footnotes to Table 7: Embedded Value of New Business for a more detailed description of the differences in new business disclosures between the Embedded Value and the table above.

Gross inflows under management

Gross inflows under management measures the total funds collected by Discovery. Gross inflows under management increased 17% for the year ended 30 June 2016 when compared to the same period in the prior year.

R million	June 2016	June 2015	% change
Discovery Health	59 303	51 891	14
Discovery Life	11 292	9 959	13
Discovery Invest	15 517	13 520	15
Discovery Insure	1 583	1 118	42
Discovery Vitality	2 253	2 051	10
VitalityHealth	9 132	7 378	24
VitalityLife	3 921	2 654	48
The Vitality Group	952	634	50
Other partner markets	456	278	64
Gross inflows under management	104 409	89 483	17
Less: collected on behalf of third parties	(59 014)	(51 587)	14
Discovery Health	(53 705)	(46 994)	14
Discovery Invest	(5 309)	(4 593)	16
Gross income of Group per the segmental information	45 395	37 896	20
Gross income is made up as follows:			
– Insurance premium revenue	33 900	28 237	20
– Fee income from administration business	7 651	6 630	15
– Vitality income	3 844	3 029	27
Gross income of Group per the segmental information	45 395	37 896	20

Normalised profit from operations

The following table shows the main components of the normalised profit from operations for the year ended 30 June 2016:

R million	June 2016	June 2015	% change
Discovery Health	2 265	2 031	12
Discovery Life	3 373	2 968	14
Discovery Invest	563	460	22
Discovery Vitality	44	42	5
VitalityHealth	186	223	(17)
VitalityLife	678	542	25
Normalised profit from established businesses	7 109	6 266	14
All other segments (excluding additional 54.99% share of DiscoveryCard profits)	(823)	(477)	73
Additional 54.99% share of DiscoveryCard profits	121	–	
– Included in profit or loss in 'All other segments'	35	–	
– Included in intangible assets	86	–	
Normalised profit from operations[1]	6 407	5 789	11

1 This does not agree to the normalised profit from operations per the segmental information due to the inclusion of the additional 54.99% share of DiscoveryCard profits explained below.

Significant transactions affecting the current results

Increase in the DiscoveryCard profit share arrangement

Prior to 1 July 2015, Discovery and FirstRand Bank Limited (FRB) had a joint arrangement in place that makes a "Discovery" branded FNB credit card (DiscoveryCard) available to the clients of Discovery. In terms of this arrangement, FRB paid Discovery an amount equal to 20% of the profits generated by the DiscoveryCard.

During the current year, both parties agreed that Discovery will increase its economic interest in the DiscoveryCard by subscribing for redeemable preference shares in the share capital of FRB. This entitles Discovery to receive an additional 54.99% of the profits generated by the DiscoveryCard effective from 1 July 2015. In December 2015, Discovery subscribed for R1.4 billion FRB redeemable preference shares and in April 2016 the contractual rights under the preference shares were finalised.

In terms of IAS 38: Intangible Assets, the preference shares have been disclosed as an intangible asset in the Statement of financial position as the substance of the arrangement is a right to receive additional 54.99% of the profits generated by the DiscoveryCard. This intangible asset will be amortised through profit or loss as profits are expected to emerge and R26 million has been recognised for the current financial year. This has been added back in the calculation of Normalised Headline Earnings. At 30 June 2016, there was no indication of impairment.

R121 million is receivable in respect of the 54.99% profits generated by the DiscoveryCard from 1 July 2015 to 30 June 2016. As the contractual rights under the preference shares were only finalised in April 2016, any profits earned prior to that, being R86 million, represents an adjustment to the purchase price of the intangible asset rather than income received and as such has reduced the value of the intangible asset recognised. This has been added to Normalised Headline Earnings.

Increase in borrowings

United Kingdom borrowings

During the year ended 30 June 2015, Discovery entered into a GBP 100 million term facility with HSBC Bank Plc which will be used to fund the operations of VitalityLife. At 30 June 2015, GBP 26.4 million of the facility was utilised. During the current financial year, the remaining balance of GBP 73.6 million was utilised. In addition, a new facility of GBP 50 million was entered into during the current financial year, of which GBP 20 million was utilised by year-end. Discovery repaid GBP 7.5 million (R173 million) of the original facility on 31 May 2016, as per the agreed terms. The balance owing to HSBC Bank Plc at year-end was R2 226 million (2015: R506 million). The increase in these borrowings is partially offset by a reduction in Negative reserve funding, outlined in more detail on the next page.

Finance charges of R60 million in respect of these borrowings have been recognised in profit or loss.

South African borrowings

Discovery concluded a bank syndicated loan programme in June 2016, whereby the existing RMB term loan of R400 million entered into in 2010, which was due to mature in September 2017, and a bridge loan facility of R2.6 billion entered into in December 2015, were refinanced through the following long-term facilities:

- A fixed rate term loan facility of R1.6 billion has been entered into with Rand Merchant Bank, a division of FirstRand Bank Limited. The facility has the following profile:

- R500 million at a fixed interest rate of 10.79% per annum, payable quarterly in arrears, with capital repayable on 10 June 2021.
- R1.1 billion at a fixed interest rate of 10.44% per annum, payable quarterly in arrears, with an amortising capital profile, having the first repayment on 10 June 2019 and final settlement on 10 June 2021.

REVIEW OF GROUP RESULTS continued

for the year ended 30 June 2016

- A subsidiary in the Discovery Group issued 1 400 A preference shares at an issue price of R1 million each, by way of private placement to Investec Bank Limited. The preference shares were issued at a fixed coupon rate of 8.015% per annum, paid bi-annually. The shares are cumulative, non-participating, non-convertible preference shares and redeemable on 29 June 2021.

  Since the shares are mandatorily redeemable on a specified date, they have been recognised as Borrowings in the Statement of Financial Position. The value of the preference shares has been reduced by share issue costs of R6.7 million. As the dividends are cumulative, they have been accrued for in the current financial year and disclosed in finance costs in profit or loss.

Finance charges of R155 million in respect of these South African borrowings have been recognised in profit or loss.

Negative reserve funding

The negative reserve funding liability on Discovery's Statement of financial position represents the acquisition costs that are funded by Prudential on behalf of VitalityLife. The liability unwinds and is repaid on a matched basis as the cash flows emerge from the assets arising from insurance contracts. In the event that the cash flows do not emerge as anticipated, VitalityLife would be required to repay these liabilities from other resources.

The decrease in the negative reserve funding liability relates to the repayment of funding by VitalityLife in the current financial year.

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. 14 226 181 of these shares were issued to the Discovery Foundation (The Foundation) being one of the BEE consortium members, at R0.001 each, for an initial period of 10 years (initial period).

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

At the end of the initial period,

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

The initial period expired in December 2015 and resulted in the following transactions:

- Discovery repurchased 5 666 134 Discovery shares held by The Foundation at a price of R0.001 per Discovery share.
- The issue to The Foundation by Discovery of 5 666 134 new Discovery shares at a price of R144.22 per Discovery share (representing the 30 day VWAP to 9 December 2015). This increased Share Capital and Share Premium by R817.2 million.

Treasury shares have therefore decreased by 14 226 181.

Consolidation of Discovery Unit Trusts

The Discovery Unit Trusts are consolidated into Discovery's results in both the current and prior financial year. The following large increases in the Discovery Unit Trusts Statement of financial position have had a direct impact on the Group's Statement of financial position:

- Cash and cash equivalents increased by R510 million.
- Loans and receivables increased by R545 million.
- Trade and other payables increased by R1 525 million.
- Investments at fair value through profit or loss increased by R9 203 million.
- Investment contracts at fair value through profit or loss increased by R8 726 million.

Other significant items in these results

Taxation

For South African entities that are in a tax paying position, tax has been provided at 28% (2015: 28%) in the financial statements. No deferred tax assets have been recognised on the assessed losses in Discovery Insure and The Vitality Group.

At 30 June 2015, a deferred tax asset of R295 million was raised in respect of the VitalityHealth assessed losses. This approximated 50% of the potential deferred tax asset and was based on forecast taxable income for the next five years. No further asset has been raised in the current results.

Material transactions with related parties

Discovery Health administers the Discovery Health Medical Scheme (DHMS) and provides managed care services for which it charges an administration fee and a managed healthcare fee respectively. These fees are determined on an annual basis and approved by the trustees of DHMS. The fees totalled R4 711 million for the year ended 30 June 2016 (2015: R4 374 million). Discovery offers the members of DHMS access to the Vitality programme.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss have increased by R10.8 billion due to the sale of Discovery Invest products. This includes the impact of consolidating the Discovery Unit Trusts into the Group's results. The increase in the financial assets at fair value through profit or loss has been presented in 'Net purchase of investments held to back policyholder liabilities' of R9 597 million in the Statement of cash flows.

Deferred tax liability

The deferred tax liability is primarily attributable to the application of the Financial Services Board directive 145. This directive allows for the zeroing on a statutory basis of the assets arising from insurance contracts. The statutory basis is used when calculating tax payable for Discovery Life, resulting in a timing difference between the tax base and the accounting base.

The future basis for taxation of Life companies is currently being reviewed by National Treasury.

Shareholder information

Directorate

Changes to the Board of Discovery Limited from 1 July 2015 to the date of this announcement are as follows:

- Ms T Slabbert resigned as a non-executive director on 22 October 2015.
- Ms F Khanyile was appointed as a non-executive director on 22 October 2015.
- Mr J Durand resigned as a non-executive director on 13 January 2016.
- Mr R Farber will relinquish his role as Chief Financial Officer and Group Financial Director of Discovery with effect from 31 December 2016. Mr Farber will remain a director on the Board of Discovery.

Dr V Maphai, Mr T Mboweni, Mr L Owen and Ms S de Bruyn Sebotsa retire by rotation at the forthcoming Annual General Meeting of shareholders and are eligible and available for re-election.

Dividend policy and capital

Interim dividends paid

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

- B preference share dividend of 480.06849 cents per share (408.05822 cents net of dividend withholding tax), paid on 14 March 2016.
- Ordinary share dividend of 85.5 cents per share (72.675 cents net of dividend withholding tax), paid on 22 March 2016.

Final dividend declaration

At 30 June 2016, the capital adequacy requirement on the statutory basis for Discovery Life was R628 million (2015: R557 million) and was covered 3.6 times (2015: 3.9 times).

B preference share cash dividend declaration:

On 25 August 2016, the directors declared a final gross cash dividend of 514.24658 cents (437.10959 cents net of dividend withholding tax) per B preference share for period 1 January 2016 to 30 June 2016, payable from the income reserves of the Company. 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	Tuesday, 13 September 2016
Shares commence trading "ex" dividend	Wednesday, 14 September 2016
Record date	Friday, 16 September 2016
Payment date	Monday, 19 September 2016

B preference share certificates may not be dematerialised or rematerialised between Wednesday, 14 September 2016 and Friday, 16 September 2016, both days inclusive.

Ordinary share cash dividend declaration:

Notice is hereby given that the directors have declared a final gross cash dividend of 90 cents (76.5 cents net of dividend withholding tax) per ordinary share, out of income reserves for the year ended 30 June 2016. A dividend withholding tax of 15% will be applicable to all shareholders who are not exempt.

The issued ordinary share capital at the declaration date is 647 427 946 ordinary shares.

REVIEW OF GROUP RESULTS continued

for the year ended 30 June 2016

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Tuesday, 4 October 2016
Shares commence trading "ex" dividend	Wednesday, 5 October 2016
Record date	Friday, 7 October 2016
Payment date	Monday, 10 October 2016

Share certificates may not be dematerialised or rematerialised between Wednesday, 5 October 2016 and Friday, 7 October 2016, both days inclusive.

Basis of preparation

The summary consolidated financial statements are prepared in accordance with JSE Limited's (JSE) requirements for summary financial statements, and the requirements of the Companies Act applicable to summary financial statements. The JSE requirements require summary financial statements to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the consolidated financial statements from which the summary consolidated financial statements were derived are in terms of International Financial Reporting Standards and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements.

Change in comparatives

When Discovery Life launched the Discovery Retirement Optimiser, it sold it as an add-on to the Discovery Life Plan. As the Discovery Life Plan (DLP) and the Discovery Retirement Optimiser (DRO) were covered under one policy, the insurance liabilities for both these portions of the policy were therefore disclosed together in the Statement of financial position. The DLP portion would result in an insurance asset and the DRO portion would result in an insurance liability. The net value would be disclosed in Assets arising from insurance contracts.

Following the launch of Discovery Invest the DRO product and the administration system were restructured over time. The single policy referred to above, was eventually split into two policies and the policyholder now had a DLP policy and a DRO policy. Either policy could now be cancelled individually. From that date, the insurance asset for the DLP policy and the insurance liability for the DRO policy should have been disclosed separately, but has not been given the gradual evolution of the DRO product and processes. The historic practice was reconsidered in the current financial year and disclosure in both the current and prior year Statement of financial positions have been updated to disclose the insurance asset and insurance liability separately.

The restatement to the comparative Statement of financial position results in an increase of R6 418 million to Assets arising from insurance contracts and a corresponding equal increase in the Liabilities arising from insurance contracts. The restatement has no impact on the Group's comparative net profit, nor the Group's comparative basic and diluted earnings per share, nor the Group's comparative cash flows.

The adjustment is analysed in the table below.

	June 2015		
R million	Original comparative	Adjustment	Adjusted comparative
Statement of financial position:			
Assets arising from insurance contracts	21 726	6 418	28 144
Liabilities arising from insurance contracts	(30 818)	(6 418)	(37 236)
	(9 092)	–	(9 092)
Income statement:			
Transfer from assets/liabilities under insurance contracts:			
– change in assets arising from insurance contracts	3 278	1 373	4 651
– change in liabilities arising from insurance contracts	(4 320)	(1 373)	(5 693)
	(1 042)	–	(1 042)

Audit

This summarised report is extracted from audited information, but is not itself audited. The annual financial statements were audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon. The audited annual financial statements and the auditor's report thereon are available for inspection at the company's registered office.

The directors of Discovery take full responsibility for the preparation of this report and that the financial information has been correctly extracted from the underlying Annual Financial Statements.

EMBEDDED VALUE STATEMENT

for the twelve months ended 30 June 2016

The embedded value of Discovery consists of the following components:

- the free surplus attributed to the business at the valuation date;
- plus: the required capital to support the in-force covered business at the valuation date;
- plus: the present value of expected future shareholder cash flows from the in-force covered business;
- less: the cost of required capital.

The present value of future shareholder cash flows from the in-force covered business is calculated as the value of projected future after-tax shareholder cash flows of the business in-force at the valuation date, discounted at the risk discount rate.

The value of new business is the present value, at the point of sale, of the projected future after-tax shareholder cash flows of the new business written by Discovery, discounted at the risk discount rate, less an allowance for the reserving strain, initial expenses and cost of required capital. The value of new business is calculated using the current reporting date assumptions.

For Life, the shareholder cash flows are based on the release of margins under the Statutory Valuation Method ("SVM") basis.

The embedded value includes the insurance and administration profits of the covered business in the Discovery Limited group. Covered business includes business written in South Africa through Discovery Life, Discovery Invest, Discovery Health and Discovery Vitality, and in the United Kingdom through VitalityLife and VitalityHealth. For The Vitality Group (USA), Ping An Health and Discovery Insure, no published value has been placed on the current in-force business as the businesses have not yet reached suitable scale with predictable experience.

In August 2011, Discovery raised R800 million through the issue of non-cumulative, non-participating, non-convertible preference shares. For embedded value purposes this capital, net of share issue expenses, has been excluded from the adjusted net worth.

In November 2014, the Prudential Assurance Company (Prudential) agreed to sell its remaining 25% shareholding in Prudential Health Holdings Limited (PHHL) to Discovery Limited for GBP 155 million (R2 790 million). Following the purchase of the remaining 25% in PHHL, PruHealth and PruProtect have been rebranded as VitalityHealth and VitalityLife respectively.

In June 2015, the methodology to derive the assumed beta was amended. Under this revised methodology, the assumed beta is set with reference to the observed beta calculated using daily returns over a long time period and with reference to the ALSI. The resulting assumed beta is then fixed at this level unless the observed beta calculated using daily returns over a long time period departs significantly from this assumption at the financial year end. At 30 June 2016 the observed beta has departed materially from the previous assumption, resulting in a change to the beta assumption. The beta assumption used at 30 June 2016 is 0.75 (30 June 2015: 0.55).

In December 2015, the initial period expired on the BEE transaction that was concluded in September 2005 with the Discovery Foundation. In the transaction, shares were issued to the Discovery Foundation at R0.001 per share for an initial period of 10 years. At the end of this initial period Discovery has the right to repurchase these ordinary shares at R0.001 per share which would provide Discovery with the notional return of the funded amount. Simultaneously, the Discovery Foundation has the right to acquire from Discovery the same number of shares repurchased by Discovery. At the expiry of the initial period, the above transactions were executed resulting in an increased share capital and premium of R817 million and a decrease of 14 226 181 treasury shares.

In January 2016, the European insurance regulation Solvency II came into effect and Vitality Life Limited was granted a life insurance licence in the United Kingdom on which it commenced writing new business. These two changes required that the embedded value methodology for VitalityLife be reviewed. The key methodology change was the zeroisation of the negative reserves emerging under insurance contracts in Vitality Life Limited and Discovery funded VitalityLife business on the Prudential licence. This effectively moves the negative reserve from net worth to the value of in-force. The value of negative reserves under insurance contracts that were set to zero at 30 June 2016 was R3.1 billion.

In June 2016, the United Kingdom European Union membership referendum voted in favour of the United Kingdom departing from the European Union. This event, coined "Brexit", resulted in economic environmental impacts for VitalityHealth and VitalityLife. The embedded value calculation at 30 June 2016 includes the impacts of lower UK risk-free rates and depreciation of the British Pound relative to the South African Rand.

The 30 June 2016 embedded value results and disclosures were subjected to an external review.

EMBEDDED VALUE STATEMENT continued

for the twelve months ended 30 June 2016

Table 1: Group embedded value

R million	30 June 2016	30 June 2015	% Change
Shareholders' funds	30 607	27 356	12
Adjustment to shareholders' funds from published basis[1]	(23 583)	(17 784)	
Adjusted net worth	7 024	9 572	
– Free surplus	1 479	5 188	
– Required capital[2]	5 545	4 384	
Value of in-force covered business before cost of required capital	48 121	44 006	
Cost of required capital	(2 065)	(1 283)	
Discovery Limited embedded value	53 080	52 295	2
Number of shares (millions)	644.2	629.0	
Embedded value per share	R82.40	R83.14	(1)
Diluted number of shares (millions)	646.7	646.7	
Diluted embedded value per share[3]	R82.17	R82.29	(0)

1 *A breakdown of the adjustment to shareholders' funds is shown in the table below. Note that where relevant, adjustments have been converted using the closing exchange rate of R19.78/GBP (June 2015: R19.19/GBP):*

R million	*30 June 2016*	*30 June 2015*
Discovery Life net assets under insurance contracts	*(15 768)*	*(13 208)*
Vitality Life Limited and Discovery funded VitalityLife business on the Prudential licence net assets under insurance contracts	*(3 090)*	*–*
VitalityHealth and VitalityHealth Insurance Limited deferred acquisition costs (net of deferred tax)	*(290)*	*(230)*
VitalityLife receivable relating to the Unemployment Cover benefit (net of deferred tax)	*(41)*	*(44)*
Goodwill and intangible assets (net of deferred tax) relating to the acquisition of Standard Life Healthcare and the Prudential joint venture	*(3 615)*	*(3 523)*
Net preference share capital	*(779)*	*(779)*
	(23 583)	*(17 784)*

2 *The required capital backed by tangible assets at June 2016 for Life is R1 255 million (June 2015: R1 114 million), for Health and Vitality is R725 million (June 2015: R642 million), for VitalityHealth and VitalityHealth Insurance Limited is R2 212 million (June 2015: R1 693 million) and for VitalityLife is R1 353 million (June 2015: R935 million). For Life, the required capital was set equal to two times the statutory Capital Adequacy Requirement. For Health and Vitality, the required capital was set equal to two times the monthly renewal expense and Vitality benefit cost. For VitalityHealth, the required capital amount was set equal to 1.4 times the Solvency II Pillar 1 Solvency Capital Requirement. For the VitalityLife business on the Prudential licence, the required capital was set equal to the UK Solvency I long term insurance capital requirement as per the agreement with Prudential. For the business sold on the Vitality Life Limited licence, the required capital was set equal to the excess of 1.4 times the Solvency II Pillar 1 Solvency Capital Requirement over the negative Solvency II technical provisions.*

3 *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 2016			
Health and Vitality	16 834	(315)	16 519
Life and Invest[1]	22 411	(723)	21 688
VitalityHealth[2]	4 421	(377)	4 044
VitalityLife[2, 3]	4 455	(650)	3 805
Total	48 121	(2 065)	46 056
at 30 June 2015			
Health and Vitality	15 500	(254)	15 246
Life and Invest[1]	22 464	(556)	21 908
VitalityHealth[2]	4 188	(208)	3 980
VitalityLife[2]	1 854	(265)	1 589
Total	44 006	(1 283)	42 723

1 *Included in the Life and Invest value of in-force covered business is R1 100 million (June 2015: R884 million) in respect of investment management services provided on off balance sheet investment business. The net assets of the investment service provider are included in the adjusted net worth.*
2 *The value of in-force has been converted using the closing exchange rate of R19.78/GBP (June 2015: R19.19/GBP).*
3 *Included in the VitalityLife value of in-force covered business is an increase of R2 200 million in respect of the zeroisation of the negative reserves in VitalityLife Limited and the Discovery funded VitalityLife business on the Prudential licence.*

Table 3: Group embedded value earnings

R million	Year ended 30 June 2016	Year ended 30 June 2015
Embedded value at end of period	53 080	52 295
Less: Embedded value at beginning of period	(52 295)	(43 050)
Increase in embedded value	784	9 245
Net change in capital[1]	(812)	–
Dividends paid	1 201	1 036
Transfer to hedging reserve	171	(50)
Proceeds from rights-issue	–	(5 000)
Rights-issue costs	–	94
Embedded value earnings	1 345	5 325
Annualised return on opening embedded value	2.6%	12.4%

1 *The net change in capital includes the R817 million increase in share capital and premium associated with the Discovery Foundation BEE Share recapture, as well as an offsetting R5 million from an increase in treasury shares.*

EMBEDDED VALUE STATEMENT continued

for the twelve months ended 30 June 2016

Table 4: Components of Group embedded value earnings

R million	Year ended 30 June 2016				Year ended 30 June 2015
	Net worth	Cost of required capital	Value of in–force covered business	Embedded value	Embedded value
Total profit from new business (at point of sale)	(5 432)	(477)	8 241	2 332	2 614
Profit from existing business					
■ Expected return	4 240	(39)	421	4 622	3 989
■ Change in methodology and assumptions[1]	1 363	(358)	(4 769)	(3 764)	(799)
■ Experience variances	(471)	61	232	(178)	1 452
Impairment, amortisation and fair value adjustment[2]	(37)	–	–	(37)	–
Acquisition of Prudential joint venture[3]	–	–	–	–	(774)
Intangibles no longer allocated to minorities[4]	–	–	–	–	(765)
Increase in goodwill and intangibles	(366)	–	–	(366)	(277)
Other initiative costs[5]	(887)	–	9	(878)	(485)
Non-recurring expenses[6]	(508)	–	–	(508)	(488)
Acquisition costs[7]	(24)	–	1	(23)	(15)
Finance costs	(107)	–	–	(107)	(103)
Foreign exchange rate movements	(30)	31	(40)	(39)	581
Other[8]	36	–	20	56	169
Return on shareholders' funds[9]	235	–	–	235	225
Embedded value earnings	(1 988)	(782)	4 115	1 345	5 325

1 *The changes in methodology and assumptions will vary over time to reflect adjustments to the model and assumptions as a result of changes to the operating and economic environment. The current period's changes are described in detail in Table 6 below (for previous periods refer to previous embedded value statements).*
2 *This item reflects the amortisation of the intangible assets reflecting the DiscoveryCard profit share arrangement, banking costs and the PrimeMed acquisition.*
3 *This item represents the difference between the purchase price and the minority share of PHHL's tangible net asset value at the acquisition date plus 25% of the value in-force and cost of required capital that Discovery purchased in the transaction at the acquisition date.*
4 *This item reflects the unwinding of the goodwill and intangible assets (net of deferred tax) relating to the acquisition of Standard Life Healthcare and the Prudential joint venture allocated to minorities.*
5 *This item reflects Group initiatives including expenses relating to the investment in The Vitality Group, Discovery Partner Markets, Vitality International, once-off expenses in Invest, Discovery Insure, other new business initiatives and unallocated head office costs.*
6 *This item includes rebranding costs, as well as other once-off costs relating to the acquisition of 25% of PHHL.*
7 *Acquisition costs relate to commission paid on Life business and expenses incurred in writing Health and Vitality business that has been written over the period but will only be activated and on risk after the valuation date. These policies are not included in the embedded value or the value of new business and therefore the costs are excluded.*
8 *This item includes the tax benefit that will be obtained as the VitalityHealth DAC and intangible software assets amortise.*
9 *The return on shareholders' funds is shown net of tax and management charges.*

Table 5: Experience variances

	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		
R million	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Total
Renewal expenses	64	–	28	(4)	(108)	–	4	–	(16)
Other expenses	18	–	–	–	–	–	–	–	18
Lapses and surrenders	14	125	(193)	197	–	(35)	(158)	99	49
Mortality and morbidity	–	–	48	(54)	(185)	–	20	–	(171)
Policy alterations[1]	–	55	(434)	167	–	–	(44)	41	(215)
Premium and fee income	9	(138)	(130)	84	–	–	–	–	(175)
Economic assumptions	–	–	29	(275)	–	–	–	–	(246)
Commission	–	–	–	–	50	–	–	–	50
Tax[2]	3	–	250	(294)	66	–	7	–	32
Reinsurance	–	–	–	–	107	(110)	–	–	(3)
Maintain modelling term[3]	–	268	–	63	–	62	–	–	393
Vitality benefits	36	–	–	–	(39)	–	–	–	(3)
Other	95	–	(93)	42	61	–	4	–	109
Total	239	310	(495)	(74)	(48)	(83)	(167)	140	(178)

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, Group Life and VitalityHealth at 30 June 2016 has not been changed from that used in the 30 June 2015 embedded value calculation. Therefore, an experience variance arises because the total term of the in-force covered business is effectively increased by twelve months.

Table 6: Methodology and assumption changes

	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		
R million	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Total
Modelling changes[1]	–	–	(19)	79	–	–	(421)	602	241
Expenses	–	450	(2)	(29)	–	–	(1)	3	421
Lapses	–	–	13	(592)	–	–	90	8	(481)
Mortality and morbidity	–	–	(225)	44	–	–	–	–	(181)
Benefit enhancements	–	–	(1)	(11)	–	–	–	–	(12)
Vitality benefits	–	(44)	–	–	–	(23)	–	–	(67)
Tax	–	–	12	(58)	–	93	–	50	97
Economic assumptions[2]	–	(417)	24	(2 235)	–	(82)	(787)	64	(3 433)
Premium and fee income	–	–	(24)	(64)	–	–	–	–	(88)
Reinsurance[3]	–	–	1 251	(1 352)	549	(528)	31	(88)	(137)
Other[4]	–	–	(57)	64	–	(54)	930	(1 007)	(124)
Total	–	(11)	972	(4 154)	549	(594)	(158)	(368)	(3 764)

1 For VitalityLife, the key modelling change relates to the zeroisation of the intangible negative reserves for Vitality Life Limited and Discovery funded VitalityLife business on the Prudential licence to reflect the shareholder cash flows on these policies. This effectively moves the negative reserve from net worth to the value of in–force.
2 The economic assumption changes include the following items:
- *A change in the beta coefficient from 0.55 at 30 June 2015 to 0.75 at 30 June 2016.*
- *For Health and Vitality and Discovery Life, there has been an increase in the South African risk–free rate since 30 June 2015.*
- *For VitalityHealth and VitalityLife, there has been a reduction in the UK risk–free rate since 30 June 2015.*
- *For VitalityLife, there is a realised loss in the net worth relating to the whole of life reinsurance structure.*

3 For Life and VitalityHealth, the reinsurance item primarily relates to the impact of the financing reinsurance arrangements.
4 For VitalityLife, the other item relates to the margin reset as per the accounting policy.

EMBEDDED VALUE STATEMENT continued

for the twelve months ended 30 June 2016

Table 7: Embedded value of new business

R million	30 June 2016	30 June 2015	% change	30 June 2016 on 30 June 2015 economic basis[1]	% change
	Twelve months ended				
Health and Vitality					
Present value of future profits from new business at point of sale	844	606		887	
Cost of required capital	(48)	(22)		(42)	
Present value of future profits from new business at point of sale after cost of required capital	796	584	36	845	45
New business annualised premium income[2]	7 415	2 829	162		
Life and Invest					
Present value of future profits from new business at point of sale[3]	1 263	1 268		1 539	
Cost of required capital	(67)	(56)		(51)	
Present value of future profits from new business at point of sale after cost of required capital	1 196	1 212	(1)	1 488	23
New business annualised premium income[4]	2 798	2 490	12		
Annualised profit margin[5]	5.3%	5.9%			
Annualised profit margin excluding Invest business	8.9%	9.7%			
VitalityHealth					
Present value of future profits from new business at point of sale	109	45		101	
Cost of required capital	(47)	(20)		(30)	
Present value of future profits from new business at point of sale after cost of required capital	62	25	148	71	184
New business annualised premium income (Rand)[6]	1 071	833	29		
Annualised profit margin[5]	0.9%	0.6%			
VitalityLife[7]					
Present value of future profits from new business at point of sale	593	850		710	
Cost of required capital	(315)	(57)		(127)	
Present value of future profits from new business at point of sale after cost of required capital	278	793	(65)	583	(26)
New business annualised premium income (Rand)	1 083	967	12		
Annualised profit margin[5]	3.5%	11.0%			

1 There have been a number of movements in the economic assumptions since 30 June 2015, most notably the increase in the Discovery beta coefficient from 0.55 at 30 June 2015 to 0.75 at 30 June 2016.

2 Health new business annualised premium income is the gross contribution to the medical schemes. The new business annualised premium income shown above excludes premiums in respect of members who join an existing employer where the member has no choice of medical scheme, as well as premiums in respect of new business written during the period but only activated after 30 June 2016. Excluding contributions from Bankmed, the new business annualised premium income was R2 913 million.
The total Health and Vitality new business annualised premium income written over the period was R6 764 million (June 2015: R5 622 million), excluding Bankmed.

3 Included in the Life and Invest embedded value of new business is R159 million (June 2015: R60 million) in respect of investment management services provided on off balance sheet investment business.
Risk business written prior to the valuation date allows certain Invest business to be written at financially advantageous terms, the impact of which has been recognised in the value of new business.

4 Life new business is defined as Life policies or Discovery Retirement Optimiser policies to which Life became contractually bound during the reporting period, including policies whose first premium is due after the valuation date. Invest new business is defined as business where at least one premium has been received and which has not been refunded after receipt.
The new business annualised premium income of R2 798 million (June 2015: R2 490 million) (single premium APE: R1 175 million (June 2015: R1 005 million)) shown above excludes automatic premium increases and servicing increases in respect of existing business. The total Life new business annualised premium income written over the period, including automatic premium increases of R966 million (June 2015: R887 million) and servicing increases of R516 million (June 2015: R500 million) was R4 279 million (June 2015: R3 877 million) (single premium APE: R1 218 million (June 2015: R1 048 million)). Single premium business is included at 10% of the value of the single premium.
Policy alterations, including Discovery Retirement Optimisers added to existing Life Plans, are shown in Table 5 as experience variances and not included as new business.
Term extensions on existing contracts are not included as new business.

5 The annualised profit margin is the value of new business expressed as a percentage of the present value of future premiums.

6 VitalityHealth 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 2016.

7 VitalityLife new business is defined as policies to which VitalityLife became contractually bound during the reporting period, including policies whose first premium is due after the valuation date.

Table 8: Embedded value economic assumptions

		30 June 2016	30 June 2015
Beta coefficient		0.75	0.55
Equity risk premium (%)		3.5	3.5
Risk discount rate (%)			
Health and Vitality		11.875	10.675
Life and Invest		12.625	11.175
VitalityHealth		3.77	4.05
VitalityLife		4.695	5.045
Rand/GB Pound exchange rate			
Closing		19.78	19.19
Average		21.44	18.04
Medical inflation (%)			
South Africa		9.00	8.25
Expense inflation (%)			
South Africa		6.0	5.25
United Kingdom		2.9	3.3
Pre-tax investment return (%)			
South Africa	– Cash	8.50	7.75
	– Life and Invest bonds	10.00	9.25
	– Health and Vitality bonds	9.25	8.75
	– Equity	13.50	12.75
United Kingdom	– VitalityHealth investment return	1.15	2.12
	– VitalityLife investment return	2.07	3.12
Income tax rate (%)			
South Africa		28	28
United Kingdom	– long term[1]	18	20
Projection term			
– Health and Vitality		20 years	20 years
– Life		No cap	No cap
– Group Life		10 years	10 years
– VitalityHealth		20 years	20 years

1 The United Kingdom Corporation tax rate assumed is 20% in 2016 to 2017, 19% in 2018 to 2020, and 18% beyond that.

EMBEDDED VALUE STATEMENT continued

for the twelve months ended 30 June 2016

The Discovery Limited embedded value is calculated based on a risk discount rate using the CAPM approach with specific reference to the Discovery beta coefficient. The assumed beta is set with reference to the observed beta calculated using daily returns over a long time period. The beta is calculated with reference to the ALSI. The resulting assumed beta will be fixed at this level unless the observed beta calculated using daily returns over a long time period departs significantly from this assumption at the financial year end. At 30 June 2016 the observed beta had departed materially from the assumption, resulting in a change to the beta assumption. The beta assumption used at 30 June 2016 is 0.75 (30 June 2015: 0.55). As beta values reflect the historic performance of share prices relative to the market they may not allow fully for non-market related and non-financial risk. Investors may want to form their own view on an appropriate allowance for these risks which have not been modelled explicitly.

Life and Invest mortality, morbidity and lapse and surrender assumptions were derived from internal experience, where available, augmented by reinsurance and industry information.

The Health and Vitality lapse assumptions were derived from the results of recent experience investigations.

The VitalityHealth assumptions were derived from internal experience, augmented by industry information.

VitalityLife assumptions were derived from internal experience, where available, augmented by reinsurance, industry and Discovery Limited group information.

Renewal expense assumptions were based on the results of the latest expense and budget information.

The initial expenses included in the calculation of the embedded value of new business are the actual costs incurred excluding expenses of an exceptional or non-recurring nature.

The South African investment return assumption was based on a single interest rate derived from the risk-free zero coupon government bond yield curve. Other economic assumptions were set relative to this yield. The current and projected tax position of the policyholder funds within the Life company has been taken into account in determining the net investment return assumption.

The best estimate investment return assumption for VitalityHealth and VitalityLife was based on the single interest rate derived from the risk-free zero coupon sterling yield curve. The United Kingdom expense inflation assumption was set in line with long-term United Kingdom inflation expectations.

It is assumed that, for the purposes of calculating the cost of required capital, the Life and Invest required capital amount will be backed by surplus assets consisting of 100% equities and the Health, Vitality, VitalityHealth and Vitality Life Limited required capital amounts will be fully backed by cash. The VitalityLife business on the Prudential licence required capital amount is assumed to earn the same return as the assets backing the VitalityLife policyholder liabilities. Allowance has been made for tax and investment expenses in the calculation of the cost of required capital. In calculating the capital gains tax liability, it is assumed that the portfolio is realised every 5 years. The Life and Invest cost of required capital is calculated using the difference between the gross of tax equity return and the equity return net of tax and expenses. The Health, Vitality, VitalityHealth and Vitality Life Limited cost of required capital is calculated using the difference between the risk discount rate and the net of tax cash return. The VitalityLife business on the Prudential licence 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 practice note, uses the CAPM approach with specific reference to the Discovery beta coefficient. As beta values reflect the historic performance of share prices relative to the market they may not allow fully for non-market related and non-financial risk. Investors may want to form their own view on an appropriate allowance for these risks which have not been modelled explicitly. The sensitivity of the embedded value and the embedded value of new business at 30 June 2016 to changes in the risk discount rate is included in the tables below.

For each sensitivity illustrated below, all other assumptions have been left unchanged. No allowance has been made for management action such as risk premium increases where future experience is worse than the base assumptions.

Table 9: Embedded value sensitivity

R million	Adjusted net worth[2]	Health and Vitality Value of in-force	Health and Vitality Cost of required capital	Life and Invest Value of in-force	Life and Invest Cost of required capital	VitalityHealth Value of in-force	VitalityHealth Cost of required capital	VitalityLife Value of in-force	VitalityLife Cost of required capital	Embedded value	% change
Base	7 024	16 834	(315)	22 411	(723)	4 421	(377)	4 455	(650)	53 080	
Impact of:											
Risk discount rate +1%	7 024	15 837	(344)	20 066	(633)	4 119	(496)	4 183	(767)	48 989	(8)
Risk discount rate -1%	7 024	17 943	(282)	25 316	(838)	4 755	(239)	4 642	(414)	57 907	9
Lapses -10%	7 089	17 414	(330)	24 309	(774)	5 047	(405)	4 593	(750)	56 193	6
Interest rates -1%[1]	5 357	16 778	(303)	22 773	(787)	4 740	(348)	4 644	(861)	51 993	(2)
Equity and property market value -10%	6 963	16 834	(315)	22 170	(721)	4 421	(377)	4 455	(650)	52 780	(1)
Equity and property return +1%	7 024	16 834	(315)	22 640	(723)	4 421	(377)	4 455	(650)	53 309	0
Renewal expenses -10%	7 234	18 548	(292)	22 700	(721)	4 884	(376)	4 449	(640)	55 786	5
Mortality and morbidity -5%	7 247	16 834	(315)	23 826	(711)	5 807	(376)	4 443	(651)	56 104	6
Projection term +1 year	7 024	17 094	(319)	22 463	(723)	4 472	(377)	4 455	(650)	53 439	1

1 All economic assumptions were reduced by 1%.
2 The sensitivity impact on the VitalityLife net of tax change in negative reserves is included in the adjusted net worth column.

The following table shows the effect of using different assumptions on the embedded value of new business.

Table 10: Value of new business sensitivity

R million	Health and Vitality Value of new business	Health and Vitality Cost of required capital	Life and Invest Value of new business	Life and Invest Cost of required capital	VitalityHealth Value of new business	VitalityHealth Cost of required capital	VitalityLife Value of new business	VitalityLife Cost of required capital	Value of new business	% change
Base	844	(48)	1 263	(67)	109	(47)	593	(315)	2 332	
Impact of:										
Risk discount rate +1%	772	(52)	1 001	(59)	65	(62)	467	(367)	1 765	(24)
Risk discount rate -1%	924	(42)	1 583	(78)	158	(31)	733	(231)	3 016	29
Lapses -10%	901	(50)	1 513	(72)	193	(51)	707	(375)	2 766	19
Interest rates -1%[1]	854	(45)	1 322	(73)	155	(43)	654	(382)	2 442	5
Equity and property return +1%	844	(47)	1 301	(67)	109	(47)	593	(315)	2 371	2
Renewal expense -10%	1 055	(45)	1 298	(67)	164	(47)	624	(300)	2 682	15
Mortality and morbidity -5%	844	(47)	1 384	(66)	280	(47)	618	(316)	2 650	14
Projection term +1 year	864	(48)	1 267	(67)	118	(48)	593	(315)	2 364	1
Acquisition costs -10%	868	(47)	1 384	(67)	139	(52)	707	(309)	2 623	12

1 All economic assumptions were reduced by 1%.

REPORT ON THE REVIEW OF THE EMBEDDED VALUE STATEMENT OF DISCOVERY LIMITED AND ITS SUBSIDIARIES TO THE DIRECTORS OF DISCOVERY LIMITED

Introduction

We have reviewed the Embedded Value Statement of Discovery Limited and its subsidiaries for the year ended 30 June 2016, as set out on pages 145 to 153 (the "Report"). The Report is prepared by the Directors for the shareholders to determine the value and performance of the Company. The Directors of Discovery Limited and its subsidiaries are responsible for the preparation and presentation of the Report in accordance with the embedded value basis set out in the 'Basis of Preparation' paragraph included in the Report and for determining that the basis of preparation is acceptable in the circumstances. Our responsibility is to express a conclusion on this Report based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Report is not prepared, in all material respects, in accordance with the basis set out in the 'Basis of Preparation' paragraph included in the Report.

Basis of Accounting and Restriction on Use

Without modifying our conclusion, we draw attention to the 'Basis of Preparation' paragraph included in the Report, which describes the basis of accounting. The Report is prepared by the Directors for the shareholders to determine the value and performance of the Company. As a result, the Report may not be suitable for another purpose. Our report is intended solely for the Directors of Discovery Limited and its subsidiaries and should not be used by any other parties. We agree to the publication of our report in the Company's Integrated Annual Report of Discovery Limited provided it is clearly understood by the recipients of the Company's Integrated Annual 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.

PricewaterhouseCoopers Inc.
Director: Jorge Goncalves
Registered Auditor

Johannesburg

05 September 2016

FIVE-YEAR REVIEW

for the year ended 30 June

	Group 2012	Group 2013	Group 2014	Group 2015	Group 2016	Compound growth %
New business API (R million)	8 483	9 996	11 586	17 532	16 231	18%
Gross inflows under management (R million)						
Gross inflows under management	56 914	65 657	78 013	89 483	104 409	16%
Less: Collected on behalf of third parties	(36 369)	(40 813)	(46 002)	(51 587)	(59 014)	13%
Gross income of Group	20 545	24 844	32 011	37 896	45 395	22%
Income statement extracts (R million)						
Profit from operations	3 553	3 558	5 058	5 229	5 803	13%
Headline earnings	2 129	2 062	3 064	5 285	3 641	14%
Abnormal expenses/(income)	187	725	393	(1 258)	671	
Normalised headline earnings	2 316	2 787	3 457	4 027	4 312	17%
Diluted normalised headline earnings per share (cents)*	416.9	496.0	580.2	663.0	671.1	13%
Statement of financial position extracts (R million)						
Total assets[1]	45 815	55 099	77 241	95 880	118 577	27%
Shareholders' funds	11 731	13 708	17 411	27 356	30 607	27%
Embedded value						
Embedded value (R million)	30 246	35 721	43 050	52 295	53 080	15%
Diluted embedded value per share (R)	53.78	63.30	74.13	82.29	82.17	11%
Key ratios						
Return on average equity (%)	21	17	21	25	13	
Return on average assets (%)[1]	6	4	5	6	3	
Capital adequacy requirement (times)	4.4	4.0	3.8	3.9	3.6	
Exchange rates						
Rand/US$						
– Closing	8.19	10.01	10.63	12.18	14.73	
– Average	7.78	8.94	10.43	11.49	14.60	
Rand/GBP						
– Closing	12.83	15.22	18.17	19.19	19.78	
– Average	12.35	13.98	17.06	18.04	21.44	
Share statistics						
Number of ordinary shares in issue						
– Weighted average (000's)[2]	554 930	554 165	581 123	598 946	637 608	
– Diluted weighted average (000's)[2]	555 538	561 843	595 699	607 290	642 534	
– End of period (000's)	591 872	591 872	591 872	647 428	647 428	
Price/diluted headline earnings (times)	12.5	16.9	16.7	19.1	18.3	
Share price (cents per share):						
– High	5 233	8 700	9 831	14 195	15 467	
– Low	5 174	5 280	7 110	9 050	11 000	
– Closing	5 200	8 406	9 715	12 647	12 250	
Market capitalisation (R million)	30 777	49 753	57 500	81 880	79 310	

1 2014, 2015 and 2016 have been restated. Refer to page 144 for change in comparatives.
2 2012 and 2013 have not been adjusted for the bonus element of the rights issue.

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