



Discovery Limited
Annual Financial Statements
for the year ended 30 June 2015

Annual Financial Statements

for the year ended 30 June 2015

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

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Auditors: PricewaterhouseCoopers Inc.

Prepared by: L. Capon CA(SA) and L. van Jaarsveldt CA(SA)

Supervised by: R. Farber CA(SA), FCMA

Directors' responsibility statement

for the year ended 30 June 2015

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

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

The directors have reviewed Discovery's budget and cash flow forecast for the year to 30 June 2016. On the basis of this review, and in light of the current financial position and available cash resources, the directors have no reason to believe that Discovery will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the annual financial statements.

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

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

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

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

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

The Annual Financial Statements of Discovery for the year ended 30 June 2015, which appear on pages 8 to 159, have been approved by the Board of Directors on 9 September 2015 and are signed on its behalf by:



A Gore
Chief Executive Officer



R Farber
Chief Financial Officer

Certificate by the Company Secretary

for the year ended 30 June 2015

It is hereby certified in terms of section 88(2)(e) of the Companies Act, that Discovery Limited has for the year ended 30 June 2015 lodged with the Registrar of Companies all such returns as are required by a public company in terms of this Act and that all such returns are true, correct and up to date.

A handwritten signature in black ink, appearing to read 'MJ Botha', with a small mark at the end.

MJ Botha
Company Secretary
9 September 2015

Report of the Audit Committee

for the year ended 30 June 2015

We are pleased to present our report for the financial year ended 30 June 2015. The Audit Committee (the Committee) is an independent statutory committee. Duties are delegated to the Committee by the Board of Directors of Discovery Limited (Discovery).

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

Audit Committee Terms of Reference

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

Audit Committee members, meeting attendance and assessment

The Committee is constituted as per section 94(4) of the Companies Act and consists of four independent non-executive directors. It meets at least four times per annum as per its Terms of Reference, and in the year ended 30 June 2015 met six times.

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

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

Committee member	Qualifications	Number of meetings held during the year ended 30 June 2015	Number of meetings eligible to attend	Number of meetings attended
AL Owen (Chairman)	BSc (Hons), FIA, FPMI	6	6	6
SE de Bruyn Sebotsa	LLB (Hons), MA	6	6	6
JJ Durand (appointed 1 April 2015)	BAcc (Hons), MPhil, CA (SA)	6	2	1
SV Zilwa	BCompt (Hons), CTA, CA (SA)	6	6	5

Role and responsibilities

Statutory duties

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

The Committee executed its duties in accordance with its Terms of Reference and applicable laws and regulations in force during the year ended 30 June 2015.

External auditor appointment and independence

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

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

Report of the Audit Committee

for the year ended 30 June 2015

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

The Committee, following consultation with executive management, approved the engagement letter, terms, audit plan and budgeted audit fees for the year ending 30 June 2015.

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

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

Financial statements and accounting practices

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

The Committee has noted the concerns expressed by some investment analysts in respect of the accounting policy for 2nd tier discretionary margins applied in Discovery Life Limited. The Committee has considered this accounting policy and commissioned an expert external party to conduct an independent review thereof. Based on the report received, the Committee is comfortable that the accounting policy is consistent with International Financial Reporting Standards and local industry practice. This accounting policy is consistently applied from one reporting period to the next.

Internal financial controls

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

Internal Audit

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

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

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

Whistle blowing

The Committee receives and deals with any concerns or complaints, whether from within or outside Discovery, relating to the accounting practices and internal audit of Discovery, the content or auditing of Discovery's financial statements, the internal financial controls of Discovery and related matters. Other than the matter discussed under Financial statements and accounting practices above, no other concerns or complaints were received during the financial year.

Report of the Audit Committee

for the year ended 30 June 2015

Ethics and compliance

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

Combined assurance


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

Opinion

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

The Committee has reviewed the consolidated and separate financial statements of Discovery Limited for the year ended 30 June 2015 and, based on the information provided to the Committee, considers that Discovery complies, in all material respects, with the requirements of the Companies Act and International Financial Reporting Standards.

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



AL Owen

Chairman: Audit Committee
9 September 2015

Independent auditor's report

for the year ended 30 June 2015

To the shareholders of Discovery Limited

We have audited the consolidated and separate financial statements of Discovery Limited set out on pages 13 to 159, which comprise the statements of financial position as at 30 June 2015 and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Discovery Limited as at 30 June 2015 and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 30 June 2015, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.



PricewaterhouseCoopers Inc.
Director: JM Goncalves
Registered Auditor

Johannesburg
9 September 2015

Directors' report

for the year ended 30 June 2015

The directors present their 16th annual report, which forms part of the consolidated and separate financial statements of Discovery Limited for the year ended 30 June 2015.

Nature of business

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

- Discovery Health Proprietary Limited (Discovery Health).
- Discovery Life Limited (Discovery Life).
- Discovery Life Collective Investments Proprietary Limited (Discovery Life Collective Investments).
- Discovery Life Investment Services Proprietary Limited (Discovery Life Investment Services).
- Discovery Life Nominees Proprietary Limited.
- Discovery Third Party Recovery Services Proprietary Limited (DTPRS).
- Discovery Vitality Proprietary Limited (Discovery Vitality).
- Discovery Investment Management Proprietary Limited (dormant).
- Discovery Insure Limited (Discovery Insure).
- Destiny Health Inc. - this company holds Discovery's interests in Destiny Health Management Company LLC, Destiny Health Insurance Company and Destiny Health Administration Company (dormant) (Destiny Health); The Vitality Group Inc. and The Vitality Group LLC (The Vitality Group), which are incorporated in the United States of America.
- Discovery Group Europe Limited, which is incorporated in England and Wales.
- Discovery Offshore Holdings No 2 Limited (dormant), which is incorporated in England and Wales.
- Discovery Holdings Europe Limited - this company holds Discovery's interests in Vitality Life Limited (dormant), Vitality Corporate Services Limited, Vitality Health Insurance Limited and Vitality Health Limited, which are incorporated in England and Wales (VitalityHealth).
- Discovery Partner Markets Asia Private Limited - this company holds Discovery's interests in Discovery Partner Markets Services Private Limited, which are incorporated in Singapore.
- Southern RX Distributors Proprietary Limited.

The subsidiaries are wholly-owned with the exception of Destiny Health Inc. in which the Company has a 99.98% interest and Discovery Holdings Europe Limited in which the Company has a 98.57% interest. The balance of the interest being held by senior management for both subsidiaries.

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

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

- Discovery Balanced Fund
- Discovery Cautious Balanced Fund
- Discovery Diversified Income Fund
- Discovery Dynamic Equity Fund
- Discovery Equity Fund
- Discovery Flexible Property Fund
- Discovery Global Balanced Fund of Funds
- Discovery Global Value Equity Feeder Fund, previously Discovery Global Contrarian Equity Feeder Fund
- Discovery Global Equity Feeder Fund
- Discovery Moderate Balanced Fund
- Discovery Money Market Fund
- Discovery Target Retirement 2010 Fund
- Discovery Target Retirement 2015 Fund
- Discovery Target Retirement 2020 Fund
- Discovery Target Retirement 2025 Fund
- Discovery Target Retirement 2030 Fund
- Discovery Target Retirement 2035 Fund
- Discovery Target Retirement 2040 Fund
- Discovery Target Retirement 2045 Fund
- Discovery Target Retirement 2050 Fund
- Discovery Worldwide Best Ideas Fund

Directors' report

for the year ended 30 June 2015

Review of Results

Profit attributable to ordinary shareholders is R5 480 million, a 69% increase from profits of R3 246 million reported in the prior financial year. The profit for the year ended 30 June 2015 includes a once-off gain for the fair value adjustment on puttable non-controlling interest of R1 661 million. Normalised headline earnings, which excludes this gain and other once-off items, increased by 16.5% to R4 027 million.

Share capital

The share capital of the Company at 30 June 2015 was as follows:

Class of shares	Authorised number of shares	Issued number of shares
Ordinary shares of 0.1 cent per share	1 000 000 000	647 427 946
A preference shares	40 000 000	-
B preference shares	20 000 000	8 000 000
C preference shares	20 000 000	-

Dividends

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

- Preference share dividend of 465.0 cents per share, paid on 16 March 2015.
- Ordinary share dividend of 85.5 cents per share, paid on 23 March 2015.

The directors are of the view that the Discovery Group is adequately capitalised at this time. On the statutory basis the capital adequacy requirement of Discovery Life was R557 million (2014: R522 million) and was covered 3.9 times (2014: 3.8 times).

B preference share cash dividend declaration:

On 27 August 2015, the directors declared a gross cash dividend of 458.699 cents (389.89415 cents net of dividend withholding tax) per B preference share for period 1 January 2015 to 30 June 2015. The dividend has been declared from income reserves and no secondary tax on companies' credits have been used. A dividend withholding tax of 15% will be applicable to all shareholders who are not exempt.

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

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Friday, 11 September 2015
Shares commence trading "ex" dividend	Monday, 14 September 2015
Record date	Friday, 18 September 2015
Payment date	Monday, 21 September 2015

B preference share certificates may not be dematerialised or rematerialised between Monday, 14 September 2015 and Friday, 18 September 2015, both days inclusive.

Ordinary share cash dividend declaration:

Notice is hereby given that the directors have declared a final gross cash dividend of 89.0 cents (75.65 cents net of dividend withholding tax) per ordinary share, out of income reserves for the year ended 30 June 2015. A dividend withholding tax of 15% will be applicable to all shareholders who are not exempt.

The issued ordinary share capital at the declaration date is 647 427 946 ordinary shares.

Directors' report

for the year ended 30 June 2015

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Friday, 2 October 2015
Shares commence trading "ex" dividend	Monday, 5 October 2015
Record date	Friday, 9 October 2015
Payment date	Monday, 12 October 2015

Share certificates may not be dematerialised or rematerialised between Monday, 5 October 2015 and Friday, 9 October 2015, both days inclusive.

Directors and prescribed officers

The following were directors of the Company during the current and prior financial year:

Executive directors

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

Non-executive directors

MI Hilkowitz
HL Bosman
Dr BA Brink
SE de Bruyn Sebotsa
JJ Durand
SB Epstein
Dr TV Maphai
TT Mboweni
AL Owen
T Slabbert
SV Zilwa

Prescribed officers

Dr J Broomberg
K Rabson
Dr P Tlhabi

Details of the directors emoluments, participation in share incentive schemes and interests in the Company are reflected on pages 154 to 158.

No changes were made to the Board of Discovery Limited during the current financial year.

Mr Monty Hilkowitz, Dr Brian Brink, Mr Jannie Durand, Mr Steven Epstein and Ms Sindi Zilwa retire by rotation at the forthcoming Annual General Meeting of shareholders and are eligible and available for re-election.

Company secretary

Mr MJ Botha continues in office as Company Secretary.

<i>Registered office</i>	<i>Postal address</i>
155 West Street	PO Box 786722
Sandton	Sandton
2146	2146

Directors' interests in contracts

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

Borrowing powers

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

Directors' report

for the year ended 30 June 2015

Indemnification and insurance of directors and officers

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

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

Auditors

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

Special resolutions

Passed by Discovery Limited

The following special resolutions were approved during the financial year at the Annual General Meeting of shareholders held on Tuesday, 2 December 2014:

Special resolution number 1:

Basis for calculating the remuneration of the non-executive directors for services as directors of the Company for the financial year ending 30 June 2015.

Special Resolution Number 2:

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

Special Resolution Number 3:

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

Passed by subsidiaries of Discovery Limited

Discovery Insure Limited

Special resolution number 1:

The entire authorised and issued ordinary par value shares of R0.10 (ten cents) were converted to an equivalent number of ordinary no par value shares in the share capital of the Company.

Special Resolution Number 2:

The entire authorised and issued non-redeemable compulsory convertible participating preference shares with a par value of R0.10 (ten cents) were converted to an equivalent number of no par value non-redeemable compulsory convertible participating preference shares in the share capital of the Company.

Directors' report

for the year ended 30 June 2015

Special Resolution Number 3:

Subject to the passing of Special Resolutions Number One and Two, in terms of section 36 of the Companies Act, the entire authorised and issued share capital of the Company was reclassified as "Ordinary No Par Value Shares" in the share capital of the Company, having the rights, limitations and other terms set out in the New MOI.

Special Resolution Number 4:

Subject to the passing of Special Resolutions Number One, Two and Three, in terms of section 36 of the Companies Act, the authorised share capital of the Company was increased from 110 000 000 to 610 000 000 by the creation of 500 000 000 ordinary no par value shares.

Special Resolution Number 5:

Subject to the passing of Special Resolutions Number One to Four above, the Company approved the adoption of the New MOI in substitution of the Company's existing memorandum and articles of association (which were the constitutional documents of the Company in terms of the Companies Act No. 61 of 1973), as contemplated in section 16(1)(c)(ii) of the Companies Act.

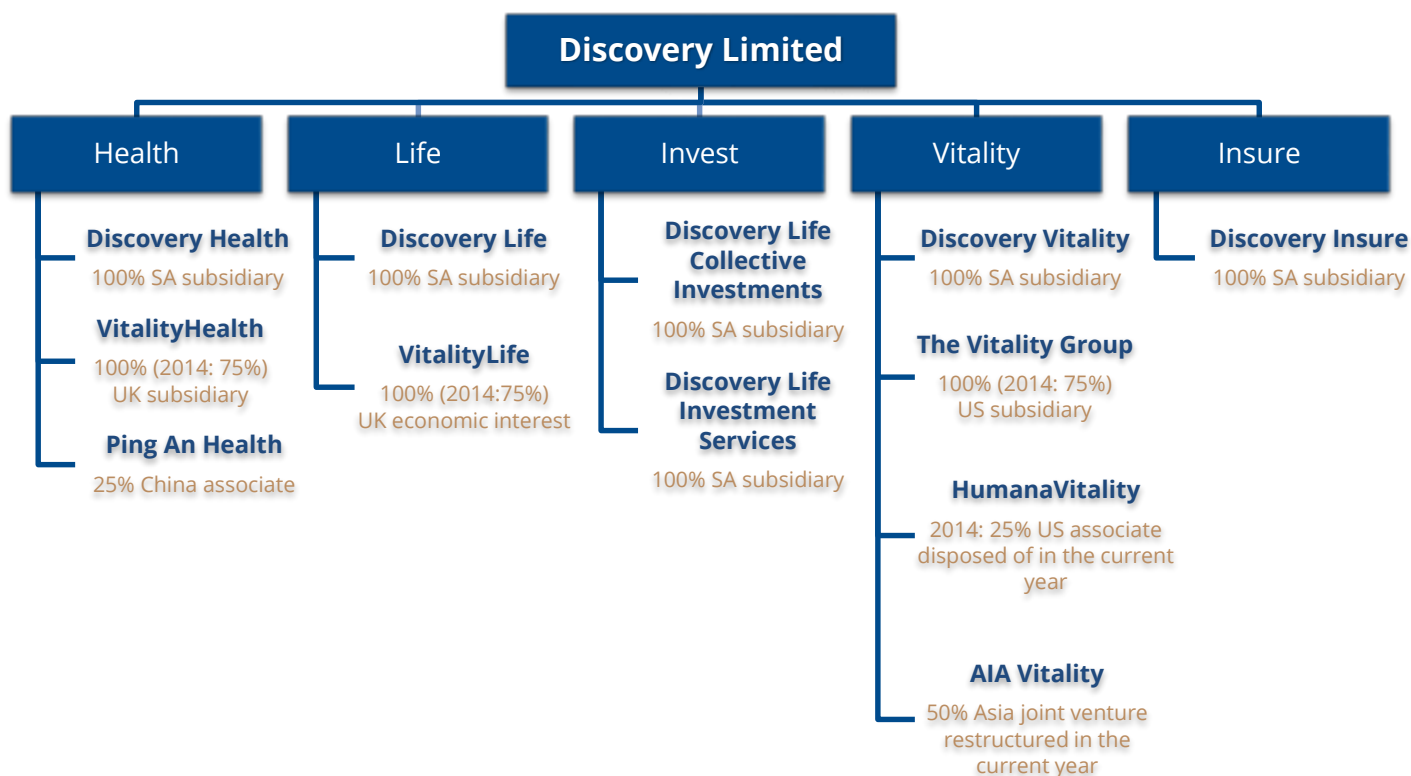
Besides Discovery Insure Limited, no special resolutions were passed by the other subsidiaries of Discovery Limited during the year ended 30 June 2015.

Group accounting policies

for the year ended 30 June 2015

General information

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



1. Health

Discovery Health

Discovery Health provides administration services and managed care services to the Discovery Health Medical Scheme as well as 14 closed schemes.

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

VitalityHealth

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

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

Ping An Health

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

Group accounting policies

for the year ended 30 June 2015

2. Life

Discovery Life

Discovery Life offers a range of insurance and financial solutions to both individual and group policyholders. The Discovery Life products reflect Discovery's underlying philosophy to make members healthier and to enhance and protect their lives. Discovery Life offers some unique benefits that integrate with the benefits offered by Discovery Health, Discovery Vitality and Discovery Invest.

Individual life insurance

Discovery Life Plan

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

Health Plan Protector

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

Discovery Retirement Optimiser

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

DiscoveryCard Protector

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

Global Education Protector

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

Supplementary Cancer Protector

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

Funeral Cover

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

Group life insurance

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

VitalityLife

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

Group accounting policies

for the year ended 30 June 2015

3. Invest

Discovery Invest

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

4. Vitality

Discovery Vitality

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

The Vitality Group

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

AIA Vitality

AIA Vitality, a joint venture with AIA Group Limited, offered the Vitality programme in Singapore, Hong Kong and Australia. It was wrapped around and integrated with life and health insurance products offered by AIA Group Limited. During the current year, the unwind of the AIA joint venture has resulted in the Vitality programme being offered directly by AIA Group Limited.

5. Insure

Discovery Insure

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

Vitalitydrive

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

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

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

Young Adult Plan

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

- 25% of their car insurance premiums paid into a Rewards Fund every six months, which they can spend on whatever they want.
- A further amount will be paid into the Rewards Fund each month if they avoid driving late at night. This is limited to R200 depending on driver status.

Group accounting policies

for the year ended 30 June 2015

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented, except for changes required by the mandatory adoption of new and revised International Financial Reporting Standards (IFRS), discussed in the table below.

1. Basis of presentation

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

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

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

New and amended standards adopted by the Group

The following standards and amendments are mandatory for Discovery's 2015 financial year and have been adopted. These new accounting standards and amendments have not had any material impact on the Group's results but may have resulted in changes to disclosure in the Annual Financial Statements.

Standard/interpretation	Scope
IAS 24 (Amendment): Related party disclosure	The standard is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (the management entity).
IAS 32 (Amendment): Financial instruments: Presentation	This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position.
IAS 36 (Amendment): Impairment of assets	These amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal.
IAS 39 (Amendment): Financial instruments: Recognition and measurement	This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to central counterparties meets specified criteria.
IFRS 2 (Amendment): Share-based payments	This amendment clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition'.
IFRS 3 (Amendment): Business combinations	The standard is amended to clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, 'Financial instruments: Presentation'. The standard is further amended to clarify that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit or loss. The standard is also amended to clarify that IFRS 3 does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

Group accounting policies

for the year ended 30 June 2015

Standard/interpretation	Scope
IFRS 8 (Amendment): Operating segments	The standard is amended to require disclosure of the judgements made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. The standard is further amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported.
IFRS 10: Consolidated financial statements; IFRS 12: Disclosures of interest in other entities; and IAS 27: Consolidated and separate financial statements	The amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made in IFRS 12 to introduce disclosures that an investment entity needs to make.
IFRS 13 (Amendment): Fair value measurement	When IFRS 13 was published, paragraphs B5.4.12 of IFRS 9 and AG79 of IAS 39 were deleted as consequential amendments. This led to a concern that entities no longer had the ability to measure short-term receivables and payables at invoice amounts where the impact of not discounting is immaterial. The IASB has amended the basis for conclusions of IFRS 13 to clarify that it did not intend to remove the ability to measure short-term receivables and payables at invoice amounts in such cases. The standard is further amended to clarify that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9.
IFRIC 21: Accounting for levies	The standard sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation could result in recognition of a liability later than today, particularly in connection with levies that are triggered by circumstances on a specific date. The standard clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

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

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

Standard/interpretation	Scope and potential impact	Effective for annual periods beginning on or after stated date
IAS 1 (Amendment): Presentation of financial statements	The amendments clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.	1 January 2016

Group accounting policies

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Standard/interpretation	Scope and potential impact	Effective for annual periods beginning on or after stated date
IAS 16 (Amendment): Property, plant and equipment and IAS 38 (Amendment): Intangible assets	This amendment clarifies that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment also clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.	1 January 2016
IAS 19 (Amendment): Employee Benefits	Discount rate: regional market issue - This amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.	1 January 2016
IAS 27 (Amendment): Separate financial statements	This amendment restores the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.	1 January 2016
IAS 34 (Amendment): Interim Financial Reporting	This amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report. Other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.	1 January 2016
IFRS 7 (Amendment): Financial Instruments: Disclosures	<p>Applicability of the offsetting disclosures to condensed interim financial statements - The amendment removes the phrase 'and interim periods within those annual periods' from paragraph 44R, clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. However, IAS 34 requires an entity to disclose an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period.</p> <p>Servicing contracts - The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required.</p>	1 January 2016

Group accounting policies

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Standard/interpretation	Scope and potential impact	Effective for annual periods beginning on or after stated date
IFRS 9 (Amendment): Financial instruments	<p>This standard introduces new requirements for the classification and measurement of financial assets by introducing a fair value through other comprehensive income category for certain debt instruments. It also contains a new impairment model which will result in earlier recognition of losses. No changes were introduced for the classification and measurement of financial liabilities, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. The amendments also align hedge accounting more closely with an entity's risk management. The revised standard also establishes a more principles-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in IAS 39. These changes are likely to have significant impact on entities that have significant financial assets, in particular financial institutions.</p> <p><i>Potential impact:</i> Currently, Discovery's shareholder investments are designated as available-for-sale financial assets. This results in the realised gains being recognised in profit or loss. If Discovery chooses to continue with this classification, the realised gains will not be recycled to profit or loss for both equity and debt securities. For Discovery, the cash flows from debt securities represents solely payments of principal and interest. This designation will be reviewed and the appropriate classification will be selected upon adoption of this standard.</p>	1 January 2018
IFRS 10 (Amendment): Consolidated financial statements and IAS 28 (Amendment): Investments in associates and joint ventures	<p>This amendment eliminates the inconsistency between IFRS 10 and IAS 28. If the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business', then the full gain or loss will be recognised by the investor. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendment also clarifies the application of the consolidation exception for investment entities and their subsidiaries.</p>	1 January 2016
IFRS 11 (Amendment): Joint arrangements	<p>This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.</p>	1 January 2016
IFRS 15: Revenue from contracts with customers	<p>This standard establishes a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of good or service transfers to a customer. This will not have a material impact on Discovery's results.</p>	1 January 2017

Group accounting policies

for the year ended 30 June 2015

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

Standard	Scope	Effective for annual periods beginning on or after stated date
IAS 16 (Amendment): Property, plant and equipment and IAS 38 (Amendment): Intangible assets	<p>Both standards are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. The carrying amount of the asset is restated to the revalued amount. The split between gross carrying amount and accumulated depreciation is treated in one of the following ways:</p> <ul style="list-style-type: none"> • Either the gross carrying amount is restated in a manner consistent with the revaluation of the carrying amount, and the accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses, or • The accumulated depreciation is eliminated against the gross carrying amount. 	1 July 2014
IAS 16 (Amendment): Property, plant and equipment and IAS 41 (Amendment): Agriculture	<p>This amendment to IAS 16 has scoped in bearer plants, but not the produce on bearer plants. It further explains that a bearer plant not yet in the location and condition necessary to bear produce is treated as a self-constructed asset. The amendment to IAS 41 has adjusted the definition of a bearer plant, include examples of non-bearer plants and remove current examples of bearer plants from IAS 41.</p>	1 January 2016
IAS 19 (Amendment): Employee benefits	<p>The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service.</p>	1 July 2014
IAS 40 (Amendment): Investment property	<p>The standard is amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.</p>	1 July 2014
IFRS 1: First-time adoption of International Financial Reporting Standards	<p>The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption, a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.</p>	1 July 2014
IFRS 5 (Amendment): Non-current Assets Held for Sale and Discontinued Operations	<p>This is an amendment to the changes in methods of disposal. Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.</p>	1 January 2016

Group accounting policies

for the year ended 30 June 2015

Standard	Scope	Effective for annual periods beginning on or after stated date
IFRS 14: Regulatory deferral accounts	This is an interim standard on the accounting for certain balances that arise from rate-regulated activities. Rate regulation is a framework where the price that an entity charges to its customers for goods and services is subject to oversight and/or approval by an authorised body.	1 January 2016

2. Consolidation

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

2.1 Business combinations

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

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

2.2 Subsidiaries

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

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

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

Group accounting policies

for the year ended 30 June 2015

2.3 Non-controlling interests

Non-controlling interests can be measured at either:

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

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

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

2.4 Puttable non-controlling interests

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

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

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

2.5 Associates and joint ventures

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

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

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

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

Group accounting policies

for the year ended 30 June 2015

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

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

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

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

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

3. Foreign currency translation

3.1 Functional and presentation currency

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

3.2 Transactions and balances

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

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

Group accounting policies

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3.3 Group companies

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

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

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

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

4. Property and equipment

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

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

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

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

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

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

Group accounting policies

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5. Intangible assets

5.1 Computer software development costs

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

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

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

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

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

5.2 Deferred acquisition costs - insurance and investment contracts

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

5.3 Other intangible assets

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

6. Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in profit or loss.

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

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

Group accounting policies

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7. Financial assets

Discovery classifies its financial assets into the following categories:

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

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

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

7.1 Financial assets at fair value through profit or loss

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

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

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

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

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

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

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

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

7.2 Available-for-sale financial assets

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

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

Group accounting policies

for the year ended 30 June 2015

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

7.3 Loans and receivables

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

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

7.4 Fair value

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

8. Derivative financial instruments

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

Discovery designates certain derivatives as either:

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

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

8.1 Fair value hedge

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

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

Group accounting policies

for the year ended 30 June 2015

8.2 Cash flow hedge

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

Non-financial asset or liability

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

Financial asset or liability

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

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

8.3 Derivatives that do not qualify for hedge accounting

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

9. Impairment of assets

9.1 Financial assets carried at amortised cost

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

Objective evidence includes one or more of the following events:

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

Discovery first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If Discovery determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar

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credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

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

9.2 Financial assets carried at fair value

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

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

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

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

9.3 Impairment of other non-financial assets

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

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

10. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on

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future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

11. Cash and cash equivalents

Cash and cash equivalents comprise:

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

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

12. Share capital

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

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

13. Insurance contracts

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

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

13.1 Recognition and measurement

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

13.1.1 Individual life insurance

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

Valuation of policyholder liabilities

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

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

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

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

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

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

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

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

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

Premium revenue

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

Insurance benefits and claims

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

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Acquisition costs

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

13.1.2 Group life insurance

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

Premium revenue

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

Insurance benefits and claims

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

Acquisition costs

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

13.1.3 Health insurance

These contracts insure policyholders against healthcare-related claims.

Premium revenue

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

Insurance benefits and claims

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

Deferred acquisition costs

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

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13.1.4 Short-term insurance

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

Premium revenue

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

Unearned Premium Provision

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

The unearned premium provision is calculated on a gross basis as reinsurance is calculated on earned premium.

Reinsurance commission income

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

Insurance benefits and claims

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

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

Salvage and subrogation recoveries

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

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

Acquisition costs

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

Excess funder account (EFA)

As discussed on page 15, the fuel cash back can be used to either reduce the premium that the policyholder is required to pay for the month in question or can be doubled and paid into an EFA.

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

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

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When the member uses funds in the EFA to pay for his excess, the excess is paid by Discovery Insure and an expense is included in claims in the statement of comprehensive income.

Where the member withdraws the funds after three years, the member is paid out in cash and an expense is disclosed against insurance premium revenue in the income statement.

13.2 Embedded derivatives

A unit-linked insurance contract is an insurance contract with an embedded derivative linking payments on the contract to units of an investment fund purchased with the consideration received from the contract holders. This embedded derivative meets the definition of an insurance contract and is therefore not accounted for separately from the host insurance contract. The liability for such contracts is adjusted for all changes in the fair value of the underlying assets.

Discovery does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or amount based on a fixed amount and an interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host insurance contract and meet the definition of a derivative. Embedded derivatives that are separated from the host contract are fair valued through profit or loss.

13.3 Liability adequacy test

At the reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to profit or loss initially by writing off deferred acquisition costs and by subsequently establishing a provision for losses arising from the liability adequacy test.

13.4 Reinsurance contracts

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

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

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

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

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

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

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13.5 Receivables and payables related to insurance contracts

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

14. Investment contracts

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

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

Valuation of policyholder liabilities

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

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

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

Premium revenue

All premiums under investment contracts are recorded as deposits to investment contract liabilities and claims incurred on investment contracts are recorded as deductions from investment contract liabilities.

Fees on investment contracts

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

A deferred revenue liability (DRL) is recognised in respect of upfront fees directly attributable to a contract, that are charged for securing the investment management service contract. The DRL is then released to revenue when the services are provided, over the expected duration of the contract on an appropriate basis.

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

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Deferred acquisition costs

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

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

15. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

16. Deferred income tax

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

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

Temporary differences arise primarily from the difference between accounting and tax balances arising from insurance contracts, depreciation of property and equipment, effect of accounting for leases as a finance lease, effect of straight-lining of operating leases, revaluation of certain financial assets and liabilities, provisions for leave pay, provisions for share-based payments and tax losses carried forward. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income.

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

Deferred income tax assets and liabilities are offset when:

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

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

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17. Employee benefits

17.1 Post-employment benefits

Discovery operates defined contribution schemes, the assets of which are held in separate trustee-administered funds.

These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Discovery employees. Qualified actuaries perform annual valuations.

For defined contribution plans, Discovery pays contributions to privately administered pension insurance plans on a mandatory basis. Discovery has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

17.2 Share-based compensation

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

Equity-settled share-based compensation plans

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

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

Cash-settled share-based compensation plans

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

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

17.3 Leave pay

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

17.4 Profit share and bonus plan

Discovery recognises a liability and an expense for bonuses and profit-sharing in staff costs, based on a formula where there is a contractual obligation or where there is a past practice that has created a constructive obligation.

18. Trade and other payables

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

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

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19. Provisions

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

Provisions are measured as the present value of management's best estimate of the expenditure required to settle the obligation at the reporting date. The pre-tax discount rate used to determine the present value reflects current market assessments of the time value of money. The increase in the provision due to the passage of time is recognised as interest expense.

Discovery recognises a provision for an onerous contract when the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligations under the contract.

20. Contingent liabilities

Discovery discloses a contingent liability when:

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

21. Revenue recognition

21.1 Insurance premium revenue

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

21.2 Fee income on administration business

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

21.3 Vitality income

Vitality income includes:

- Vitality contributions received from its members which is accounted for on an accrual basis in the accounting period in which the services are rendered.
 - Revenue income from the sale of benefits offered by Vitality which is accounted for on an accrual basis in the accounting period when the benefits are sold.
 - Fee income received from the activation of new gym contracts. These fees are deferred and released on a straight-line basis over the period of the contract.
 - Fee income received from FNB in respect of the DiscoveryCard joint venture which is accounted for on an accrual basis in the accounting period in which the services are rendered.
 - DiscoveryCard fee income which is deferred and released on a straight-line basis over the period of the contract.
- Discovery Vitality operates a loyalty scheme through the DiscoveryCard which allows customers to accumulate miles that entitle them, subject to certain criteria, to use their miles against purchases with Discovery Vitality partners. Income, which is equal to the fair value attributed to the miles awarded, is deferred and recognised when the miles are redeemed or expire. The fair value of the miles is estimated by applying a weighted average cost per mile based on estimated redemption percentages.

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21.4 Investment income

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

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

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

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

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

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

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

22. Leases

22.1 Finance leases

Discovery classifies leases as finance leases where it assumes substantially all the benefits and risks of ownership.

Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. Discovery allocates each lease payment between the liability and finance costs to achieve a constant rate on the finance balance outstanding. The interest component of the finance cost is recognised in profit or loss over the lease period. The assets acquired are depreciated over the useful life of the assets, unless it is not probable that Discovery will take ownership of the assets, in which case the assets are depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

22.2 Operating leases

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

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

23. Marketing and administration expenses

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

24. Finance costs

Finance costs are recognised as an expense in profit or loss on an accrual basis using the effective interest rate method.

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25. Direct and indirect taxes

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

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

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

Taxation in respect of the South African life insurance operations is determined using the four funds method applicable to life insurance companies.

26. Dividend distribution

Dividend distribution to Discovery Limited's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved.

27. Segment reporting

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

An operating segment is a component of an entity:

- (a) That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
- (b) Whose operating results are regularly reviewed by the entity's CODM to make decisions about resources to be allocated to the segment and assess its performance, and
- (c) For which discrete financial information is available.

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

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

- (a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments.
- (b) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss.
- (c) Its assets are 10 per cent or more of the combined assets of all operating segments.

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

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

Statement of financial position

at 30 June 2015

R million	Notes	Group 2015 Audited	Group 2014 Audited
Assets			
Assets arising from insurance contracts	5	21 726	17 999
Property and equipment	6	727	666
Intangible assets including deferred acquisition costs	7	2 526	2 344
Goodwill	8.1	2 375	2 239
Investment in associates	9.1	505	551
Financial assets			
- Available-for-sale investments	10	9 454	7 578
- Investments at fair value through profit or loss	10	40 132	32 753
- Derivatives	11	825	588
- Loans and receivables including insurance receivables	12	3 884	3 110
Deferred income tax	23	690	406
Current income tax asset		5	46
Reinsurance contracts	13	362	266
Cash and cash equivalents	14	6 251	3 650
Total assets		89 462	72 196
Equity			
Capital and reserves			
Ordinary share capital and share premium	15.1	7 488	2 582
Perpetual preference share capital	15.2	779	779
Other reserves		2 024	1 501
Retained earnings		17 065	12 549
		27 356	17 411
Non-controlling interest		-	-
Total equity		27 356	17 411
Liabilities			
Liabilities arising from insurance contracts	16	30 818	25 797
Liabilities arising from reinsurance contracts	17	3 827	2 247
Financial liabilities			
- Puttable non-controlling interests	18	-	4 494
- Negative reserve funding	19	5 437	4 684
- Borrowings at amortised cost	20	954	572
- Investment contracts at fair value through profit or loss	21	10 059	8 264
- Derivatives	11	7	10
- Trade and other payables	22	5 506	3 752
Deferred income tax	23	5 077	4 647
Deferred revenue	24	192	157
Employee benefits	25	152	154
Current income tax liability		77	7
Total liabilities		62 106	54 785
Total equity and liabilities		89 462	72 196

Income statement

for the year ended 30 June 2015

R million	Notes	Group 2015 Audited	Group 2014 Audited
Insurance premium revenue		27 694	23 090
Reinsurance premiums		(3 113)	(2 182)
Net insurance premium revenue	26	24 581	20 908
Fee income from administration business		6 630	5 863
Vitality income		3 029	2 492
Receipt arising from reinsurance contracts	17	1 250	-
Investment income	27	507	414
- investment income earned on shareholder investments and cash		188	152
- investment income on assets backing policyholder liabilities		319	262
Net realised gains on available-for-sale financial assets	28	188	231
Net fair value gains on financial assets at fair value through profit or loss	29	3 124	4 278
Net income		39 309	34 186
Claims and policyholders' benefits		(15 805)	(11 718)
Insurance claims recovered from reinsurers		2 503	1 809
Net claims and policyholders' benefits	30	(13 302)	(9 909)
Acquisition costs	31	(5 294)	(4 296)
Marketing and administration expenses	32	(12 251)	(10 146)
Amortisation of intangibles from business combinations	7,9,32	(227)	(187)
Recovery of expenses from reinsurers		447	360
Transfer from assets/liabilities under insurance contracts		(2 541)	(3 726)
- change in assets arising from insurance contracts		3 278	2 816
- change in assets arising from reinsurance contracts		81	15
- change in liabilities arising from insurance contracts		(4 320)	(5 810)
- change in liabilities arising from reinsurance contracts	17	(1 580)	(747)
Fair value adjustment to liabilities under investment contracts	21	(912)	(1 224)
Profit from operations		5 229	5 058
Puttable non-controlling interests fair value adjustment	18	1 661	(201)
Finance costs	34	(197)	(220)
- finance costs raised on puttable non-controlling interest financial		(64)	(157)
- other finance costs		(133)	(63)
Foreign exchange gains	35	40	18
Realised gain from sale of associate		7	-
Share of net profit/(losses) from equity accounted investments	9	26	(14)
Profit before tax		6 766	4 641
Income tax expense	36	(1 214)	(1 327)
Profit for the year		5 552	3 314
Profit attributable to:			
- ordinary shareholders		5 480	3 246
- preference shareholders		72	68
- non-controlling interest		-	-
		5 552	3 314
Earnings per share for profit attributable to ordinary shareholders of the Company during the year (cents):	37		Restated
- basic		914.8	558.7
- diluted		902.2	545.1

Statement of comprehensive income

for the year ended 30 June 2015

R million	Group 2015 Audited	Group 2014 Audited
Profit for the year	5 552	3 314
Items that are or may be reclassified subsequently to profit or loss:		
Change in available-for-sale financial assets	(92)	(3)
- unrealised gains	72	272
- capital gains tax on unrealised gains	(11)	(87)
- realised gains transferred to profit or loss	(188)	(231)
- capital gains tax on realised gains	35	43
Currency translation differences	492	256
- unrealised gains	504	285
- deferred tax on unrealised gains	(12)	(29)
Cash flow hedges	58	(32)
- unrealised gains	143	51
- tax on unrealised gains	(23)	(9)
- current tax on unrealised gains	-	4
- gains recycled to profit or loss	(75)	(87)
- tax on recycled gains	13	9
Share of other comprehensive income from equity accounted investments	65	27
- change in available-for-sale financial assets	13	(*)
- currency translation differences	52	27
Other comprehensive income for the year, net of tax	523	248
Total comprehensive income for the year	6 075	3 562
Attributable to:		
- ordinary shareholders	6 003	3 494
- preference shareholders	72	68
- non-controlling interest	-	-
Total comprehensive income for the year	6 075	3 562

* Amount is less than R500 000.

Statement of changes in equity

for the year ended 30 June 2015

R million	Attributable to equity holders of the Company			
	Share capital and share premium	Preference share capital	Share-based payment reserve	Available-for-sale investments ⁽¹⁾
Year ended 30 June 2014				
At beginning of the year	1 470	779	319	253
Total comprehensive income for the year	-	68	-	(3)
Profit for the year	-	68	-	-
Other comprehensive income	-	-	-	(3)
Transactions with owners	1 112	(68)	-	-
Share buy-back ⁽²⁾	*	-	-	-
Share issue	1 030	-	-	-
Share issue costs	(2)	-	-	-
Increase in treasury shares	(22)	-	-	-
Delivery of treasury shares	105	-	-	-
Proceeds from treasury shares	1	-	-	-
Non-controlling interest share issues	-	-	-	-
Non-controlling interest share buy-back	-	-	-	-
Dividends paid to preference shareholders	-	(68)	-	-
Dividends paid to ordinary shareholders	-	-	-	-
At end of the year	2 582	779	319	250
Year ended 30 June 2015				
At beginning of the year	2 582	779	319	250
Total comprehensive income for the year	-	72	-	(79)
Profit for the year	-	72	-	-
Other comprehensive income	-	-	-	(79)
Transactions with owners	4 906	(72)	-	-
Proceeds from rights-issue	5 000	-	-	-
Delivery of treasury shares	*	-	-	-
Rights-issue costs	(94)	-	-	-
Dividends paid to preference shareholders	-	(72)	-	-
Dividends paid to ordinary shareholders	-	-	-	-
At end of the year	7 488	779	319	171

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

⁽²⁾ Amount is R12 441

* Amount is less than R500 000

Of the R17 065 million (2014: R12 549 million) held in retained earnings, R5 497 million (2014: R4 179 million) is distributable. The balance is held to meet the capital requirements in various Group companies.

Attributable to equity holders of the Company

Translation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total
546	135	10 204	13 706	2	13 708
283	(32)	3 246	3 562	-	3 562
-	-	3 246	3 314	-	3 314
283	(32)	-	248	-	248
-	-	(901)	143	(2)	141
-	-	-	*	-	*
-	-	-	1 030	-	1 030
-	-	-	(2)	-	(2)
-	-	14	(8)	-	(8)
-	-	(105)	-	-	-
-	-	-	1	-	1
-	-	-	-	1	1
-	-	-	-	(3)	(3)
-	-	-	(68)	-	(68)
-	-	(810)	(810)	-	(810)
829	103	12 549	17 411	-	17 411

829	103	12 549	17 411	-	17 411
544	58	5 480	6 075	-	6 075
-	-	5 480	5 552	-	5 552
544	58	-	523	-	523
-	-	(964)	3 870	-	3 870
-	-	-	5 000	-	5 000
-	-	-	*	-	*
-	-	-	(94)	-	(94)
-	-	-	(72)	-	(72)
-	-	(964)	(964)	-	(964)
1 373	161	17 065	27 356	-	27 356

Statement of cash flows

for the year ended 30 June 2015

R million	Notes	Group 2015 Audited	Group 2014 Audited
Cash flow from operating activities		3 415	2 813
Cash generated by operations	38.1	7 051	8 412
Receipts arising from reinsurance contracts		1 250	-
Net purchase of investments held to back policyholder liabilities		(5 232)	(6 036)
		3 069	2 376
Dividends received		499	362
Interest received		923	802
Interest paid		(131)	(63)
Taxation paid	38.2	(945)	(664)
Cash flow from investing activities		(2 229)	(1 102)
Net purchase of financial assets		(1 656)	(228)
Purchase of property and equipment		(172)	(208)
Proceeds from the sale of property and equipment		7	-
Purchase of intangible assets		(559)	(539)
Proceeds from the sale of intangible assets		9	27
Increase in investment in associate		(59)	(133)
Disposal of investment in associate		201	-
Purchase of businesses		-	(21)
Cash flow from financing activities		1 485	(176)
Proceeds from rights-issue	38.3	5 000	-
Rights-issue costs		(94)	-
Proceeds from issuance of ordinary shares		-	1 032
Proceeds from issuance of preference shares	38.3	-	45
Share buy-back		-	*
Share issue costs		-	(2)
Dividends paid to ordinary shareholders		(964)	(810)
Dividends paid to preference shareholders		(72)	(68)
Non-controlling interest share buy-backs		-	(3)
Settlement of puttable non-controlling interest liability		(2 844)	(352)
Increase in borrowings	38.4	1 992	-
Repayment of borrowings	38.4	(1 533)	(18)
Net increase in cash and cash equivalents		2 671	1 535
Cash and cash equivalents at beginning of the year		3 520	1 887
Exchange gains on cash and cash equivalents		60	98
Cash and cash equivalents at end of the year	14	6 251	3 520

* Amount is R12 441

Notes to the annual financial statements

for the year ended 30 June 2015

1. Segment information

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

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

- (i) **Health South Africa:** administers and provides managed care services to medical schemes and renders administration services to other business segments within the Group.
- (ii) **Life South Africa:** offers a range of insurance and financial solutions to the Group's clients against the financial impact of lifestyle-changing events in South Africa.
- (iii) **Invest South Africa:** offers, through a range of investment fund choices, including Discovery managed unit trusts, a comprehensive and flexible range of investment choices. These products are sold through a number of investment wrappers including Discovery Life policies and are offered to individuals in South Africa.
- (iv) **Vitality South Africa:** offers health and lifestyle benefits with selected partners to the Group's clients. This segment includes the DiscoveryCard which is offered to clients within South Africa.
- (v) **Health United Kingdom:** offers consumer-engaged private medical insurance products to employer groups and individuals in the United Kingdom. All contracts in this segment are short-term insurance contracts.
- (vi) **Life United Kingdom:** offers a risk-only life assurance product. All contracts in this segment are long-term assurance contracts offered to both employer groups and individuals in the United Kingdom.
- (vii) **New business development:** includes but is not limited to The Vitality Group in the United States of America, Ping An Health in China, AIA Vitality in Asia and Discovery Insure in South Africa. These businesses have been aggregated as they are all start-up businesses and are not expected to make a profit in the foreseeable future. This segment also includes expenses incurred to investigate new products and markets.
- (viii) **All other segments:** includes those segments that do not meet the quantitative thresholds set out in IFRS 8 and cannot be aggregated with another reportable segment. It includes costs incurred by Discovery Limited and Discovery Group Europe Limited.

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

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

- (i) The VitalityLife results are reclassified to account for the contractual arrangement as a reinsurance contract under IFRS 4.
- (ii) The Discovery Unit Trusts (DUT) are consolidated into Discovery's results for IFRS purposes. In the Segment information the DUT column includes the effects of consolidating the unit trusts into Discovery's results, effectively being the income and expenses relating to units held by third parties.
- (iii) Investment income on assets backing policyholder liabilities is included as part of the normalised profit from operations but is included together with shareholder investment income for IFRS purposes.

Notes to the annual financial statements

for the year ended 30 June 2015

1. Segment information continued

R million	SA Health	SA Life	SA Invest	SA Vitality
30 June 2015				
Income statement				
Insurance premium revenue	16	9 711	7 821	-
Reinsurance premiums	(2)	(1 579)	-	-
Net insurance premium revenue	14	8 132	7 821	-
Fee income from administration business	4 881	248	1 106	-
Vitality income	-	-	-	2 051
Receipt arising from reinsurance contracts	-	1 250	-	-
Investment income on assets backing policyholder liabilities	-	240	3	-
Finance charge on negative reserve funding	-	-	-	-
Inter-segment funding ¹	-	(457)	457	-
Net fair value gains on financial assets at fair value through profit or loss	-	688	1 680	-
Net income	4 895	10 101	11 067	2 051
Claims and policyholders' benefits	(1)	(5 173)	(5 296)	-
Insurance claims recovered from reinsurers	1	1 226	-	-
Net claims and policyholders' benefits	-	(3 947)	(5 296)	-
Acquisition costs	(5)	(1 606)	(713)	(64)
Marketing and administration expenses				
- depreciation and amortisation	(211)	(28)	-	-
- other expenses	(2 648)	(1 490)	(430)	(1 945)
Recovery of expenses from reinsurers	-	-	-	-
Transfer from assets/liabilities under insurance contracts				
- change in assets arising from insurance contracts	-	1 526	-	-
- change in assets arising from reinsurance contracts	-	(8)	-	-
- change in liabilities arising from insurance contracts	-	3	(4 015)	-
- change in liabilities arising from reinsurance contracts	-	(1 580)	-	-
Fair value adjustment to liabilities under investment contracts	-	(3)	(153)	-
Share of net profits from equity accounted investments	-	-	-	-
Normalised profit/(loss) from operations	2 031	2 968	460	42
Investment income earned on shareholder investments and cash	67	33	15	9
Net realised gains on available-for-sale financial assets	-	187	1	-
Once-off costs relating to business acquisitions	-	-	-	-
Costs relating to AIA restructure	-	-	-	-
Amortisation of intangibles from business combinations	-	-	-	-
Puttable non-controlling interests 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.

UK Health	UK Life	New business development	All other segments	Segment total	IFRS reporting adjustments			IFRS total
					UK Life	DUT	Normalised profit adjustments	
6 958	2 629	1 102	-	28 237	(543)	-	-	27 694
(1 314)	(543)	(218)	-	(3 656)	543	-	-	(3 113)
5 644	2 086	884	-	24 581	-	-	-	24 581
97	-	298	-	6 630	-	-	-	6 630
323	25	630	-	3 029	-	-	-	3 029
-	-	-	-	1 250	-	-	-	1 250
50	-	26	-	319	-	-	(319)	-
-	(314)	-	-	(314)	314	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	2 368	-	756	-	3 124
6 114	1 797	1 838	-	37 863	314	756	(319)	38 614
(4 393)	(471)	(715)	-	(16 049)	244	-	-	(15 805)
1 140	244	136	-	2 747	(244)	-	-	2 503
(3 253)	(227)	(579)	-	(13 302)	-	-	-	(13 302)
(535)	(1 914)	(143)	-	(4 980)	(314)	-	-	(5 294)
(107)	-	(66)	(1)	(413)	-	-	-	(413)
(2 125)	(860)	(1 598)	(59)	(11 155)	(176)	-	-	(11 331)
316	-	131	-	447	-	-	-	447
-	10	-	-	1 536	1 742	-	-	3 278
89	7	-	-	88	(7)	-	-	81
(276)	(13)	(26)	-	(4 327)	7	-	-	(4 320)
-	1 742	-	-	162	(1 742)	-	-	(1 580)
-	-	-	-	(156)	-	(756)	-	(912)
-	-	26	-	26	-	-	-	26
223	542	(417)	(60)	5 789	(176)	-	(319)	5 294
6	-	17	41	188	-	-	319	507
-	-	-	-	188	-	-	-	188
(366)	-	-	(54)	(420)	-	-	-	(420)
-	-	(87)	-	(87)	-	-	-	(87)
-	-	-	(227)	(227)	-	-	-	(227)
-	-	-	1 661	1 661	-	-	-	1 661
(4)	-	(2)	(155)	(197)	-	-	-	(197)
(23)	-	19	39	40	-	-	-	40
-	-	7	-	7	-	-	-	7
(164)	542	(463)	1 245	6 942	(176)	-	-	6 766
295	(176)	88	22	(1 390)	176	-	-	(1 214)
131	366	(375)	1 267	5 552	-	-	-	5 552

Notes to the annual financial statements

for the year ended 30 June 2015

1. Segment information *continued*

R million	SA Health	SA Life	SA Invest	SA Vitality
30 June 2014				
Income statement				
Insurance premium revenue	16	8 522	6 336	-
Reinsurance premiums	(2)	(1 186)	-	-
Net insurance premium revenue	14	7 336	6 336	-
Fee income from administration business	4 453	204	837	-
Guarantee received from HumanaVitality	-	-	-	-
Vitality income	-	-	-	1 886
Investment income on assets backing policyholder liabilities	-	204	-	-
Finance charge on negative reserve funding	-	-	-	-
Inter-segment funding ¹	-	(448)	448	-
Net fair value gains on financial assets at fair value through profit or loss	-	1 010	2 382	-
Net income	4 467	8 306	10 003	1 886
Claims and policyholders' benefits	(2)	(4 139)	(2 718)	-
Insurance claims recovered from reinsurers	-	896	-	-
Net claims and policyholders' benefits	(2)	(3 243)	(2 718)	-
Acquisition costs	-	(1 434)	(541)	(67)
Marketing and administration expenses				
- depreciation and amortisation	(183)	(31)	-	-
- other expenses	(2 428)	(1 385)	(328)	(1 781)
Recovery of expenses from reinsurers	-	-	-	-
Transfer from assets/liabilities under insurance contracts				
- change in assets arising from insurance contracts	-	1 156	-	-
- change in assets arising from reinsurance contracts	-	9	-	-
- change in liabilities arising from insurance contracts	-	(35)	(5 752)	-
- change in liabilities arising from reinsurance contracts	-	(747)	-	-
Fair value adjustment to liabilities under investment contracts	-	(5)	(333)	-
Share of net losses from equity accounted investments	-	-	-	-
Normalised profit/(loss) from operations	1 854	2 591	331	38
Investment income earned on shareholder investments and cash	32	39	16	7
Net realised gains on available-for-sale financial assets	-	228	2	-
Amortisation of intangibles from business combinations	-	-	-	-
Puttable non-controlling interest fair value adjustment	-	-	-	-
Finance costs	(22)	-	-	-
Foreign exchange gains/(losses)	-	-	5	-
Profit before tax	1 864	2 858	354	45
Income tax expense	(523)	(760)	(97)	(13)
Profit for the year	1 341	2 098	257	32

1. The inter-segment funding of R448 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.

UK Health	UK Life	New business development	All other segments	Segment total	IFRS reporting adjustments			IFRS total
					UK Life	DUT	Normalised profit adjustments	
6 259	1 920	603	-	23 656	(566)	-	-	23 090
(925)	(566)	(69)	-	(2 748)	566	-	-	(2 182)
5 334	1 354	534	-	20 908	-	-	-	20 908
94	-	265	-	5 853	-	-	10	5 863
-	-	10	-	10	-	-	(10)	-
215	-	391	-	2 492	-	-	-	2 492
47	-	11	-	262	-	-	(262)	-
-	(202)	-	-	(202)	202	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	3 392	-	886	-	4 278
5 690	1 152	1 211	-	32 715	202	886	(262)	33 541
(4 263)	(455)	(415)	-	(11 992)	274	-	-	(11 718)
852	274	61	-	2 083	(274)	-	-	1 809
(3 411)	(181)	(354)	-	(9 909)	-	-	-	(9 909)
(503)	(1 458)	(91)	-	(4 094)	(202)	-	-	(4 296)
(38)	-	(40)	(1)	(293)	-	-	-	(293)
(1 834)	(745)	(1 172)	(66)	(9 739)	(114)	-	-	(9 853)
292	-	68	-	360	-	-	-	360
-	388	-	-	1 544	1 272	-	-	2 816
6	5	-	-	20	(5)	-	-	15
-	(7)	(21)	-	(5 815)	5	-	-	(5 810)
-	1 272	-	-	525	(1 272)	-	-	(747)
-	-	-	-	(338)	-	(886)	-	(1 224)
-	-	(14)	-	(14)	-	-	-	(14)
202	426	(413)	(67)	4 962	(114)	-	(262)	4 586
5	-	14	39	152	-	-	262	414
-	-	-	1	231	-	-	-	231
-	-	-	(187)	(187)	-	-	-	(187)
-	-	-	(201)	(201)	-	-	-	(201)
(2)	(2)	-	(196)	(222)	2	-	-	(220)
(55)	-	-	68	18	-	-	-	18
150	424	(399)	(543)	4 753	(112)	-	-	4 641
2	(112)	25	39	(1 439)	112	-	-	(1 327)
152	312	(374)	(504)	3 314	-	-	-	3 314

Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk

Discovery enters into contracts that carry insurance risk or financial risk or both. The following table analyses the various contracts offered by the Group and the risks these contracts transfer.

Contracts offered by the Group	Contract type	Insurance risk	Financial risk
Discovery Life			
- Discovery Life Plan	Insurance	✓	
- Dollar Life Plan	Insurance	✓	
- Business Life Plan	Insurance	✓	
- Health Plan Protector	Insurance	✓	
- Discovery Retirement Optimiser: Linked	Unit-linked insurance	✓	✓
- Discovery Retirement Optimiser: Guaranteed	Insurance	✓	
- DiscoveryCard Protector	Insurance	✓	
- Global Education Protector	Insurance	✓	
- Supplementary Cancer Protector	Insurance	✓	
- Funeral Cover	Insurance	✓	
- Group Life	Insurance	✓	
- Destiny Provident Fund	Unit-linked investment		✓
Discovery Invest			
- Unit-linked contracts without significant insurance risk	Unit-linked investment		✓
- Unit-linked contracts with significant insurance risk	Unit-linked insurance	✓	✓
- Guaranteed return plans	Insurance	✓	✓
- Fixed annuities	Insurance	✓	✓
Discovery Insure			
- Short-term insurance	Insurance	✓	
VitalityHealth			
- Individual product	Insurance	✓	
- SME product	Insurance	✓	
- Corporate product	Insurance	✓	
VitalityLife			
- VitalityLife Life Plan	Insurance	✓	
- Essentials Plan	Insurance	✓	
- Guaranteed 50s Plus Plan	Insurance	✓	
- Relevant Life Plan	Insurance	✓	
- Business Protection Plan	Insurance	✓	
- Vitality Optimiser	Insurance	✓	

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

- **Management of insurance risks:** pages 52 to 79
- **Management of financial risks:** pages 80 to 101

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

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

Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk *continued*

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

Discovery assumes the following risks transferred from insurance contracts:

- Automatic increase take-up rate.
- Capital adequacy requirements and protection against adverse experience.
- Concentration risk.
- Currency risk.
- Expense risk.
- Lapse and surrender risk.
- Liquidity risk.
- Market and mismatching risk.
- Modeling and data risk.
- Operational/implementation risk.
- Policy wording/legal risks.
- Regulatory risk.
- Reputational risk.
- Tax risk.
- Underwriting experience risk.

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

2.1 Discovery Life and Discovery Invest

2.1.1 Product descriptions

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

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

Discovery Life Plan

The Discovery Life Plan provides protection against a comprehensive spectrum of risks. Discovery Life offers a Classic Life Plan with broad and comprehensive protection for the policyholder and his or her immediate family and an Essential Life Plan which offers cost effective protection for the principal policyholder and his or her spouse.

The Discovery Life Plan covers:

- Life Cover Benefits.
- Disability Benefits.
- Severe Illness Benefits.
- Income Continuation Benefits.

The Life Fund forms the base amount of cover insured under the Life Plan (the basic sum assured amount). The Life Fund can be linked to a benefit escalation rate, for example inflation, and will then automatically increase at each policy anniversary. The Life Fund can also be linked to global investment markets and a selection of currencies via

Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk *continued*

the Global Linkage Benefit to provide additional protection in real terms and in foreign currencies. The Cover Integrator allows for an increase in the Life Fund at a significantly reduced premium and further rewards policyholders for managing their health by engaging in Vitality. The Financial Integrator increases the Life Fund and offers protection against adverse financial events such as asset price depreciation, increases in interest rates, and depreciation and high severe illness claims. The Financial Integrator fluctuates on an annual basis to offer protection against the adverse financial events.

The key risk benefits are then defined as a percentage of the Life Fund. The Life Fund is reduced by the amount of benefits paid from the Life Fund. The Life Fund can be protected against claims by means of the Minimum Protected Fund. Multiple claims are allowed against the Life Fund from the same benefit.

There are a number of risk benefits that are defined in monetary terms or in form of indemnity benefits, rather than being expressed as a percentage of the Life Fund. These benefits include:

- Income Continuation Benefit.
- Global Education Benefit.
- Global Health Protector.

The Life Plan has unique features allowing policyholders to add benefits for other family members. The Global Education Protector, Global Health Protector, Childbirth Benefit, Child Severe Illness Benefit, Parent Severe Illness Benefit and Family Trauma Benefit allow protection for the whole immediate family.

By actively maintaining and improving their health, Discovery Life policyholders, through the Integrator Benefit, could receive premium discounts and refunds of premiums.

The Life Plan provides whole of life cover. Premium guarantees are offered and quantified on most benefits. For example, the premiums for Life Cover are guaranteed not to increase by more than 25% for any 10 year period.

The Life CoverBooster can also be added to the Life Plan. This benefit provides 32% additional life cover at no additional premium for 3 years. After 3 years, clients have guaranteed insurability that they can buy up the additional cover at a discount of up to 15%. In addition, the Life CoverBooster provides a 5% cash conversion whereby 5% of the CoverBooster amount will be paid out as a cash lump sum at age 65 to supplement retirement savings.

Premiums are payable monthly. There are various funding methods that allow policyholders a choice of premium funding patterns. A combination of level premium funding patterns, annually increasing premium patterns and ten-yearly stepped premium funding patterns are offered. The higher the compulsory future premium increase, the lower the starting premium.

The Dollar Life Plan offers the ability to specify the Sum Insured in US Dollars and pay premiums in Rands, but linked to the Rand/Dollar exchange rate. The Business Life Plan is tailored to the needs of business owners.

At 30 June 2015 there were 315 720 Life Plans with an annualised premium income of R6 935 million (2014: 303 370 Life Plans with an annualised premium income of R6 142 million). The annualised premium income is calculated by multiplying the monthly in-force premium at 30 June by 12 months.

Health Plan Protector

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

Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk *continued*

and Health Dividends. The Health Plan Protector can be added to the Life Plan or can be bought on a stand-alone basis. The Health Plan Protector provides cover up to age 65, however premiums are not guaranteed.

At 30 June 2015 there were 45 259 Health Plan Protector policies with an annualised premium income of R212 million (2014: 45 436 Health Plan Protector policies with an annualised premium income of R209 million).

Discovery Retirement Optimiser

The Discovery Retirement Optimiser offers funding for retirement and offers unique benefits that could together with the Life Plan, capitalise unneeded risk cover to boost retirement funding. Policyholders have a choice of linked investment portfolios or a portfolio that offers a guaranteed return in real terms.

As at 30 June 2015 there were 65 225 Discovery Retirement Optimiser policies of which 57 608 policies are linked to the Life Plan. These policies have an annualised premium income of R1 486 million (2014: 59 745 Discovery Retirement Optimiser policies, 53 225 of these policies were linked to the Life Plan, with an annualised premium income of R1 227 million).

DiscoveryCard Protector

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

At 30 June 2015 there were 10 153 DiscoveryCard Protector policies with an annualised premium income of R12 million (2014: 10 959 policies with an annualised premium income of R12 million).

Global Education Protector

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

At 30 June 2015 there were 1 832 stand-alone Global Education Protector policies with an annualised premium income of R7 million (2014: 2 172 stand-alone Global Education Protector policies with an annualised premium income of R7 million).

Supplementary Cancer Protector

The Supplementary Cancer Protector benefit will pay defined monthly amounts which can be used to meet costs that arise when a family is affected by cancer.

At 30 June 2015 there were 7 674 stand-alone Supplementary Cancer Protector policies with an annualised premium income of R23 million (2014: 7 646 Supplementary Cancer Protector policies with an annualised premium income of R20 million).

Funeral Cover

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

Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk *continued*

At 30 June 2015 there were 10 476 stand-alone Funeral Cover policies with an annualised premium income of R27 million (2014: 3 049 stand-alone Funeral Cover policies with an annualised premium income of R8 million).

Group Life

Discovery Life offers a comprehensive spectrum of protection benefits on a group basis. Life Cover, Severe Illness, Disability and Income Continuation Benefits are offered on a group basis. The policies offered under Group Life can be cancelled or the premiums adjusted at the end of the contract term (usually one year).

At 30 June 2015 there were 425 991 lives covered under group policies with an annualised premium income of R1 417 million (2014: 393 800 lives covered under group policies with an annualised premium income of R1 277 million).

Discovery Invest

Discovery Invest offers investors access to a comprehensive and flexible range of investment solutions which can be tailored to the needs of every investor.

A range of investment wrappers are provided to ensure flexibility and to optimise the investments according to the investment objectives and time horizon of the investor. A wrapper is the legal structure that allows policyholders to make underlying investments with different tax and other legal implications.

The following wrappers are available:

- **Endowment:** A medium-term investment vehicle that provides tax efficiencies for an investor with a five to ten year time horizon.
- **Flexible investment:** A flexible investment vehicle that allows tailor made investment solutions whilst providing immediate access to funds.
- **Retirement plan:** A long-term investment vehicle providing a tax efficient structure for saving towards retirement.
- **Preserver plans:** An investment vehicle that helps to ensure retirement benefits continue to grow on a tax efficient basis once a policyholder has left the retirement plan of an employer.
- **Retirement income plan:** Fixed and linked annuities are provided giving flexibility to meet retirement needs.

A comprehensive range of investment fund choices are provided including unique Discovery Invest funds. The funds include:

- **Discovery Invest funds:** Includes a comprehensive range of Discovery Invest's single and multi-manager funds across a range of asset classes.
- **Dynamically protected funds:** Unique Discovery Invest funds that are designed to protect investors against the major risks associated with investment choice, for example, underperformance by fund, asset class and geographic region.
- **Special purpose funds:** These funds are designed to provide solutions to investors looking to save for specific goals, such as retirement. These funds provide alternative and innovative management expertise.
- **External funds:** Discovery Invest provides a broad range of externally managed funds.

Integrating Invest and Discovery Life products reduces the cost of investment and enhances benefits available under the Invest plans.

- **Investment Integrator:** Uses inter alia the health improvements from Vitality and tax efficiencies created to offer a cost effective endowment and increase the value of the investment. A fee reduction of up to 100% can be achieved on both administration and asset management fees.

Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk *continued*

- **Annuity Integrator:** By releasing the value of a policyholder's life cover at retirement, the Annuity Integrator creates enhanced benefits for Discovery Retirement Income Plan investors. The benefits include increased retirement income, protection against longevity, protection against ill-health and protection against poor performance of underlying assets.
- **Guaranteed return plans:** Guaranteed return plans include the following:
 - The Guaranteed Growth Plan is a single premium endowment that provides a guaranteed return at the end of five years.
 - The Guaranteed Income Plan provides a guaranteed return at the end of five years on the chosen percentage of the lumpsum contribution. The remainder of the lumpsum will provide a monthly or annual income.
- **Upfront Investment Integrator:** Provide an upfront boost to the investment values provided on the Endowment plan.
- **Life Booster:** Provide a boost to the investment fund value on death of between 5% and 15% depending on the member's Vitality status.

At 30 June 2015 there were 118 413 Invest plans with an annualised premium equivalent of R5 103 million (2014: 100 172 Invest plans with an annualised premium equivalent of R4 233 million). The annualised premium equivalent includes 10% of the value of single premium policies.

2.1.2 Insurance risks

Market and mismatching risk

Mismatching risk is the risk that movements in assets and liabilities are out of line given changes in market conditions as defined on page 80.

Discovery Life

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

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

R million	Total	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2015						
Discovery Life	18 248	1 648	5 363	3 960	3 718	3 559
2014						
Discovery Life	15 604	1 456	4 839	3 588	3 128	2 593

The discount rate is set with reference to the prevailing risk free SA gilt yield. The value of assets under insurance contracts is subject to interest rate risk.

Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk *continued*

Assets under insurance contracts in the statement of financial position include assets for both Discovery Life and VitalityLife, as well as negative assets arising from insurance contracts (unit-linked policyholder liabilities) relating to the Discovery Retirement Optimiser product, which is attached to a Life Plan. Reconciliation of the assets under insurance contracts disclosed in the cash flows above to the statement of financial position (note 5):

R million	2015	2014
Assets arising from insurance contracts at end of year	19 658	16 327
Adjusted for:		
- Unit-linked policyholder liabilities	6 747	5 233
- Assets arising from insurance contracts relating to VitalityLife	(8 157)	(5 956)
Discovery Life value of assets under insurance contracts	18 248	15 604

Discovery Invest

For Discovery Invest, the insurance related cash outflows are matched with a combination of a release of policyholder assets (net of retained fees), investment return on these assets and Discovery Life cash flows.

The expected discounted future cash flows in the calculation of liabilities under insurance contracts are disclosed in the table below. The discount rate is set with reference to the prevailing risk free SA gilt yield.

R million	Total	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2015						
Discovery Invest	(4 107)	(1 229)	(3 698)	381	364	75
2014						
Discovery Invest	(5 150)	(2 210)	(3 574)	284	282	68

Reconciliation of the liabilities under insurance contracts disclosed in the cash flows above to the statement of financial position (note 16):

R million	2015	2014
Long-term insurance contract liabilities with fixed and guaranteed terms	6 032	6 669
Negative insurance liability included in unit-linked insurance contracts	(1 925)	(1 519)
Discovery Invest value of liabilities under insurance contracts	4 107	5 150

There is thus a risk that a change in the risk free SA gilt yield could cause a change in the value of the assets and liabilities under insurance contracts.

The outstanding claims and incurred but not reported claims are mostly short-term in nature and have consequently been matched with cash.

The risk under the Global Linkage Benefit is fully reinsured and Discovery does not face any net direct market risk. In the event of the reinsurer defaulting, the investments held by the reinsurer to hedge their risk relating to the Global Linkage Benefit, will be ceded to Discovery Life.

[Automatic increase take-up rate](#)

The majority of Discovery Life Plan policyholders have selected policies with automatic contractual premium and benefit increases.

Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk *continued*

Recurring premium Invest plans have various automatic increase options ranging from 0% up to 20% per annum. A CPI-linked option is also available. The majority of Invest policyholders have selected plans with automatic benefit increases.

The automatic increases increase the profitability of the plans to Discovery over time since the cash flows under the policy are maintained in real terms

Lapse and surrender risk

Policyholders have the option to discontinue or reduce contributions at any time.

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

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

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

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

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

The lapse risk is managed as follows:

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

Integration between different product offerings across Discovery enhances the value proposition of the overall package of products from Discovery. For example, Vitality provides unique rewards and benefits to members who have proven to be a credible risk differentiator. Premium discounts are available to policyholders who actively engage in a healthier lifestyle and utilise the Vitality benefit. Better terms are thus offered to healthy lives compared to less healthy lives.

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

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

Notes to the annual financial statements

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2. Management of insurance risk *continued*

- *Client relationships*
All premiums are collected via debit order. Clients are contacted after a failed debit order and after notification of a cancellation. The reason for the cancellation is established and wherever possible the policies are conserved.
- *Reinsurance*
Discovery has reinsurance treaties that protect a part of the assets under insurance contracts against a substantial increase in lapses. The reinsurance protects Discovery Life against the loss of assets under insurance contracts in the event that the aggregate lapse rate exceeds a predefined level.
- *Experience monitoring*
Lapse experience is monitored on a monthly basis and the data is analysed to establish possible trends for which management action can be taken.
- *Proactive conservation*
Targeted conservation campaigns are run for example, financial advisors are notified of clients that do not have certain features on their policies that are correlated with good persistency. Financial advisors are thus encouraged to add such features.

Underwriting experience risk

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

On guaranteed annuities there is a risk that mortality experience is lower than expected and thus income payments continue for longer than expected. The guaranteed annuity book of Discovery Life was insignificant at 30 June 2015.

Discovery Life does not offer any deferred annuities where the annuity rate at a future point in time is guaranteed for new entrants.

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

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

There is a risk that the emergence of a new disease or epidemic can increase the number of claims.

The risks are managed through:

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

Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk *continued*

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

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

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

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

Overall, Discovery Life has experienced better than anticipated claims experience during every reporting period since its inception in 2001.

- *Underwriting*

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

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

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

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

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

- *Reinsurance*

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

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

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

Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk *continued*

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

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

Expense risk

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

Modelling and data risk

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

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

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

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

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

Operational / Implementation risk

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

Regulatory risk

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

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

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

Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk *continued*

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

Tax risk

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

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

Currency risk

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

Capital adequacy requirements and protection against adverse experience

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

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

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

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

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

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

At 30 June 2015, the statutory capital adequacy requirement was R557 million and was covered 3.9 times (2014: the statutory capital adequacy requirement was R522 million and was covered 3.8 times).

Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk *continued*

Looking towards the future anticipated solvency regime (Solvency Assessment and Management, or SAM) expected to be implemented from 2016, Discovery Life has calculated its solvency position on a QIS3 basis at 30 June 2013, 30 June 2014 and June 2015. A consistent level of solvency cover, comfortably in excess of the statutory minimum, was observed at all these valuation dates.

Liquidity risk

Liquidity risk arises due to a timing mismatch between the assets and liabilities.

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

Currently, Discovery Life's expected outflows are mostly long-term and the main liquidity requirement is to fund acquisition expenses on new business and unexpected fluctuations in benefit payments. As discussed in 3.4.3, Discovery invests primarily in liquid financial assets. There is a need to meet liquidity requirements under the growing Guaranteed Plan book. Liquidity requirements are managed to ensure a liquidity buffer is maintained to meet potential outflows if exit rates are higher than expected. The liquidity risk on the existing portfolio is thus relatively small.

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

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

R million	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2015					
Discovery Life	904	3 806	3 892	4 619	4 818
Discovery Invest	450	922	601	588	101
2014					
Discovery Life	984	3 795	3 871	4 696	5 861
Discovery Invest	570	1 150	745	687	105

The cash flows in the table above differ from those disclosed on pages 57 and 58, since these are based on best estimate free cash flows after meeting policyholder liabilities. Cash flows arising under investment management contracts are also included. No allowance has been made for new business and related expenses.

Policy wording / legal risks

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

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

Reputational risk

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

Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk *continued*

Reputational risks are controlled in that all decisions to repudiate claims are reviewed by the Chief Medical Officer and legal advice is obtained where necessary.

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

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

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

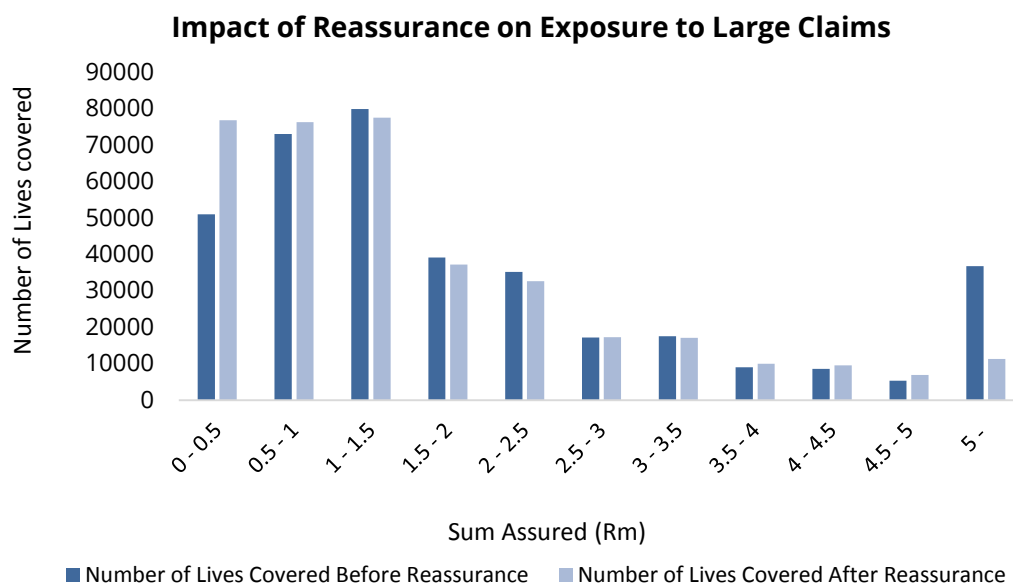
Concentration risk

- *Claims experience risk*

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

Discovery Life maintains a well-diversified portfolio of policies. Reinsurance is further used to protect against the concentration of risk. Catastrophe reinsurance protects against accumulation of claims from a single event, for example an airplane crash. The catastrophe reinsurance covers single event disasters for up to R400 million where the net of reinsurance impact is greater than R40 million.

Reinsurance removes the exposure to large individual claims. The table below demonstrates that the distribution of policies by sum assured is shifted towards lower sum assured due to the reinsurance cover:



Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk continued

- *Withdrawal concentration risk*

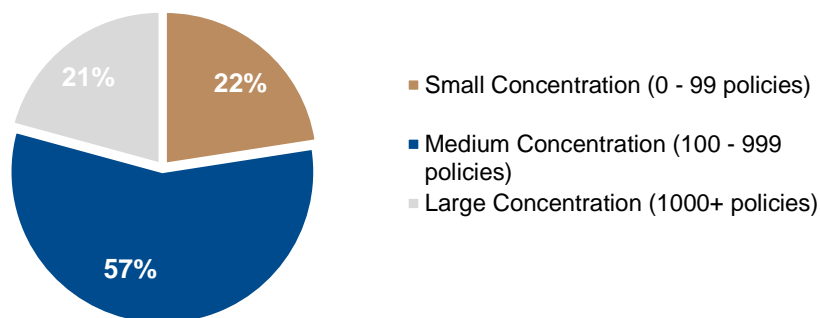
There is a financial risk of the withdrawal of a block of policies written by a single independent intermediary.

Discovery Life has a well-diversified book of business by source of new business and spread across more than 7 600 (2014: 7 700) brokers and agents.

The maximum exposure of Discovery Life to a single intermediary is smaller than 1.2% (2014: 1.5%) and to a group of intermediaries is 2.4% (2014: 2%) as a percentage of total premium income.

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

API Concentration by intermediary



2.1.3 Sensitivity analysis

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

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

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

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

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

Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk *continued*

The following sensitivities are provided under insurance risk:

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

Assets under insurance contracts in the statement of financial position include assets for both Discovery Life and VitalityLife. The total assets under insurance contracts gross of reinsurance recoveries are R21 726 million (2014: R17 999 million) (refer note 5). R8 157 million (2014: R5 956 million) of this relates to VitalityLife. The sensitivities in the table below relate to Discovery Life and are gross of reinsurance.

	Assets under insurance contracts R million	Change from base assumption %
Base: June 2015 assumptions	13 569	
Lapses +10% (eg. from x% to 1.1x%)	11 738	(13.5)
Lapses -10% (eg. from x% to 0.9x%)	15 815	16.6
Investment return and inflation -1% (eg. from 5% to 4%)	14 543	7.2
Investment return and inflation +1% (eg. from 5% to 6%)	12 748	(6.1)
Expense assumption +10%	13 299	(2.0)
Expense assumption -10%	13 840	2.0
Mortality and morbidity +10%	10 543	(22.3)
Mortality and morbidity -10%	16 771	23.6
Base: June 2014 assumptions	12 043	
Lapses +10% (eg. from x% to 1.1x%)	10 381	(13.8)
Lapses -10% (eg. from x% to 0.9x%)	14 066	16.8
Investment return and inflation -1% (eg. from 5% to 4%)	12 873	6.9
Investment return and inflation +1% (eg. from 5% to 6%)	11 304	(6.1)
Expense assumption +10%	11 803	(2.0)
Expense assumption -10%	12 275	1.9
Mortality and morbidity +10%	9 211	(23.5)
Mortality and morbidity -10%	14 938	24.0

Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk continued

The sensitivities in the table below relate to Discovery Life and are net of reinsurance recoveries of R2 068 million (2014: R1 672 million) (refer note 5).

	Assets under insurance contracts R million	Change from base assumption %
Base: June 2015 assumptions	11 501	
Lapses +10% (eg. from x% to 1.1x%)	9 843	(14.4)
Lapses -10% (eg. from x% to 0.9x%)	13 542	17.7
Investment return and inflation -1% (eg. from 5% to 4%)	12 382	7.7
Investment return and inflation +1% (eg. from 5% to 6%)	10 750	(6.5)
Expense assumption +10%	11 231	(2.4)
Expense assumption -10%	11 772	2.4
Mortality and morbidity +10%	8 835	(23.2)
Mortality and morbidity -10%	14 407	25.3
Base: June 2014 assumptions	10 371	
Lapses +10% (eg. from x% to 1.1x%)	8 857	(14.6)
Lapses -10% (eg. from x% to 0.9x%)	12 227	17.9
Investment return and inflation -1% (eg. from 5% to 4%)	11 136	7.4
Investment return and inflation +1% (eg. from 5% to 6%)	9 690	(6.6)
Expense assumption +10%	10 135	(2.3)
Expense assumption -10%	10 607	2.3
Mortality and morbidity +10%	7 870	(24.1)
Mortality and morbidity -10%	13 000	25.4

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

For long-term insurance liabilities relating to fixed and guaranteed contracts and unit-linked contracts (refer to reconciliation on page 58), the sensitivities are detailed in the table below:

	Liabilities under insurance contracts R million	Change from base assumption %
Base: June 2015 assumptions	4 107	
Lapses +10% (eg. from x% to 1.1x%)	4 123	0.4
Lapses -10% (eg. from x% to 0.9x%)	4 089	(0.4)
Investment return and inflation -1% (eg. from 5% to 4%)	4 324	5.3
Investment return and inflation +1% (eg. from 5% to 6%)	3 899	(5.1)
Expense assumption +10%	4 130	0.6
Expense assumption -10%	4 084	(0.6)
Mortality and morbidity +10%	4 121	0.3
Mortality and morbidity -10%	4 091	(0.4)

Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk *continued*

	Liabilities under insurance contracts R million	Change from base assumption %
Base: June 2014 assumptions	5 150	
Lapses +10% (eg. from x% to 1.1x%)	5 179	0.6
Lapses -10% (eg. from x% to 0.9x%)	5 117	(0.6)
Investment return and inflation -1% (eg. from 5% to 4%)	5 350	3.9
Investment return and inflation +1% (eg. from 5% to 6%)	4 959	(3.7)
Expense assumption +10%	5 168	0.4
Expense assumption -10%	5 131	(0.4)
Mortality and morbidity +10%	5 161	0.2
Mortality and morbidity -10%	5 138	(0.2)

2.2 VitalityLife

2.2.1 Product description

VitalityLife Plan

The VitalityLife Plan is a lifestyle protection plan which allows customers to select from a menu of benefits which includes:

- Life cover.
- Serious illness cover.
- Capital disability cover.
- Income protection insurance.
- Family income cover.
- Education cover.
- Health cover.
- Waiver of premium on death, serious illness and/or incapacity.
- Additional optional serious illness cover for children.

The VitalityLife Plan has at its basis a Plan Account. The Plan Account defines the amount paid out under any benefit that is attached to it (the sum assured). The benefits that are attached to the Plan Account are expressed as a percentage of the Plan Account's value.

The Plan Account can be structured to provide cover that is level, increasing or decreasing.

The VitalityLife Plan can be written on a single or joint life basis and cover may be stand-alone or limited to the Plan Account whereby claims would accelerate payment of the Plan Account. Premiums are payable monthly in advance and can be guaranteed or reviewable. Premiums can either be level, increase at a fixed rate or increase at a rate related to the Retail Price Index in the UK. The Plan does not offer any surrender value.

The VitalityLife Plan provides extensive severity-based cover for serious illness. At 30 June 2015, there were 250 834 VitalityLife policies with an annualised premium income of GBP 167 million (R3 013 million), (2014: 199 901 VitalityLife policies with an annualised premium income of GBP 132 million (R2 252 million)).

Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk *continued*

Essentials Plan

The Essentials Plan is a cost effective version of the VitalityLife Plan and provides roughly the same type of benefits and has the same structure.

Guaranteed 50 Plus Plan

The Guaranteed 50 Plus Plan will pay out a fixed cash lump sum in the event of death, provided that the policy has been held for at least one year. It also provides guaranteed acceptance for people aged between 50 and 75, living in the UK.

Relevant Life Plan

The Relevant Life Plan is a Life cover only plan with substantial tax benefits for employers wanting to provide life cover for their employees. The structure is the same as for life cover on the above mentioned plans and includes the option to take different Vitality wellness program benefits.

Business Protection Plan

The Business Protection Plan provides insurance protection for businesses via key person cover, shareholder/partnership cover and/or loan protection.

Vitality Optimiser

The Vitality Optimiser offers an upfront premium discount that varies in size depending on the policy term. Depending on engagement in the Vitality wellness programme, the premium discount can be increased, maintained or will be eroded over time.

2.2.2 Insurance risks

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

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

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

Market and mismatching risk

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

Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk *continued*

Lapse risk

Policyholders have the option to discontinue or reduce contributions at any time.

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

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

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

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

The lapse risk is managed as follows:

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

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

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

- *Commission clawback*
VitalityLife predominantly distributes via independent intermediaries.

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

- *Client relationships*
All premiums are collected via debit order. Clients are contacted after a failed debit order and after notification of a cancellation. The reason for the cancellation is established and wherever possible the policy is conserved.
- *Experience monitoring*
Lapse experience is monitored on a monthly basis and analysed to establish possible trends for which management action can be taken. Data is currently not sufficient to provide credible results, so significant reliance is placed on reinsurers' advice, industry experience as well as experience from Discovery Life.

Underwriting experience risk

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

Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk *continued*

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

There is a risk that the emergence of a new disease or epidemic can increase the number of claims.

The risks are managed through:

- *Product design and pricing*

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

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

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

- *Underwriting*

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

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

- *Reinsurance*

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

- *Experience monitoring*

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

Expenses

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

Modelling and data risk

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

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

Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk *continued*

Any changes made to the model are reviewed.

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

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

Operational/ Implementation risk

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

Regulatory risk

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

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

Tax risk

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

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

Currency risk

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

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

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

Solvency capital requirements and protection against adverse experience

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

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

Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk *continued*

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

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

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

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

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

Liquidity risk

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

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

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

Policy wording / legal risks

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

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

Reputational risk

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

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

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

Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk *continued*

Concentration risk

- *Claims experience risk*

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

- *Withdrawal concentration risk*

There is a financial risk of the withdrawal of a block of policies written by a single independent intermediary. VitalityLife has a well-diversified book of business by source of new business and spread across more than 20 145 (2014: 18 600) brokers and agents. The maximum exposure of VitalityLife to a single intermediary is smaller than 0.6% (2014: 1%) of annualised premium income.

2.2.3 Sensitivity analysis

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

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

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

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

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

The following sensitivities are provided under insurance risk:

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

Assets under insurance contracts in the statement of financial position include assets for both Discovery Life and VitalityLife. The total assets under insurance contract are R19 658 million (2014: R16 327 million) (refer note 5). R8 157 million (2014: R5 956 million) of this relates to VitalityLife. The sensitivities in the table to follow, relate to VitalityLife.

Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk continued

	Assets under insurance contracts R million	Change from base assumption %
Base: June 2015 assumptions	8 157	
Lapses +10% (eg. from x% to 1.1x%)	8 029	(1.6)
Lapses -10% (eg. from x% to 0.9x%)	8 284	1.6
Investment return and inflation -1% (eg. from 5% to 4%)	7 490	(8.2)
Investment return and inflation +1% (eg. from 5% to 6%)	8 490	4.1
Expense assumption +10%	8 008	(1.8)
Expense assumption -10%	8 306	1.8
Mortality and morbidity +10%	7 717	(5.4)
Mortality and morbidity -10%	8 601	5.4
Base: June 2014 assumptions	5 956	
Lapses +10% (eg. from x% to 1.1x%)	5 895	(1.0)
Lapses -10% (eg. from x% to 0.9x%)	6 011	0.9
Investment return and inflation -1% (eg. from 5% to 4%)	5 451	(8.5)
Investment return and inflation +1% (eg. from 5% to 6%)	6 243	4.8
Expense assumption +10%	5 852	(1.7)
Expense assumption -10%	6 059	1.7
Mortality and morbidity +10%	5 667	(4.9)
Mortality and morbidity -10%	6 247	4.9

2.3 VitalityHealth

2.3.1 Product description

VitalityHealth offers three main product types:

Individual product

This is offered to the retail market either direct or via a broker. The product features include:

- **Private Medical Insurance:** Cover is offered for a range of private healthcare-related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions.
- **Starter discounts:** Discounts are available based on answers to healthcare questions.
- **Renewal discounts:** Discounts are offered at renewal depending on claims and Vitality status.
- **Vitality rewards:** A full Vitality package is offered, including gym offering and healthcare-related rewards.

SME product

This is an age-rated product offered to small groups (2-100) either direct or via a broker. The product features include:

- **Private Medical Insurance:** Cover is offered for a range of private healthcare-related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions.
- **Renewal discounts for employers:** Discounts are offered at renewal depending on loss ratio.
- **Cashback:** Employees may be eligible for cash bonuses depending on the amount claimed during the period and their Vitality status and depending on the VitalityHealth cover selected by their employer.
- **Vitality rewards:** A full Vitality package is offered, including gym offering and healthcare-related rewards.

Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk *continued*

Corporate product

This is a product offered by brokers and employee benefit consultants. The product features include:

- **Private Medical Insurance:** Cover is offered for a range of private healthcare-related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions.
- **Cashback:** Companies can select their desired level of cashback with VitalityHealth. If selected, employees are eligible for cash bonuses depending on the amount claimed during the period and their Vitality status.
- **Vitality rewards:** A full Vitality package is offered, including gym offering and healthcare-related rewards.

At 30 June 2015, there were 544 831 VitalityHealth members with an annualised premium income of GBP 389.2 million (R7 022 million). (2014: 552 365 VitalityHealth members with an annualised premium income of GBP 382.5 million (R6 526 million)).

2.3.2 Insurance risks

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

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

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

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

VitalityHealth currently has quota share agreements in place with three reinsurers with an outstanding balance of GBP 57.2 million (R1 098 million) at year end (2014: GBP 42 million (R763 million)).

Capital adequacy requirements and protection against adverse experience

VitalityHealth maintains shareholder capital to meet substantial deviations in experience.

At 30 June 2015, the statutory capital adequacy requirement was GBP 109.2 million (R2 096 million). (2014: GBP 79.5 million (R1 444 million)). VitalityHealth currently holds capital resources that are 8% (2014: 34%) in excess of the highest level of capital resources requirement.

2.3.3 IBNR calculation

VitalityHealth adopts two reserving methodologies. Firstly, the 'chain ladder' approach which assumes that there is stability in the delays from treatment date to payment date and therefore future payments can be estimated using historical experience. Secondly, an 'independent measure' approach applied to the most recent treatment months,

Notes to the annual financial statements

for the year ended 30 June 2015

2. Management of insurance risk *continued*

which assumes that the total costs arising from each month of treatment can be estimated independent of any payments already made. The Reserving Committee considers both of these measures when setting the actual reserves.

The IBNR is GBP 54 million (R1 037 million) at 30 June 2015 (2014: GBP 34 million (R618 million)), which approximates one and a half months' worth of claims. This is the expected delay in claims reporting estimate by the two approaches discussed above.

2.3.4 Sensitivity analysis

A 1% increase in the expected claims would result in a loss of GBP 0.5 million (R8 million) after tax ((2014: GBP 0.2 million) (R4 million)). A 1% decrease in the expected claims would result in a profit of GBP 0.5 million (R8 million) after tax ((2014: GBP 0.2 million) (R4 million)). The sensitivity is based on the assumption that the expected claims had increased/decreased by 1% with all other variables held constant.

2.4 Discovery Insure

2.4.1 Product description

The policies underwritten by Discovery Insure are as follows:

Motor

Provides cover for loss, damage and liabilities arising from the use or ownership of motor vehicles. The cover includes comprehensive, third party, fire, theft and third party liability cover.

Property

Provides cover for loss or damage from specified events – such as fire, storm, theft etc. – to movable and immovable property belonging to the insured.

Liability

Provides cover for risks relating to the insured incurring personal liability to specified third parties which are not specifically covered under another insurance contract.

At 30 June 2015, 76% (2014: 73%) of insurance premium revenue related to motor policies and 24% (2014: 27%) to property policies.

2.4.2 Insurance risks

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

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

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2. Management of insurance risk *continued*

Discovery Insure also mitigates its insurance risk through the use of telematics. The telemetry received in respect of vehicles in which the devices are installed, highlights speeding, harsh braking, harsh cornering and other risk related incidents. By informing the driver of how they are driving and in turn rewarding them for driving well, the risk of an accident is reduced. The 'deep install' device is also equipped with a stolen vehicle recovery transponder that increases the probability of recovering a vehicle should it be stolen.

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

Underwriting strategy

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

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

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

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

Reinsurance strategy

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

Concentrations of risk

There is a risk that a concentration of risk can lead to worse than expected claims experience. Discovery Insure is exposed to a concentration of insurance risk in the Gauteng province of South Africa where 59% (2014: 60%) of the company's total sum insured is domiciled. In order to manage this concentration of insurance risk, the company has entered into a catastrophe excess of loss reinsurance treaty that would limit the loss of the company to pre-determined levels following the occurrence of a localised catastrophe in this area.

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3. Management of financial risk

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

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

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

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

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

Financial risks are managed by Discovery as follows:

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

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

To assist in the analysis of the financial risks that Discovery is exposed to, the statement of financial position has been divided into the following categories:

- Unit-linked investment contracts.
- Unit-linked insurance contracts.
- Other insurance contracts.
- Shareholder financial assets and liabilities.
- Shareholder non-financial assets and liabilities.

The table on page 52 lists the contracts that Discovery offers and the category they are included in for financial risk disclosure

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3. Management of financial risk continued

The following tables reconcile the Group statement of financial position to the classes of risks and the categories listed on the previous page. The look-through basis has been applied to investments in mutual funds to assist in the identification of Discovery's financial risks.

R million	Total	Unit-linked investment contracts	Unit-linked insurance contracts	Insurance contracts	Shareholder	
					Financial assets and liabilities	Other assets and liabilities
30 June 2015						
Assets arising from insurance contracts	21 726	-	(6 747)	28 473	-	-
Financial instruments at fair value through profit or loss:						
Listed:						
- Equity securities	23 709	6 833	16 792	84	-	-
- Equity linked notes	2 613	214	2 398	1	-	-
- Debt securities	9 750	1 506	3 763	4 481	-	-
- Inflation linked securities	312	41	52	219	-	-
- Money market securities	2 185	432	1 720	33	-	-
Unlisted:						
- Equity securities	112	33	79	-	-	-
- Debt securities	186	60	100	26	-	-
- Money market securities	1 265	333	800	132	-	-
Available-for-sale financial instruments:						
Listed:						
- Equity securities	583	-	-	-	583	-
- Equity linked notes	20	-	-	-	20	-
- Debt securities	590	-	-	-	590	-
- Inflation linked securities	6	-	-	-	6	-
- Money market securities	5 137	-	-	-	5 137	-
Unlisted:						
- Debt securities	125	-	-	-	125	-
- Money market securities	2 993	-	-	-	2 993	-
Derivative financial instruments at fair value:						
- Hedges	824	-	-	-	824	-
- Non-hedges	1	-	-	1	-	-
Loans and receivables:						
- Insurance receivables	1 379	-	-	-	1 379	-
- Other	2 505	64	232	1	2 208	-
Reinsurance contracts	362	-	-	362	-	-
Cash and cash equivalents	6 251	637	1 651	8	3 955	-
Other assets	6 828	-	-	-	-	6 828
Total assets	89 462	10 153	20 840	33 821	17 820	6 828
Liabilities arising from insurance contracts	30 818	-	20 651	10 167	-	-
Liabilities arising from reinsurance contracts	3 827	-	-	3 827	-	-
Negative reserve funding	5 437	-	-	-	5 437	-
Borrowings at amortised cost	954	-	-	-	954	-
Investment contracts at fair value through profit or loss	10 059	10 059	-	-	-	-
Derivative financial instruments at fair value:						
- Hedges	4	-	-	-	4	-
- Non-hedges	3	-	-	2	1	-
Trade and other payables	5 506	94	189	1	5 222	-
Other liabilities	5 498	-	-	-	-	5 498
Total liabilities	62 106	10 153	20 840	13 997	11 618	5 498

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3. Management of financial risk continued

R million	Total	Unit-linked investment contracts	Unit-linked insurance contracts	Insurance contracts	Shareholder	
					Financial assets and liabilities	Other assets and liabilities
30 June 2014						
Assets arising from insurance contracts	17 999	-	(5 233)	23 232	-	-
Financial instruments at fair value through profit or loss:						
Listed:						
- Equity securities	17 626	5 411	12 156	59	-	-
- Equity linked notes	2 954	515	2 439	-	-	-
- Debt securities	7 882	1 076	2 903	3 903	-	-
- Inflation linked securities	456	119	148	189	-	-
- Money market securities	355	81	269	5	-	-
Unlisted:						
- Equity securities	11	2	9	-	-	-
- Debt securities	353	3	6	344	-	-
- Money market securities	3 116	763	2 341	12	-	-
Available-for-sale financial instruments:						
Listed:						
- Equity securities	891	-	-	-	891	-
- Equity linked notes	27	-	-	-	27	-
- Debt securities	1 631	-	-	-	1 631	-
- Inflation linked securities	77	-	-	-	77	-
- Money market securities	2 888	-	-	-	2 888	-
Unlisted:						
- Debt securities	138	-	-	-	138	-
- Money market securities	1 926	-	-	-	1 926	-
Derivative financial instruments at fair value:						
- Hedges	585	-	-	-	585	-
- Non-hedges	3	-	-	-	3	-
Loans and receivables:						
- Insurance receivables	1 155	-	-	-	1 155	-
- Other	1 955	76	281	-	1 598	-
Reinsurance contracts	266	-	-	266	-	-
Cash and cash equivalents	3 650	322	598	2	2 728	-
Other assets	6 252	-	-	-	-	6 252
Total assets	72 196	8 368	15 917	28 012	13 647	6 252
Liabilities arising from insurance contracts	25 797	-	15 630	10 167	-	-
Liabilities arising from reinsurance contracts	2 247	-	-	2 247	-	-
Puttable non-controlling interests	4 494	-	-	-	4 494	-
Negative reserve funding	4 684	-	-	-	4 684	-
Borrowings at amortised cost	572	39	91	-	442	-
Investment contracts at fair value through profit or loss	8 264	8 264	-	-	-	-
Derivative financial instruments at fair value:						
- Hedges	3	-	-	-	3	-
- Non-hedges	7	-	-	-	7	-
Trade and other payables	3 752	65	196	-	3 491	-
Other liabilities	4 965	-	-	-	-	4 965
Total liabilities	54 785	8 368	15 917	12 414	13 121	4 965

Notes to the annual financial statements

for the year ended 30 June 2015

3. Management of financial risk *continued*

The financial risks associated with each category are discussed below.

3.1 Unit-linked investment contracts

Unit-linked investment contracts relate to contracts where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. The market risk (including equity price, interest rate and currency risk) for these contracts is therefore borne by the policyholder. Discovery holds the assets on which the unit prices are based and as a result there is no mismatch.

R million	Investments held at risk of investment policyholders	
	June 2015	June 2014
Financial assets at fair value through profit or loss:		
Listed:		
- Equity securities	6 833	5 411
- Equity linked notes	214	515
- Debt securities	1 506	1 076
- Inflation linked securities	41	119
- Money market securities	432	81
Unlisted:		
- Equity securities	33	2
- Debt securities	60	3
- Money market securities	333	763
Loans and receivables	64	76
Cash and cash equivalents	637	322
Total assets	10 153	8 368
Total liabilities	10 153	8 368

3.1.1 Market risk

Discovery's primary exposure to market risk from these contracts is the volatility in asset management fees earned by Discovery, due to the impact of interest rate, equity price and currency movements on the fair value of the assets held in the linked funds, on which the investment management fees are based. A decrease of 10% in the value of the assets would reduce the asset management fees by R22 million per annum (2014: R17 million).

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

3.1.2 Credit risk

To manage the credit risk, Discovery has appointed reputable external asset managers to manage these investments.

3.1.3 Liquidity risk

Certain contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. This surrender value is equal to or less than the carrying amount of the contract liabilities. If all the contracts with this option were surrendered at the financial year-end, a loss of R214 million (2014: R199 million)

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3. Management of financial risk *continued*

would have been recorded in profit or loss. This loss results from the deferred acquisition cost and deferred revenue liability relating to these contracts being impaired, but the impact is reduced by the surrender penalties receivable.

A maturity analysis based on the earliest contractual repayment date would present 100% (2014: 100%) of the policyholder liabilities due within one year. The assets held to match these policyholder liabilities are realisable in the short-term.

3.2 Unit-linked insurance contracts

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

R million	Investments held at risk of insurance policyholders	
	June 2015	June 2014
Assets arising from insurance contracts	(6 747)	(5 233)
Financial assets at fair value through profit or loss:		
Listed:		
- Equity securities	16 792	12 156
- Equity linked notes	2 398	2 439
- Debt securities	3 763	2 903
- Inflation linked securities	52	148
- Money market securities	1 720	269
Unlisted:		
- Equity securities	79	9
- Debt securities	100	6
- Money market securities	800	2 341
Loans and receivables	232	281
Cash and cash equivalents	1 651	598
Total assets	20 840	15 917
Total liabilities	20 840	15 917

3.2.1 Market risk

Discovery's primary exposure to market risk from these contracts is the volatility in asset management fees due to the impact of interest rate, equity price and currency movements on the fair value of the assets held in the linked funds, on which the investment management fees are based. A decrease of 10% in the value of the assets would reduce the asset management fees by R64 million per annum (2014: R47 million).

The negative assets arising from insurance contracts of R6 747 million (2014: R5 233 million) is included in the sensitivity analysis presented on pages 67 and 68 in respect of assets arising from insurance contracts.

3.2.2 Credit risk

To manage the credit risk, Discovery has appointed reputable external asset managers to manage these investments.

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for the year ended 30 June 2015

3. Management of financial risk *continued*

3.2.3 Liquidity risk

A maturity analysis based on the earliest contractual repayment date would present R20 651 million (2014: R16 035 million) of the liabilities as due on the earliest period of the table (between 0 and one year) and R1 308 million (2014: R1 079 million) of the liabilities would be due between one and five years. The assets held to match these policyholder liabilities are very liquid.

All contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. This surrender value is equal to or less than the carrying amount of the contract liabilities. If all the contracts with this option were surrendered at the financial year-end, a loss of R2 142 million (2014: R1 645 million) would have been recorded in profit or loss. This loss results from the impairment of assets arising from insurance contracts relating to these contracts, but the impact is reduced by the surrender penalties receivable.

3.3 Insurance contracts

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

R million	June 2015	June 2014
Assets arising from insurance contracts	28 473	23 232
Financial assets at fair value through profit or loss:		
Listed:		
- Equity securities	84	59
- Equity linked notes	1	-
- Debt securities	4 481	3 903
- Inflation linked securities	219	189
- Money market securities	33	5
Unlisted:		
- Debt securities	26	344
- Money market securities	132	12
Derivative financial instruments at fair value:		
- Non-hedge derivative	1	-
Loans and receivables	1	-
Reinsurance contracts	362	266
Cash and cash equivalents	8	2
Total assets	33 821	28 012
Total liabilities	13 997	12 414

3.3.1 Market risk

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

Based on guidance from SAP 104, these movements are captured in the resilience Capital Adequacy Requirement (CAR) and an amount of R42 million is included in the CAR at 30 June 2015 (2014: R36 million) to protect against potential mismatches between assets and liabilities.

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3. Management of financial risk continued

3.3.2 Credit risk

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

R million	Total	AAA	AA+ AA AA-	A+ A A-	Govt	Not rated
At 30 June 2015						
Financial assets at fair value through profit or loss:						
- Debt securities	4 507	251	15	720	3 521	-
- Inflation linked securities	219	-	18	-	201	-
- Money market securities	165	53	18	86	1	7
	4 891	304	51	806	3 723	7
At 30 June 2014						
Financial assets at fair value through profit or loss:						
- Debt securities	4 247	150	848	206	3 042	1
- Inflation linked securities	189	-	-	-	189	-
- Money market securities	17	3	11	2	-	1
	4 453	153	859	208	3 231	2

3.3.3 Liquidity risk

The liquidity risk for assets and liabilities arising from insurance contracts are discussed in insurance risks on page 64.

The financial investments held at fair value through profit or loss are realisable in the short-term.

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3. Management of financial risk continued

3.4 Shareholder financial assets and liabilities

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

R million	June 2015	June 2014
Available-for-sale financial assets:		
Listed:		
- Equity securities	583	891
- Equity linked notes	20	27
- Debt securities	590	1 631
- Inflation linked securities	6	77
- Money market securities	5 137	2 888
Unlisted:		
- Debt securities	125	138
- Money market securities	2 993	1 926
Derivative financial instruments at fair value:		
- Hedges	824	585
- Non-hedges	-	3
Loans and receivables	3 587	2 753
Cash and cash equivalents	3 955	2 728
Total financial assets	17 820	13 647
Puttable non-controlling interests	-	4 494
Negative reserve funding	5 437	4 684
Borrowings at amortised cost	954	442
Derivative financial instruments at fair value:		
- Hedges	4	3
- Non-hedges	1	7
Trade and other payables	5 222	3 491
Total financial liabilities	11 618	13 121

3.4.1 Market risk

Equity price risk

Investments

Discovery is exposed to equity price risk because of investments held by the Group and classified on the consolidated statement of financial position as available-for-sale. To manage its equity risk arising from investments in equity securities, the Group diversifies its portfolio.

For shareholder investments, a 10% increase in the equity markets would result in a profit of R56 million before tax (2014: R69 million). A 10% decrease in the equity markets would result in a loss of R45 million before tax (2014: R54 million). This impact would be recognised in the statement of comprehensive income. The sensitivity is based on the assumption that the equity markets had increased/decreased by 10% with all other variables held constant.

Hedge derivative instruments

Discovery is also exposed to equity price risk through its cash-settled share incentive schemes, namely the Phantom share scheme and the Acquisition share scheme, the details of which is described in note 33. To manage this risk, Discovery has purchased various instruments from BBB or A- rated South African banks to hedge a portion of its exposure to changes in the Discovery share price.

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3. Management of financial risk continued

i) Phantom share scheme

As at 30 June 2015, approximately 91.0% (2014: 90.8%) of this exposure is hedged. The hedges were designed to be highly effective, where the terms of the hedge or return swaps substantially match that of the phantom share scheme on a per instrument basis. Combinations of return swaps and call options were designated on a unit for unit basis to substantially match the terms of the phantom share and call option units.

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

Maturity date	Strike Price	Number of call options
2014		
30 September 2014	54.75	1 050 000
30 September 2015	54.75	1 000 000
30 September 2015	84.76	575 000
30 September 2016	54.75	950 000
30 September 2016	84.76	545 000
30 September 2017	54.75	900 000
30 September 2017	84.76	515 000
30 September 2018	84.76	485 000
2015		
30 September 2015	54.75	1 000 000
30 September 2015	84.76	575 000
30 September 2016	54.75	950 000
30 September 2016	84.76	545 000
30 September 2016	97.89	601 680
30 September 2017	54.75	900 000
30 September 2017	84.76	515 000
30 September 2017	97.89	582 877
30 September 2018	84.76	485 000
30 September 2018	97.89	564 075
30 September 2019	97.89	545 272

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

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

Maturity date	Strike Price	Number of return swaps
2014		
30 September 2014	35.08 – 84.71	2 682 678
30 June 2015	84.01	363 000
30 September 2015	38.37 – 84.71	2 232 000
30 June 2016	84.01	363 000
30 September 2016	39.21 – 84.71	1 512 000
30 June 2017	84.01	374 000
30 September 2017	54.71 – 84.71	668 000
30 September 2018	84.71	242 000

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3. Management of financial risk continued

Maturity date	Strike Price	Number of return swaps
2015		
30 September 2015	38.37 – 84.74	2 232 000
30 June 2016	84.01	363 000
30 September 2016	39.21 – 97.89	1 812 385
30 June 2017	84.01	374 000
30 September 2017	54.76 – 97.89	958 998
30 September 2018	84.71 – 97.89	523 610
30 September 2019	97.89	272 223

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

ii) Acquisition share scheme

As at 30 June 2015, approximately 82.7% (2014: 85%) of this exposure is hedged. The hedges were designed to be highly effective, where the terms of the hedge or return swaps substantially match that of the acquisition share scheme on a per instrument basis.

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

Maturity date	Strike Price	Number of return swaps
2014		
30 June 2015	54.76 – 96.94	811 304
30 June 2016	59.00 – 96.94	588 500
30 June 2017	59.00 – 96.94	789 000
30 June 2018	84.06 – 96.94	81 000
30 June 2019	96.94	36 800
2015		
30 June 2016	59.00 – 126.21	600 360
30 June 2017	59.00 – 126.21	837 000
30 June 2018	84.06 – 126.21	639 640
30 June 2019	96.94 – 126.21	90 870
30 June 2020	126.21	41 910

At 30 June 2015, the fair value of the derivative instruments purchased to hedge the Phantom and Acquisition share schemes, is R824 million (2014: R585 million) (refer to note 11). A deposit of R407 million and R352 million was received from ABSA Bank Limited and Standard Bank of South Africa Limited respectively, to secure this receivable (2014: R168 million and R219 million respectively) (refer to note 22).

Interest rate risk

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

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for the year ended 30 June 2015

3. Management of financial risk continued

The table below details the specific interest rate risk that the Group is exposed to:

R million	Carrying amount	Fixed	Floating	Non-interest bearing
At 30 June 2015				
Available-for-sale financial assets:				
- Equity securities	583	-	-	583
- Equity linked notes	20	-	-	20
- Debt securities	715	403	312	-
- Inflation linked securities	6	6	*	-
- Money market securities	8 130	2 911	5 219	-
Derivative financial instruments at fair value:				
- Hedges	824	405	-	419
Loans and receivables	3 587	3	176	3 408
Cash and cash equivalents	3 955	-	3 955	-
Total financial assets	17 820	3 728	9 662	4 430
Negative reserve funding	5 437	-	5 437	-
Borrowings at amortised cost	954	61	893	-
Derivative financial instruments at fair value:				
- Hedges	4	4	-	-
- Non-hedges	1	-	1	-
Trade and other payables	5 222	-	759	4 463
Total financial liabilities	11 618	65	7 090	4 463
At 30 June 2014				
Available-for-sale financial assets:				
- Equity securities	891	-	-	891
- Equity linked notes	27	-	-	27
- Debt securities	1 769	960	807	2
- Inflation linked securities	77	77	-	-
- Money market securities	4 814	1 318	3 496	-
Derivative financial instruments at fair value:				
- Hedges	585	342	-	243
- Non-hedges	3	2	1	-
Loans and receivables	2 753	138	81	2 534
Cash and cash equivalents	2 728	-	2 728	-
Total financial assets	13 647	2 837	7 113	3 697
Puttable non-controlling interests	4 494	-	4 494	-
Negative reserve funding	4 684	-	4 684	-
Borrowings at amortised cost	442	40	402	-
Derivative financial instruments at fair value:				
- Hedges	3	3	-	-
- Non-hedges	7	1	6	-
Trade and other payables	3 491	-	387	3 104
Total financial liabilities	13 121	44	9 973	3 104

* Amount is less than R500 000.

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3. Management of financial risk continued

Investments

For shareholder investments, a 1% increase in the local interest rate would result in an increase of R36 million in the value of these investments (2014: R20 million). A 1% decrease in the local interest rate would result in a decrease of R35 million in the value of these investments (2014: R19 million). The sensitivity is based on the assumption that the interest rate had increased/decreased by 1% with all other variables held constant.

Borrowings at amortised cost

i) FirstRand Bank Limited

Discovery has long-term borrowings at a floating rate which exposes Discovery to cash flow interest rate risk. This risk has been managed by using a floating-to-fixed interest rate swap. This interest rate swap has the economic effect of converting the borrowings from floating to fixed rates. The loan is repayable on 10 September 2017.

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

R million	June 2015		June 2014	
	Nominal value	Fair value Liability	Nominal value	Fair value liability
Maturity date: 10 September 2017	400	4	400	3

ii) HSBC Bank Plc

Discovery has long-term borrowings at floating rates in the UK, which exposes Discovery to cash flow interest rate and currency risks. These risks are managed by aligning the currency and interest rate exposure to the underlying operational assets for which these borrowings have been raised. The interest rates earned on the underlying operational assets are at a higher margin, which gives Discovery the ability to fix the borrowing interest rates should the UK interest environment weaken. Similarly, the currency risk is mitigated as the cash flows emerging from the underlying assets are in the same currency (GBP) as the interest and capital payments.

Non-hedge derivative financial instruments

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

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

R million	Notional amount	Fair value asset	Fair value liability
June 2015			
Interest rate contracts:			
- fixed for floating swaps	(26)	-	(1)
	(26)	-	(1)

Notes to the annual financial statements

for the year ended 30 June 2015

3. Management of financial risk continued

R million	Notional amount	Fair value asset	Fair value liability
June 2014			
Interest rate contracts:			
- fixed for floating swaps	(157)	1	(5)
- fixed for fixed swaps	(1)	*	-
- floating for fixed swaps	(83)	2	(1)
- inflation for floating swaps	(6)	-	(1)
	(247)	3	(7)

*Amount is less than R500 000.

Currency risk

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

R million	Total	Rand	GBP in UK subsidiary	GBP other	USD in US subsidiary	USD other	Other currencies
At 30 June 2015							
Available-for-sale financial assets:							
Listed:							
- Equity securities	583	402	-	23	-	113	45
- Equity linked notes	20	20	-	-	-	-	-
- Debt securities	590	363	200	-	18	9	-
- Inflation linked securities	6	6	-	-	-	-	-
- Money market securities	5 137	3 581	1 556	-	-	-	-
Unlisted:							
- Debt securities	125	124	-	-	-	1	-
- Money market securities	2 993	2 152	838	-	-	3	-
Derivative financial instruments at fair value:							
- Hedges	824	824	-	-	-	-	-
Loans and receivables	3 587	2 622	704	-	121	111	29
Cash and cash equivalents	3 955	2 791	768	2	173	39	182
Total financial assets	17 820	12 885	4 066	25	312	276	256
Negative reserve funding	5 437	-	5 437	-	-	-	-
Borrowings at amortised cost	954	463	491	-	-	-	-
Derivative financial instruments at fair value:							
- Hedges	4	4	-	-	-	-	-
- Non-hedges	1	1	-	-	-	-	-
Trade and other payables	5 222	3 236	1 821	16	129	12	8
Total financial liabilities	11 618	3 704	7 749	16	129	12	8

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for the year ended 30 June 2015

3. Management of financial risk continued

R million	Total	Rand	GBP in UK subsidiary	GBP other	USD in US subsidiary	USD other	Other currencies
At 30 June 2014							
Available-for-sale financial assets:							
Listed:							
- Equity securities	891	615	-	35	-	163	78
- Equity linked notes	27	27	-	-	-	-	-
- Debt securities	1 631	1 602	-	-	16	13	-
- Inflation linked securities	77	77	-	-	-	-	-
- Money market securities	2 888	1 874	1 014	-	-	-	-
Unlisted:							
- Debt securities	138	138	-	-	-	-	-
- Money market securities	1 926	1 030	864	-	-	32	-
Derivative financial instruments at fair value:							
- Hedges	585	585	-	-	-	-	-
- Non-hedges	3	3	-	-	-	-	-
Loans and receivables	2 753	2 017	497	-	98	-	141
Cash and cash equivalents	2 728	1 454	906	-	163	166	39
Total financial assets	13 647	9 422	3 281	35	277	374	258
Puttable non-controlling interests	4 494	-	4 218	-	276	-	-
Negative reserve funding	4 684	-	4 684	-	-	-	-
Borrowings at amortised cost	442	442	-	-	-	-	-
Derivative financial instruments at fair value:							
- Hedges	3	3	-	-	-	-	-
- Non-hedges	7	7	-	-	-	-	-
Trade and other payables	3 491	2 488	894	-	104	-	5
Total financial liabilities	13 121	2 940	9 796	-	380	-	5

Financial assets and financial liabilities in respect of the Group's US and UK subsidiaries are accounted for in their functional currency. Foreign currency movements will be recognised in the foreign currency translation reserve.

The exchange rates at year-end are detailed in the table below (quoted as Rand per foreign currency):

	USD	GBP
30 June 2015	12.18	19.19
30 June 2014	10.63	18.17

Investments

Discovery has offshore assets in its investment portfolios. These offshore investments are made for the purpose of seeking international diversification. There is a risk to future earnings that the value of these assets reduces due to a strengthening in the Rand. Performance of foreign currency assets is benchmarked against the MSCI World Index.

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for the year ended 30 June 2015

3. Management of financial risk *continued*

3.4.2 Credit risk

Key areas where Discovery is exposed to credit risk are:

- **Financial investments comprising money market and debt instruments entered to invest surplus shareholder funds** - Discovery is exposed to the issuer's credit standing on these instruments which is monitored by the CCIC by setting a minimum credit rating and maximum exposures per issuer. Regulations in the various jurisdictions in which Discovery operates have the effect of limiting exposure to individual issuers due to the inadmissibility of assets if specified limits are breached. Discovery has appointed reputable asset managers to manage these instruments. Information regarding the aggregated credit risk exposure for debt and money market instruments categorised by credit ratings is provided below.
- **Cash and cash equivalents** - This risk is managed by monitoring exposure to external financial institutions against approved limits per institution. Credit ratings are provided below.
- **Certain accounts within the statement of financial position category of loans and receivables** - The management of this risk is discussed in detail on page 95.
- **Reinsurance assets comprising receivables raised for expected recoveries on projected claims (Discovery's liability as primary insurer is not discharged) and amounts due from reinsurers in respect of claims already paid** - This risk is limited as risk premiums are paid monthly to reinsurers and claims can be offset against risk premiums. Further, it is expected that there will be little build-up of actuarial liability on the reinsurers' side. The risk thus mainly arises following a period of higher than expected claims. Credit ratings of reinsurers are taken into account in reinsurance placement decisions. Credit exposure to reinsurers is also limited through the use of several reinsurers. Reinsurance is placed with reputable international companies directly or through their national offices. The reinsurance companies used by Discovery are rated A or higher by A.M.Best.
- **On some investment products Discovery issues a guaranteed policy to the policyholder and the asset is guaranteed by a third party** - There is thus a risk to Discovery in the event of the third party defaulting. Credit risk is reduced by the choice and spread of third party providers.

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

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

R million	Total	AAA	AA+ AA AA-	A+ A A-	BBB BBB+	BB+	CCC	Govt	Not rated
At 30 June 2015									
Available-for-sale financial assets:									
– Debt securities	715	54	108	293	109	6	16	15	114
– Inflation linked securities	6	-	-	6	-	-	-	-	-
– Money market securities	8 130	2 134	1 600	3 857	301	-	14	-	224
Cash and cash equivalents	3 955	201	1 398	576	1 779	-	-	-	1
	12 806	2 389	3 106	4 732	2 189	6	30	15	339
At 30 June 2014									
Available-for-sale financial assets:									
– Debt securities	1 769	124	718	301	31	-	-	593	2
– Inflation linked securities	77	1	1	5	-	-	-	70	-
– Money market securities	4 814	1 231	2 263	927	380	-	-	-	13
Cash and cash equivalents	2 728	169	721	351	1 486	-	-	-	1
	9 388	1 525	3 703	1 584	1 897	-	-	663	16

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for the year ended 30 June 2015

3. Management of financial risk *continued*

Credit risk relating to loans and receivables

Discovery's shareholder loans and receivables including insurance receivables at 30 June comprise:

R million	Ref	2015	2014
Insurance receivables:			
Premium debtors	i	235	173
Less provision for impairment of premium debtors		(39)	(36)
Reinsurance debtors (refer to page 94)		1 183	1 018
Other receivables:			
AIA Vitality Company Limited	ii	93	151
Agents and brokers	iii	238	186
Cash-in-transit debtor		261	92
Closed scheme debtors	iv	48	40
Discovery Health Medical Scheme	iv	505	478
Discovery Unit Trust debtors		2	1
Expired hedge receivable		58	22
FNB joint venture receivable		41	34
Humana recovery		10	29
Loans to BEE initiatives		80	69
Loans to senior management		186	-
Prepayments		329	266
Purchased receivables		8	18
BEE partners' rights-issue funding		91	-
Vitality partner debtors		19	11
Other debtors		407	338
Less provision for impairment of other loans and receivables		(168)	(137)
		3 587	2 753

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

- i. The balance of premium debtors are not rated by Discovery as exposure to any single customer is insignificant. The premium debtors comprise amounts receivable from individuals and corporates. In addition, Discovery suspends benefits when contributions are not received. Premium debtors that are past due are handled by a specialist area in business. Where amounts remain uncollected for more than six months, the debtors are then handed to specialist debt collection agencies.
- ii. Included in the balance due from AIA Vitality Company Limited (AIAV), is a loan of SGD 3 million (R28 million) (2014: SGD 3.7 million (R32 million)), granted to AIA Vitality (Singapore) Pte Limited (AIAVS), the wholly-owned subsidiary of AIAV. Discovery has received a guarantee from AIAV as support for the repayment of the loan obligation.
- iii. Agents and brokers are subject to a comprehensive relationship management programme including credit assessment. Agents and brokers are not rated by Discovery as exposure to any single intermediary is insignificant. The widespread nature of the individual amounts combined with this close management relationship reduces credit risk. Most commission claw backs are offset against future payments and hence the risk of outstanding commission clawbacks is reduced.

Notes to the annual financial statements

for the year ended 30 June 2015

3. Management of financial risk *continued*

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

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

R million	Gross 2015	Impairment 2015	Gross 2014	Impairment 2014
Not past due	3 410	(29)	2 636	(17)
30 days	52	(10)	74	(9)
60 days	45	(6)	32	(6)
90 days	39	(7)	20	(5)
120 days	20	(6)	15	(1)
150 days	12	(5)	13	(3)
>150 days	216	(144)	136	(132)
Total	3 794	(207)	2 926	(173)

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

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

R million	2015	2014
Balance beginning of year	173	134
Increase in provision	36	45
Amounts utilised during the period	(2)	(6)
Balance at 30 June	207	173

3.4.3 Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities (refer to note 20). Such forecasting takes into consideration the Group's debt financing plans, covenant compliance and, if applicable, external regulatory or legal requirements – such as capital requirements.

Cash held by the operating entities is managed by Group treasury. Group treasury invests it in interest-bearing accounts, time deposits and money market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. At the reporting date, the shareholders held money market funds and cash and cash equivalents of R12 085 million (2014: R7 542 million) and other liquid assets of R2 750 million (2014: R3 015 million).

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for the year ended 30 June 2015

3. Management of financial risk *continued*

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

R million	Ref	Total	< 1 year	1-5 years	5-10 years	>10 years	Open ended
At 30 June 2015							
Negative reserve funding	i	5 437	1	62	250	5 124	-
Borrowings net of interest rate swap	ii	1 093	117	976	-	-	-
Derivative financial instruments at fair value:							
- Non-hedges		1	*	1	-	-	-
Trade and other payables		5 222	3 615	950	3	-	654
Total		11 753	3 733	1 989	253	5 124	654
At 30 June 2014							
Puttable non-controlling interests	ii	5 769	-	-	5 769	-	-
Negative reserve funding	i	4 684	-	44	204	4 436	-
Borrowings net of interest rate swap	ii	559	59	500	-	-	-
Derivative financial instruments at fair value:							
- Non-hedges		7	2	5	-	-	-
Trade and other payables		3 491	2 666	650	2	-	173
Total		14 510	2 727	1 199	5 975	4 436	173

* Amount is less than R500 000.

- i. The negative reserve funding liability represents the acquisition costs that are funded by the Prudential Assurance Company 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.
- ii. These amounts do not agree to the statement of financial position as these are the undiscounted contractual payments.

3.5 Capital management

The Group's objectives when managing capital are:

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

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

Notes to the annual financial statements

for the year ended 30 June 2015

3. Management of financial risk *continued*

As part of the capital management process, the Group monitors its capital structure utilising the Financial Leverage Ratio. This ratio is calculated as total debt divided by total debt plus total equity. The Group's strategy is to maintain a prudent Financial Leverage Ratio broadly in-line with industry norm. The table below summarises the Financial Leverage Ratio at 30 June:

R million	2015	2014
- Negative reserve funding (refer to note 19)	5 437	4 684
- Borrowings at amortised cost (refer to note 20)	954	572
- Guarantees issued for reinsurance contracts	1 274	763
Total debt and guarantees	7 665	6 019
Total equity	27 356	17 411
Financial Leverage Ratio (%)	21.9%	25.7%

The Financial Leverage Ratio improved in 2015 following the rights issue where an additional R5 billion in equity was raised.

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

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

Insurance operations	Jurisdiction	Statutory solvency requirement	Actual solvency	
			2015	2014
Discovery Life	South Africa	1 x Statutory Capital Adequacy Requirement (CAR)	386%	375%
Discovery Life Investment Services	South Africa	13/52 x annualised operational expenses	201%	146%
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	308%	211%
Discovery Insure	South Africa	1 x Statutory Capital Adequacy Requirement (CAR)	266%	264%
Vitality Health Limited	United Kingdom	Capital determined under the Individual Capital Adequacy Standards (ICAS) framework	117%	128%
Vitality Health Insurance Limited	United Kingdom	Capital determined under the Individual Capital Adequacy Standards (ICAS) framework	105%	142%

The Solvency Assessment and Management regulatory regime, expected to be effective in 2016, will implement a Group statutory capital requirement. Discovery has been monitoring and reporting its Group 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 when formulating the capital management strategy going forward.

Notes to the annual financial statements

for the year ended 30 June 2015

3. Management of financial risk *continued*

3.6 Fair value estimation

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

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

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

- (a) Quoted prices for similar instruments or identical instruments in markets which are not considered to be active, or
- (b) Valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

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

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

R million	Level 1	Level 2	Level 3	Total
30 June 2015				
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

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for the year ended 30 June 2015

3. Management of financial risk continued

R million	Level 1	Level 2	Level 3	Total
Financial liabilities				
Derivative financial instruments at fair value:				
- Hedges	-	4	-	4
- Non-hedges	-	3	-	3
	-	7	-	7
30 June 2014				
Financial assets				
Financial instruments at fair value through profit or loss:				
- Equity securities	9 157	-	-	9 157
- Equity linked notes	-	1 612	-	1 612
- Debt securities	5 111	675	-	5 786
- Inflation linked securities	189	-	-	189
- Money market securities	344	743	-	1 087
- Mutual funds	14 922	-	-	14 922
Available-for-sale financial instruments:				
- Equity securities	96	-	-	96
- Equity linked notes	-	42	-	42
- Debt securities	714	428	-	1 142
- Inflation linked securities	75	-	-	75
- Money market securities	272	865	-	1 137
- Mutual funds	5 086	-	-	5 086
Derivative financial instruments at fair value:				
- Hedges	-	585	-	585
- Non-hedges	-	3	-	3
	35 966	4 953	-	40 919
Financial liabilities				
Puttable non-controlling interests (Refer to note 4.5 and note 18)	-	-	4 494	4 494
Derivative financial instruments at fair value:				
- Hedges	-	3	-	3
- Non-hedges	-	7	-	7
	-	10	4 494	4 504

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

Specific valuation techniques used to value financial instruments in level 2

- Refer to note 4.4 for the valuation techniques used to value equity linked notes.
- 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.

Notes to the annual financial statements

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3. Management of financial risk *continued*

- The fair value of the hedged derivatives is calculated by the issuers of those instruments, as follows:
 - The fair value of call options is calculated based on a Black-Scholes model.
 - The fair value of the return swaps is calculated by discounting the future cash flows of the instruments.
 - The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

3.7 Offsetting financial assets and financial liabilities

Financial assets

The following financial assets are subject to offsetting:

R million	Gross financial assets	Gross offsetting financial liabilities	Net amount presented
30 June 2015			
Cash and cash equivalents	6 406	(155)	6 251
30 June 2014			
Cash and cash equivalents	3 720	(70)	3 650

Financial liabilities

The following financial liabilities are subject to offsetting:

R million	Gross financial liabilities	Gross offsetting financial assets	Net amount presented
30 June 2014			
Trade and other payables	3 833	(81)	3 752

Cash collateral

To reduce the credit risk exposure from the hedge derivative instruments purchased (refer to note 3.4.1), Discovery has entered into collateral agreements with the relevant financial institutions to post cash collateral periodically, equal to the fair value of the derivatives. A total of R759 million cash collateral is being held by Discovery at 30 June 2015 (2014: R387 million).

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

4. Critical accounting estimates and judgements in applying accounting policies

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

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

4.1 Consolidation of entities in which the Group holds less than 50%

Discovery has analysed its relationship with the Discovery Unit Trusts and has determined that it has significant power to direct the relevant activities of the funds, has sufficient exposure to the variable returns of the funds and the ability to use its power over the investee to affect its returns. Based on this analysis Discovery has concluded that it has control of the Discovery Unit Trusts even if the economic interest is less than 50% and is therefore required to consolidate these funds.

Of the 21 Discovery Unit Trusts consolidated at 30 June 2015 (June 2014: 19 funds), Discovery holds less than a 50% economic interest in three of these funds (June 2014: three funds).

4.2 Goodwill and goodwill impairment

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

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

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

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

Recoverable amount of goodwill at 30 June 2015

Discovery tests each cash-generating unit (CGU) containing goodwill for impairment on an annual basis. An impairment loss is recognised whenever the carrying amount of a CGU exceeds its recoverable amount. The recoverable amount of each CGU is estimated as the present value of future cash flows that are expected to be derived from the asset i.e. its value-in-use. The value-in-use is calculated as the present value of the best estimate pre-tax cash flows for each CGU over a 10 year projection period plus a terminal value calculated using a 2% per annum terminal growth rate assumption.

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

4.3 Intangible assets

Software

Internally generated software assets are subject to an assessment that the costs incurred are in relation to a technically feasible project for which Discovery has the intention and ability to complete. Once complete, the intangible asset is amortised over the estimated useful life, taking into account any expected residual values. The amortisation methodology is included in accounting policy 5.

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

Deferred acquisition costs

Deferred acquisition costs in respect of investment management and health insurance contracts are amortised on a straight-line basis over the expected life of the contract. The amortisation methodology is included in accounting policy 13.1.3 and 14.

Intangible assets identified in the acquisition of business combinations

Intangible assets acquired as part of business combinations are capitalised at their fair value, represented by the estimated net present value of future cash flows relating to existing business, or at a value as determined by an independent valuer. These intangible assets are amortised over their useful lives and only tested for impairment if an indication of impairment arises.

4.4 Equity linked notes

Discovery Life has invested in equity linked notes offered by international banks in order to back certain unit-linked contract liabilities. The calculation of the daily value of the equity linked investments is made by the provider of the note. Discovery Life has procedures in place to ensure that these prices are correct. Aside from the daily reasonableness checks versus similar funds and movement since the prior day's price, the fund values are calculated with reference to a specific formula or index, disclosed to the policyholders, which is recalculated by Discovery Life in order to check if the price provided by the provider is correct.

4.5 Puttable non-controlling interest liability

During the 2011 financial year, put options were granted to the non-controlling interests of two of Discovery's subsidiaries. The put options entitled the non-controlling interest to sell its interest in the subsidiary to Discovery at contracted dates.

The following put options were issued:

- The Prudential Assurance Company (PAC) had the option to sell its 25% shareholding in Prudential Health Holdings Limited (PHHL) to Discovery, between 1 March 2015 and 30 April 2015 or after each succeeding one year period thereafter, at the fair market value.
- Humana had the option to sell its 25% shareholding in The Vitality Group LLC (TVG) to Discovery, seven years after acquisition or after each succeeding two year period, at the fair market value less a 15% discount.

In November 2014, both these put options lapsed, with the purchase by Discovery of the following:

- PAC's remaining 25% shareholding in PHHL for GBP 155 million (R2 790 million).
- Humana's 25% shareholding in TVG for USD 5 million (R54 million).

The excess between the carrying amount of the puttable non-controlling interest financial liability and the consideration paid, being R1 661 million, has been recognised in profit or loss as a puttable non-controlling interest fair value adjustment. Refer to note 18 for the aggregate effects of the put options exercised, on Discovery's results.

In accordance with IAS32, Discovery consolidated 100% of the subsidiaries results and recognised the fair value of the non-controlling interest, being the present value of the estimated purchase price, as a financial liability in the statement of financial position (puttable non-controlling interests). In raising this liability, the non-controlling interest was derecognised and the excess of the liability was debited to retained earnings in the statement of changes in equity.

Notes to the annual financial statements

for the year ended 30 June 2015

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

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

The puttable non-controlling interest liability was calculated as the present value of the non-controlling interests' share of the expected redemption value, discounted from the expected option exercise date to the reporting date. There were two steps to the put option liability valuation process:

- Estimation of the expected redemption value at the expected option exercise date.
- Discounting the expected redemption value to the reporting date using a discount rate equal to an appropriate cost of debt.

Estimating the expected redemption value

Prudential Health Holdings Limited (PHHL)

PAC had the option to sell its 25% shareholding in PHHL to Discovery between 1 March 2015 and 30 April 2015 or after each succeeding one year period thereafter, at the fair market value. For valuation purposes, it was assumed that the option would be exercised in 2020, when the current contractual rights and obligations would be renegotiated with PAC.

The contractual agreement specified that the redemption value would be calculated as follows:

- The redemption value for PruHealth would be calculated as the projected tangible net asset value plus a value per life insured multiplied by the number of lives insured, at the valuation date.
- The redemption value for PruProtect would be calculated as the projected value of in-force business at the valuation date plus the value of 3 years' new business.

The Vitality Group LLC

Humana had the option to sell its 25% shareholding in TVG to Discovery, seven years after acquisition or after each succeeding two year period, at the fair market value less a 15% discount. For valuation purposes, it was assumed that the option would be exercised in 2020.

The fair market value was calculated as the projected tangible net asset value at the valuation date plus the present value of the projected future cash flows discounted to the valuation date.

Calculating the discount rate

The discount rate was calculated as the cost of debt using an appropriate risk free interest rate plus the Discovery credit spread.

The risk free interest rate was derived from the applicable government bond yield curve (UK government bond curve for PruHealth and PruProtect and US government bond curve for TVG) based on the number of years between the reporting date and the expected option exercise date.

Notes to the annual financial statements

for the year ended 30 June 2015

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

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

Discovery Life and VitalityLife

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

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

and discretionary margins described on page 31 of the accounting policies. The process used to decide on best estimate assumptions is described below:

Experience investigations

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

The most recent experience investigations were performed at 30 June 2015.

Mortality and morbidity

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

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

An adjustment is made to the standard mortality and morbidity assumptions to reflect the expected impact of engagement in the Vitality programme.

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

Surrender and lapse rates

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

Lapse assumptions are varied between different types of policies where the lapse experience is expected to differ significantly. Allowance is made for the estimated impact of the economic environment. An adjustment is made to the lapse assumptions to reflect the expected impact of engagement in the Vitality programme.

For Discovery Life, the surrender rates are also based on actual past experience where available.

Notes to the annual financial statements

for the year ended 30 June 2015

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

Taxation

Future tax is allowed for according to the current tax legislation and current tax rates.

For Discovery Life, the current and expected future tax position of each policyholder's tax fund is taken into account in setting the tax assumption. The individual policyholders' fund (IPF) is currently in an excess expense (XE) position and hence no tax is payable on the interest earned on policyholders' funds within the IPF. Consequently, no allowance is made for tax relief on expenses within the IPF. Current forecasts are that the IPF will remain in an XE position. No deferred tax is raised for the XE position.

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

It is assumed that future tax on statutory profits will be payable at the prevailing company tax rate of 28% (2014: 28%) in South Africa. The prevailing tax rate in the UK is 20% (2014: 23%).

Economic assumptions / Investment returns

The discount rate is set equal to the estimate of the risk free investment return rate. The risk free rate is calculated with reference to the risk free yield curve. A single risk free rate is then derived appropriate to the weighted duration of the cash flows.

For Discovery Life, this is rounded to the nearest quarter of a percent. The risk free rate at 30 June 2015 was set at 9.25% p.a. (2014: 9.25% p.a.). The risk free rate at 30 June 2015 was set at 3.12% p.a. (2014: 3.90% p.a.) for VitalityLife.

Other investment returns and economic assumptions are set relative to this yield.

The assumptions for Discovery Life are as follows:

Cash:	Risk free – 1.5%
Fixed interest:	Risk free
Equity:	Risk free + 3.5%
Consumer price inflation:	Risk free – 4%

For VitalityLife, the risk free rate is set in line with the market observed investment return of fixed interest assets of appropriate term and nature, less a margin to protect against adverse experience. The best estimate inflation assumption is set in line with long-term UK inflation expectations and observed real yields consistent with the term of the liabilities.

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

Expense assumptions

Renewal expense assumptions are based on the results of the latest expense and budget information.

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

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

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

Notes to the annual financial statements

for the year ended 30 June 2015

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

HIV / AIDS

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

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

Reinsurance

All prospective liabilities are valued gross of reinsurance and then adjusted for the expected effect of reinsurance. For outstanding reported claims and IBNR, a specific allowance is made for reinsurance recoveries.

The Global Linkage Benefit is fully reinsured. The cost of the future reinsurance is dependent on the cost at which the reinsurer can hedge the liabilities under this benefit. Assumptions are made around the cost at which the reinsurer can hedge the benefits, based on current and historic costs of the hedging structures.

Automatic premium increases

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

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

Policy alterations

In the calculation of policyholder liabilities, no allowance is made for policy alterations over time in accordance with actuarial guidance.

Changes in assumptions

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

Modelling and assumptions changes were made to the valuation at 30 June 2015 to ensure that assumptions are in line with the best estimate of future experience. For Discovery Life, the total effect of these changes was a decrease in the liabilities on the Financial Soundness Valuation basis of R438 million (2014: R227 million decrease). For VitalityLife, the total effect of these changes was an increase in the liabilities of R152 million (2014: R4 million decrease).

In addition to this, the discretionary margins were reset to reflect the underlying profitability of the overall portfolio. The reset of margins decreased the liabilities on the Financial Soundness Valuation basis by R1 000 million (2014: R374 million increase). See note 5 for an analysis of these changes.

Sensitivities

The sensitivity of the policyholder liabilities on the Financial Soundness Valuation basis is set out on pages 67 to 69. The sensitivity of the policyholder liabilities on the INSPRU basis is set out on page 76.

Notes to the annual financial statements

for the year ended 30 June 2015

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

VitalityHealth

IBNR calculation

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

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

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

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

A component of these estimation techniques is usually the estimation of the cost of notified but not paid treatments. In estimating the cost of these VitalityHealth has regard to the claim circumstance as reported and information on the cost of settling claims with similar characteristics in previous periods.

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

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

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

Notes to the annual financial statements

for the year ended 30 June 2015

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

4.7 Deferred income tax asset

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

At 30 June 2015, Vitality Health Limited (VHL) has an estimated deferred tax asset of GBP 30.6 million which has not previously been recognised. During the 2015 financial year, all UK health insurance business was migrated from Vitality Health Insurance Limited (VHIL) to VHL. As a result, VHL is expected to make taxable profits over the next five years. VHL have applied a probability factor to these estimated profits and raised a deferred tax asset based on the UK tax rate of 20%, totalling GBP 15.3 million (R275.7 million). This is 50% of the total estimated deferred tax asset for VHL.

5. Assets arising from insurance contracts

R million	Group 2015	Group 2014
Long-term insurance contracts - gross	21 726	17 999
Less: ceded to reinsurers (refer to note 17)	(2 068)	(1 672)
Long-term insurance contracts - net	19 658	16 327
Current	1 797	2 764
Non-current	24 608	18 796
Variable ⁽¹⁾	(6 747)	(5 233)
	19 658	16 327
Movement in assets arising from insurance contracts		
Balance at beginning of the year	16 327	13 534
Movement for the year:	-	-
Expected movement in policyholder liabilities	(3 719)	(3 846)
Unwinding of discount rate	1 632	1 255
New business written	4 821	3 693
Experience variances	33	1 038
Economic	121	148
Operational	(88)	890
Modelling and method changes	3	759
Benefit enhancements	(296)	9
Changes in assumptions	(593)	(528)
Economic	(135)	(575)
Operational	(458)	47
Changes in margins ⁽²⁾	1 000	(374)
Exchange rate difference	450	787
Balance at end of the year	19 658	16 327

⁽¹⁾ The variable portion relates to unit-linked policyholder liabilities of the Discovery Retirement Optimiser product which is attached to a Life Plan. The maturity of this liability is dependent of policyholder behaviour.

⁽²⁾ In line with accounting policy 13.1, the best estimate assumptions and margins are reset at every valuation date to reflect the underlying profitability of the overall portfolio. Assumptions and margins are not set on new business in isolation but on a portfolio level.

Notes to the annual financial statements

for the year ended 30 June 2015

6. Property and equipment

R million	Furniture, fittings and equipment	Computer equipment and operating systems	Leasehold improvements	Motor vehicles	Telematics devices	Total
Year ended 30 June 2014						
Opening carrying amount	68	358	101	6	-	533
Exchange differences	2	51	3	-	-	56
Additions	20	65	49	8	82	224
Derecognition and impairment						
- Cost	-	-	-	-	(5)	(5)
- Accumulated depreciation	-	-	-	-	*	*
Depreciation charge	(24)	(70)	(34)	(4)	(10)	(142)
Closing carrying amount	66	404	119	10	67	666
At 30 June 2014						
Cost	237	636	278	28	77	1 256
Accumulated depreciation	(171)	(232)	(159)	(18)	(10)	(590)
Carrying amount	66	404	119	10	67	666
Year ended 30 June 2015						
Opening carrying amount	66	404	119	10	67	666
Exchange differences	1	19	1	-	-	21
Additions	18	127	11	10	59	225
Disposals						
- Cost	-	-	-	-	(5)	(5)
- Accumulated depreciation	-	-	-	-	1	1
Derecognition						
- Cost	-	-	-	-	(1)	(1)
- Accumulated depreciation	-	-	-	-	*	*
Depreciation charge	(23)	(93)	(38)	(5)	(21)	(180)
Closing carrying amount	62	457	93	15	100	727
At 30 June 2015						
Cost	257	793	293	38	130	1 511
Accumulated depreciation	(195)	(336)	(200)	(23)	(30)	(784)
Carrying amount	62	457	93	15	100	727

* Amount is less than R500 000.

Derecognition

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

Notes to the annual financial statements

for the year ended 30 June 2015

7. Intangible assets including deferred acquisition costs

R million	Deferred acquisition costs			Business acquisitions ⁽²⁾			Total
	Software	Investment		Customer contracts ⁽³⁾	Prudential brand	Renewal commission	
		management contracts	Insurance contracts ⁽¹⁾				
Year ended 30 June 2014							
Opening carrying amount	240	316	254	833	184	1	1 828
Foreign currency adjustment on translation	23	-	50	152	34	-	259
Additions	539	104	582	-	-	-	1 225
Amortisation charge	(149)	-	-	(150)	(26)	(1)	(326)
Disposals							
- cost	(33)	-	-	-	-	-	(33)
- accumulated amortisation	6	-	-	-	-	-	6
Impairment and derecognition							
- cost	(7)	-	-	-	-	-	(7)
- accumulated amortisation	4	-	-	-	-	-	4
Deferred acquisition costs amortised	-	(49)	(563)	-	-	-	(612)
Closing carrying amount	623	371	323	835	192	-	2 344
At 30 June 2014							
Cost	1 286	371	323	1 531	285	1	3 797
Accumulated amortisation	(663)	-	-	(696)	(93)	(1)	(1 453)
Carrying amount	623	371	323	835	192	-	2 344
Year ended 30 June 2015							
Opening carrying amount	623	371	323	835	192	-	2 344
Foreign currency adjustment on translation	42	-	15	40	6	-	103
Additions	559	96	555	-	-	-	1 210
Amortisation charge	(233)	-	-	(132)	(95)	-	(460)
Disposals							
- cost	(26)	-	-	-	-	-	(26)
- accumulated amortisation	17	-	-	-	-	-	17
Deferred acquisition costs amortised	-	(60)	(602)	-	-	-	(662)
Closing carrying amount	982	407	291	743	103	-	2 526
At 30 June 2015							
Cost	1 875	407	291	1 618	303	-	4 494
Accumulated amortisation	(893)	-	-	(875)	(200)	-	(1 968)
Carrying amount	982	407	291	743	103	-	2 526

(1) This intangible asset relates to health insurance contracts only.

(2) Intangibles identified in the acquisition of business combinations are amortised over their remaining useful lives and tested for impairment at each reporting date. There was no indication of impairment for the current reporting period.

(3) Customer contracts represents the value of in-force business acquired in the Standard Life Healthcare business combination.

Change in accounting estimate

In July 2010, when Discovery purchased 75% of Prudential Health Holdings Limited, it identified the Prudential Brand as an intangible asset acquired. This was then amortised over its useful life being 10 years, as Discovery had the right to use the Prudential Brand until June 2020. In November 2014, Discovery purchased the remaining 25% interest in Prudential Health Holdings Limited. The right to use the Prudential Brand now terminates in June 2016. As a result, Discovery has accelerated its amortisation in respect of this intangible asset to be fully amortised by June 2016. This increased the amortisation charge in the current year from R30 million to R95 million.

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for the year ended 30 June 2015

8. Business combinations

8.1 Goodwill recognised through business combinations

Goodwill, which represents the value of future business expected to be written, is not amortised, but is assessed for possible impairment at each reporting date. The impairment is recorded in profit or loss, if necessary. At 30 June 2015 there was no indication that goodwill is impaired.

Reconciliation of goodwill	Date of acquisition	GBP million	R million
Goodwill recognised from the following business combinations and allocated to the VitalityHealth CGU:			
- Vitality Health Holdings Limited	31 July 2010	86.9	942
- Standard Life Healthcare	31 July 2010	33.2	360
- Insure Your Health	25 March 2013	2.5	39
- KYS Paid Limited	30 April 2014	1.1	21
Net exchange differences from purchase date to 30 June 2014			877
Balance at 30 June 2014		123.7	2 239
Net exchange differences arising during the year			136
Balance at 30 June 2015		123.7	2 375

8.2 KYS Paid Limited

On 30 April 2014, Vitality Health Holdings Limited (VHHL), acquired 100% of the share capital of KYS Paid Limited (KYS) for GBP 1.2 million.

KYS operates under an exclusive arrangement with VitalityHealth to generate leads and set appointments for prospective SME customers for the VitalityHealth Direct Sales Force.

The following benefits are expected to result from the acquisition of this entity:

- Ownership of the leads database.
- Reduction in overhead expenses.
- 28.5% of commission paid by VitalityHealth is currently being paid to KYS, which will now be paid to a VitalityHealth group company.
- Opportunity to increase the leads conversion rate by using the VitalityHealth internal teams.

Discovery allocated the purchase price as follows:

	GBP	R million[#]
Tangible net asset value:		
- Property and equipment	194 118	3
- Trade and other receivables	1 448	*
- Cash and cash equivalents	55 931	1
Liabilities assumed:		
- Trade and other payables	(117 481)	(2)
- Deferred income tax	(7 824)	*
- Current income tax liability	(69 331)	(1)
	56 861	1
Intangible assets:		
- Goodwill	1 137 807	21
Deemed consideration paid	1 194 668	22

[#] Translated at closing rate at 30 June 2014, which is the rate they are included in the statement of financial position.

* Amount is less than R500 000.

Goodwill, which represents the future new business expected to be written by VitalityHealth, is not amortised, but is assessed for possible impairment at each reporting date and the impairment is recorded in profit or loss, if necessary.

Notes to the annual financial statements

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8. Business combinations continued

Post-acquisition revenue and profit or loss of acquired entity

The table below discloses the post-acquisition revenue and profit or loss that was been included in the Group's income statement at 30 June 2014:

R million	2014
Revenue	-
Loss for the period	(1)

Revenue and profit or loss of acquired entity from 1 July 2013

The table below discloses the revenue and profit or loss that would have been included in the Group's income statement at 30 June 2014, if the acquisition date was 1 July 2013:

R million	2014
Revenue	4
Loss for the period	(2)

9. Equity-accounted investees

9.1 Investment in associates

Set out below are the associates of the Group at 30 June:

	Place of business and country of incorporation	% of interest	
		2015	2014
Cambridge Mobile Telematics Inc.	USA	20%	-
Healthcode Limited	UK	20%	20%
HumanaVitality LLC	USA	-	25%
Ping An Health Insurance Company of China, Limited	China	25%	25%

Nature of relationship

Cambridge Mobile Telematics, Inc. (CMT)

During the current financial year, Destiny Health Inc (DHI) paid USD 5 million (R59 million) for a 20% shareholding in CMT, a US-based leading telematics technology provider. This partnership provides the group with access to expertise in the telematics environment which Discovery Insure harnesses to reduce its insurance risk.

Healthcode Limited (Healthcode)

Vitality Health Insurance Limited (VHIL) has a 20% shareholding in Healthcode. Healthcode is a provider of online systems and services to the private healthcare market. This partnership provides the group with access to a switching facility in the UK market.

HumanaVitality LLC (HumanaVitality)

HumanaVitality offered the Vitality programme in the US on a stand-alone basis by wrapping it around other health plans and employer groups which gave Discovery access to new clients in the US market. Discovery raised an investment (and corresponding profit) for the implied value of the IP contributed into the company on formation of USD 12.5 million. For the first three years of business, Humana paid a guarantee to Discovery which was recorded as a guarantee received from HumanaVitality in the segmental information. Discovery started to share in the profits of the associate from 1 January 2014.

In November 2014, the HumanaVitality partnership concluded. This resulted in a profit from the sale of the associate of R7 million being recognised in profit or loss. A deferred tax liability raised upon recognition of the associate of R35 million has also been released to income tax in the Income Statement.

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

Ping An Health offers policyholders in China cover for a range of private healthcare-related claims. Discovery's total investment of R399 million was recorded at cost and has been reduced by its proportionate share of the losses of PAH. PAH is a strategic partnership for the group, providing access to new clients and markets in China.

Notes to the annual financial statements

for the year ended 30 June 2015

9. Equity-accounted investees continued

The following table summarises the financial information of each of the Group's associates. The amounts disclosed are 100% of the entities results.

R million	Ping An Health		HumanaVitality		CMT		Healthcode		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Current assets	1 700	1 499	-	23	50	-	30	34	1 780	1 556
Non-current assets	437	447	-	1 089	10	-	14	-	461	1 536
Current liabilities	(1 231)	(1 033)	-	(197)	(4)	-	(33)	(23)	(1 268)	(1 253)
Non-current liabilities	(61)	(112)	-	(109)	-	-	-	-	(61)	(221)
Net assets	845	801	-	806	56	-	11	11	912	1 618
Group's share of net assets	211	200	-	39	11	-	2	2	224	241
Revenue	796	341	-	882	24	-	59	45	879	1 268
Net profit/(loss)	(120)	(217)	232	181	(7)	-	*	*	105	(36)
Other comprehensive income	51	(2)	-	(7)	-	-	-	-	51	(9)
Total comprehensive income	(69)	(219)	232	174	(7)	-	*	*	156	(45)
Group's share of profit/(loss)	(30)	(52)	58	38	(2)	-	*	*	26	(14)
Group's share of total comprehensive income	(17)	(52)	58	38	(2)	-	-	-	39	(14)

Reconciliation of summarised financial information

Reconciliation of summarised financial information presented to the carrying amount of interest in associates

R million	Ping An Health		HumanaVitality		CMT		Healthcode		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Summarised financial information										
Opening net assets 1 July	801	839	-	591	55	-	11	9	867	1 439
Profit/(loss) for the year	(120)	(217)	-	181	(7)	-	*	*	(127)	(36)
Other comprehensive income	51	(2)	-	(7)	-	-	-	-	51	(9)
Increase in share capital and share premium	-	126	-	-	-	-	-	-	-	126
Foreign exchange differences	113	55	-	41	8	-	*	2	121	98
Closing net assets	845	801	-	806	56	-	11	11	912	1 618
Interest in associates	211	200	-	39	11	-	2	2	224	241
Goodwill	183	160	-	-	48	-	-	-	231	160
Intangible asset recognised	-	-	-	100	-	-	-	-	-	100
Increase in consideration paid	50	50	-	-	-	-	-	-	50	50
Carrying value at 30 June	444	410	-	139	59	-	2	2	505	551
Movement analysis:										
Carrying value at 1 July	410	298	139	102	-	-	2	2	551	402
Share of profit/(loss)	(30)	(52)	58	38	(2)	-	*	*	26	(14)
Other comprehensive income	13	*	-	-	-	-	-	-	13	*
Amortisation on intangible assets recognised	-	-	-	(10)	-	-	-	-	-	(10)
Increase in consideration paid	-	11	-	-	-	-	-	-	-	11
Investment in associate	-	125	-	-	59	-	-	-	59	125
- interest in associate	-	68	-	-	11	-	-	-	11	68
- goodwill	-	57	-	-	48	-	-	-	48	57
Disposal of associate	-	-	(201)	-	-	-	-	-	(201)	-
Foreign exchange differences	51	28	4	9	2	-	*	*	57	37
Carrying value at 30 June	444	410	-	139	59	-	2	2	505	551

* Amount is less than R500 000.

Notes to the annual financial statements

for the year ended 30 June 2015

9. Equity-accounted investees *continued*

9.2 Investment in joint venture

On 10 May 2013, Discovery Partner Markets Asia Private Limited (a 100% subsidiary of Discovery Limited), contributed HK\$ 1000 for 50% of the ordinary share capital of AIA Vitality Company Limited (AIA Vitality), which is incorporated in Asia. The principal activities of AIA Vitality is the development of wellness programmes for integration with Life and/or Health products offered by AIA Company Limited and/or its affiliates (AIA Group) and providing exclusive services to the AIA Group for the distribution of certain jointly developed insurance products by the AIA Group.

During the year the joint venture arrangement with AIA was restructured effectively moving from a profit share arrangement to a fee based arrangement. Discovery will now earn fees based on new business written. This will result in the unwind of the AIA joint venture entity and Discovery realising a loss of R87 million of the accumulated losses. This expense has been included in headline earnings but excluded from normalised headline earnings.

The following table summarises the financial information of AIA Vitality. The amounts disclosed are 100% of the entity's results.

R million	2015	2014
Current		
Cash and cash equivalents	27	155
Other current assets	22	92
Total current assets	49	247
Financial liabilities (excluding trade payables)	(21)	(52)
Other current liabilities (including trade payables)	(3)	(19)
Total current liabilities	(24)	(71)
Non-current		
Assets	-	127
Financial liabilities (excluding trade payables)	(55)	(309)
Net assets	(30)	(6)
Revenue	37	22
Depreciation and amortisation	(41)	(41)
Interest income	*	*
Interest expense	(5)	(1)
Income tax expense	-	-
Net profit/(loss)	(121)	(180)
Other comprehensive income	*	*
Total comprehensive income	(121)	(180)
Group's share of loss - limited to consideration paid	-	-
Group's share of total comprehensive income - limited to consideration paid	-	-

* Amount is less than R500 000.

Reconciliation of summarised financial information

Reconciliation of summarised financial information presented to the carrying amount of interest in the joint venture

R million	2015	2014
Summarised financial information		
Opening net assets 1 July	(6)	87
Issuance of ordinary shares	-	-
Issuance of preference shares	105	85
Profit/(loss) for the year	(121)	(180)
Other comprehensive income	*	*
Foreign exchange differences	(8)	2
Closing net assets	(30)	(6)
R	2015	2014
Cosideration paid	1 189	1 189
Share of loss - limited to consideration paid	(1 189)	(1 189)
Carrying value at 30 June	-	-

Notes to the annual financial statements

for the year ended 30 June 2015

10. Financial assets - investments

R million	Group 2015	Group 2014
The Group's investment in financial assets are summarised by measurement category in the table below:		
Available-for-sale financial assets:	9 454	7 578
- Equity securities	65	96
- Equity linked notes ⁽¹⁾	19	42
- Debt securities	532	1 142
- Inflation linked securities	-	75
- Money market securities	992	1 137
- Mutual funds	7 846	5 086
Financial assets at fair value through profit or loss:	40 132	32 753
- Equity securities	10 584	9 157
- Equity linked notes	2 576	1 612
- Debt securities	7 552	5 786
- Inflation linked securities	218	189
- Money market securities	1 170	1 087
- Mutual funds	18 032	14 922
Total investments	49 586	40 331
Listed	46 180	33 948
Unlisted	3 406	6 383
	49 586	40 331

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

Maturity profile:

- It is management's intention to hold the available-for-sale financial assets as a long-term investment but may utilise these funds when required by business.
- Financial assets at fair value through profit or loss are held to back policyholder liabilities. Except for R1 308 million (2014: R1 079 million) which will be held to back unit-linked insurance contracts with a maturity profile between 1 and 5 years (refer to page 85), the balance can be withdrawn in the short-term.

Change in presentation

Previously, Discovery disclosed investments held in mutual funds as the security in which the mutual fund was predominantly invested. Discovery has changed this presentation to disclose mutual funds separately as this will provide more relevant information. The comparative disclosure has been restated to ensure comparability between the years presented. The comparatives are restated as follows:

R million	2014 Restated	2014 Prior year
Available-for-sale financial assets:	7 578	7 578
- Equity securities	96	887
- Equity linked notes ⁽¹⁾	42	30
- Debt securities	1 142	1 836
- Inflation linked securities	75	71
- Money market securities	1 137	4 754
- Mutual funds	5 086	-
Financial assets at fair value through profit or loss:	32 753	32 753
- Equity securities	9 157	18 943
- Equity linked notes	1 612	1 642
- Debt securities	5 786	8 482
- Inflation linked securities	189	412
- Money market securities	1 087	3 274
- Mutual funds	14 922	-
Total investments	40 331	40 331

Notes to the annual financial statements

for the year ended 30 June 2015

11. Derivative financial instruments

R million	Group	Group	Group	Group
	2015	2015	2014	2014
	Assets	Liabilities	Assets	Liabilities
Phantom share scheme - cash flow hedge	327	-	251	-
Phantom share scheme - fair value hedge	497	-	334	-
Interest rate swap	-	(4)	-	(3)
Non-hedge derivatives	1	(3)	3	(7)
	825	(7)	588	(10)
Current	297	(1)	202	(1)
Non-current	528	(6)	386	(9)
	825	(7)	588	(10)

Refer to pages 87 to 89 and 91 to 92 for a detailed description of the derivative financial instruments listed above.

12. Loans and receivables including insurance receivables

R million	Group	Group
	2015	2014
Receivables arising from insurance and reinsurance contracts:		
- Premium debtors	235	173
- Less provision for impairment of premium debtors	(39)	(36)
- Reinsurance debtors	1 183	1 018
Other loans and receivables:		
- AIA Vitality Company Limited	93	151
- Agents and brokers	238	187
- Cash-in-transit debtors	373	232
- Closed scheme debtors	48	40
- Discovery Health Medical Scheme	505	478
- Discovery Unit Trust debtors	185	220
- Expired hedge receivables	58	22
- FNB joint venture receivable	41	34
- Humana recovery	10	29
- Loans to BEE initiatives	80	69
- Loans to senior management	186	-
- Prepayments	329	266
- BEE partners' rights-issue funding	91	-
- Vitality partner debtors	19	11
- Other debtors	417	353
- Less provision for impairment of other loans and receivables	(168)	(137)
Total loans and receivables	3 884	3 110
Current	3 699	2 889
Non-current	185	221
	3 884	3 110

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

13. Reinsurance contracts

Reinsurers' share of insurance contract liabilities	362	266
Current	362	266

Amounts due from reinsurers in respect of claims paid and reported by the Group on the contracts that are reinsured are included in loans and receivables (refer to note 12).

Notes to the annual financial statements

for the year ended 30 June 2015

14. Cash and cash equivalents

R million	Group 2015	Group 2014
Cash at bank and in hand	4 328	2 808
Short-term deposits	1 923	842
	6 251	3 650
<p>The effective interest rate on local cash and cash equivalents was between 5.35% to 6.39% (2014: 4.5% to 5.51%) with an average maturity between 7 to 33 days (2014: 11 to 92 days).</p> <p>Cash and cash equivalents include the following for the purposes of the statement of cash flows:</p>		
Cash and cash equivalents	6 251	3 650
Bank overdraft (note 20)	-	(130)
	6 251	3 520

15. Share capital and share premium

15.1 Ordinary share capital and share premium

R million	Issued		Treasury shares			Total outstanding
	Share capital	Share premium	Discovery Health	BEE share trust	BEE transaction partners	
At 30 June 2013	1	1 623	(14)	(42)	(98)	1 470
Share movements:						
- treasury shares delivered	*	1 031	-	-	105	1 136
- treasury share purchases	-	-	-	(8)	(14)	(22)
Share issue costs	-	(2)	-	-	-	(2)
At 30 June 2014	1	2 652	(14)	(50)	(7)	2 582
Share movements:						
- rights issue	*	5 000	-	-	-	5 000
- treasury shares delivered	-	-	-	*	-	*
Share issue costs	-	(94)	-	-	-	(94)
At 30 June 2015	1	7 558	(14)	(50)	(7)	7 488

* Amount is less than R500 000

Number of shares	Issued	Treasury shares			Total outstanding
		Discovery Health	BEE share trust	BEE transaction partners	
At 30 June 2013	591 872 390	(680 268)	(1 583 727)	(35 595 469)	554 012 926
Share movements:					
- treasury shares delivered	-	-	117 931	20 270 560	20 388 491
- treasury share purchases	-	-	(95 000)	(171 342)	(266 342)
At 30 June 2014	591 872 390	(680 268)	(1 560 796)	(15 496 251)	574 135 075
Share movements:					
- rights issue	55 555 556	-	-	(814 770)	54 740 786
- treasury shares delivered	-	-	122 580	-	122 580
At 30 June 2015	647 427 946	(680 268)	(1 438 216)	(16 311 021)	628 998 441

The total authorised number of ordinary shares is 1 billion (2014: 1 billion), with a par value of 0.1 cent per share.

Notes to the annual financial statements

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15. Share capital and share premium *continued*

Rights issue

Discovery raised capital by way of an underwritten renounceable rights issue. This resulted in an increase in capital of R5 billion. Costs of R94 million were incurred in respect of the rights issue and have been written-off against share premium. Shares in issue have increased by 55 555 556 shares to 647 427 946 shares.

Refinancing of BEE transaction by a BEE partner

In September 2005, Discovery concluded a BEE transaction pursuant to which 38 725 909 shares were issued to a consortium of BEE parties. 17 703 273 of these shares were issued to WDB Discovery Investment Proprietary Limited (WDB) at R0.113 each, being one of the BEE consortium members. The difference between the market value of the ordinary shares issued to the BEE parties and the subscription consideration represented an outstanding funded amount provided by Discovery shareholders (funded amount). (Refer to note 33.2)

In December 2013, WDB decided to refinance the funded amount provided by Discovery with a third-party financial institution, which resulted in the following transactions:

- The repurchase by Discovery of 12 440 910 Discovery shares held by WDB at a price of R0.001 per share to repay the funded amount. The remaining 5 262 363 shares were retained by WDB as fully paid.
- The issue to WDB by Discovery of 12 440 910 new Discovery shares at a price of R82.75 per Discovery share (representing the 30 day VWAP to 4 December 2013).

The treasury shares decreased by 20 270 560, being the 17 703 273 shares from the original transaction, as well as 2 567 287 shares that were purchased with the dividends received by WDB. This increased share premium by R1 135 million.

15.2 Preference share capital

R million	Group 2015	Group 2014
Authorised		
40 000 000 A no par value preference shares		
20 000 000 B preference shares of R100 each	2 000	2 000
20 000 000 C no par value preference shares		
	2 000	2 000
Issued		
8 000 000 class B preference shares of R100 each	800	800
Share issue costs	(21)	(21)
At 30 June	779	779

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

Notes to the annual financial statements

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16. Liabilities arising from insurance contracts

R million	Group 2015	Group 2014
Gross		
- claims reported and loss adjustment expenses	3 998	3 304
- claims incurred but not reported	1 482	1 096
- EFA liability	32	25
- unearned premiums	548	592
- unit-linked insurance contracts	18 726	14 111
- with fixed and guaranteed terms	6 032	6 669
Total liabilities arising from insurance contracts, gross	30 818	25 797
Recoverable from reinsurers		
- claims incurred but not reported	(362)	(266)
Total reinsurers' share of liabilities arising from insurance contracts (refer to note 13)	(362)	(266)
Net		
- claims reported and loss adjustment expenses	3 998	3 304
- claims incurred but not reported	1 120	830
- EFA liability	32	25
- unearned premiums	548	592
- unit-linked insurance contracts	18 726	14 111
- with fixed and guaranteed terms	6 032	6 669
Total liabilities arising from insurance contracts, net	30 456	25 531
Current	6 902	6 951
Non-current	2 903	2 950
Variable ⁽¹⁾	20 651	15 630
	30 456	25 531

⁽¹⁾ There is no maturity profile for these liabilities as this will depend on policyholder behaviour. Contractually policyholders may disinvest on demand.

Movements in the liabilities are as follows:

R million	2015			2014		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Claims reported and loss adjustment expenses and IBNR						
Notified claims	3 304	-	3 304	2 566	-	2 566
Incurred but not reported	1 096	(266)	830	859	(226)	633
Balance at beginning of the year	4 400	(266)	4 134	3 425	(226)	3 199
Cash paid for claims settled in the year	(1 220)	160	(1 060)	(928)	146	(782)
Increase/(decrease) in liabilities:						
- arising from current year claims	2 939	(241)	2 698	2 335	(161)	2 174
- arising from prior year claims	(714)	-	(714)	(582)	-	(582)
Net exchange differences	75	(15)	60	150	(25)	125
Total at end of the year	5 480	(362)	5 118	4 400	(266)	4 134
Notified claims	3 998	-	3 998	3 304	-	3 304
Incurred but not reported	1 482	(362)	1 120	1 096	(266)	830
Total at end of the year	5 480	(362)	5 118	4 400	(266)	4 134
EFA liability						
Balance at beginning of the year	25	-	25	16	-	16
Increase in the year	11	-	11	9	-	9
Cash paid	(4)	-	(4)	-	-	-
Total at end of the year	32	-	32	25	-	25

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16. Liabilities arising from insurance contracts *continued*

R million	2015			2014		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Provisions for unearned premiums						
Balance at beginning of the year	592	-	592	519	-	519
Acquisition of business	-	-	-	-	-	-
Release in the year	(71)	-	(71)	(26)	-	(26)
Net exchange differences	27	-	27	99	-	99
Total at end of the year	548	-	548	592	-	592

* Amount is less than R500 000.

R million	Group 2015	Group 2014
Unit-linked insurance contracts		
Balance at beginning of the year	14 111	9 575
Premiums received	6 438	4 738
Fair value adjustment	1 566	2 086
Withdrawals	(2 431)	(1 567)
Fees	(552)	(455)
Movement in negative insurance liability	(406)	(266)
Balance at end of the year	18 726	14 111
With fixed and guaranteed terms		
Balance at beginning of the year	6 669	5 540
Expected movement in policyholder liabilities	(2 487)	(1 006)
Unwinding of discount rate	317	256
New business written	1 377	1 622
Experience variances	156	255
Change in assumptions	-	2
Balance at end of the year	6 032	6 669

17. Liabilities arising from reinsurance contracts

R million	Group 2015	Group 2014
Lapse risk treaties	1 759	575
Reinsurance recoveries relating to assets arising from insurance contracts (refer to note 5)	2 068	1 672
	3 827	2 247
Balance at beginning of the year	2 247	1 499
Increase in liability	1 580	747
- gross increase in liability	726	1 097
- receipt arising from reinsurance contracts	1 250	-
- reinsurance premiums paid	(396)	(350)
Net Lapse risk treaties	-	1
Balance at end of the year	3 827	2 247
Current	400	251
Non-current	3 427	1 996
	3 827	2 247

During the current financial year, Discovery Life Limited entered into a financial reinsurance treaty resulting in a cash inflow of R1 250 million. This treaty effectively reinsures approximately 8% of the negative reserve at 31 December 2014. In the income statement, the inflow has been disclosed as a receipt arising from reinsurance contracts and transferred to liabilities arising from reinsurance contracts. The liability will be amortised over the life of the reinsurance contract on a consistent basis as the profit is expected to emerge on the underlying policies.

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18. Puttable non-controlling interests

During the 2011 financial year, put options were granted to the non-controlling interests of two of Discovery's subsidiaries. The put options entitle the non-controlling interest to sell its interest in the subsidiary to Discovery at contracted dates.

The following put options were issued:

- The Prudential Assurance Company had the option to sell its 25% shareholding in Prudential Health Holdings Limited to Discovery, between 1 March 2015 and 30 April 2015 or after each succeeding one year period thereafter, at the fair market value.
- Humana had the option to sell its 25% shareholding in The Vitality Group LLC to Discovery, seven years after acquisition or after each succeeding two year period, at the fair market value less a 15% discount.

In November 2014, both these put options lapsed, with the purchase by Discovery of the following:

- Prudential's remaining 25% shareholding in PHHL for GBP 155 million (R2 790 million).
- Humana's 25% shareholding in TVG LLC for USD 5 million (R54 million).

The excess between the carrying amount of the puttable non-controlling interest financial liability and the consideration paid, has been recognised in profit or loss as a puttable non-controlling interest fair value adjustment. This income has been included in headline earnings but reversed when calculating normalised headline earnings.

The aggregate effects on Discovery's results at 30 June are as follows:

R million	Group 2015	Group 2014
Balance at beginning of the year	4 494	3 782
Further share issues to non-controlling interests	-	45
Finance costs recognised in profit or loss	64	157
Fair value adjustments:	(1 661)	201
- resulting from a change in interest rates	-	(54)
- resulting from a change in assumptions	(1 661)	255
Subsidiary purchases	(2 844)	(352)
Net exchange differences arising during the period	(53)	661
Closing value of puttable non-controlling interest liability	-	4 494

19. Negative reserve funding

R million	Group 2015	Group 2014
Negative reserve funding	4 518	4 139
Finance charge payable on negative reserve balance	919	545
	5 437	4 684

The negative reserve funding liability represents the acquisition costs that are funded by the Prudential Assurance Company on behalf of VitalityLife as well as interest charge on VitalityLife's negative reserve balance. 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.

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20. Borrowings at amortised cost

R million	Group 2015	Group 2014
Bank borrowings	893	402
Bank overdraft	-	130
Finance lease liability	61	40
	954	572
Current	69	153
Non-current	885	419
	954	572

Bank borrowings

FirstRand Bank Limited

In order to fund the acquisition of Standard Life Healthcare, Discovery borrowed R400 million from FirstRand Bank Limited. The salient terms of the loan are the following:

Lender:	FirstRand Bank Limited
Type of borrowings:	Senior debt
Interest rate:	Floating
Security:	Pledge of shares in Discovery Life Limited
Maturity date:	10 September 2017
Callable/Convertible:	Not applicable

The borrowings are repayable on maturity and interest is paid quarterly. The interest rate has been fixed through interest rate swaps.

The loan agreement imposes certain restrictions on Discovery's operations, including a limitation on total borrowings. A breach of these restrictions would require immediate repayment of any outstanding balance.

HSBC Bank Plc

In order to fund the operations of Vitality Life, Discovery entered into a GBP 100 million term facility with HSBC Bank Plc. As of 30 June 2015 GBP 26.4 million of the facility was utilised. The salient terms of the facility are the following:

Lender:	HSBC Bank Plc
Type of borrowings:	Senior unsecured
Interest rate:	Floating, linked to 3 month London Interbank Offered Rate (LIBOR)
Security:	None
Maturity date:	23 June 2020
Callable/Convertible:	Not applicable
Interest payable:	Quarterly in arrears

The borrowings are repayable in bi-annual instalments of 7.5% of the total facility utilised, commencing on 31 May 2016, with a final bullet payment at maturity equivalent to 47.5% of the total facility utilised.

The term facility imposes certain restrictions on Discovery's operations, including limitation on total borrowings. A breach of these restrictions would require immediate repayment of any outstanding balance.

Capitalised finance lease liability

Lease liabilities are not secured as the rights to the leased assets remain with the lessee in event of default.

R million	Minimum lease payments	Finance cost	Present value
30 June 2015			
Due within one year	34	(4)	30
Due between two and five years	35	(4)	31
	69	(8)	61
30 June 2014			
Due within one year	24	(3)	21
Due between two and five years	21	(2)	19
	45	(5)	40

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21. Investment contracts at fair value through profit or loss

R million	Group 2015	Group 2014
The movements during the year were as follows:		
Balance at beginning of the year	8 264	6 410
Premiums received	3 717	2 846
Fees deducted from account balances	(1)	(1)
Account balances paid on withdrawal and other terminations in the year	(2 833)	(2 215)
Fair value adjustment	912	1 224
Balance at end of the year	10 059	8 264
Variable ⁽¹⁾	10 059	8 264

⁽¹⁾ There is no maturity profile for these liabilities as this will depend on policyholder behaviour. Contractually, policyholders may disinvest on demand.

The benefits offered under the Group's unit-linked investment contracts are based on the return of selected equities, debt securities and money market securities. The Group communicates the actual performance of these contracts to its contract holders.

22. Trade and other payables

R million	Group 2015	Group 2014
Digicore payable	18	12
Discovery Unit Trust creditors	279	197
Due to reinsurers	314	23
Payables and accrued liabilities	1 770	1 339
Payroll creditors	984	776
Policyholder unallocated funds	344	394
VitalityLife working capital funding	654	163
Security deposits on derivatives	759	387
Straight-lining operating lease payments	27	40
Value-added tax	39	48
Other creditors	318	373
	5 506	3 752
Current	3 900	2 928
Non-current	1 606	824
	5 506	3 752

23. Deferred income tax

Deferred tax asset	690	406
- Current	30	95
- Non-current	660	311
Deferred tax liability	(5 077)	(4 647)
- Current	(41)	(82)
- Non-current	(5 036)	(4 565)
	(4 387)	(4 241)
Movement summary		
Balance at beginning of the year	(4 241)	(3 414)
Income statement charge (refer to note 36)	(158)	(714)
Deferred tax on cash flow hedge charged to other comprehensive income	(10)	-
Capital gains taxation on market value adjustments and realised gains charged to other comprehensive income	24	(44)
Deferred tax on unrealised translation gains charged to other	(12)	(29)
Exchange differences	10	(40)
Balance at end of the year	(4 387)	(4 241)

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23. Deferred income tax continued

Deferred taxation comprises:

R million	Opening balance	Charge for the year	Closing balance
Year ended 30 June 2015			
Assessed loss in Company Policyholders' Fund	40	1	41
Assessed loss in subsidiaries	96	335	431
Capital gains tax on unrealised gains on available-for-sale financial instruments	(88)	24	(64)
Cash flow hedge	(20)	(15)	(35)
Deferred acquisition costs	(104)	(10)	(114)
Deferred revenue	9	3	12
Difference between accounting and tax balances arising from insurance contracts	(4 206)	(652)	(4 858)
Difference between wear and tear and depreciation	(19)	(7)	(26)
Fair value hedge	(40)	(24)	(64)
Gains on disposal of intellectual property	(34)	34	-
Intangibles recognised on acquisition of businesses	(207)	49	(158)
Operating leases	10	(3)	7
Prepayments	(14)	(6)	(20)
Provisions	62	(3)	59
Share-based payments	110	21	131
Unrealised forex gain	(116)	116	-
Unutilised special transfer balances	267	(15)	252
Other	13	6	19
	(4 241)	(146)	(4 387)
Year ended 30 June 2014			
Assessed loss in Company Policyholders' Fund	40	-	40
Assessed loss in subsidiaries	89	7	96
Capital gains tax on unrealised gains on available-for-sale financial instruments	(44)	(44)	(88)
Cash flow hedge	(20)	-	(20)
Deferred acquisition costs	(88)	(16)	(104)
Deferred revenue	8	1	9
Difference between accounting and tax balances arising from insurance contracts	(3 409)	(797)	(4 206)
Difference between wear and tear and depreciation	(20)	1	(19)
Fair value hedge	(36)	(4)	(40)
Gains on disposal of intellectual property	(35)	1	(34)
Intangibles recognised on acquisition of businesses	(234)	27	(207)
Operating leases	11	(1)	10
Prepayments	(18)	4	(14)
Provisions	52	10	62
Share-based payments	110	-	110
Unrealised forex gain	(67)	(49)	(116)
Unutilised special transfer balances	237	30	267
Other	10	3	13
	(3 414)	(827)	(4 241)

Discovery did not recognise deferred tax assets in respect of the following assessable losses:

R million	Group 2015	Group 2014
Discovery Life - Individual Policyholders' Fund calculated in terms of the four funds approach	15 492	14 367
Discovery Insure	803	561
Destiny Health (will begin to expire in 2019)	2 618	2 316
Vitality Health Limited	1 432	2 669
	20 345	19 913

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24. Deferred revenue

R million	Group 2015	Group 2014
Balance at 1 July	157	151
Income deferred	139	121
Income recognised through profit or loss	(105)	(115)
Foreign currency adjustment on translation	1	-
Balance at 30 June	192	157
Current	115	28
Non-current	77	129
	192	157

25. Employee benefits

Leave pay

Opening balance	154	138
Additional provisions raised	209	37
Used during the year	(194)	*
Paid to terminated employees	(18)	(21)
Foreign currency adjustment on translation	1	-
Closing balance	152	154
Current	131	133
Non-current	21	21
	152	154

* The 2014 leave balance used was netted off the 'Additional provision raised' line item above.

26. Net insurance premium revenue

Health	5 658	5 348
Recurring premiums	6 974	6 275
Reinsurance premiums	(1 316)	(927)
Individual life and invest	16 726	13 863
Recurring premiums	11 462	9 543
Single premiums	6 785	5 461
Reinsurance premiums	(1 521)	(1 141)
Group life	1 312	1 163
Recurring premiums	1 370	1 208
Reinsurance premiums	(58)	(45)
Short-term insurance	885	534
Recurring premiums	1 103	603
Reinsurance premiums	(218)	(69)
	24 581	20 908
Insurance premium revenue	27 694	23 090
Outward reinsurance premiums	(3 113)	(2 182)
	24 581	20 908

27. Investment income

Available-for-sale financial assets	56	174
- Interest	46	162
- Dividends	10	14
- Investment charges	*	(2)
At amortised cost interest income	9	17
Cash and cash equivalents interest income	442	223
	507	414
Attributable to:		
- shareholders	188	152
- policyholders	319	262
	507	414

* Amount is less than R500 000

Notes to the annual financial statements

for the year ended 30 June 2015

28. Net realised gains on available-for-sale financial assets

R million	Group 2015	Group 2014
Realised gains	199	244
- Equity securities	95	183
- Debt securities	2	5
- Foreign assets	102	55
- Money market securities	-	1
Realised losses	(11)	(13)
- Equity securities	-	(3)
- Debt securities	-	(9)
- Money market securities	(11)	(1)
	188	231

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

Investment income	1 106	867
- Interest	617	519
- Dividends	489	348
Net realised (losses)/gains	(49)	(20)
Net fair value gains	2 292	3 609
Investment charges	(225)	(178)
	3 124	4 278

30. Net claims and policyholders' benefits

Health insurance claims	3 253	3 413
Gross claims	4 394	4 265
Less: Reinsurance recoveries	(1 141)	(852)
Individual life insurance claims	2 614	2 150
Death	1 403	1 210
Disability	1 679	1 282
Payback benefits	668	454
Less: Reinsurance recoveries	(1 136)	(796)
Group life insurance claims	1 024	876
Death	511	458
Disability	603	518
Less: Reinsurance recoveries	(90)	(100)
Individual investment benefits	5 832	3 116
Surrenders	5 537	2 848
Guaranteed payments	84	80
Annuity payments	211	188
Short-term insurance claims	579	354
Gross claims	715	415
Less: Reinsurance recoveries	(136)	(61)
	13 302	9 909
Claims and policyholders' benefits	15 805	11 718
Insurance claims recovered from reinsurers	(2 503)	(1 809)
Net claims and policyholders' benefits	13 302	9 909

31. Acquisition costs

Commission expenses	5 283	4 370
Movement in deferred acquisition costs (refer to note 7)	11	(74)
	5 294	4 296

Notes to the annual financial statements

for the year ended 30 June 2015

32. Marketing and administration expenses

R million	Group 2015	Group 2014
Marketing and administration expenses comprises:		
Employee costs	4 932	4 543
Marketing and distribution costs	928	598
IT systems and consumables	686	661
Building-related and office costs	629	541
Depreciation and amortisation	413	293
Vitality benefit costs	2 683	1 851
Other costs	1 980	1 659
	12 251	10 146
Marketing and administration expenses include the following:		
Amortisation of intangible assets		
Software (refer to note 7)	233	149
Amortisation of intangible assets from business combination ⁽¹⁾	227	187
- acquisition of Standard Life Healthcare (refer to note 7)	227	177
- acquisition of The Vitality Group (refer to note 9)	-	10
	460	336
⁽¹⁾ The transactions relating to business combinations are not included in marketing and administration expenses as it is disclosed separately in the income statement.		
Auditors' remuneration		
Audit fees		
- current year	38	32
- prior year	*	*
Fees for other services	2	2
	40	34
* Amount is less than R500 000.		
Depreciation on property and equipment (refer to note 6)		
Computer equipment and operating systems	93	70
Furniture, fittings and equipment	23	24
Leasehold improvements	38	34
Motor vehicles	5	4
Telematics devices	21	10
	180	142
Employee costs		
Salaries, wages and allowances	3 818	3 499
Medical aid fund contributions	221	187
Defined contribution provident fund contributions	206	170
Social security levies	119	99
Share-based payment expenses		
- cash-settled	491	406
- gain on fair value hedge	(309)	(145)
Staff training	19	22
Recruitment fees	52	39
Temporary staff	166	121
Provision for leave pay	15	32
Other	134	113
	4 932	4 543

Directors' and prescribed officers' remuneration is included in employee costs. Refer to Directorate for detailed disclosure.

Notes to the annual financial statements

for the year ended 30 June 2015

32. Marketing and administration expenses continued

R million	Group 2015	Group 2014
Operating lease charges		
Land and buildings	224	201
Computer and office equipment	66	61
	290	262
Professional fees		
Actuarial fees	1	2
Technical and other	443	348
	444	350
Repairs and maintenance expenditure		
Computer repairs and maintenance	36	27
Furniture and equipment maintenance	7	1
Office repairs and maintenance	1	5
Software maintenance	413	302
	457	335
Other operating costs		
Impairment of other loans and receivables	31	9
Foreign exchange (gains) / losses on supplier balances	(3)	55

33. Share-based payment expenses

33.1 Staff incentive schemes

Discovery operates various share-based payment arrangements. The details of these arrangements are described below:

1. BEE staff share trust

5 290 000 Discovery Limited's shares were issued to the BEE staff share trust for current and future employees. 920 000 additional shares have been purchased accumulatively in prior years, for future allocation to employees. No additional shares were purchased by the BEE staff share trust during the current financial year. The trusts consists of two components; the allocation scheme and the option scheme as described below:

Allocation scheme

Shares have been allocated to senior black employees based on level of seniority and length of past service. The shares vest to employees two, three, four and five years after allocation at a rate of 25% per annum. On each vesting date, the trustees shall distribute to the employees the allocated shares to which the employee may be entitled.

Option scheme

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

2. The Vitality Group stock option plan

Options are granted at fair value price at date of grant. The fair value price was USD 0.54 as per the valuation performed at 30 September 2014. Options vest 33.3% per year for three years and must be exercised within seven years of the date of grant otherwise the options expire.

3. The Vitality Group phantom stock plan

Participants earn a cash bonus based on allocation of bonus scheme units which in turn are linked to the performance of the Vitality Group Inc. share price. The bonus is earned if the participant is employed on each vesting date. The units typically vest equally over a 4 year period but 3 year vesting grants are offered as well.

4. The Discovery Limited phantom scheme

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

Notes to the annual financial statements

for the year ended 30 June 2015

33. Share-based payment expenses *continued*

The 2009 - 2011 allocations consist of units that replicate the economics of a Discovery Limited share. The 2012 - 2014 allocations were pre-determined combinations of units that replicate the economics of a Discovery Limited share and units that replicate the economics of a call option over a Discovery Limited share.

5. Acquisition schemes

There are various schemes offered to franchise directors, agents and employees where participants are allocated share units which replicate the economics of a Discovery Limited share. The share units are settled as a cash bonus on vesting. The bonus is earned if the participant is employed on the vesting date. The vesting periods on the schemes vary from two to five years. The bonus may not be carried forward.

The share option schemes mentioned in 1 and 2 on the previous page have been classified as equity-settled schemes and therefore a share-based payment reserve has been recognised.

The schemes mentioned in 3,4 and 5 have been classified as cash-settled schemes and a liability is raised in terms of IFRS 2.

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

Date granted	Option price	Final vesting date	Shares under option at beginning of year	Options granted during year	Options delivered during year	Options cancelled or adjusted during year	Shares under option at end of year
1. BEE staff share trust							
01/07/2010 - 30/06/2011	R 34.90	30/09/2015	23 639	-	(11 819)	-	11 820
01/07/2010 - 30/06/2011	R 0.00	30/03/2016	11 153	-	(6 072)	-	5 081
01/07/2011 - 30/06/2012	R 0.00	30/09/2017	224 426	-	(73 752)	-	150 674
01/07/2012 - 30/06/2013	R 0.00	30/09/2018	105 228	-	(15 127)	(20 000)	70 101
01/07/2013 - 30/06/2014	R 0.00	30/09/2019	236 619	-	(15 686)	(7 950)	212 983
01/07/2014 - 30/06/2015	R 0.00	30/09/2020	-	67 057	(200)	-	66 857
2. The Vitality Group stock option plan							
01/10/2008	USD 0.38	01/10/2012	10 000	-	-	-	10 000
3. The Vitality Group phantom stock plan							
01/10/2011	USD 0.00	01/10/2015	495 373	-	(425 246)	-	70 127
01/10/2012	USD 0.00	01/10/2016	2 143 137	-	(750 743)	-	1 392 394
01/10/2013	USD 0.00	01/10/2017	2 954 933	-	(53 571)	-	2 901 362
01/10/2013	USD 0.00	01/10/2017	-	3 671 037	-	-	3 671 037
4. The Discovery Limited phantom scheme							
30/09/2009	R 0.00	30/09/2014	685 780	-	(685 780)	-	-
30/09/2010	R 0.00	30/09/2015	1 481 533	-	(743 891)	(34 688)	702 954
30/09/2011	R 0.00	30/09/2016	2 680 150	-	(898 550)	(160 950)	1 620 650
30/09/2012	R 54.75	30/09/2017	4 695 875	-	(1 176 448)	(218 907)	3 300 520
30/09/2012	R 0.00	30/09/2017	1 621 689	-	(406 249)	(66 219)	1 149 221
01/07/2013	R 0.00	30/06/2017	2 060 241	-	-	(36 145)	2 024 096
30/09/2013	R 84.76	30/09/2018	2 426 905	-	-	(159 253)	2 267 652
30/09/2013	R 0.00	30/09/2018	1 213 431	-	-	(79 627)	1 133 804
30/09/2014	R 97.89	30/09/2019	-	2 573 053	-	(19 212)	2 553 841
30/09/2014	R 0.00	30/09/2019	-	1 384 013	-	(9 606)	1 374 407
5. Acquisition schemes							
1/07/2009 to 30/06/2010	R 0.00	30/06/2015	31 552	-	(17 955)	(882)	12 715
1/07/2010 to 30/06/2011	R 0.00	30/06/2016	76 651	-	(40 003)	(5 567)	31 081
1/07/2011 to 30/06/2012	R 0.00	30/06/2017	886 766	-	(759 332)	(20 229)	107 205
1/07/2012 to 30/06/2013	R 0.00	30/06/2018	827 094	-	(93 262)	(11 337)	722 495
1/07/2013 to 30/06/2014	R 0.00	30/06/2019	890 002	-	(92 728)	92 313	889 587
1/07/2014 to 30/06/2015	R 0.00	30/06/2020	-	950 104	-	(40 988)	909 116

Notes to the annual financial statements

for the year ended 30 June 2015

33. Share-based payment expenses *continued*

The fair value of options was calculated at year-end on a Black-Scholes model using the following assumptions:

	Spot price	Exercise price	Option term	Volatility	Dividend yield
BEE staff share trust - originally issued on 13 September 2005	R 21.47	R 21.47	2 to 5 years	32.7% to 35.5%	-
Phantom scheme - issued on 30 September 2012	R 126.47	R 54.75	up to 2.25 years	35.4% to 44.5%	1.65
- issued on 30 September 2013	R 126.47	R 84.76	up to 3.25 years	35.0% to 44.5%	1.65
- issued on 30 September 2014	R 126.47	R 97.89	up to 4.25 years	34.6% to 35.8%	1.65
Vitality Group Inc. stock option plan	USD 0.54	USD 0.375	0.25 years	10.0%	-

The Phantom schemes and Acquisition schemes are cash-settled and are thus repriced at each reporting date. The fair value of shares granted under these schemes during the current financial year, has been calculated using the closing share price on 30 June 2015 of R126.47.

33.2 Black Economic Empowerment (BEE) transaction and IFRS 2

Discovery concluded a BEE transaction in September 2005 pursuant to which 38 725 909 shares were issued to BEE parties as follows:

BEE parties	Number of shares	Subscription price per share
Dlamini SPV	200 000	0.00
Zilwa SPV	200 000	0.00
WDBIH SPV	17 703 273	0.11
Maphai SPV	1 106 455	1.72
Discovery Foundation	14 226 181	0.00
BEE staff share trust	5 290 000	0.00

The shares issued to the Dlamini SPV, the Zilwa SPV and the WDBIH SPV were settled on 15 April 2009, 9 December 2010 and in December 2013 respectively, and are no longer outstanding in terms of the BEE transaction. Refer to note 15.1 for detail of the refinancing of the BEE transaction with the WDBIH SPV.

Mechanics of the transaction with BEE partners other than BEE staff share trust (BEE parties)

The difference between the market value of the ordinary shares issued to the BEE parties of R715 million and the subscription consideration of R3.9 million represents an outstanding funded amount provided by Discovery shareholders (the funded amount). The BEE parties will provide Discovery and its subsidiaries with a right to purchase, at the end of ten years, such number of ordinary shares at 0.1 cent per share (the par value) that will provide Discovery with a notional return on this funded amount (the Discovery repurchase agreement).

In order to allow the BEE parties to retain the full number of Discovery shares originally issued to them, the BEE parties will have a right to simultaneously acquire from Discovery, at the then thirty-day volume-weighted average price per Discovery share, the same number of shares repurchased by Discovery in terms of the Discovery repurchase agreement.

Shares acquired by the BEE parties rank *pari passu* with existing Discovery shares. The BEE parties have undertaken to utilise any dividend or capital distributions made by Discovery to acquire additional Discovery shares in the market within three months of the date of any distribution.

The funded amounts relating to the Maphai SPV and the Discovery Foundation BEE shares reach the end of their respective ten year period in December 2015.

Notes to the annual financial statements

for the year ended 30 June 2015

34. Finance costs

R million	Group 2015	Group 2014
Interest expense on:		
- Bank loan	92	39
- Finance lease liability	5	4
- Accounts payable balances	36	20
- Puttable non-controlling interest liabilities	64	157
	197	220

35. Foreign exchange gains

Net foreign exchange gains	40	18
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The net foreign exchange gains arise primarily from the settlement of foreign subsidiary intercompany balances.

36. Taxation

Charge for the year:

Current taxation	1 056	613
South African normal taxation	1 021	568
South African capital gains taxation	35	45
Deferred taxation	158	714
	1 214	1 327
	%	%

Taxation rate reconciliation

Effective taxation rate	17.9	28.7
Deferred tax accrued on prior year losses	3.9	-
Subsidiary losses not provided for	0.6	(2.4)
Capital profits and dividend income	0.3	0.9
Disallowed expenditure	(0.9)	(0.8)
Non-taxable income	6.0	-
Reversal of deferred tax on sale of associate	0.5	-
Tax rate decrease in the UK	0.1	0.7
Tax rate differences	(0.3)	0.4
Other permanent differences	(0.1)	0.5
Standard rate of taxation	28.0	28.0

For South African entities that are in a tax paying position, tax has been provided at 28% (2014: 28%).

Current taxation relating to Discovery Life is determined by applying the four funds method of taxation applicable to life insurers.

Notes to the annual financial statements

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37. Earnings per share

	Group 2015	Group 2014 restated
Basic earnings per share		
Earnings per share is based on net profit after tax attributable to ordinary shareholders and the weighted number of ordinary shares in issue.		
Net profit attributable to ordinary shareholders (R million)	5 480	3 246
Weighted number of ordinary shares in issue (000's)	598 946	581 123
Basic earnings per share (cents)	914.8	558.7
Diluted earnings per share		
Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Discovery has two categories of dilutive potential ordinary shares namely:		
- shares issued from the staff share trusts which have not been delivered to participants		
- shares issued to BEE parties		
Weighted average ordinary shares in issue (000's) adjusted for:	598 946	581 123
- Weighted average ordinary shares in the staff share trusts (000's)	505	590
- Weighted average ordinary shares issued to BEE parties (000's)	7 839	13 986
	607 290	595 699
Diluted earnings per share (cents)	902.2	545.1
Headline earnings		
Headline earnings per share is based on the net profit after tax attributable to ordinary shareholders adjusted for items of a capital nature and the weighted average number of ordinary shares in issue.		
Headline earnings reconciliation (R million)		
Net profit attributable to ordinary shareholders	5 480	3 246
Adjusted for:		
- realised gains on available-for-sale financial assets	(188)	(231)
- capital gains tax on realised gains on available-for-sale financial assets	35	43
- realised gains from the sale of associate including deferred tax reversal	(42)	-
- Impairment of property, plant and equipment	-	3
- Impairment of intangible assets	-	3
Headline earnings	5 285	3 064
Headline earnings per share (cents):		
- undiluted	882.4	527.4
- diluted	870.2	514.5
Normalised headline earnings (R million)		
Headline earnings	5 285	3 064
- accrual of dividends payable to preference shareholders	(1)	-
- amortisation of intangibles from business combinations (note 32)	227	187
- deferred tax on amortisation of intangibles from business combinations	(57)	(71)
- 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 (note 18)	(1 661)	201
- finance costs raised on puttable non-controlling interest financial liability (note 18)	64	157
- non-controlling interest allocation if no put options	(42)	(81)
- rebranding and business acquisition expenses	420	-
Normalised headline earnings	4 027	3 457
Normalised headline earnings per share (cents):		
- undiluted	672.2	594.8
- diluted	663.0	580.2

Notes to the annual financial statements

for the year ended 30 June 2015

37. Earnings per share *continued*

Restatement due to rights issue

Discovery raised capital by way of an underwritten renounceable rights issue. This resulted in an increase in capital of R5 billion. Costs of R94 million were incurred in respect of the rights issue and has been written-off against share capital. Shares in issue have increased by 55 555 556 shares to 647 427 946 shares.

When ordinary shares are issued at a discount to the market price, IAS 33 (Earnings per Share) requires that the discount is treated as a bonus given to the shareholders in the form of shares for no consideration and this "bonus" element must be separately taken into account in calculating the weighted average number of shares. Further IAS 33 requires that the "bonus" shares must be added to the previous period in order to reflect the bonus element in the rights issue. This has resulted in a restatement of the prior year's earnings per share calculations for the "bonus" element of 16 065 241 shares.

	2014	2014
Cents per share	Previously reported	Restated
Weighted number of shares in issue ('000)	565 471	581 123
Diluted weighted number of shares ('000)	580 047	595 699
Earnings per share		
- basic	574.2	558.7
- diluted	559.8	545.1
Headline earnings per share		
- undiluted	542.0	527.4
- diluted	528.4	514.5
Normalised headline earnings per share		
- undiluted	611.3	594.8
- diluted	595.9	580.2

Notes to the annual financial statements

for the year ended 30 June 2015

38. Cash flow information

R million	Group 2015	Group 2014
38.1 Cash generated by operations		
Profit before taxation	6 766	4 641
Adjusted for:		
Receipt arising from reinsurance contracts	(1 250)	-
Investment income	(1 484)	(1 193)
Realised investment gains and losses	(139)	(211)
Financing costs	197	220
Premiums, claims and investment charges for liabilities under investment contracts	883	630
Non-cash items:		
Amortisation of software	233	149
Amortisation of intangibles from business combinations	227	187
Deferred acquisition costs	11	(74)
Deferred revenue	34	6
Depreciation	180	142
Gain on fair value hedge	(322)	(173)
Gain on disposal of property and equipment	(3)	-
Impairment of property and equipment	-	5
Impairment of intangible assets	-	3
Operating lease payments in advance	(13)	(6)
Property and equipment written-off	1	-
Provision for bad debts	34	39
Provision for employee benefits	15	16
Puttable non-controlling interest fair value adjustment	(1 661)	201
Share-based payment expenses	491	406
Share of net gains/(losses) in associates	(26)	14
Transfer to assets under insurance contracts	(3 278)	(2 816)
Transfer to assets under reinsurance contracts	(81)	(15)
Transfer to liabilities under insurance contracts	4 320	5 810
Transfer to liabilities under reinsurance contracts	1 580	747
Fair value adjustment to liabilities under investment contracts	912	1 224
Translation differences	(1)	85
Unearned premiums	(71)	(26)
Unrealised gains on foreign exchange	(19)	(68)
Unrealised gains on investments at fair value through profit or loss	(2 196)	(3 519)
Working capital changes:		
Loans and receivables including insurance receivables	(320)	(72)
Trade and other payables	2 031	2 060
	7 051	8 412
38.2 Taxation paid		
Balance at beginning of the year	39	(15)
Taxation charged for the year in the income statement	(1 214)	(1 327)
Adjustment for movement in deferred taxation	158	714
Acquisition of subsidiary	-	(1)
Taxation charged to other comprehensive income	-	4
Balance at end of the year	72	(39)
Taxation paid	(945)	(664)
38.3 Proceeds from issuance of shares		
Preference shares issued in Discovery Insure Limited	-	45
Ordinary shares issued in Discovery Limited	5 000	1 031
Ordinary shares issued in The Vitality Group LLC to non-controlling interest	-	1
	5 000	1 077

Notes to the annual financial statements

for the year ended 30 June 2015

38. Cash flow information *continued*

R million	Group 2015	Group 2014
38.4 Repayment of borrowings		
Balance at beginning of the year excluding bank overdraft	442	444
Assets purchased on finance lease	53	16
Increase in borrowings	1 992	-
Balance at end of the year excluding bank overdraft	(954)	(442)
Repayment of borrowings	1 533	18

39. Commitments

39.1 Capital commitments

Capital expenditure approved but not contracted for at the reporting date is as follows:

Property and equipment	145	196
Intangible assets	411	177
	556	373

39.2 Operating lease commitments

Discovery has various operating lease agreements. Most leases contain renewal options. Lease terms do not contain restrictions on Discovery's activities concerning dividends, additional debt or further leasing.

Discovery leases certain computer and office equipment under operating leases. The remaining periods of the leases are from two months to five years. The future minimum commitments are as follows:

Due within one year	87	63
Due within two to five years	87	80
Cash flow commitment	174	143

Discovery leases certain land and buildings under operating leases. The remaining periods of the leases are from two months to seventeen years. The future minimum commitments in terms of the leases of land and buildings, including Discovery's operational head office, are as follows:

Due within one year	177	205
Due within two to five years	846	659
Due after five years	5 273	5 472
Cash flow commitment	6 296	6 336
Accrued to a liability (refer to note 22)	(27)	(40)
Net commitment	6 269	6 296

In February 2014, Discovery concluded an agreement to develop Discovery's new head office and is expecting to take occupation on 1 January 2018. The initial rental will be approximately R233 million per annum and will escalate at a rate of 7% per annum compounded annually. The initial lease period, commencing 1 November 2017, is for 15 years with the option to renew.

Notes to the annual financial statements

for the year ended 30 June 2015

40. Dividends per share

40.1 Dividends per ordinary share

The dividends paid in 2015 totalled R968 million and comprised a final dividend of 78 cents per share paid on 13 October 2014 and an interim dividend of 85.5 cents per share paid on 23 March 2015.

The dividends paid in 2014 totalled R814 million and comprised a final dividend of 64.5 cents per share paid on 14 October 2013 and an interim dividend of 73 cents per share paid on 24 March 2014.

40.2 Dividends per preference share

The dividends paid in 2015 totalled R72 million and comprised a final dividend of 442,19178 cents per share paid on 22 September 2014 and an interim dividend of 465 cents per share paid on 16 March 2015.

The dividends paid in 2014 totalled R68 million and comprised a final dividend of 421,50685 cents per share paid on 23 September 2013 and an interim dividend of 428,49315 cents per share paid on 17 March 2014.

41. Contingencies

The Group is exposed to the following contingencies at 30 June 2015:

- VitalityHealth has provided certain volume guarantees to its reinsurance providers. Discovery Limited has guaranteed these obligations.
- In terms of the agreement entered into with Hannover Reinsurance, Discovery Limited has guaranteed the obligations of Discovery Insure to Hannover Reinsurance.

42. Related parties

42.1 List of related parties as defined

Subsidiaries

Details of subsidiaries directly owned by Discovery Limited are contained in Company note 1.

Associates and Joint Ventures

Details of Discovery's associates and joint ventures are contained in note 9.

Corporate investors

RMI Holdings Limited has a 25.01% shareholding in Discovery Limited. Included in the RMI Holdings group structure are the following subsidiaries which are also considered to be related parties:

- MMI Holdings Limited.
- OUTsurance Holdings Limited.
- RMBSI Investments Proprietary Limited.

Besides the transaction with RMI Holdings discussed below, Discovery did not enter into any other transactions with these related parties during the current or prior financial year.

Key management personnel

Key management personnel have been defined as directors of Discovery Limited, Discovery Health Proprietary Limited and Discovery Life Limited, as these businesses constitute the majority of the Discovery Group.

A list of the directors and prescribed officers of Discovery Limited can be found on page 10.

It is not considered necessary to disclose details of key management family members and their influenced or controlled separate entities. To the extent specific transactions have occurred between Discovery and these related parties (as defined in IAS 24) the details are included in the aggregate disclosure contained below under key management and where significant, full details of all relationships and terms of the transactions are provided.

Notes to the annual financial statements

for the year ended 30 June 2015

42. Related parties continued

42.2 Transactions with related parties

For purposes of this section Discovery Limited will be referred to as the Company and where relevant, amounts are excluding VAT.

Discovery Health Medical Scheme (DHMS)

Discovery Health administers DHMS and provides managed care services for which it charges an administration fee and a managed healthcare fee respectively. These fees are determined on an annual basis and approved by the trustees of DHMS. The fees totalled R4 354 million (2014: R4 046 million). Discovery offers the members of DHMS access to the Vitality programme. Interest between Discovery and DHMS is calculated at call rates on the daily outstanding balance. Interest paid to DHMS amounted to R295 945 (2014: R51 641).

Discovery Third Party Recovery Services (DTPRS) paid DHMS R15.5 million (2014: R13.2 million) to purchase all the risks and rewards of ownership to the claims due from the Road Accident Fund up to 31 December 2014 (2014: up to 31 December 2013).

DTPRS also provides a service to DHMS to recover all claims that are due from the Compensation for Occupational Injuries and Diseases. DTPRS received R14 million (2014: R10.3 million) for this service.

Discovery Vitality receives monthly contributions from DHMS members that have activated the Vitality Wellness programme through various product integrations. The membership fees totalled R1 292 million for the year ended 30 June 2015 (2014: R1 156 million).

DHMS owes Discovery R504 million (2014: R478 million) at year-end.

Closed schemes

Discovery Health administers the following restricted membership medical schemes:

- Anglo Medical Scheme
- Anglovaal Group Medical Scheme.
- BMW Employees Medical Aid Scheme
- LA Health Medical Scheme.
- Lonmin Medical Scheme.
- Malcor Medical Aid Scheme (from 1 January 2015)
- Naspers Medical Scheme.
- Quantum Medical Aid Society.
- Remedi Medical Scheme.
- Retail Medical Scheme.
- TFG Medical Aid Scheme.
- Tsogo Sun Group Medical Scheme.
- University of KwaZulu-Natal Medical Scheme.
- WitsMed (from 01 January 2015)

Discovery Health charges these schemes administration fees which are determined on an annual basis and approved by the trustees of the respective closed schemes. The fees totalled R380 million (2014: R330 million).

Discovery Vitality receives monthly contributions from the closed scheme members that have activated the Vitality Wellness programme through various product integrations. The membership fees totalled R47 million (2014: R42 million).

Amounts due to Discovery at year-end totalled R48 million (2014: R40 million).

Cambridge Mobile Telematics Inc. (CMT)

Discovery Insure procured the services of CMT to develop software for the smartphone telematics platform. R2.5 million (2014: R5.2 million) has been paid to CMT in respect of this software.

From the current financial year, Discovery Insure also paid fees on a monthly basis to CMT for the collation and interpretation of data and the translating of driving behaviour into scorable events. Fees paid for the year totalled R4.5 million.

Discovery Franchises

Discovery has established a network of 41 franchises in order to establish a national footprint for its products. Discovery has paid R141 million (2014: R234 million) in fees to the franchises.

The franchises participate in the Acquisition Scheme (refer to note 33 for further details). During the year, R14 million (2014: R11 million) was accrued for in terms of this scheme.

Notes to the annual financial statements

for the year ended 30 June 2015

42. Related parties continued

The Discovery Foundation

The Discovery Foundation was launched in 2006 and is an independent shareholder of Discovery, with its own trustees. It forms one arm of Discovery's Black Economic Empowerment transaction. The principal aim of the Discovery Foundation is to invest in the education and training of medical specialists and the development of academic and research centres, with particular focus on those areas with greatest need.

The Discovery Foundation received contributions from Discovery of R28.4 million during the year (2014: R18.4 million). Discovery also paid a management fee of R3 million (2014: R2 million).

The Discovery Fund

A fund for sustainable non-governmental healthcare projects, especially in primary healthcare. These projects complement the delivery of primary and preventative care in the public sector and help to relieve the burden on state facilities.

The Discovery Fund received contributions from Discovery of R29.8 million during the year (2014: R19.8 million). Discovery also paid a management fee of R1 million (2014: R1 million).

Discovery staff pension and provident funds

A pension and provident fund has been set-up specifically for the Discovery staff. Contributions made to this fund during the year amounted to R145 million (2014: R119 million). The pension and provident fund has invested R653 million (2014: R526 million) in Discovery Invest Target Retirement Funds.

RMI Holdings Limited (RMIH)

In April 2015, Discovery Limited raised equity of R5 billion through a renounceable rights issue. The rights issue was fully underwritten by RMIH. Discovery paid RMIH an underwriting fee of R70 million.

Key management personnel of Discovery Limited, families of key management (as defined in IAS 24) and entities significantly influenced or controlled by key management

- (i) Discovery Limited key management personnel's compensation, paid by the Company or on behalf of the Company for services rendered to Discovery Limited, is detailed in the Directorate on page 154.
- (ii) Aggregate details of insurance, annuity and investment transactions between Discovery Limited, any subsidiary, associate or joint venture of Discovery Limited and key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management:

Insurance contracts

R'000	Aggregate insured cover		Premiums received		Claims paid	
	2015	2014	2015	2014	2015	2014
Life insurance	784 278	563 853	3 930	3 365	-	-
Short-term insurance	428 417	376 460	2 069	1 657	786	467

Investment contracts

R'000	Investment value		Premiums received		Withdrawal benefits		Investment returns	
	2015	2014	2015	2014	2015	2014	2015	2014
Investment contracts	60 693	51 852	5 456	2 127	-	(653)	3 385	7 316

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

VitalityHealth health insurance

R'000	Premiums received		Claims paid	
	2015	2014	2015	2014
Health insurance	32	21	-	-

Notes to the annual financial statements

for the year ended 30 June 2015

42. Related parties continued

- (iv) Aggregate details of transactions between Discovery Vitality Proprietary Limited and key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management:

Vitality loyalty programme

R'000	Premiums received		Amounts paid	
	2015	2014	2015	2014
Vitality benefits	31	28	895	549

DiscoveryCard

R'000	Card fees received		Discounts paid	
	2015	2014	2015	2014
DiscoveryCard	161	164	100	109

Key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management accrued 289 641 Discovery miles as part of the DiscoveryCard loyalty programme for the year ended 30 June 2015 (2014: 399 364).

- (v) Loans from subsidiary companies to key management personnel amounted to R3 million at 30 June 2015 (2014: R4.8 million). Interest received on these loans amounted to R0.4 million in the prior financial year. In the current year, R0.2 million was refunded in respect of interest received due to interest being overcharged in prior years.
- (vi) Aggregate shareholdings of key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management, in Discovery Limited as at 30 June 2015 was 95,691,745 ordinary shares (2014: 88,155,064 ordinary shares).
- (vii) During the current financial year the following transactions occurred between Discovery and key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management:
- CSI donations and management fees of R31.4 million (2014: R20.4 million) were paid to the Discovery Foundation in which an executive director of Discovery has significant influence.
 - Sponsorship and enterprise development grants to the value of R0.5 million (2014: R2.6 million) were made to organisations where members of key management personnel have significant influence.
 - Discovery paid R5.5 million (2014: R2.9 million) in legal fees to a company in which a non-executive director of Discovery has significant influence.
 - Discovery acquired paintings and other services to the value of R0.3 million (2014: R0.4 million) from a company controlled by a family member of key management personnel.

Notes to the annual financial statements

for the year ended 30 June 2015

43. Events after reporting date

B preference share cash dividend declaration:

On 27 August 2015, the directors declared a gross cash dividend of 458.699 cents (389.89415 cents net of dividend withholding tax) per B preference share for period 1 January 2015 to 30 June 2015. A dividend withholding tax of 15% will be applicable to all shareholders who are not exempt.

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

The salient dates for the dividend were as follows:

Last day of trade to receive a dividend	Friday, 11 September 2015
Shares commence trading "ex" dividend	Monday, 14 September 2015
Record date	Friday, 18 September 2015
Payment date	Monday, 21 September 2015

B preference share certificates may not be dematerialised or rematerialised between Monday, 14 September 2015 and Friday, 18 September 2015, both days inclusive.

Ordinary share cash dividend declaration:

Notice is hereby given that the directors have declared a final gross cash dividend of 89.0 cents (75.65 cents net of dividend withholding tax) per ordinary share, out of income reserves for the year ended 30 June 2015. A dividend withholding tax of 15% will be applicable to all shareholders who are not exempt.

The issued ordinary share capital at the declaration date is 647 427 946 ordinary shares.

The salient dates for the dividend were as follows:

Last day of trade to receive a dividend	Friday, 2 October 2015
Shares commence trading "ex" dividend	Monday, 5 October 2015
Record date	Friday, 9 October 2015
Payment date	Monday, 12 October 2015

Share certificates may not be dematerialised or rematerialised between Monday, 5 October 2015 and Friday, 9 October 2015, both days inclusive.

Company statement of financial position

at 30 June 2015

R million	Notes	Company 2015	Company 2014
Assets			
Investments in subsidiaries	1	9 254	5 656
Investment in associate	2	399	399
Financial assets			
- Mutual funds	3	1 229	708
- Loans to subsidiaries	5	1 466	1 071
- Loans to BEE partners	6	91	-
Cash and cash equivalents	16.5	1	2
Total assets		12 440	7 836
Equity			
Capital and reserves			
Ordinary share capital and share premium	7.1	7 679	2 773
Preference share capital	7.2	779	779
Other reserves		301	304
Retained earnings		3 095	2 533
Total equity		11 854	6 389
Liabilities			
Financial liabilities			
- Borrowings at amortised cost	8	402	402
- Derivatives	9	4	3
- Trade and other payables	10	139	926
Deferred income tax	11	*	115
Current income tax liabilities		41	1
Total liabilities		586	1 447
Total liabilities and equity		12 440	7 836

* Amount is less than R500 000.

Company statement of comprehensive income

for the year ended 30 June 2015

R million	Notes	Company 2015	Company 2014
Investment income	12	1 848	895
Marketing and administration expenses	13	(34)	(12)
Net impairment of investment in subsidiaries	14	(141)	(685)
Profit from operations		1 673	198
Finance costs		(90)	(38)
Foreign exchange gains		65	172
Profit before tax		1 648	332
Taxation	15	(46)	(61)
Profit for the year		1 602	271
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Change in available-for-sale financial assets		(2)	4
- unrealised (losses)/gains		(2)	4
- capital gains tax on unrealised losses/gains		*	*
Cash flow hedges		(1)	(19)
- unrealised losses		(6)	(4)
- deferred tax on unrealised losses		1	1
- losses/(gains) recycled to profit or loss		5	(17)
- tax on losses/gains recycled to profit or loss		(1)	1
Other comprehensive loss for the year, net of tax		(3)	(15)
Total comprehensive income for the year		1 599	256

* Amount is less than R500 000.

Company statement of cash flows

for the year ended 30 June 2015

R million	Notes	Company 2015	Company 2014
Cash flow from operating activities		752	1 234
Cash (utilised)/generated by operations	16.1	(821)	418
Dividends received		1 745	813
Interest received		39	53
Interest paid		(90)	(38)
Taxation paid	16.2	(121)	(12)
Cash flow from investing activities		(4 619)	(1 379)
Increase investment in subsidiary	16.3	(3 739)	(1 083)
Increase investment in associate		-	(132)
Purchase of financial assets		(521)	(164)
Increase in loans granted	5 & 6	(359)	-
Cash flow from financing activities		3 866	147
Proceeds from issuance of ordinary shares	7.1	5 000	1 030
Share issue costs	7.1	(94)	(1)
Share buy-back	7.1	-	**
Proceeds from long-term borrowings	16.4	1 500	-
Repayment of long-term borrowings	16.4	(1 500)	-
Dividends paid to ordinary shareholders		(968)	(814)
Dividends paid to preference shareholders		(72)	(68)
Net (decrease)/increase in cash and cash equivalents		(1)	2
Cash and cash equivalents at beginning of the year		2	*
Cash and cash equivalents at end of the year	16.5	1	2

* Amount is less than R500 000.

** The amount R12 441.

Discovery Limited

Company statement of changes in equity

for the year ended 30 June 2015

R million	Share capital	Share premium	Preference share capital	Hedging reserve	Share-based payment reserve	Available-for-sale investments	Retained earnings	Total
Year ended 30 June 2014								
At beginning of the year	1	1 743	779	17	300	2	3 144	5 986
Total comprehensive income for the year	-	-	-	(19)	-	4	271	256
Profit for the year	-	-	-	-	-	-	271	271
Other comprehensive	-	-	-	(19)	-	4	-	(15)
Transactions with owners	*	1 029	-	-	-	-	(882)	147
Issue of capital	*	1 030	-	-	-	-	-	1 030
Share issue costs	-	(1)	-	-	-	-	-	(1)
Dividends paid to ordinary shareholders	-	-	-	-	-	-	(814)	(814)
Dividends paid to preference shareholders	-	-	-	-	-	-	(68)	(68)
Balance at 30 June 2014	1	2 772	779	(2)	300	6	2 533	6 389
Year ended 30 June 2015								
At beginning of the year	1	2 772	779	(2)	300	6	2 533	6 389
Total comprehensive income for the year	-	-	-	(1)	-	(2)	1 602	1 599
Profit for the year	-	-	-	-	-	-	1 602	1 602
Other comprehensive	-	-	-	(1)	-	(2)	-	(3)
Transactions with owners	**	4 906	-	-	-	-	(1 040)	3 866
Issue of capital	**	5 000	-	-	-	-	-	5 000
Share issue costs	-	(94)	-	-	-	-	-	(94)
Dividends paid to ordinary shareholders	-	-	-	-	-	-	(968)	(968)
Dividends paid to preference shareholders	-	-	-	-	-	-	(72)	(72)
Balance at 30 June 2015	1	7 678	779	(3)	300	4	3 095	11 854

* Amount is R12 441.

** Amount is R55 556.

Discovery Limited

Notes to the annual financial statements

for the year ended 30 June 2015

1. Investments in subsidiaries

	Issued ordinary capital		Effective percentage holding		Investment in subsidiaries ⁽³⁾		Amounts due (to)/ from subsidiary ⁽⁴⁾	
	R million		%		R million		R million	
	2015	2014	2015	2014	2015	2014	2015	2014
Discovery Life	1 416	1 416	100	100	1 697	1 697	-	-
Discovery Health	271	271	100	100	469	469	(134)	(919)
Discovery Vitality	*	*	100	100	7	7	-	-
Discovery Partner Markets Asia	211	124	100	100	113	113	-	-
Discovery Life Investment Services	3	3	100	100	3	3	-	-
Discovery Life Collective Investments	15	15	100	100	15	15	-	-
Discovery Insure	1 318	745	100	100	623	374	-	-
Destiny Health Inc. ⁽¹⁾	1 866	1 790	99	99	124	48	-	-
Discovery Group Europe Limited ⁽²⁾	5 829	2 943	99	100	5 816	2 930	1 465	1 071
Discovery Finance Co Europe Limited ⁽²⁾	387	-	100	-	387	-	1	-
					9 254	5 656	1 332	152

* Amount is R1 000.

⁽¹⁾ Incorporated in the United States of America.

⁽²⁾ Incorporated in England and Wales.

⁽³⁾ Investments in subsidiaries include cost less impairments and the value of share options issued to subsidiary staff. Refer to company note 16.3 for a detailed movement analysis.

⁽⁴⁾ Refer to company notes 5 and 10 for more detail.

Discovery Limited has pledged its share investment in Discovery Life Limited as security for the borrowings raised. See Company note 7 for details of the borrowings.

2. Investment in associate

R million	Company 2015	Company 2014
Investment in Ping An Health	399	399
Refer to Group note 9 for detailed disclosure of the investment in associate.		

3. Financial assets - investments

Available-for-sale financial assets:

- Mutual funds	1 229	708
	1 229	708

Notes 4.1 to 4.3 apply the look-through basis to the financial assets, to assist in the identification of Discovery's financial risks.

Discovery Limited

Notes to the annual financial statements

for the year ended 30 June 2015

4. Management of financial risk

Discovery's activities expose it to a variety of financial risks. Financial risks include market risk, credit risk and liquidity risk. Refer to page 80 for a detailed discussion of financial risks and how they are managed.

4.1 Interest rate risk

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

The table below details the specific interest rate risk that the Company is exposed to:

R million	Carrying amount	Fixed	Floating	Non-interest bearing
At 30 June 2015				
Available-for-sale financial assets:				
- Debt securities	25	2	23	-
- Money market securities	1 204	178	1 026	-
Loans to subsidiaries	1 466	-	1 466	-
Loans to BEE partners	91	-	91	-
Cash and cash equivalents	1	-	1	-
	2 787	180	2 607	-
At 30 June 2014				
Available-for-sale financial assets:				
- Debt securities	345	19	326	-
- Money market securities	363	56	307	-
Loans to subsidiaries	1 071	-	1 071	-
Cash and cash equivalents	2	-	2	-
	1 781	75	1 706	-

4.2 Credit risk

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

Key areas where Discovery Limited is exposed to credit risk are:

- *Financial assets comprising money market and debt instruments* – Discovery Limited is exposed to the issuer's credit standing on these instruments which is monitored by the CCIC by setting a minimum credit rating. The aggregate credit risk exposure for financial assets categorised by credit ratings is provided in the table below.
- *Cash and cash equivalents* – This risk is managed by monitoring exposure to external financial institutions against approved limits per institution. Credit ratings are provided below.

The following table provides information regarding the credit risk exposure categorised by Fitch credit ratings:

R million	Total	AA+ AA			BBB	CCC	Not rated
		AAA	AA-	A+ A A-			
At 30 June 2015							
Available-for-sale financial assets:							
- Debt securities	25	2	8	2	-	13	-
- Money market securities	1 204	123	393	674	-	14	-
Cash and cash equivalents	1	-	-	-	1	-	-
	1 230	125	401	676	1	27	-
At 30 June 2014							
Available-for-sale financial assets:							
- Debt securities	345	17	202	105	21	-	-
- Money market securities	363	13	299	51	*	-	-
Cash and cash equivalents	2	-	-	-	2	-	-
	710	30	501	156	23	-	-

* Amount is less than R500 000.

Notes to the annual financial statements

for the year ended 30 June 2015

4. Management of financial risk *continued*

4.3 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Cash flow forecasting is performed by Discovery Limited and liquidity requirements are monitored to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Company's debt financing plans and covenant compliance.

Cash held by Discovery Limited is managed by treasury. Treasury invests it in interest-bearing accounts, time deposits and money-market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide headroom as determined by the above-mentioned forecasts. At the reporting date, Discovery Limited had money market funds and cash and cash equivalents of R1 205 million (2014: R365 million).

The table below analyses Discovery Limited's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date:

R million	Total	<1 year	1-5 years	Open ended
At 30 June 2015				
Borrowings net of interest rate swap*	479	35	444	-
Trade and other payables	139	135	-	4
	618	170	444	4
At 30 June 2014				
Borrowings net of interest rate swap*	514	35	479	-
Trade and other payables	926	921	-	5
	1 440	956	479	5

* These amounts do not agree to the statement of financial position as these are the undiscounted contractual payments.

5. Loans to subsidiaries

R million	Company 2015	Company 2014
Balance at beginning of the year	1 071	871
Additional loan granted	268	-
Interest receivable	62	28
Exchange differences	65	172
Balance at end of the year	1 466	1 071
Discovery Group Europe Limited	1 465	1 071
Discovery Finance Company Europe Limited	1	-
	1 466	1 071
Current	1	-
Non-current	1 465	1 071
	1 466	1 071

The loan granted to Discovery Group Europe Limited accrues interest at 450 base points above LIBOR and is repayable on 31 July 2020.

The loan granted to Discovery Finance Company Europe Limited accrues interest at 150 base points above LIBOR and is repayable on 31 August 2015.

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for the year ended 30 June 2015

6. Loans to BEE Partners

R million	Company 2015	Company 2014
Financial assistance provided to BEE Partners	89	-
Interest receivable	2	-
Balance at end of the year	91	-
Non-current	91	-
	91	-

Financial assistance was provided to Discovery's BEE Partners in April 2015 to assist them in following their rights in terms of the Discovery Limited's rights issue. Interest accrues at a rate of prime less 0.5% and is repayable within five years. However, the outstanding balance is repayable immediately if they are no longer a BEE partner.

7. Share capital and share premium

7.1 Ordinary share capital and share premium

	Number of shares	Share capital R million	Share premium R million
Issued			
At 30 June 2013	591 872 390	1	1 743
- repurchase of BEE shares	(12 440 910)	*	-
- issue of capital	12 440 910	*	1 030
Share issue costs		-	(1)
At 30 June 2014	591 872 390	1	2 772
Share movements:			
- rights issue	55 555 556	**	5 000
Share issue costs		-	(94)
At 30 June 2015	647 427 946	1	7 678

* Amount is R12 441.

** Amount is R55 556.

The total authorised number of ordinary shares is 1 billion (2014: 1 billion), with a par value of 0.1 cent per share.

7.2 Preference share capital

R million	Company 2015	Company 2014
Authorised		
40 000 000 A no par value preference shares		
20 000 000 B preference shares of R100 each	2 000	2 000
20 000 000 C no par value preference shares		
	2 000	2 000
Issued		
8 000 000 B	800	800
Share issue costs	(21)	(21)
At 30 June	779	779

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

Discovery Limited

Notes to the annual financial statements

for the year ended 30 June 2015

8. Borrowings at amortised cost

R million	Company 2015	Company 2014
Bank borrowings	402	402
Current	2	2
Non-current	400	400
	402	402

Bank borrowings

FirstRand Bank

In order to fund the acquisition of Standard Life Healthcare, Discovery borrowed R400 million from FirstRand Bank Limited. The salient terms of the loan are the following:

<i>Lender:</i>	FirstRand Bank Limited	<i>Maturity date:</i>	10 September 2017
<i>Type of borrowings:</i>	Senior debt	<i>Callable/Convertible:</i>	Not applicable
<i>Interest rate:</i>	Floating	<i>Security:</i>	Pledge of shares in Discovery Life Limited

The borrowings are repayable on maturity and interest is paid quarterly. The interest rate has been fixed through interest rate swaps. The loan agreement imposes certain restrictions on Discovery's operations, including a limitation on total borrowings. A breach of these restrictions would require immediate repayment of any outstanding balance.

9. Derivative financial liabilities

R million	Company 2015	Company 2014
Interest rate swap	4	3
Non-current	4	3

Refer to page 91 for a detailed description of the derivative financial instruments listed above.

10. Trade and other payables

R million	Company 2015	Company 2014
Loan due to Discovery Health	134	919
Dividends due to shareholders	4	5
Accrued expenditure	1	2
	139	926

11. Deferred income tax

R million	Company 2015	Company 2014
Deferred tax asset	1	1
- Non-current	1	1
Deferred tax liability	(1)	(116)
- Non-current	(1)	(116)
	*	(115)

* Amount is less than R500 000.

Discovery Limited

Notes to the annual financial statements

for the year ended 30 June 2015

11. Deferred income tax continued

R million	Company 2015	Company 2014
Movement summary:		
Balance at beginning of the year	(115)	(65)
Deferred tax on cash flow hedge charged to other comprehensive income	*	(2)
Income statement charge (refer to Company note 15)	115	(48)
Balance at end of the year	*	(115)
Deferred taxation comprises:		
Capital gains tax on unrealised gains on available-for-sale financial instruments	(1)	*
Cash flow hedge	1	1
Unrealised forex gain	-	(116)
	*	(115)

12. Investment income

Available-for-sale interest income	*	13
Dividends received from subsidiaries	1 745	813
At amortised cost interest income	64	43
Cash and cash equivalents interest income	39	26
	1 848	895

13. Marketing and administration expenses

Marketing and administration expenses comprises:		
Audit fees	1	2
Professional fees	31	5
Other	2	5
	34	12

14. Net impairment of investments in subsidiaries

Destiny Health Inc.	-	168
Discovery Insure	141	423
Discovery Partner Markets Asia	-	94
	141	685

Discovery Insure has been impaired to its recoverable amount of R623 million, which is equal to the net asset value of Discovery Insure.

* Amount is less than R500 000.

Notes to the annual financial statements

for the year ended 30 June 2015

15. Taxation

R million	Company 2015	Company 2014
South African normal taxation		
Current tax	162	13
Prior year (over)/under provision	(1)	*
Deferred tax	(115)	48
	46	61
	%	%
Taxation rate reconciliation		
Effective taxation rate	2.8	18.3
Capital profits and dividend income	29.7	68.6
Disallowed expenditure	(1.1)	(1.0)
Impairment of subsidiaries	(2.4)	(57.8)
Prior year under provision	0.1	(0.1)
Other permanent differences	(1.1)	-
Standard rate of taxation	28.0	28.0

* Amount is less than R500 000

16. Cash flow information

R million	Company 2015	Company 2014
16.1 Cash generated by operations		
Profit before taxation	1 648	332
Adjusted for:		
Investment income	(1 848)	(895)
Finance costs	90	38
Unrealised foreign exchange gain	(65)	(172)
Non-cash items:		
Impairment of investments in subsidiaries	141	685
Working capital changes:		
Loans and receivables	-	34
Trade and other payables	(787)	396
	(821)	418
16.2 Taxation paid		
Balance at beginning of the year	(1)	(5)
Taxation charged for the year in the statement of comprehensive income	(46)	(61)
Adjustment for movement in deferred taxation	(115)	48
Amount due from SARS transferred from subsidiary	-	5
Balance at end of the year	41	1
	(121)	(12)
16.3 Increase in investment in subsidiary		
Balance at beginning of the year	5 656	5 271
Impairment of investments in subsidiaries	(141)	(685)
Effective hedge capitalised	-	(13)
Balance at end of the year	(9 254)	(5 656)
	(3 739)	(1 083)

16. Cash flow information *continued*

R million	Company 2015	Company 2014
16.4 Long-term borrowings		
Balance at beginning of the year	402	402
Interest accrued	85	30
Interest paid	(85)	(30)
Increase in borrowings	1 500	-
Repayment of borrowings	(1 500)	-
Balance at end of the year	402	402
16.5 Cash and cash equivalents		
Cash at bank and in hand	1	2

17. Contingencies

Discovery Limited has provided the following guarantees:

- Discovery Limited has provided a guarantee in favour of HSBC Bank in the amount of USD 3 million for the working capital facility of Destiny Health Inc.
- Discovery Limited has issued a guarantee to HSBC Bank in respect of the obligations of Discovery Finance Company Europe Limited. As at 30 June 2015, Discovery Finance Company Europe Limited owed GBP 26.4 million in respect of these borrowing facilities.
- In terms of the acquisition implementation agreement between Discovery Group Europe Limited, The Prudential Assurance Company Limited and Vitality Health Limited, Discovery Limited has guaranteed the obligations of Discovery Group Europe Limited to The Prudential Assurance Company Limited and Vitality Health Limited, in terms of this agreement.
- Discovery Health Proprietary Limited provides certain administration and ancillary services to VitalityHealth in terms of the Insurance Intermediary Services agreement. Discovery Limited has guaranteed the obligations of Discovery Health Proprietary Limited in terms of this agreement.
- VitalityHealth has provided certain volume guarantees to its reinsurance providers. Discovery Limited has guaranteed these obligations.
- In terms of the agreement entered into with Digicore Holdings Limited and C-Track (SA) Proprietary Limited, Discovery Limited has guaranteed the obligations of Discovery Insure to Digicore Holdings Limited.
- In terms of the agreement entered into with Hannover Reinsurance, Discovery Limited has guaranteed the obligations of Discovery Insure to Hannover Reinsurance.
- Discovery Vitality has guaranteed the borrowing facilities of Discovery Limited. As at 30 June 2015, Discovery Limited owed R400 million in respect of these facilities. Discovery Limited has issued a counter guarantee in terms of these facilities.

18. Special resolutions

Refer to page 11 of the Directors' Report for a list of the special resolutions approved during the current financial year.

19. Events after reporting date

Refer to Group note 43 for a list of the events after reporting date.

Directorate

Remuneration and fees

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

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

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

(2) Salary and incentive are paid in GBP.

(3) Salary and incentive are paid in USD.

(4) Director's fees for services rendered by HL Bosman were paid to Rand Merchant Insurance Holdings Limited.

(5) Director's fees for services rendered by JJ Durand were paid to Remgro Limited.

(6) Included in director's fees for SB Epstein is US\$ 100 000 for services rendered as director of TVG Inc. Director's fees are paid in USD.

(7) Director's fees are paid in GBP.

(8) Director's fees for services rendered by T Slabbert were paid to WDB Investment Holdings Proprietary Limited.

Directorate

Remuneration and fees *continued*

Payments to directors for the year ended 30 June 2014 for services rendered are as follows:

R'000	Services as directors	Basic salary	Perfor- mance bonus	Phantom scheme bonus	Provident fund contributions	Other benefits ⁽¹⁾	Total
Executive							
A Gore	-	4 229	3 176	4 555	616	168	12 744
R Farber	-	3 554	2 216	12 998	168	86	19 022
HD Kallner	-	3 681	2 533	14 392	174	96	20 876
NS Koopowitz ⁽²⁾	-	12 557	13 656	15 846	748	271	43 078
HP Mayers	-	7 541	3 892	20 380	702	236	32 751
Dr A Ntsaluba	-	3 180	2 424	4 054	539	122	10 319
A Pollard ⁽³⁾	-	4 275	-	13 433	108	97	17 913
JM Robertson	-	3 158	2 111	10 494	603	16	16 382
B Swartzberg	-	3 837	2 558	19 588	551	97	26 631
Sub-total	-	46 012	32 566	115 740	4 209	1 189	199 716
Prescribed officers							
Dr J Broomberg	-	3 584	2 263	10 487	256	84	16 674
K Rabson	-	3 077	2 047	14 635	360	228	20 347
Dr P Tlhabi	-	2 533	1 557	7 967	241	74	12 372
Sub-total	-	9 194	5 867	33 089	857	386	49 393
Non-executive							
MI Hilkwitz	2 836	-	-	-	-	-	2 836
Dr BA Brink	466	-	-	-	-	-	466
HL Bosman ⁽⁴⁾	75	-	-	-	-	-	75
P Cooper ⁽⁴⁾	764	-	-	-	-	-	764
JJ Durand ⁽⁵⁾	535	-	-	-	-	-	535
SB Epstein ⁽⁶⁾	1 782	-	-	882	-	-	2 664
Dr TV Maphai	370	-	-	-	-	-	370
TT Mboweni	146	-	-	-	-	-	146
AL Owen ⁽⁷⁾	2 108	-	-	-	-	-	2 108
SE de Bruyn Sebotsa	633	-	-	5 223	-	-	5 856
T Slabbert ⁽⁸⁾	580	-	-	-	-	-	580
SV Zilwa	781	-	-	-	-	-	781
Sub-total	11 076	-	-	6 105	-	-	17 181
Total	11 076	55 206	38 433	154 934	5 066	1 575	266 290
Less: paid by subsidiaries	(11 076)	(55 206)	(38 433)	(154 934)	(5 066)	(1 575)	(266 290)
Paid by holding company	-	-	-	-	-	-	-

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

(2) Salary and incentive are paid in GBP.

(3) Salary and incentive are paid in USD.

(4) Director's fees for services rendered by HL Bosman and P Cooper were paid to Rand Merchant Insurance Holdings Limited.

(5) Director's fees for services rendered by JJ Durand were paid to Remgro Limited.

(6) Included in director's fees for SB Epstein is US\$ 100 000 for services rendered as director of TVG Inc. Director's fees are paid in USD.

(7) Director's fees are paid in GBP.

(8) Director's fees for services rendered by T Slabbert were paid to WDB Investment Holdings Proprietary Limited.

Directorate

Directors' participation in share incentive schemes

Discovery's directors and prescribed officers participate in the various share incentive schemes offered by the Group and their participation is disclosed below. Refer to Group note 33.1 for a detailed description of the various schemes offered.

Discovery Limited phantom share scheme

Directors and prescribed officers participation as at 30 June 2015:

Directors and prescribed officers	Outstanding shares	Date granted	Strike price R	Final vesting date	Value at 30 June 2015 R
J Broomberg	10 000	30/09/2010	-	30/09/2015	1 264 700
	20 700	30/09/2011	-	30/09/2016	2 617 929
	12 945	30/09/2012	-	30/09/2017	1 637 154
	38 835	30/09/2012	54.75	30/09/2017	2 857 262
	11 893	30/09/2013	-	30/09/2018	1 504 108
	23 786	30/09/2013	84.76	30/09/2018	1 200 510
	84 337	01/07/2013	-	30/06/2017	10 666 100
	10 967	30/09/2014	-	30/09/2019	1 386 996
21 934	30/09/2014	97.89	30/09/2019	1 042 617	
R Farber	10 726	30/09/2010	-	30/09/2015	1 356 517
	22 250	30/09/2011	-	30/09/2016	2 813 958
	13 915	30/09/2012	-	30/09/2017	1 759 830
	41 744	30/09/2012	54.75	30/09/2017	3 071 289
	13 592	30/09/2013	-	30/09/2018	1 718 980
	27 184	30/09/2013	84.76	30/09/2018	1 372 012
	108 434	01/07/2013	-	30/06/2017	13 713 648
	12 534	30/09/2014	-	30/09/2019	1 585 175
25 068	30/09/2014	97.89	30/09/2019	1 191 589	
A Gore	10 726	30/09/2010	-	30/09/2015	1 356 517
	22 250	30/09/2011	-	30/09/2016	2 813 958
	13 915	30/09/2012	-	30/09/2017	1 759 830
	41 744	30/09/2012	54.75	30/09/2017	3 071 289
	20 388	30/09/2013	-	30/09/2018	2 578 470
	40 776	30/09/2013	84.76	30/09/2018	2 058 018
	108 434	01/07/2013	-	30/06/2017	13 713 648
	18 801	30/09/2014	-	30/09/2019	2 377 762
37 601	30/09/2014	97.89	30/09/2019	1 787 336	
HD Kallner	10 726	30/09/2010	-	30/09/2015	1 356 517
	22 250	30/09/2011	-	30/09/2016	2 813 958
	13 915	30/09/2012	-	30/09/2017	1 759 830
	41 744	30/09/2012	54.75	30/09/2017	3 071 289
	13 592	30/09/2013	-	30/09/2018	1 718 980
	27 184	30/09/2013	84.76	30/09/2018	1 372 012
	108 434	01/07/2013	-	30/06/2017	13 713 648
	55 441	30/09/2014	-	30/09/2019	7 011 623
110 882	30/09/2014	97.89	30/09/2019	5 270 696	
NS Koopowitz	180 723	01/07/2013	-	30/06/2017	22 856 038
HP Mayers	10 726	30/09/2010	-	30/09/2015	1 356 517
	22 250	30/09/2011	-	30/09/2016	2 813 958
	13 915	30/09/2012	-	30/09/2017	1 759 830
	41 744	30/09/2012	54.75	30/09/2017	3 071 289
	13 592	30/09/2013	-	30/09/2018	1 718 980
	27 184	30/09/2013	84.76	30/09/2018	1 372 012
	108 434	01/07/2013	-	30/06/2017	13 713 648
	12 534	30/09/2014	-	30/09/2019	1 585 175
25 068	30/09/2014	97.89	30/09/2019	1 191 589	

Directorate

Directors' participation in share incentive schemes *continued*

Discovery Limited phantom share scheme *continued*

Directors and prescribed officers	Outstanding shares	Date granted	Strike price R	Final vesting date	Value at 30 June 2015 R
A Ntsaluba	13 915	30/09/2012	-	30/09/2017	1 759 830
	41 744	30/09/2012	54.75	30/09/2017	3 071 307
	13 592	30/09/2013	-	30/09/2018	1 718 980
	27 184	30/09/2013	84.76	30/09/2018	1 372 012
	108 434	01/07/2013	-	30/06/2017	13 713 648
	12 534	30/09/2014	-	30/09/2019	1 585 175
	25 068	30/09/2014	97.89	30/09/2019	1 191 589
A Pollard	10 726	30/09/2010	-	30/09/2015	1 356 517
	22 250	30/09/2011	-	30/09/2016	2 813 958
	4 638	30/09/2012	-	30/09/2017	586 568
	13 914	30/09/2012	54.75	30/09/2017	1 023 714
	4 587	30/09/2013	-	30/09/2018	580 118
	9 175	30/09/2013	84.76	30/09/2018	463 074
	144 578	01/07/2013	-	30/06/2017	18 284 780
	4 178	30/09/2014	-	30/09/2019	528 392
8 356	30/09/2014	97.89	30/09/2019	397 196	
K Rabson	10 000	30/09/2010	-	30/09/2015	1 264 700
	20 700	30/09/2011	-	30/09/2016	2 617 929
	12 945	30/09/2012	-	30/09/2017	1 637 154
	38 835	30/09/2012	54.75	30/09/2017	2 857 261
	11 893	30/09/2013	-	30/09/2018	1 504 108
	23 786	30/09/2013	84.76	30/09/2018	1 200 510
	84 337	01/07/2013	-	30/06/2017	10 666 100
	10 967	30/09/2014	-	30/09/2019	1 386 996
21 934	30/09/2014	97.89	30/09/2019	1 042 617	
JM Robertson	10 726	30/09/2010	-	30/09/2015	1 356 517
	22 250	30/09/2011	-	30/09/2016	2 813 958
	13 915	30/09/2012	-	30/09/2017	1 759 830
	41 744	30/09/2012	54.75	30/09/2017	3 071 289
	13 592	30/09/2013	-	30/09/2018	1 718 980
	27 184	30/09/2013	84.76	30/09/2018	1 372 012
	108 434	01/07/2013	-	30/06/2017	13 713 648
	12 534	30/09/2014	-	30/09/2019	1 585 175
25 068	30/09/2014	97.89	30/09/2019	1 191 589	
B Swartzberg	10 726	30/09/2010	-	30/09/2015	1 356 517
	22 250	30/09/2011	-	30/09/2016	2 813 958
	13 915	30/09/2012	-	30/09/2017	1 759 830
	41 744	30/09/2012	54.75	30/09/2017	3 071 289
	13 592	30/09/2013	-	30/09/2018	1 718 980
	27 184	30/09/2013	84.76	30/09/2018	1 372 012
	108 434	01/07/2013	-	30/06/2017	13 713 648
	12 534	30/09/2014	-	30/09/2019	1 585 175
25 068	30/09/2014	97.89	30/09/2019	1 191 589	
P Tlhabi	8 750	30/09/2010	-	30/09/2015	1 106 613
	20 700	30/09/2011	-	30/09/2016	2 617 929
	12 945	30/09/2012	-	30/09/2017	1 637 154
	38 835	30/09/2012	54.75	30/09/2017	2 857 262
	11 893	30/09/2013	-	30/09/2018	1 504 108
	23 786	30/09/2013	84.76	30/09/2018	1 200 510
	84 337	01/07/2013	-	30/06/2017	10 666 100
	10 967	30/09/2014	-	30/09/2019	1 386 996
21 934	30/09/2014	97.89	30/09/2019	1 042 617	

Directorate

Directors' participation in share incentive schemes continued

The Vitality Group Inc. phantom stock plan

Directors and prescribed officers participation as at 30 June 2015:

	Outstanding shares	Date granted	Exercise price US\$	Final vesting date	Value at 30 June 2015 US\$
Directors and prescribed officers					
SB Epstein	54 546	01/10/2012	0.59	01/10/2015	32 182
	107 142	01/10/2013	0.59	01/10/2016	63 214
	166 668	01/10/2014	0.59	01/10/2017	98 334
A Pollard	290 910	01/10/2012	0.59	01/10/2016	171 637
	439 287	01/10/2013	0.59	01/10/2017	259 179
	469 211	01/10/2014	0.59	01/10/2018	276 834

The VitalityHealth and VitalityLife phantom share schemes

Directors and prescribed officers participation as at 30 June 2015:

	Outstanding shares	Date granted	Exercise price GBP	Final vesting date	Value at 30 June 2015 GBP
Directors and prescribed officers					
NS Koopowitz	13 670	01/03/2012	20.84	31/10/2015	284 883
	5 000	01/03/2012	44.23	31/10/2015	221 150
	23 878	01/11/2013	27.53	31/10/2017	657 361

BEE share scheme

Directors and prescribed officers participation as at 30 June 2015:

	Outstanding shares	Date granted	Exercise price R	Final vesting date	Value at 30 June 2015 R
Directors and prescribed officers					
A Ntsaluba	100 000	30/09/2011	-	30/09/2016	12 647 000

Directors' interests in shares

According to the Register of Directors' Interests, maintained by Discovery in accordance with the provisions of section 30(4)(d) of the Companies Act, directors and prescribed officers of Discovery have disclosed the following interest in the ordinary shares of the Company at 30 June:

Directors and prescribed officers	Direct beneficial	Indirect beneficial	Total 2015	Direct beneficial	Indirect beneficial	Total 2014
SE de Bruyn Sebotsa	85 595	-	85 595	78 250	-	78 250
R Farber	247 276	-	247 276	226 057	-	226 057
A Gore	-	50 220 524	50 220 524	-	46 010 492	46 010 492
HD Kallner	183 398	-	183 398	167 661	-	167 661
NS Koopowitz	-	1 102 764	1 102 764	-	1 008 136	1 008 136
HP Mayers	341 948	8 449 550	8 791 498	312 606	7 724 497	8 037 103
A Ntsaluba	60 164	-	60 164	25 000	-	25 000
A Pollard	1 633 099	-	1 633 099	1 633 099	-	1 633 099
JM Robertson	1 404 439	3 390 812	4 795 251	1 404 439	3 390 812	4 795 251
B Swartzberg	3 484 227	22 279 011	25 763 238	3 484 227	20 068 276	23 552 503
Dr J Broomberg	240 842	-	240 842	220 175	-	220 175
K Rabson	-	925 000	925 000	-	900 000	900 000
Dr P Tlhabi	13 284	-	13 284	12 140	-	12 140
H Bosman	-	77 027	77 027	-	70 000	70 000
Dr BA Brink	35 004	-	35 004	32 000	-	32 000
SB Epstein	19 250	-	19 250	19 250	-	19 250
Dr TV Maphai	149	1 410 784	1 410 933	149	1 270 070	1 270 219
AL Owen	33 747	-	33 747	30 668	-	30 668
SV Zilwa	73 355	-	73 355	-	67 060	67 060
	7 855 777	87 855 472	95 711 249	7 645 721	80 509 343	88 155 064

There has been no change in the directors' interests in Discovery Limited's shares between 30 June 2015 and the date of publication of this annual report.

Analysis of shareholders

at 30 June 2015

	Number of shareholders	%	Number of shares	%
Shareholder spread				
1 - 1 000 shares	20 420	65.63	6 512 610	1.01
1 001 - 10 000 shares	9 289	29.86	19 992 175	3.09
10 001 - 100 000 shares	1 121	3.60	31 984 941	4.94
100 001 - 1 000 000 shares	220	0.71	66 917 621	10.33
1 000 001 shares and over	63	0.20	522 020 599	80.63
	31 113	100.00	647 427 946	100.00

Distribution of shares				
Corporate holding	2	0.01	161 944 576	25.01
Charity	9	0.03	561 033	0.09
Custodians	32	0.10	10 847 412	1.68
Exchange-traded fund	9	0.03	1 772 800	0.27
Foreign government	3	0.01	290 561	0.05
Hedge fund	7	0.02	663 002	0.10
Black Economic Empowerment	9	0.03	54 984 641	8.49
Pension funds	203	0.65	85 555 825	13.21
Private investor	210	0.67	133 266 958	20.58
Insurance companies	26	0.08	11 954 284	1.85
Investment trusts	8	0.03	4 595 881	0.71
Local authority	3	0.01	200 265	0.03
Unit trusts and mutual funds	312	1.00	107 657 041	16.63
Other managed funds	114	0.37	34 751 197	5.37
University	2	0.01	99 541	0.02
Venture capital	6	0.02	470 238	0.07
Sovereign wealth	33	0.11	28 018 445	4.33
Remainder	30 125	96.82	9 794 246	1.51
	31 113	100.00	647 427 946	100.00

Public/non-public shareholders				
Non-public shareholders	26	0.08	367 919 397	56.83
- Directors of the Company	15	0.05	93 121 190	14.38
- Empowerment*	5	0.01	54 771 319	8.46
- Own holdings	1	0.00	680 268	0.11
- Key management personnel	3	0.01	1 179 126	0.18
Strategic holdings (more than 5%)	2	0.01	218 167 494	33.70
Public shareholders	31 087	99.92	279 508 549	43.17
	31 113	100.00	647 427 946	100.00

* Included in empowerment are 1 410 933 shares that are held by a director of Discovery Limited.

	Number of shares	%
Beneficial shareholders' holding of 5% or more		
Rand Merchant Insurance Holdings Limited	161 944 576	25.01
Government Employees Pension Fund	56 222 918	8.68
A Gore	50 220 524	7.76