DISCOVERY HEALTH ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2022

Discovery Health (Pty) Ltd; registration number 1997/013480/07, is an authorized financial services provider and administrator of medical schemes

DISCOVERY HEALTH PROPRIETARY LIMITED
(Registration number 1997/013480/07)

CONTENTS

ANNUAL FINANCIAL STATEMENTS

These financial statements cover the financial results of Discovery Health Proprietary Limited, incorporated in the Republic of South Africa, and were audited in terms of the Companies Act, Act 71 of 2008.

Auditors: PricewaterhouseCoopers Inc.

Prepared by: N Nyuswa, Trainee Accountant

Supervised by: R Naidoo CA(SA)

DIRECTORS' RESPONSIBILITY STATEMENT

for the year ended 30 June 2022

DIRECTORS' RESPONSIBILITY TO THE SHAREHOLDER OF DISCOVERY HEALTH PROPRIETARY LIMITED (DISCOVERY HEALTH OR COMPANY)

The directors of Discovery Health are required by the Companies Act (Act 71 of 2008), to maintain adequate accounting records and to prepare financial statements for each financial year which fairly present the state of affairs of Discovery Health at the end of the financial year, and of the results and cash flows for the year. 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 Health's philosophy on corporate governance.

The directors have reviewed Discovery Health's budget and flow of funds forecast for the year up to 30 June 2023. On the basis of this review, and in the light of the current financial position and available cash resources, the directors have no reason to believe that Discovery Health 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 Health's systems of internal control, which include internal financial controls that are designed to provide reasonable, but not absolute, assurance against material misstatement and loss. Discovery Health maintains internal financial controls to provide reasonable 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 Health's external auditors, PricewaterhouseCoopers Inc., have audited the Annual Financial Statements and their unqualified report appears on pages 3 to 4.

The Annual Financial Statements of Discovery Health for the year ended 30 June 2022, which appear on pages 5 to 54, have been approved by the Board of Directors on 30 September 2022 and are signed on its behalf by:

Dr RN Noach
Director

DM Viljoen
Director

INDEPENDENT AUDITORS' REPORT

for the year ended 30 June 2022

TO THE SHAREHOLDER OF DISCOVERY HEALTH PROPRIETARY LIMITED

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Discovery Health Proprietary Limited standing alone (the Company) as at 30 June 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

WHAT WE HAVE AUDITED

Discovery Health Proprietary Limited's financial statements of the Company standing alone set out on pages 7 to 54 comprise:

- the statement of financial position as at 30 June 2022;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the annual financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

INDEPENDENCE

We are independent of the Company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' I*nternational Code of Ethics for Professional Accountants (including Internationa*l *Independence Standards)*.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Discovery Health Proprietary Limited (Registration Number: 1997/013480/07), Annual Financial Statements for the year ended 30 June 2022", which includes the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial statements

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

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

INDEPENDENT AUDITORS' REPORT *continued*
for the year ended 30 June 2022

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Andrew Graham Taylor
Registered Auditor
Johannesburg, South Africa
30 September 2022

DIRECTORS' REPORT
for the year ended 30 June 2022

The directors present their annual report, which forms part of the financial statements of Discovery Health for the year ended 30 June 2022.

NATURE OF BUSINESS

Discovery Health provides administration and managed care services to the Discovery Health Medical Scheme and 17 closed schemes. Discovery Health also provides intellectual property, rights and services as well as administration services to other business segments within the Discovery Limited Group.

REVIEW OF RESULTS

Profit attributable to ordinary shareholders is R2 101 million, a decrease from profits of R2 169 million reported in the prior financial year. The decrease in profits is mainly attributable to no dividend income received in the current year (2021: R50m received from Discovery Third Party Recovery Services (Pty) Ltd) and an increase in the allowance for expected losses on the Financial Guarantee Contracts.

SHARE CAPITAL

There were no changes in the authorised or issued share capital of the Company during the financial year. Authorised number of ordinary shares was 1 100 (2021: 1 100) at R1 par value each while issued number of shares was 1 032 (2021: 1 032) at R1 par value each.

SIGNIFICANT CONTRACT WITH RELATED PARTIES

On 15 February 2022, the Discovery Group announced its new venture with AIA Group Limited (AIA) to form AmplifyHealth. AmplifyHealth's vision is to be Asia's leading digital health technology and integrated solutions business, transforming how individuals, corporates, payors and providers experience and manage health insurance and healthcare delivery, improving the health and wellness outcomes of patients and communities across Asia.

The Discovery Group will transfer its full health technology stack as well as provide for transfer of skilled personnel. Discovery will assign for the region, ownership of the Health IP and the Vitality IP (excluding China, Hong Kong, Macau and Japan, given its partnership in those markets) to AmplifyHealth. This will ensure that AmplifyHealth has end-to-end capability.

In exchange for the sale of the IPR, AIA will pay directly to Discovery Health an annual earn-out consideration of 16% of AmplifyHealth's IFRS 15 revenue associated with using the relevant IPR in delivering services. Revenue generated from this contract is expected to be earned in the next financial year.

HOLDING COMPANY

The Company is a wholly owned subsidiary of Discovery Limited, the ultimate holding company, which is listed in the insurance sector of the Johannesburg Stock Exchange (JSE) Limited, South Africa.

DIVIDENDS

There we no dividends declared for the 30 June 2022 financial year.

DIRECTORS' REPORT *continued*
for the year ended 30 June 2022

DIRECTORATE AND SECRETARY

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

Non-Executive directors	Executive directors
HL Bosman	A Gore
Dr BA Brink (Resigned 24 November 2021)	Dr J Broomberg
SEN De Bruyn (Resigned 24 November 2021)	Dr RN Noach (Appointed 1 April 2022)
FN Khanyile	NS Koopowitz
Dr TV Maphai	Dr A Ntsaluba
SV Zilwa	A Pollard
R Farber	B Swartzberg
	DM Viljoen
Company Secretary	
NN Mbongo is the appointed Company Secretary.	

Registered office	Postal address
1 Discovery Place	PO Box 786722
Sandton	Sandton
2196	2146
Gauteng	Gauteng

EVENTS AFTER REPORTING DATE

Acquisition of subsidiary

Discovery Health purchased a 52% shareholding in Nanolabs Health Services Proprietary Limited (Nanolabs) at a purchase price of R15 million, effective 1 July 2022.

Nanolabs provides products and services relating to blood pathology testing, particularly the accurate collection, analysis and distribution of test results and the provision of quality management systems of laboratory locations.

AUDITORS

It was recommended that PricewaterhouseCoopers Inc. (PwC) be reappointed as external auditors in accordance with section 90(1) of the Companies Act.

In accordance with the IRBA requirements on mandatory audit firm rotation, this appointment will be the last re-appointment of PwC. Thereafter, PwC may not be reappointed for a period of five financial years.

STATEMENT OF FINANCIAL POSITION

R million	Notes	30 June 2022	Restated 30 June 2021[1,2]	Restated 1 July 2020[1,2]
Assets				
Intangible assets	3	**700**	632	542
Property and equipment	4	**1**	5	36
Investment in joint venture	5	*****	*	–
Investment in subsidiary	6	**54**	54	21
Investment in group companies		**–**	174	174
Deferred tax asset	8	**62**	86	112
Financial assets				
– Investment at fair value through OCI	9.1	**87**	86	71
– Loans and receivables	9.2	**5 941**	3 582	5 209
– Contract receivables	9.3	**836**	875	866
– Derivative financial assets	9.4	**2**	41	17
Cash and cash equivalents	20.3	**341**	119	119
TOTAL ASSETS		**8 024**	5 654	7 167
Equity capital and reserves				
Share capital and share premium	10	**271**	271	271
Other reserves		**(234)**	(300)	58
Retained earnings		**3 255**	1 417	2 241
TOTAL EQUITY		**3 292**	1 388	2 570
Liabilities				
Financial liabilities				
– Borrowings at amortised cost	11	**3 559**	3 274	3 017
– Trade and other payables	12	**796**	671	1 058
– Financial guarantee contracts	7	**211**	134	230
– Derivative financial liabilities	13	**23**	50	153
Employee benefits	14	**122**	116	114
Current tax liability	20.2	**21**	21	25
TOTAL LIABILITIES		**4 732**	4 266	4 597
TOTAL EQUITY AND LIABILITIES		**8 024**	5 654	7 167

* *Amount is less than R500 000.*

1 *The order in which individual line items are presented in the Statement of financial position has been amended to better reflect their respective liquidity, as far as possible, from least liquid to the most liquid items. No values were reclassified or restated between line items.*

2 *Please refer to note 23 for information on changes in presentation that resulted in restatement.*

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2022

R million	Note	2022	2021
Revenue: Fee income		**7 861**	7 436
Other income		**468**	278
Investment income	15	**24**	104
Net income		**8 353**	7 818
Movement in allowance for expected credit losses	7	**(21)**	56
Administration expenses (including marketing)	18	**(5 159)**	(4 680)
Profit from operations		**3 173**	3 194
Finance costs	16	**(298)**	(269)
Fair value adjustment on Derivatives		**19**	42
Foreign exchange gain / (loss)		**26**	(8)
Profit before tax		**2 920**	2 959
Income tax expense	17	**(819)**	(790)
Profit for the year		**2 101**	2 169
Other comprehensive income:			
Items that may not be reclassified subsequently to profit or loss:			
Change in equity investments		**1**	11
– unrealised gains		**1**	14
– capital gains tax on unrealised (gains) / loss		*****	(3)
Items that are or may be reclassified subsequently to profit or loss:			
Cash flow hedges		**4**	23
– realised gains / (loss) recycled to profit or loss		**6**	(33)
– tax on realised (gains) / loss		**(2)**	9
– unrealised gains / (loss)		**(*)**	65
– tax on unrealised (gains) / loss		*****	(18)
Other comprehensive income for the year, net of tax		**5**	34
Total comprehensive income for the year		**2 106**	2 203

* *Amount is less than R500 000.*

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2022

R million	Share capital and share premium	Hedging Reserve	Share based payment reserve	Investment reserve	Retained earnings	Total
Year ended 30 June 2021						
Opening balance	271	(28)	41	45	2 241	2 570
Total comprehensive income	–	23	–	11	2 169	2 203
Profit for the year	–	–	–	–	2 169	2 169
Other comprehensive income	–	23	–	11	–	34
Transactions with owners:	–	–	(392)	–	(2 993)	(3 385)
Value of employee services	–	–	(385)	–	–	(385)
Transfer of BEE share options	–	–	(7)	–	7	–
Dividends paid to equity holders	–	–	–	–	(3 000)	(3 000)
Closing balance	271	(5)	(351)	56	1 417	1 388
Year ended 30 June 2022						
Opening balance	**271**	**(5)**	**(351)**	**56**	**1 417**	**1 388**
Total comprehensive income	**–**	**4**	**–**	**1**	**2 101**	**2 106**
Profit for the year	**–**	**–**	**–**	**–**	**2 101**	**2 101**
Other comprehensive income	**–**	**4**	**–**	**1**	**–**	**5**
Transactions with owners:	**–**	**–**	**61**	**–**	**(263)**	**(202)**
Value of employee services	**–**	**–**	**80**	**–**	**–**	**80**
Transfer to equity-settled share schemes	**–**	**–**	**(8)**	**–**	**8**	**–**
Distribution of financial guarantees	**–**	**–**	**–**	**–**	**(271)**	**(271)**
Contribution to share trust	**–**	**–**	**(11)**	**–**	**–**	**(11)**
Closing balance	**271**	**(1)**	**(290)**	**57**	**3 255**	**3 292**

STATEMENT OF CASH FLOWS

for the year ended 30 June 2022

R million	Notes	2022	2021
Cash flow from operating activities		**398**	598
Cash generated by operations	20.1	**1 187**	1 285
Taxation paid	20.2	**(797)**	(784)
Dividends received	15	**–**	50
Interest received		**20**	54
Interest paid	11	**(12)**	(7)
Cash flow from investing activities		**(175)**	(258)
Purchase of property and equipment	4	**(1)**	(*)
Proceeds from sale of property and equipment		**4**	*
Purchase of intangible assets	3	**(178)**	(225)
Purchase of investment in joint venture	5	**–**	(*)
Purchase of investment in subsidiaries	6	**–**	(34)
Proceeds from decrease of investment in subsidiaries		**–**	1
Cash flow from financing activities		**(1)**	(340)
Repayment of borrowings		**(1)**	(4)
Dividends paid for Share-based payment arrangement		**–**	(336)
Net (decrease) / increase in cash and cash equivalents		**222**	(*)
Cash and cash equivalents at beginning of year		**119**	119
Cash and cash equivalents at end of year	20.3	**341**	119

* *Amount is less than R500 000.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2022

1. SIGNIFICANT ESTIMATES

Expected Credit Losses

FINANCIAL GUARANTEE CONTRACTS AND LONG-TERM LOANS AND RECEIVABLES

An approved methodology was used by management in assessing the expected credit losses that needed to be provided with respect to IFRS 9. The methodology used is consistent with the market practices, and considered the probability of default (PD), loss given default for corporates (LGD) and the exposure of default (EAD). The EAD is determined relative to the value as at the outstanding balance at each payment date. The determination of LGD is consistent with the Discovery Group methodology of 45%. The PD is determined with the relative credit ratings of the Discovery Group. In addition, the valuation is adjusted to reflect multi-party cross guarantees with right of recourse.

LOANS AND ADVANCES

There was no historical observed information over which management could assess to provide for expected credit losses and to determine adjustments for forward looking estimates. Management considered it appropriate to provide allowance for expected credit losses of 5% on loans and receivables during the period ended 30 June 2022.

2. MANAGEMENT OF FINANCIAL RISK

Discovery Health is exposed to a range of financial risks. Financial risks include market risk, credit risk and liquidity risk.

Financial risks are managed by Discovery Health as follows:

- The Actuarial Committee reviews the overall matching of financial assets to the respective liabilities;
- The Capital Currency Investment Committee (CCIC) is a sub-committee of the Group Executive Committee and meets quarterly to focus on the performance of assets. The CCIC also sets exposure limits for exposures to individual counterparties; and
- The Investment Committee is a sub-committee of the CCIC and meets monthly to make operational decisions regarding Discovery Health's liquidity and foreign currency exposure.

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

2.1 Market 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:

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

Discovery Health's exposure to market risk is discussed in more detail in the pages to follow.

CURRENCY RISK

Currency risk is the impact of changes in foreign exchange rates on future cash flows and hence the value of a financial instrument.

Discovery Health has exposure to currency risk arising from various currency exposures, primarily with respect to the US dollar.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

2. MANAGEMENT OF FINANCIAL RISK *continued*

2.1 Market risk *continued*

CURRENCY RISK *continued*

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

	USD	RMB
30 June 2021	14.28	2.21
30 June 2022	**16.47**	**2.46**

Currency risk exposure:

R million	Total	Rand	USD	Other
At 30 June 2021				
Derivative financial assets	41	41	–	–
Investment at fair value through OCI	86	86	–	–
Contract receivables[1]	875	730	10	135
Loans and receivables[2]	3 558	3 556	2	*
Cash and cash equivalents	119	109	10	*
Total financial assets	4 679	4 522	22	135
Borrowings at amortised cost	3 274	3 274	–	–
Derivative financial liabilities	50	50	–	–
Financial guarantee contracts	134	134	–	–
Trade and other payables[2]	618	562	55	1
Total financial liabilities	4 076	4 020	55	1
At 30 June 2022				
Derivative financial assets	**2**	**2**	**–**	**–**
Investment at fair value through OCI	**87**	**87**	**–**	**–**
Contract receivables	**836**	**835**	**–**	**1**
Loans and receivables[2]	**5 906**	**5 906**	**–**	**–**
Cash and cash equivalents	**341**	**100**	**240**	**1**
Total financial assets	**7 172**	**6 930**	**240**	**2**
Borrowings at amortised cost	**3 559**	**3 559**	**–**	**–**
Derivative financial liabilities	**23**	**23**	**–**	**–**
Financial guarantee contracts	**211**	**211**	**–**	**–**
Trade and other payables[2]	**728**	**624**	**101**	**3**
Total financial liabilities	**4 521**	**4 417**	**101**	**3**

* *Amount is less than R500 000.*

1 *In the prior year, the currency applicable to the contract receivable under 'Other' was RMB.*

2 *Loans and receivables & Trade and other payables exclude prepayments, stock and Vat as these balances are not financial instruments.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

2. MANAGEMENT OF FINANCIAL RISK *continued*

2.1 Market risk *continued*

INTEREST RATE RISK

Interest rate risk is the impact of changes in market interest rates on future cash flows and hence the value of a financial instrument. Interest rate risk is managed by the Investment Committee.

For loans and receivables with a floating interest rate, a 1% change in the interest rate would result in an increase or decrease of R1 million (2021: R1 million). While for borrowings with floating interest rate, a 1% change in the interest rate would result in an increase or decrease of R13 million (2021: R13 million).

This impact would be recognised in profit or loss. The sensitivity is based on the assumption that the interest rate has increased or decreased by 1% with all other variables held constant.

The table below details specific interest rate risk that Discovery Health is exposed to:

R million	Carrying value	Floating	Fixed	Non-interest bearing
At 30 June 2021				
Derivative financial assets	41	–	5	36
Investment at fair value through OCI	86	–	–	86
Loans and receivables[1]	3 558	72	*	3 486
Contract receivables	875	–	–	875
Cash and cash equivalents	119	119	–	–
Total financial assets	4 679	191	5	4 483
Borrowings at amortised cost	3 274	1 273	2 001	–
Derivative financial liabilities	50	–	50	–
Financial guarantee contracts	134	–	–	134
Trade and other payables[1]	618	–	–	618
Total financial liabilities	4 076	1 273	2 051	752
At 30 June 2022				
Derivative financial assets	**2**	**–**	**–**	**2**
Investment at fair value through OCI	**87**	**–**	**–**	**87**
Loans and receivables[1]	**5 906**	**59**	**–**	**5 847**
Contract receivables	**836**	**–**	**–**	**836**
Cash and cash equivalents	**341**	**341**	**–**	**–**
Total financial assets	**7 172**	**400**	**–**	**6 772**
Borrowings at amortised cost	**3 559**	**1 343**	**2 216**	**–**
Derivative financial liabilities	**23**	**–**	**–**	**23**
Financial guarantee contracts	**211**	**–**	**–**	**211**
Trade and other payables[1]	**728**	**–**	**–**	**728**
Total financial liabilities	**4 521**	**1 343**	**2 216**	**962**

* *Amount is less than R500 000.*

1 *Loans and receivables & Trade and other payables exclude prepayments, stock and Vat as these balances are not financial instruments.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

2. MANAGEMENT OF FINANCIAL RISK *continued*

2.1 Market risk *continued*

EQUITY PRICE RISK

INVESTMENTS

Discovery Health holds shares in Discovery Limited which is listed on the JSE Limited. For this investment a 10% decrease in the equity markets would result in a loss of R9 million (2021: R9 million). This loss would be recognised directly in equity. A 10% increase in the equity markets would result in a gain of R9 million (2021: R9 million).

2.2 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. Discovery Health is exposed to credit risk through its financial investments, cash and cash equivalents and loans and receivables.

CREDIT EXPOSURE RELATING TO CASH AND CASH EQUIVALENTS

Discovery Health is exposed to the issuer's credit standing on these instruments which is monitored by the CCIC by setting a minimum credit rating.

Due to the short-term nature of these assets and historical experience, cash and cash equivalents are regarded as having a low probability of default and therefore the related expected credit loss is deemed not significant. The fair value of cash and cash equivalents approximates the carrying amount due to the relative short-term nature of the instrument, high credit quality and variable interest rate on the instrument.

The aggregate credit risk exposure for cash and cash equivalents categorised by credit ratings is Ba1 to Ba3, R341 million in the current year (2021: R119 million).

Obligations which are Moody's rated Ba are judged to be speculative and are subject to substantial credit risk.

A numerical modifier may be added to each generic rating classification. Each modifier indicates the following:

- *the modifier 1* indicates that the obligation ranks in the higher end of its generic rating category;
- *the modifier 2* indicates a mid-range ranking; and
- *the modifier 3* indicates a ranking in the lower end of that generic rating category.

CREDIT RISK RELATING TO LOANS AND RECEIVABLES (INCLUDING CONTRACT RECEIVABLES)

Discovery Health's loans and receivables[1] comprise:

R million	Note	2022	2021
Vitality Group receivables		**1**	146
Closed scheme debtors	1	**101**	98
Discovery Health Medical Scheme	1	**679**	626
Intercompany balances	2	**396**	354
Loans to BEE initiatives		**70**	72
Loan to holding company	3	**5 447**	3 078
Loan to subsidiaries and their subsidiaries		**5**	3
Security deposits on derivatives		**19**	77
Payroll debtors		**–**	*
Other debtors		**91**	47
Less expected credit losses		**(67)**	(68)
Total		**6 742**	4 433

* *Amount is less than R500 000.*

1 *Loans and receivables exclude prepayments and stock as these balances are not financial instruments.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

2. MANAGEMENT OF FINANCIAL RISK *continued*

2.2 Credit risk *continued*

CREDIT RISK RELATING TO LOANS AND RECEIVABLES (INCLUDING CONTRACT RECEIVABLES) *continued*

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

1. Discovery Health Medical Scheme (DHMS) has been rated AAA by Global Credit Ratings. The closed schemes have not been rated. Amounts due from DHMS and the closed schemes are paid the following month.
2. Intercompany balances comprise receivables from Discovery Health's fellow subsidiaries. These loans are settled on a monthly basis. The fellow subsidiaries have not been rated.
3. The loan to the holding company is a revolving credit facility and is repayable on demand.

Discovery Health establishes an expected credit loss (ECL) that represents its estimate of incurred losses in respect of loans and receivables. The main components of this allowance are 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 current circumstances and economic conditions which may indicate that the expected future cash flows may not be recoverable for similar financial assets.

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

R million	**Gross 2022**	**ECL 2022**	Gross 2021	ECL 2021
Not past due	**6 775**	**(66)**	4 471	(40)
30 days	**25**	**–**	12	(12)
60 days	**1**	**–**	2	(2)
90 days	**1**	**–**	3	(3)
120 days	*****	**–**	1	(1)
150 days	**1**	**–**	1	(1)
>150 days	**6**	**(1)**	9	(9)
Total	**6 809**	**(67)**	4 499	(68)

* *Amounts are less than R500 000.*

Management have considered the level of impairments specifically those relating to past due loans and receivables and consider the level of ECL adequate. The movement in ECL during the year was as follows:

R million	**Movement**
Opening balance at 1 July 2020	(81)
Decrease in ECL	13
Closing balance at 30 June 2021	(68)
Opening balance at 1 July 2021	**(68)**
Increase in ECL	**(6)**
Amount utilised during the period	**7**
Closing balance at 30 June 2022	**(67)**

CREDIT EXPOSURE FOR HEDGE DERIVATIVE INSTRUMENTS

Discovery Health is 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 21. To manage this risk, Discovery Health has purchased various instruments from Ba1 to Ba3 rated South African banks to hedge a portion of its exposure to changes in the Discovery Limited share price.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

2. MANAGEMENT OF FINANCIAL RISK *continued*

2.3 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities (i.e. insufficient cash available to meet commitments as and when due).

Forecasts are monitored to ensure the Company has sufficient cash to meet operational needs. Cash held by Discovery Health 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 Health had cash and cash equivalents of R341 million (2021: R119 million) and other liquid assets of R6 777 million (2021: R 4 457 million).

The table below analyses Discovery Health's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date, on an undiscounted basis.

R million	Total	< 1 year	1 – 2 years	2 – 4 years
At 30 June 2021				
Borrowings at amortised cost	5 227	2	–	5 225
Derivative financial liabilities	50	20	19	11
Financial guarantee contracts	134	134	–	–
Trade and other payables[1]	618	540	44	34
Total Liabilities	6 029	696	63	5 270
At 30 June 2022				
Borrowings at amortised cost	**5 325**	**9**	**9**	**5 307**
Derivative financial liabilities	**23**	**13**	**10**	**–**
Financial guarantee contracts	**211**	**211**	**–**	**–**
Trade and other payables[1]	**728**	**679**	**34**	**15**
Total Liabilities	**6 287**	**912**	**53**	**5 322**

1 Trade and other payables exclude Vat as it is not a financial instrument.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

2. MANAGEMENT OF FINANCIAL RISK *continued*

2.4 Fair value estimation

Discovery Health'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:

- Quoted prices for similar instruments or identical instruments in markets which are not considered to be active, or
- 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.

R million	Level 1	Level 2	Level 3	Total
30 June 2021				
Investments at fair value through OCI	86	–	–	86
Derivative financial assets	–	41	–	41
Total financial assets	86	41	–	127
Derivative financial liabilities	–	50	–	50
Total financial liabilities	–	50	–	50
30 June 2022				
Investments at fair value through OCI	**87**	**–**	**–**	**87**
Derivative financial assets	**–**	**2**	**–**	**2**
Total financial assets	**87**	**2**	**–**	**89**
Derivative financial liabilities	**–**	**23**	**–**	**23**
Total financial liabilities	**–**	**23**	**–**	**23**

SPECIFIC VALUATION TECHNIQUES USED TO VALUE FINANCIAL INSTRUMENTS IN LEVEL 2

The fair value of the 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 flow of the instrument.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

2. MANAGEMENT OF FINANCIAL RISK *continued*

2.5 Capital Management

Discovery Health's objective when managing capital (which includes share capital, working capital and cash and cash equivalents) is to safeguard the Company's ability to continue as a going concern.

The Company monitors capital utilising a number of measures, including debt: assets and the gearing ratio The gearing ratio is calculated as liabilities divided by shareholders' equity.

R million	2022	2021
All assets excluding intangible assets, property and equipment, intercompany loans and deferred tax	**1 378**	1 472
Financial liabilities less intercompany loans and borrowings	**900**	802
Total equity	**3 292**	1 388
Debt: Assets	**0.65**	0.54
Gearing ratio	**0.27**	0.58

3. INTANGIBLE ASSETS

R million	2022	Restated 2021[1]
Opening balance	**632**	542
Additions	**178**	225
Derecognition[2]		
– Cost	**(50)**	(845)
– Accumulated amortisation	**50**	821
Impairment		
– Cost	**–**	(6)
– Accumulated amortisation	**–**	1
Amortisation charge	**(110)**	(106)
Closing balance	**700**	632
Cost	**957**	829
Accumulated amortisation	**(257)**	(197)
Closing balance	**700**	632

1 Additions are shown net of transfers between "Work in Progress" and "Completed" Intangible assets. The prior period has been restated to correctly reflect this. Previously additions were R424m and disposals were R199m, now shown as net additions of R225m.

2 During the year, various intangible assets that were no longer in use were derecognised. These assets had a Rnil book value

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

4. PROPERTY AND EQUIPMENT

R million	Furniture, fittings and building fit out	Computer equipment	Motor vehicles	Leasehold improvements	Total
Year ended 30 June 2021					
Opening balance	4	9	6	17	36
Additions	*	–	–	–	*
Disposals					
– cost	(*)	–	–	–	(*)
– accumulated depreciation	*	–	–	–	*
Impairment					
– cost	–	–	–	(30)	(30)
– accumulated depreciation	–	–	–	18	18
Derecognition					
– cost	(116)	(232)	(1)	(103)	(452)
– accumulated depreciation	115	232	1	103	451
Depreciation charge	(2)	(9)	(2)	(5)	(18)
Closing balance	1	*	4	*	5
At 30 June 2021					
Cost	6	46	31	38	121
Accumulated depreciation	(5)	(46)	(27)	(38)	(116)
Closing balance	1	*	4	*	5
Year ended 30 June 2022					
Opening balance	**1**	*****	**4**	*****	**5**
Additions	**–**	**–**	**–**	**1**	**1**
Disposals					
– cost	**–**	**–**	**(8)**	**–**	**(8)**
– accumulated depreciation	**–**	**–**	**5**	**–**	**5**
Derecognition[1]					
– cost	**(2)**	**(38)**	**(11)**	**(37)**	**(88)**
– accumulated depreciation	**2**	**38**	**11**	**37**	**88**
Depreciation charge	**(1)**	**(*)**	**(*)**	**(*)**	**(2)**
Closing balance	**(*)**	**–**	**(*)**	**1**	**1**
At 30 June 2022					
Cost	**4**	**8**	**12**	**1**	**25**
Accumulated depreciation	**(4)**	**(8)**	**(11)**	**(*)**	**(24)**
Closing balance	*****	**–**	*****	**1**	**1**

* *Amount is less than R500 000.*

1 *During the year, Rnil value assets no longer in use were derecognised on the Fixed asset register. These assets had a zero resale value.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

5. INVESTMENT IN JOINT VENTURES

	Issued ordinary capital		Effective percentage holding		Investment in Joint Venture	
Rand	**2022**	2021	**2022**	2021	**2022**	2021
Quantium Health SA Proprietary Limited	**1 000**	1 000	**50%**	50%	**5 000**	5 000
Total	**1 000**	1 000	**50%**	50%	**5 000**	5 000

The investment is initially recognised at cost and tested for impairment annually. Refer to accounting policy 7 for details on accounting method used.

6. INVESTMENT IN SUBSIDIARIES

	Issued ordinary capital		Effective percentage holding[1]		Investment in subsidiary	
Rand	**2022**	2021	**2022**	2021	**2022**	2021
– Discovery Third Party Recovery Services Proprietary Limited	**1**	1	**100%**	100%	**1**	1
– Discovery Health Care Services Proprietary Limited	**1**	1	**100%**	100%	**10 100**	10 100
– **Medical Services Organisation International (MSOI)**	**1 010**	1 010	**70%**	70%	**20 337 509**	20 337 509
• MSOI Limited	**10**	10	**70%**	70%	**–**	–
• MSOI Proprietary Limited	**1 000**	1 000	**70%**	70%	**–**	–
– Discovery Administration Services Proprietary Limited[2]	**320**	320	**100%**	100%	**33 472 840**	33 472 840
Total	**1 332**	1 332			**53 820 450**	53 820 450

1 *Effective percentage holding is the same as the voting power.*

2 *During the year Liberty Health Administration Proprietary Limited's name was changed to Discovery Administration Services Propriety Limited.*

The investments are initially recognised at cost and tested for impairment annually. Refer to accounting policy 7 for details on the accounting method used.

Investments are held in companies incorporated in South Africa except for Medical Services Organisation International Limited, which was incorporated in Isle of Man, United Kingdom.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

7. FINANCIAL GUARANTEE CONTRACTS

Investments in group contracts consist of Financial guaranteed contracts (FGC). Discovery Health issued financial guarantee contracts, to the value of R35 million (2021: R45 million), for Discovery Limited's syndicate and Domestic Term Note programme loans totaling R10 520 million (2021: R8 800 million).

Discovery Health issued other financial guarantee contracts to the value of R176 million (2021: R90 million) for Discovery Central Services' Investec loans amounting to R2 584 million (2021: R1 912 million).

R million	2022	2021
Financial guarantee issued are as follows:		
– Discovery Limited	**35**	44
– Discovery Central Services Proprietary Limited	**176**	90
– Discovery Bank Limited[1]	**–**	*
Closing balance	**211**	134

* *Amount is less than R500 000.*

1 *In the prior financial year, Discovery Health's financial guarantee contract to the value of R0.5 million, for Discovery Bank's Standard Bank loan facility amounting to R500 million expired.*

All Financial guarantee contracts are classified as current.

During the year, the FGC was amortised by R35 million (2021: R36 million). The FGC valuation subsequently increased by R15 million primarily due to financial guarantee contracts issued (2021: decreased by R61 million).

R million	2022	2021
Opening balance	**134**	230
Prior year correction	**–**	*
Financial guarantee contract issued	**97**	1
Fee income	**(35)**	(36)
Expected credit losses (valuation)	**15**	(61)
Financial guarantee contract	**211**	134

R million	2022	2021
Loans and receivables:		
– Provision for bad debts	**(6)**	(5)
Financial guarantee contracts:	**(15)**	61
– Discovery Limited	**(13)**	14
– Discovery Central Services Proprietary Limited	**(2)**	47
Movement for allowance in expected credit losses	**(21)**	56

* *Amount is less than R500 000*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

8. DEFERRED TAX

R million	**2022**	2021
Deferred tax asset	**146**	167
Deferred tax liability	**(84)**	(81)
Total Deferred tax	**62**	86
Movement summary:		
Balance at beginning of year	**86**	112
Statement of profit or loss charge	**(23)**	(10)
Statement of comprehensive income charge	**(1)**	(3)
Deferred tax on cash flow hedge charged to other comprehensive income	*****	(13)
Balance at end of year	**62**	86

Deferred tax assets and liabilities are classified as non-current.

Deferred tax comprises:

R million	**Opening balance**	**Recognised in profit/loss**	**Recognised in OCI**	**Recognised in equity**	**Closing Balance**	**Deferred Tax Asset**	**Deferred Tax Liabilities**
Year ended 30 June 2022							
Derivatives	**2**	**(2)**	**–**	**–**	**–**	**–**	**–**
Cash flow hedges	**12**	**(4)**	**(2)**	**–**	**6**	**6**	**–**
Difference between wear and tear and depreciation	**(50)**	**8**	**–**	**–**	**(42)**	**–**	**(42)**
Lease asset and liability	*****	**(*)**	**–**	**–**	**–**	**–**	**–**
Prepayments	**(1)**	**(*)**	**–**	**–**	**(1)**	**–**	**(1)**
Provisions	**101**	**7**	**–**	**–**	**108**	**108**	**–**
Share based payment	**42**	**(10)**	**–**	**–**	**32**	**32**	**–**
DSY LTIP equity settled	**(4)**	**(21)**	**–**	*****	**(25)**	**–**	**(25)**
Unrealised gain on financial instruments	**(16)**	**–**	*****	**–**	**(16)**	**–**	**(16)**
Total movement analysis	**86**	**(22)**	**(2)**	*****	**62**	**146**	**(84)**

Deferred tax comprises:

R million	Opening balance	Recognised in profit/loss	Recognised in OCI	Closing Balance	Deferred Tax Asset	Deferred Tax Liabilities
Year ended 30 June 2021						
Derivatives	3	(1)	–	2	2	–
Cash flow hedges	41	(20)	(9)	12	12	–
Difference between wear and tear and depreciation	(69)	19	–	(50)	10	(60)
Lease asset and liability	(1)	1	–	*	*	–
Prepayments	(2)	1	–	(1)	–	(1)
Provisions	91	10	–	101	101	–
Share based payment	54	(12)	–	42	42	–
DSY LTIP equity settled	8	(8)	(4)	(4)	–	(4)
Unrealised gain on financial instruments	(13)	–	(3)	(16)	–	(16)
Total movement analysis	112	(10)	(16)	86	167	(81)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

9. FINANCIAL ASSETS

9.1 Investment at fair value through other comprehensive income (OCI)

The investment represents Discovery Health's shareholding of 680 268 shares in its holding company, Discovery Limited. Discovery Limited is listed on the JSE Limited.

R million	2022	2021
Opening balance	**86**	71
Unrealised gains/(loss) at fair value through OCI	**1**	15
Closing balance	**87**	86

9.2 Loans and receivables

R million	2022	2021
Intercompany balances	**396**	354
Loan to holding company	**5 447**	3 078
Loans to BEE initiatives	**70**	72
Loan to subsidiaries	**5**	3
Prepayments	**35**	24
Security deposits	**19**	77
Other debtors	**36**	42
Total before ECL	**6 008**	3 650
Expected credit losses	**(67)**	(68)
Total after ECL	**5 941**	3 582
Current	**5 882**	3 465
Non-current	**59**	117
Loan and receivables	**5 941**	3 582

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

9. FINANCIAL ASSETS *continued*

9.3 Contract receivables

R million	2022	2021
Opening balance	**875**	866
Income recognised in the year	**8 046**	7 476
Payments received	**(8 092)**	(7 446)
Foreign exchange valuation	**7**	(21)
Closing balance	**836**	875

Discovery Health's contract receivables comprise:

R million	2022	2021
Closed scheme debtors	**101**	98
Discovery Health Medical Scheme	**679**	626
Wellness debtors	**12**	5
FlexiCare debtors	**43**	–
Vitality Group receivables	**1**	146
Closing balance	**836**	875
Current	**836**	875
Non-current	**–**	–

The carrying value approximates the fair value of Contract receivables.

9.4 Derivative financial assets

R million	2022	2021
Derivatives not designated as hedging instruments:		
Equity price risk derivatives	**2**	*
Forward exchange contracts	**–**	36
Derivatives used as cash flow hedges:		
Equity price risk derivatives	*****	5
Closing balance	**2**	41
Current	**1**	39
Non-current	**1**	2

Refer to note 2 for a detailed description of the derivative financial instruments listed above.

* *Amount is less than R500 000.*

10. SHARE CAPITAL AND SHARE PREMIUM

R	2022	2021
Authorised		
1 100 ordinary shares of R1 each	**1 100**	1 100
Issued		
1 032 ordinary shares of R1 each	**1 032**	1 032
Share premium	**270 999 968**	270 999 968
Share capital and share premium	**271 001 000**	271 001 000

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

11. BORROWINGS

R million	2022	2021
Interest bearing loans		
– Discovery Limited	**3 409**	3 122
– Discovery Insure Limited	**150**	152
Finance lease liability	**–**	*
Closing balance	**3 559**	3 274
Current	**–**	2
Non-current	**3 559**	3 272

* *Amount is less than R500 000.*

INTEREST BEARING BORROWINGS

DISCOVERY LIMITED

Discovery Health borrowed R2 010 million from Discovery Limited. The loan for R727 million is repayable on 30 June 2026. The loan for R1 283 million was taken out in tranches and repayable dates per tranche ranges between 30 September 2026 and 3 July 2027. Interest on the loan is calculated using a floating interest rate which is payable quarterly or may be capitalised to the loan.

Interest accrued for the year is R288 million (2021: R259 million).

DISCOVERY INSURE

Discovery Health borrowed R150 million from Discovery Insure Limited. The loan bears interest at the three-month JIBAR plus 240 basis points per annum. The loan is repayable by 30 June 2026, and interest is paid quarterly. Interest accrued for the year is R9 million (2021: R9 million).

Movement analysis of interest-bearing loans:

R million	2022	2021
Opening balance	**3 274**	3 013
Interest accrued (note 16)	**297**	268
Interest paid	**(12)**	(7)
Closing balance	**3 559**	3 274

CAPITALISED FINANCE LEASE LIABILITY

Discovery Health leased certain computer and office equipment that is unsecured, as the rights to the leased asset remain with the lessor in event of a default. The lease expired in the current year (2021: R320 798) and Discovery Health does not intend to enter into any further finance lease agreements on computer and equipment.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

12. TRADE AND OTHER PAYABLES

R million	2022	2021
Payables and accrued liabilities	**239**	180
Intercompany balances	**62**	34
Payroll creditors	**235**	207
Share based payments	**137**	161
Value-added tax	**68**	53
Other creditors	**55**	36
Closing balance	**796**	671
Current	**747**	593
Non-current	**49**	78

13. DERIVATIVE FINANCIAL LIABILITY

R million	2022	2021
Derivatives not designated as hedging instruments:		
Equity price risk derivatives	**22**	12
Forward exchange contracts	**1**	–
Derivatives designated as hedging instruments:		
Equity price risk derivatives	**–**	38
Closing balance	**23**	50
Current	**14**	20
Non-current	**9**	30

Refer to note 2 for a detailed description of the derivative financial instruments listed above.

14. EMPLOYEE BENEFITS

R million	2022	2021
Opening balance	**116**	114
Additional provision raised	**128**	119
Used during the year	**(114)**	(110)
Paid to terminated employees	**(8)**	(7)
Closing balance	**122**	116
Current	**101**	95
Non-current	**21**	21

15. INVESTMENT INCOME

R million	2022	2021
Interest income on cash and cash equivalents at amortised cost	**18**	26
Dividend income[1]	**–**	50
Interest income on third-party loans at amortised cost	**6**	28
Investment income	**24**	104

1 Dividend income received from Discovery Third Party Recovery Services (Pty) Ltd in the prior year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

16. FINANCE COSTS

R million	2022	2021
Interest expense on:		
– Interest on borrowings	**297**	268
– Other interest paid	**1**	1
– Finance lease liability	*****	*
– Credit support	**–**	*
Finance costs	**298**	269

* *Amount is less than R500 000.*

17. TAXATION

R million	2022	2021
Current tax	**797**	780
– Current year	**803**	780
– Prior year adjustment	**(6)**	–
Deferred tax	**22**	10
– Current year	**18**	10
– Prior year adjustment	**4**	*
South African normal taxation	**819**	790

* *Amount is less than R500 000*

Reconciliation of rate of taxation %	2022	2021
Effective rate	**28.1**	26.7
Exempt dividend	**–**	0.5
Non-deductible expenditure	**(0.1)**	0.8
Under/over provision in prior years	**0.1**	–
Change in standard tax rate	**(0.1)**	–
South African normal tax rate	**28.0**	28.0

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

18. ADMINISTRATION EXPENSES (INCLUDING MARKETING)

R million	2022	2021
Audit fees – current year	**5**	2
Audit fees – prior year	**(3)**	1
Auditors' remuneration	**2**	3
Property	**197**	196
Computer and office equipment	**44**	39
Operating lease charges	**241**	235
Salaries and allowances	**2 182**	1 944
Medical aid fund contributions	**164**	150
Defined contribution provident fund contributions	**131**	118
Social security levies	**9**	8
Share based payment expenses	**122**	157
– cash-settled	**43**	87
– equity-settled	**79**	70
Loss on cash flow hedge	**15**	2
Staff training	**4**	*
Recruitment fees	**2**	2
Temporary staff	**7**	7
Leave pay expense	**14**	9
Other	**38**	27
Staff costs including executive directors (note 22)	**2 688**	2 424
Amortisation of intangible assets (note 3)	**110**	106
Building related and office costs	**45**	54
Depreciation of equipment (note 4)	**2**	18
Impairment of intangible asset (note 3)	**–**	5
Derecognition of intangible asset (note 3)	**–**	24
Gain on disposal of property and equipment	**(1)**	(*)
Impairment of property and equipment (note 4)	**–**	12
Derecognition of property and equipment (note 4)	**–**	1
IT systems and consumables	**554**	522
Marketing and distribution costs	**160**	154
Professional fees	**128**	135
Vitality service fees	**446**	414
Other operating expenses	**784**	573
Other operating costs	**2 228**	2 018
Administration expenses (including marketing)	**5 159**	4 680

* *Amounts are less than R500 000.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

19. CONTINGENCIES

Discovery Health has provided guarantees in respect of the borrowing facilities for the following companies:

- Discovery Limited; and
- Discovery Central Services Proprietary Limited

Please refer to note 7 for more details on these financial guarantee contracts. There are no material claims that have been instituted against Discovery Health.

20. CASH FLOW INFORMATION

R million	Note	2022	2021
20.1 Profit before taxation		**2 920**	2 959
Adjusted for:			
Finance costs	16	**298**	269
Dividend income	15	**–**	(50)
Interest income	15	**(24)**	(54)
Non-cash items:			
Depreciation	4	**2**	18
Amortisation	3	**110**	106
Derecognition of property and equipment	4	**–**	1
Impairment of property and equipment	4	**–**	12
Impairment of intangible asset	3	**–**	5
Derecognition of intangible asset	3	**–**	24
Gain on disposal of property and equipment		**(1)**	(*)
Accrual of financial guarantee fee income	7	**(35)**	(36)
Valuation of financial guarantee contracts	7	**15**	(61)
Provision for bad debts		**(1)**	(13)
Provision for employee benefits	18	**14**	9
(Gain)/loss from derivatives		**(19)**	(64)
Foreign exchange (gains)/losses		**(26)**	8
Share-based payment expenses	18	**122**	157
Loss/(gain) on fair value hedge		**15**	36
Working capital changes:			
Loans and receivables including contract assets		**(2 319)**	1 630
Trade and other payables		**116**	(3 671)
Cash generated by operations		**1 187**	1 285
20.2 Taxation paid			
Amounts unpaid at beginning of year		**(21)**	(25)
Amounts charged to statement of comprehensive income	17	**(819)**	(790)
Adjustment for movement in deferred taxation	17	**22**	10
Balance at the end of the year		**21**	21
Taxation paid		**(797)**	(784)
20.3 Cash movement			
Cash at bank and on hand		**331**	91
Short term deposits with bank		**10**	28
Cash and cash equivalents		**341**	119

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

21. SHARE BASED PAYMENT EXPENSES

Staff incentive schemes

Discovery Limited operates various share-based payment arrangements. The details of these arrangements are described below:

1. BEE STAFF TRUST

In 2005, 5 290 000 Discovery Limited shares were issued to the BEE staff share trust for current and future employees. These shares had all been allocated during prior years. Additional shares were purchased by the BEE staff share trust in prior years, for future allocations to employees. 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. PHANTOM SHARE SCHEME

Participants earn a cash bonus based on allocation of bonus scheme units which in turn are linked to the performance of the Discovery Limited share price. The bonus is earned if the participant is employed on each vesting date. For units issued in September, the vesting of the units is two, three, four and five years after allocation of the bonus units. The bonus may not be carried forward.

The 2017 – 2018 allocations were pre-determined combinations of units that replicate the economics of a Discovery Limited share and units that replicate the economics of a call option over a Discovery Limited share.

3. ACQUISITION SCHEMES

There are various schemes offered to franchise directors, agents and employees where participants are allocated share units which replicate the economics of a Discovery Limited share. The share units are settled as a cash bonus on vesting. The bonus is earned if the participant is employed on the vesting date. The vesting periods on the schemes vary from two to five years. The bonus may not be carried forward.

4. DISCOVERY LONG-TERM INCENTIVE PLAN

The Discovery Long-term incentive plan (LTIP) was introduced in the financial year ended 30 June 2020 and replaced the cash settled Discovery Phantom scheme with an equity-settled LTIP.

Participants will receive Discovery Limited shares subject to performance criteria and if the participant is employed on each vesting date. The performance conditions are aligned to the organic growth methodology of the Group and will vest from between the third and fifth anniversary of these awards.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

21. SHARE BASED PAYMENT EXPENSES *continued*

Staff incentive schemes *continued*

The following is a summary of the terms and conditions of the share options granted to Discovery Health employees:

Date granted	Option price	Final vesting date	Opening balance	Options granted	Options vested	Options cancelled / Adjusted	Closing balance
1. BEE staff trust							
FY 2017	R122.50	30/09/2022	68 396	–	(66 674)	–	1 722
FY 2017	–	30/09/2022	23 387	–	(23 100)	–	287
FY 2018	–	30/04/2023	12 078	–	(6 379)	(3 361)	2 338
FY 2019	–	31/10/2023	4 120	–	(1 373)	(896)	1 851
FY 2020	–	30/09/2025	21 365	–	(5 315)	(1 523)	14 527
FY 2021	–	31/03/2026	12 137	–	(2 944)	8 027	17 220
FY 2022	–	30/09/2026	–	88 928	–	(12 694)	76 234
2. The Phantom share scheme							
FY 2017	R115.00	30/09/2021	47 194	–	(46 933)	(261)	–
FY 2017	–	30/09/2022	199 622	–	(158 876)	(27 977)	12 769
FY 2018	R141.65	30/09/2022	102 631	–	(51 316)	(868)	50 447
FY 2018	–	30/09/2022	400 954	–	(156 763)	(59 276)	184 915
FY 2019	–	31/03/2024	495 619	–	(132 220)	(56 302)	307 097
3. The Acquisition share scheme							
FY 2014	–	30/06/2019	351	–	–	(351)	–
FY 2015	–	30/06/2020	704	–	(69)	(635)	–
FY 2016	–	30/06/2021	221	–	(62)	(159)	–
FY 2017	–	30/06/2022	9 452	–	(8 337)	(1 115)	–
FY 2018	–	30/06/2023	14 817	–	(6 381)	(2 156)	6 280
FY 2019	–	30/06/2024	24 224	–	(7 163)	(2 788)	14 273
FY 2020	–	30/06/2025	55 600	–	(10 921)	(8 913)	35 766
FY 2021	–	30/06/2026	32 781	–	–	(3 834)	28 947
FY 2022	–	30/06/2027	–	57 025	–	–	57 025
4. Discovery long-term incentive plan							
FY 2020	–	30/09/2024	1 215 507	–	–	(268 662)	946 845
FY 2021	–	30/09/2025	1 205 368	–	–	(76 811)	1 128 557
FY 2022	–	30/09/2026	–	1 066 070	–	(33 918)	1 032 152

The Black-Scholes model was used to calculate the fair value of the following options based on the assumptions in the below table:

	Spot price	Risk free interest rate	Exercise price	Option term	Volatility	Dividend yield
Discovery long-term incentive plan						
01/07/2019 – 30/06/2020	R113.81	6.68% –7.01%	–	3 – 5 years	30.89%	2.21% – 2.52%
01/07/2020 – 30/06/2021	R125.52 – R153.54	3.90% – 5.02%	–	3 – 5 years	37.02% – 42.21%	2.26% – 2.57%
01/07/2021 – 30/06/2022	R135.94	5.76% – 6.57%	–	3 – 5 years	36.77%	2.29% – 2.46%
Phantom scheme:						
01/07/2017 – 30/06/2018	R128.10	4.98%	R141.65	0.25 years	29.10%	0%

* *Refer to table on previous page for detailed option prices.*

The Phantom schemes and Acquisition schemes are cash-settled and are thus repriced at each reporting date. The fair value of shares granted under these schemes during the current financial year, has been calculated using the closing price of R128.10 adjusted for expected future dividends that will be declared by Discovery Limited during the vesting period

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

22. RELATED PARTIES

The Company is a wholly owned subsidiary of Discovery Limited and undertakes certain transactions with related parties within the Discovery Limited Group, details of which are set out below. For purposes of this section, Discovery Health will be referred to as the Company and where relevant, amounts are excluding VAT.

Discovery Limited

Discovery Health entered into a long-term loan agreement with Discovery Limited. The principal amount is R2 010 million. The loan for R727 million is repayable on 30 June 2026. The loan amounting to R1 283 million was taken out in tranches and repayable dates per tranche ranges between 30 September 2026 and 3 July 2027. Interest will accrue at the relevant interest rate on a day-to-day basis. The balance at year-end was R3 409 million (2021: R3 122 million). Interest for the year was R288 million (2021: R259 million).

Discovery Health holds 680 268 shares in Discovery Limited valued at R87 million (2021: R86 million).

Discovery Health did not pay dividends to the holding company, Discovery Limited, in the current year (2021: R3 billion).

Discovery Insure Limited

Discovery Health entered into a long-term loan agreement with Discovery Insure Limited. The principal amount is R150 million. The loan bears interest at the 3-month JIBAR plus 240 basis points per annum. The balance at year-end is R150 million (2021: R152 million). Interest accrued for the year amounted to R9 million (2021: R9 million). The loan is repayable on 30 June 2026.

Discovery Vitality Proprietary Limited

The Vitality Wellness programme is integrated with products offered by the Company. Vitality charges a service fee for this integration, which is determined on an annual basis and agreed upon contractually. Service fees paid amounted to R446 million (2021: R414 million).

Discovery Consulting Services

The Company has established a network of 27 franchises (2021: 29 Franchises) in order to sell its products. The Company has paid R47 million (2021: R42 million) in fees to the franchises. Discovery Consulting Services participate in the Acquisition Scheme. During the year R3 million (2021: R4 million) was accrued for in terms of this scheme. Refer to note 21 for further details.

Discovery Administration Services Proprietary Limited

The Company provides operational services to Discovery Administration Services for which it charges an administration fee. The fees received during the year amounted to R3 million (2021: R2 million).

The Discovery Fund and Trust

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 the company of R1 million. The Company also paid The Discovery Fund a management fee of R2.2 million (2021: R4 million).

The Discovery Trust received contributions from the Company of R22.7 million during the year (2021: R15 million).

The Discovery Foundation

The Discovery Foundation, which is an independent shareholder of Discovery Limited, aims 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 the company of R6.3 million and the Company also paid The Discovery Foundation a management fee of R2.6 million.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

22. RELATED PARTIES *continued*

Discovery Retirement Funds

In February 2020, the Discovery Limited Board appointed the Discovery Retirement Funds comprising funds underwritten by Discovery Life and registered as the Discovery Life Pension Umbrella Fund and the Discovery Life Provident Umbrella Fund, as retirement fund provider to the Discovery Staff.

At 30 June 2021, the Discovery Staff Pension Fund and Discovery Staff Provident Fund, the two standalone Funds previously providing retirement benefits to Discovery Staff, were in the process of moving their member's assets across to the Discovery Retirement Funds (Umbrella Pension and Provident Funds underwritten and administered by Discovery Life) through a Section 14 transfer. At that stage assets of the Discovery Staff Pension Fund amounting to R1 787 million were transferred across to the Discovery Retirement Funds. The movement of the assets of the Discovery Staff Provident Fund amounting to R1 773 million was transferred in October 2021. The Boards of the Discovery Staff Pension and Provident Funds have resolved to close these Funds and this process is now underway.

Contributions to the Discovery Retirement Funds by the Company's staff during the year amounted to R106 million (2021: R118 million). The Discovery Retirement Funds have R4 334 million of assets under administration on behalf of Discovery Staff, R4 159 million is invested in unit linked insurance policies with Discovery Life (2021: R2 288 million). R3 732 million (2021: R1 969 million) of the unit linked insurance policies are in turn linked to unit trusts managed by Discovery Life Collective Investments.

Fellow group companies and subsidiaries:

Discovery Health provides administrative services and system development to its fellow group companies. Certain group companies also incur costs on behalf of the Company. There transactions are recorded in intercompany loans which are unsecured, interest free and are repayable on demand.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

22. RELATED PARTIES *continued*

FELLOW GROUP COMPANIES AND SUBSIDIARIES: *continued*

The table below summarises the total value of fees charged and received for these services and the balances outstanding at 30 June:

	Receivable / (Payable)		Fees received / (paid)	
R million	**2022**	2021	**2022**	2021
Discovery Bank	**(37)**	(21)	**(1)**	(1)
Discovery Central Services	**(1)**	1	**(1 723)**	(1 510)
Discovery Connect	**14**	11	**22**	17
Discovery Health Care Services	*****	*	**–**	–
Discovery Insure	**28**	41	**14**	10
Discovery Life	**8**	38	**(189)**	(140)
Discovery Life Investment Services	**16**	17	**7**	6
Discovery Life Collective Investment	*****	–	**–**	–
Discovery Limited	**5 430**	3 078	**–**	–
Discovery Medical Suppliers	**50**	64	**(4)**	(5)
Discovery Third Party Recovery Services	**3**	3	*****	*
Discovery Vitality	**(6)**	(5)	**(402)**	(370)
Discovery Partner Markets	**(2)**	(*)	**(31)**	(26)
Grove Nursing Services	**50**	54	**17**	21
Discovery Administration Services	**3**	*	**3**	2
Ping An Health	**1**	2	**10**	9
Quantium Health South Africa	*****	*	**1**	1
Quantium Health Australia	*****	–	*****	–
AIA Vitality Australia	**–**	–	**1**	–
Southern RX Distributors	**50**	124	*****	1
Vitality Corporate Services	**(8)**	(5)	**(*)**	3
Vitality International Health Insurance Company	**1**	–	**(*)**	–
Vitality Group International Inc.	**188**	3	**1 009**	792
Discovery Telematics Services	**3**	–	**–**	–
Medical Services Organisation Isle of Man	**(1)**	–	**(1)**	–
Medical Services Organisation International	**(2)**	(2)	**(17)**	(16)

* *Amounts are less than R500 000.*

KEY MANAGEMENT PERSONNEL OF DISCOVERY LIMITED, FAMILIES OF KEY MANAGEMENT (AS DEFINED IN IAS 24) AND ENTITIES SIGNIFICANTLY INFLUENCED OR CONTROLLED BY KEY MANAGEMENT

During the current financial year, the following transactions occurred between Discovery Limited and entities significantly influenced or controlled by key management:

CSI donations and management fees of R25.9 million (2021: R15 million) were paid to the Discovery Fund and Trust and R8.9 million was paid to the Discovery Foundation. Certain executive directors of Discovery Limited have significant influence in these entities.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

22. RELATED PARTIES *continued*

Discovery Health Medical Scheme (DHMS)

The Company administers DHMS and provides managed care services for which it charges an administration fee and a managed care fee respectively. These fees are determined on an annual basis and approved by the trustees of DHMS. The fees amounted to R6 785 million (2021: R6 387 million).

DHMS owes the Company R679 million (2021: R626 million) at year-end.

The Company provided Wellness screening services and a Diabetes Care program to DHMS. The fees received for these services in the current year amounted to R28 million and R18 million respectively (2021: R12 million and R16 million).

Managed medical schemes

During the year, the Company administered the following 17 restricted membership medical schemes:

- Anglo Medical Scheme
- Anglovaal Group Medical Scheme
- Bankmed Medical Scheme
- BMW Employees Medical Aid Scheme
- Engen Medical Aid Scheme
- Glencore Medical Scheme
- LA Health Medical Scheme
- Lonmin Medical Scheme
- Malcor Medical Aid Scheme
- MultiChoice Medical Aid Scheme
- Netcare Medical Scheme
- Remedi Medical Scheme
- Retail Medical Scheme
- TFG Medical Aid Scheme
- Tsogo Sun Group Medical Scheme
- University of Kwa-Zulu Natal Medical Scheme
- South African Breweries Medical Scheme

Quantum Medical Scheme merged with the Discovery Health Medical Scheme effective 1 August 2021.

The Company charges these schemes administration and managed care fees, which are determined on an annual basis and approved by the trustees of the respective closed schemes. The fees amounted to R1 212 million (2021: R1 174 million). R101 million (2021: R98 million) is due to the Company from these schemes at year-end.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

22. RELATED PARTIES *continued*

Directors' service contracts

All executive directors are employed on employment contracts that can be cancelled with one month's notice by either the executive or the Company.

Directors' interests in contracts

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

Directors' remuneration

Remuneration packages for executive directors consist of the following components:

- Guaranteed component: cost to company element which comprises a fixed cash portion and compulsory benefits.
- Short-term incentives: consists of an annual personal incentive linked to individual goals for each director and a "profit pool" element, which allows senior management to share in the profit of the Discovery Limited Group's performance if above certain profit hurdles.
- Long-term incentives: Executive directors take part in the Discovery Limited share-based incentive scheme. This scheme is described in detail in note 21 to the Annual Financial Statements.

Non-executive directors receive a combination of fixed and meeting attendance fees for their participation on the Board and Board committees. Black non-executive directors also participated in the Discovery Limited BEE transactions in 2005 and 2015. Non-executive directors' fees are reviewed annually and benchmarked against industry standards to ensure the fees remain competitive.

The Remuneration Committee, which is a sub-committee of the Board, is responsible for approving the remuneration packages for executive directors and recommending the non-executive directors' fees to the Board for approval.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*
for the year ended 30 June 2022

22. RELATED PARTIES *continued*

Payments to directors for the year ended 30 June 2022 for services rendered:

R'000	Services as directors	Basic salary	Performance bonus	Phantom scheme bonus	Provident fund contributions	Other benefits[1,5]	Total
A Gore	–	7 611	8 172	–	1 107	387	17 277
NS Koopowitz[2]	–	19 428	21 286	8 664	81	552	50 011
Dr A Ntsaluba	–	4 749	5 216	–	356	290	10 611
A Pollard[3]	–	7 343	6 684	2 057	122	336	16 542
B Swartzberg	–	5 314	5 933	2 532	555	237	14 571
DM Viljoen	–	5 019	5 381	2 995	780	183	14 358
Dr J Broomberg	–	3 209	35 919	1 564	160	86	40 938
Dr RN Noach[4]	–	5 517	5 077	6 266	276	93	17 229
Executive subtotal	–	58 190	93 668	24 078	3 437	2 164	181 537
R Farber[5]	3 218	–	–	–	–	3 633	6 851
SV Zilwa*	2 176	–	–	–	–	–	2 176
DR TV Maphai*	1 797	–	–	–	–	–	1 797
SE De Bruyn	591	–	–	–	–	–	591
HL Bosman[6]	1 743	–	–	–	–	–	1 743
Dr BA Brink	614	–	–	–	–	–	614
FN Khanyile	1 500	–	–	–	–	–	1 500
Non-executive subtotal	11 639	–	–	–	–	3 633	15 272
Total	11 639	58 190	93 668	24 078	3 437	5 797	196 809
Less: paid by the Company	–	(14 040)	(46 929)	(10 362)	(991)	(416)	(72 738)
Paid by Group	11 639	44 150	46 739	13 716	2 446	5 381	124 071

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 *Prescribed Officer until 31 March 2022, Appointed to Executive director on 1 April 2022.*

5 *Director's fees for services rendered by R Farber were paid in AUD components.*

6 *Director's fees for services rendered by HL Bosman were paid to Rand Merchant Insurance Holdings Limited.*

* *Black non-executive directors also participate in the Discovery Limited BEE transaction.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

22. RELATED PARTIES *continued*

Payments to directors for the year ended 30 June 2021 for services rendered:

R'000	Services as directors	Basic salary	Performance bonus	Phantom scheme bonus	Provident fund contributions	Other benefits[1,4]	Total
A Gore	–	7 052	7 112	1 547	1 094	365	17 170
HD Kallner	–	5 273	9 539	4 871	272	164	20 119
NS Koopowitz[2]	–	18 340	9 917	5 726	49	528	34 560
Dr A Ntsaluba	–	4 425	4 371	987	343	274	10 400
A Pollard[3]	–	6 524	4 373	3 119	221	303	14 540
B Swartzberg	–	4 993	4 649	2 808	534	182	13 166
DM Viljoen	–	4 581	4 843	3 033	722	82	13 261
Dr J Broomberg	–	5 279	6 327	1 683	264	152	13 705
Executive subtotal	–	56 467	51 131	23 774	3 499	2 050	136 921
Dr RN Noach	–	5 313	5 471	6 147	266	79	17 276
Prescribed officer	–	5 313	5 471	6 147	266	79	17 276
R Farber[4]	2 281	–	–	–	–	3 295	5 576
SV Zilwa*	1 832	–	–	–	–	–	1 832
DR TV Maphai*	1 728	–	–	–	–	–	1 728
SE De Bruyn	1 364	–	–	–	–	–	1 364
Dr BA Brink	1 416	–	–	–	–	–	1 416
HL Bosman[5]	1 822	–	–	–	–	–	1 822
FN Khanyile[6]	1 104	–	–	–	–	–	1 104
Non-executive subtotal	11 547	–	–	–	–	3 295	14 842
Total	11 547	61 780	56 602	29 921	3 765	5 424	169 039
Less: paid by the Company	–	(15 585)	(16 447)	(10 638)	(1 064)	(413)	(44 147)
Paid by Group	11 547	46 195	40 155	19 283	2 701	5 011	124 892

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 and fees for other consulting services rendered by R Farber were paid in AUD. Director's fees for consulting services are included as part of Other Benefits.*

5 *Director's fees for services rendered by HL Bosman were paid to Rand Merchant Insurance Holdings Limited.*

6 *Director's fees for services rendered by F Khanyile were paid to WDB Investment Holdings Proprietary Limited.*

* *Black non-executive directors also participate in the Discovery Limited BEE transaction.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended 30 June 2022

23. RESTATEMENT TO CORRECT THE ORDER OF LIQUIDITY AND PRESENTATION OF INVESTMENTS IN SUBSIDIARY, GROUP COMPANIES AND JOINT VENTURE

Discovery Health's accounting policy is to measure investments in subsidiaries and joint ventures at cost in accordance with IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures respectively. Investments in subsidiaries and joint ventures which are measured at cost are financial instruments, however, these investments are excluded from the scope of IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures.

To best present the information and correctly present the classification of these investments to the users of financial statements, Discovery Health has made the following changes to the line items presented in the Statement of financial position:

2022 Line item (2021 restated line item)	**2021 Item previously reported**
Investment in joint venture	Financial assets: – Investment in joint venture
Investment in subsidiaries	Financial assets: – Investment in subsidiaries
Investment in group companies	Financial assets: – Investment in group companies

No values were reclassified or restated between the respective line items. The change had no impact on measurement or reported values. The prior period has been restated on a consistent basis.

In addition, the order in which individual line items are presented in the Statement of financial position has been amended to better reflect their respective liquidity, as far as possible, from least liquid to the most liquid items. The prior period has been restated on a consistent basis. No values were reclassified or restated between the respective line items as a result of this change.

DISCOVERY
ANNEXURES

ANNEXURE A – DISCOVERY HEALTH ACCOUNTING POLICIES

for the year ended 30 June 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented. Other interpretations, amendments, and annual improvements effective for the first time in the current year have been considered and have no impact on the current reporting period.

1. Basis of presentation

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), its interpretations adopted by the IASB, the South African Institute of Chartered Accountants (SAICA), Financial Reporting Guides as issued by the Accounting Practices Committee, 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 Health's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are outlined in note 1 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.

NON-CONSOLIDATION OF SUBSIDIARIES AND JOINT VENTURES

Discovery Health applied the exemption of IFRS 10 Consolidated Financial Statements, paragraph 4, from presenting the consolidated financial statements due to the Company being a wholly owned subsidiary of Discovery Limited. Discovery Limited, incorporated in the Republic of South Africa produces group consolidated financial statements in compliance with IFRS which are available for public use and in which it consolidates subsidiaries, and equity accounts for associates and joint ventures. The group consolidated financial statements can be accessed on the Company website or at the Company head office.

NEW STANDARDS AND AMENDMENTS WHICH BECAME EFFECTIVE DURING THE FINANCIAL YEAR

During the financial period, there were no new standards and amendments which had a significant impact on Discovery Health.

NEW STANDARDS AND AMENDMENTS TO PUBLISHED STANDARDS NOT YET EFFECTIVE

Discovery Health has not early adopted any accounting standards, amendments or annual improvements issued but not yet effective.

2. Foreign currency translation

FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of Discovery Health are measured using the currency of the primary economic environment in which it operates (the functional currency). The financial statements are presented in Rand, which is the presentation currency of Discovery Health.

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 is 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; and
- Qualifying cash flow hedges are deferred in the statement of other comprehensive income and are recycled to profit or loss in the periods in which the hedged item affects profit or loss.

ANNEXURE A – DISCOVERY HEALTH ACCOUNTING POLICIES *continued*

for the year ended 30 June 2022

3. Property and equipment

Items of property and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses.

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 Health 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.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

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:

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

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.

4. Intangible assets

COMPUTER SOFTWARE DEVELOPMENT COSTS

Items of computer software development costs are measured at cost, less accumulated amortisation and any accumulated impairment losses.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable software products controlled by Discovery Health 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; and
- 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.

ANNEXURE A – DISCOVERY HEALTH ACCOUNTING POLICIES *continued*

for the year ended 30 June 2022

4. Intangible assets *continued*

COMPUTER SOFTWARE DEVELOPMENT COSTS *continued*

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

Computer software development costs are recognised as assets from the point where the recognition criteria above are satisfied, and are amortised once the asset is ready for use, over their useful lives (between three and ten years). The amortisation is reflected under marketing and administration expenses in profit or loss.

If significant parts of computer software development costs have different useful lives, then they are accounted for as separate items (major components) of computer software development costs. Computer software development costs recognised as assets are amortised over their useful lives.

▪ Software	3 – 7 years
▪ Core Systems	15 years (2021: 11 years)

OTHER INTANGIBLE ASSETS

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

Purchased intangible assets which represent rights to receive future profits are capitalised at their fair values, 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 into profit or loss as profits are expected to emerge and only tested for impairment if an indication of impairment arises.

5. Impairment of non-financial assets

Assets such as equity accounted investments and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Such indicators include continued losses, changes in technology, market, economic, legal, and operating environments.

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

Assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

ANNEXURE A – DISCOVERY HEALTH ACCOUNTING POLICIES *continued*

for the year ended 30 June 2022

6. Financial Instruments

Discovery Health initially recognises financial instruments when it becomes party to the contract.

Financial instruments are measured at initial recognition at fair value net of directly attributable transaction costs, unless the financial instrument is classified as fair value through profit or loss. For instruments classified at fair value through profit or loss attributable transaction costs are immediately expensed.

6.1 FINANCIAL ASSETS

RECOGNITION, CLASSIFICATION, MEASUREMENT AND DERECOGNITION

At initial recognition, Discovery Health considers the appropriate classification as at Amortised Cost (AC); Fair value through profit or loss (FVTPL) or Fair value through other comprehensive income (FVOCI) for debt instruments. Discovery Health considers:

- Whether the contractual cash flows of the financial asset are solely payments of principal and interest ('SPPI'). Such contractual cash flows are consistent with a basic lending arrangement, and compensates Discovery Health for the elements of time value of money, credit risk and other basic lending risks and a profit margin. Examples of such instruments include Treasury Bills, Government Bonds, cash and fixed term deposits. It excludes instruments such as equity-linked financial assets or puttable investments in unit trusts; and
- The business model for holding the financial assets.

Based on the criteria above, Discovery Health will classify a debt instrument as at:

- Amortised cost, if the financial asset meets the SPPI criterion and is held for the purpose to collect the contractual cash flows. Examples of this include loans and advances to customers (e.g., credit card advances) and fixed term deposits;
- Fair value with changes in other comprehensive income (debt instruments), if the financial asset meets the SPPI criterion and is held both to collect contractual cash flows and by selling the financial assets. Discovery Health currently does not hold financial assets in this category.
- Fair value through profit or loss, for all other financial assets that do not meet the criteria above (mandatorily). In addition, Discovery Health can designate financial assets into this category if this will reduce measurement inconsistencies (i.e. 'accounting mismatch') (designated).

For equity instruments Discovery Health is permitted to make the irrevocable election to present changes in fair value in other comprehensive income, however cumulative gains or losses recognised cannot be reclassified to profit or loss on disposal. This election is available on an instrument-by-instrument basis and has been elected for the investment in the shares of the holding company, Discovery Limited. All other equity instruments are measured at Fair value through profit or loss.

RECOGNITION, CLASSIFICATION, MEASUREMENT AND DERECOGNITION

Subsequent measurement	
Amortised cost (AC)	These instruments are measured at amortised cost using the effective interest method. Movements in the balance of the instrument relate to expected credit losses, interest income and foreign exchange gains and losses which are recognised in profit or loss.
Fair value through profit or loss (FVTPL)	These instruments are measured at fair value with gains and losses recognised in other comprehensive income and are never reclassified to profit or loss. Dividends are recognised in profit or loss.
Fair value through other comprehensive income (FVOCI) – equity	These instruments are measured at fair value with gains and losses recognised in other comprehensive income. Dividends are recognised in profit or loss.
Fair value through other comprehensive income (FVOCI) – debt	These instruments are measured at fair value with changes in fair value recognised in other comprehensive income. Discovery Health recognises interest using the effective interest method, movements in the balance related to expected credit losses, interest income and foreign exchange gains and losses in profit or loss. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

There are no financial assets that have been designated at fair value through profit or loss.

ANNEXURE A – DISCOVERY HEALTH ACCOUNTING POLICIES *continued*

for the year ended 30 June 2022

6. Financial Instruments *continued*

6.1 FINANCIAL ASSETS *continued*

RECOGNITION, CLASSIFICATION, MEASUREMENT AND DERECOGNITION *continued*

The business model for managing a group of financial instruments is expected to remain stable, in rare instances where the business model changes there can be a reclassification of the business model. Any reclassifications are applied prospectively from the first day of the first reporting period after the change in business model, with no restatement of any previously recognised gains, losses, or interest. Discovery Health has not had any changes in business models in the current reporting period and consequently there have been no reclassifications.

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

EXPECTED CREDIT LOSSES

Expected credit losses are recognised on the following items:

- Debt instrument at amortised cost, which includes treasury bills, banking loans and advances and fixed deposits. This also includes loan commitment for undrawn credit facilities;
- Lease receivables;
- Financial guarantee contracts;
- Other receivables which are financial assets at amortised cost; and
- Contract receivables and contracts assets with non-insurance customers and cash and cash equivalents.

Discovery Health has different debtors and loans included in other receivables which are financial assets, which do not represent a homogeneous group of assets. The approach to determining credit losses varies according to the asset type, past bad debt experience and the potential to incorporate forward looking information.

In certain instances, financial assets have been grouped based on shared characteristics (i.e., debt payment pattern similarities, financial instruments with collateral, debtor type), and expected credit losses determined on a collective basis.

The general expected credit loss approach requires that Discovery Health assess the credit risk of the instrument and determine whether there has been a significant increase in credit risk since initial recognition.

- Where there has not been a significant increase in credit risk since initial recognition expected credit losses are measured as the 12 month expected credit losses.
- Where there has been a significant increase in credit risk, expected credit losses are recognised as the life- time credit losses.

Discovery Health measures expected credit losses on:

- financial assets that are not credit-impaired at the reporting date as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that Discovery Health expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to Discovery Health if the commitment is drawn down and the cash flows that Discovery Health expects to receive (adjusted using a credit conversion factor).

Discovery Health does not recognise expected credit losses on cash and cash equivalents receivable on demand due to the assessment that it is immaterial.

SIGNIFICANT INCREASE IN CREDIT RISK

At each reporting date, Discovery Health assesses whether the credit risk on a financial asset has increased significantly since initial recognition. When making the assessment, an entity shall use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses.

CREDIT IMPAIRED

Discovery Health considers a financial instrument to be credit-impaired where current circumstances and economic conditions indicate that the expected future cash flows from a financial instrument may not be recoverable. These circumstances include but are not limited to evidence of financial or operational challenges for the debtor and missed contractual payments.

ANNEXURE A – DISCOVERY HEALTH ACCOUNTING POLICIES *continued*

for the year ended 30 June 2022

6. Financial instruments *continued*

6.1 FINANCIAL ASSETS *continued*

WRITE OFF

Where Discovery Health has no reasonable expectation of recovery of a debt, the amount is written off. This is considered to occur when all avenues of legal recourse to recover the debt have been unsuccessful.

6.2 FINANCIAL LIABILITIES

At initial recognition, Discovery Health considers the appropriate classification as at Amortised costs (AC) or Fair value through profit or loss (FVTPL).

Financial liabilities are measured at FVTPL if:

- It is held for trading; or
- If the financial liability is part of a group of financial liabilities which are managed and performance evaluated on a fair value basis.

All other financial liabilities, which are in the scope of IFRS 9, in Discovery Health are measured at amortised cost.

Subsequent measurement	
Amortised cost (AC)	These instruments are measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss.
Fair value through profit or loss (FVTPL)	These instruments are measured at fair value with gains and losses and any interest recognised in profit or loss.

Financial liabilities are derecognised when the obligation has been extinguished.

6.3 OFFSET

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of Discovery Health or the counterparty.

6.4 MODIFICATIONS

Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability at fair value, including calculating a new effective interest rate, with the difference in the respective carrying amounts being recognised in other gains and losses on financial instruments within non-interest revenue.

The date of recognition of a new asset is consequently considered to be the date of initial recognition for impairment calculation purposes.

If the terms are not substantially different for financial assets or financial liabilities, Discovery Health recalculates the new gross carrying amount by discounting the modified cash flows of the financial asset or financial liability using the original effective interest rate.

The difference between the new gross carrying amount and the original gross carrying amount is recognised as a modification gain or loss within credit impairments (for distressed financial asset modifications) or in other gains and losses on financial instruments within non-interest revenue (for all other modifications).

In assessing whether a financial asset was substantially modified, Discovery Health performs a qualitative assessment to determine if the terms were substantially modified.

In assessing whether a financial liability has been substantially modified Discovery Health performs both a qualitative and quantitative (10% threshold) assessment to determine if the terms were substantially modified.

For discussion on modifications as a result of the interbank offered rates (IBOR) reforms, refer to accounting policy 10.

ANNEXURE A – DISCOVERY HEALTH ACCOUNTING POLICIES *continued*

for the year ended 30 June 2022

7. Investment in subsidiaries, associates and joint ventures

INVESTMENT IN SUBSIDIARIES

Subsidiaries are all entities over which Discovery Health has control. Discovery Health controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Costs also includes directly attributable cost of the investment.

Discovery Health assesses at each reporting date whether there is objective evidence that the investment in subsidiaries is impaired. If such evidence of impairment exists, Discovery Health calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value.

JOINT VENTURES

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

Discovery Health recognises its interests in joint ventures at cost. Discovery Health assesses at each reporting date whether there is objective evidence that the joint venture is impaired. If such evidence exists, Discovery Health calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value.

8. Financial guarantee contracts

Discovery Health accounts for financial guarantee contracts (FGCs) in accordance with IFRS 9 *Financial Instruments*. The Company issues FGCs to assist in securing funding for fellow group companies.

FGCs are contracts which require the Company as the issuer of the contract, to make specified payments to reimburse the holder for a loss that the holder incurs because the specified debtor fails to make payment when it is due under the original or modified terms of the debt instrument.

The Company measures the FGC:

- initially at fair value; and
- subsequently at the higher of:
  - The amount of expected credit losses determined under IFRS 9 (calculation 1); and
  - The amount initially recognised less, when appropriate, the cumulative amount of income recognised under the principles of IFRS 15 *Revenue from Contracts with Customers* (calculation 2).

INITIAL RECOGNITION

In the instances where the Company issues FGCs for the debt of a related entity in the Discovery Group, the Company determines the fair value. These FGCs are seen as transactions in a capacity as shareholder and are treated as capital contributions.

In some instances, the other Discovery Group entity can also pay a premium to the issuer of the FGCs. The Company then determines if the price represents the fair value, or whether there is still an additional benefit of the FGC that the Company should recognise.

In the instance where the Company does not receive all the premiums upfront, it recognises the FGC using a net approach. The net approach requires that the Company presents the financial guarantee as the net of its fair value less all future premiums.

ANNEXURE A – DISCOVERY HEALTH ACCOUNTING POLICIES *continued*

for the year ended 30 June 2022

8. Financial guarantee contracts *continued*

SUBSEQUENT MEASUREMENT

The Company recognises financial guarantee fee income as follows:

- Amortises the fair value recognised on initial recognition over the period that the FGC is outstanding, being generally the period of the underlying debt;
- Recognises any premiums received for issuing the FGC also as financial guarantee fee income; and
- Where the Company has applied the net approach, the Company adjusts for the premiums subsequently received to ensure it takes into account all premiums in using calculation 2.

The Company calculates the lifetime expected credit losses for purposes of calculation 1.

Where the outcome is such that calculation 1 is more than calculation 2, differences are recognised and presented as part of expected credit losses.

Where the outcome is such that calculation 2 is more than calculation 1, no adjustments are required. Any previously recognised expected credit losses can be reversed but limited to the total value previously recognised.

DERECOGNITION

The Company derecognises FGCs when the FGC is extinguished, expires or the underlying debt is extinguished.

At the date of derecognition:

- Where the FGC is extinguished in exchange for a new FGC to the same holder and in respect of the same guaranteed entity, the FGC derecognised is seen as compensation for the new FGC; or
- In all other instances, the FGC is derecognised with an associated gain or loss in profit or loss.

9. Share based payments

Discovery Health considers the requirements of group share based payment arrangements. Discovery Health classifies the share-based payment transaction according to whether it has the obligation to settle and whether it receives services from the respective employees. As the Company does not have the obligation to settle the shares, but does receive the services, it classifies the share-based payment as equity settled.

Under IFRS, Discovery Health does not consider any repayment or recharge arrangements in determining the classification of these group share-based payment. Any recharge payments made to Discovery Limited or the respective trust is treated as a distribution of capital from Discovery Health. Any excess of recharge above the carrying amount of Discovery Limited's investment in Discovery Health is recognised immediately as dividend paid.

10. Derivative financial instruments

Derivative financial instruments are classified as held for trading unless they are designated as effective hedging instruments. Discovery Health initially recognises derivative financial instruments in the Statement of financial position at fair value on the date which a derivative contract is entered into (the best evidence of fair value on day one is the transaction price) and subsequently re-measures these instruments to fair value.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Fair values are obtained from quoted prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate.

All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Discovery Health is permitted to designate certain derivatives as either:

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

Discovery Health 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 Health also documents its assessment, both at hedge inception and on an ongoing basis, if 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.

Discovery Health continues to apply hedge accounting, as permitted in IFRS, consistent with IAS 39 *Financial Instruments: Recognition and Measurements*.

ANNEXURE A – DISCOVERY HEALTH ACCOUNTING POLICIES *continued*

for the year ended 30 June 2022

10. Derivative financial instruments *continued*

HEDGING RESERVE

The hedging reserve includes the cash flow hedge reserve. The cash flow hedge reserve is used to recognise the effective portion of gains or losses on derivatives that are designated and qualify as cash flow hedges.

Amounts are subsequently recycled to profit or loss as follows:

- For the effective portion recycled for hedges relating to share-based payments, as part of marketing and administration expenses (staff costs); and
- For the effective portion recycled for hedges relating to interest rate risk, as part of finance costs.

CASH FLOW HEDGE

Discovery Health recognises the effective portion of fair value changes of derivatives that are designated as cash flow hedges in the cash flow hedging reserve in the Statement of other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within net fair value gains on financial assets at fair value through profit or loss in the income statement.

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

Where the forecast transaction subsequently results in the recognition of a financial asset or liability, gains or losses deferred in equity are transferred from the Statement of other comprehensive income when the financial asset or liability is sold or impaired.

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

DERIVATIVES THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING

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

INTERBANK OFFERED RATES (IBOR) REFORMS

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some IBORs with alternative nearly risk-free rates (referred to as 'IBOR reform'). Discovery Health has exposures to IBORs on its financial instruments which has been or will be replaced or reformed as part of these market-wide initiatives, such as Libor and Jibar.

The South African Reserve Bank has indicated its intention to move away from Jibar and to create an alternative reference rate for South Africa. However, there is currently no indication when the designated successor rate will be made available.

The IBOR reforms will generally result in changes in the basis for determining the contractual cash flows of financial assets and financial liabilities, including derivatives.

For financial assets and liabilities measured at amortised cost, Discovery Health will update the effective interest rate only if:

- The change is necessary as a direct consequence of reform; and
- The new basis for determining the contractual cash flows is economically equivalent to previous basis.

For the purpose of cash flow hedges, in determining whether a forecast transaction is highly probable, Discovery Health will assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of IBOR reforms. Discovery Health anticipates that IBOR reform will impact some of its Jibar risk management and hedge accounting relationships in the longer term. However, as noted, there is no indication of a designated successor rate for Jibar.

ANNEXURE A – DISCOVERY HEALTH ACCOUNTING POLICIES *continued*

for the year ended 30 June 2022

11. Cash and cash equivalents

Cash and cash equivalents comprise:

- Cash in hand.
- Deposits held at call and short notice; and
- 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 amortised cost (or in specified instances at fair value through profit or loss) which due to their short-term nature approximates fair value. Due to Discovery Health's sweeping arrangements in-force with various financial institutions, positive and negative cash balances are presented on a net basis for the purpose of presenting cash and cash equivalents in the Statement of cash flows.

12. Borrowings

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

Fees paid on the establishment of loan facilities are recognised as transaction costs against the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs.

To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment and amortised over the period of the facility to which it relates.

13. Share capital

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

14. Trade and other payables

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

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

ANNEXURE A – DISCOVERY HEALTH ACCOUNTING POLICIES *continued*

for the year ended 30 June 2022

15. Deferred tax

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

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

Temporary differences arise primarily from the difference between accounting and tax balances arising from depreciation of property and equipment, revaluation of certain financial assets and liabilities, provisions for leave pay and provisions for share-based payments.

Deferred 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 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 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 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 Health separately discloses the deferred tax asset and deferred tax liability.

16. Leases

IDENTIFICATION OF A LEASE

At inception of a contract, Discovery Health assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, Discovery Health uses the definition of a lease in IFRS 16.

AS A LESSEE

At commencement of a contract that contains a lease component, Discovery Health allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

Discovery Health recognises a right-of-use asset and a lease liability at the lease commencement date. Discovery Health presents right-of-use assets in 'Property and equipment' and lease liabilities in 'Borrowings at amortised cost' in the Statement of financial position.

Discovery Health leases computer equipment with a range of lease terms between 3 to 4 years.

MEASUREMENT OF LEASE LIABILITY

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. Generally, Discovery Health uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortised cost using the effective interest method.

MEASUREMENT OF RIGHT-OF-USE-ASSET

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term.

ANNEXURE A – DISCOVERY HEALTH ACCOUNTING POLICIES *continued*
for the year ended 30 June 2022

17. Employee benefits

SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if Discovery Health has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

POST-EMPLOYMENT BENEFITS

Discovery Health makes mandatory contributions on behalf of its employees to defined contribution schemes, the assets of which are held in separate private trustee-administered funds. These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Discovery Health employees.

Qualified actuaries perform annual valuations. Discovery Health has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

SHARE-BASED COMPENSATION

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

EQUITY-SETTLED SHARE-BASED COMPENSATION PLANS

Discovery Health expenses the fair value of the employee services received in exchange for the grant of the options, over the vesting period of the awards, 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 Health 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 Health 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 remeasured at each reporting date to its fair value, with all changes recognised immediately in profit or loss.

LEAVE PAY

Discovery Health 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.

PROFIT SHARE AND BONUS PLAN

Discovery Health operates several other profit sharing and bonus compensation arrangements and recognises these when a constructive obligation has been created by past practice. These are calculated with reference to predetermined formulae.

Discovery Health has other deferred compensation schemes in place where employees are incentivised based on a variable other than the share price of Discovery Limited, such as embedded value, value of in-force and earnings multiples. Discovery Health recognises a liability and the related expense is included in employee costs in profit or loss.

18. 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 Discovery Health operates.

ANNEXURE A – DISCOVERY HEALTH ACCOUNTING POLICIES *continued*
for the year ended 30 June 2022

19. Revenue recognition

IFRS 15 requires that once contracts have been identified, the entity identifies the performance obligations in the contract. This is determined on the basis of whether the customer can benefit from the promised good or service individually or together with other readily available resources and whether the performance obligation is distinct in the context of the contract. For Discovery Health, most contracts contained a single performance obligation.

The timing of revenue recognition is dependent on whether the entity transfers control over the good or service over time or at a point in time. In determining the appropriate timing for revenue recognition, Discovery Health considers whether the customer benefits as the entity performs.

For most revenue types, Discovery Health provides stand ready services to customers, where customers benefit as the entity's services are consumed. In limited instances where revenue is not recognised over time it is recognised at a point in time when control transfers. For revenue recognised over time the stand ready service is recognised straight line over the term of the contract.

In determining the amount of revenue to recognise, Discovery Health considers any uncertainty created through variable consideration contained in the contract, and constrains the recognition of revenue in order to recognise revenue only to the extent that it is highly probably that a significant reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty is resolved.

Discovery Health also considers the impact of the timing of receiving payments for revenue transactions and determines whether a significant financing component should be taken into account in the measurement of the transaction price. As Discovery Health's contracts routinely include single performance obligations, there is limited complexity in allocating transaction prices to performance obligations.

Payment terms vary across the different revenue types earned by Discovery Health.

Where contracts with customers involve a third party, Discovery Health considers whether it is acting as the principle or the agent in the delivery of the promised goods or services to the customer. This assessment is based on whether Discovery Health controls the goods or services before it is transferred to the customer.

For certain contracts with customers, Discovery Health receives income in advance of discharging the related performance obligation. In these instances, the amount is recognised as a contract liability incurred in the acquisition or fulfilment of a contract.

Discovery Health considers whether there are costs incurred for the acquisition or fulfilment of a contract. These costs are recognised as an asset and amortised over the expected period over which performance obligations under the contract are satisfied. Contract costs incurred that are considered to be of a general and administrative nature, that are not explicitly recovered from the customer, are expensed as incurred.

Where the transaction price included in a contract is payable less than 12 months from the date of satisfying the related performance obligation the practical expedient is applied in that a significant financing component is not recognised. Similarly, where costs of obtaining a contract would be amortised over 1 year or less, the costs are not recognised as a separate asset.

Fee income from administration business	
Nature of performance obligations	Fee income is recognised on health administration and managed care services rendered. These are considered revenue and are seen as single performance obligations.
When does control pass – Point in time (PIT) vs over time	Performance obligations to provide administration services are considered stand ready services, the customer obtains control over the service as the entity makes its services available on an "as and when" basis. As a result, revenue is recognised over time, as the entity makes the services available, based on the passage of time.
When are amounts payable	Amounts are billed on health administration and managed care business at the end of the respective month with amounts paid within 30 days.
Variable consideration and estimates	There is no potential for amounts of revenue to vary relating to discounts or rebates on the health administration business.
Costs to capitalise	Where costs are incurred directly to secure a new health administration customer, and the contract is expected to exceed 12 months, the costs are capitalised and amortised over the expected term of the contract.

ANNEXURE A – DISCOVERY HEALTH ACCOUNTING POLICIES *continued*

for the year ended 30 June 2022

20. Other income and investment income

INVESTMENT INCOME

Investment income comprises dividends and interest received from financial assets held at amortised cost and cash and cash equivalents. Discovery Health recognises dividends when Discovery Health'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 method.

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.

OTHER INCOME

Other income includes the administration of various other products and services, which include, wellness screenings, FlexiCare, Healthy Company and Discovery GAP Cover. Other income is recognised as and when the services are rendered.

21. Finance costs

Finance costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other finance costs are recognised as an expense in profit or loss on an accrual basis using the effective interest method.

In addition, finance costs include any recycled gains or losses from other comprehensive income arising from cash flow hedges of interest rates, amortisation of financing related fees such as loan commitment fees and letter of credit fees as well as modification gains and losses on borrowings.

22. Administration expenses (including marketing)

Administration expenses include marketing and development expenditure and all other non-acquisition related expenditure. These costs are expensed in profit or loss as incurred.

23. Contingent liabilities

Discovery Health 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.

24. Dividend distribution

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

Discovery

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