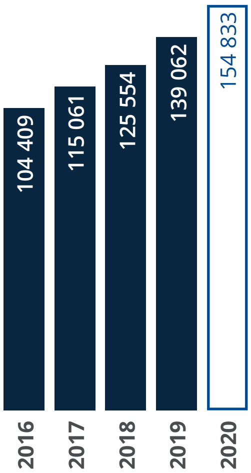
DISCOVERY

AUDITED RESULTS

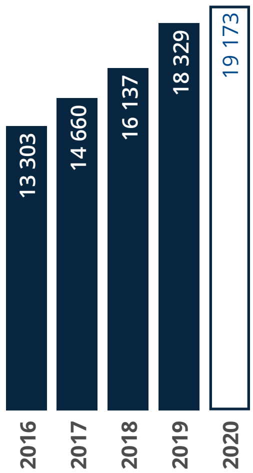
FOR THE YEAR ENDED **30 JUNE**

2020

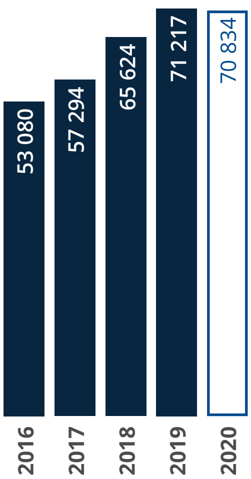
Gross inflows under management
(R million)



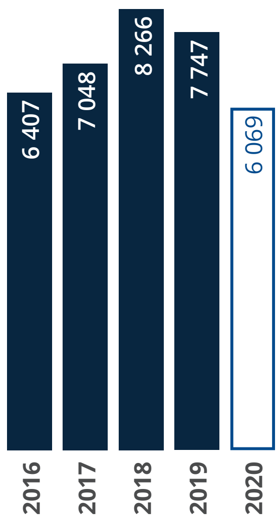
Core new business API
(R million)



Embedded value
(R million)



Normalised profit from operations
(R million)



The full-year period to 30 June 2020 was uniquely complex, with the COVID-19 pandemic creating considerable economic uncertainty, market volatility and societal need, against an already challenging economic backdrop. Discovery's response was focused on three areas: protecting its people, protecting and supporting its clients, and supporting country efforts in South Africa – underpinned by a disciplined strategy to maintain Group financial strength and resilience.

Commentary

FINANCIAL PERFORMANCE

Performance over the period was framed by the following key issues:

Operating performance was resilient

For the full year ended 30 June 2020, core new business was up 5% to R19 173 million, normalised operating profit was up 9% to R8 409 million (before providing for future COVID-19-related impacts, decreasing by 22% after the provision to R6 069 million) and normalised headline earnings decreased by 26% to R3 747 million. Normalised headline earnings per share (diluted) decreased by 27% to 566.7 cents and headline earnings per share (diluted) decreased by 94% to 44.7 cents.

The following table summarises the position:

Metrics	% change over prior year
Group normalised profit from operations (before allowing for COVID-19 provision)	9%
Group normalised profit from operations (after allowing for COVID-19 provision)	(22%)
Group normalised headline earnings	(26%)
Headline earnings (after economic assumption changes due to long-term interest rates)	(94%)

Per-business performance was also resilient as outlined below:

Business	Operating profit before reserving for future COVID-19 impacts	New business	Strategic observation
Discovery Health	+5%	-9%	Showed continued operational excellence and provided significant support to members and society
Discovery Life	+25% (-8% after COVID-19 provision)	-1%	Rebounded after a challenging FY19 with positive operational experience variances and cash generation
Discovery Invest	-14%	+2%	Continued strong asset gathering amid a weak market
Discovery Insure	+59%	+5%	Continued scaling while demonstrating high quality of business
Discovery Bank	+296% operating loss increase		Successfully completed client migrations, fully deposit funded; rapid learnings to improve user experience and value proposition
VitalityHealth	+104% (+9% after COVID-19 reserve)	-8%	Operational excellence with a continued focus on quality of business and relevance resulting in excellent retention
VitalityLife	-49% (-147% after COVID-19 provision)	-3%	Executed on its turnaround plan; set up for future recovery
Vitality Group	+91%	+23%	Resilient revenue and strong operational leverage driving growth; increasing relevance with partners adopting Shared-Value model
Ping An Health	+72%	+42%	Exceptional growth; continuing to invest for long-term opportunity

Actuarial dynamics also performed well and demonstrated particular resilience during the final quarter of the year. Over the period, South Africa (SA) and the United Kingdom (UK) experienced severe lockdowns, however lapse experience was contained within Discovery's actuarial assumptions for all businesses, except Discovery Invest. Claims experience was also better than assumption for all operations, except VitalityLife, where the effects of the pandemic emerged sooner. New business was curtailed during the various lockdown periods, but the impact was mitigated by increased digital enablement. This was particularly evident in Ping An Health, which delivered significant growth through its digital channel during China's lockdown period.

A reserve of R3.4 billion was created to cater for all future COVID-19 impacts

The Group provided R3.4 billion for future COVID-19-related impacts on claims and lapses, so the expected effects to December 2021 are fully recognised and reserved for in the 2020 reporting year. This resulted in a R2.3 billion profit impact, net of discretionary margins. Discovery's own data and insights have been overlaid onto global and local data to build sophisticated models to consider three scenarios, with the provisions established in the medium scenario, as a prudent best estimate.

Interest rate movements had a R4.8 billion pre-tax effect on headline earnings

In terms of long-term interest rates, the significant movements in positive real rates of return in SA and negative real rates of return in the UK has a significant effect on policy values and headline earnings, but none on cash flows, solvency or capital in SA; and since the implementation of the hedge strategy – little impact in the UK. The impact in the period was R3.6 billion for Discovery Life and £60.5 million net of the valuation of the hedge for VitalityLife, with no bearing on operating performance. These have been normalised out of the Group's financial result.

The growth model performed well, with substantial, planned investment of R2.2 billion into new businesses

In terms of the growth model, the businesses delivered a resilient operating performance. Established businesses saw an increase in operating profit of 15% before the COVID-19 provisioning at R9.9 billion (reducing to -13% after), with pleasing new business growth. The emerging businesses saw remarkable growth, delivering a combined profit of R736 million – 74% higher than the prior period. Investment in new businesses was at 26% of normalised operating earnings (before the COVID-19 reserve), compared with 17% in the previous financial year, with these initiatives demonstrating compelling progress. Discovery Bank completed all migrations onto its platform and was able to fully fund its credit book with deposits; Vitality Invest doubled total funds under management over the recent six-month period; Umbrella Funds has a strong pipeline of committed funds; and the V1 platform continued to expand into new markets.

The Group focused on capital strength and liquidity

Regarding capital and cash management, the capital metrics remained above target for all businesses, with internal liquidity bolstered for key businesses. The Group's Financial Leverage Ratio was at 25.1%[1] and the South African liquidity[2] of R1.9 billion remains above target. These metrics remain resilient into future periods under the low/stressed COVID-19 scenario.

The return on embedded value was 2% for the year (5% excluding economic impacts and forex gains), also affected by the COVID-19 provision and other non-economic methodology and assumption changes predominantly in Discovery Life and VitalityLife.

1 *Excludes capitalised lease liabilities under the newly adopted IFRS16 and bank borrowings related to normal course lending and borrowing activities of Discovery Bank*

2 *South African cash and undrawn committed facilities*

HEIGHTENED RELEVANCE OF THE VITALITY SHARED-VALUE BUSINESS MODEL; CONTINUED INVESTMENT IN DISCOVERY'S STRATEGIC FOUNDATION

Discovery is well positioned to respond to the pandemic, given its Shared-Value business model is premised on, and responsive to, three trends being accelerated as a result of COVID-19. This includes firstly, the behavioural nature of risk, given the emerging importance of healthy living in determining not only non-communicable disease risk but communicable disease risk as well. Secondly, technology is emerging as a key enabler, given the rush to an online world. Thirdly, there is heightened demand for purpose-based business models, given the need to find profitable solutions to society's challenges.

The above resulted in continued investment in the model, strengthened by its ongoing recognition and adoption, and by the data supporting its efficacy across industries. This manifested in developments across the business model's value chain (attraction, conversion, pricing, behaviour change, retention) including the following: development of a Resilience Index, linking Vitality engagement to the risk of COVID-19 complications; the continued roll-out of Discovery's integrated capabilities to the global market, courtesy of its V1 platform; the evolution of Discovery Health's leading digital healthcare platform; and AI Quote, an artificial intelligence quoting tool offering personalised advice to prospective clients.

By leveraging established structures for sharing value combined with sophisticated data tracking and analytics capabilities, the Group was able to rapidly respond to client needs and provide concessions. Over R750 million was offered to individuals and employers enabling them to continue receiving cover; and a total of R12 billion was generated in the form of shared value for clients in FY20, spanning premium discounts, cash backs, boosts and value added by managing care.

BUSINESS-SPECIFIC PERFORMANCE

Discovery's Ambition 2023 remains the strategic focus for the medium term, with the goal of being a leading financial services organisation globally, positively influencing 100 million lives – with 10 million directly insured – and being a powerful force for social good.

Key to achieving this is Discovery's execution of market-specific strategies, namely:

i. South Africa: a disruptive composite model, with market-leading businesses and a successful entry into banking

ii. United Kingdom: a differentiated offering through a composite Vitality Shared-Value business model

iii. Ping An Health: the leading health insurer in China with over 50 million clients

iv. Vitality Group: a sophisticated global behaviour-change platform linked to financial services

South Africa

The SA business demonstrated resilience amid the difficult economic and operating environment. Excluding new initiatives, combined new business reduced by 4% to R12 278 million and operating profit increased by 11% to R8 302 million before the COVID-19 provision (reducing by 3% after). Cash generation across the established SA businesses was also strong at R5.4 billion and all entities have shown increases in their capital positions.

The SA business responded rapidly in addressing the impact of COVID-19 on both employees and clients, and demonstrated operational, financial and business resilience over the period. Several benefits of the composite model were leveraged to provide support to customers. For example, cross-company data helped to identify more than 35 000 high-risk members who were proactively assisted to help manage their risk. In addition, the relevance of the Vitality programme, a cornerstone of the composite strategy, was enhanced through the launch of several 'at home' benefits to drive member growth and engagement. Correlations of behaviours revealed that Vitality members with deeper integration maintained higher engagement and goal completion.

There is significant opportunity to leverage Discovery's Shared-Value composite model to increase product penetration and stickiness across Discovery's high-quality customer base, with Discovery Bank serving as the monetisation and payment mechanism for the composite. Discovery expects technology efficiencies and increased digital enablement to further improve distribution capability, supporting deeper penetration in its distribution channel and target market.

Discovery Health

Financial resilience

Discovery Health (DH) delivered a strong financial performance despite the challenging period. Normalised operating profit increased by 5% to R3 190 million and total revenue grew 8% to R8 373 million, with non-scheme revenue showing accelerated growth of 23%. Total new business API decreased by 9% to R6 101 million, affected by the difficult economic environment and contraction in employment, which translated into a marked year-on-year decline of new business from newly recruited employees joining existing employee groups. The business continued to tightly control management expenses, resulting in a 1.4% decrease in operational expenses on a per-member basis (excl. non-recurring COVID-19-related costs). DH made progress in growing non-scheme retail products through Discovery Primary Care, Gap Cover and Healthy Company, which now account for c.184 000 lives under DH administration and contribute 3% to overall DH revenue.

Discovery Health Medical Scheme (DHMS) continued to perform excellently, growing open medical scheme market share to 56.8% in a declining market. The operating result and solvency were higher than expected as a result of the reduction in health system utilisation during lockdown, which included a 27.5% reduction in hospital admissions at the end of August 2020. Notwithstanding this higher-than-anticipated surplus, the contribution increase for 2021 must be sufficient to sustain a small operating surplus and keep up with the utilisation catch-up, in order to mitigate the risk of a high contribution increase for 2022, by which time utilisation is expected to have recovered fully from the depressed levels due to COVID-19. The surplus built up is thus projected to reverse in 2021 following catch-up of normal non-COVID-19 healthcare utilisation, deferred hospital admissions, a likely muted annual contribution increase and the full year's impact of COVID-19 costs.

Business Relevance

DH's response to COVID-19 translated into multiple initiatives aimed at assisting employees, members, the healthcare system and society. DH's integration into the healthcare system and population-level data insights allowed it to protect high-risk members of administered medical schemes with proactive care and interventions. This included administering more than 28 000 flu vaccinations to at-risk members to ensure the health system was not overwhelmed by dual infections and providing care at home for over 7 500 members including remote monitoring of oxygen saturation. This resulted in materially lower morbidity (27% lower hospital admissions) and mortality (38% lower case fatality rate) in these engaged cohorts than in similar control groups.

COVID-19 has accelerated the transition towards digital healthcare, with regulatory changes supporting doctor engagement on digital platforms. Discovery also extended access of the DrConnect (virtual consultation) platform to all South Africans, growing platform usage 19x (June year-on-year) with a total of 18 308 telemedicine consultations over the period. DH is evolving this service to deliver user-friendly digital tools on a powerful digital health platform, to be announced at the launch in late September 2020.

DH's continued investment in digital technologies and automation also enabled the business to extract operational efficiencies, drive down healthcare costs and improve member experience. The DH and DHMS Critical 25 programme, which involved an investment of R80 million directed at automation to reduce call and email volumes and to increase DHMS claims management, is on track to realise a three-year cumulative ROI of 6.4x by September 2020.

COVID-19 has also created opportunities for public-private partnerships, with DH supporting the National Department of Health in SA to launch a digital COVID-19 contact tracing solution. DH will continue to engage with relevant stakeholders to participate in the creation of a sustainable public and private healthcare system.

Discovery Life

Financial Resilience

Discovery Life (DL) delivered a strong operating performance despite the challenging environment. Claims experience improved significantly compared to FY19, supporting a 25% increase in normalised operational earnings, pre-COVID-19 provisioning, to R4 029 million (down 8% to R2 971 million after the provision). New business decreased by 1% to R2 286 million, with strong Automatic Contribution Increases (+10%) and the total in-force premium up by 7%. DL delivered positive operational experience variances overall and on all key metrics other than policy alterations, given the allowance and take-up of COVID-19 premium relief options and other buy downs during the lockdown period. The business's financial position remains robust with strong cash flow generation of R2.4 billion, increasing the tangible free assets to R4.1 billion (both including Discovery Invest) to provide high levels of liquidity. The solvency cover ratio also increased to 182% from 159% at FY19.

Business Relevance

A key focus over the period was to support new business activity through digital and remote processes. Medical underwriting became available as the lockdown was eased. While the travelling Smart Service nurses were unavailable during the initial lockdown period, they are now being deployed into "mini-labs", which are situated in Discovery franchises across the country – supplemented by travelling nurses where appropriate.

DL leveraged the Vitality Shared-Value business model to implement four COVID-19 premium relief options to support clients, which ensured c.R34 billion of cover was kept in force. The business also assisted clients and their families by tracking and managing COVID-19 cases and utilising health data to proactively reach out to those eligible for claims, as well as distributing 1143 pulse oximeters to high-risk clients.

Discovery Invest

Financial Resilience

Discovery Invest's performance reflected the challenges of COVID-19 and volatile financial markets. Total Assets under Administration increased by 8% to R99 billion. Assets under Management increased by 2% to R62.8 billion, with linked funds placed in Discovery funds remaining impressive at 78.3%, down slightly on the prior year following more conservative investor allocations. Operating profit fell by 14% to R830 million on the back of tax changes, investment in the Invest International launch and significant sales of Guaranteed Plans during a high period of volatility on the yield curve. Net inflows amounted to R7.6 billion over the period, a decrease of 9.6%, while new business remained resilient, growing by 2% to R2 667 million.

Business Relevance

The strategic foundation of the business rests on strong asset management underpinned by the Vitality Shared-Value business model with continued enhancement of digital capabilities. Over the period, Discovery Invest sought to support clients, offering contribution holidays and higher boosts and contributions. The actuarial dynamics of the Shared-Value model in retirement planning have also been successfully adopted in Discovery's Umbrella Fund offering, with a strong pipeline of committed funds. The employee scheme, in excess of 10 000 members and R3.1 billion in assets, transferred to the Umbrella Fund from 1 July 2020.

Discovery Invest continued to successfully apply the Shared-Value model in the long-term savings market, with engaged Vitality clients exhibiting 11% lower drawdowns, up to 20% reduced withdrawals and two times more ad-hoc contributions to their savings in comparison to the pre-launch experience in June 2015.

The business continued to expand its retail investment market position, being the fourth largest retail flow-taker (excluding money market funds) during the second quarter of 2020 in SA. In addition, Discovery Invest International partnered with BlackRock and Goldman Sachs Asset Management to provide access to advised portfolios of active and passive global funds and share portfolios.

Discovery Insure

Financial Resilience

Performance was robust over the period, achieving R246 million operating profit (including the share of profit from CMT) – up 59% on the prior year. The Shared-Value model proposition was evident during this period: enhanced profitability, through reduced claims during lockdown and favourable lapse experience due to better-than-market client credit profiles, was shared with clients in the form of boosted rewards, to the value of R70 million. New business recovered by year-end to record levels. Gross Premium Income grew by 14% to R3.7 billion with 6% market share, while gross new business API grew by 5% to R1.1 billion, estimated at between 10% and 15% market share.

Business Relevance

The period under review saw the continued efficacy of the Shared-Value business model in Discovery Insure, highlighting the quality of the business, especially during the lockdown period. The loss ratio for good drivers was up to 45% lower than that of poor drivers and the lapse rate 9% lower than the prior year – and even more so in the final quarter, reflecting enhanced value provided to lower-risk clients. The June 2020 sales month recorded the highest gross new business annual premium income for any month since the inception of the business, showing strong recovery through the easing lockdown.

Discovery Insure's value proposition to clients and suppliers underwent five phases of evolution, compared to one or two in a typical year, to reaffirm its relevance in the changing operating environment and to provide innovative solutions for personal and commercial clients. The ability to accurately measure driving behaviour, including distance, enabled the business to offer an additional cash back of up to 25% of clients' motor comprehensive insurance premiums for driving less. Discovery Insure also launched a world-first telematics-based warranty cover product, creating an avenue to gain new business from alternative parts of the automotive industry.

The commercial lines business focused on growing new business. Gross premium income almost quadrupled, and new business API grew by 102%, with positive lapse trends emerging. There was also further progress in extending Discovery Insure's model into international markets, with a launch planned in one of Vitality Group's markets.

Discovery Bank

Financial Resilience and Operational Progress

Discovery Bank's performance was pleasing, with over 370 000 accounts at end June (489 000 at 13 September) and deposits of R2.4 billion (R3.7 billion at 13 September). Total credit limits granted were R5.5 billion of which R2.0 billion was utilised (R9.6 billion at 13 September with R3.7 billion utilised). The year under review represented the first year of the Bank's operation. Given the onset of COVID-19, the Bank implemented three strategies, namely; ensuring the successful migration of over 220 000 Discovery Card accounts from First National Bank to Discovery Bank; pursuing a deposit-led growth strategy, while ensuring the quality of the loan book and maintaining the quantum spent on the Bank's build within budget; and ensuring rapid learnings from the Shared-Value model to constantly improve the Bank's user experience and value proposition.

All three strategies were successfully deployed with a system uptime of 99.9%. By the reporting date, the migration was successfully completed and retail deposits exceeded the loan book, resulting in the Bank having significant surplus liquidity of R3.8 billion and capital strength. The quality of deposits was strong with 65% of deposits from clients with a Diamond Vitality Money status. The loan book was excellent with arrears 60% lower than market arrears. The Bank's value proposition has been significantly enhanced via a more accessible Vitality Money experience, more powerful Discovery Miles, and a more intuitive user experience. These enhancements will be announced at the end of September 2020.

Business Relevance

The Bank remained resilient and relevant during COVID-19. While average spend on client cards initially declined by 54%, this recovered as lockdown eased, and the average deposit rate remained constant. In addition, Discovery Bank introduced various initiatives to support clients, including boosted rewards, with 336 million Discovery Miles awarded over the lockdown period. The arrears rate at end June was 5.4% and is still considerably below the market average for credit cards.

Discovery Bank clients continued to show positive engagement: 82% of clients who activated Vitality Money have a status higher than Blue. The shared-value principles are playing out as expected with clients on a higher Vitality Money status having demonstrably improved financial behaviour. Clients with a higher status also have lower arrears rates with 0% of Diamond status clients in arrears while Gold and Diamond status clients save at a rate almost 11x higher than Blue status clients.

United Kingdom

Financial Resilience

The UK business was affected by the difficult economic and operating environment driven by COVID-19 and persistent low interest rates, among other elements. Over the period, in respect of the established businesses, combined new business reduced by 12% to £126.3 million (R2 495 million), operating profit increased by 28% to £93.1 million (R1 840 million) (prior to the COVID-19 reserve, reducing by 61% to £28.2 million (R558 million) after), while total covered lives exceeded 1.3 million, an increase of 7%.

Business Relevance

In the UK, interest rates have been steadily declining since Brexit, and the onset of the pandemic resulted in even greater volatility in financial markets, adding to the complexities brought by COVID-19. Furthermore, the pandemic led to the NHS co-opting private hospitals to support patient treatment, which resulted in the postponement of elective treatments. The UK business responded quickly to these factors through various actions and has leveraged Vitality to amplify shared value, helping to deliver a resilient performance and position itself for increased relevance.

The structure of the business has been adapted to deliver the composite strategy, with several functions that span VitalityHealth (VH) and VitalityLife (VL) in areas such as servicing, retention, sales support and technology now consolidated at a UK Group level. This ensures Vitality is able to provide an integrated, intuitive service to clients and advisers, while generating efficiencies. Vitality's digital capabilities including the member app, online member journey and adviser interfaces, are also being aligned, to ensure users have a single, consistent experience.

VitalityHealth

Financial Resilience

VH continued to deliver robust results despite the impact of COVID-19. Operating profit grew 2% to £42.0 million (up 9% to R830 million), which includes the addition of a significant unearned premium reserve (UPR) set up to better match the earning of premiums with the expected delay in the submission of policyholder claims to FY21. Operating profit grew 89% to £78.1 million (up 104% to R1 543 million) before setting up this UPR adjustment. New business declined by 15% to £62.7 million (-8% to R1 238 million) in a challenging sales environment. Despite this, strong retention meant that total lives reached 682 000, up 6%, while earned premiums grew 8% to £496.8 million (up 16% to R9 813 million), before the additional UPR. The back book was strongly cash flow positive, generating £76.3 million in cash. After new business acquisition costs and investment in developing the business, VH generated a £57.6 million cash surplus (including the additional UPR).

Business Relevance

VH looked to ensure relevance of its proposition in light of the postponement of elective treatment due to the NHS co-opting private hospitals and launched a cash benefit payable to members hospitalised with COVID-19. It also broadened access to digital healthcare services, which was already core to its offering prior to the pandemic. Lapse rates were sustained at low levels, showing that VH continues to deliver value in a challenging environment.

Significant changes were necessary in the income recognition profile, manifesting mainly through the revised release of UPRs due to the shift in claims behaviour and timing brought about by the co-opting of private hospitals and the limiting of access due to COVID-19. This effectively resulted in adequate reserves having been set aside for the anticipated claims catch-up and higher cost of treatment (due to COVID-19 measures) as-and-when private treatment resumes.

VitalityLife (VL)

Financial Resilience

VL's normalised operating profit before the COVID-19 provision was 52% lower at £15 million (49% lower at R297 million). After the COVID-19 provision, the normalised operating loss totalled £13.8 million (R272 million). New business API reduced by 10% to £63.6 million (down 3% to R1 257 million), while earned premiums grew strongly by 11% to £288.8 million (R5 705 million). Lives covered and in-force policies both grew by 8%, exceeding 621 000 and 470 000 respectively.

Prior to the pandemic, VL faced challenges due to the difficult environment including Brexit uncertainty and persistent low interest rates in combination with challenges relating to its lapse experience. In response, VL initiated a plan to right-size the business, implemented a hedge for the low and volatile interest rate environment, and introduced key actions to mitigate lapse risk. COVID-19 introduced additional complexity, which saw VL establish a provision in light of the uncertainty around the potential impact on claims and lapses over the next 18 months.

Business Relevance

A range of management actions are in place to return VL to robust profitability and to right-size it for the future. Operational actions include a significant reduction in operating expenses, a focus on the quality of new business and enhanced servicing and retention capabilities. These retention initiatives were implemented to address negative lapse experience variances, namely through increased sophistication in the conservation strategy, strengthening of lapse assumptions, and a revision of operational processes. As a result, lapse experience was closer to expectation in the most recent quarter, and continues to be monitored closely.

VL also strengthened its capital position by adapting the legal structure of the business and deferring the Part VII transfer of the VL back book written on the Prudential Assurance Company's licence by three years. The onset of COVID-19 resulted in significant increased volatility of interest rate markets, increasing the convexity and basis risk. Post year-end, VL extended the duration of its interest rate hedge swaption at a significantly lower cost than the prior one and enhanced the hedge strategy to reduce future basis risk. This hedge continues to protect capital, solvency, and liquidity from the effect of lower interest rates on the whole of life portfolio. In combination, all these actions have strengthened VL's capital position, lowered its cost of liquidity funding, and de-risked it against the impact of further falls in interest rates, and position VL for a return to growth.

Ping An Health (PAH)

Financial Resilience

PAH delivered a solid performance. Total revenue[3] grew by 56% to RMB13.4 billion and new business premium by 33% to RMB6.5 billion. This growth was mainly driven by strong channel support for its flagship eShengBao product and continued persistency improvements. Sales of this product, which lends itself to online purchase, did well during the relatively limited COVID-19 lockdown period in China. Profit from operations, represented by the Group's share of after-tax operating profit less the costs to support the business, grew by 72% to R182 million supported by positive investment returns.

Business Relevance

PAH continues to gear up for considerable growth in a rapidly-expanding healthcare market with a focus on quality business. Continued investment and delivery were focused on three key areas: digital and technology advancement; shared value and product enhancement; and further embedding itself into the Ping An Group (PAG) health ecosystem for synergistic opportunities.

The digital healthcare evolution continued to gain momentum with ongoing investments by Ping An Group and PAH, as well as significant competitor activity in a very dynamic market. PAH's investments over the past two years into scaling online operations as well as its app and sales and technology capabilities positioned it well to meet the demand for more digital interactions. PAH has full mobile user functionality, allowing end-to-end sales processes for several products, including eShengBao, to be completed online. This enabled business to continue via agents or direct-to-consumer during the COVID-19 lockdown period. In addition, this online readiness allowed PAH to rapidly provide initiatives to increase health awareness as well as online health services, such as video doctor consultations. This shift towards online interactions is a key driver in the strong growth of PAH's app by 145% to 29.7 million users. PAH continued to develop and leverage technology to enhance its claims risk management, claims processing, underwriting and sales. The individual customer renewal rate increased by 8.3% year-on-year, through strategies such as automatically linking deductions of premiums and increased utilisation of a specialised sales agents' reapplication tool.

PAH continues to look for opportunities to embed the Shared-Value business model more deeply. In March 2020, the Chinese insurance regulator, CBIRC, issued new regulations allowing for the sale of long-term medical reimbursement products, which enables health insurers to expand their product ranges. In August 2020, PAH obtained regulatory approval to sell a 20-year premium-adjustable medical reimbursement product with dynamic pricing based on the policyholder's health status. This marks an important integration of Vitality (PAH's version of Vitality is called 'Hello Run Club') into a PAH product. The Shared-Value pricing structure is key to the long-term actuarial success of the product.

As of 1 July 2020, PAH falls within PAG's healthcare ecosystem and technology businesses cluster. This provides synergistic opportunities for PAH with the other companies in the ecosystem, such as Ping An Good Doctor (China's largest online healthcare services platform) and Ping An HealthKonnect, which offers services to China's Social Health Insurance system.

3 Revenue includes policies written on Ping An Health's own insurance license, as well as policies written on Ping An Life's license and directly reinsured to PAH based on the reinsurance treaty terms

Vitality Group

Financial Resilience

Vitality Group (VG) delivered excellent results in a difficult period. Profit of $19.6 million (R308 million) was up 73% from the prior year. Sales showed good progress, with fee income growing 11% to $72.3 million (R1.1 billion4) and insurance partners' integrated premiums reaching $1 billion (R15.8 billion) – an endorsement of the resilient business model upon which the business is built. Vitality now has a global presence across 24 markets (including the primary markets SA and the UK). Total Vitality membership grew to 4.1 million, of which 1.5 million are administered on Vitality1, the globally unified systems architecture platform. Membership from insurance partners' integrated products grew to 1.8 million, an increase of 29% from the prior year.

Business Relevance

NATIONAL CHAMPIONS AND FRANCHISE MARKETS

The relevance of the Vitality Shared-Value Insurance model gained significant traction over the period with insurer partners more strongly embedding the model into their core strategies and ecosystems. For example, AIA embedded AIA Vitality in its recently-announced strategy to pioneer its Shared-Value Insurance model around health and wellness across the Asia Pacific region. This is also manifesting in product updates, increased engagement and integration with Vitality1. Sumitomo Life Vitality is approaching half a million members in Japan since launching in 2018, with exciting new reward partnerships being concluded. The existing Generali countries – Germany, France and Austria – were successfully migrated onto the Vitality1 platform, and agreement was reached to implement Vitality into additional European markets – Italy, Generali's home market, Spain, Poland and Czech Republic. The Manulife Vitality portfolio is performing well and continued to grow with the addition of new Vitality products to its offering, and engagement exceeded expectation. John Hancock Vitality's overall performance also remained strong with a 32% increase in premium income from the prior year. On 27 August 2020, Amazon and John Hancock announced a strategic collaboration aimed at helping customers improve their health and wellness. The Vitality programme played a key role in enabling John Hancock to be the first life insurer to integrate with Amazon Halo, as part of Amazon's latest venture into the health and wellness space.

In terms of the Franchise markets, VG's partnership with Hannover Re to expand Shared-Value insurance products into next tier markets produced pleasing results, with the total number of signed markets at eight, of which four are live. The review period saw launches in the Netherlands, in partnership with a.s.r. and most recently, the second Latin American country, Argentina, in partnership with Prudential USA. Further launches are planned for 2020.

Vitality1 is driving rapid scaling of markets and is servicing 11 countries while maintaining high availability, delivering with speed and accurately processing vast amounts of data. Vitality Group has developed a reusable migration asset to migrate from legacy to Vitality1, which will reduce implementation costs and efforts, as well as speed up delivery. The anticipated roll-out over the next 21 months includes nine new markets and three new US initiatives.

Vitality USA

Vitality USA delivered a pleasing set of results, growing profits 19% from the prior year and membership by 35%. The performance can be attributed in part to a strategic partnership with Trustmark (an employee benefits company headquartered in Illinois) that drove new business, and changes implemented to optimise the sales and distribution structures. These strategies are also expected to ensure that the strong performance is sustained going forward and mitigate some of the challenges expected as a result of COVID-19.

4 *Excludes services related to system implementation and other cost recoveries and rewards*

Prospects for growth

Discovery's Shared-Value business model positions it well to deliver continued operational resilience despite the challenging macro environment. Discovery has also provided for the expected future financial impacts of COVID-19 on claims and lapses to December 2021 during the 2020 financial year. The effect of continued interest rate volatility is expected to remain a feature of the reported results in the case of Discovery Life, however the hedge in the UK is expected to remove the volatility for VitalityLife. Solvency, cash and capital are not expected to be negatively impacted by these interest rate movements in SA; and normalised earnings will not be impacted.

Discovery's Ambition 2023 remains the strategic focus for the medium-term. The Group is well positioned for growth over its planning horizon to 2023, with the capital plan able to fund its new initiatives. The businesses within the South African composite have created significant insurgency and the composite is well positioned to continue the SA growth trajectory. The UK composite is embryonic, however the actions taken over the period were key to ensure sustainability in the current environment and have positioned the business to capitalise in a normalised environment. Vitality Group through capabilities and partnerships is well-placed to leverage the growing acceptance of the Shared- Value business model. Ping An Health remains committed to investing for longer-term growth, rather than looking to extract profit or cash in the short to medium term.

Despite the Group's strong capital position, due to the uncertain and potentially volatile economic environment caused by the COVID-19 pandemic, the Discovery Board has decided not to declare an ordinary dividend for the year ended 30 June 2020.

On behalf of the Board

ME Tucker
Chairperson

A Gore
Chief Executive Officer

Sandton

15 September 2020

Notes to analysts

Any forecast financial information contained in this announcement has not been reviewed or reported on by the company's external auditors. Discovery has published supplemental unaudited information on the website. For this and other results information, go to https://www.discovery.co.za/corporate/investor-relations and page down to Financial results and reports, Annual results 2020.

STATEMENT OF FINANCIAL POSITION

for the year ended 30 June 2020

R million	Group June 2020 Audited	Group June 2019 Audited
Assets		
Goodwill	**5 070**	4 642
Intangible assets	**6 381**	5 597
Property and equipment	**4 643**	4 212
Assets arising from insurance contracts	**48 042**	48 781
Deferred acquisition costs	**632**	536
Assets arising from contracts with customers	**954**	752
Investment in equity-accounted investments	**2 713**	1 950
Deferred income tax	**3 511**	2 372
Financial assets		
– Loans and advances to customers at amortised cost	**1 848**	–
– Investments at amortised cost	**2 523**	1 943
– Investments at fair value through profit or loss	**102 714**	90 205
– Derivative financial instruments at fair value through profit or loss	**1 370**	375
Insurance receivables, contract receivables and other non-financial receivables	**11 436**	9 015
Current income tax asset	**182**	136
Reinsurance contracts	**400**	314
Cash and cash equivalents	**17 909**	9 403
TOTAL ASSETS	**210 328**	180 233
Equity		
Capital and reserves		
Ordinary share capital and share premium	**10 148**	10 142
Perpetual preference share capital	**779**	779
Other reserves	**3 269**	452
Retained earnings	**30 353**	31 710
	44 549	43 083
Non-controlling interest	**4**	*
TOTAL EQUITY	**44 553**	43 083
Liabilities		
Liabilities arising from insurance contracts	**82 411**	70 522
Liabilities arising from reinsurance contracts	**12 465**	10 835
Deferred income tax liability	**8 514**	8 697
Contract liabilities to customers	**808**	433
Financial liabilities		
– Borrowings at amortised cost	**19 836**	14 682
– Other payables at amortised cost	**14 233**	10 262
– Deposits from customers	**2 427**	–
– Investment contracts at fair value through profit or loss	**23 012**	20 674
– Derivative financial instruments at fair value through profit or loss	**992**	509
Employee benefits	**284**	260
Current income tax liability	**793**	276
TOTAL LIABILITIES	**165 775**	137 150
TOTAL EQUITY AND LIABILITIES	**210 328**	180 233

**Amount is less than R500 000.*

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.

INCOME STATEMENT

for the year ended 30 June 2020

R million	Group June 2020 Audited	Group June 2019 Audited	% change
Insurance premium revenue	**49 775**	43 036	
Reinsurance premiums	**(6 308)**	(5 595)	
Net insurance premium revenue	**43 467**	37 441	16
Fee income from administration business	**11 337**	10 404	
Net banking fee and commission income	**150**	–	
Banking fee and commission income	**182**	–	
Banking fee and commission expense	**(32)**	–	
Vitality income	**3 875**	3 653	
Other income	**1 100**	1 063	
Investment income using the effective interest rate method	**379**	398	
Net bank interest and similar income	**71**	29	
Bank interest and similar income using the effective interest rate	**162**	29	
Bank interest and similar expense using the effective interest rate	**(91)**	–	
Net fair value gains on financial assets at fair value through profit or loss	**4 093**	4 265	
Net income	**64 472**	57 253	13
Net claims and policyholders' benefits	**(23 246)**	(20 879)	
Claims and policyholders' benefits	**(26 856)**	(24 538)	
Insurance claims recovered from reinsurers	**3 610**	3 659	
Acquisition costs	**(6 547)**	(6 100)	
Marketing and administration expenses	**(22 118)**	(19 954)	
Amortisation of intangibles from business combinations	**(76)**	(99)	
Expected credit losses	**(181)**	–	
Recovery of expenses from reinsurers	**2 876**	2 830	
Net transfer to/from assets and liabilities under insurance contracts	**(13 497)**	(4 706)	
– change in assets arising from insurance contracts	**2 038**	5 321	
– change in assets arising from reinsurance contracts	**53**	7	
– change in liabilities arising from insurance contracts	**(9 418)**	(8 050)	
– change in liabilities arising from reinsurance contracts	**(462)**	(1 984)	
– economic assumption adjustments net of discretionary margins	**(5 708)**	–	
Fair value adjustment to liabilities under investment contracts	**(151)**	(809)	
Profit from operations	**1 532**	7 536	(80)
Finance costs	**(1 568)**	(1 375)	
Gain on previously held interests in DiscoveryCard business	**–**	761	
Gain on dilution and disposal of equity-accounted investments	**3**	844	
Impairment of goodwill	**(9)**	(17)	
Foreign exchange gains	**578**	*	
Share of net profits from equity-accounted investments	**264**	170	
Profit before tax	**800**	7 919	(90)
Income tax expense	**(624)**	(1 305)	(52)
Profit for the year	**176**	6 614	(97)
Profit/(loss) attributable to:			
– ordinary shareholders	**97**	6 533	(99)
– preference shareholders	**81**	81	
– non-controlling interest	**(2)**	*	
	176	6 614	(97)
Earnings per share for profit attributable to ordinary shareholders of the company during the year (cents):			
– basic	**14.8**	1 001.5	(99)
– diluted	**14.7**	1 001.1	(99)

**Amount is less than R500 000.*

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2020

R million	Group June 2020 Audited	Group June 2019 Audited	% change
Profit for the year	**176**	6 614	(97)
Items that are or may be reclassified subsequently to profit or loss:			
Currency translation differences	**2 800**	(140)	
– unrealised gains/(losses)	**2 768**	(142)	
– tax on unrealised gains/losses	**32**	2	
Cash flow hedges	**(430)**	(175)	
– unrealised losses	**(762)**	(91)	
– tax on unrealised losses	**59**	(7)	
– losses/(gains) recycled to profit or loss	**319**	(98)	
– tax on recycled losses/gains	**(46)**	21	
Share of other comprehensive income from equity-accounted investments	**293**	(19)	
– change in fair value of debt instruments at fair value through other comprehensive income	**3**	–	
– currency translation differences	**290**	(19)	
Other comprehensive income/(losses) for the year, net of tax	**2 663**	(334)	(897)
Total comprehensive income for the year	**2 839**	6 280	(55)
Attributable to:			
– ordinary shareholders	**2 760**	6 199	(55)
– preference shareholders	**81**	81	
– non-controlling interest	**(2)**	*	
Total comprehensive income for the year	**2 839**	6 280	(55)

**Amount is less than R500 000.*

HEADLINE EARNINGS

for the year ended 30 June 2020

R million	Group June 2020 Audited	Group June 2019 Audited	% change
Earnings per share (cents):			
– basic	**14.8**	1 001.5	(99)
– diluted	**14.7**	1 001.1	(99)
Headline earnings per share (cents):			
– basic	**45.0**	789.0	(94)
– diluted	**44.7**	788.7	(94)
Normalised headline earnings per share (cents):			
– basic	**570.7**	771.9	(26)
– diluted	**566.7**	771.6	(27)
The reconciliation between earnings and headline earnings is shown below:			
Net profit attributable to ordinary shareholders	**97**	6 533	(99)
Adjusted for:			
– derecognition of intangible assets and property and equipment, net of tax	**149**	–	
– gain on dilution and disposal of equity-accounted investments, net of tax	**(3)**	(666)	
– gain on disposal of property and equipment, net of capital gains tax	**(2)**	1	
– gain on previously held interests in DiscoveryCard business	**–**	(761)	
– impairment of goodwill	**9**	17	
– impairment of intangible assets, net of tax	**44**	23	
– Discovery Limited's share of headline earnings adjustments made by equity-accounted investees:			
– derecognition of intangible assets and property and equipment, net of tax	**2**	–	
Headline earnings	**296**	5 147	(94)
Adjusted for:			
– economic assumptions adjustments net of discretionary margins and interest rate derivative, net of tax	**3 584**	–	
– economic assumption adjustment net of discretionary margin, net of tax	**4 295**	–	
– fair value gains on VitalityLife interest rate derivative, net of tax	**(711)**	–	
– other	**(133)**	(112)	
– amortisation of intangibles from business combinations, net of tax	**60**	84	
– costs relating to disposal of equity-accounted investments, net of tax	**–**	15	
– debt restructuring costs resulting from DiscoveryCard joint venture transaction	**–**	33	
– deferred tax asset raised on assessed losses	**(275)**	(326)	
– deferred tax related to Discovery Life 'new adjusted IFRS basis' and Corporate	**–**	(38)	
Policyholder Fund assessed loss	**–**	(38)	
– initial expenses related to Prudential Book transfer, net of tax	**57**	23	
– restructuring costs, net of tax	**80**	–	
– time value of money movement of swaption contract in VitalityLife, net of tax	**97**	–	
– transaction costs related to VitalityLife interest rate derivative, net of tax	**37**	–	
– unrealised (gains)/losses on foreign exchange contracts not designated as hedges, net of tax	**(189)**	97	
Normalised headline earnings	**3 747**	5 035	(26)
Weighted number of shares in issue (000's)	**656 648**	652 295	
Diluted weighted number of shares (000's)	**661 242**	652 568	

Normalised headline earnings is calculated by adjusting headline earnings with significant items that are not considered to be part of Discovery's normal operations. These adjustments include those gains or losses associated with changes in economic assumptions recognised in profit or loss, net of available discretionary margin, and net of any gains or losses on derivatives entered into to offset such changes in economic assumptions. Adjustments are shown net of tax.

STATEMENT OF CHANGES IN EQUITY

at 30 June 2020

	Attributable to equity holders of the Company		
R million	Share capital and share premium	Preference share capital	Share-based payment reserve
Year ended 30 June 2020			
At beginning of the year	**10 142**	**779**	**41**
IFRS transitional adjustments	**–**	**–**	**–**
Adjusted balance at beginning of the year	**10 142**	**779**	**41**
Total comprehensive income for the year	**–**	**81**	**–**
Profit for the year	**–**	**81**	**–**
Other comprehensive income	**–**	**–**	**–**
Transactions with owners	**6**	**(81)**	**154**
Delivery of treasury shares	**10**	**–**	**(10)**
Increase in treasury shares	**(4)**	**–**	**–**
Acquisition of subsidiaries with non-controlling interest	**–**	**–**	**–**
Employee share option schemes:			
– Value of employee services	**–**	**–**	**164**
Dividends paid to preference shareholders	**–**	**(81)**	**–**
Dividends paid to ordinary shareholders	**–**	**–**	**–**
At end of the year	**10 148**	**779**	**195**
Year ended 30 June 2019			
Balance at beginning of the year	8 308	779	327
Total comprehensive income for the year	–	81	–
Profit for the year	–	81	–
Other comprehensive income	–	–	–
Transactions with owners	1 834	(81)	(286)
Share issue	1 854	–	–
Share issue costs	(19)	–	–
Change in ownership without change in control	–	–	–
Increase in treasury shares	(5)	–	–
Delivery of treasury shares	4	–	–
Transfer of vested equity-settled share schemes	–	–	(319)
Employee share option schemes:			
– Value of employee services	–	–	33
Dividends paid to preference shareholders	–	(81)	–
Dividends paid to ordinary shareholders	–	–	–
At end of the year	10 142	779	41

1 *This relates to fair value adjustments on those equity instruments designated at fair value through other comprehensive income and those debt instruments measured at fair value through other comprehensive income.*

* *Amount is less than R500 000.*

	Attributable to equity holders of the Company						
	Investment reserve[1]	Foreign currency translation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total
	–	**585**	**(174)**	**31 710**	**43 083**	*****	**43 083**
	–	**–**	**–**	**(41)**	**(41)**	**–**	**(41)**
	–	**585**	**(174)**	**31 669**	**43 042**	*****	**43 042**
	3	**3 090**	**(430)**	**97**	**2 841**	**(2)**	**2 839**
	–	**–**	**–**	**97**	**178**	**(2)**	**176**
	3	**3 090**	**(430)**	**–**	**2 663**	**–**	**2 663**
	–	**–**	**–**	**(1 413)**	**(1 334)**	**6**	**(1 328)**
	–	**–**	**–**	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**	**(4)**	**–**	**(4)**
	–	**–**	**–**	**–**	**–**	**6**	**6**
	–	**–**	**–**	**–**	**164**	**–**	**164**
	–	**–**	**–**	**–**	**(81)**	**–**	**(81)**
	–	**–**	**–**	**(1 413)**	**(1 413)**	**–**	**(1 413)**
	3	**3 675**	**(604)**	**30 353**	**44 549**	**4**	**44 553**
	–	744	1	27 362	37 521	*	37 521
	–	(159)	(175)	6 533	6 280	*	6 280
	–	–	–	6 533	6 614	–	6 614
	–	(159)	(175)	–	(334)	–	(334)
	–	–	–	(2 185)	(718)	–	(718)
	–	–	–	–	1 854	–	1 854
	–	–	–	–	(19)	–	(19)
	–	–	–	(1 104)	(1 104)	–	(1 104)
	–	–	–	–	(5)	–	(5)
	–	–	–	–	4	–	4
	–	–	–	319	–	–	–
	–	–	–	–	33	–	33
	–	–	–	–	(81)	–	(81)
	–	–	–	(1 400)	(1 400)	–	(1 400)
	–	585	(174)	31 710	43 083	*	43 083

STATEMENT OF CASH FLOWS

for the year ended 30 June 2020

R million	Group June 2020 Audited	Group June 2019 Audited
Cash flow from operating activities	**8 065**	1 738
Cash generated by operations	**17 372**	12 154
Purchase of investments held to back policyholder liabilities	**(37 316)**	(35 109)
Proceeds from disposal of investments held to back policyholder liabilities	**26 218**	23 831
Working capital changes	**1 628**	625
	7 902	1 501
Dividends received	**342**	339
Interest received	**2 516**	2 274
Interest paid	**(1 406)**	(1 219)
Taxation paid	**(1 289)**	(1 157)
Cash flow from investing activities	**(3 030)**	(2 844)
Purchase of financial assets	**(26 497)**	(21 724)
Proceeds from disposal of financial assets	**25 532**	21 830
Purchase of property and equipment	**(290)**	(510)
Proceeds from disposal of property and equipment	**4**	95
Purchase of software and other intangible assets	**(1 726)**	(1 999)
Proceeds from disposal of intangible assets	**–**	22
Proceeds from the disposal of equity-accounted investments	**–**	402
Acquisition of business net of cash	**16**	(736)
Additional investment in equity-accounted investments	**(69)**	(224)
Cash flow from financing activities	**2 202**	(344)
Proceeds from issuance of ordinary shares	**–**	1 854
Shares issue costs	**–**	(19)
Acquisition of additional interest in subsidiary	**–**	(1 104)
Purchase of treasury shares	**(4)**	–
Dividends paid to ordinary shareholders	**(1 413)**	(1 400)
Dividends paid to preference shareholders	**(81)**	(81)
Proceeds from borrowings	**10 339**	2 147
Repayment of borrowings	**(6 639)**	(1 741)
Net increase/(decrease) in cash and cash equivalents	**7 237**	(1 450)
Cash and cash equivalents at beginning of the year	**9 403**	10 888
Exchange gains/(losses) on cash and cash equivalents	**1 269**	(35)
Cash and cash equivalents at end of the year	**17 909**	9 403

ADDITIONAL INFORMATION

at 30 June 2020

FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

	30 June 2020			
R million (audited)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss:				
– Equity securities	32 953	120	–	33 073
– Equity linked notes	–	2 318	–	2 318
– Debt securities	29 965	1 708	–	31 673
– Inflation linked securities	1 332	156	–	1 488
– Money market securities	2 688	10 289	–	12 977
– Mutual funds	21 185	–	–	21 185
Derivative financial instruments at fair value:				
– used as cash flow hedges	–	14	–	14
– not designated as hedging instruments	–	1 356	–	1 356
Total financial assets	88 123	15 961	–	104 086
Financial liabilities				
Investment contracts at fair value through profit and loss	–	23 012	–	23 012
Derivative financial instruments at fair value:				
– used as cash flow hedges	–	854	–	854
– not designated as hedging instruments	–	138	–	138
Total financial liabilities	–	24 004	–	24 004

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

FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *continued*

Specific valuation techniques used to value financial instruments in level 2

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

	30 June 2019			
R million (audited)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss:				
– Equity securities	33 966	1 015	–	34 981
– Equity linked notes	23	3 178	–	3 201
– Debt securities	19 531	1 599	–	21 130
– Inflation linked securities	554	–	–	554
– Money market securities	7 362	6 403	–	13 765
– Mutual funds	16 574	–	–	16 574
Derivative financial instruments at fair value:				–
– used as cash flow hedges	–	176	–	176
– not designated as hedging instruments	–	199	–	199
Total financial assets	78 010	12 570	–	90 580
Financial liabilities				
Investment contracts at fair value through profit and loss	–	20 674	–	20 674
Derivative financial instruments at fair value:				
– used as cash flow hedges	–	250	–	250
– not designated as hedging instruments	–	259	–	259
Total financial liabilities	–	21 183	–	21 183

Exchange rates used in the preparation of these results

	USD	GBP
30 June 2020		
– Average	**15.70**	**19.75**
– Closing	**17.41**	**21.44**
30 June 2019		
– Average	14.17	18.32
– Closing	14.15	17.98

SEGMENTAL INFORMATION

for the year ended 30 June 2020

R million	SA Health	SA Life	SA Invest	SA Insure[2,3]
30 June 2020				
Income statement				
Insurance premium revenue	252	12 984	15 602	3 544
Reinsurance premiums	(1)	(2 564)	–	(66)
Net insurance premium revenue	251	10 420	15 602	3 478
Fee income from administration businesses	7 238	–	2 246	12
Net banking fee and commission income	–	–	–	–
Banking fee and commission income	–	–	–	–
Banking fee and commission expense	–	–	–	–
Vitality income	–	–	–	–
Other income	883	39	–	–
Investment income earned on assets backing policyholder liabilities	–	13	–	119
Net bank interest and similar income	–	–	–	–
Bank interest and similar income using the effective interest rate	–	–	–	–
Bank interest and similar expense using the effective interest rate	–	–	–	–
Finance charge on negative reserve funding	–	–	–	–
Inter-segment funding[1]	–	(762)	762	–
Net fair value gains on financial assets at fair value through profit or loss	(20)	867	834	32
Net income	8 352	10 577	19 444	3 641
Net claims and policyholders' benefits	(100)	(6 079)	(10 542)	(1 915)
Claims and policyholders' benefits	(100)	(7 926)	(10 542)	(1 939)
Insurance claims recovered from reinsurers	–	1 847	–	24
Acquisition costs	(30)	(1 566)	(1 080)	(479)
Credit impairment charges	–	–	–	–
Marketing and administration expenses				
– depreciation and amortisation	(176)	(7)	(9)	(84)
– derecognition of intangible assets and property and equipment	(29)	–	–	(74)
– impairment of intangible assets	–	–	–	–
– other expenses	(4 844)	(1 976)	(984)	(824)
Recovery of expenses from reinsurers	–	–	–	–
Transfer from assets/liabilities under insurance contracts				
– change in assets arising from insurance contracts	–	1 557	–	–
– change in assets arising from reinsurance contracts	–	27	–	7
– change in liabilities arising from insurance contracts	–	(238)	(5 809)	(39)
– change in liabilities arising from reinsurance contracts	–	678	–	–
Fair value adjustment to liabilities under investment contracts	–	(2)	(190)	–
Share of net profits from equity-accounted investments	17	–	–	13
Normalised profit/(loss) from operations	3 190	2 971	830	246
Investment income earned on shareholder investments and cash	65	21	45	10
Economic assumptions adjustments net of discretionary margins and interest rate derivative	–	(3 635)	–	–
Economic assumptions adjustments net of discretionary margins	–	(3 635)	–	–
Fair value gains on VitalityLife interest rate derivative	–	–	–	–
Net fair value gains/(losses) on financial assets at fair value through profit or loss	–	128	4	–
Restructuring costs	–	–	–	–
Gains from dilution of equity-accounted investments	–	–	–	3
Impairment of goodwill	–	–	–	–
Initial expenses related to Prudential Book transfer	–	–	–	–
Transaction costs related to VitalityLife interest rate derivatives	–	–	–	–
Amortisation of intangibles from business combinations	–	–	–	–
Market rentals related to Head Office building adjusted for finance costs and depreciation	–	–	–	–
Finance costs	(286)	–	–	–
Foreign exchange gains	15	–	36	–
Profit before tax	2 984	(515)	915	259
Income tax expense	(826)	147	(256)	(64)
Profit for the year	2 158	(368)	659	195

1 *The inter-segment funding of R762 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.*

2 *During the current financial year segmental information has been changed to align with the change in reportable segments, i.e. Discovery Insure (South Africa) and Discovery Bank (South Africa) are now shown as separate segments. The comparative information has been restated accordingly.*

3 *This segment relates to Discovery Insure – Personal lines only.*

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

SA Vitality	SA Bank[2]	UK Health	UK Life	All other segments	Segment total	IFRS reporting adjustments[4]	IFRS total
–	–	9 100	5 705	3 330	50 517	(742)	49 775
–	–	(1 589)	(2 789)	(41)	(7 050)	742	(6 308)
–	–	7 511	2 916	3 289	43 467	–	43 467
–	137	30	–	1 687	11 350	(13)	11 337
–	150	–	–	–	150	–	150
–	182	–	–	–	182	–	182
–	(32)	–	–	–	(32)	–	(32)
2 401	121	452	212	689	3 875	–	3 875
–	120	69	–	18	1 129	(29)	1 100
–	1	9	37	1	180	(180)	–
–	63	–	–	–	63	8	71
–	162	–	–	–	162	–	162
–	(99)	–	–	–	(99)	8	(91)
–	–	–	(838)	–	(838)	838	–
–	–	–	–	–	–	–	–
(2)	92	29	768	59	2 659	1 434	4 093
2 399	684	8 100	3 095	5 743	62 035	2 058	64 093
–	–	(3 623)	(798)	(189)	(23 246)	–	(23 246)
–	–	(4 796)	(1 964)	(229)	(27 496)	640	(26 856)
–	–	1 173	1 166	40	4 250	(640)	3 610
(66)	–	(797)	(1 814)	123	(5 709)	(838)	(6 547)
–	(181)	–	–	–	(181)	–	(181)
					–		–
(15)	(236)	(359)	(46)	(612)	(1 544)	(210)	(1 754)
(9)	–	–	–	(84)	(196)	–	(196)
–	–	–	–	(63)	(63)	–	(63)
(2 302)	(1 438)	(3 297)	(2 063)	(2 625)	(20 353)	260	(20 093)
–	–	826	2 050	–	2 876	–	2 876
–	–	–	(2 788)	29	(1 202)	3 240	2 038
–	–	8	11	–	53	–	53
–	–	(28)	(18)	(3 110)	(9 242)	(176)	(9 418)
–	–	–	2 099	–	2 777	(3 239)	(462)
–	–	–	–	4	(188)	37	(151)
–	–	–	–	222	252	–	252
7	(1 171)	830	(272)	(562)	6 069	1 132	7 201
27	–	1	12	746	927	(548)	379
–	–	–	(1 195)	–	(4 830)	(878)	(5 708)
–	–	–	(2 073)	–	(5 708)	–	(5 708)
–	–	–	878	–	878	(878)	–
–	–	–	(120)	263	275	(275)	–
–	–	–	(100)	–	(100)	100	–
–	–	–	–	–	3	–	3
–	–	–	–	(9)	(9)	–	(9)
–	–	–	(71)	–	(71)	71	–
–	–	–	(45)	–	(45)	45	–
–	–	–	–	(76)	(76)	–	(76)
–	–	–	–	(259)	(259)	259	–
–	–	(7)	(257)	(1 389)	(1 939)	371	(1 568)
–	–	–	–	527	578	–	578
34	(1 171)	824	(2 048)	(759)	523	277	800
(10)	270	(129)	239	282	(347)	(277)	(624)
24	(901)	695	(1 809)	(477)	176	–	176

– *The VitalityLife results, for business originally written on the Prudential Assurance Company license, are reclassified to account for the contractual arrangement as a reinsurance contract under IFRS 4.*

– *The Discovery Unit Trusts (DUT) are consolidated into Discovery's results for IFRS purposes. The IFRS reporting adjustments include the effects of consolidating the unit trusts into Discovery's results, effectively being the income and expenses relating to units held by third parties.*

– *The effects of eliminating intercompany transactions on consolidation and normalised operating profit adjustments.*

SEGMENTAL INFORMATION

for the year ended June 2019

R million	SA Health	SA Life	SA Invest	SA Insure[2]
30 June 2019				
Income statement				
Insurance premium revenue	167	12 131	14 267	3 158
Reinsurance premiums	(1)	(2 410)	–	(261)
Net insurance premium revenue	166	9 721	14 267	2 897
Fee income from administration businesses	6 815	–	2 050	12
Vitality income	–	–	–	–
Other income	782	42	–	–
Investment income earned on assets backing policyholder liabilities	–	14	1	142
Net bank interest and similar income	–	–	–	–
Bank interest and similar income using the effective interest rate	–	–	–	–
Bank interest and similar expense using the effective interest rate	–	–	–	–
Finance charge on negative reserve funding	–	–	–	–
Inter-segment funding[1]	–	(754)	754	–
Net fair value gains on financial assets at fair value through profit or loss	7	1 056	1 849	–
Net income	7 770	10 079	18 921	3 052
Net claims and policyholders' benefits	(64)	(6 037)	(8 989)	(1 734)
Claims and policyholders' benefits	(65)	(8 205)	(8 989)	(1 903)
Insurance claims recovered from reinsurers	1	2 168	–	169
Acquisition costs	(6)	(1 705)	(1 138)	(405)
Marketing and administration expenses				
– depreciation and amortisation	(223)	(4)	(4)	(70)
– impairment of intangibles assets	(4)	–	–	
– other expenses	(4 423)	(1 876)	(904)	(745)
Recovery of expenses from reinsurers	–	–	–	–
Transfer from assets/liabilities under insurance contracts				
– change in assets arising from insurance contracts	–	3 475	–	–
– change in assets arising from reinsurance contracts	–	10	–	(5)
– change in liabilities arising from insurance contracts	(9)	(251)	(6 837)	53
– change in liabilities arising from reinsurance contracts	–	(458)	–	–
Fair value adjustment to liabilities under investment contracts	–	(3)	(83)	–
Share of net profits from equity-accounted investments	3	–	–	8
Normalised profit/(loss) from operations	3 044	3 230	966	155
Investment income earned on shareholder investments and cash[4]	57	8	35	30
Net fair value gains/(losses) on financial assets at fair value through profit or loss	–	224	(9)	–
Gains from dilution of equity accounted investments	–	–	–	808
Gain on previously held interests in DiscoveryCard business	–	–	–	–
Impairment of goodwill	–	–	–	–
Initial expenses related to Prudential Book transfer	–	–	–	–
Amortisation of intangibles from business combinations	–	–	–	–
Market rentals related to Head Office building adjusted for finance costs and depreciation	–	–	–	–
Finance costs[4]	(270)	(2)	–	–
Foreign exchange gains/(losses)	1	–	6	–
Profit before tax	2 832	3 460	998	993
Income tax expense	(741)	(880)	(280)	(195)
Profit for the period	2 091	2 580	718	798

1 *The inter-segment funding of R754 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.*

2 *This segment relates to Discovery Insure – Personal lines only.*

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

SA Vitality	SA Bank	UK Health	UK Life	All other segments	Segment total	IFRS reporting adjustments[3]	**IFRS total**
–	–	8 429	4 750	801	43 703	(667)	43 036
–	–	(1 393)	(2 177)	(20)	(6 262)	667	(5 595)
–	–	7 036	2 573	781	37 441	–	37 441
–	219	15	–	1 311	10 422	(18)	10 404
2 329	120	501	157	546	3 653	–	3 653
–	224	39	–	(2)	1 085	(22)	1 063
–	–	10	42	(1)	208	(208)	–
–	29	–	–	–	29	–	29
–	29	–	–	–	29	–	29
–	–	–	–	–	–	–	–
–	–	–	(243)	–	(243)	243	–
–	–	–	–	–	–	–	–
–	–	40	211	32	3 196	1 069	4 265
2 329	592	7 641	2 740	2 667	55 791	1 064	56 855
–	–	(3 525)	(513)	(17)	(20 879)	–	(20 879)
–	–	(4 613)	(1 133)	(30)	(24 938)	400	(24 538)
–	–	1 088	620	13	4 059	(400)	3 659
(87)	(14)	(732)	(1 888)	118	(5 857)	(243)	(6 100)
(8)	(51)	(251)	(34)	(399)	(1 044)	(210)	(1 254)
(5)	–	–	–	(23)	(32)	–	(32)
(2 169)	(823)	(3 148)	(2 060)	(2 458)	(18 605)	(63)	(18 668)
–	–	814	2 016	–	2 830	–	2 830
–	–	–	1 570	(4)	5 041	280	5 321
–	–	(8)	10	–	7	–	7
–	–	(33)	(17)	(791)	(7 885)	(165)	(8 050)
–	–	–	(1 246)	–	(1 704)	(280)	(1 984)
–	–	–	–	–	(86)	(723)	(809)
–	–	–	–	159	170	–	170
60	(296)	758	578	(748)	7 747	(340)	7 407
42	–	1	14	635	822	(424)	398
–	–	–	–	(144)	71	(71)	–
–	–	–	–	15	823	21	844
–	–	–	–	761	761	–	761
–	–	–	–	(17)	(17)	–	(17)
–	–	–	(28)	–	(28)	28	–
–	–	–	–	(99)	(99)	–	(99)
–	–	–	–	(281)	(281)	281	–
–	–	–	(210)	(1 185)	(1 667)	292	(1 375)
–	–	–	–	(7)	–	–	–
102	(296)	759	354	(1 070)	8 132	(213)	7 919
(29)	113	(38)	(138)	670	(1 518)	213	(1 305)
73	(183)	721	216	(400)	6 614	–	6 614

- *The VitalityLife results, for business originally written on the Prudential Assurance Company license, are reclassified to account for the contractual arrangement as a reinsurance contract under IFRS 4.*
- *The Discovery Unit Trusts (DUT) are consolidated into Discovery's results for IFRS purposes. The IFRS reporting adjustments include the effects of consolidating the unit trusts into Discovery's results, effectively being the income and expenses relating to units held by third parties.*
- *The effects of eliminating intercompany transactions on consolidation and normalised operating profit adjustments.*

4 *These line items have been restated to include intercompany investment income and finance costs respectively, in line with current year disclosure. In the prior year these items were eliminated in the various segments.*

NEW BUSINESS ANNUALISED PREMIUM INCOME

The new business annualised premium income (API) set out below provides a view of the scale of new business across all operations of the Group and does not necessarily reflect the new business attributable to the legal entities within the Group. For instance, Discovery Health Medical Scheme's (DHMS) new business is attributable to the medical scheme but is under the administration and marketing of Discovery Health which earns a fee in respect of such services.

Core new business API increased by 5% for the year ended 30 June 2020 when compared to the same period in the prior year.

R million	June 2020	June 2019	% change
Discovery Health[1]	**6 101**	6 670	(9)
Discovery Life	**2 286**	2 312	(1)
Discovery Invest	**2 667**	2 604	2
Discovery Insure	**1 089**	1 041	5
Discovery Vitality	**135**	161	(16)
VitalityHealth	**1 238**	1 346	(8)
VitalityLife	**1 257**	1 291	(3)
Ping An Health (25% interest)	**3 575**	2 518	42
Other new businesses[2]	**825**	386	114
Core new business API of Group	**19 173**	18 329	5
New Closed Schemes[1]	**–**	25	(100)
New business API of Group including new Closed Schemes	**19 173**	18 354	4
Gross revenue Vitality Group[3]	**1 134**	922	23
Total new business API and other new business	**20 307**	19 276	5

The number of new clients to Discovery Bank as at 30 June 2020 was 45 916 (2019: 197), with average customer advances of R20 500 for the year ended 30 June 2020.

1 *New business API for Discovery Health includes new business API for all businesses administered by Discovery Health, including DHMS, Closed Schemes and offerings such as GAP cover and Primary Care cover. The comparative has been restated by R30 million to include new business API from GAP cover. The new business API for New Closed Schemes includes contracted new business API and business in the first twelve months of on-boarding. Closed Schemes refer to those restricted to certain employers and industries.*

2 *Other new businesses include the Umbrella Fund, Discovery Insure commercial and VitalityInvest.*

3 *Vitality Group new business includes gross recurring and lump sum revenues earned by Vitality Group and specifically excludes revenue related to cost recoveries and rewards.*

Calculation of new business API

New business API is calculated at 12 times the monthly premium for new recurring premium policies and 10% of the value of new single premium policies. It also includes both automatic premium increases and servicing increases on existing long-term insurance policies. The amounts exclude indirect taxes.

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

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

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

GROSS INFLOWS UNDER MANAGEMENT

Gross inflows under management measures the total funds collected by Discovery. Gross inflows under management increased by 11% for the year ended 30 June 2020 when compared to the same period in the prior year.

R million	**June 2020**	June 2019	% change
Discovery Health	**89 682**	82 148	9
Discovery Life	**13 023**	12 173	7
Discovery Invest	**24 501**	22 132	11
Discovery Insure	**3 556**	3 198	11
Discovery Vitality	**2 401**	2 329	3
VitalityHealth	**9 651**	8 984	7
VitalityLife	**5 917**	4 907	21
All other businesses	**6 102**	3 191	91
Gross inflows under management	**154 833**	139 062	11
Less: collected on behalf of third parties	**(87 962)**	(80 199)	10
Discovery Health	**(81 309)**	(74 384)	9
Discovery Invest	**(6 653)**	(5 815)	14
Gross income of Group per the segmental information	**66 871**	58 863	14
Gross income is made up as follows:			
– Insurance premium revenue	**50 517**	43 703	16
– Fee income from administration businesses	**11 350**	10 422	9
– Vitality income	**3 875**	3 653	6
– Other income	**1 129**	1 085	4
Gross income of Group per the segmental information	**66 871**	58 863	14

REVIEW OF GROUP RESULTS *continued*

for the year ended 30 June 2020

NORMALISED PROFIT FROM OPERATIONS

The following table shows the main components of the normalised profit from operations for the year ended 30 June 2020:

R million	**June 2020**	June 2019	% change
Discovery Health	**3 190**	3 044	5
Discovery Life	**2 971**	3 230	(8)
Discovery Invest	**830**	966	(14)
Discovery Vitality	**7**	60	(88)
VitalityHealth	**830**	758	9
VitalityLife	**(272)**	578	(147)
Normalised profit from established businesses	**7 556**	8 636	(13)
Emerging businesses	**736**	422	74
– Discovery Insure	**246**	155	59
– Vitality Group including Ping An Health	**490**	267	84
Development and other segments	**(2 223)**	(1 311)	70
– Discovery Bank	**(1 171)**	(296)	(296)
– Other new initiatives	**(1 052)**	(1 015)	(4)
Normalised profit from operations	**6 069**	7 747	(22)

Emerging businesses are those businesses that have achieved sufficient scale to be profitable or profitable in the near future, although not yet significant in cash generation for the Group and likely to require funds to support new business growth. These businesses are approximately 5 years or more into their launch. Discovery Insure, excluding commercial insurance, and Vitality Group have been disclosed as Emerging businesses.

Development and other segments include costs of start-up businesses and expenses incurred to investigate, research and develop new products and markets. Start-up costs include costs in relation to, amongst others, Discovery Bank, the UK investment business VitalityInvest, a commercial offering in Discovery Insure, an Umbrella Fund offering in Discovery Invest and the Vitality1 platform being a leading behavioural change platform enabling shared-value insurance and financial services products across the Discovery Group. Certain unallocated head office costs are also included in this segment.

SIGNIFICANT TRANSACTIONS AFFECTING THE CURRENT RESULTS

Operating in a COVID-19 environment

On 11 March 2020, the World Health Organisation declared COVID-19 a global pandemic. COVID-19 has caused significant disruption to lives and economies worldwide. In addition to its health impacts, the pandemic has driven extreme market volatility, as evidenced by interest rates and equity market movements. For Discovery, COVID-19 has created a uniquely-complex operating and economic environment, with pressure on new business, lapse rates, and potential future claims as well as volatility in interest rates and investment returns.

The most significant impact on the Discovery business has been:

- The creation of significant provisions and reserves for expected future COVID-19 effects where appropriate; and
- Materially volatile long-term interest rates in both South Africa (SA) and the United Kingdom (UK) which negatively affected earnings.

Significant provision for expected future COVID-19 effects

Discovery has reserved R3.4 billion (R2.3 billion net of discretionary margin offset), for both future claims and lapses as a result of the COVID-19 pandemic. This estimation reflects management's best estimate of the impact as at 30 June 2020. It ensures that, on the Group's expected scenario, all claims and economic effects of the pandemic are carried entirely in the financial year ended 30 June 2020.

Discovery calculated its COVID-19 provisions to estimate the future mortality, morbidity and economic effects of the pandemic by estimating excess mortality and excess lapses expected to arise in 2021 and 2022 on a variety of scenarios by setting a stressed, central (prudent best estimate) and light scenario. The central scenario has been used to set the provision, while the stressed scenario was used to test capital and liquidity. The light scenario would result in a release of provisions in future years.

In terms of mortality, the key areas of impact are Discovery Life and VitalityLife. The modelling uses the United Kingdom's Imperial College studies as a basis for Infection Fatality Rates, in combination with SEIR[1] models based on local observed and modelled infection reproductive rates to ascertain the duration and impact of the pandemic on the Discovery Life and VitalityLife insured populations. At 30 June 2020, the UK was at a more advanced stage of the epidemic than SA, however both markets are still subject to significant uncertainty at this stage and therefore a prudent modelling approach has been assumed in both cases.

Excess Health claims in the UK will arise due to the delay of elective surgeries during the COVID-19 period as private hospital capacity has been co-opted by the National Health Service. These delayed effects have been modelled and estimated as part of the central scenario and is reflected in the profile of earnings recognised and the related unearned premium reserves which were significantly altered due to access to private health facilities. Furthermore, Discovery has also modelled the claims arising from delayed COVID-19 admissions.

The economic effects were modelled to take account of the economic stresses, particularly on policy lapses, in all of Discovery's long term insurance businesses under the range of scenarios.

Materially volatile long-term interest rates in SA and the UK which negatively affected earnings

There has been substantial volatility in global markets and in particular, material increases in long-term nominal and real interest rates in SA and record low interest rates in the UK. These result in materially different valuation rates that are used to discount future cash flows and emerge as economic assumption changes. For Discovery Life, this impact manifests as a lower discounted value of future cash flows, even though the actual cash flows themselves are not materially affected. The SA yields have minimal impact on the actual cash flows themselves, with no negative solvency and liquidity consequences within Discovery Life.

The impact of the continued interest rate volatility in SA and the UK has resulted in an increased negative effect of R5.7 billion on reported profit from operations compared to what it would have been at rates prevailing at the previous year-end.

The impact on the UK results were mitigated through the hedge entered into in October 2019, as previously reported. Refer to 'Derivative instruments – VitalityLife business' for further detail.

Should the observed reference interest rates revert, these valuation strains will reverse. Given there is no bearing on operating performance, Discovery has excluded the effect, net of tax, in the presentation of normalised earnings measures.

Although the allowance for the COVID-19 impact is an abnormal provision for future impacts, it is not excluded in the presentation of normalised headline earnings because it is seen as part of the core operations and will impact future cash flows.

Derivative instruments – VitalityLife business

As highlighted above, interest rates in the UK have displayed significant volatility and have generally been on a downward trend in recent years. In the period under review, VitalityLife implemented an interest rate risk mitigation strategy to protect itself against further declines in interest rates by entering into derivative contracts. This strategy ensures that the VitalityLife business operates well within its pre-determined risk appetite.

The derivative instruments comprise of:

- Two interest rate swaps, with a nominal value of GBP 350 million (R7 505 million) and GBP 90 million (R1 930 million) respectively. These interest rate swap derivatives swap exposure to variable interest rates in return for a fixed interest rate referenced to the 25-year UK swap rate as at 25 October 2019 ('reference swap rate 1') and 10 June 2020 ('reference swap rate 2') respectively. Both interest rate swap derivatives are in place for an extended period of time; and
- Two put swap options (payer swaptions). Swaption one was acquired at a premium of GBP 6.2 million (R133 million) and was settled before year-end. Swaption two was acquired for GBP 12.3 million (R264 million) and expires in May 2023. These swaptions give Discovery the participation in the benefit should interest rates rise by more than 0.45% above reference rate 1 and 0.88% above reference rate 2.

1 *The classical SEIR model determines the total number of people with a basic hypothesis that all individuals will have four roles, being Susceptible (S), Exposed (E), Infectious (I) and recovered (R).*

Due to the nature of the underlying exposures, the hedge accounting requirements of IFRS were not applicable. Therefore, these two derivative instruments were classified at fair value with changes recognised in profit or loss throughout the term which may result in volatility in the reported IFRS earnings of VitalityLife. As at 30 June 2020, the following mark-to-market positions were recorded:

	Line item in financial statements	June 2020
Statement of Financial Position		
Interest rate swap valuation	**Financial assets**: Derivative – financial instruments at fair value through profit or loss	**GBP 44.3 million (R950 million)**
Swaption valuation	**Financial assets**: Derivative – financial instruments at fair value through profit or loss	**GBP 0.1 million (R2 million)**
	Original premium	**GBP 18.5 million (R396 million)**
	Deferred payments	**(GBP 12.3 million (R264 million))**
	Fair value remeasurement	**(GBP 6.1 million) (R120 million))**
Income Statement		
Fair value remeasurement loss	Net fair value gains/(losses) on financial assets at fair value through profit or loss	**GBP 38.4 million (R758 million)**
Transaction costs	Marketing and administration expenses	**GBP 2.3 million (R45 million)**

From an economic perspective, VitalityLife effectively fixed the reference swap rate as at 25 October 2019 (being 0.96%). In doing so, VitalityLife limited its exposure to approximately GBP 43.7 million (R863 million) as a result of the valuation of specified future policy obligations. This estimate excludes the cost of option premiums and ignores any potential basis risk.

Borrowings at amortised cost

R million	Reference	June 2020	June 2019
Borrowings from Banks and listed debt		**15 456**	11 034
– United Kingdom borrowings	i	**3 498**	1 612
– South African borrowings	ii	**11 958**	9 422
Lease liabilities		**4 380**	3 648
– 1 Discovery Place		**3 370**	3 321
– Other lease liabilities	iii	**1 010**	327
Total borrowings at amortised cost		**19 836**	14 682

i. United Kingdom borrowings

Discovery Finance Company Europe Limited, a subsidiary of Discovery Limited had GBP 90 million owing on an amortising facility at 30 June 2019. A further GBP 10 million of this facility was repaid during the year. The remaining GBP 80 million was refinanced into a new amortising facility in March 2020, for a further 40 months to 31 July 2023.

Discovery Finance Company Europe Limited also entered into a credit facility agreement totalling GBP 28 million on 17 April 2020. These facilities are short-term in nature and repayable on 17 April 2021.

Interest on the GBP 80 million loan is linked to the 3-month LIBOR plus a margin of 2.65% per annum and is payable quarterly in arrears. The capital is repayable in bi-annual tranches of GBP 7.5 million commencing on 1 April 2021, with a final repayment of GBP 42.5 million at maturity.

Interest on the GBP 28 million loan is fixed at 1% per annum and is payable quarterly in arrears.

The balance owing at 30 June 2020 for these facilities amounts to GBP 108 million (R2 321 million) and finance costs of GBP 0.75 million (R15 million) in respect of these borrowings have been recognised in profit or loss.

In addition, Discovery Holdings Europe Limited, an ultimate subsidiary of Discovery Limited entered into another facility of GBP 55 million during the year. GBP 40 million of this facility was drawn down at 30 June 2020. Interest on this facility is linked to the 3-month LIBOR plus a margin of 2.29% per annum and is payable quarterly in arrears. The capital is repayable in full at maturity on 31 July 2023.

This facility had a provision which allowed the total amount to be extended by a further GBP 45 million to GBP 100 million on the same terms. The provision was exercised on 22 June 2020. The balance owing at 30 June 2020 is GBP 55 million (R1 177 million) and finance costs of GBP 0.35 million (R7 million) in respect of these borrowings have been recognised in profit or loss.

ii. South African borrowings

R million	Reference	June 2020	June 2019
Balance at beginning of the year		**9 422**	7 240
Issuance of listed debt	i	**1 520**	700
Issuance of unlisted debt	ii	**3 600**	–
Draw down on existing and new bank facilities	iii	**2 000**	1 447
Repayment of borrowings		**(4 626)**	(30)
Accrued interest		**58**	68
– Finance costs capitalised to intangible assets		**–**	47
– Finance costs expensed to profit or loss		**976**	787
– Finance costs paid		**(918)**	(766)
Raising fees capitalised		**(16)**	(4)
Net foreign exchange differences		**–**	1
Balance at end of the year		**11 958**	9 422

Following the downgrade of the South African Government's issuer rating to Ba1 from Baa3 on 27 March 2020, Moody's Investor Service downgraded Discovery Limited's national scale rating from Aa3.za to A1.za and the global scale rating from Ba1 to Ba2 on 1 April 2020, similar to the country outlook, the credit outlook assigned by Moody's remain negative.

i In 2017, Discovery registered an unsecured R10 billion Domestic Medium Term Note (DMTN) programme. In terms of this programme, Discovery had issued a cumulative amount of R2.2 billion in JSE Listed Notes to 30 June 2019. Discovery further issued, via bond placements, 5-year and 7-year Floating Rate Notes of R1.2 billion and R300 million respectively on 26 November 2019, with coupon interest rates of 8.85% and 9.35% per annum respectively, fixed through interest rate swaps. Interest is payable quarterly in arrears with capital repayable in full at maturity date.

ii During the current year, Discovery Limited refinanced 5-year bank facility loans totalling R3.6 billion entered into in 2016 for a further 3 and 5 years, through the issue of a series unlisted DMTN notes totalling R1.1 billion and R2.5 billion ultimately maturing in March 2023 and February 2025, respectively. These unlisted notes have been structured through an underwritten subscription agreement with a bank and guaranteed by Discovery Health and Discovery Vitality. Interest is payable quarterly in arrears at fixed rates of 8.915% per annum and 9.615% per annum respectively, with capital repayable in full at maturity date.

iii During the period:

- Discovery Central Services drew down on an unsecured revolving credit facilities of R500 million, interest rates between 6.7% and 7.94% per annum, which were repaid during the year.
- Discovery Bank entered into a 2 year revolving credit facility of R1 billion. The facility is structured with R500 million guaranteed by Discovery Limited, Discovery Vitality and Discovery Health while the remaining R500 million is not guaranteed. Interest on both facilities is linked to the 3-month JIBAR plus a margin of 1.25% per annum and 1.35% per annum. Interest is payable quarterly in arrears and capital is repayable in full at maturity on 19 July 2021.

Finance costs of R976 million (2019: R832 million) in respect of South African borrowings and related hedges have been recognised in profit or loss.

iii. Other lease liabilities

Refer to 'New accounting standards' for the impact of the first time adoption of IFRS 16 *Leases*, adopted by Discovery from 1 July 2019.

OTHER SIGNIFICANT ITEMS IN THESE RESULTS

Increase in cash and cash equivalents

	2020	2019
Unit-linked investment and insurance contracts[1]	**2 502**	2 751
Shareholder cash	**15 407**	6 652
Balance at 30 June	**17 909**	9 403

1 *Includes cash held within specific portfolios to match specific insurance liabilities.*

The shareholder Cash and cash equivalents position at 30 June 2020, increased by R8.8 billion when compared to 30 June 2019. The increase can mainly be attributed to the following:

R billion	Reference	Increase in cash position at 30 June 2020
Translation differences as a result of depreciation of the rand		**1.3**
Discovery Bank	i	**2.0**
VitalityLife	ii	**4.7**
Matured investments	iii	**0.4**
Other		**0.4**
Total		**8.8**

i. Discovery Bank

Discovery Bank raised wholesale deposits of R1.5 billion to fund advances for the subsequently completed Platinum client portfolio migration from FirstRand Bank, which took place in July 2020. Liquid assets requirements of 7.5% of customer deposits, together with liquidity buffer requirements, resulted in approximately R500 million of cash to be held.

ii. VitalityLife

Per the reinsurance treaty entered into in respect of business written on the Prudential license, a security deposit was required to be placed by the reinsurer, to reduce counterparty risk.

The contractual arrangement in respect of this business is accounted for as a reinsurance contract under IFRS 4 and as a result the 'deposit back' was disclosed as a reduction in the negative reserve funding liability in previous periods. From the prior financial year amounts received as 'deposit back' in excess of the negative reserve funding was disclosed as part of cash and cash equivalents and a corresponding liability has been raised in Other Payables at amortised cost.

In addition, this book of business is also in a cash generating position as no new business is being written. The increase in cash on this book of business which includes the above mentioned 'deposit back' was GBP 114 million (R2.4 billion) for the year.

Significant gains on expired interest rate derivatives held resulted in a further increase in cash of GBP 41 million (R880 million) for the year. Collateral of GBP 45 million (R965 million) received on interest rate derivative balances (as discussed under Derivative instruments earlier) are also included in Cash and cash equivalents with an opposite liability disclosed as part of Other payables at amortised cost.

During the 2020 financial year, Discovery Holdings Europe Limited, an ultimate subsidiary of Discovery Limited also drew down GBP 55 million (R1.2 billion) of which GBP 20 million (R420 million) has not been utilised at the end of June 2020. Refer to Borrowings at amortised cost discussed earlier.

iii. Matured investments

The cash balance of the Group includes R370 million of investments that matured on 30 June 2020. These were reinvested the following day, which would then be disclosed as Financial assets in the Statement of Financial Position.

Deferred tax

With the promulgation of the South African Insurance Act 18 of 2017, the new 'adjusted IFRS' tax basis has been effective since 1 July 2018 for Discovery Life. Deferred tax has been provided for on the difference between the IFRS and tax liabilities to the extent that timing differences arise. A deferred tax liability of R8 681 million relates to assets and liabilities arising from insurance contracts.

Consolidation of Discovery Unit Trusts

The Discovery Unit Trusts are consolidated into Discovery's results for accounting purposes, which results in the recognition of the underlying assets and liabilities of each of the funds.

Assets and liabilities of the Discovery Unit Trusts increased by R379 million respectively, compared to the prior financial year with movements in the following line items on the Group's Statement of Financial Position:

Changes in assets

- Investments at fair value through profit or loss increased by R586 million.
- Cash and cash equivalents decreased by R732 million.
- Insurance receivables, contract receivables and other non-financial receivables increased by R543 million.
- Other assets decreased by R18 million.

Changes in liabilities

- Investment contracts at fair value through profit or loss increased by R333 million.
- Other liabilities increased by R46 million.

As these policies are linked, the consolidation of the Discovery Unit Trusts has no impact on the net asset value for shareholders.

There are significant trade volumes in the underlying funds of Discovery Unit Trusts. The cash flow impact of the movement in policyholder investments for the period is included in the following line items on the Group's Statement of cash flows:

- Purchase of investments held to back policyholder liabilities includes cash outflows of R15.4 billion.
- Proceeds from the disposal of investments held to back policyholder liabilities includes cash inflows of R14.3 billion.

Material transactions with related parties

Discovery Health Medical Scheme (DHMS)

Discovery Health administers DHMS and provides managed care services for which it charges an administration fee and a managed healthcare fee respectively. These fees are determined on an annual basis and approved by the trustees of DHMS. The fees totalled R6 190 million for the year ended 30 June 2020 (2019: R5 853million). Discovery offers the members of DHMS access to the Vitality programme.

Equity issued to related parties

Per Discovery Limited's long-term incentive plan which was approved by shareholders at the annual general meeting held on 28 November 2019, the awards accepted by executive directors and prescribed officers amount to a deemed transaction value of R29 million and R28 million respectively. These will vest from between the 3rd and 5th anniversary of the awards (between 1 October 2022 and 1 October 2024), provided the necessary performance and vesting criteria have been achieved.

SHAREHOLDER INFORMATION

Directorate

Changes to the Board of Discovery Limited from 1 July 2019 to the date of this announcement are as follows:

- Following a period of medical leave, Mr H Mayers, moved from an executive director role to a non-executive director role effective 28 November 2019.
- Mr D Macready has been appointed as an independent non-executive director with effect from 3 February 2020.
- Mr L Owen, an independent non-executive director, retired, effective 14 February 2020.

Changes in executive director responsibilities from 1 July 2019 to the date of this announcement are as follows:

- Mr NS Koopowitz, Chief Executive Officer (CEO) of VitalityHealth, became CEO of the Vitality UK Group, effective 28 November 2019. This will create a single point of accountability for delivery of the composite model, as well as a number of Group functions that span across both VitalityHealth and VitalityLife in key areas.
- Mr HD Kallner, CEO of Discovery Life, assumed the role of CEO of Discovery's South African operations effective 29 January 2020. In the role, Mr Kallner will lead the composite strategy for Health, Life, Invest, Insure, and Vitality entities, and will oversee their integration with Vitality and Discovery Bank. Mr Kallner will continue to chair the SA Executive Committee, as the core governance forum of the SA composite.

Dividend and capital

Interim dividends paid in respect of the 2020 financial year

The following interim dividends were paid during the current period:

- B preference share dividend of 505.41097 cents per share (404.32878 cents net of dividend withholding tax), paid on 16 March 2020.
- Ordinary share dividend of 101 cents per share (80.8 cents net of dividend withholding tax), paid on 23 March 2020.

Final dividend declaration in respect of the 2020 financial year

B preference share cash dividend declaration:

On 7 September 2020, the directors declared a final gross cash dividend of 433.21918 cents (346.57534 cents net of dividend withholding tax) per B preference share for the period 1 January 2020 to 30 June 2020, payable from the income reserves of the Company. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

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

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Monday, 21 September 2020
Shares commence trading "ex" dividend	Tuesday, 22 September 2020
Record date	Friday, 25 September 2020
Payment date	Monday, 28 September 2020

B Preference share certificates may not be dematerialised or rematerialised between Tuesday, 22 September 2020 and Friday, 25 September 2020.

Ordinary share cash dividend declaration:

Due to the uncertain and potentially volatile economic environment caused by the COVID-19 pandemic, Discovery will not be recommending the payment of ordinary dividends. The reintroduction of dividends will be considered when appropriate.

Capital

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

With effect from 1 July 2018, the Insurance Act 18 of 2017 (Insurance Act), and the related Prudential Standards were implemented in South Africa. Discovery Life and Discovery Insure are regulated under the Insurance Act, while Vitality Health and VitalityLife are regulated under the European Solvency II regulatory regime, which was implemented from 1 January 2016.

The table below summarises the capital requirements on the statutory basis, across the Group subsidiaries, and the actual solvency capital held in relation to this requirement.

	June 2020 Statutory capital requirements	**Cover**	June 2019 Statutory capital requirements	Cover
Discovery Life	**R14 835 million**	**1.8 times**	R17 396 million	1.6 times
Discovery Insure	**R885 million**	**1.8 times**	R789 million	1.7 times
Vitality Health	**GBP 102.3 million (R2 194 million)**	**1.7 times**	GBP 97 million (R1 777 million)	1.4 times
VitalityLife Limited	**GBP 228.3 million (R4 896 million)**	**2.0 times**	GBP 208 million (R3 810 million)	1.5 times

ACCOUNTING POLICIES

New accounting standards

IFRS 16 *Leases*

Background

IFRS 16 replaces IAS 17 *Leases,* as well as the related interpretations. The core principle of IFRS 16 is that the lessee should recognise all rights and obligations arising from leasing arrangements in its Statement of Financial Position. The most significant change to Discovery pertains to the accounting treatment for those leases that were classified as operating leases from Discovery's perspective as the lessee.

IFRS 16 eliminates the classification of leases for lessees as either operating or finance leases as per IAS 17. Instead, IFRS 16 introduces a single lessee accounting model, where a right of use (ROU) asset together with a lease liability for the future payments is recognised for all leases with a term of more than 12 months, unless the underlying asset is of a low value. Where Discovery is the lessee, it has elected, in accordance with IFRS 16, not to apply the lessee accounting model where the lease is a short-term lease. Short-term leases have a lease term of 12 months or less and does not include a renewal option. The rental payments for short-term leases are expensed on a straight-line basis over the lease term.

IFRS 16 does not introduce significant changes for lessors, or to those leases previously classified as finance leases from the lessee's perspective, and as a result the accounting policies for these transactions had no material change.

Adoption and transition

On adoption of IFRS 16, Discovery applied the modified retrospective approach to transition on 1 July 2019. This approach requires the cumulative effect of initially applying IFRS 16 as an adjustment to the opening reserves at 1 July 2019. As required by IFRS 16, Discovery did not restate its comparative financial results. Accordingly:

- Discovery's previously reported financial results up to 30 June 2019 are presented in accordance with the requirements of IAS 17; and
- From 1 July 2019 Discovery's financial results are presented in terms of IFRS 16.

On adoption of IFRS 16, Discovery recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 July 2019. This incremental borrowing rate was calculated for each legal entity within the Group that entered into lease arrangements. The incremental borrowing rate considers a base interest rate reflective of the jurisdiction in which the legal entity operates (South Africa, United Kingdom and United States of America), the term of the lease arrangement and the nature of the assets.

ROU assets were measured retrospectively at the amount equal to the lease liability at commencement of the lease, using the discount rate as determined on 1 July 2019 for the lease liability, and depreciated from commencement date up until 30 June 2019.

The resulting difference between the lease liability and the ROU asset as at 1 July 2019 is recognised as an adjustment to the opening retained earnings. In addition, any previously recognised rights (e.g. prepaid rentals) or obligations (e.g. straight-line accruals) are also derecognised as adjustments to the opening retained earnings on 1 July 2019.

Practical expedients applied

In applying IFRS 16 for the first time, Discovery used the following practical expedients permitted by IFRS 16:

- accounting for leases with a remaining lease term of less than 12 months as at 1 July 2019, as short-term leases, provided there was no option to extend the term. For short-term rentals, the lessee recognised the payments as an expense on a straight-line basis;
- the use of a single discount rate for a specified portfolio of leases that have reasonably similar characteristics;
- the exclusion of initial direct costs for the measurement of the ROU asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Identifying leases, low value assets and leasing activities

Effective 1 July 2019, all leases, which either had a term not less than 12 months or not deemed a low value asset, were recognised as a ROU asset and a corresponding lease liability.

Discovery leases the following assets with a range of lease terms:

▪ Large offices	5 – 15 years
▪ Small offices/Franchise offices (SA only)	1 – 3 years
▪ Computer equipment (e.g. servers) (SA only)	3 – 4 years
▪ Motor vehicles (UK only)	3 years

Leases of low value assets relate to those categories of assets which at inception of the lease typically have a value, if bought new, of no more than approximately R70 000. For Discovery, these categories include computer equipment such as desktops, laptops, monitors and related IT peripherals.

Contracts where the service provider has a substantive right to substitute the asset for an alternative asset during the lease term is not regarded as a lease, but instead a service contract. Accordingly, these contracts are not accounted for in accordance with IFRS 16. For Discovery, such contracts include items such as vending machines.

Extension/termination options

Extension and termination options are included in a number of the building leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are considered in the lease term when there is reasonable certainty that those options will be exercised.

Effect of changes in IFRS 16 on date of initial application

at 1 July 2019

R million	Group 30 June 2019 Previously reported Audited	IFRS 16 Adjustments	Group 1 July 2019 Restated
Assets			
Property and equipment[1, 3]	**4 212**	638	**4 850**
Total impact on assets		638	
Equity			
Retained earnings[3]	**31 710**	(41)	**31 669**
Liabilities			
Financial liabilities			
Borrowings at amortised cost[2, 3]	**14 682**	748	**15 430**
– Other payables at amortised cost	**10 262**	(63)	**10 199**
– Deferred income tax liabilities	**8 697**	(6)	**8 691**
Total impact on equity and liabilities		638	

1, 2 The increase in Property and equipment and Borrowings at amortised cost related to:

R million	Property and equipment	Borrowings at amortised cost
Land and buildings[3]	**573**	**681**
Computer equipment and operating systems	**64**	**66**
Motor vehicles	**1**	**1**
	638	**748**

3 *In the finalisation of the results for the year ended 30 June 2020, Discovery identified that in its interim financial results, it incorrectly treated a reimbursement of fit-out costs from the lessor, in the measurement of its Buildings ROU asset. Discovery has corrected its calculation, and the values above are after its correction. Accordingly, the values in the table above are R29 million less for its ROU asset, R1 million less for Borrowing at amortised cost and R28 million more for Retained earnings than those values included in the interim financial results. The change has no impact on earnings during the period.*

4 *The ranges of incremental borrowing rates applied on transition was 8.02%-9.9% in South Africa, 1.92%-4.43% in the UK and 7.25% within the US.*

Material events after reporting date

Subsequent to year-end, Discovery Bank successfully migrated the DiscoveryCard Platinum client portfolio, comprising of 62 512 customers from the FNB platform onto its own platform. The transfer was funded by various institutional deposits amounting to R1.3 billion.

Basis of preparation

The Group's summary consolidated financial statements are prepared in accordance with the requirements of the JSE Listings Requirements, and the requirements of the Companies Act of South Africa applicable to summary financial statements. The Listings Requirements require summarised reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting.

The accounting policies applied in the preparation of the consolidated financial statements from which the summary consolidated financial statements were derived are in terms of International Financial Reporting Standards and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements, except for the new accounting standards as set out earlier in this report.

Audit

The summary consolidated financial statements are extracted from audited information, but are not audited. The annual financial statements were audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon.

The audited annual financial statements and the auditor's report thereon are available for inspection at the Company's registered office, together with the financial statements identified in the respective auditor's reports.

The directors of Discovery take full responsibility for the preparation of this report and that the financial information has been correctly extracted from the underlying annual financial statements.

EMBEDDED VALUE STATEMENT

for the year ended 30 June 2020

The embedded value of Discovery consists of the following components:

- the adjusted net worth attributed to the business at the valuation date;
- plus: the present value of expected future shareholder cash flows from the in-force covered business;
- less: the cost of required capital.

The present value of future shareholder cash flows from the in-force covered business is calculated as the value of projected future after-tax shareholder cash flows of the business in-force at the valuation date, discounted at the risk discount rate.

The required capital are the assets attributed to the covered business above the amount required to back covered business liabilities, whose distribution to shareholders is restricted as they are allocated to cover regulatory and internal capital requirements.

The value of new business is the present value, at the point of sale, of the projected future after-tax shareholder cash flows of the new business written by Discovery, discounted at the risk discount rate, less an allowance for the reserving strain, initial expenses and cost of required capital. The value of new business is calculated using the current reporting date assumptions.

The embedded value includes the insurance and administration profits of the covered business in the Discovery Limited group. Covered business includes business written in South Africa through Discovery Life (“Life”), Discovery Invest (“Invest”), Discovery Health (“Health”) and Discovery Vitality (“Vitality”), and in the United Kingdom through VitalityLife and VitalityHealth. For Vitality Group, Ping An Health, MyOwn Health, Discovery Insure, Discovery Bank and VitalityInvest, no published value has been placed on the current in-force business as the businesses have not yet reached suitable scale with predictable experience.

In August 2011, Discovery raised R800 million through the issue of non-cumulative, non-participating, non-convertible preference shares. For embedded value purposes this capital, net of share issue expenses, has been excluded from the adjusted net worth.

The embedded value at 30 June 2020 has been materially impacted by the COVID-19 global pandemic, resulting in both experience variances and short term provisions for adverse future experience. Refer to Tables 5 and 6 for details.

Following the finalisation of the agreement with Prudential in February 2020 to delay the transfer of the VitalityLife business on the Prudential licence to the VitalityLife Limited licence (“the Part VII transfer”, which is subject to the relevant legal and regulatory approvals), an adjustment has been made in the embedded value to allow for the cost of this arrangement and the cost of the required capital for VitalityLife.

The 30 June 2020 embedded value results and disclosures were subjected to an external review.

EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2020

TABLE 1: GROUP EMBEDDED VALUE

R million	**30 June 2020**	30 June 2019	% change
Shareholders' funds	**44 553**	43 083	3
Adjustment to shareholders' funds from published basis[1]	**(32 080)**	(32 690)	
Adjusted net worth[2]	**12 473**	10 393	
Value of in-force covered business before cost of required capital	**64 305**	63 862	
Cost of required capital	**(5 944)**	(3 038)	
Discovery Limited embedded value	**70 834**	71 217	(1)
Number of shares (millions)	**656.6**	656.6	
Embedded value per share	**R107.88**	R108.46	(1)
Diluted number of shares (millions)	**657.6**	657.6	
Diluted embedded value per share[3]	**R107.71**	R108.30	(1)

1 *A breakdown of the adjustment to shareholders' funds is shown in the table below. Note that where relevant, adjustments have been converted using the closing exchange rate of R21.44/GBP (June 2019: R17.98/GBP)*

R million	**30 June 2020**	30 June 2019
Life and Invest net assets under insurance contracts	**(18 564)**	(20 764)
VitalityLife Limited and Discovery funded VitalityLife business on the Prudential licence net assets under insurance contracts	**(6 320)**	(5 812)
VitalityHealth financial reinsurance asset	**(3 078)**	(2 315)
VitalityHealth and VitalityHealth Insurance Limited deferred acquisition costs (net of deferred tax)	**(467)**	(382)
VitalityLife receivable relating to the Unemployment Cover benefit (net of deferred tax)	**(21)**	(19)
Goodwill relating to the acquisition of Standard Life Healthcare and the Prudential joint venture	**(2 653)**	(2 225)
Intangible assets (net of deferred tax) in covered businesses	**(945)**	(800)
Net preference share capital	**(779)**	(779)
Reversal of 1 Discovery Place IAS 17 financial lease accounting	**747**	406
Equity settled share based payment provision adjustment	**0**	–
	(32 080)	(32 690)

The "equity settled share based payment provision adjustment" adjustment reflects the difference between the provision in the IFRS equity and the mark-to-market value of the equity settled share based payments. At 30 June 2020 this adjustment is R0.33 million.

2 *The following table sets out the capital position of the covered businesses with the required capital on a consistent basis to that used in the embedded value:*

EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2020

R million	**30 June 2020**	30 June 2019
Shareholders' funds	**44 553**	43 083
Adjustment to shareholders' funds	**(32 080)**	(32 690)
Adjusted net worth	**12 473**	10 393
Excess of available capital over adjusted net worth	**23 231**	26 773
Available capital	**35 704**	37 166
Required capital	**29 932**	30 987
Excess available capital	**5 772**	6 179

The excess of available capital over adjusted net worth reflects the difference between the adjusted net worth and the available capital. This includes:

- *The net preference share capital of R779 million which is included as available capital.*
- *The difference between VitalityLife Limited's Solvency II Pillar 1 Own Funds and its adjusted net worth and adds back the negative reserves eliminated on the Discovery funded VitalityLife business on the Prudential licence.*
- *The difference between Life and Invest's Pillar 1 Own Funds and its adjusted net worth.*

The required capital at June 2020 for Life and Invest is R18 544 million (June 2019: R21 724 million), for Health and Vitality is R935 million (June 2019: R909 million), for VitalityHealth is R2 963 million (June 2019: R2 350 million) and for VitalityLife is R7 490 million (June 2019: R6 004 million). For Life and Invest, the required capital was set equal to 1.25 times the SAM Pillar 1 Solvency Capital Requirement. For Health and Vitality, the required capital was set equal to two times the monthly renewal expense and Vitality benefit cost. For VitalityHealth, the required capital amount was set equal to 1.35 times the Solvency II Pillar 1 Solvency Capital Requirement. For the VitalityLife business on the Prudential licence, the required capital was set equal to the UK Solvency I long term insurance capital requirement as per the agreement with Prudential up to the Part VII transfer, thereafter it is set equal to 1.4 times the Solvency II Pillar 1 Solvency Capital Requirement. For the business sold on the VitalityLife Limited licence, the required capital was set equal to 1.4 times the Solvency II Pillar 1 Solvency Capital Requirement.

3 *The diluted embedded value per share adjusts for treasury shares held in the Discovery BEE Share Trust where the impact is dilutive.*

EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2020

TABLE 2: VALUE OF IN-FORCE COVERED BUSINESS

R million	Value before cost of required capital	Cost of required capital	Value after cost of required capital
at 30 June 2020			
Health and Vitality	**22 321**	**(419)**	**21 902**
Life and Invest[1]	**23 752**	**(1 244)**	**22 508**
VitalityHealth[2]	**10 077**	**(495)**	**9 582**
VitalityLife[2, 3]	**8 155**	**(3 786)**	**4 369**
Total	**64 305**	**(5 944)**	**58 361**
at 30 June 2019			
Health and Vitality	21 465	(394)	21 071
Life and Invest[1]	27 277	(1 177)	26 100
VitalityHealth[2]	7 840	(378)	7 462
VitalityLife[2]	7 280	(1 089)	6 191
Total	63 862	(3 038)	60 824

1 *Included in the Life and Invest value of in-force covered business is R1 440 million (June 2019: R1 429 million) in respect of investment management services provided on off balance sheet investment business. The net assets of the investment service provider are included in the adjusted net worth.*

2 *The value of in-force has been converted using the closing exchange rate of R21.44/GBP (June 2019: R17.98/GBP).*

3 *The increase over the financial year in the cost of required capital for VitalityLife is explained under Table 6.*

TABLE 3: GROUP EMBEDDED VALUE EARNINGS

R million	Twelve months ended 30 June 2020	30 June 2019
Embedded value at end of period	**70 834**	71 217
Less: Embedded value at beginning of period	**(71 217)**	(65 624)
Increase in embedded value	**(383)**	5 593
Net change in capital[1]	**–**	(1 839)
Dividends paid	**1 494**	1 481
Transfer to hedging reserve	**430**	175
Employee share option schemes	**(164)**	(33)
Increase in treasury shares	**4**	5
Acquisition of subsidiaries with non-controlling interest[2]	**(6)**	–
Change in ownership[3]	**–**	1 104
IFRS transitional arrangements[4]	**41**	73
Embedded value earnings	**1 416**	6 559
Annualised return on opening embedded value	**2.0%**	10.0%

1 *The net change in capital reflects share issues (net of costs) and an increase (decrease) in treasury shares in the period.*

2 *This balance arose from the acquisition of the MSO Group in Health.*

3 *The change in ownership reflects the acquisition of the remaining 48.87% interest in Discovery Bank from FRIHL, being the non-controlling interest.*

4 *The IFRS transitional arrangements reflects the retrospective adjustments arising from the adoption of IFRS 9 and IFRS 15 to the opening balances at 1 July 2018.*

EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2020

TABLE 4: COMPONENTS OF GROUP EMBEDDED VALUE EARNINGS

	Twelve months ended 30 June 2020				Year ended 30 June 2019
R million	Net worth	Cost of required capital	Value of in-force covered business	**Embedded value**	Embedded value
Total profit from new business (at point of sale)	(4 614)	(271)	6 807	**1 922**	2 622
Profit from existing business					
▪ Expected return	6 125	72	191	**6 388**	6 000
▪ Change in methodology and assumptions[1]	2 871	(2 118)	(9 512)	**(8 759)**	(1 930)
▪ Experience variances	250	(107)	(10)	**133**	19
Impairment, amortisation and fair value adjustment[2]	(16)	–	–	**(16)**	(37)
Increase in goodwill and intangibles	(313)	–	–	**(313)**	(244)
Other initiative costs[3]	(93)	–	44	**(49)**	914
Non-recurring expenses	(181)	–	–	**(181)**	(3)
Acquisition costs[4]	(7)	–	(5)	**(12)**	(39)
Finance costs	(1 368)	–	–	**(1 368)**	(1 060)
Foreign exchange rate movements	899	(482)	2 927	**3 344**	(178)
Other[5]	18	–	1	**19**	76
Return on shareholders' funds[6]	308	–	–	**308**	419
Embedded value earnings	3 879	(2 906)	443	**1 416**	6 559

1 *The changes in methodology and assumptions will vary over time to reflect adjustments to the model and assumptions as a result of changes to the operating and economic environment. The current period's changes are described in detail in Table 6 below (for previous periods refer to previous embedded value statements).*

2 *This item reflects the amortisation of the intangible assets reflecting the banking costs, the PrimeMed acquisition and capital expenditure in VitalityInvest and Discovery Group Europe Limited.*

3 *This item includes the profits of non–covered businesses (including Discovery Insure, Vitality Group and Ping An Health) and costs of start–up businesses (including Discovery Bank, VitalityInvest, a commercial offering in Discovery Insure, and an Umbrella Fund offering in Invest). Head office costs which relate to non–covered business are also included in this item.*

4 *Acquisition costs relate to commission paid on the Life business and expenses incurred in writing Health and Vitality business that has been written over the period but will only be activated and on risk after the valuation date. These policies are not included in the embedded value or the value of new business and therefore the costs are not deducted from the value of new business.*

5 *This item includes, among other items, the tax benefits or losses that will emerge as the VitalityHealth DAC and intangible software assets amortise or increase.*

6 *The return on shareholders' funds is shown net of tax and management charges.*

TABLE 5: EXPERIENCE VARIANCES

R million	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		
	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	**Total**
Renewal expenses	74	–	3	(2)	(43)	–	10	–	**42**
Lapses and surrenders[1]	(10)	(298)	88	23	–	295	(99)	(147)	**(148)**
Mortality and morbidity[2]	–	–	147	(1)	(151)	–	(103)	–	**(108)**
Policy alterations[3]	–	40	(516)	174	–	–	(9)	(73)	**(384)**
Premium and fee income	127	–	(23)	106	69	–	(10)	(51)	**218**
Economic[4]	19	335	(499)	(557)	–	–	–	–	**(702)**
Commission	–	–	–	–	(27)	–	–	–	**(27)**
Tax[5]	90	–	603	(566)	170	–	55	–	**352**
Reinsurance	–	–	–	–	(2)	–	49	(31)	**16**
Maintain modelling term[6]	–	369	–	189	–	66	–	–	**624**
Vitality benefits	(27)	–	–	–	–	–	65	–	**38**
Other	(2)	2	(26)	61	188	–	40	(51)	**212**
Total	271	448	(223)	(573)	204	361	(2)	(353)	**133**

1 *For Health and Vitality, the lapse and surrender experience variance relates to lower than expected replacement of exiting members in compulsory membership schemes. For VitalityLife, the experience variance relates largely to adverse lapse experience on the term indexed optimiser product.*

2 *The mortality and morbidity experience for VitalityHealth includes a premium deferral provision for non–COVID–19 claims delayed due to private hospital utilisation by the National Health Service during the pandemic.*

3 *The policy alterations experience for Life and Invest arises largely due to servicing and fund switches.*

4 *For Health and Vitality, the economic experience variance relates to the impact on administration and managed care fees of in–period inflation being higher than that assumed. The experience for Life and Invest arises largely due to lower than expected linked asset growth for the period under review.*

5 *The tax variance for Life and Invest arises due to a movement in the deferred tax asset which delays the payment of tax.*

6 *The projection term for Health and Vitality, Life and VitalityHealth at 30 June 2020 has not been changed from that used in the 30 June 2019 embedded value calculation. Therefore, an experience variance arises because the total term of the in–force covered business is effectively increased by twelve months.*

EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2020

TABLE 6: METHODOLOGY AND ASSUMPTION CHANGES

	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		
R million	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	**Total**
Modelling changes[1]	–	–	(99)	116	–	–	(6)	(849)	**(838)**
Expenses[2]	–	(239)	(9)	(51)	–	–	17	(374)	**(656)**
Lapses[3]	–	(394)	106	(936)	–	–	24	(404)	**(1 604)**
Mortality and morbidity[4]	–	–	–	(844)	–	–	(107)	(165)	**(1 116)**
Benefit changes	–	(25)	–	–	–	–	–	–	**(25)**
Tax[5]	–	–	–	–	–	(187)	–	18	**(169)**
Economic assumptions[6]	–	(805)	(40)	(2 716)	–	299	(397)	(1 136)	**(4 795)**
Premium and fee income[7]	24	545	–	–	–	–	(40)	(115)	**414**
Reinsurance and financing[8]	–	–	1 412	(1 490)	–	(26)	–	–	**(104)**
Other[9]	–	–	1 843	(1 486)	–	–	143	(366)	**134**
Total	24	(918)	3 213	(7 407)	–	86	(366)	(3 391)	**(8 759)**

1 *For VitalityLife, the cost of required capital following the Part VII transfer has been updated following the February 2020 agreement with Prudential. This cost is sensitive to the economic conditions and the business mix at the time of the Part VII transfer. This impact is partially offset by a methodology change in the calculation of the lapse risk component of the required capital and a change in the risk–free rate to be set with reference to UK swap rates rather than the IFRS interest rate.*

2 *For VitalityLife, the value of in–force includes the fees payable to Prudential for the delay of the Part VII transfer.*

3 *The lapse assumption includes the impact of a short term stress to lapse assumptions in anticipation of adverse economic conditions over the next two years.*

4 *For Life and VitalityLife, the mortality and morbidity assumption change relates to the increased provision for COVID–19 related claims.*

5 *For VitalityHealth the tax relates to the UK future tax rate changing from 17% to 19%.*

6 *For Life, Invest, Health and Vitality the economic assumptions item relates to the impact of updating the assumptions relative to the Johannesburg Stock Exchange nominal and real yield risk–free curves at 30 June 2020. For VitalityHealth the item relates to the impact of changing the risk discount rate. For VitalityLife the item relates to the impact of updating the assumptions relative to the Solvency II yield curves and the IFRS interest rates, offset by a gain in the interest rate hedge.*

7 *For Health and Vitality, the premium and fee income item relates to an update of the contractual administration and managed care fees charged for DHMS.*

8 *For Life, the reinsurance and financing item primarily relates to the impact of financing arrangements.*

9 *For VitalityLife, the other item relates to the margin reset to offset experience variances, as per the accounting policy, as well as an adjustment in the value of in-force for the market value of the swaption as at 30 June 2020. For Life the other item relates to the change in the matching strategy for long-term claims reserves.*

EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2020

TABLE 7: EMBEDDED VALUE OF NEW BUSINESS

R million	Twelve months ended 30 June 2020	 30 June 2019	 % change
Health and Vitality			
Present value of future profits from new business (at point of sale)	**910**	832	
Cost of required capital	**(27)**	(27)	
Present value of future profits from new business (at point of sale) after cost of required capital	**883**	805	10
New business annualised premium income[1]	**3 972**	3 716	7
Life and Invest			
Present value of future profits from new business (at point of sale)[2]	**668**	1 242	
Cost of required capital	**(82)**	(82)	
Present value of future profits from new business (at point of sale) after cost of required capital	**586**	1 160	(49)
New business annualised premium income[3]	**2 886**	2 897	(0)
Annualised profit margin[4]	**2.5%**	4.6%	
Annualised profit margin excluding Invest business	**5.8%**	10.2%	
VitalityHealth[5]			
Present value of future profits from new business (at point of sale)	**262**	330	
Cost of required capital	**(56)**	(59)	
Present value of future profits from new business (at point of sale) after cost of required capital	**206**	271	(24)
New business annualised premium income (Rand)[6]	**1 308**	1 294	1
Annualised profit margin[4]	**2.5%**	3.2%	
VitalityLife[7]			
Present value of future profits from new business (at point of sale)	**353**	520	
Cost of required capital	**(106)**	(134)	
Present value of future profits from new business (at point of sale) after cost of required capital	**247**	386	(36)
New business annualised premium income (Rand)	**956**	995	(4)
Annualised profit margin[4]	**3.2%**	5.0%	

1 *Health new business annualised premium income is the gross contribution to the medical schemes. The new business annualised premium income shown above excludes premiums in respect of members who join an existing employer where the member has no choice of medical scheme, as well as premiums in respect of new business written during the period but only activated after 30 June 2020.*

The total Health and Vitality new business annualised premium income written over the period was R6 146 million (June 2019: R6 831 million).

2 *Included in the Life and Invest embedded value of new business is R29 million (June 2019: R70 million) in respect of investment management services provided on off balance sheet investment business.*

Risk business written prior to the valuation date allows certain Invest business to be written at financially advantageous terms, the impact of which has been recognised in the value of new business.

3 *Life new business is defined as Life policies to which Life became contractually bound during the reporting period, including policies whose first premium is due after the valuation date. Invest new business is defined as business where at least one premium has been received and which has not been refunded after receipt. Invest new business also includes Discovery Retirement Optimiser policies to which Life and Invest became contractually bound during the reporting period, including policies whose first premium is due after the valuation date.*

The new business annualised premium income of R2 886 million (June 2019: R2 897 million) (single premium APE: R1 453 million (June 2019: R1 321 million)) shown above excludes automatic premium increases and servicing increases in respect of existing business. The total new business annualised premium income written over the period, including automatic premium increases of R1 496 million (June 2019: R1 370 million) and servicing increases of R576 million (June 2019: R648 million), was R4 958 million (June 2019: R4 915 million) (single premium APE: R1 507 million (June 2019: R1 382 million)). Single premium business is included at 10% of the value of the single premium.

Policy alterations and internal replacement policies, including Discovery Retirement Optimisers added to existing Life Plans, are shown in Table 5 as experience variances and not included as new business. Term extensions on existing contracts are not included as new business.

4 *The annualised profit margin is the value of new business expressed as a percentage of the present value of future premiums.*

5 *The VitalityHealth value of new business is calculated as the value at point of sale of the new business written premium in–force at the valuation date multiplied by the Margin multiplied by the Annuity Factor less the new business cash flows from point of sale to the valuation date. The assumptions for the Margin and Annuity Factor are shown in Table 8.*

6 *VitalityHealth new business is defined as individuals and employer groups which incepted during the reporting period. The new business annualised premium income shown above has been adjusted to exclude premiums in respect of members who join an existing employer group after the first month, as well as premiums in respect of new business written during the period but only activated after 30 June 2020.*

7 *VitalityLife new business is defined as policies to which VitalityLife became contractually bound during the reporting period, including policies whose first premium is due after the valuation date.*

EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2020

BASIS OF PREPARATION

TABLE 8: EMBEDDED VALUE ECONOMIC ASSUMPTIONS

		30 June 2020	30 June 2019
Beta coefficient		**0.75**	0.75
Equity risk premium (%)		**3.5**	3.5
Risk discount rate (%)			
Health and Vitality[1]		**14.125**	11.875
Life and Invest[1]		**15.125**	13.125
VitalityHealth		**2.89**	3.61
VitalityLife		**3.065**	4.725
Rand/GB Pound exchange rate			
Closing		**21.44**	17.98
Average		**19.75**	18.32
Margin over Expense inflation to derive Medical inflation (%)			
South Africa		**3.00**	3.00
Expense inflation (%)[2]			
South Africa	– Health and Vitality	**7.39**	6.13
	– Life and Invest	**8.33**	7.24
United Kingdom		**2.50**	2.50
Pre-tax investment return (%)			
South Africa	– Cash[1]	**11.00**	9.00
	– Life and Invest bonds[3]	**12.50**	10.50
	– Health and Vitality bonds[3]	**11.50**	9.25
	– Equity[1]	**16.00**	14.00
United Kingdom	– VitalityHealth risk-free rate	**0.27**	0.99
	– VitalityLife risk–free rate	**0.44**	2.10
	– VitalityLife IFRS interest rate	**1.35**	2.50
	– VitalityLife investment return	**1.58**	2.50
Income tax rate (%)			
South Africa		**28**	28
United Kingdom – long term		**19**	17
VitalityHealth Assumptions			
– Margin (net of tax and cost of capital) (%)		**14.1**	14.1
– Annuity Factor		**6.37**	6.13
Projection term			
– Health and Vitality		**20 years**	20 years
– Discovery Life – ViF		**40 years**	40 years
– Group Life		**10 years**	10 years
– VitalityLife		**No cap**	No cap
– VitalityHealth[4]		**20 years**	20 years

1 *Derived as a margin over (or below for cash) the respective pre–tax investment return for bonds.*

2 *The inflation assumption is derived as the difference between the nominal and real yield curve at each duration. As an indication, the cash flow weighted average inflation is shown in the table. For the United Kingdom, the expense inflation assumption is 1.50% in the first year.*

3 *As indications, the cash flow weighted averages derived from the relevant yield curve(s) are shown.*

4 *The VitalityHealth projection term of 20 years is used in the derivation of the Annuity Factor.*

EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2020

The Discovery Limited embedded value is calculated based on a risk discount rate using the CAPM approach with specific reference to the Discovery beta coefficient. The assumed beta is fixed at 0.75. This has been set such that the risk discount rate proxies the result of a Weighted Average Cost of Capital approach with reference to the capital structure of the Group and the observed beta calculated using daily returns over a long time period. The observed beta is calculated with reference to the ALSI. The assumed beta will only change if the capital structure of the Group and / or the observed beta calculated using daily returns over a long time period suggest the beta assumption should depart significantly from the assumption at the financial year end. As beta values reflect the historic performance of share prices relative to the market they may not allow fully for non–market related and non–financial risk. Investors may want to form their own view on an appropriate allowance for these risks which have not been modelled explicitly.

Life and Invest mortality, morbidity and lapse and surrender assumptions were derived from internal experience, where available, augmented by reinsurance and industry information.

The Health and Vitality lapse assumptions were derived from the results of recent experience investigations.

The VitalityHealth assumptions were derived from internal experience.

VitalityLife assumptions were derived from internal experience, where available, augmented by reinsurance, industry and Discovery Limited group information.

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

The initial expenses included in the calculation of the embedded value of new business are the actual costs incurred excluding expenses of an exceptional or non–recurring nature.

From 30 June 2020, the yield curve underlying the embedded value calculations were changed from the Prudential Authority yield curves to the Johannesburg Stock Exchange ("JSE") yield curves. The South African investment return assumptions for Life, Invest, Health and Vitality were based on the publicly available JSE risk–free nominal yield curve. The real yield assumption was set based on the publicly available JSE risk–free real yield curve, adjusted to remove volatility due to the nature of the index linked government bond market. Other economic assumptions were set relative to these two yield curves.

The current and projected tax position of the policyholder funds within the Life company has been taken into account in determining the net investment return assumption.

The risk–free rate assumption for VitalityHealth was based on the single interest rate derived from the risk–free zero coupon sterling yield curve.

EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2020

From 30 June 2018, VitalityHealth calculate the value in–force at the valuation date as the in–force written premium multiplied by the Margin multiplied by the Annuity Factor, as set out in the table above. The Annuity Factor assumption is derived from assumed future lapse rates and premium increases. The Margin assumption reflects profit margins after tax and Cost of Capital. The assumptions underlying the Annuity Factor and Margin are set taking into account the current experience in the business at different durations.

From 30 June 2020, VitalityLife bases the risk–free rate on UK swap rates. The inflation rate is set in line with the short–term expectation of inflation for the first year, and beyond that is consistent with the Bank of England inflation target.

The cost of required capital is calculated using the difference between the risk discount rate and the net of tax asset return on tangible assets. The VitalityLife Limited and the VitalityLife business on the Prudential licence required capital amount is assumed to earn the investment return assumption, which is set based on the return on a portfolio of government and corporate bonds assumed to back the required capital. The Life and Invest cost of required capital is calculated assuming shareholder cash flow is limited to the cash flow available after having met both the required capital amount and an internally defined liquidity target capital requirement of tangible assets.

The embedded value has been calculated in accordance with the Actuarial Society of South Africa's Advisory Practice Note ("APN") 107: Embedded Value Reporting, except the recommended disclosure of Free Surplus and Required Capital has been adjusted to take into account the nature of the capital requirements in the covered businesses, as can be seen in Table 1 note 2.

EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2020

Sensitivity to the embedded value assumptions

The risk discount rate uses the CAPM approach with specific reference to the Discovery beta coefficient. As beta values reflect the historic performance of share prices relative to the market they may not allow fully for non–market related and non–financial risk. Investors may want to form their own view on an appropriate allowance for these risks which have not been modelled explicitly. The sensitivity of the embedded value and the embedded value of new business at 30 June 2020 to changes in the risk discount rate is included in the tables below.

For each sensitivity illustrated below, all other assumptions have been left unchanged. No allowance has been made for management action such as risk premium increases where future experience is worse than the base assumptions.

TABLE 9: EMBEDDED VALUE SENSITIVITY

	Health and Vitality		
R million	Adjusted net worth[2]	Value of in-force	Cost of required capital
Base	12 473	22 321	(419)
Impact of:			
Risk discount rate +1%	12 473	21 039	(451)
Risk discount rate -1%	12 473	23 740	(382)
Lapses -10%	12 080	23 115	(441)
Interest rates -1%[1]	10 848	22 250	(403)
Equity and property market value -10%	12 435	22 321	(419)
Equity and property return +1%	12 473	22 321	(419)
Renewal expenses -10%	12 556	24 416	(388)
Mortality and morbidity -5%	12 674	22 321	(419)
Projection term +1 year	12 473	22 644	(422)

1 *All economic assumptions were reduced by 1%.*

2 *The sensitivity impact on the VitalityLife net of tax change in negative reserves is included in the adjusted net worth column.*

The following table shows the effect of using different assumptions on the embedded value of new business.

TABLE 10: VALUE OF NEW BUSINESS SENSITIVITY

	Health and Vitality	
R million	Value of new business	Cost of required capital
Base	910	(27)
Impact of:		
Risk discount rate +1%	836	(30)
Risk discount rate -1%	993	(25)
Lapses -10%	969	(29)
Interest rates -1%[1]	918	(26)
Equity and property return +1%	910	(27)
Renewal expense -10%	1 032	(26)
Mortality and morbidity -5%	910	(27)
Projection term +1 year	928	(28)
Acquisition costs -10%	939	(27)

1 *All economic assumptions were reduced by 1%.*

EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2020

Life and Invest		VitalityHealth		VitalityLife			
Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	**Embedded value**	% change
23 752	(1 244)	10 077	(495)	8 155	(3 786)	**70 834**	
21 552	(1 165)	9 544	(470)	7 516	(5 327)	**64 711**	(9)
26 342	(1 336)	10 667	(524)	8 850	(1 904)	**77 926**	10
25 143	(1 321)	11 402	(560)	8 782	(4 260)	**73 940**	4
24 290	(1 229)	10 560	(524)	8 356	(4 530)	**69 618**	(2)
23 845	(1 263)	10 076	(495)	8 155	(3 786)	**70 869**	0
24 031	(1 250)	10 088	(495)	8 155	(3 786)	**71 118**	0
24 247	(1 220)	10 826	(495)	8 297	(3 754)	**74 485**	5
25 312	(1 123)	11 625	(495)	8 354	(3 742)	**74 507**	5
23 890	(1 255)	10 153	(499)	8 155	(3 786)	**71 353**	1

Life and Invest		VitalityHealth		VitalityLife			
Value of new business	Cost of required capital	Value of new business	Cost of required capital	Value of new business	Cost of required capital	**Value of new business**	% change
668	(82)	262	(56)	353	(106)	**1 922**	
453	(77)	186	(52)	220	(137)	**1 399**	(27)
921	(88)	346	(60)	504	(55)	**2 536**	32
888	(87)	396	(63)	525	(146)	**2 453**	28
699	(81)	335	(60)	383	(106)	**2 062**	7
692	(82)	263	(56)	353	(106)	**1 947**	1
708	(80)	340	(56)	380	(100)	**2 198**	14
764	(74)	422	(56)	398	(96)	**2 241**	17
682	(83)	272	(57)	353	(106)	**1 961**	2
820	(82)	298	(56)	483	(106)	**2 269**	18

Transfer secretaries Computershare Investor Services Pty Limited
(Registration number: 2004/003647/07)
Rosebank Towers, 15 Biermann Avenue, Rosebank 2196
Private Bag X9000, Saxonwold, 2132

Sponsors Rand Merchant Bank (A division of FirstRand Bank Limited)

Secretary and registered office MJ Botha, Discovery Limited
(Incorporated in the Republic of South Africa)
(Registration number: 1999/007789/06)
Company tax reference number: 9652/003/71/7

JSE share code: DSY ISIN: ZAE000022331
JSE share code: DSBP ISIN: ZAE000158564
JSE bond code: DSYI

1 Discovery Place, Sandton 2146 PO Box 786722, Sandton 2146
Tel: (011) 529 2888 Fax: (011) 539 8003

Directors ME Tucker (UK) (Chairperson), A Gore* (Group Chief Executive Officer), HL Bosman, Dr BA Brink, SE de Bruyn, R Farber, HD Kallner*, F Khanyile, NS Koopowitz*, D Macready[1], Dr TV Maphai, HP Mayers[2], Dr A Ntsaluba*, AL Owen (UK)[3], A Pollard*, B Swartzberg*, DM Viljoen* (Financial Director), SV Zilwa

* *Executive.*

1 *Appointed effective 3 February 2020.*

2 *Redesignated as a non-executive director effective 28 November 2019.*

3 *Retired effective 14 February 2020.*

Annual financial results

– supervised by DM Viljoen CA(SA)

Embedded value statement

– prepared by M Curtis FASSA, FIA and P Bolink FASSA

– supervised by A Rayner FASSA, FIA

STUDIO 5

Discovery

+27 11 529 2888 | askthecfo@discovery.co.za | www.discovery.co.za