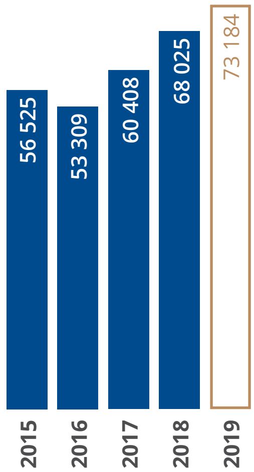
Discovery

UNAUDITED INTERIM RESULTS

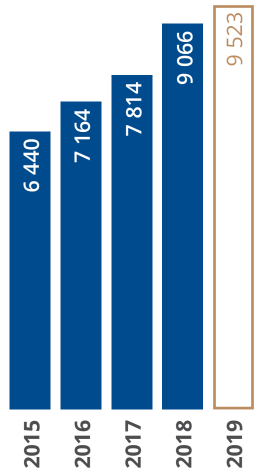
and cash dividend declaration for the six months ended 31 December 2019

RESULTS AND COMMENTARY

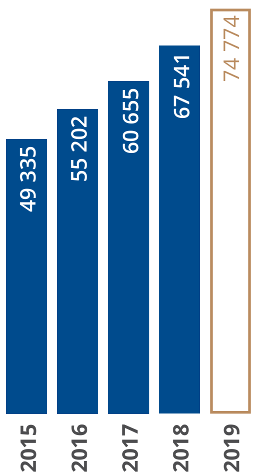
Embedded value
(R million)



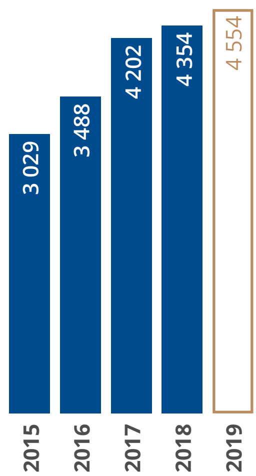
Core new business API
(R million)



Gross inflows under management
(R million)



Normalised profit from operations before investment in new initiatives
(R million)



Robust performance in a complex period with substantial investment in new initiatives and core businesses performing well with the exception of VitalityLife

Commentary

FINANCIAL PERFORMANCE

Over the six months ended 31 December 2019, all of Discovery's established and emerging businesses, with the exception of VitalityLife, produced robust operating results. VitalityLife was largely impacted by its previously-announced strategic decision to mitigate its exposure to further interest rate declines in the United Kingdom. In addition, the Group continued its increased investment into new strategic initiatives – with Discovery Bank, VitalityInvest and Vitality1 showing encouraging traction, and spend fully provided for in the capital plan.

As a result, Discovery's normalised profit from operations decreased by 7% to R3 551 million, headline earnings decreased by 9% to R2 047 million and normalised headline earnings decreased by 11% to R2 117 million. New business annualised premium income (API) increased by 17% to R11 116 million (and by 5% to R9 523 million excluding Vitality Group and the take-on of new closed medical schemes in Discovery Health). The R9 523 million also excludes Vitality Group gross revenue.

Normalised profit from operations

	Current period, in ZAR million	Current period compared to prior, % change
Discovery Health	R1 575	+8%
Discovery Life	R1 875	+25%
Discovery Invest	R485	+7%
Discovery Vitality	R5	-75%
Discovery Insure	R75	+21%
VitalityHealth	R495	+11%
VitalityLife	(R134)	-145%
Vitality Group	R110	+16%
Ping An Health	R68	+467%
Operating profit before investment in new initiatives	R4 554	+5%
Spend on new initiatives	(R1 003)	+81%
Operating profit after investment in new initiatives	R3 551	-7%

In terms of the operating model, the established businesses delivered a robust performance, with profit of R4 301 million, 3% higher than the prior period despite the loss in VitalityLife. The emerging businesses grew strongly, delivering a combined profit of R253 million, 50% higher than the prior period. In addition, the Group invested R1 003 million in new strategic initiatives, an increase of 81% over the prior period. Spend on new initiatives is weighted towards the first half of the year and expected to decrease in the second half. Of this spend, 53% was dedicated to Discovery Bank, which is expected to remain the dominant investment going forward. Performance of cash and capital metrics remained within guidance, with the Group's Financial Leverage Ratio at 24.3%[1] and the cash buffer at R2.5 billion.

Normalised headline earnings per share (diluted)[2] decreased by 12% to 322.3 cents and headline earnings per share (diluted)[2] decreased by 10% to 311.7 cents.

AMBITION 2023 AND DISCOVERY'S UNIQUE FOUNDATION

As previously mentioned, Discovery has set a bold Ambition for 2023, 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. Central to achieving this is Discovery's unique foundation – its core purpose, values, people and brand, which all inform a recursive R&D agenda that continually refines the Shared-Value model.

Over the period, there was substantial advancement of the Group's R&D agenda, including ongoing development of Shared-Value capability across the Group (Vitality Money, Active Rewards 2020); industry capability across silos (Bank, corporate productivity and Shared-Value health insurance) and across all aspects of Discovery's value chain (Vitality D2C, Vitality Running World Cup).

The globalisation of Discovery's Vitality Shared-Value model is being enabled by Vitality1, the globally unified systems platform. Vitality1 is live in nine markets after 18 months of operating, touching two million members and creating efficiencies in rolling out in new markets. Every day the platform logs more than four million workouts and allocates more than 35 000 rewards.

As mentioned previously, achieving the Ambition will require continued execution of market-specific strategies:

- **South Africa:** a disruptive composite model, with market-leading businesses and a successful entry into banking
- **United Kingdom:** a differentiated offering through a composite Vitality Shared-Value model
- **Ping An Health:** the leading health insurer in China with over 50 million clients
- **Vitality Group:** a sophisticated global behaviour-change platform linked to financial services

1 Excludes capitalised lease liabilities under the newly adopted IFRS16 and bank borrowings related to normal course lending and borrowing activities.
2 The percentage change in the current period is the same for both undiluted and diluted earnings per share.

SOUTH AFRICA

Discovery Bank

During the period, focus was on leveraging key strategic advantages to build a retail heavy bank of scale; demonstrating the efficacy of the Vitality Shared-Value model in banking and creating an appealing customer proposition; using Discovery's unique data capability; and executing on a lower cost-to-income FinTech infrastructure – ultimately ensuring the Bank is a composite maker for the Group.

As at 18 February 2020, Discovery Bank had 78 000 clients with 180 000 accounts, nearly half of which had never held a Discovery Card before; deposits had grown strongly to R1.2 billion; total credit card spend was R2.6 billion and total credit limits granted was R2.5 billion – with over R1 billion in credit facility used. Early member engagement is positive and the client base is exhibiting appealing spend, credit, arrears and deposit behaviour, better than the performance of the previous Discovery Card and considerably better than the market. Growth potential is strong with over 200 000 accounts that still need to be migrated from the FNB Joint Venture; and the activation of Discovery's advisor channels to sell bank accounts in the second half of the year.

Early indications are encouraging that the Vitality Shared-Value model is working in banking – where interest rates and incentives are tiered by financial behaviour and wellness as measured through Vitality Money. Strong correlations are being observed by Vitality Money status in credit utilisation, deposits, spending and defaults – across the client base and account types. Engagement and correlations are even stronger for clients with multiple Vitality products.

The Discovery Bank build, testing and running have been achieved within budget while delivering a number of innovations such as mobile onboarding in less than five minutes, Health Banking and Discovery Miles. Priorities include simplifying the Vitality Money user experience and streamlining the service environment and online support functionality.

Discovery Health

The strategic focus over the period was on sustaining growth in a contracting medical scheme market; managing medical inflation while optimising cost and quality; reducing administration costs while maximising service; and ensuring the increasing financial strength and competitive position of Discovery Health Medical Scheme (DHMS).

Discovery Health (DH) delivered a resilient performance, with normalised operating profit increasing by 8% to R1 575 million. Total new business API (including take-on of new closed medical schemes) grew by 26% to R4 367 million.

New business API (excluding Vitality and the take-on of new closed medical schemes) was affected by the challenging economic environment and slower employment growth, declining 4% relative to the prior period, though still robust at R3 289 million. Traditional new membership from employees joining DHMS employer group clients, which has historically characterised DHMS growth, has retracted and is being replaced by individual members joining DHMS in their personal capacity; the ratio of these sources of growth has thus inverted. DHMS delivered a strong performance, with a projected positive operating result before investment income, and solvency of 27.3% for the scheme year ending 31 December 2019[3]. The average contributions of DHMS are 16.7% lower than those of competitors per unit of healthcare benefit.

The continued efficacy of the Shared-Value model was evident over the period, with engaged Vitality members' hospital costs 28%[4] lower and their lapse rate more than 3.6 times lower than non-Vitality members. Furthermore, the business continued to invest in building out its value-based care initiatives, with 39% of hospital payments now under risk share contracts. DH's disease management programmes continued to demonstrate value, with total cost of care for a member on the Diabetes Care programme being materially lower than for a non-registered diabetic member.

The business continued to deliver on its objective of growing non-scheme revenue through expanded product offerings, including Discovery Primary Care, Gap Cover and Healthy Company. These products are gaining traction, with a total membership of approximately 138 000 as at 31 December 2019. This has driven non-scheme earnings growth to 84% higher than the prior year.

DH continued to invest in digital technologies and automation to extract operational efficiencies, drive down healthcare costs and improve member experience – with over R400 million spent on technology over the period. Multiple projects are underway including robotic process automation, natural language processing speech-to-text conversion, optical character recognition document interpretation, AI virtual assistant technology and instant messaging chat-service channels. These investments support ongoing operational efficiency improvements, with DH operational expenses decreasing by 6% on a per member basis from 2016 to 2019 in real terms, and call rates decreasing by 19% from 2015 to 2019.

DH is supportive of a National Health Insurance (NHI) system that improves the healthcare system for all South Africans. The publication of the NHI Bill creates an important opportunity for active collaboration between the Department of Health and the private healthcare sector, and Discovery Health continues to engage with relevant stakeholders to participate in the creation of a sustainable public and private healthcare system. The Bill is not expected to have a material long-term impact on DH and may in fact present new opportunities for growth and product innovation. DH remains of the view that there is an ongoing critical role for medical schemes and private healthcare providers going forward.

Discovery Life

The strategic focus over the period was on optimising growth and quality of new business; achieving positive operational experience variances; ensuring balance and correct correlations within the Shared-Value model; and ensuring products have relevance through member value and engagement.

Discovery Life (DL) had an excellent period, growing earnings by 25% to R1 875 million (off a low base) as a result of improving claims experience and pleasing all-round performance. New business grew 2% to R1 240 million in a declining market, resulting in over 31% market share in the retail affluent risk market – more than double the next largest competitor. DL performed strongly against EV assumptions with improvement across all non-economic experience such as claims, lapses, policy alterations and Vitality status experience, leading to a positive overall EV variance in Life and Invest. The business remains well capitalised with an above-target SCR coverage of 172%, and generated cash in line with plan.

The Shared-Value model continued to deliver results, with highly engaged Vitality members experiencing less than 50% mortality and more than 15% fewer lapses than non-Vitality members. More than R1 billion in PayBack was paid in calendar year 2019 due to high Vitality engagement.

3 Note that the DHMS results remain subject to finalisation through the annual independent audit currently underway.
4 Based on 2018 data.

Looking forward, DL is focused on driving new business growth and market share without compromising the VNB margin, and launching a comprehensive suite of products in March 2020 to target the individual risk market and tap into adjacencies. The general economic environment remains challenging, and despite the operational elements of the business being repositioned, interest rates remain a medium-term concern especially with sovereign credit ratings risk.

Discovery Invest

The strategic focus over the period was on growing new business and assets under management in a market attracting low inflows; evolving a unique long-term Shared-Value model in a market experiencing commoditisation and market pressure; and ensuring superior overall financial outcomes for customers.

Discovery Invest's performance was robust in an environment of weakened inflows. Operating profit grew by 7% to R485 million and assets under administration by 16% to R96.7 billion, driven by improved market performance at the end of the period. Over 78% of linked funds were placed in Discovery funds. Net inflows were strong relative to the industry at R2.3 billion. Sales were affected by the weak inflow environment, seeing new business (including ACIs) declining by 2% to R1 357 million. The Discovery Balanced Fund continued to perform well and was in the first performance quartile in its sector for three, five, and ten years[5]. At the end of the third quarter, Discovery Collective Investments was the sixth highest retail flow taker, excluding money market funds, with a substantial proportion of flows going to high-margin business.

Discovery Invest continued to successfully apply the Shared-Value model in the long-term savings market, with engaged Vitality clients exhibiting 12.7% lower drawdowns, up to 13.5% reduced withdrawals and three times more ad-hoc contributions to their savings.

Over the period, considerable work was done to understand the science behind the Shared-Value model in retirement savings with a focus on behavioural factors. These learnings position Discovery Invest strongly for the future given the importance of behaviour in a defined-contributions environment, and the platform's ability to bring together administrative and behavioural attributes. This has already manifested in the recently launched Purple range of lump-sum retirement products, which provide reduced boosts on external funds for the first time. Innovating in the long-term savings market remains a strategic priority, with several initiatives in the pipeline for the March 2020 launch.

Discovery Insure

The strategic focus over the period was on quality growth in the mass affluent space and ensuring the integrity of the Shared-Value model so that with duration – profit, scale and materiality emerge.

Discovery Insure (DI) saw strong growth during the period, achieving R75 million operating profit – up 21% on the prior year. Gross Premium Income grew by 15% to R1.8 billion while gross new business API grew by 7% to R551 million. Gross Written Premium (personal lines only) market share was estimated at 6%.

DI has attracted a disproportionate share of the higher-valued vehicles in the market, which in turn has translated to higher-than-average premiums compared to the market. The period saw continued evidence of the efficacy of the Shared-Value model in Discovery Insure: increased efficiencies, realised by lower staff headcount per policy; up to 44% of claims captured digitally and automatically processed using artificial intelligence; and continued selective lapsation working as per the model, is manifesting in a steadily declining expense ratio. The proportion of good drivers – who displayed an up to 34% lower loss ratio and 67% lower lapse rate compared with bad drivers – is increasing by duration of years inforce. This coupled with improving loss ratios by status and policy durations implies a declining future loss ratio.

The actuarial dynamics of the Shared-Value model in commercial insurance are excellent and extend to both fleets and non-motor lines, with the rewards components adapted to suit the market. In terms of strategic focus areas going forward, the commercial lines business continued to grow and receive good adviser support. A key priority is developing a specialist tied advisory force dedicated to writing commercial business. The first 19 advisors began in February 2020 and will grow to 40 advisers by June 2020.

Following the success of Avis SafeDrive in South Africa, DI launched the programme in the Netherlands. This represents part of DI's strategic objective to explore opportunities to extend its model into international markets.

UNITED KINGDOM

The strategic focus over the period was on pursuing the composite strategy. For the six months, combined new business increased by 12% to £76.4 million (R1 416 million, up 14%) and total lives exceeded 1.29 million, an increase of 12%. Normalised operating profit for VitalityHealth (VH) and VitalityLife (VL) reduced by 52% to £19.5 million (R361 million) – after the impact of interest rates and the interest rate hedge for VL. The hedged position provides a greater degree of certainty and enables operating within risk tolerance levels.

Using Vitality as a mechanism to amplify Shared Value across the UK businesses remains a key strategic focus. In pursuit of this strategy, a composite product offering providing enhanced benefits to members who hold multiple Vitality products was launched in November 2019. This included work with American Express to launch a Vitality card and a partnership with UK food retailer Waitrose & Partners as key mechanisms for delivering composite rewards. The strategy is supported by a new composite online member journey (launched December 2019), and a member app (planned for release in March 2020).

The structure of the business is being adapted to deliver this composite strategy, by combining several functions that span VH and VL in key areas such as servicing, retentions, sales support and information technology. The aim is to provide an integrated, intuitive service to customers and advisers, while generating efficiencies.

VitalityHealth

The strategic focus over the period was on maintaining exceptional quality of new business; delivering personalised healthcare pathways through digital; and ensuring service quality.

VitalityHealth continued to deliver strong results. Operating profit grew by 9% to £26.7 million (up 11% to R495 million), although new business declined by 2% to £33.1 million (0.5% to R613 million) in a challenging sales environment, characterised by economic uncertainty and aggressive competitor activity. Total lives reached 674 000, up 12%, while earned premiums grew 9% to £246.5 million (R4 569 million). The results reflect continued strong performance across key business metrics: the lapse rate and claims performance was stable and costs remained well managed.

5 Per Morningstar at 31 December 2019.

Embedded Value grew by 5% over the period, with positive experience variances driven by retention efforts. The back book was strongly cash flow positive, generating £50.8 million (R942 million) in cash. After new business acquisition costs and investment in developing the business, VH generated a £14.8 million (R274 million) cash surplus.

The business sustained its significant investment in leading servicing and digital technologies, with a focus on customer service. This resulted in it being awarded first place in the Top 50 Companies for Customer Service Awards (the UK's largest customer service benchmarking programme covering over 300 companies across a range of sectors) in January. Data science is at the core of VH's strategy, and the business continued to apply sophisticated machine learning in multiple contexts over the period. The results are compelling and learnings will be applied to VitalityLife.

VitalityLife

The strategic focus over the period was on stabilising the impact of external factors on the business; addressing non-economic variances through quality of new business and retention; and right-sizing the business for the environment.

VL new business API grew by 6% to £34.8 million (8% to R646 million), and earned premiums by 12% to £141.4 million (R2 620 million). Lives covered and in-force policies both grew strongly by 12%, exceeding 605 000 and 458 000 respectively. Operating profit declined to -£7.2 million (-R134 million). This includes a negative impact of £16 million due to the hedge structure and related impacts, as well as negative lapse experience, resulting in embedded value reducing by 1%.

In response to the environment, VL implemented the interest rate hedge, adapted the legal structure of the business, optimised its capital position, and has deferred the Part VII transfer of the VL back book written on the Prudential Assurance Company's licence by three years. The impact of low interest rates is expected to remain a feature of the profits for the remainder of the year.

This and other initiatives are being put in place to right-size the business for this environment and the benefits of these changes are expected to materialise over the next financial year. A reduction in expense run rate is marked to manifest once various measures have been effected, such as reorganising the franchise distribution channel and combining key service elements across the Group. The negative experience variances have been analysed and management actions are in place. Adviser firms with significantly higher-than-expected lapse rates have been identified, and commission clawback terms for these firms have been extended, with the experience being monitored continually.

VitalityInvest

The strategic focus over the period was on new business growth and product development to support this. VitalityInvest (VI) has made substantial progress, with new business annual premium equivalent (APE) of £8.5 million[6] (R157 million) over the period, equating to month-on-month growth of 17% and total funds under management of £105.3 million (R1 952 million).

The January launch saw a significant repositioning of product, underpinned by the Vitality Shared-Value Invest platform – a combination of Vitality, which is now embedded in all plans, and VI's market-leading transactional capabilities. The platform leverages Shared Value to address the behavioural challenges related to longevity and poor health. In addition, VI launched a fund range in partnership with SEI, one of the world's largest manager-of-managers, as well as a range of blended funds that bring together index-tracking and actively managed solutions. The above momentum, together with product development and enhanced distribution, should see the business make significant progress towards its full-year target.

PING AN HEALTH (PAH)

The strategic focus over the period was on delivering on PAH's ambition of being the leading health insurer in China; driving quality of new business; and continuing to invest for growth and scale.

PAH had a remarkable period, with total revenue growing by 56% to RMB5.3 billion (R11.1 billion), and new business premium growing over 27% to RMB2.6 billion (R5.5 billion). PAH exceeded its written premium target of RMB10 billion for the 2019 calendar year. The Group's share of after-tax operating profit grew by 467% to $4.6 million (R68 million). The tax relief on deductible commissions effected in May 2019 resulted in the effective tax rate reducing to 41% for the period (December 2018: 55%).

PAH continued to invest considerably in technology skills, with technology related labour-costs growing substantially in response to PAH's internet strategy. It also strengthened the team to maintain branch expansion. The investment in scaling online operations to support its vision of becoming China's leading tech-driven health insurer is beginning to manifest. Significant enhancements were made to the PAH app, to more effectively enable a full mobile user experience and strong direct-to-consumer sales channel. The app achieved growth of 138% over the past year, and as at 31 December 2019 had 19.4 million registered users, with a growth rate of approximately one million new users each month. The proportion of online to overall business continued to increase, accounting for 11.6% of overall business (RMB1.22 billion) – growth of 243% year-on-year.

A key strategy for the app is HelloRun Club, PAH's digital-only version of Vitality, which is used to attract new users to the app, drive engagement among existing customers and increase sales. At the end of 2019, HelloRun Club had over five million members. Ping An Run Vitality celebrated its three-year anniversary in the period, and has over six million members.

PAH introduced an industry-leading smart claims system, E Flash Claims. This system has optimised the quality and efficiency of operational services to further improve customer experience, and reduced the average claims turnaround time from 1.5 days to 10 minutes. In addition, in 2019 PAH won several awards including Best Health Insurance Brand of the Year, Socially Responsible Insurer of the Year and Product Innovation Excellence Award.

In terms of the COVID-19 virus, it is expected to have limited business impact, given that PAH is not active in Hubei; and the State Council of China has announced that medical expenses related to the virus will be paid for by the Social Health Insurance system. In response to the COVID-19 virus, PAH has proactively modified and developed products to cover specific benefits. PAH is also working closely with the appropriate authorities in China to support clients and other affected citizens, playing a nation-building role. This includes using the app as a trusted source of information, offering services, guidelines and live reports on virus-related developments.

6. APE calculated as single/10 + annual recurring.

VITALITY GROUP

The strategic focus over the period was on pursuing global scale, relevance and materiality; ensuring leading IP, technology and data insights to deliver the best behaviour-change platform and drive unique customer propositions; and having a transformational impact on the business of partners.

Vitality Group (VG) delivered a pleasing set of results for the period, achieving a profit of $7.5 million (R110 million, up 16% from the prior year). Fee income grew to $35 million (R515 million, up 17%), supported by strong growth in insurance partners' integrated premiums, which reached $591.5 million (R8.7 billion). Total Vitality membership grew to 4.5 million, of which two million are administered on Vitality1. Membership[7] from insurance partners' integrated products grew to 1.8 million, an increase of 63% on the prior year.

The business is in a significant period of growth, particularly with the establishment of Vitality Health International whereby Vitality Group will intensify its focus on global health insurance initiatives through either equity partnerships or consulting and IP solutions. The Group believes the opportunities are significant, given the rapid growth of health insurance in markets around the world and Discovery's unique health insurance expertise, assets, and Shared-Value model; together with its involvement in the eminent health insurance businesses in South Africa, China and the UK.

NATIONAL CHAMPIONS

AIA Vitality

AIA Vitality continued to generate strong membership and new business value growth over the period. The actuarial dynamics emerging from the AIA markets are compelling – the level of engagement is high and there is already evidence of behaviour change and improvements in members' health and lapse experience consistent with that of Discovery. AIA Vitality now operates in 11 markets across Asia and Australasia, following its successful launch in New Zealand during the period. The Harvard Business Review recognised AIA as one of the top 20 global business transformations over the last decade for its transformation from a traditional insurance provider to a collaborator with consumers through AIA Vitality.

John Hancock and Manulife Vitality

Despite low growth in the US life insurance market overall, John Hancock continued to deliver excellent results, posting an 87% increase in sales of John Hancock Vitality for 2019; with membership growing at a steady pace. Engagement continues to be significant for both new and existing clients. In addition, through a partnership with Onduo, John Hancock launched the first-ever US life insurance product for people living with diabetes. The Vitality-enabled diabetes management programme won a gold award for "Most Innovative Product Feature of the Year" in the 2019 Best in Biz Awards.

Manulife took Vitality Group Benefits live to the public after a successful internal launch, making more than 1.5 million employees eligible for the programme.

Sumitomo Life Vitality

Sumitomo Life Vitality moved into its second year and continued to see good growth in integrated insurance policies, penetration rates and the creation of adjacencies. Membership growth has been rapid, reaching significant scale in 15 months; engagement is high for both new and existing clients; and there is clear behaviour change and health impact. During the programme refresh in September 2019, new partnerships with local and global rewards partners were announced and will launch later this year.

7. Full Vitality membership

Generali Vitality

The past six months have been dominated by the implementation plan for the migration of Germany, France and Austria onto the new Vitality1 platform. Encouragingly, there was a 17.6% increase in membership over the past six months across Germany, France and Austria in aggregate. An agreement was reached to roll out Vitality into two new markets, and Generali continues to explore opportunities to roll out into more markets across Europe.

FRANCHISE MARKETS

VG's partnership with Hannover Re to expand Shared-Value Insurance products into next-tier markets has resulted in agreements with insurers in eight countries. Vitality Group's first partnership in Latin America has produced excellent results with Ecuador being ahead of the business plan. Similarly, the Netherlands is showing early indications of success with higher-than-projected sales numbers. Four launches are planned for 2020.

VITALITY USA

Vitality USA delivered strong financial results, achieving a 36% increase in profits from the prior year and a 47% increase in membership. The membership growth was supported by the launch of the "Apple Watch Engage" offering, a version of Active Rewards in partnership with Apple and several consumer-facing brands. Building on the positive response to the Aetna Attain programme, the business expanded to high touch gym chains Orangetheory Fitness and Crunch Fitness in a limited number of gyms as a precursor to a national roll-out.

Vitality USA has laid the groundwork for strong growth in the employer market including the development of several strategic partnerships; expansion of the product offering to better meet employer needs; and optimising the distribution structure.

PRIORITIES FOR GROWTH

The Group is well positioned for growth over its planning horizon to 2023, with the capital plan intact. Key priority areas are:

1. Execute on VitalityLife's stated plans to manage in the low interest rate environment, stabilise experience variances and return to robust profit in FY 2021
2. Achieve significant traction in new initiatives, most notably Discovery Bank, and ensure short-term new business thresholds are achieved for each initiative
3. Ensure the established businesses retain their insurgency
4. Capitalise on emerging businesses' unique attributes and positioning to achieve scale and materiality

On behalf of the Board

ME Tucker Chairperson	**A Gore** Chief Executive Officer

Sandton
19 February 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_on reports, Interim results 2020.

STATEMENT OF FINANCIAL POSITION

at 31 December 2019

R million	Group December 2019 Unaudited	Group June 2019 Audited
ASSETS		
Goodwill	**4 705**	4 642
Intangible assets	**6 013**	5 597
Property and equipment	**4 727**	4 212
Assets arising from insurance contracts	**51 508**	48 781
Deferred acquisition costs	**518**	536
Assets arising from contracts with customers	**809**	752
Investment in equity-accounted investments	**2 229**	1 950
Deferred income tax	**2 459**	2 372
Financial assets		
– Loans and advances to customers at amortised cost	**734**	–
– Investments at amortised cost	**2 191**	1 943
– Investments at fair value through profit or loss	**96 702**	90 205
– Derivative financial instruments at fair value through profit or loss	**133**	375
Insurance receivables, contract receivables and other non-financial receivables	**10 596**	9 015
Current income tax asset	**294**	136
Reinsurance contracts	**319**	314
Cash and cash equivalents	**10 329**	9 403
Total assets	**194 266**	180 233
EQUITY		
Capital and reserves		
Ordinary share capital and share premium	**10 148**	10 142
Perpetual preference share capital	**779**	779
Other reserves	**762**	452
Retained earnings	**32 986**	31 710
	44 675	43 083
Non-controlling interest	**6**	*
Total equity	**44 681**	43 083
LIABILITIES		
Liabilities arising from insurance contracts	**74 928**	70 522
Liabilities arising from reinsurance contracts	**11 757**	10 835
Deferred income tax liability	**9 033**	8 697
Contract liabilities to customers	**318**	433
Financial liabilities		
– Borrowings at amortised cost	**17 174**	14 682
– Other payables at amortised cost	**10 826**	10 262
– Deposits from customers	**992**	–
– Investment contracts at fair value through profit or loss	**22 749**	20 674
– Derivative financial instruments at fair value through profit or loss	**1 032**	509
Employee benefits	**267**	260
Current income tax liability	**509**	276
Total liabilities	**149 585**	137 150
Total equity and liabilities	**194 266**	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 six months ended 31 December 2019

R million	Group Six months ended December 2019 Unaudited	Group Six months ended December 2018 Unaudited Restated[1]	% change	Group Year ended June 2019 Audited
Insurance premium revenue	**23 378**	21 301		43 036
Reinsurance premiums	**(3 001)**	(2 741)		(5 595)
Net insurance premium revenue	**20 377**	18 560	10	37 441
Fee income from administration businesses	**5 564**	4 873		10 404
Vitality income	**2 007**	1 946		3 653
Other income	**617**	602		1 063
Banking interest and similar income	**48**	–		29
Investment income	**215**	234		398
Net fair value gains/(losses) on financial assets at fair value through profit or loss	**2 658**	(1 766)		4 265
Net income	**31 486**	24 449	29	57 253
Net claims and policyholders' benefits	**(11 955)**	(10 177)	17	(20 879)
Claims and policyholders' benefits	**(13 937)**	(12 011)		(24 538)
Insurance claims recovered from reinsurers	**1 982**	1 834		3 659
Acquisition costs	**(3 134)**	(2 953)		(6 100)
Marketing and administration expenses	**(11 022)**	(9 685)		(19 954)
Amortisation of intangibles from business combinations	**(36)**	(61)		(99)
Credit impairment charges	**(36)**	–		–
Banking interest and similar expenses	**(26)**	–		–
Recovery of expenses from reinsurers	**1 512**	1 393		2 830
Net transfer to/from assets and liabilities under insurance contracts	**(2 641)**	168		(4 706)
– change in assets arising from insurance contracts	**2 584**	2 530		5 321
– change in assets arising from reinsurance contracts	**(480)**	(10)		7
– change in liabilities arising from insurance contracts	**(4 182)**	(1 595)		(8 050)
– change in liabilities arising from reinsurance contracts	**(563)**	(757)		(1 984)
Fair value adjustment to liabilities under investment contracts	**(584)**	703		(809)
Profit from operations	**3 564**	3 837	(7)	7 536
Finance costs	**(755)**	(681)		(1 375)
Foreign exchange gains	**44**	6		*
Gains from dilution of equity accounted investments	**–**	51		844
Gain on previously held interest in DiscoveryCard business	**–**	–		761
Impairment of goodwill	**(9)**	–		(17)
Share of net profits from equity-accounted investments	**125**	60		170
Profit before tax	**2 969**	3 273	(9)	7 919
Income tax expense	**(891)**	(947)	(6)	(1 305)
Profit for the period	**2 078**	2 326	(11)	6 614
Profit attributable to:				
– ordinary shareholders	**2 037**	2 286	(11)	6 533
– preference shareholders	**41**	40		81
– non-controlling interest	*****	*		*
	2 078	2 326	(11)	6 614
Earnings per share for profit attributable to ordinary shareholders of the company during the period (cents):				
– undiluted	**310.3**	352.7	(12)	1 001.5
– diluted	**310.2**	352.5	(12)	1 001.1

** Amount is less than R500 000.*

1 The restatements are as a result of reclassifications. The reclassifications had no effect on the reported 'Net income', 'Profit for the period' or associated earnings per share values. The restatements do not affect any financial information published in the Annual Financial Statements for the year ended 30 June 2019. Refer to note 'Restatement due to incorrect prior period classification'.

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the six months ended 31 December 2019

R million	Group Six months ended December 2019 Unaudited	Group Six months ended December 2018 Unaudited	% change	Group Year ended June 2019 Audited
Profit for the period	**2 078**	2 326	(11)	6 614
Items that are or may be reclassified subsequently to profit or loss:				
Currency translation differences	**354**	167		(140)
– unrealised gains/(losses)	**354**	171		(142)
– tax on unrealised gains/losses	**–**	(4)		2
Cash flow hedges	**(102)**	(26)		(175)
– unrealised (losses)/gains	**(329)**	105		(91)
– tax on unrealised losses/gains	**50**	(26)		(7)
– losses/(gains) recycled to profit or loss	**211**	(130)		(98)
– tax on recycled losses/gains	**(34)**	25		21
Share of other comprehensive income from equity-accounted investments	**6**	3		(19)
– change in fair value of debt instruments at fair value through other comprehensive income	**29**	–		–
– currency translation differences	**(23)**	3		(19)
Other comprehensive income/(losses) for the period, net of tax	**258**	144	79	(334)
Total comprehensive income for the period	**2 336**	2 470	(5)	6 280
Attributable to:				
– ordinary shareholders	**2 295**	2 430	(6)	6 199
– preference shareholders	**41**	40		81
– non-controlling interest	*****	*		*
Total comprehensive income for the period	**2 336**	2 470	(5)	6 280

* *Amount is less than R500 000.*

HEADLINE EARNINGS

for the six months ended 31 December 2019

R million	Group Six months ended December 2019 Unaudited	Group Six months ended December 2018 Unaudited	% change	Group Year ended June 2019 Audited
Basic earnings per share (cents):				
– undiluted	**310.3**	352.7	(12)	1001. 5
– diluted	**310.2**	352.5	(12)	1001. 1
Headline earnings per share (cents):				
– undiluted	**311.7**	347.4	(10)	789.0
– diluted	**311.7**	347.2	(10)	788.7
Normalised headline earnings per share (cents):				
– undiluted	**322.4**	366.6	(12)	771.9
– diluted	**322.3**	366.4	(12)	771.6
The reconciliation between earnings and headline earnings is shown below:				
Net profit attributable to ordinary shareholders	**2 037**	2 286	(11)	6 533
Adjusted for:				
– gain on dilution and disposal of equity-accounted investments, net of tax	**–**	(51)		(666)
– gain on previously held interests in DiscoveryCard business	**–**	–		(761)
– gain on disposal of property and equipment, net of tax	**–**	–		1
– impairment of intangible assets, net of tax	**1**	17		23
– impairment of goodwill	**9**	–		17
Headline earnings	**2 047**	2 252	(9)	5 147
– amortisation of intangibles from business combinations, net of tax	**28**	54		84
– cost relating to disposal of equity-accounted investments, net of tax	**–**	–		15
– debt restructuring costs resulting from DiscoveryCard business transaction	**–**	33		33
– deferred tax asset raised on assessed losses	**–**	–		(326)
– deferred tax related to Discovery Life 'new adjusted IFRS basis' and Corporate Policyholder Fund assessed loss	**–**	–		(38)
– initial expenses related to Prudential Book transfer, net of tax	**15**	11		23
– transaction costs related to VitalityLife interest rate derivatives, net of tax	**19**	–		–
– unrealised losses on foreign exchange contracts not designated as a hedge, net of tax	**8**	26		97
Normalised headline earnings	**2 117**	2 376	(11)	5 035
Weighted number of shares in issue (000's)	**656 623**	648 030		652 295
Diluted weighted number of shares (000's)	**656 805**	648 318		652 568

STATEMENT OF CHANGES IN EQUITY

at 31 December 2019

R million	Share capital and share premium	Preference share capital	Share-based payment reserve
	Attributable to equity holders of the Company		
Period ended 31 December 2019			
At beginning of the period	**10 142**	**779**	**41**
IFRS transitional adjustments	**–**	**–**	**–**
Adjusted balance at beginning of the period	**10 142**	**779**	**41**
Total comprehensive income for the period	**–**	**41**	**–**
Profit for the period	**–**	**41**	**–**
Other comprehensive income	**–**	**–**	**–**
Transactions with owners	**6**	**(41)**	**52**
Delivery of treasury shares	**6**	**–**	**(6)**
Acquisition of subsidiaries with non-controlling interest	**–**	**–**	**–**
Employee share option schemes:			
– Value of employee services	**–**	**–**	**58**
Dividends paid to preference shareholders	**–**	**(41)**	**–**
Dividends paid to ordinary shareholders	**–**	**–**	**–**
At end of the period	**10 148**	**779**	**93**
Period ended 31 December 2018			
At beginning of the period	8 308	779	327
IFRS transitional adjustments	–	–	–
Adjusted balance at beginning of the period	8 308	779	327
Total comprehensive income for the period	–	40	–
Profit for the period	–	40	–
Other comprehensive income	–	–	–
Transactions with owners	1 840	(40)	7
Delivery of treasury shares	3	–	–
Share issue	1 854	–	–
Share issue costs	(17)	–	–
Change in ownership without change in control	–	–	–
Employee share option schemes:			
– Value of employee services	–	–	7
Dividends paid to preference shareholders	–	(40)	–
Dividends paid to ordinary shareholders	–	–	–
At end of the period	10 148	779	334

1 This relates to fair value adjustments on those equity instruments designated at fair value through other comprehensive income (FVOCI) and those debt instruments measured at FVOCI, in terms of IFRS 9 Financial Instruments.

** 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**
–	**–**	**–**	**(13)**	**(13)**	**–**	**(13)**
–	**585**	**(174)**	**31 697**	**43 070**	*	**43 070**
29	**331**	**(102)**	**2 037**	**2 336**	**–**	**2 336**
–	**–**	**–**	**2 037**	**2 078**	**–**	**2 078**
29	**331**	**(102)**	**–**	**258**	**–**	**258**
–	**–**	**–**	**(748)**	**(731)**	**6**	**(725)**
–	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**6**	**6**
–	**–**	**–**	**–**	**58**	**–**	**58**
–	**–**	**–**	**–**	**(41)**	**–**	**(41)**
–	**–**	**–**	**(748)**	**(748)**	**–**	**(748)**
29	**916**	**(276)**	**32 986**	**44 675**	**6**	**44 681**
208	744	1	27 227	37 594	*	37 594
(208)	–	–	131	(77)	–	(77)
–	744	1	27 358	37 517	*	37 517
–	170	(26)	2 286	2 470	–	2 470
–	–	–	2 286	2 326	–	2 326
–	170	(26)	–	144	–	144
–	–	–	(1 840)	(33)	–	(33)
–	–	–	–	3	–	3
–	–	–	–	1 854	–	1 854
–	–	–	–	(17)	–	(17)
–	–	–	(1 104)	(1 104)	–	(1 104)
–	–	–	–	7	–	7
–	–	–	–	(40)	–	(40)
–	–	–	(736)	(736)	–	(736)
–	914	(25)	27 804	39 954	*	39 954

STATEMENT OF CASH FLOWS

for the six months ended 31 December 2019

R million	Group Six months ended December 2019 Unaudited	Group Six months ended December 2018 Unaudited	Group Year ended June 2019 Audited
Cash flow from operating activities	**73**	(1 829)	1 738
Cash generated by operations	**6 787**	5 004	12 154
Purchase of investments held to back policyholder liabilities	**(13 227)**	(10 908)	(35 109)
Proceeds from disposal of investments held to back policyholder liabilities	**6 639**	4 954	23 831
Working capital changes	**(346)**	(1 026)	625
	(147)	(1 976)	1 501
Dividends received	**182**	149	339
Interest received	**1 217**	1 111	2 274
Interest paid	**(640)**	(616)	(1 219)
Taxation paid	**(539)**	(497)	(1 157)
Cash flow from investing activities	**(9)**	125	(2 844)
Purchase of financial assets	**(8 944)**	(9 803)	(21 725)
Proceeds from disposal of financial assets	**9 994**	11 392	21 831
Purchase of property and equipment	**(114)**	(308)	(510)
Proceeds from disposal of property and equipment	**–**	17	95
Purchase of software and other intangible assets	**(809)**	(961)	(1 999)
Proceeds from disposal of intangible assets	**–**	–	22
Proceeds from disposal of equity-accounted investments	**–**	–	402
Additional investment in equity-accounted investments	**(152)**	(212)	(224)
Acquistion of business net of cash	**16**	–	(736)
Cash flow from financing activities	**749**	1 533	(344)
Proceeds from issuance of ordinary shares	**–**	1 854	1 854
Shares issue costs	**–**	(17)	(19)
Acquisition of additional interest in subsidiary	**–**	–	(1 104)
Dividends paid to ordinary shareholders	**(748)**	(736)	(1 400)
Dividends paid to preference shareholders	**(41)**	(40)	(81)
Proceeds from borrowings	**2 320**	2 133	2 147
Repayment of borrowings	**(782)**	(1 661)	(1 741)
Net increase/(decrease) in cash and cash equivalents	**813**	(171)	(1 450)
Cash and cash equivalents at beginning of the period	**9 403**	10 894	10 888
Exchange gains/(losses) on cash and cash equivalents	**113**	42	(35)
Cash and cash equivalents at end of the period	**10 329**	10 765	9 403

ADDITIONAL INFORMATION

at 31 December 2019

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.

	31 December 2019			
R million (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments mandatorily at fair value through profit or loss:				
– Equity securities	34 615	–	–	34 615
– Equity linked notes	–	2 720	–	2 720
– Debt securities	24 439	1 704	–	26 143
– Inflation linked securities	701	*	–	701
– Money market securities	7 108	6 847	–	13 955
– Mutual funds	18 568	–	–	18 568
Derivative financial instruments at fair value:				
– used for cash flow hedges	–	22	–	22
– not designated as hedging instruments	–	111	–	111
	85 431	11 404	–	96 835
Financial liabilities				
Investment contracts at fair value through profit or loss	–	22 749	–	22 749
Derivative financial instruments at fair value:				
– used for cash flow hedges	–	412	–	412
– not designated as hedging instruments	–	620	–	620
	–	23 781	–	23 781

* *Amount is less than R500 000.*

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 check if the price provided by the provider is correct.
- If a quoted market price is not available on a recognised stock exchange or from a broker for non-exchange traded financial instruments, the fair value of the instrument is estimated by the asset managers, using valuation techniques including the use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions.
- The fair value of the 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 instruments mandatorily 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 for cash flow hedges	–	176	–	176
– not designated as hedging instruments	–	199	–	199
	78 010	12 570	–	90 580
Financial liabilities				
Investment contracts at fair value through profit or loss	–	20 674	–	20 674
Derivative financial instruments at fair value:				
– used for cash flow hedges	–	250	–	250
– not designated as hedging instruments	–	259	–	259
	–	21 183	–	21 183

Exchange rates used in the preparation of these results

	USD	GBP
31 December 2019		
– Average	**14.71**	**18.53**
– Closing	**14.07**	**18.50**
30 June 2019		
– Average	14.17	18.32
– Closing	14.15	17.98
31 December 2018		
– Average	14.17	18.27
– Closing	14.39	18.33

SEGMENTAL INFORMATION

for the six months ended 31 December 2019

R million	SA Health	SA Life	SA Invest	SA Vitality
Income statement				
Insurance premium revenue	114	6 419	7 001	–
Reinsurance premiums	(1)	(1 247)	–	–
Net insurance premium revenue	113	5 172	7 001	–
Fee income from administration businesses	3 525	–	1 121	–
Vitality income	–	–	–	1 187
Other income	433	24	–	–
Banking interest and similar income	–	–	–	–
Investment income earned on assets backing policyholder liabilities	–	22	–	–
Finance charge on negative reserve funding	–	–	–	–
Inter-segment funding[1]	–	(383)	383	–
Net fair value gains on financial assets at fair value through profit or loss	–	366	1 685	–
Net income	4 071	5 201	10 190	1 187
Claims and policyholders' benefits	(45)	(4 118)	(5 402)	–
Insurance claims recovered from reinsurers	–	970	–	–
Net claims and policyholders' benefits	(45)	(3 148)	(5 402)	–
Acquisition costs	(5)	(881)	(582)	(43)
Bank interest and similar expenses	–	–	–	–
Credit impairment charges	–	–	–	–
Marketing and administration expenses				
– depreciation and amortisation	(93)	(3)	(4)	(7)
– impairment	–	–	–	(2)
– other expenses	(2 355)	(1 026)	(479)	(1 130)
Recovery of expenses from reinsurers	–	–	–	–
Transfer from assets/liabilities under insurance contracts				
– change in assets arising from insurance contracts	–	1 724	–	–
– change in assets arising from reinsurance contracts	–	10	–	–
– change in liabilities arising from insurance contracts	1	44	(3 073)	–
– change in liabilities arising from reinsurance contracts	–	(45)	–	–
Fair value adjustment to liabilities under investment contracts	–	(1)	(165)	–
Share of net profits from equity-accounted investments	1	–	–	–
Normalised profit/(loss) from operations	1 575	1 875	485	5
Investment income earned on shareholder investments and cash	29	9	25	9
Net fair value gains on financial assets at fair value through profit or loss	–	87	5	–
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	(4)	–	–	–
Foreign exchange gains	2	–	3	–
Profit before tax	1 602	1 971	518	14
Income tax expense	(378)	(556)	(145)	(4)
Profit for the period	1 224	1 415	373	10

1 *The inter-segment funding of R383 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.*

	UK Health	UK Life	All other segments	Segment total	IFRS reporting adjustments: UK Life[2]	DUT[3]	Disclosure adjustments[4]	IFRS total
	4 569	2 620	2 998	23 721	(343)	–	–	23 378
	(787)	(1 254)	(55)	(3 344)	343	–	–	(3 001)
	3 782	1 366	2 943	20 377	–	–	–	20 377
	16	–	908	5 570	–	–	(6)	5 564
	270	98	452	2 007	–	–	–	2 007
	22	–	153	632	–	–	(15)	617
	–	–	48	48	–	–	–	48
	5	23	64	114	–	–	(114)	–
	–	(113)	–	(113)	113	–	–	–
	–	–	–	–	–	–	–	–
	20	(146)	88	2 013	–	584	61	2 658
	4 115	1 228	4 656	30 648	113	584	(74)	31 271
	(2 549)	(905)	(1 122)	(14 141)	204		–	(13 937)
	618	582	16	2 186	(204)	–	–	1 982
	(1 931)	(323)	(1 106)	(11 955)	–	–	–	(11 955)
	(404)	(928)	(178)	(3 021)	(113)	–	–	(3 134)
	–	–	(26)	(26)	–	–	–	(26)
	–	–	(36)	(36)	–	–	–	(36)
	(147)	(21)	(433)	(708)	–	–	(105)	(813)
	–	–	–	(2)	–	–	–	(2)
	(1 641)	(1 021)	(2 543)	(10 195)	(6)	(127)	121	(10 207)
	436	1 076	–	1 512	–	–	–	1 512
	–	377	–	2 101	483	–	–	2 584
	(12)	5	–	3	(483)	–	–	(480)
	79	(8)	(1 188)	(4 145)	(1)	(36)	–	(4 182)
	–	(519)	–	(564)	1	–	–	(563)
	–	–	(20)	(186)	–	(421)	23	(584)
	–	–	124	125	–	–	–	125
	495	(134)	(750)	3 551	(6)	–	(35)	3 510
	1	8	20	101	–	–	114	215
	–	–	(8)	84	–	–	(84)	–
	–	–	(9)	(9)	–	–	–	(9)
	–	(18)	–	(18)	–	–	18	–
	–	(24)	–	(24)	–	–	24	–
	–	–	(36)	(36)	–	–	–	(36)
	–	–	(137)	(137)	–	–	137	–
	(4)	(2)	(571)	(581)	–	–	(174)	(755)
	–	–	39	44	–	–	–	44
	492	(170)	(1 452)	2 975	(6)	–	–	2 969
	(58)	27	217	(897)	6	–	–	(891)
	434	(143)	(1 235)	2 078	–	–	–	2 078

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

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

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

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

SEGMENTAL INFORMATION continued
for the six months ended 31 December 2018

R million	SA Health Restated[1]	SA Life Restated[1]	SA Invest	SA Vitality
Income statement				
Insurance premium revenue	26	5 947	7 476	–
Reinsurance premiums	(1)	(1 224)	–	–
Net insurance premium revenue	25	4 723	7 476	–
Fee income from administration businesses[2]	3 320	–	1 008	–
Vitality income[2]	–	–	–	1 126
Other income[2]	393	20	–	78
Investment income on assets backing policyholder liabilities[3]	–	(3)	33	–
Finance charge on negative reserve funding	–	–	–	–
Inter-segment funding[4]	–	(403)	403	–
Net fair value gains/(losses) on financial assets at fair value through profit or loss[3]	8	468	(1 717)	1
Net income	3 746	4 805	7 203	1 205
Claims and policyholders' benefits	(3)	(4 094)	(4 456)	–
Insurance claims recovered from reinsurers	–	1 132	–	–
Net claims and policyholders' benefits	(3)	(2 962)	(4 456)	–
Acquisition costs	(3)	(905)	(579)	(44)
Marketing and administration expenses				
– depreciation and amortisation	(118)	(2)	(2)	(4)
– impairment of intangible assets	–	–	–	–
– other expenses	(2 160)	(918)	(443)	(1 137)
Recovery of expenses from reinsurers	–	–	–	–
Net transfer to/from assets and liabilities under insurance contracts	–		–	
– change in assets arising from insurance contracts	–	1 610	–	–
– change in assets arising from reinsurance contracts	–	4	–	–
– change in liabilities arising from insurance contracts	–	(108)	(1 388)	–
– change in liabilities arising from reinsurance contracts	–	(23)	–	–
Fair value adjustment to liabilities under investment contracts	–	(1)	120	–
Share of net profits/(losses) from equity accounted investments	2	–	–	–
Normalised profit/(loss) from operations	1 464	1 500	455	20
Investment income earned on shareholder investments and cash[3]	31	3	18	18
Net fair value gains/(losses) on financial assets at fair value through profit or loss[3]	–	48	(12)	–
Gains from dilution of equity accounted investments	–	–	–	–
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	(6)	(2)	–	–
Foreign exchange gains/losses	–	–	5	–
Profit before tax	1 489	1 549	466	38
Income tax expense	(388)	(395)	(132)	(11)
Profit for the period	1 101	1 154	334	27

1 *The restatements are as a result of reclassifications. The reclassifications had no effect on the reported 'Net income', 'Profit for the period' or associated earnings per share values. The restatements do not affect any financial information published in the Annual Financial Statements for the year ended 30 June 2019. Refer to note 'Restatement due to incorrect prior period classification'.*
2 *Refer to footnote 1. 'Fee income from administration businesses' was increased by R263 million, 'Vitality income' was reduced by R464 million and 'Other income' was increased by R201 million.*
3 *Refer to footnote 1. 'Investment income earned on assets backing policyholder liabilities' was reduced by R167 million and 'Net fair value gains/(losses) on financial assets at fair value through profit or loss' was increased by R167 million. 'Investment income earned on shareholder investments and cash' was reduced by R152 million and 'Net fair value gains/(losses) on financial assets at fair value through profit or loss' was increased by R152 million.*
4 *The inter-segment funding of R403 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.*

UK Health	UK Life	All other segments Restated[1]	Segment total	IFRS reporting adjustments			IFRS total Restated[1]
				UK Life[5]	DUT[6]	Disclosure adjustments[7]	
4 134	2 312	1 744	21 639	(338)	–	–	21 301
(663)	(1 028)	(163)	(3 079)	338	–	–	(2 741)
3 471	1 284	1 581	18 560	–	–	–	18 560
10	–	544	4 882	–	–	(9)	4 873
239	68	513	1 946	–	–	–	1 946
–	–	121	612	–	–	(10)	602
6	17	86	139	–	–	(139)	–
–	19	–	19	(19)	–	–	–
–	–	–	–	–	–	–	–
(5)	(32)	(8)	(1 285)	–	(462)	(19)	(1 766)
3 721	1 356	2 837	24 873	(19)	(462)	(177)	24 215
(2 222)	(494)	(891)	(12 160)	149		–	(12 011)
529	250	72	1 983	(149)	–	–	1 834
(1 693)	(244)	(819)	(10 177)	–	–	–	(10 177)
(324)	(960)	(157)	(2 972)	19	–	–	(2 953)
			–				–
(120)	(17)	(203)	(466)	–	–	(105)	(571)
–	–	(18)	(18)	–	–	–	(18)
(1 520)	(986)	(1 909)	(9 073)	(34)	(121)	132	(9 096)
388	968	37	1 393	–	–	–	1 393
			–				–
–	786	–	2 396	134	–	–	2 530
(23)	5	–	(14)	4	–	–	(10)
17	(8)	(212)	(1 699)	(4)	21	87	(1 595)
–	(600)	–	(623)	(134)	–	–	(757)
–	–	–	119	–	562	22	703
–	–	58	60	–	–	–	60
446	300	(386)	3 799	(34)	–	(41)	3 724
1	6	18	95	–	–	139	234
–	–	(36)	–	–	–	–	–
–	–	51	51	–	–	–	51
–	(14)	(2)	(16)	–	–	16	–
–	–	(61)	(61)	–	–	–	(61)
–	–	(142)	(142)	–	–	142	–
–	(2)	(502)	(512)	–	–	(169)	(681)
–	–	1	6	–	–	–	6
447	290	(1 059)	3 220	(34)	–	87	3 273
(40)	(45)	117	(894)	34	–	(87)	(947)
407	245	(942)	2 326	–	–	–	2 326

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:

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

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

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

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 six months ended 31 December 2019 when compared to the same period in the prior year.

R million	December 2019	December 2018	% change
Discovery Health[1]	**3 289**	3 437	(4)
Discovery Life	**1 240**	1 212	2
Discovery Invest	**1 357**	1 387	(2)
Discovery Vitality	**71**	80	(11)
Discovery Insure	**551**	517	7
VitalityHealth	**613**	616	–
VitalityLife	**646**	600	8
Ping An Health (25% interest)	**1 382**	1 080	28
Other new businesses[2]	**374**	137	173
Core new business API of Group	**9 523**	9 066	5
New Closed Schemes[1]	**1 078**	18	>999
New business API of Group including New Closed Schemes	**10 601**	9 084	17
Gross revenue Vitality Group[3]	**515**	441	17
Total new business API and other new business	**11 116**	9 525	17

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 R17 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 six months ended 31 December 2019 when compared to the same period in the prior year.

R million	December 2019	December 2018	% change
Discovery Health	**43 099**	39 405	9
Discovery Life	**6 443**	5 967	8
Discovery Invest	**11 939**	11 280	6
Discovery Insure	**1 766**	1 558	13
Discovery Vitality	**1 187**	1 204	(1)
VitalityHealth	**4 877**	4 383	11
VitalityLife	**2 718**	2 380	14
All other businesses	**2 745**	1 364	101
Gross inflows under management	**74 774**	67 541	11
Less: collected on behalf of third parties	**(42 844)**	(38 462)	11
Discovery Health	**(39 027)**	(35 666)	9
Discovery Invest	**(3 817)**	(2 796)	37
Gross income of Group per the segmental information	**31 930**	29 079	10
Gross income is made up as follows:			
– Insurance premium revenue	**23 721**	21 639	10
– Fee income from administration businesses	**5 570**	4 882	14
– Vitality income	**2 007**	1 946	3
– Other income	**632**	612	3
Gross income of Group per the segmental information	**31 930**	29 079	10

Normalised profit from operations

The following table shows the main components of the normalised profit from operations for the six months ended 31 December 2019:

R million	December 2019	December 2018	% change
Discovery Health	**1 575**	1 464	8
Discovery Life	**1 875**	1 500	25
Discovery Invest	**485**	455	7
Discovery Vitality	**5**	20	(75)
VitalityHealth	**495**	446	11
VitalityLife	**(134)**	300	(145)
Normalised profit from established businesses	**4 301**	4 185	3
Emerging businesses	**253**	169	50
– Discovery Insure	**75**	62	21
– Vitality Group including Ping An Health	**178**	107	66
Normalised profit from operations before investment in new initiatives	**4 554**	4 354	5
Development and other segments	**(1 003)**	(555)	(81)
Normalised profit from operations	**3 551**	3 799	(7)

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, VitalityInvest, a commercial offering in Discovery Insure, an Umbrella Fund and the Vitality1 platform being a leading behavioural change platform enabling shared-value insurance and financial services products across the Discovery Group.

Significant transactions affecting the current results

Derivative instruments – VitalityLife business

VitalityLife, as a long-term insurance provider in the United Kingdom (UK), has significant exposure to long-term interest rate risk, given the impact on reserves of lower investment rate assumptions related to future premium receipts to meet policy obligations. Accordingly, lower long-term interest rates and yield assumptions may negatively impact on the valuation of future policy obligations and result in a valuation loss.

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:

- an interest rate swap with a nominal value of GBP 350 million (R6 474 million), which swaps 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'). The interest rate swap is in place for an extended period of time; and
- a put swap option (payer swaption) which was acquired at a premium of GBP 6.2 million (R115 million) and gives Discovery the participation in the benefit should interest rates rise by more than 0.45% above the hedged rate. The swaption expires on 27 July 2020.

Due to the nature of the underlying exposures, the hedge accounting requirements of IFRS were not met. 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 31 December 2019, the following mark-to-market positions were recorded:

	Line item in financial statements	December 2019
Statement of Financial Position		
Interest rate swap valuation	**Financial liabilities:** Derivative – financial instruments at fair value through profit or loss	**GBP 12.4 million (R229 million)**
Swaption valuation	**Financial assets:** Derivative – financial instruments at fair value through profit or loss	**GBP 5.6 million (R104 million)**
	Original premium	**GBP 6.2 million (R115 million)**
	Fair value remeasurement loss	**(GBP 0.6 million) ((R11 million))**
Income Statement		
Fair value remeasurement loss	Net fair value gains/(losses) on financial assets at fair value through profit or loss	**GBP 13 million (R241 million)**
Transaction costs	Marketing and administration expenses[1]	**GBP 1.3 million (R24 million)**

1 Reflected as part of the normalisation adjustments in the results.

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 40 million (R740 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. It is important to note that at 31 December 2019, Discovery has not adjusted its insurance contract discount interest rate assumption from 30 June 2019 levels.

Borrowings at amortised cost

R million	Reference	December 2019	June 2019
Borrowings from Banks and listed debt		**12 780**	11 034
– United Kingdom borrowings	i	**1 520**	1 612
– South African borrowings	ii	**11 260**	9 422
Lease liabilities		**4 393**	3 648
– 1 Discovery Place		**3 353**	3 321
– Other lease liabilities	iii	**1 041**	327
Total borrowings at amortised cost		**17 174**	14 682

i. United Kingdom borrowings

Discovery previously entered into term facilities totalling GBP 150 million. These borrowings have been used to fund the new business acquisition costs incurred by VitalityLife, which were previously funded by The Prudential Assurance Company Limited (Prudential).

Discovery repaid GBP 60 million of this facility in previous financial periods and a further repayment of GBP 7.5 million of this facility in November 2019. The balance owing at 31 December 2019 amounts to GBP 82 million (R1 520 million) (30 June 2019: GBP 90 million (R1 612 million)).

These facilities carry interest at floating 3-month LIBOR, payable quarterly in arrears. Finance costs of R20 million (31 December 2018: R21 million) in respect of these borrowings have been recognised in profit or loss.

ii. South African borrowings

R million	Reference	December 2019	June 2019
Balance at beginning of the period		**9 422**	7 240
Issuance of listed debt	a.	**1 520**	700
Draw down on existing and new bank facilities	b.	**800**	1 447
Repayment of borrowings	b.	**(517)**	(30)
Accrued interest		**35**	68
– Finance costs capitalised to intangible assets		**–**	47
– Finance costs expensed to profit or loss		**477**	787
– Finance costs paid		**(442)**	(766)
Raising fees capitalised		**–**	(4)
Net foreign exchange differences		**–**	1
Balance at end of the period		**11 260**	9 422

Significant transactions affecting the current results continued

Borrowings at amortised cost continued

Moody's reaffirmed a Aa3.za issuer rating to Discovery Limited on 16 December 2019.

a. Discovery registered an unsecured R10 billion Domestic Medium Term Note (DMTN) programme in November 2017. 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 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% per annum and 9.35% per annum respectively, fixed through interest rate swaps. Interest is payable quarterly in arrears and capital is payable in full at maturity date.

b. During the period, Discovery Bank Limited, a subsidiary of the Discovery Group, entered into a R1 billion 2 year facility as part of its operational treasury management function to support its loans and advances book. Discovery Limited, Discovery Health (Pty) Limited and Discovery Vitality (Pty) Limited provided a joint guarantee in respect of R500 million of this facility. As at 31 December 2019, R300 million of this facility was drawn at variable interest rates linked to 3-month JIBAR, payable quarterly in arrears.

   During the period, Discovery Central Services (Pty) Limited, a subsidiary of the Discovery Group, entered into short-term revolving credit facilities of R500 million as part of its ongoing operational activities. The short-term revolving credit facilities were fully repaid as at 31 December 2019. In the previous financial year, Discovery Central Services, entered into new unsecured 5 year loan facilities of R1.4 billion as part of a broader debt refinancing programme. Interest on this facility is fixed at 10.60% per annum. Interest is payable quarterly in arrears and capital is repayable in full at maturity on 20 December 2023.

Finance costs of R513 million (31 December 2018: R378 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

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 R9 154 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 R189 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 R877 million.
- Cash and cash equivalents decreased by R651 million.
- Other assets decreased by R37 million.

Changes in liabilities

- Investment contracts at fair value through profit or loss increased by R130 million.
- Trade and other payables increased by R108 million.
- Other liabilities decreased by R49 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 R2.1 billion.
- Proceeds from the disposal of investments held to back policyholder liabilities includes cash inflows of R1.3 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 R3 020 million for the six months ended 31 December 2019 (2018: R2 856 million). Discovery offers the members of DHMS access to the Vitality programme.

Equity issued to related parties

Per the 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 third and fifth anniversary of the awards (between 1 October 2022 and 1 October 2024), provided the necessary vesting criteria have been achieved. Details of this have previously been disclosed on 24 December 2019, by way of an announcement on SENS.

Shareholder information

Directorate

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

- Mr HP Mayers, moved from an executive director role to a non-executive director role effective 28 November 2019, following a period of medical leave.
- Mr D Macready has been appointed as an independent non-executive director with effect from 3 February 2020.
- Mr AL 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

Final dividends paid in respect of the 2019 financial year

The following final dividends were paid during the current period:

- B preference share dividend of 508.28767 cents per share (406.63014 cents net of dividend withholding tax), paid on 23 September 2019.
- Ordinary share dividend of 114 cents per share (91.2 cents net of dividend withholding tax), paid on 7 October 2019.

Interim dividend declaration in respect of the 2020 financial year

B preference share cash dividend declaration:

On 14 February 2020 the directors declared an interim gross cash dividend of 505.41097 cents (404.32878 cents net of dividend withholding tax) per B preference share for the period 1 July 2019 to 31 December 2019, 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	Tuesday, 10 March 2020
Shares commence trading "ex" dividend	Wednesday, 11 March 2020
Record date	Friday, 13 March 2020
Payment date	Monday, 16 March 2020

B preference share certificates may not be dematerialised or rematerialised between Wednesday, 11 March 2020 and Friday, 13 March 2020, both days inclusive.

Ordinary share cash dividend declaration:

Notice is hereby given that the directors have declared an interim gross cash dividend of 101 cents (80.8 cents net of dividend withholding tax) per ordinary share, out of income reserves for the six month period ended 31 December 2019. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

The issued ordinary share capital at the declaration date is 658 290 736 ordinary shares.

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Tuesday, 17 March 2020
Shares commence trading "ex" dividend	Wednesday, 18 March 2020
Record date	Friday, 20 March 2020
Payment date	Monday, 23 March 2020

Share certificates may not be dematerialised or rematerialised between Wednesday, 18 March 2020 and Friday, 20 March 2020, both days inclusive.

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 Vitality Life 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.

	December 2019 Statutory capital requirements	Cover	June 2019 Statutory capital requirements	Cover
Discovery Life	**R16 278 million**	**1.7 times**	R17 396 million	1.6 times
Discovery Insure	**R846 million**	**1.7 times**	R789 million	1.7 times
Vitality Health	**GBP 97 million (R1 789 million)**	**1.4 times**	GBP 97 million (R1 777 million)	1.4 times
Vitality Life	**GBP 190 million (R3 526 million)**	**1.7 times**	GBP 208 million (R3 810 million)	1.5 times

Accounting policies

The interim results have been prepared in accordance with International Financial Reporting Standards (IFRS) including IAS 34 *Interim Financial Reporting,* the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council as well as the requirements of the South African Companies Act 71 of 2008. The accounting policies adopted are consistent with the accounting policies applied in the prior Annual Financial Statements, except for the policies described below.

Discovery has adopted IFRS 16 *Leases* from 1 July 2019. Other amendments and annual improvements to IFRS effective for 1 July 2019 have also been adopted but do not have an impact on Discovery's reported results.

As permitted by the transitional provisions of IFRS 16, Discovery has not restated prior year comparative financial statements. Retrospective adjustments arising from the application of this standard are not included in the financial statement balances at 30 June 2019, but have been adjusted to the opening balances at 1 July 2019. The note below presents the required transitional disclosures required to understand the changes arising from the adoption of IFRS 16.

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. The incremental borrowing rates were 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 the 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 recognises 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 or termination options

Extension or 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	**4 212**	667	**4 879**
Total impact on assets		667	
Equity			
Retained earnings	**31 710**	(13)	**31 697**
Liabilities			
Deferred income tax liabilities	**8 697**	(6)	**8 691**
Financial liabilities			
– Borrowings at amortised cost	**14 682**	749	**15 431**
– Other payables at amortised cost	**10 262**	(63)	**10 199**
Total impact on equity and liabilities		667	

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	**602**	**682**
Computer equipment and operating systems	**64**	**66**
Motor vehicles	**1**	**1**
	667	**749**

Restatement due to incorrect prior period classification

The reclassifications had no effect on the reported 'Net Income', 'Profit for the period' or associated earnings per share values. The restatements do not affect any financial information published in the Annual Financial Statements for the year ended 30 June 2019.

The restatements are as a result of reclassification of amounts between separate line items within the 'Net income' subtotal in the Income Statement to align the amounts presented to the stated accounting policies of the Group arising from the adoption of IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments.*

'Fee income from administration businesses' includes fee income earned from health administration, managed care services, asset administration and fees earned on use of intellectual property. 'Vitality income' includes fee income that members or corporates pay to access the Vitality benefit. Other fees earned are included in 'Other income'. In the period for the six months ended 31 December 2018, R201 million of other fees earned was incorrectly presented as part of fee income from administration businesses. The amounts were restated by reducing 'Fee income from administration businesses' by R201 million and increasing 'Other income' with R201 million. In addition, R464 million of fees earned on use of intellectual property was incorrectly presented as part of Vitality income. The amounts were restated by reducing 'Vitality income' by R464 million and increasing 'Fee income from administration businesses' by R464 million.

'Investment income' reflects the interest earned on instruments measured at amortised cost. Interest earned on instruments measured at fair value through profit or loss is included in the line item 'Net fair value gains/(losses) on financial assets at fair value through profit or loss'. In the period for the six months ended 31 December 2018, R319 million of interest earned on instruments at fair value through profit or loss was incorrectly presented in 'Investment income'. The amounts were restated by reducing 'Investment income' by R319 million and increasing 'Net fair value gains/(losses) on financial assets at fair value through profit or loss' by R319 million.

EMBEDDED VALUE STATEMENT

for the six months ended 31 December 2019

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 and VitaltyInvest, 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 31 December 2019 embedded value results and disclosures were not subjected to an external review or audit.

Table 1: Group embedded value

R million	31 December 2019	31 December 2018	% change	30 June 2019
Shareholders' funds	**44 681**	39 954	12	43 083
Adjustment to shareholders' funds from published basis[1]	**(34 977)**	(30 858)		(32 690)
Adjusted net worth[2]	**9 704**	9 096		10 393
Value of in-force covered business before cost of required capital	**66 707**	61 668		63 862
Cost of required capital	**(3 227)**	(2 739)		(3 038)
Discovery Limited embedded value	**73 184**	68 025	8	71 217
Number of shares (millions)	**656.7**	656.6		656.6
Embedded value per share	**R111.44**	R103.60	8	R108.46
Diluted number of shares (millions)	**657.6**	657.6		657.6
Diluted embedded value per share[3]	**R111.29**	R103.44	8	R108.30

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 R18.50/GBP (June 2019: R17.98/GBP; December 2018: R18.33/GBP):

R million	*31 December 2019*	*31 December 2018*	*30 June 2019*
Life net assets under insurance contracts	*(22 355)*	*(19 413)*	*(20 764)*
Vitality Life Limited and Discovery funded VitalityLife business on the Prudential licence net assets under insurance contracts	*(6 231)*	*(5 413)*	*(5 812)*
VitalityHealth financial reinsurance asset	*(2 600)*	*(2 127)*	*(2 315)*
VitalityHealth and VitalityHealth Insurance Limited deferred acquisition costs (net of deferred tax)	*(365)*	*(371)*	*(382)*
VitalityLife receivable relating to the Unemployment Cover benefit (net of deferred tax)	*(19)*	*(27)*	*(19)*
Goodwill relating to the acquisition of Standard Life Healthcare and the Prudential joint venture	*(2 289)*	*(2 268)*	*(2 225)*
Intangible assets (net of deferred tax) in covered businesses	*(964)*	*(811)*	*(800)*
Net preference share capital	*(779)*	*(779)*	*(779)*
Reversal of 1 Discovery Place IAS 17 financial lease accounting	*625*	*351*	*406*
	(34 977)	*(30 858)*	*(32 690)*

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:

R million	*31 December 2019*	*31 December 2018*	*30 June 2019*
Shareholders' funds	*44 681*	*39 954*	*43 083*
Adjustment to shareholders' funds	*(34 977)*	*(30 858)*	*(32 690)*
Adjusted net worth	*9 704*	*9 096*	*10 393*
Excess of available capital over adjusted net worth	*25 668*	*25 291*	*26 773*
Available capital	*35 372*	*34 387*	*37 166*
Required capital	*29 416*	*27 944*	*30 987*
Excess available capital	*5 956*	*6 443*	*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 Vitality Life 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's Pillar 1 Own Funds and its adjusted net worth.*

The required capital at December 2019 for Life is R20 348 million (June 2019: R21 724 million; December 2018: R19 673 million), for Health and Vitality is R949 million (June 2019: R909 million; December 2018: R886 million), for VitalityHealth is R2 411 million (June 2019: R2 350 million; December 2018: R2 240 million) and for VitalityLife is R5 708 million (June 2019: R6 004 million; December 2018: R5 145 million). For Life, 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. For the business sold on the Vitality Life 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 allows for Discovery's BEE transaction where the impact is dilutive i.e. where the current embedded value per share exceeds the current transaction value.

Table 2: Value of in-force covered business

R million	Value before cost of required capital	Cost of required capital	Value after cost of required capital
at 31 December 2019			
Health and Vitality	**21 574**	**(404)**	**21 170**
Life and Invest[1]	**28 812**	**(1 230)**	**27 582**
VitalityHealth[2]	**8 399**	**(388)**	**8 011**
VitalityLife[2]	**7 922**	**(1 205)**	**6 717**
Total	**66 707**	**(3 227)**	**63 480**
at 31 December 2018			
Health and Vitality	21 274	(391)	20 883
Life and Invest[1]	25 834	(1 091)	24 743
VitalityHealth[2]	7 443	(353)	7 090
VitalityLife[2]	7 117	(904)	6 213
Total	61 668	(2 739)	58 929
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 522 million (June 2019: R1 429 million; December 2018: R1 303 million) in respect of investment management services provided on off balance sheet investment business. The net assets of the investment service provider are included in the adjusted net worth.
2 The value of in-force has been converted using the closing exchange rate of R18.50/GBP (June 2019: R17.98/GBP; December 2018: R18.33/GBP).

Table 3: Group embedded value earnings

	Six months ended		Year ended
R million	31 December 2019	31 December 2018	30 June 2019
Embedded value at end of period	**73 184**	68 025	71 217
Less: Embedded value at beginning of period	**(71 217)**	(65 624)	(65 624)
Increase in embedded value	**1 967**	2 401	5 593
Net change in capital[1]	**–**	(1 840)	(1 839)
Dividends paid	**789**	776	1 481
Transfer to hedging reserve	**102**	27	175
Employee share option schemes	**(58)**	(7)	(33)
Increase in treasury shares	**–**	–	5
Acquisition of subsidiaries with non-controlling interest[2]	**(6)**	–	–
Change in ownership[3]	**–**	1 104	1 104
IFRS transitional arrangements[4]	**13**	77	73
Embedded value earnings	**2 807**	2 538	6 559
Annualised return on opening embedded value	**8.0%**	7.9%	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.

Table 4: Components of Group embedded value earnings

R million	Six months ended 31 December 2019 Net worth	Cost of required capital	Value of in-force covered business	Embedded value	Six months ended 31 December 2018 Embedded value	Year ended 30 June 2019 Embedded value
Total profit from new business (at point of sale)	(2 496)	(174)	3 866	**1 196**	1 300	2 622
Profit from existing business						
■ Expected return	3 037	–	(428)	**2 609**	2 858	6 000
■ Change in methodology and assumptions[1]	759	71	(1 595)	**(765)**	(332)	(1 930)
■ Experience variances	33	(44)	553	**542**	(656)	19
Impairment, amortisation and fair value adjustment[2]	(8)	–	–	**(8)**	(31)	(37)
Increase in goodwill and intangibles	(271)	–	–	**(271)**	(113)	(244)
Other initiative costs[3]	(546)	–	20	**(526)**	(288)	914
Non-recurring expenses	–	–	–	**–**	(102)	(3)
Acquisition costs[4]	(6)	–	(4)	**(10)**	(22)	(39)
Finance costs	(553)	–	–	**(553)**	(494)	(1 060)
Foreign exchange rate movements	3	(42)	432	**393**	189	(178)
Other[5]	–	–	1	**1**	58	76
Return on shareholders' funds[6]	199	–	–	**199**	171	419
Embedded value earnings	151	(189)	2 845	**2 807**	2 538	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.
3 This item includes profits and costs of start-up businesses, and expenses incurred to investigate new products and markets. Start-up costs include costs in relation to the 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. Included in this item for 30 June 2019 are once-off gains from the dilution of Discovery Insure's investment in Cambridge Mobile Telematics.
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	56	–	9	–	26	–	15	–	**106**
Lapses and surrenders[1]	(1)	(132)	61	1	–	238	(23)	(47)	**97**
Mortality and morbidity	–	–	(48)	(29)	(56)	–	(21)	–	**(154)**
Policy alterations[2]	–	(12)	(290)	306	–	–	(8)	(21)	**(25)**
Premium and fee income[3]	68	–	–	89	24	–	(5)	(15)	**161**
Economic[4]	4	145	(10)	(184)	–	–	–	–	**(45)**
Commission	–	–	–	–	20	–	–	–	**20**
Tax[5]	72	–	137	(101)	110	–	34	–	**252**
Reinsurance	–	–	–	–	(35)	–	34	(49)	**(50)**
Maintain modelling term[6]	–	159	–	88	–	30	–	–	**277**
Vitality benefits	(11)	–	–	–	–	–	(3)	–	**(14)**
Other[7]	22	1	(61)	62	52	–	(139)	(20)	**(83)**
Total	210	161	(202)	232	141	268	(116)	(152)	**542**

1 The lapse and surrender experience for Health and Vitality relates to lower than expected additions to existing compulsory scheme membership.
2 The policy alterations experience for Life and Invest arises largely due to servicing and fund switches.
3 The premium and fee income experience for Life arises largely due to the impact of Vitality status distribution shifts compared to expected levels.
4 The economic experience for Health and Vitality relates to the impact on administration and managed care fees due to the in-period inflation being higher than that assumed.
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 31 December 2019 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 six months.
7 The other experience for VitalityLife includes, amongst other things, the cost of the interest rate hedge.

Table 6: Methodology and assumption changes

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
Modelling changes[1]	–	–	(1)	130	–	–	(6)	57	**180**
Expenses	–	–	–	9	–	–	–	–	**9**
Lapses	–	–	–	–	–	–	–	–	**–**
Mortality and morbidity	–	–	–	–	–	–	–	–	**–**
Benefit changes	–	(1)	(4)	10	–	–	–	–	**5**
Tax	–	–	–	–	–	–	–	54	**54**
Economic assumptions[2]	–	(203)	13	(671)	–	–	(10)	(76)	**(947)**
Premium and fee income	–	–	–	–	–	–	–	–	**–**
Reinsurance[3]	–	–	782	(784)	–	(15)	–	–	**(17)**
Other[4]	–	–	–	(15)	–	–	(15)	(19)	**(49)**
Total	–	(204)	790	(1 321)	–	(15)	(31)	16	**(765)**

1 For Life, the modelling changes line predominately relates to corrections on policy data. For VitalityLife, this line includes a product update, refinements to the required capital calculations and an allowance for the loss absorbing capacity of deferred taxes in the required capital.
2 For Life, Invest, Health and Vitality the economic assumptions item relates to the impact of updating the assumptions relative to the publically available Prudential Authority nominal and real yield risk-free curves at 31 December 2019. For VitalityLife the item relates to the impact of the Solvency II swap curve on the cost capital.
3 For Life, the reinsurance item primarily relates to the impact of the financing reinsurance arrangements.
4 For VitalityLife, the other item relates to the margin reset to offset experience variances, as per the accounting policy.

Table 7: Embedded value of new business

R million	Six months ended 31 December 2019	Six months ended 31 December 2018	% change	Year ended 30 June 2019
Health and Vitality				
Present value of future profits from new business (at point of sale)	**391**	428		832
Cost of required capital	**(14)**	(14)		(27)
Present value of future profits from new business (at point of sale) after cost of required capital	**377**	414	(9)	805
New business annualised premium income[1]	**1 714**	1 668	3	3 716
Life and Invest				
Present value of future profits from new business (at point of sale)[2]	**570**	668		1 242
Cost of required capital	**(44)**	(41)		(82)
Present value of future profits from new business (at point of sale) after cost of required capital	**526**	627	(16)	1 160
New business annualised premium income[3]	**1 457**	1 546	(6)	2 897
Annualised profit margin[4]	**4.3%**	4.8%		4.6%
Annualised profit margin excluding Invest business	**9.5%**	10.7%		10.2%
VitalityHealth[5]				
Present value of future profits from new business (at point of sale)	**121**	119		330
Cost of required capital	**(26)**	(26)		(59)
Present value of future profits from new business (at point of sale) after cost of required capital	**95**	93	2	271
New business annualised premium income (Rand)[6]	**609**	606	0	1 294
Annualised profit margin[4]	**2.5%**	2.5%		3.2%
VitalityLife[7]				
Present value of future profits from new business (at point of sale)	**288**	230		520
Cost of required capital	**(90)**	(64)		(134)
Present value of future profits from new business (at point of sale) after cost of required capital	**198**	166	19	386
New business annualised premium income (Rand)	**524**	503	4	995
Annualised profit margin[4]	**4.9%**	4.3%		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 31 December 2019.*
The total Health and Vitality new business annualised premium income written over the period was R3 360 million (June 2019: R6 801 million; December 2018: R3 517 million).

2 *Included in the Life and Invest embedded value of new business is R22 million (June 2019: R70 million; December 2018: R43 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 R1 457 million (June 2019: R2 897 million; December 2018: R1 546 million) (single premium APE: R635 million (June 2019: R1 321 million; December 2018: R699 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 R773 million (June 2019: R1 370 million; December 2018: R704 million) and servicing increases of R367 million (June 2019: R648 million; December 2018: R349 million), was R2 597 million (June 2019: R4 915 million; December 2018: R2 599 million) (single premium APE: R671 million (June 2019: R1 382 million; December 2018: R725 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 31 December 2019.*

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 six months ended 31 December 2019

BASIS OF PREPARATION

Table 8: Embedded value economic assumptions

		31 December 2019	31 December 2018	30 June 2019
Beta coefficient		**0.75**	0.75	0.75
Equity risk premium (%)		**3.5**	3.5	3.5
Risk discount rate (%)				
Health and Vitality[1]		**12.375**	12.375	11.875
Life and Invest[1]		**13.435**	13.125	13.125
VitalityHealth		**3.61**	4.02	3.61
VitalityLife		**4.725**	4.725	4.725
Rand/GB Pound exchange rate				
Closing		**18.50**	18.33	17.98
Average		**18.53**	18.27	18.32
Margin over Expense inflation to derive Medical inflation (%)				
South Africa		**3.00**	3.00	3.00
Expense inflation (%)				
South Africa[2]	– Health and Vitality	**6.29**	6.84	6.13
	– Life and Invest	**7.28**	7.49	7.24
United Kingdom		**3.00**	3.00	3.00
Pre-tax investment return (%)				
South Africa	– Cash[1]	**9.31**	9.00	9.00
	– Life and Invest bonds[3]	**10.81**	10.50	10.50
	– Health and Vitality bonds[3]	**9.75**	9.75	9.25
	– Equity[1]	**14.00**	14.00	14.00
United Kingdom	– VitalityHealth investment return	**0.99**	1.40	0.99
	– VitalityLife investment return	**2.10**	2.50	2.10
Income tax rate (%)				
South Africa		**28**	28	28
United Kingdom	– long term[4]	**17**	17	17
VitalityHealth Assumptions				
– Margin (net of tax and cost of capital) (%)		**14.1**	14.1	14.1
– Annuity Factor		**6.13**	6.00	6.13
Projection term				
– Health and Vitality		**20 years**	20 years	20 years
– Discovery Life	– ViF	**40 years**	40 years	40 years
– Group Life		**10 years**	10 years	10 years
– VitalityLife		**No cap**	No cap	No cap
– VitalityHealth[5]		**20 years**	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.
3 As indications, the cash flow weighted averages derived from the relevant yield curve(s) are shown.
4 The United Kingdom Corporation tax rate assumed is 19% in 2019 to 2020, and 17% beyond that.
5 The VitalityHealth projection term of 20 years is used in the derivation of the Annuity Factor.

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 2018, the South African investment return assumptions for Life, Invest, Health and Vitality were based on the publically available Prudential Authority risk-free nominal yield curve. The real yield assumption was set based on the publically available Prudential Authority 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 best estimate investment return assumption for VitalityHealth was based on the single interest rate derived from the risk-free zero coupon sterling yield curve.

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.

VitalityLife adopts a passive approach for setting economic assumptions. The nominal investment return and real return rate are fixed unless market conditions depart significantly from the assumptions at the financial year end. Other economic assumptions were set relative to these two passive yields.

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. Vitality Life Limited and the VitalityLife business on the Prudential licence required capital amount is assumed to earn the same return as the assets backing the VitalityLife policyholder liabilities. 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.

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 31 December 2019 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	9 704	21 574	(404)
Impact of:			
Risk discount rate +1%	9 704	20 320	(439)
Risk discount rate -1%	9 704	22 966	(364)
Lapses -10%	9 520	22 301	(424)
Interest rates -1%[1]	8 832	21 700	(388)
Equity and property market value -10%	9 667	21 574	(404)
Equity and property return +1%	9 704	21 574	(404)
Renewal expenses -10%	9 778	23 695	(374)
Mortality and morbidity -5%	9 888	21 574	(404)
Projection term +1 year	9 704	21 884	(409)

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	391	(14)
Impact of:		
Risk discount rate +1%	357	(15)
Risk discount rate -1%	429	(12)
Lapses -10%	414	(14)
Interest rates -1%[1]	397	(13)
Equity and property return +1%	391	(14)
Renewal expense -10%	449	(13)
Mortality and morbidity -5%	391	(14)
Projection term +1 year	400	(14)
Acquisition costs -10%	404	(14)

1 All economic assumptions were reduced by 1%.

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
28 812	(1 230)	8 399	(388)	7 922	(1 205)	**73 184**	
26 102	(1 142)	7 968	(368)	7 435	(1 443)	**68 137**	(7)
32 016	(1 333)	8 874	(410)	8 496	(872)	**79 077**	8
31 161	(1 320)	9 468	(437)	8 495	(1 403)	**77 361**	6
29 515	(1 319)	8 733	(410)	7 904	(1 808)	**72 759**	(1)
28 358	(1 264)	8 398	(388)	7 922	(1 205)	**72 658**	(1)
29 148	(1 233)	8 450	(388)	7 922	(1 205)	**73 568**	1
29 270	(1 185)	9 023	(388)	8 036	(1 150)	**76 705**	5
30 678	(1 043)	9 690	(388)	8 106	(1 167)	**76 934**	5
28 970	(1 242)	8 456	(391)	7 922	(1 205)	**73 689**	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
570	(44)	121	(26)	288	(90)	**1 196**	
429	(41)	89	(24)	222	(105)	**912**	(24)
737	(48)	157	(27)	364	(68)	**1 532**	28
720	(48)	188	(29)	370	(112)	**1 489**	24
598	(48)	148	(27)	301	(141)	**1 215**	2
585	(45)	125	(26)	288	(90)	**1 214**	2
592	(43)	161	(26)	302	(81)	**1 341**	12
629	(38)	203	(26)	311	(82)	**1 374**	15
578	(45)	125	(26)	288	(90)	**1 216**	2
647	(44)	139	(26)	348	(81)	**1 373**	15

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

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(Registration number: 1999/007789/06)
Company tax reference number: 9652/003/71/7

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JSE share code: DSBP ISIN: ZAE000158564
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* *Executive.*
1 *Appointed effective 3 February 2020.*
2 *Redesignated as a non-executive director effective 28 November 2019.*
3 *Retired effective 14 February 2020.*

Interim financial results
– prepared by L van Jaarsveldt CA(SA) and A Nel CA(SA)
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