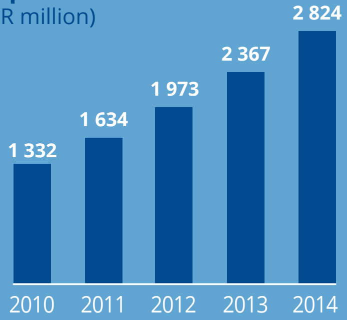
RESULTS AND COMMENTARY

Summary of unaudited interim results and cash dividend declaration

for the six months ended 31 December 2014

Normalised profit from operations
(R million)

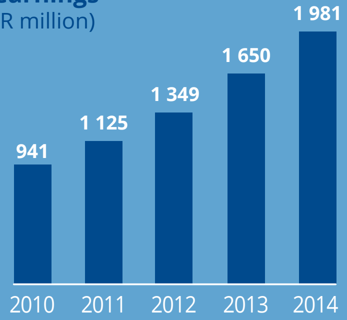


Normalised profit from operations

R2 824 million

up 19%

Normalised headline earnings
(R million)

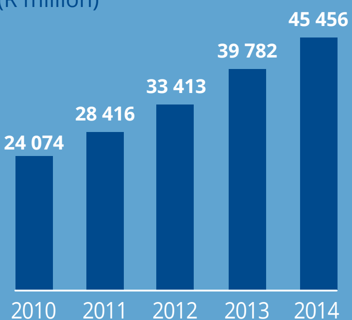


Normalised headline earnings

R1 981 million

up 20%

Embedded value
(R million)



Embedded value

R45.5 billion

up 14%

Commentary

Overview: model and Discovery Group performance

The period under review to 31 December 2014 saw continued investment in the Discovery business model. This model uses behavioural incentives to engage members to make better health and lifestyle choices, and integrates this engagement into their insurance. This shared value approach leads to lower price points, the attraction of healthier lives, behaviour change, lower lapse rates, and better selective lapsation – thereby creating value for members, the insurer, and broader society.

Over the period, the model delivered continued growth in the established businesses, and strong new business growth (+100%) in the new businesses. This manifested in total new business growth of 17% for the period to R6 663 million; growth in headline earnings of 106% (distorted by the accounting treatment of the acquisition of Prudential's remaining stake in the UK joint venture); an uplift in normalised headline earnings of 20% to R1 981 million; an embedded value increase of 14% to R45.5 billion; and return on capital exceeding the internal benchmark rate of risk free plus 10%.

The period was also one of significant corporate activity, including the acquisition of Prudential's remaining 25% shareholding in the UK joint venture for £155 million, and the successful restructuring of the UK business. In addition, the period saw Discovery formally establish Discovery Partner Markets; expanding the Discovery business model with some of the world's leading insurers in their markets.

Expansion and strategic overview

Discovery's expansion strategy is based on two philosophies: (1) a growth engine, comprising businesses at different stages of maturity, powered by start-ups, and organic growth in established businesses; and (2) choosing the right archetype for entry, being either Primary Markets, where Discovery owns, and operates the insurer; or Partner Markets, where Discovery partners with leading global insurers in their markets. During the period, the model continued to be deployed successfully across the Group.

In the **UK Primary Market**, the business has been rebranded as "Vitality" to reflect the integral nature of this asset to the overall insurance proposition, with the operating entities being VitalityHealth and VitalityLife respectively.

With full ownership, Discovery intends to accelerate towards its ambition of building the leading protection business in the UK through:

- Rolling out a highly-visible and distinctive brand campaign, under the unified Vitality banner.
- Pursuing a multi-product distribution strategy through the franchise channel.
- Significantly enhancing presence in the direct-to-consumer space through investment in the brand.
- Enhancing the wellness platform, for example, through a new category of real-time benefits, and the inclusion of British Airways, iTunes and Starbucks in the partner network.
- Further enhancing its market-leading products through the introduction of innovations such as virtual primary care delivery, and the acceleration of life cover for degenerative diseases of later life.

In the **South African Primary Market**, deployment over the period focused on building a better insurance system for Discovery members through:

- Product innovation across all of its businesses. This included new product lines, further integration between businesses, and enhancements to current product suites.
- Strengthened and expanded distribution, most notably through growth in the tied agency force and significant traction in the direct-to-consumer channels.
- Advancing the member experience, supported by innovative technologies.

In **Discovery's Partner Markets**, the strategy has been to partner with leading global insurers in markets that are characterised by large life insurance industries; a high prevalence of non-communicable diseases; a strong intermediary presence; and product commoditisation.

These markets are most receptive to the Discovery model, and can be accessed on a capital-light basis, which harnesses the existing brand, and distribution assets of the partner. Partners franchise this model, acquiring the licence to use its assets in exchange for a share of the economic value created.

Building on the existing partnerships in Asia through AIA, Discovery is partnering with Generali in mainland Europe to launch Vitality-integrated products in Germany, France, and Austria. In addition, Discovery will soon announce a partnership with a large US life insurer. Discovery Partner Markets is now in a position to serve eight out of the 10 largest protection markets globally.

Business-specific performance

Discovery Health

Discovery Health has built a sophisticated healthcare system that creates shared value for all its stakeholders. It achieves this by providing better healthcare services at a lower cost; and by improving the health of members of the schemes under its management.

The success of the shared value health insurance model was evidenced by the strong performance of both open, and restricted scheme clients over the period. Discovery Health Medical Scheme (DHMS) accelerated its market-leading position to 53% of the open schemes market (2.6 million lives); and Discovery Health proved highly competitive in the restricted schemes space (just under 300 000 lives under management).

In terms of financial performance, Discovery Health exceeded expectation during the period: normalised operating profit increased by 11% to R954 million, and new business increased by 7% to R2 806 million, off a significant base, powered by an increasing contribution from the newly-formed direct-to-consumer channel (40% of individual new business with favourable demographics).

DHMS saw similar excellent performance. Lapses remained comparatively low at 4.6%, and the Scheme ended the calendar year 2014 with a solvency of 25.8%, with R11.6 billion in reserves.

Discovery Health continued to invest in its model by giving low-income employees access to basic healthcare through the newly-launched Discovery PrimaryCare product. In addition, it launched initiatives aimed at improving the quality of care, including virtual consultations, and online booking of consultations; a new Discovery HomeCare nursing service; and Personal Health Programmes which assist GPs to provide improved care to patients with chronic illnesses. Discovery Health is also making it easier for members to be active through VitalityFit, Team Vitality, and Scheme funding of fitness devices.

Discovery Health maintains its commitment to building a sustainable, and equitable national healthcare system through supporting roll-out of the National Health Insurance system, and optimising interactions between the public, and private healthcare systems. In addition, Discovery Health continues to play its part in building a private healthcare system that is accessible, affordable, and of high quality; and is supportive of the Competition Commission's Inquiry into Private Healthcare. Discovery Health is of the view that the Inquiry will contribute to the development of a more efficient healthcare system for all stakeholders; and looks forward to engaging in the Inquiry process, and the Panel's report in late 2015.

Discovery Life

Discovery Life's integrated model is the most sophisticated manifestation of the Group's behavioural life insurance model. It creates better initial selection, ongoing behaviour change, and positive selective lapsation.

Due to the strength of this model, the period under review saw normalised operating profit growth of 17% to R1 464 million; new business uplift of 9% to R1 151 million; claims experience well below expected; and R1 billion of cash generated from existing business, before financing activities, and investment into new business activities. The embedded value was marginally impacted by a change in the risk-discount rate in combination with increased engagement in high-value member segments.

Discovery Invest

Discovery Invest's performance was ahead of expectation, with normalised operating profit of R191 million, up 29%; and assets under management increasing to R45.6 billion, up 27% from the prior period. This sustained growth was largely driven by increased take-up of integrated products, market momentum, and increased adviser support. The value of new business margins increased due to a shift toward Discovery Invest managed funds, and integrated products.

Discovery Insure

Discovery Insure saw phenomenal growth over the period: new business grew 57% to R403 million; in force premium income grew 82% to R1 403 million; cars covered grew to 100 000; and the profit signature turned in a positive direction.

Furthermore, the adjacent application of the behavioural insurance model yielded positive actuarial results, with loss ratios trending downwards, and significant improvement in both loss ratios, and lapse rates by duration. In addition, the period was notable for the emergence of increased business efficiencies, indicative of Discovery Insure progressing towards scale.

During the period, Discovery Insure's strategic focus was on raising brand awareness, harnessing advanced mobile tracking technology, and transforming the member claims experience.

DiscoveryCard

DiscoveryCard continued to exhibit exceptional economic dynamics, and quality of client base, as evidenced by spend rates, which grew 12.6% year-on-year, and bad debt experience, which is among the lowest in the industry. The DiscoveryCard client base now exceeds 250 000 cardholders, and was independently rated as offering the best credit card benefits in the market. These were further enhanced during the period with the inclusion of new cash-back partners, and incentive structures where cardholders can earn enhanced miles in a select range of retail stores as they improve their health.

Ping An Health

The opportunity within the Chinese private health insurance sector remains robust, given a significant proportion of out-of-pocket medical spend; a rapidly-expanding middle class; the increased use of technology to provide access to private healthcare; and government policy that strongly supports the development of commercial health insurance. Against this backdrop, Ping An Group is developing a health ecosystem characterised by best-in-class health insurance, and the use of technology to enhance the provision of healthcare services.

Within this ecosystem, Ping An Health is well positioned in both the high-end Group market, and the Individual mid-market segments. Over the period, it built on its leading position in the high-end market. Individual sales witnessed explosive growth, with a current run rate of over 800 cases sold per day, following an agreement to issue the product on the Ping An Life licence, thereby making optimal use of the Ping An Life distribution capability. In addition, the loss ratio, and lapse rates were carefully maintained within tolerance levels.

AIA Vitality

The initial market roll-outs in Singapore, and Australia are well underway, and market receptivity to the integrated products has been excellent – of the current products with integrated options available, 52% of all sales are Vitality integrated in Singapore, and 33% in Australia. AIA Vitality continued to win awards, with AIA Australia the recipient of two recent accolades: "Most innovative risk product" for AIA Vitality, by the Association of Financial Advisers, and the "Gold Quill Merit Award" for AIA Australia's internal launch of Vitality, from the International Association of Business Communicators.

The Vitality Group

The United States is characterised by the biggest spending on healthcare globally, and is the largest wellness and protection market in the world. Discovery introduced its business model to the US through The Vitality Group, which now covers over 700 000 members in 50 states.

Over the period, the model's capability was endorsed in this highly competitive market, with excellent health participation rates, and member engagement. In addition, seven Vitality corporate clients were recognised in the *2014 Healthiest 100 Workplaces in America* programme.

During the period, the HumanaVitality partnership ended. While the partnership was fruitful for Discovery, it caused brand, and product confusion among distribution channels, and conflicted with The Vitality Group's agenda for expansion in the US. Humana will continue to use the Vitality asset for a period of two years. Discovery Partner Markets is now set to partner with a large national life insurer, leveraging off the existing infrastructure provided by The Vitality Group.

The United Kingdom

The UK business is a fundamental beachhead for Discovery's strategy of internationalising its composite Health, and Life insurance model, given the UK's lifestyle disease burden, ageing population, sizeable protection market, and commoditised offerings. Against this backdrop, the performance of the UK business was strong: operating profit grew 20% to R432 million; and new business grew 7% to R915 million, driven by VitalityLife which had excellent sales in the last quarter.

VitalityLife

Discovery's UK protection business produced a strong second quarter, with normalised operating profit for the year-to-date, up 18% to R269 million, and new business up 20% to R502 million. The period also saw the continued adoption of the Vitality-integrated model, with the Vitality Optimiser product comprising 46% of new business. VitalityLife continued to grow its distribution footprint, and is now on all the major network panels, having recently been added to the prestigious St James's Place panel.

VitalityHealth

In the period under review, VitalityHealth made a major breakthrough by introducing primary care benefits into the market through its proprietary virtual GP service; and a new proposition for the Corporate market, which leverages the workplace to drive behaviour change. VitalityHealth made a normalised operating profit of R163 million, up 24% from the prior period, driven by a sophisticated approach to claims management, and price optimisation which saw the loss ratio improve to its lowest level. New business was down by 4% to R413 million, reflecting the pursuit of quality in a highly competitive, and aggressive new business acquisition market. Focus on the more profitable business segments brought a substantial uplift in better quality direct business – total direct sales contributed 35% of total sales, and are up 11% year-on-year.

Rights Issue

The work done over the period has manifested in attractive growth opportunities for the Group. The Board has resolved to raise capital to pursue distinct opportunities for additional growth:

- In the context of the UK, the rationale behind the acquisition of Prudential's remaining 25% shareholding in the UK joint venture was to pursue strong, profitable growth and further opportunities. In particular, VitalityLife presents a strong case for further investment, given the success of the Vitality-integrated life insurance product, the scale and reach of the distribution and wellness network, and attractive returns on new business. Historically, new business was funded through the Prudential structure. Going forward, to maintain the rate of growth, additional capital is required.
- In the South African Primary Market, Discovery is pursuing adjacent opportunities, which will require capital to fully pursue.

The capital of R4 billion to R5 billion will be raised by way of an underwritten renounceable rights issue, the terms of which will be finalised by 10 March 2015. The rights issue will be priced at R90.00 per rights issue share, and the capital raising will not exceed R5 billion.

Adrian Gore, Barry Swartzberg, Rand Merchant Insurance Holdings Limited, and other Discovery directors, collectively holding c.37% of Discovery shares, have irrevocably committed to follow their rights pursuant to the rights issue. The balance of the rights issue is underwritten by Rand Merchant Insurance Holdings Limited.

Shareholders are referred to the rights issue declaration announcement, released on SENS on 24 February 2015, for further information on the proposed rights issue.

On behalf of the Board

MI HILKOWITZ	**A GORE**
Chairperson	Group Chief Executive

Sandton
23 February 2015

Statement of **financial position**

at 31 December 2014

R million	Group December 2014 Unaudited	Group June 2014 Audited
Assets		
Assets arising from insurance contracts	**19 737**	17 999
Property and equipment	**715**	666
Intangible assets including deferred acquisition costs	**2 344**	2 344
Goodwill	**2 231**	2 239
Investment in associates	**494**	551
Financial assets		
– Equity securities	**22 569**	19 830
– Equity linked notes	**2 405**	1 672
– Debt securities	**10 556**	10 318
– Inflation linked securities	**219**	483
– Money market securities	**7 728**	8 028
– Derivatives	**652**	588
– Loans and receivables including insurance receivables	**2 768**	3 110
Deferred income tax	**374**	406
Current income tax asset	**46**	46
Reinsurance contracts	**286**	266
Cash and cash equivalents	**4 658**	3 650
Total assets	**77 782**	72 196
Equity		
Capital and reserves		
Ordinary share capital and share premium	**2 583**	2 582
Perpetual preference share capital	**779**	779
Other reserves	**1 653**	1 501
Retained earnings	**15 584**	12 549
	20 599	17 411
Non-controlling interest	**–**	–
Total equity	**20 599**	17 411
Liabilities		
Liabilities arising from insurance contracts	**28 323**	25 797
Liabilities arising from reinsurance contracts	**3 659**	2 247
Financial liabilities		
– Puttable non-controlling interests	**–**	4 494
– Negative reserve funding	**5 112**	4 684
– Borrowings at amortised cost	**1 956**	572
– Investment contracts at fair value through profit or loss	**9 069**	8 264
– Derivatives	**9**	10
– Trade and other payables	**3 676**	3 752
Deferred income tax	**4 801**	4 647
Deferred revenue	**164**	157
Employee benefits	**160**	154
Current income tax liability	**254**	7
Total liabilities	**57 183**	54 785
Total equity and liabilities	**77 782**	72 196

Income **statement**

for the six months ended 31 December 2014

R million	Group Six months ended December 2014 Unaudited	Group Six months ended December 2013 Unaudited	% change	Group Year ended June 2014 Audited
Insurance premium revenue	**13 529**	11 001		23 090
Reinsurance premiums	**(1 368)**	(1 017)		(2 182)
Net insurance premium revenue	**12 161**	9 984		20 908
Fee income from administration business	**3 082**	2 647		5 863
Vitality income	**1 459**	1 167		2 492
Receipt arising from reinsurance contracts	**1 250**	–		–
Investment income	**212**	192		414
– investment income earned on shareholder investments and cash	**74**	86		152
– investment income earned on assets backing policyholder liabilities	**138**	106		262
Net realised (losses)/gains on available-for-sale financial assets	**(8)**	43		231
Net fair value gains on financial assets at fair value through profit or loss	**1 023**	2 359		4 278
Net income	**19 179**	16 392		34 186
Claims and policyholders' benefits	**(7 415)**	(5 350)		(11 718)
Insurance claims recovered from reinsurers	**1 132**	857		1 809
Net claims and policyholders' benefits	**(6 283)**	(4 493)		(9 909)
Acquisition costs	**(2 472)**	(2 007)		(4 296)
Marketing and administration expenses	**(5 883)**	(4 769)		(10 146)
Amortisation of intangibles from business combinations	**(113)**	(91)		(187)
Recovery of expenses from reinsurers	**214**	153		360
Transfer from assets/liabilities under insurance contracts	**(1 770)**	(2 320)		(3 726)
– change in assets arising from insurance contracts	**1 772**	959		2 816
– change in assets arising from reinsurance contracts	**23**	(29)		20
– change in liabilities arising from insurance contracts	**(2 153)**	(3 220)		(5 815)
– change in liabilities arising from reinsurance contracts	**(1 412)**	(30)		(747)
Fair value adjustment to liabilities under investment contracts	**(276)**	(486)		(1 224)
Profit from operations	**2 596**	2 379		5 058
Puttable non-controlling interest fair value adjustment	**1 661**	105		(201)
Finance costs	**(106)**	(108)		(220)
– finance costs raised on puttable non-controlling interest financial liability	**(64)**	(75)		(157)
– other finance costs	**(42)**	(33)		(63)
Foreign exchange gains	**18**	1		18
Realised gains from the sale of associate	**7**	–		–
Share of net profits/(losses) from equity accounted investments	**48**	(16)		(14)
Profit before tax	**4 224**	2 361	79	4 641
Income tax expense	**(694)**	(614)	(13)	(1 327)
Profit for the period	**3 530**	1 747	102	3 314
Profit attributable to:				
– ordinary shareholders	**3 495**	1 713	104	3 246
– preference shareholders	**35**	34		68
– non-controlling interest	**–**	–		–
	3 530	1 747	102	3 314
Earnings per share for profit attributable to ordinary shareholders of the company during the period (cents):				
– basic	**608.7**	307.7	98	574.2
– diluted	**600.4**	301.1	99	559.8

Statement of **comprehensive income**

for the six months ended 31 December 2014

R million	Group Six months ended December 2014 Unaudited	Group Six months ended December 2013 Unaudited	% change	Group Year ended June 2014 Audited
Profit for the period	**3 530**	1 747		3 314
Items that are or may be reclassified subsequently to profit or loss:				
Change in available-for-sale financial assets	**13**	96		(3)
– unrealised gains	**4**	160		272
– capital gains tax on unrealised gains	**2**	(29)		(87)
– realised losses/(gains) transferred to profit or loss	**8**	(43)		(231)
– capital gains tax on realised losses/(gains)	**(1)**	8		43
Currency translation differences	**57**	227		256
– unrealised gains	**58**	253		285
– deferred tax on unrealised gains	**(1)**	(26)		(29)
Cash flow hedges	**47**	(78)		(32)
– unrealised gains/(losses)	**79**	(14)		51
– tax on unrealised gains/losses	**(12)**	2		(9)
– current tax on unrealised gains	**–**	–		4
– gains recycled to profit or loss	**(24)**	(78)		(87)
– tax on recycled gains	**4**	12		9
Share of other comprehensive income from equity accounted investments	**35**	26		27
– change in available-for-sale financial assets	**4**	(6)		(*)
– currency translation differences	**31**	32		27
Other comprehensive income for the period, net of tax	**152**	271		248
Total comprehensive income for the period	**3 682**	2 018	82	3 562
Attributable to:				
– ordinary shareholders	**3 647**	1 984	84	3 494
– preference shareholders	**35**	34		68
– non-controlling interest	**–**	–		–
Total comprehensive income for the period	**3 682**	2 018	82	3 562

* *Amount is less than R500 000*

Headline **earnings**

for the six months ended 31 December 2014

R million	Group Six months ended December 2014 Unaudited	Group Six months ended December 2013 Unaudited	% change	Group Year ended June 2014 Audited
Normalised headline earnings per share (cents):				
– undiluted	**345.0**	296.2	16	611.3
– diluted	**340.3**	289.9	17	595.9
Headline earnings per share (cents):				
– undiluted	**602.6**	301.4	100	542.0
– diluted	**594.4**	294.9	102	528.4
The reconciliation between earnings and headline earnings is shown below:				
Net profit attributable to ordinary shareholders	**3 495**	1 713		3 246
Adjusted for:				
– realised losses/(gains) on available-for-sale financial assets net of CGT	**7**	(35)		(188)
– realised gain from sale of associate including deferred tax reversal	**(42)**	–		–
– impairment of property and equipment	**–**	–		3
Headline earnings	**3 460**	1 678	106	3 061
– amortisation of intangibles from business combinations net of deferred tax	**89**	42		116
– finance costs raised on puttable non-controlling interest financial liability	**64**	75		157
– fair value adjustment to puttable non-controlling interest financial liability	**(1 661)**	(105)		201
– non-controlling interest allocation if no put options	**(42)**	(40)		(81)
– once-off costs relating to business acquisitions	**73**	–		–
– accrual of dividends payable to preference shareholders	**(2)**	*		–
Normalised headline earnings	**1 981**	1 650	20	3 454
Weighted number of shares in issue (000's)	**574 157**	556 944		565 471
Diluted weighted number of shares (000's)	**582 060**	569 101		580 047

* *Amount is less than R500 000*

Statement of **changes in equity**

for the six months ended 31 December 2014

R million	Attributable to equity holders of the Company		
	Share capital and share premium	Preference share capital	Share-based payment reserve
Period ended 31 December 2014			
At beginning of the period	**2 582**	**779**	**319**
Total comprehensive income for the period	**–**	**35**	**–**
Profit for the period	**–**	**35**	**–**
Other comprehensive income	**–**	**–**	**–**
Transactions with owners	**1**	**(35)**	**–**
Increase in treasury shares	**1**	**–**	**–**
Dividends paid to preference shareholders	**–**	**(35)**	**–**
Dividends paid to ordinary shareholders	**–**	**–**	**–**
At end of the period	**2 583**	**779**	**319**
Period ended 31 December 2013			
At beginning of the period	1 470	779	319
Total comprehensive income for the period	–	34	–
Profit for the period	–	34	–
Other comprehensive income	–	–	–
Transactions with owners	1 021	(34)	–
Share buy-back[2]	*	–	–
Share issue	1 030	–	–
Share issue costs	(1)	–	–
Increase in treasury shares	(9)	–	–
Proceeds from treasury shares	1	–	–
Non-controlling interest share issues	–	–	–
Non-controlling interest share buy-backs	–	–	–
Dividends paid to preference shareholders	–	(34)	–
Dividends paid to ordinary shareholders	–	–	–
At end of the period	2 491	779	319

1 *This reserve relates to the revaluation of available-for-sale financial assets*
2 *Amount is R12 441*

Attributable to equity holders of the Company						
Revaluation reserve[1]	Translation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total
250	**829**	**103**	**12 549**	**17 411**	**–**	**17 411**
17	**88**	**47**	**3 495**	**3 682**	**–**	**3 682**
–	**–**	**–**	**3 495**	**3 530**	**–**	**3 530**
17	**88**	**47**	**–**	**152**	**–**	**152**
–	**–**	**–**	**(460)**	**(494)**	**–**	**(494)**
–	**–**	**–**	**–**	**1**	**–**	**1**
–	**–**	**–**	**–**	**(35)**	**–**	**(35)**
–	**–**	**–**	**(460)**	**(460)**	**–**	**(460)**
267	**917**	**150**	**15 584**	**20 599**	**–**	**20 599**
267	917	150	10 204	14 106	2	14 108
90	259	(78)	1 713	2 018	–	2 018
–	–	–	1 713	1 747	–	1 747
90	259	(78)	–	271	–	271
–	–	–	(379)	608	(2)	606
–	–	–	–	*	–	*
–	–	–	–	1 030	–	1 030
–	–	–	–	(1)	–	(1)
–	–	–	–	(9)	–	(9)
–	–	–	–	1	–	1
–	–	–	–	–	1	1
–	–	–	–	–	(3)	(3)
–	–	–	–	(34)	–	(34)
–	–	–	(379)	(379)	–	(379)
357	1 176	72	11 538	16 732	–	16 732

Statement of **cash flows**

for the six months ended 31 December 2014

R million	Group Six months ended December 2014 Unaudited	Group Six months ended December 2013 Unaudited	Group Year ended June 2014 Audited
Cash flow from operating activities	**3 057**	1 251	2 813
Cash generated by operations	**3 296**	3 352	6 424
Receipt arising from reinsurance contracts	**1 250**	–	–
Net purchase of investments held to back policyholder liabilities	**(2 581)**	(2 742)	(6 036)
Working capital changes	**877**	389	1 988
	2 842	999	2 376
Dividends received	**112**	133	362
Interest received	**411**	446	802
Interest paid	**(41)**	(34)	(63)
Taxation paid	**(267)**	(293)	(664)
Cash flow from investing activities	**(71)**	(859)	(1 102)
Disposal/(purchase) of financial assets	**121**	(366)	(228)
Purchase of equipment	**(126)**	(104)	(208)
Purchase of intangible assets	**(208)**	(257)	(512)
Increase in investment in associate	**(58)**	(132)	(133)
Disposal of investment in associate	**200**	–	–
Purchase of businesses	**–**	–	(21)
Cash flow from financing activities	**(1 853)**	297	(176)
Dividends paid to ordinary shareholders	**(460)**	(380)	(810)
Dividends paid to preference shareholders	**(35)**	(34)	(68)
Increase in borrowings	**1 500**	–	–
Non-controlling interest share buy-backs	**–**	(3)	(3)
Proceeds from issuance of ordinary shares	**–**	1 030	1 032
Proceeds from issuance of preference shares	**–**	45	45
Repayment of borrowings	**(14)**	(8)	(18)
Settlement of puttable non-controlling interest liability	**(2 844)**	(352)	(352)
Share buy-back	**–**	*	*
Share issue costs	**–**	(1)	(2)
Net increase in cash and cash equivalents	**1 133**	689	1 535
Cash and cash equivalents at beginning of period	**3 520**	1 887	1 887
Exchange gains on cash and cash equivalents	**5**	48	98
Cash and cash equivalents at end of period	**4 658**	2 624	3 520
Reconciliation to statement of financial position			
Cash and cash equivalents	**4 658**	2 624	3 650
Bank overdraft included in borrowings at amortised cost	**–**	–	(130)
Cash and cash equivalents at end of period	**4 658**	2 624	3 520

* *Amount is R12 441*

Additional **information**

at 31 December 2014

FINANCIAL ASSETS – INVESTMENTS

R million	Group December 2014 Unaudited	Group June 2014 Audited
Available-for-sale financial assets:	**7 482**	7 578
– Equity securities	**982**	887
– Equity linked notes	**40**	30
– Debt securities	**945**	1 836
– Inflation linked securities	**–**	71
– Money market securities	**5 515**	4 754
Financial assets at fair value through profit or loss:	**35 995**	32 753
– Equity securities	**21 587**	18 943
– Equity linked notes	**2 365**	1 642
– Debt securities	**9 611**	8 482
– Inflation linked securities	**219**	412
– Money market securities	**2 213**	3 274
	43 477	40 331

Available-for-sale financial assets are shareholder investments. Unrealised gains and losses arising from changes in the fair value of these assets are recognised in the statement of other comprehensive income. When the assets are sold the accumulated fair value adjustments are included in profit or loss as net realised gains/losses on available-for-sale financial assets. Interest income and dividends received from these assets are recognised as investment income in profit or loss.

Financial assets designated as ***financial assets at fair value through profit or loss*** are those that are held in internal funds to match insurance and investment contract liabilities that are linked to the changes in the fair value of these assets. Discovery recognises interest income, dividends received, realised and unrealised gains and losses from these assets in profit or loss in 'Net fair value gains on financial assets at fair value through profit or loss'.

EXCHANGE RATES USED IN THE PREPARATION OF THESE RESULTS

	USD	GBP
31 December 2014		
– Average	**11.04**	**17.82**
– Closing	**11.57**	**18.03**
30 June 2014		
– Average	10.43	17.06
– Closing	10.63	18.17
31 December 2013		
– Average	10.16	16.20
– Closing	10.50	17.37

Additional **information** continued

at 31 December 2014

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 2014			
R million (unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss:				
– Equity securities	21 587	–	–	21 587
– Equity linked notes	–	2 365	–	2 365
– Debt securities	7 209	2 299	103	9 611
– Inflation linked securities	219	–	–	219
– Money market securities	1 349	861	3	2 213
Available-for-sale financial instruments:				
– Equity securities	982	–	–	982
– Equity linked notes	–	40	–	40
– Debt securities	832	17	96	945
– Money market securities	5 503	12	–	5 515
Derivative financial instruments at fair value:				
– Hedges	–	651	–	651
– Non-hedges	–	1	–	1
	37 681	6 246	202	44 129
Financial liabilities				
Negative reserve funding	–	5 112	–	5 112
Borrowings at amortised cost	–	1 956	–	1 956
Derivative financial instruments at fair value:				
– Hedges	–	5	–	5
– Non-hedges	–	4	–	4
	–	7 077	–	7 077

Investments in unit trusts have been assessed as level 1, as the fair value derives from observable market data and are traded in an active market.

Shareholders' and policyholders' exposure to African Bank Investments Limited (ABIL), through indirect investments in unit trusts, have been reclassified to level 3 (from level 1) on the fair value hierarchy. The total exposure at 31 December 2014 is R202 million. Values are estimated by asset managers using valuation techniques or models incorporating information based on unobservable market inputs. A 10% haircut has been applied to these investments.

	30 June 2014			
R million (audited)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss:				
– Equity securities	18 937	6	–	18 943
– Equity linked notes	–	1 642	–	1 642
– Debt securities	7 551	931	–	8 482
– Inflation linked securities	412	–	–	412
– Money market securities	2 291	983	–	3 274
Available-for-sale financial instruments:				
– Equity securities	887	–	–	887
– Equity linked notes	–	30	–	30
– Debt securities	1 834	2	–	1 836
– Inflation linked securities	71	–	–	71
– Money market securities	4 748	6	–	4 754
Derivative financial instruments at fair value:				
– Hedges	–	585	–	585
– Non-hedges	–	3	–	3
	36 731	4 188	–	40 919
Financial liabilities				
Puttable non-controlling interests	–	–	4 494	4 494
Negative reserve funding	–	4 684	–	4 684
Borrowings at amortised cost	–	572	–	572
Derivative financial instruments at fair value:				
– Hedges	–	3	–	3
– Non-hedges	–	7	–	7
	–	5 266	4 494	9 760

Segmental **information**

for the six months ended 31 December 2014

R million	SA Health	SA Life	SA Invest	SA Vitality	UK Health
Income statement					
Insurance premium revenue	8	4 700	3 932	–	3 434
Reinsurance premiums	(1)	(665)	–	–	(607)
Net insurance premium revenue	7	4 035	3 932	–	2 827
Fee income from administration business	2 321	109	461	–	44
Vitality income	–	–	–	1 003	156
Receipt arising from reinsurance contracts	–	1 250	–	–	–
Investment income on assets backing policyholder liabilities	–	102	–	–	26
Finance charge on negative reserve funding	–	–	–	–	–
Inter-segment funding#	–	(234)	234	–	–
Net fair value gains on financial assets at fair value through profit or loss	–	287	490	–	–
Net income	2 328	5 549	5 117	1 003	3 053
Claims and policyholders' benefits	*	(2 552)	(2 298)	–	(2 146)
Insurance claims recovered from reinsurers	*	540	–	–	532
Net claims and policyholders' benefits	–	(2 012)	(2 298)	–	(1 614)
Acquisition costs	(1)	(855)	(332)	(30)	(275)
Marketing and administration expenses					
– depreciation and amortisation	(100)	(14)	–	–	(39)
– other expenses	(1 273)	(721)	(190)	(945)	(1 069)
Recovery of expenses from reinsurers	–	–	–	–	151
Transfer from assets/liabilities under insurance contracts					
– change in assets arising from insurance contracts	–	923	–	–	–
– change in assets arising from reinsurance contracts	–	(18)	–	–	39
– change in liabilities arising from insurance contracts	–	26	(2 078)	–	(83)
– change in liabilities arising from reinsurance contracts	–	(1 412)	–	–	–
Fair value adjustment to liabilities under investment contracts	–	(2)	(28)	–	–
Share of net profits from equity accounted investments	–	–	–	–	–
Normalised profit/(loss) from operations	954	1 464	191	28	163
Investment income earned on shareholder investments and cash	21	20	10	3	3
Net realised gains on available-for-sale financial assets	*	(8)	–	–	–
Once-off costs relating to business acquisitions	–	–	–	–	(46)
Amortisation of intangibles from business combinations	–	–	–	–	–
Puttable non-controlling interest fair value adjustment	–	–	–	–	–
Finance costs	(15)	–	–	–	(1)
Foreign exchange gains	–	–	2	–	2
Realised gain from sale of associate	–	–	–	–	–
Profit before tax	960	1 476	203	31	121
Income tax expense	(272)	(416)	(56)	(5)	(14)
Profit for the period	688	1 060	147	26	107

* *Amount is less than R500 000*

The inter-segment funding of R234 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.

				IFRS reporting adjustments			
UK Life	New business development	All other segments	Segment total	UK Life[1]	DUT[2]	Normalised profit adjustments[3]	IFRS total
1 213	498	–	13 785	(256)	–	–	13 529
(256)	(95)	–	(1 624)	256	–	–	(1 368)
957	403	–	12 161	–	–	–	12 161
–	147	–	3 082	–	–	–	3 082
–	300	–	1 459	–	–	–	1 459
–	–	–	1 250	–	–	–	1 250
–	10	–	138	–	–	(138)	–
(153)	–	–	(153)	153	–	–	–
–	–	–	–	–	–	–	–
–	–	–	777	–	246	–	1 023
804	860	–	18 714	153	246	(138)	18 975
(192)	(325)	–	(7 513)	98	–	–	(7 415)
98	60	–	1 230	(98)	–	–	1 132
(94)	(265)	–	(6 283)	–	–	–	(6 283)
(758)	(68)	–	(2 319)	(153)	–	–	(2 472)
–	(25)	(1)	(179)	–	–	–	(179)
(529)	(783)	(61)	(5 571)	(60)	–	(73)	(5 704)
–	63	–	214	–	–	–	214
(98)	–	–	825	947	–	–	1 772
2	–	–	23	–	–	–	23
(5)	(13)	–	(2 153)	–	–	–	(2 153)
947	–	–	(465)	(947)	–	–	(1 412)
–	–	–	(30)	–	(246)	–	(276)
–	48	–	48	–	–	–	48
269	(183)	(62)	2 824	(60)	–	(211)	2 553
–	7	10	74	–	–	138	212
–	–	–	(8)	–	–	–	(8)
–	–	(27)	(73)	–	–	73	–
–	–	(113)	(113)	–	–	–	(113)
–	–	1 661	1 661	–	–	–	1 661
–	–	(90)	(106)	–	–	–	(106)
–	14	–	18	–	–	–	18
–	–	7	7	–	–	–	7
269	(162)	1 386	4 284	(60)	–	–	4 224
(60)	13	56	(754)	60	–	–	(694)
209	(149)	1 442	3 530	–	–	–	3 530

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:

1 *The VitalityLife results are reclassified to account for the contractual arrangement as a reinsurance contract under IFRS 4.*

2 *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.*

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

Segmental **information**

for the six months ended 31 December 2013

R million	SA Health	SA Life	SA Invest	SA Vitality	UK Health
Income statement					
Insurance premium revenue	8	4 118	2 969	–	2 929
Reinsurance premiums	(1)	(613)	–	–	(372)
Net insurance premium revenue	7	3 505	2 969	–	2 557
Fee income from administration business	2 136	86	363	–	43
Guarantee received from HumanaVitality	–	–	–	–	–
Vitality income	–	–	–	910	91
Investment income on assets backing policyholder liabilities	–	84	–	–	22
Finance charge on negative reserve funding	–	–	–	–	–
Inter-segment funding#	–	(215)	215	–	–
Net fair value gains on financial assets at fair value through profit or loss	–	547	1 515	–	–
Net income	2 143	4 007	5 062	910	2 713
Claims and policyholders' benefits	(1)	(1 949)	(1 108)	–	(2 029)
Insurance claims recovered from reinsurers	(1)	450	–	–	374
Net claims and policyholders' benefits	(2)	(1 499)	(1 108)	–	(1 655)
Acquisition costs	–	(774)	(249)	(34)	(241)
Marketing and administration expenses					
– depreciation and amortisation	(87)	(15)	–	–	–
– other expenses	(1 194)	(667)	(160)	(871)	(846)
Recovery of expenses from reinsurers	–	–	–	–	127
Transfer from assets/liabilities under insurance contracts					
– change in assets arising from insurance contracts	–	284	–	–	–
– change in assets arising from reinsurance contracts	–	(4)	–	–	(26)
– change in liabilities arising from insurance contracts	–	(53)	(3 211)	–	59
– change in liabilities arising from reinsurance contracts	–	(30)	–	–	–
Fair value adjustment to liabilities under investment contracts	–	(3)	(186)	–	–
Share of net losses from equity accounted investments	–	–	–	–	–
Normalised profit/(loss) from operations	860	1 246	148	5	131
Investment income earned on shareholder investments and cash	18	29	8	4	2
Net realised gains on available-for-sale financial assets	–	41	2	–	–
Amortisation of intangibles from business combinations	–	–	–	–	–
Puttable non-controlling interest fair value adjustment	–	–	–	–	–
Finance costs	(12)	–	–	–	(1)
Foreign exchange gains/(losses)	–	–	4	–	(35)
Profit before tax	866	1 316	162	9	97
Income tax expense	(245)	(350)	(45)	(2)	(18)
Profit for the period	621	966	117	7	79

The inter-segment funding of R215 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.

				IFRS reporting adjustments			
UK Life	New business development	All other segments	Segment total	UK Life[1]	DUT[2]	Normalised profit adjustments[3]	IFRS total
848	251	–	11 123	(122)	–	–	11 001
(122)	(31)	–	(1 139)	122	–	–	(1 017)
726	220	–	9 984	–	–	–	9 984
–	9	–	2 637	–	–	10	2 647
–	10	–	10	–	–	(10)	–
–	166	–	1 167	–	–	–	1 167
–	–	–	106	–	–	(106)	–
(74)	–	–	(74)	74	–	–	–
–	–	–	–	–	–	–	–
–	–	–	2 062	–	297	–	2 359
652	405	–	15 892	74	297	(106)	16 157
(226)	(183)	–	(5 496)	146	–	–	(5 350)
146	34	–	1 003	(146)	–	–	857
(80)	(149)	–	(4 493)	–	–	–	(4 493)
(595)	(40)	–	(1 933)	(74)	–	–	(2 007)
–	(18)	(1)	(121)	–	–	–	(121)
(423)	(428)	(17)	(4 606)	(42)	–	–	(4 648)
–	26	–	153	–	–	–	153
644	–	–	928	31	–	–	959
1	–	–	(29)	–	–	–	(29)
(2)	(13)	–	(3 220)	–	–	–	(3 220)
31	–	–	1	(31)	–	–	(30)
–	–	–	(189)	–	(297)	–	(486)
–	(16)	–	(16)	–	–	–	(16)
228	(233)	(18)	2 367	(42)	–	(106)	2 219
–	10	15	86	–	–	106	192
–	–	–	43	–	–	–	43
–	–	(91)	(91)	–	–	–	(91)
–	–	105	105	–	–	–	105
(1)	–	(95)	(109)	1	–	–	(108)
–	1	31	1	–	–	–	1
227	(222)	(53)	2 402	(41)	–	–	2 361
(41)	11	35	(655)	41	–	–	(614)
186	(211)	(18)	1 747	–	–	–	1 747

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:

1. *The VitalityLife results are reclassified to account for the contractual arrangement as a reinsurance contract under IFRS 4.*
2. *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.*
3. *Investment income on assets backing policyholder liabilities is included as part of the normalised profit from operations in the segmental disclosure, but is included together with shareholder investment income for IFRS purposes.*

Review of **Group results**

for the six months ended 31 December 2014

NEW BUSINESS ANNUALISED PREMIUM INCOME

New business annualised premium income increased 17% for the six months ended 31 December 2014 when compared to the same period in the prior year.

R million	December 2014	December 2013	% change
Discovery Health	**2 806**	2 623	7
Discovery Life	**1 151**	1 056	9
Discovery Invest	**797**	652	22
Discovery Insure	**403**	257	57
Discovery Vitality	**104**	90	16
VitalityHealth[1]	**413**	432	(4)
VitalityLife	**502**	420	20
The Vitality Group	**61**	50	22
Ping An Health	**426**	138	209
New business API of Group	**6 663**	5 718	17

1 The comparative for VitalityHealth has been reduced by R130 million to exclude the new joiners as this has not been included in the 2014 number. New joiners are additional members to existing employer groups.
2 Due to the sale of the HumanaVitality associate in November 2014, R35 million new business API in respect of this associate has been excluded from the comparative number.

New business API is calculated at 12 times the monthly premium for new recurring premium policies and 10% of the value of new single premium policies. It also includes both automatic premium increases and servicing increases on existing policies. For The Vitality Group and Ping An Health, new business API is calculated based on the date of policy inception.

GROSS INFLOWS UNDER MANAGEMENT

Gross inflows under management measures the total funds collected by Discovery and is an accurate measure of the growth of Discovery. Gross inflows under management increased 18% for the six months ended 31 December 2014 when compared to the same period in the prior year.

R million	December 2014	December 2013	% change
Discovery Health	**24 589**	22 011	12
Discovery Life	**4 809**	4 204	14
Discovery Invest	**6 770**	4 953	37
Discovery Insure	**506**	253	100
Discovery Vitality	**1 003**	910	10
VitalityHealth	**3 634**	3 063	19
VitalityLife	**1 213**	848	43
The Vitality Group	**300**	176	70
Other new business development	**139**	7	1886
Gross inflows under management	**42 963**	36 425	18
Less: collected on behalf of third parties	**(24 637)**	(21 488)	15
Discovery Health	**(22 260)**	(19 867)	12
Discovery Invest	**(2 377)**	(1 621)	47
Gross income of Group per the segmental information	**18 326**	14 937	23
Gross income is made up as follows:			
– Insurance premium revenue	**13 785**	11 123	24
– Fee income from administration business	**3 082**	2 637	17
– Vitality income	**1 459**	1 167	25
– Guarantee received from HumanaVitality	**–**	10	
Gross income of Group per the segmental information	**18 326**	14 937	23

NORMALISED PROFIT FROM OPERATIONS

The following table shows the main components of the normalised profit from operations for the six months ended 31 December 2014:

R million	December 2014	December 2013	% change
Discovery Health	**954**	860	11
Discovery Life	**1 464**	1 246	17
Discovery Invest	**191**	148	29
Discovery Vitality	**28**	5	460
VitalityHealth	**163**	131	24
VitalityLife	**269**	228	18
Normalised profit from established businesses	**3 069**	2 618	17
Development and other segments	**(245)**	(251)	(2)
Normalised profit from operations	**2 824**	2 367	19

SIGNIFICANT TRANSACTIONS AFFECTING THE CURRENT RESULTS

Discovery acquired Prudential's remaining 25% shareholding in the UK joint venture

In November 2014, Prudential Assurance Company (Prudential) agreed to sell its remaining 25% shareholding in Prudential Health Holdings Limited (PHHL) to Discovery Limited for GBP 155 million (R2 790 million). The note entitled 'Put options in subsidiaries' gives a detailed description of the impact of this transaction.

This acquisition was primarily funded as follows:

- Bridging debt was raised by Discovery Limited for R1.5 billion. This is included in borrowings at amortised cost in the Statement of Financial Position.
- Discovery Life Limited entered into a financial reinsurance treaty resulting in a cash inflow of R1 250 million. This treaty effectively reinsures approximately 8% of the negative reserve at 31 December 2014. The inflow has been disclosed as a receipt arising from reinsurance contracts and transfer to liabilities arising from reinsurance contracts in profit or loss.

Following the purchase of the remaining 25% in PHHL, the products being offered in the UK-market have been rebranded. PruHealth and PruProtect have been rebranded as VitalityHealth and VitalityLife respectively. These rebranding costs, as well as other once-off costs relating to the acquisition totalled R73 million in the six month period to 31 December 2014 and have been excluded from normalised headline earnings.

HumanaVitality partnership ended

In November 2014, the HumanaVitality partnership ended. This resulted in the following transactions:

- Humana paid The Vitality Group (TVG) USD 10 million for its initial investment and a further USD 9 million of accrued profits (totaling R200 million) to purchase TVG's 25% shareholding in HumanaVitality. This resulted in a profit from the sale of the associate of R7 million being recognised in profit or loss. A deferred tax liability raised upon recognition of the associate of R35 million has also been released to income tax in the Income Statement. Both these values have been excluded from headline earnings and normalised headline earnings.
- TVG Inc. paid Humana USD 5 million (R54 million) to purchase Humana's 25% shareholding in TVG LLC. The note entitled 'Put options in subsidiaries' gives a detailed description of the impact of this transaction.

Put options in subsidiaries

During the 2011 financial year, put options were granted to the non-controlling interests of two of Discovery's subsidiaries, entitling the non-controlling interests to sell their interests in the subsidiaries to Discovery at contracted dates at fair value. In accordance with IAS 32, Discovery recognised the fair value of the non-controlling interest, being the present value of the estimated purchase price, as a financial liability in the Statement of Financial Position (Puttable non-controlling interests).

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

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

The excess between the carrying amount of the puttable non-controlling interest financial liability and the consideration paid, has been recognised in profit or loss as a puttable non-controlling interest fair value adjustment. This profit has been included in headline earnings but reversed when calculating normalised headline earnings.

The aggregate effects of these transactions are as follows:

R million	Total
Value of puttable non-controlling interests at 1 July 2014	**4 494**
Finance costs recognised in profit or loss	**64**
Subsidiary purchases	**(2 844)**
Fair value adjustments recognised in profit or loss	**(1 661)**
Net exchange differences arising during the year allocated to the translation reserve	**(53)**
Value of puttable non-controlling interests at 31 December 2014	**–**

OTHER SIGNIFICANT ITEMS IN THESE RESULTS

Share-based payments

Included in marketing and administration expenses, in employee costs, is R203 million (2013: R137 million) in respect of phantom shares and options granted under the employee share incentive schemes, which is expensed in accordance with the requirements of IFRS 2. Discovery has entered into transactions to hedge its exposure to changes in the Discovery share price arising from these schemes. As at 31 December 2014, approximately 92.6% (2013: 90%) of this exposure was hedged. Fair value gains of R96 million (2013: R49 million) relating to the hedge were recognised in profit or loss resulting in a net expense to Discovery of R107 million (2013: R88 million).

Taxation

For South African entities that are in a tax paying position, tax has been provided at 28% (2013: 28%) in the financial statements. No deferred tax has been raised on the assessed losses in Discovery Insure, VitalityHealth and The Vitality Group.

Material transactions with related parties

Discovery Health administers the Discovery Health Medical Scheme (DHMS) and provides managed care services for which it charges an administration fee and a managed healthcare fee respectively. These fees are determined on an annual basis and approved by the trustees of DHMS. The fees totalled R2 094 million for the six months ended 31 December 2014 (2013: R1 942 million). Discovery offers the members of DHMS access to the Vitality programme.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss have increased by R3.2 billion due to the sale of Discovery Invest products.

Negative reserve funding

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

The increase in the negative reserve funding liability relates to the increase in new business written by VitalityLife in the current period.

Deferred tax liability

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

SHAREHOLDER INFORMATION

Directorate

There were no changes to the Board of Discovery Limited during the current period.

Dividend policy and capital

The following final dividends were paid during the current period:

- Preference share dividend of 442.19178 cents per share, paid on 22 September 2014.
- Ordinary share dividend of 78.0 cents per share, paid on 13 October 2014.

On the statutory basis the capital adequacy requirement of Discovery Life was R519 million (2013: R517 million) and was covered 3.5 times (2013: 3.9 times).

B preference share cash dividend declaration:

On 19 February 2015, the Directors declared a gross cash dividend of 465.0 cents (395.25 cents net of dividend withholding tax) per B preference share for the period 1 July 2014 to 31 December 2014. The dividend has been declared from income reserves and no secondary tax on companies' credits has been used. A dividend withholding tax of 15% will be applicable to all shareholders who are not exempt.

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

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Friday, 6 March 2015
Shares commence trading "ex" dividend	Monday, 9 March 2015
Record date	Friday, 13 March 2015
Payment date	Monday, 16 March 2015

B preference share certificates may not be dematerialised or rematerialised between Monday, 9 March 2015 and Friday, 13 March 2015, both days inclusive.

Ordinary share cash dividend declaration

Notice is hereby given that the Directors have declared an interim gross cash dividend of 85.5 cents (72.675 cents net of dividend withholding tax) per ordinary share for the six month period ended 31 December 2014. The dividend has been declared from income reserves and no secondary tax on companies' credits has been used. A dividend withholding tax of 15% will be applicable to all shareholders who are not exempt.

The issued ordinary share capital at the declaration date is 591 872 390 ordinary shares.

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Friday, 13 March 2015
Shares commence trading "ex" dividend	Monday, 16 March 2015
Record date	Friday, 20 March 2015
Payment date	Monday, 23 March 2015

Share certificates may not be dematerialised or rematerialised between Monday, 16 March 2015 and Friday, 20 March 2015, both days inclusive.

ACCOUNTING POLICIES

The interim results have been prepared in accordance with International Financial Reporting Standards including IAS 34, as well as the South African Companies Act 71 of 2008. The accounting policies adopted are consistent with the accounting policies applied in the last annual report.

Embedded **value statement**

for the six months 31 December 2014

The embedded value of Discovery at 31 December 2014 consists of the following components:

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

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

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

For Life, the shareholder cash flows are based on the release of margins under the Statutory Valuation Method ("SVM") basis.

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

In November 2014, Prudential Assurance Company (Prudential) agreed to sell its remaining 25% shareholding in Prudential Health Holdings Limited (PHHL) to Discovery Limited for GBP 155 million (R2 790 million). Following the purchase of the remaining 25% in PHHL, PruHealth and PruProtect have been rebranded as VitalityHealth and VitalityLife respectively.

In November 2014, the HumanaVitality partnership concluded. As a result, Humana purchased The Vitality Group's 25% shareholding in HumanaVitality and The Vitality Group purchased Humana's 25% shareholding in TVG LLC.

During the 2011 financial year, put options were granted to the non-controlling interests of PHHL and TVG LLC, entitling the non-controlling interest to sell their interests in the subsidiaries to Discovery at contracted dates at fair value. In November 2014, both these put options lapsed, with the purchase by Discovery of the remaining 25% of PHHL and TVG LLC.

For accounting purposes, in accordance with IAS32, Discovery has included 100% of the subsidiaries' results. The fair value of the non-controlling interest, being the present value of the estimated purchase price, is recognised as a financial liability in the Statement of Financial Position (Puttable non-controlling interest). For embedded value purposes, the accounting treatment is unwound to reflect Discovery's 75% shareholding in these subsidiaries up to the date Discovery's shareholding increased to 100%.

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

The 31 December 2014 embedded value results and disclosures were not subjected to an external review or audit.

TABLE 1: GROUP EMBEDDED VALUE

R million	31 December 2014	31 December 2013	% change	30 June 2014
Shareholders' funds	**20 599**	16 332	26	17 411
Adjustment to shareholders' funds from published basis[1]	**(16 441)**	(10 894)		(11 799)
Adjusted net worth	**4 158**	5 438		5 612
– Free surplus	**192**	2 248		2 311
– Required capital[2]	**3 966**	3 190		3 301
Value of in-force covered business before cost of required capital	**42 299**	35 189		38 368
Cost of required capital	**(1 003)**	(845)		(930)
Discovery Limited embedded value[3]	**45 454**	39 782	14	43 050
Number of shares (millions)	**574.2**	574.1		574.1
Embedded value per share	**R79.16**	R69.29	14	R74.98
Diluted number of shares (millions)	**591.2**	591.2		591.2
Diluted embedded value per share[4]	**R78.25**	R68.55	14	R74.13

1 *A breakdown of the adjustment to shareholders' funds is shown in the table below:*

R million	*31 December 2014*	*31 December 2013*	*30 June 2014*
Life net assets under insurance contracts	*(12 119)*	*(10 451)*	*(11 691)*
VitalityHealth and VitalityHealth Insurance Limited deferred acquisition costs (net of deferred tax)	*(226)*	*(214)*	*(243)*
VitalityLife receivable relating to the Unemployment Cover benefit (net of deferred tax)	*(43)*	*(32)*	*(34)*
Goodwill and intangible assets (net of deferred tax) relating to the acquisition of Standard Life Healthcare and the Prudential joint venture	*(3 274)*	*(2 356)*	*(2 550)*
Unwind puttable non-controlling interest liability	*–*	*2 927*	*3 511*
Non-controlling share of profits/losses included in retained earnings	*–*	*11*	*(13)*
Net preference share capital raised	*(779)*	*(779)*	*(779)*
	(16 441)	*(10 894)*	*(11 799)*

2 *The required capital at December 2014 for Life is R1 037 million (June 2014: R1 043 million; December 2013: R1 033 million), for Health and Vitality is R635 million (June 2014: R614 million; December 2013: R589 million), for VitalityHealth and VitalityHealth Insurance Limited is R1 647 million (June 2014: R1 154 million; December 2013: R1 173 million) and for VitalityLife is R647 million (June 2014: R490 million; December 2013: R397 million). For Life, the required capital was set equal to two times the statutory Capital Adequacy Requirement ("CAR"). 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 1.25 times the capital prescribed by the Prudential Regulatory Authority under the Individual Capital Adequacy Standards ("ICAS") framework. For VitalityLife, the required capital was set equal to the UK Pillar 1 capital requirement.*

3 *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 Discovery beta coefficient used at 31 December 2014 is 0.33 (30 June 2014: 0.4). The Discovery beta coefficient reflects the historic performance of the Discovery share price relative to the market and 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 the non-financial risks which have not been modelled explicitly. To illustrate the sensitivity of the embedded value to the beta coefficient, the 31 December 2014 embedded value would be R1 042 million lower had the beta coefficient as at 30 June 2014 of 0.4 been used. As a prudent response to the recent significant reduction in the beta coefficient used in the Discovery EV, a review of the methodology will be undertaken.*

4 *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 2014			
Health and Vitality	**14 670**	**(207)**	**14 463**
Life and Invest[1]	**22 050**	**(523)**	**21 527**
VitalityHealth[2]	**3 996**	**(122)**	**3 874**
VitalityLife[2]	**1 583**	**(151)**	**1 432**
Total	**42 299**	**(1 003)**	**41 296**
at 31 December 2013			
Health and Vitality	12 942	(199)	12 743
Life and Invest[1]	18 835	(392)	18 443
VitalityHealth[2]	2 411	(150)	2 261
VitalityLife[2]	1 001	(104)	897
Total	35 189	(845)	34 344
at 30 June 2014			
Health and Vitality	13 879	(209)	13 670
Life and Invest[1]	20 701	(481)	20 220
VitalityHealth[2]	2 762	(130)	2 632
VitalityLife[2]	1 026	(110)	916
Total	38 368	(930)	37 438

1 *Included in the Life and Invest value of in-force covered business is R800 million (June 2014: R735 million; December 2013: R673 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 R18.03/GBP (June 2014: R18.17/GBP; December 2013: R17.37/GBP). The value of in-force at 31 December 2014 represents Discovery's 100% ownership of VitalityHealth and VitalityLife, compared to 75% in prior periods.*

TABLE 3: GROUP EMBEDDED VALUE EARNINGS

R million	Six months ended 31 December 2014	Six months ended 31 December 2013	Year ended 30 June 2014
Embedded value at end of period	**45 454**	39 782	43 050
Less: Embedded value at beginning of period	**(43 050)**	(35 721)	(35 721)
Increase in embedded value	**2 404**	4 061	7 329
Net change in capital	**(1)**	(1 021)	(1 020)
Dividends paid	**495**	413	878
Transfer to hedging reserve	**(41)**	70	30
Embedded value earnings	**2 857**	3 523	7 217
Annualised return on opening embedded value	**13.7%**	20.7%	20.2%

TABLE 4: COMPONENTS OF GROUP EMBEDDED VALUE EARNINGS

R million	Six months ended 31 December 2014 Net Worth	Cost of required capital	Value of in-force covered business	Embedded Value	Six months ended 31 December 2013 Embedded Value	Year ended 30 June 2014 Embedded Value
Total profit from new business (at point of sale)	(1 127)	(61)	2 409	**1 221**	1 086	2 248
Profit from existing business						
• Expected return	1 687	25	191	**1 903**	1 581	3 234
• Change in methodology and assumptions[1]	1 382	51	(502)	**931**	(108)	21
• Experience variances	(44)	(11)	560	**505**	625	1 433
Acquisition of Prudential joint venture[2]	(1 978)	(78)	1 282	**(774)**	–	–
Acquisition of Discovery Insure joint venture	–	–	–	**–**	(297)	(297)
Intangibles no longer allocated to minorities[3]	(765)	–	–	**(765)**	–	–
Increase in goodwill and intangibles	(90)	–	–	**(90)**	(125)	(256)
Other initiative costs[4]	(219)	–	8	**(211)**	(185)	(445)
Non-recurring expenses[5]	(100)	–	–	**(100)**	(9)	(23)
Acquisition costs[6]	(32)	–	(2)	**(34)**	(36)	(2)
Finance costs	(19)	–	–	**(19)**	(11)	(37)
Foreign exchange rate movements	68	1	(7)	**62**	765	986
Other[7]	140	–	(8)	**132**	–	–
Return on shareholders' funds[8]	96	–	–	**96**	237	355
Embedded value earnings	(1 001)	(73)	3 931	**2 857**	3 523	7 217

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 *The net worth item represents the difference between the purchase price and the minority share of PHHL's tangible net asset value at the acquisition date. The value of in-force covered business and cost of required capital items represent the 25% of the value in-force and cost of required capital that Discovery purchased in the transaction.*
3 *This item reflects the unwinding of the goodwill and intangible assets (net of deferred tax) relating to the acquisition of Standard Life Healthcare and the Prudential joint venture allocated to minorities.*
4 *This item reflects Group initiatives including expenses relating to the investment in The Vitality Group, Vitality International, once-off expenses in Invest, Discovery Insure and other new business initiatives.*
5 *This item includes rebranding costs, as well as other once-off costs relating to the acquisition of 25% of PHHL, totalling R73 million.*
6 *Acquisition costs relate to commission paid on Life business and expenses incurred in writing Health and Vitality business that has been written over the period but will only be activated and on risk after the valuation date. These policies are not included in the embedded value or the value of new business and therefore the costs are excluded.*
7 *This item includes the tax benefit that will be obtained as the VitalityHealth DAC and intangible software assets amortise.*
8 *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		Total
	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	
Renewal expenses	1	–	2	2	(67)	–	6	–	**(56)**
Other expenses	2	–	–	–	–	–	–	–	**2**
Lapses and surrenders	4	124	(90)	61	–	(25)	15	(2)	**87**
Mortality and morbidity	–	–	79	(6)	98	–	23	–	**194**
Policy alterations[1]	–	(11)	(188)	159	–	–	(11)	3	**(48)**
Premium and fee income	(1)	19	(32)	67	–	–	–	–	**53**
Economic assumptions	–	–	(69)	19	–	–	–	–	**(50)**
Commission	–	–	–	–	30	–	–	–	**30**
Tax[2]	(4)	–	115	(124)	(15)	–	12	–	**(16)**
Reinsurance	–	–	–	–	33	–	–	–	**33**
Maintain modelling term[3]	–	107	–	96	–	26	–	–	**229**
Vitality benefits	23	–	–	–	(5)	–	–	–	**18**
Other	51	3	(49)	36	(0)	0	(7)	(5)	**29**
Total	76	242	(232)	310	74	1	38	(4)	**505**

1 *Policy alterations relate to changes to existing benefits at the request of the policyholder.*
2 *The tax variance for Life and Invest arises due to a movement in the deferred tax asset which delays the payment of tax.*
3 *The projection term for Health and Vitality, Life, Group Life and VitalityHealth at 31 December 2014 has not been changed from that used in the 30 June 2014 embedded value calculation. Therefore, an experience variance arises because the total term of the in-force covered business is effectively increased by six months.*

TABLE 6: METHODOLOGY AND ASSUMPTION CHANGES

R million	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		Total
	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	
Modelling changes	–	–	(23)	(27)	–	–	3	(1)	**(48)**
Expenses	–	–	–	–	–	–	–	–	**–**
Lapses	–	–	(30)	26	–	–	–	–	**(4)**
Mortality and morbidity	–	–	–	–	–	(1)	–	–	**(1)**
Benefit enhancements	–	–	–	–	–	–	–	–	**–**
Vitality benefits	–	(1)	–	–	–	–	–	–	**(1)**
Tax	–	–	–	–	–	–	–	–	**–**
Economic assumptions[1]	–	242	(18)	760	–	383	(11)	98	**1 454**
Premium and fee income[2]	–	–	(157)	(205)	–	–	–	–	**(362)**
Reinsurance[3]	–	–	1 497	(1 584)	121	(141)	–	–	**(107)**
Other	–	–	–	–	–	–	–	–	**–**
Total	–	241	1 269	(1 030)	121	241	(8)	97	**931**

1 *This is due to the reduction in the risk discount rate following the reduction in the risk free rate since 30 June 2014, and the change in the beta coefficient from 0.4 at 30 June 2014 to 0.33 at 31 December 2014. For VitalityHealth and VitalityLife, this further includes the impact of aligning the equity risk premium assumption used across the Discovery EV, resulting in a change from 4.0% at 30 June 2014 to 3.5% at 31 December 2014.*

2 *Higher levels of engagement in the Vitality programme resulted in lower levels of future premium and higher policyholder benefits being projected.*

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

TABLE 7: EMBEDDED VALUE OF NEW BUSINESS

R million	Six months ended 31 December 2014	Six months ended 31 December 2013	% change	Year ended 30 June 2014
Healthy and Vitality				
Present value of future profits from new business at point of sale	**269**	244		570
Cost of required capital	**(9)**	(8)		(19)
Present value of future profits from new business at point of sale after cost of required capital[1]	**260**	236	10	551
New business annualised premium income[2]	**1 032**	944	9	2 858
Life and Invest				
Present value of future profits from new business at point of sale[3]	**680**	556		1 191
Cost of required capital	**(29)**	(26)		(52)
Present value of future profits from new business at point of sale after cost of required capital[1]	**651**	530	23	1 139
New business annualised premium income[4]	**1 239**	1 065	16	2 163
Annualised profit margin[5]	**6.2%**	6.3%		6.3%
Annualised profit margin excluding Invest Business	**9.5%**	10.1%		10.1%
VitalityHealth				
Present value of future profits from new business at point of sale	**22**	70		118
Cost of required capital	**(6)**	(10)		(21)
Present value of future profits from new business at point of sale after cost of required capital[1,6]	**16**	60	(73)	97
New business annualised premium income (Rand)[7]	**345**	348	(1)	761
Annualised profit margin[5]	**0.7%**	3.1%		2.3%
VitalityLife[8]				
Present value of future profits from new business at point of sale	**311**	274		493
Cost of required capital	**(17)**	(14)		(32)
Present value of future profits from new business at point of sale after cost of required capital[1,6]	**294**	260	13	461
New business annualised premium income (Rand)	**391**	315	24	647
Annualised profit margin[5]	**9.5%**	11.4%		10.0%

1 The Discovery Limited embedded value of new business is calculated based on a risk discount rate using the CAPM approach with specific reference to the Discovery beta coefficient. The Discovery beta coefficient used at 31 December 2014 is 0.33 (30 June 2014: 0.4). The Discovery beta coefficient reflects the historic performance of the Discovery share price relative to the market and 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 the non-financial risks which have not been modelled explicitly. To illustrate the sensitivity of the embedded value of new business to the beta coefficient, the 31 December 2014 embedded value of new business would be R53 million lower had the beta coefficient as at 30 June 2014 of 0.4 been used. As a prudent response to the recent significant reduction in the beta coefficient used in the Discovery EV, a review of the methodology will be undertaken.

2 Health new business annualised premium income is the gross contribution to the medical schemes. The new business annualised premium income shown above excludes premiums in respect of members who join an existing employer where the member has no choice of medical scheme, as well as premiums in respect of new business written during the period but only activated after 31 December 2014.
The total Health and Vitality new business annualised premium income written over the period was R2 910 million (June 2014: R5 206 million; December 2013: R2 713 million).

3 Included in the Life and Invest embedded value of new business is R32 million (June 2014: R39 million; December 2013: R18 million) in respect of investment management services provided on off balance sheet investment business.
Risk business written prior to the valuation date allows certain Invest business to be written at financially advantageous terms, the impact of which has been recognised in the value of new business.

4 Life new business is defined as Life policies or Discovery Retirement Optimiser policies which incepted during the reporting period and which are on risk at the valuation date. Invest new business is defined as business where at least one premium has been received and which has not been refunded after receipt.
The new business annualised premium income of R1 239 million (June 2014: R2 163 million; December 2013: R1 065 milion) (single premium APE: R481 million (June 2014: R865 million; December 2013: R385 million)) shown above excludes automatic premium increases and servicing increases in respect of existing business. The total Life new business annualised premium income written over the period, including automatic premium increases of R457 million (June 2014: R773 million; December 2013: R387 million) and servicing increases of R252 million (June 2014: R473 million; December 2013: R255 million) was R1 948 million (June 2014: R3 409 million; December 2013: R1 707 million) (single premium APE: R502 million (June 2014: R904 million; December 2013: R409 million)). Single premium business is included at 10% of the value of the single premium.
Policy alterations, including Discovery Retirement Optimisers added to existing Life Plans are shown in Table 5 as experience variances and not included as new business.
Term extensions on existing contracts are not included as new business.

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

6 VitalityHealth and VitalityLife new business values have been prorated to allow for Discovery's ownership increasing from 75% to 100% in November 2014.

7 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 2014.

8 VitalityLife new business is defined as policies which incepted during the reporting period and which are on risk at the valuation date.

TABLE 8: EMBEDDED VALUE ECONOMIC ASSUMPTIONS

	31 December 2014	31 December 2013	30 June 2014
Beta coefficient			
South Africa	**0.33**	0.43	0.40
United Kingdom	**0.33**	0.43	0.40
Equity risk premium (%)			
South Africa	**3.50**	3.50	3.50
United Kingdom	**3.50**	4.00	4.00
Risk discount rate (%)			
Health and Vitality	**10.155**	10.500	10.650
Life and Invest	**10.155**	10.500	10.650
VitalityHealth	**3.03**	4.70	4.24
VitalityLife	**4.22**	5.76	5.50
Rand/GB Pound Exchange Rate			
Closing	**18.03**	17.37	18.17
Average	**17.82**	16.20	17.06
Medical inflation (%)			
South Africa	**8.00**	8.00	8.25
United Kingdom	**6.50**	6.50	6.50
Expense inflation and CPI (%)			
South Africa	**5.00**	5.00	5.25
United Kingdom – VitalityHealth	**3.00**	3.40	3.30
– VitalityLife	**3.00**	3.40	3.30
Pre-tax investment return (%)			
South Africa – Cash	**7.50**	7.50	7.75
– Bonds	**9.00**	9.00	9.25
– Equity	**12.50**	12.50	12.75
United Kingdom – VitalityHealth investment return	**1.87**	2.94	3.16
– VitalityLife investment return	**3.26**	4.00	3.90
Income tax rate (%)			
South Africa	**28.00**	28.00	28.00
United Kingdom – Long Term	**20.00**	20.00	20.00
Projection term			
– Health and Vitality	**20 years**	20 years	20 years
– Life value of in-force	**40 years**	40 years	40 years
– Group Life	**10 years**	10 years	10 years
– VitalityHealth	**20 years**	20 years	20 years

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

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

The VitalityHealth assumptions were derived from internal experience, augmented by industry information.

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

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

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

The South African investment return assumption was based on a single interest rate derived from the risk-free zero coupon government bond yield curve. Other economic assumptions were set relative to this yield. The current and projected tax position of the policyholder funds within the Life company has been taken into account in determining the net investment return assumption.

The best estimate investment return assumption for VitalityHealth and VitalityLife was based on the single interest rate derived from the risk-free zero coupon sterling yield curve. The United Kingdom expense inflation assumption was set in line with long-term United Kingdom inflation expectations.

It is assumed that, for the purposes of calculating the cost of required capital, the Life and Invest required capital amount will be backed by surplus assets consisting of 100% equities and the Health, Vitality and VitalityHealth required capital amounts will be fully backed by cash. The VitalityLife required capital amount is assumed to earn the same return as the assets backing the VitalityLife policyholder liabilities. Allowance has been made for tax and investment expenses in the calculation of the cost of capital. In calculating the capital gains tax ("CGT") liability, it is assumed that the portfolio is realised every 5 years. The Life and Invest cost of capital is calculated using the difference between the gross of tax equity return and the equity return net of tax and expenses. The Health and Vitality and VitalityHealth cost of required capital is calculated using the difference between the risk discount rate and the net of tax cash return. The VitalityLife cost of required capital is calculated using the difference between the risk discount rate and the net of tax asset return assumption.

Sensitivity to the embedded value assumptions

The embedded value has been calculated in accordance with the Actuarial Society of South Africa's Advisory Practice Note APN 107: Embedded Value Reporting. The risk discount rate, calculated in accordance with the guidance note, uses the CAPM approach with specific reference to the Discovery beta coefficient. The Discovery beta coefficient reflects the historic performance of the Discovery share price relative to the market and 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 the non-financial risks which have not been modelled explicitly. As a prudent response to the recent significant reduction

TABLE 9: EMBEDDED VALUE SENSITIVITY

R million	Adjusted net worth	Health and Vitality: Value of in-force	Health and Vitality: Cost of required capital
Base	4 158	14 670	(207)
Impact of:			
Risk discount rate +1%	4 158	13 791	(236)
Risk discount rate -1%	4 158	15 650	(174)
Lapses -10%	4 158	15 235	(218)
Interest rates -1%[1]	4 158	14 760	(196)
Equity and property market value -10%	4 055	14 670	(207)
Equity and property return +1%	4 158	14 670	(207)
Renewal expenses -10%	4 158	16 130	(192)
Mortality and morbidity -5%	4 158	14 670	(207)
Projection term +1 year	4 158	14 896	(210)

1 All economic assumptions were reduced by 1%.
2 The sensitivity impact on the VitalityLife value of in-force excludes the net of tax change in negative reserves.

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

TABLE 10: VALUE OF NEW BUSINESS SENSITIVITY

R million	Health and Vitality: Value of new business	Health and Vitality: Cost of required capital
Base	269	(9)
Impact of:		
Risk discount rate +1%	245	(10)
Risk discount rate -1%	295	(7)
Lapses -10%	287	(9)
Interest rates -1%[1]	273	(8)
Equity and property return +1%	269	(8)
Renewal expense -10%	311	(8)
Mortality and morbidity -5%	269	(8)
Projection term +1 year	274	(9)
Acquisition costs -10%	277	(8)

1 All economic assumptions were reduced by 1%.

in the beta coefficient used in the Discovery EV, a review of the methodology will be undertaken. The sensitivity of the embedded value and the embedded value of new business at 31 December 2014 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.

Life and Invest		VitalityHealth		VitalityLife[2]			
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
22 050	(523)	3 996	(122)	1 583	(151)	**45 454**	
19 595	(458)	3 701	(225)	1 366	(208)	**41 484**	(9)
25 071	(603)	4 328	(4)	1 857	(76)	**50 207**	10
24 024	(560)	4 622	(127)	1 714	(169)	**48 679**	7
22 576	(574)	4 299	(115)	2 204	(177)	**46 935**	3
21 856	(522)	3 996	(122)	1 583	(151)	**45 158**	(1)
22 249	(523)	3 996	(122)	1 583	(151)	**45 653**	0
22 314	(521)	4 329	(122)	1 555	(150)	**47 501**	5
23 407	(511)	5 371	(122)	1 557	(148)	**48 175**	6
22 261	(527)	4 058	(122)	1 583	(151)	**45 946**	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
680	(29)	22	(6)	311	(17)	**1 221**	
541	(25)	8	(10)	293	(25)	**1 017**	(17)
843	(33)	37	(1)	335	(10)	**1 459**	19
811	(31)	47	(6)	361	(20)	**1 440**	18
711	(32)	35	(5)	321	(20)	**1 275**	4
698	(29)	21	(6)	312	(18)	**1 239**	1
695	(29)	42	(6)	323	(18)	**1 310**	7
738	(28)	78	(6)	328	(18)	**1 353**	11
690	(29)	22	(6)	312	(18)	**1 236**	1
735	(29)	27	(2)	336	(18)	**1 318**	8

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

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

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

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Interim financial results
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– supervised by R Faber CA(SA), FCMA

Embedded value statement
– prepared by M Curtis FIA
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