RESULTS AND COMMENTARY

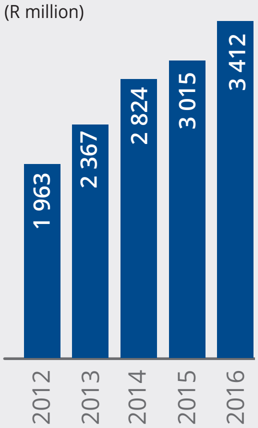
UNAUDITED INTERIM RESULTS
AND CASH DIVIDEND DECLARATION
for the six months ended 31 December 2016

New business API

increased by 15% to **R8.2 billion**

(excluding Discovery Health's take-on of new closed schemes)

Normalised profit from operations (R million)

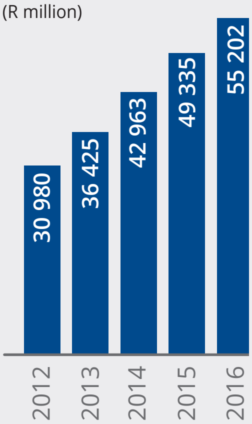


Normalised profit from operations

R3.4 billion

up 13%

Gross inflows under management (R million)



Gross inflows under management

R55.2 billion

up 12%

COMMENTARY

Strong Group financial performance

Discovery delivered a strong performance for the half year ended 31 December 2016, with new business increasing by 15% to R8 245 million (excluding Discovery Health's take-on of new closed schemes), and normalised profit from operations increasing by 13% to R3 412 million – this was despite economic headwinds in the United Kingdom due to falling exchange and interest rates, the combination of which impacted Group earnings by 4%.

Discovery's operating model continued to deliver over the six months, comprising three powerful drivers of performance:

(1) **The Vitality Shared-Value Insurance model:** Businesses derive a unique competitive advantage through the model's profound impact on sales, selective lapses, behaviour change and improved insurance risk, created by generating and sharing economic value with clients.

(2) **An organic growth methodology:** Operating profit growth of CPI +10% is targeted through a methodical and substantial investment in new initiatives, which evolve into emerging businesses (with target profit growth of CPI +30%); and ultimately scale into established businesses (with target profit growth of CPI +5%).

(3) **A sophisticated capital management philosophy:** Discovery applies rigorous solvency assessments and standards to its businesses according to a five-year capital plan, as well as a Group-wide buffer. This enables Discovery to provide a safety margin for emerging and new businesses, while additional capital is raised for new initiatives of considerable scale.

The combination of these three components gives the Group confidence in reaching its 2018 Ambition of being the best insurance organisation globally, and a powerful force for social good.

Vitality Shared-Value Insurance model and Discovery's organic growth methodology

Over the period, a deeper understanding of the mathematics underlying Discovery's Vitality Shared-Value Insurance model, and its manifestation in product design across the Group, allowed for systemic improvement of engagement; behaviour change; differentiated mortality, morbidity and claims experience; and sharing the value created with clients. This was evidenced by exceptional global adoption of and engagement in Vitality Active Rewards, with over one million members in South Africa, the United Kingdom, United States, Hong Kong and China actively using the benefit – and over 100 000 new members using the benefit every month. The result was an improvement in physical activity of over 25%, shown to have significant benefits in hindering the onset of disease and improving claims experience.

The Vitality Shared-Value Insurance model continued to gain scale over the period via the Global Vitality Network – a platform of leading international insurers using Discovery's proprietary business model in their markets. The business model is now being employed across 14 markets, with Discovery accessing over 65% of the global life insurance market by premium.

The efficacy of the Vitality Shared-Value Insurance model gives the Group the confidence to grow according to the principles of the organic growth methodology as outlined above. Over the period, this was evidenced by the performance of the respective businesses, as well as their progression through the growth cycle (from new to emerging to established businesses). The established businesses delivered a solid performance of 11% growth in operating profit to R3 786 million, and 9% growth in new business to R6 477 million.

Furthermore, the emerging businesses progressed, now comprising Discovery Insure, Ping An Health, and Vitality Group (the consolidation of The Vitality Group and Discovery Partner Markets).

New business for the emerging businesses category grew 43% to R1 768 million, and they are all substantial businesses of value: Discovery Insure covers more than 160 000 vehicles and is expected to be profitable over the next half-year; Ping An Health is the leading health insurer in China, with new business growth of 55% over the period; and Vitality Group is a rapidly growing global franchise with strong membership growth and 12 active markets.

Finally, new initiatives received an investment of R244 million, at 7% of earnings, and include Discovery's banking aspiration; the Global Vitality Network; and new adjacent businesses. The latter include a commercial offering in Discovery Insure; the addition of Umbrella Funds in Discovery Invest; and a new investment venture by Vitality UK, which will leverage the knowledge, infrastructure and expertise of Discovery Invest and the distribution network of VitalityLife.

Capital management philosophy

During the period under review, Discovery continued to apply its capital management philosophy to ensure the growth ambitions are appropriately funded. This is based on maintaining independently robust levels of solvency cover within each of the regulated entities; planning explicitly for the expected future funding needs of the current and planned growth businesses; and maintaining a central buffer to withstand potential adverse experience, as well as provide capacity for an element of unplanned initiatives. A key premise of the philosophy is to ensure that where debt is used, it is maintained within acceptable limits. The Financial Leverage Ratio is a key measure used by the Group, and over the past year and the five-year planning horizon, it remains within the Board-approved limit, as do the available liquidity resources after taking account of the range of capital resources available to the Group.

Discovery's approach to capital management served it well over the past year, ensuring that the Group made responsible and optimal use of a variety of appropriate and efficient forms of funding. While the capital, debt and liquidity plans allow for known initiatives and a buffer for adverse scenarios, the buffer is not maintained at a level to pursue new opportunities requiring significant additional capital.

Business-specific performance: South Africa

DISCOVERY HEALTH

Discovery Health continued to deliver excellent results during the period under review. Normalised operating profit increased by 12% to R1 188 million, and core new business API increased by 20% to R3 030 million. During the period, Discovery Health was awarded the contract to administer SAB Medical Aid, bringing its restricted scheme client base to 18 schemes and 581 821 lives under management, and total lives under management to 3 317 507 at the end of the period.

The Discovery Health Medical Scheme (DHMS) performed strongly during the 2016 calendar year. Net membership grew by 2% over the year, to a membership base of 2.74 million lives at year-end. Despite significant claims-cost pressures, Discovery Health's substantial ongoing investment in risk management interventions, systems and assets to ensure effective claims-risk and fraud management, ensured that DHMS ended the year with a robust operating surplus, and capital reserves above the statutory level of 25% of gross contributions.

Discovery Health continued its significant innovation and investment in the healthcare system and digital healthcare assets over the period. This included further expansion in the homecare, pharmacy distribution and wellness operations; and enhanced value-based contracting with health professionals and hospital centres of excellence. Discovery Health's fraud and forensics team alone saved over R405 million for its client schemes during the 2016 calendar year.

In addition, the period saw new investments and partnerships in data analytics and machine learning capabilities, as well as further enhancements in the functionality and coverage of Discovery HealthID – the country's leading electronic health record system, which is now in regular use by over 1.2 million members and over 50% of doctors treating Discovery Health clients. All of these investments ensure that members of Discovery Health's client schemes are part of an increasingly integrated healthcare system.

Discovery Health maintains its firm support for the objectives of the proposed National Health Insurance (NHI) system, and continues to work closely with the National Department of Health and all other stakeholders to ensure optimal policy outcomes. Discovery Health also continued to actively participate in the processes of the Health Market Inquiry of the Competition Commission, which is expected to report its findings by the end of 2017.

DISCOVERY LIFE

Discovery Life delivered a strong performance in growth and profit. New business grew by 9% (API including servicing and ACIs) to R1 053 million, compared with the same period in the prior year, largely driven by individual new business which grew by 10.2%. Operating profit for the period increased by 13% to R1 768 million.

The Vitality Shared-Value Insurance model continued to exhibit encouraging results, both for Discovery Life and its policyholders. The impact of Discovery Life's incentives for healthy lifestyle behaviours and outcomes have translated into exceptional Vitality engagement levels, with a 7-fold increase in the number of policyholders on Gold and Diamond Vitality status over the past eight years. Mortality, morbidity and lapse experience are within expectation, with lapses at 94% of expected on an Embedded Value (EV) basis. Policyholders benefited from Life PayBack benefits equivalent to 26% of individual Life claims (excluding PayBack) – highlighting the value derived by healthy clients. The Value of In-Force (VIF) increased by an annualised 16% to R17 313 million from June 2016.

Product innovation as well as improved new business volume, mix, servicing and efficiencies, enabled a 20% increase in Value of New Business (VNB) when measured on constant economic assumptions compared with the prior period. The recent launch of Vitality Underwriting, a first-of-its-kind dynamic underwriting method based on client biometrics, combined with other product enhancements, has resulted in Discovery Life strengthening its market share in the retail affluent segment to 27.5% (for January to September 2016), with both intermediated and tied channels experiencing positive growth.

Discovery Life remains well capitalised and generated over R1.5 billion in cash from the total existing book, which was utilised largely to continue funding further growth of the Discovery Life and Invest businesses through new business acquisition.

DISCOVERY INVEST

Discovery Invest grew assets under management by 14% year-on-year to R64 billion, with new business growth of 9% to R1 278 million, dampened by weaker market conditions. Operating profit grew to R326 million, 21% higher than the same period in the prior year. Discovery Invest maintained a position in the top 6 retail asset takers in the industry in every quarter of 2016.

The business model of sharing economic value has resulted in over R4 billion in upfront investment boosts being awarded to Discovery Invest's over 250 000 policyholders.

During the period Discovery Invest extended its innovation in the retirement space by allowing investors to convert Discovery Miles and Vitality points into their retirement plans, and becoming the first provider in South Africa to offer zero administration fees on retirement provision within certain conditions. Discovery Invest's market share increased by 80% in the retirement annuity and preservation funds space, and by 50% in the retirement income space (year to end September 2016).

DISCOVERY INSURE

Discovery Insure showed significant new business growth for the six-month period, up 23% to R495 million, mainly driven by higher intermediated sales – which also improved the quality of the in-force book. The gross written premium for the six-month period was R997 million (up 33%) and the book now covers over 160 000 vehicles. The business continued to scale and is now close to monthly breakeven. The combined ratio improved over the period to 103%, despite pressure on the loss ratio caused by two catastrophe-level storm events taking place in the six-month period.

The Vitalitydrive model continues to produce excellent results, as members' engagement translates into better driving, and lower claims. This is evident in the continued reduction in claim frequency over the period, and since inception (10% lower than inception). In addition, Discovery Insure broadened access to reward partners, and addressed high-risk behaviour categories, such as night driving, through a strategic partnership with Uber.

Using telematics expertise and the footprint of Discovery clients across the country, Discovery Insure developed Crowdsearch – a technology which turns the Vitalitydrive sensor into a beacon which can be located using the smartphones of the business's member base.

INTENT TO ENTER BANKING

Progress was made during the period regarding the intention to enter banking. On 25 October 2016, Discovery received authorisation from the Registrar of Banks to establish a banking presence in South Africa, granted in terms of Section 13(1) of the Banks Act, Act No. 94 of 1990 ("Banks Act"), subject to certain conditions.

Pursuant to this authorisation, Discovery has a period of 12 months to fulfil the said conditions and make application for final approval in terms of Section 16 of the Banks Act. The granting of a banking license pursuant to Section 17 of the Banks Act, and the timing of such grant, is subject to the approval and discretion of the Registrar of Banks.

Progress is being made in developing the system infrastructure, operating processes, regulatory engagement and the customer value proposition. Subject to the above, Discovery anticipates being in a position to launch its proposed banking offering during the course of 2018.

Business-specific performance: United Kingdom

Discovery's UK business, comprising VitalityHealth and VitalityLife, delivered a robust performance, in spite of economic headwinds including falling interest and exchange rates, calculated to have dampened profits by £4 million for the period. This included a 6% increase in new business to £57.7 million, and a 10% increase in normalised operating profit to £22.5 million (-11% to R1 024 million and -8% to R400 million in rand terms respectively, considering the 16% appreciation of the rand over the period).

With over 950 000 clients and engagement at record levels, the Vitality Shared-Value Insurance model is gaining traction in the UK market. There is also evidence of significant behavioural change – since the launch of Active Rewards in May 2015, there has been an 8-fold increase in the number of engaged Vitality members reaching weekly physical activity thresholds.

Allied to continued investment in brand, partner integration and service journeys, Vitality built on the success of the Active Rewards programme with the launch of a new Apple Watch benefit, and HealthyFood through Ocado (an online supermarket). There were close to 9 000 Ocado registrations in the first two months of this benefit, and 15 000 Apple Watch orders in the first four months of the benefit. Underpinned by the high levels of Vitality penetration and the proprietary Vitality Shared-Value Insurance model, the claims and lapse experience continues to improve across both business lines.

VITALITYLIFE

VitalityLife produced a steady performance in the face of a complex six-month period. This included an unpredictable economic climate with volatility in interest rates and exchange rate movements. The net effect was an increase in new business of 8% in GBP, to 32.7 million (decrease of 10% in rand terms to R581 million). Normalised profit decreased by 10% in GBP to 14.5 million (decrease of 25% in rand terms to R258 million), with the low interest rate environment accounting for an estimated 22% decrease in profits.

VitalityLife saw continued adoption of the Vitality-integrated model over the period, with the Vitality Optimiser product comprising over 60% of all new business sales. The period also witnessed better-than-expected overall claims experience dynamics (actual to expected claims of 85%, net of reinsurance), with optimised cases showing significantly lower claims than non-optimised cases (optimised clients claim 14% less relative to non-optimised clients). Furthermore, VitalityLife's continued product innovation saw a drive towards more capital-efficient products in terms of sales and business mix, highlighting its adaptability to an uncertain economic climate.

VitalityLife achieved a market share of 13% for protection business in the Independent Financial Adviser space during the period. It also launched three new initiatives which are all market-firsts in the UK: a Wellness Optimiser designed to reflect health-related behaviour change through discounts on health checks (premiums change based on Vitality status); enhanced Severe Illness Cover (SIC) with a cancer relapse benefit, whereby following one year in remission, clients can get SIC if there is a cancer relapse; and Vitality Nurses, a convenient online booking system with a nurse going to clients for their Vitality screening and non-laboratory medical diagnostic testing as part of underwriting.

VITALITYHEALTH

The period was characterised by excellent actuarial dynamics, with a continuation of good loss ratio and retention performance; and 4% growth in new business in GBP terms, driven predominantly by the individual market in which record sales of £13 million (up 20% on the prior year) were achieved. Overall, operating profit for H12017 grew from £4.4 million to £8 million (up 82%), with the in-force book generating £21 million over the period. From a balance sheet perspective, in September 2016, the cash-based financial reinsurance structures were converted to cashless structures, resulting in around £50 million of reinsurance being repaid and a significant reduction in future financing cost.

Engagement in the Vitality wellness programme has delivered clear benefits from both a claims and retention perspective. When engagement is tracked year-on-year, VitalityHealth members who increased their wellness engagement had a claims cost around 20% lower than those who maintained their starting level of engagement. The effect on the lapse rate was even more pronounced, with this being halved for Vitality members who were actively engaged.

The period under review was one of significant investment to further progress VitalityHealth's Shared-Value Insurance proposition. The product launch in September 2016 included a number of key enhancements to the wellness and Private Medical Insurance components of the VitalityHealth proposition. This included the addition of Consultant Select, a consultant-led directional care pathway, and the introduction of a new approach to individual renewal pricing, which moves away from the traditional no-claims-discount model.

Business-specific performance: Vitality Group

Over the period, Discovery Partner Markets in South Africa and The Vitality Group in the United States were consolidated into one entity, Vitality Group, with a unified strategy, executive team and a consistent approach to product, partners and systems.

AIA VITALITY

The period was noteworthy for AIA Vitality with Vitality-integrated insurance products now live in six AIA markets, and Vitality Active Rewards in the process of being rolled out in an additional three markets. The Vitality Shared-Value Insurance model continues to create value, with significant increases in VNB and membership, as well as a continued increase in Vitality penetration.

JOHN HANCOCK VITALITY AND MANULIFE VITALITY

John Hancock Vitality continued to experience strong penetration rates and the sales and engagement performance was in line with expectation. The launch in New York State and the introduction of Apple Watch to all customers over the period were well received by the markets, and will drive a further increase in sales and engagement.

Manulife Vitality successfully launched in the Canadian market in September 2016 offering Vitality on Family Term products.

GENERALI VITALITY

Generali Vitality launched in Germany during July 2016 in the agency distribution channel with integrated disability and Term Life products. New business volumes have been exceptional with the disability product volumes up by 60% and Term Life product volumes up 82% compared with the period leading up to the launch.

France launched its shared-value offering through various distribution channels on 9 January 2017, with Vitality being offered to corporate clients.

Business-specific performance: Ping An Health (PAH)

The business performed excellently over the period, reaching its stretch target of RMB 2 billion premium income for the year, with one million clients (an average of 3 871 clients were added each day in December 2016). The recently-developed internet products ended the year strongly with a premium run rate of RMB 1 million each day, and attractive loss ratios.

Over 650 000 policyholders have joined Vitality Active Rewards through Ping An Life over the past five months, with current run rates of over 5 000 new activations each day, and high levels of physical activity being recorded.

Importantly, Ping An Group sees the healthcare environment in China as a key strategic area. With PAH the designated health insurance specialist company, PAG will leverage its impressive agency force to realise its ambition of being China's largest comprehensive healthcare player.

On behalf of the Board

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

Sandton
22 February 2017

Statement of financial position

at 31 December 2016

R million	Group December 2016 Unaudited	Group June 2016 Audited
ASSETS		
Assets arising from insurance contracts	**34 897**	33 815
Property and equipment	**1 107**	1 052
Intangible assets including deferred acquisition costs	**4 396**	4 584
Goodwill	**2 093**	2 447
Investment in equity accounted investments	**602**	491
Financial assets		
– Available-for-sale investments	**8 730**	9 794
– Investments at fair value through profit or loss	**53 759**	50 948
– Derivatives	**258**	590
– Loans and receivables including insurance receivables	**5 417**	4 891
Deferred income tax	**764**	824
Current income tax asset	**137**	97
Reinsurance contracts	**244**	410
Cash and cash equivalents	**6 545**	8 634
Total assets	**118 949**	118 577
EQUITY		
Capital and reserves		
Ordinary share capital and share premium	**8 310**	8 300
Perpetual preference share capital	**779**	779
Other reserves	**171**	1 934
Retained earnings	**21 031**	19 594
	30 291	30 607
Non-controlling interest	**–**	–
Total equity	**30 291**	30 607
LIABILITIES		
Liabilities arising from insurance contracts	**47 291**	44 673
Liabilities arising from reinsurance contracts	**5 703**	4 894
Financial liabilities		
– Negative reserve funding	**1 907**	4 248
– Borrowings at amortised cost	**6 558**	5 400
– Investment contracts at fair value through profit or loss	**13 882**	13 514
– Derivatives	**250**	49
– Trade and other payables	**5 986**	8 563
Deferred income tax	**6 553**	6 035
Deferred revenue	**275**	291
Employee benefits	**174**	169
Current income tax liability	**79**	134
Total liabilities	**88 658**	87 970
Total equity and liabilities	**118 949**	118 577

Income statement

for the six months ended 31 December 2016

R million	Group Six months ended December 2016 Unaudited	Group Six months ended December 2015 Unaudited	% change	Group Year ended June 2016 Audited
Insurance premium revenue	**16 652**	16 047		33 074
Reinsurance premiums	**(1 949)**	(2 093)		(4 316)
Net insurance premium revenue	**14 703**	13 954		28 758
Fee income from administration business	**4 002**	3 638		7 651
Vitality income	**2 129**	1 838		3 844
Investment income	**392**	354		745
– investment income earned on shareholder investments and cash	**62**	163		265
– investment income earned on assets backing policyholder liabilities	**330**	191		480
Net realised gains on available-for-sale financial assets	**5**	3		5
Net fair value gains on financial assets at fair value through profit or loss	**172**	1 318		2 720
Net income	**21 403**	21 105		43 723
Claims and policyholders' benefits	**(9 388)**	(9 192)		(19 163)
Insurance claims recovered from reinsurers	**1 436**	1 662		3 586
Recapture of reinsurance	**(882)**	–		–
Net claims and policyholders' benefits	**(8 834)**	(7 530)		(15 577)
Acquisition costs	**(2 703)**	(2 965)		(6 185)
Marketing and administration expenses	**(7 707)**	(7 080)		(14 789)
Amortisation of intangibles from business combinations	**(87)**	(122)		(275)
Recovery of expenses from reinsurers	**1 999**	297		1 346
Transfer from assets/liabilities under insurance contracts	**(987)**	(445)		(1 745)
Fair value adjustment to liabilities under investment contracts	**165**	(517)		(695)
Profit from operations	**3 249**	2 743	18	5 803
Gain from business combination	**–**	–		8
Finance costs	**(232)**	(97)		(293)
– finance charge on negative reserve funding	**(22)**	–		–
– finance costs	**(210)**	(97)		(293)
Foreign exchange (losses)/gains	**(17)**	25		18
Share of net profits/(losses) from equity accounted investments	**16**	(54)		(66)
Profit before tax	**3 016**	2 617	15	5 470
Income tax expense	**(947)**	(807)	(17)	(1 740)
Profit for the period	**2 069**	1 810	14	3 730
Profit attributable to:				
– ordinary shareholders	**2 028**	1 773	14	3 655
– preference shareholders	**41**	37		75
– non-controlling interest	**–**	–		–
	2 069	1 810	14	3 730
Earnings per share for profit attributable to ordinary shareholders of the company during the period (cents):				
– undiluted	**314.8**	281.0	12	573.1
– diluted	**314.4**	277.1	13	568.8

Statement of comprehensive income

for the six months ended 31 December 2016

R million	Group Six months ended December 2016 Unaudited	Group Six months ended December 2015 Unaudited	% change	Group Year ended June 2016 Audited
Profit for the period	**2 069**	1 810		3 730
Items that are or may be reclassified subsequently to profit or loss:				
Change in available-for-sale financial assets	**(7)**	9		4
– unrealised (losses)/gains	**(11)**	9		24
– capital gains tax on unrealised gains/losses	**8**	2		(16)
– realised gains transferred to profit or loss	**(5)**	(3)		(5)
– capital gains tax on realised gains	**1**	1		1
Currency translation differences	**(1 646)**	1 891		62
– unrealised (losses)/gains	**(1 657)**	1 926		86
– tax on unrealised gains/losses	**11**	(35)		(24)
Cash flow hedges	**(78)**	(43)		(195)
– unrealised (losses)/gains	**(7)**	9		(129)
– tax on unrealised gains/losses	**2**	(1)		14
– gains recycled to profit or loss	**(86)**	(61)		(95)
– tax on recycled gains	**13**	10		15
Share of other comprehensive income from equity accounted investments	**(41)**	87		39
– change in available-for-sale financial assets	**(1)**	9		(11)
– currency translation differences	**(40)**	78		50
Other comprehensive (losses)/income for the period, net of tax	**(1 772)**	1 944		(90)
Total comprehensive income for the period	**297**	3 754	(92)	3 640
Attributable to:				
– ordinary shareholders	**256**	3 717	(93)	3 565
– preference shareholders	**41**	37		75
– non-controlling interest	**–**	–		–
Total comprehensive income for the period	**297**	3 754	(92)	3 640

Headline earnings

for the six months ended 31 December 2016

R million	Group Six months ended December 2016 Unaudited	Group Six months ended December 2015 Unaudited	% change	Group Year ended June 2016 Audited
Normalised headline earnings per share (cents):				
– undiluted	**339.0**	336.6	1	676.3
– diluted	**338.6**	331.9	2	671.1
Headline earnings per share (cents):				
– undiluted	**314.0**	280.6	12	571.1
– diluted	**313.7**	276.7	13	566.7
The reconciliation between earnings and headline earnings is shown below:				
Net profit attributable to ordinary shareholders	**2 028**	1 773		3 655
Adjusted for:				
– gain from business combination	**–**	–		(8)
– gain on disposal of property and equipment net of tax	**(1)**	–		(2)
– realised gains on available-for-sale financial assets net of CGT	**(4)**	(2)		(4)
Headline earnings	**2 023**	1 771	14	3 641
– accrual of dividends payable to preference shareholders	**(1)**	(1)		(4)
– amortisation of intangibles from business combinations net of deferred tax	**78**	97		224
– rebranding and business acquisitions expenses	**84**	199		365
– additional 54.99% share of DiscoveryCard after tax profit	**–**	58		86
Normalised headline earnings	**2 184**	2 124	3	4 312
Weighted number of shares in issue (000's)	**644 350**	631 079	2	637 608
Diluted weighted number of shares (000's)	**645 080**	639 919	1	642 534

Statement of changes in equity

for the six months ended 31 December 2016

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 2016			
At beginning of the period	**8 300**	**779**	**319**
Total comprehensive income for the period	**–**	**41**	**–**
Profit for the period	**–**	**41**	**–**
Other comprehensive losses	**–**	**–**	**–**
Transactions with owners	**10**	**(41)**	**9**
Increase in treasury shares	**(1)**	**–**	**–**
Delivery of treasury shares	**11**	**–**	**–**
Share buy-back	*****	**–**	**–**
Employee share option schemes:			
– Value of employee services	**–**	**–**	**9**
Dividends paid to preference shareholders	**–**	**(41)**	**–**
Dividends paid to ordinary shareholders	**–**	**–**	**–**
At end of the period	**8 310**	**779**	**328**
Period ended 31 December 2015			
At beginning of the period	7 488	779	319
Total comprehensive income for the period	–	37	–
Profit for the period	–	37	–
Other comprehensive income	–	–	–
Transactions with owners	813	(37)	–
Increase in treasury shares	(4)	–	–
Proceeds from treasury shares	*	–	–
Share issue	817	–	–
Share buy-back	*	–	–
Dividends paid to preference shareholders	–	(37)	–
Dividends paid to ordinary shareholders	–	–	–
At end of the period	8 301	779	319

1 This relates to the fair value adjustments of available-for-sale financial assets.
** Amount is less than R500 000.*

Attributable to equity holders of the Company						
Available-for-sale investments[1]	Translation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total
164	**1 485**	**(34)**	**19 594**	**30 607**	**–**	**30 607**
(8)	**(1 686)**	**(78)**	**2 028**	**297**	**–**	**297**
–	**–**	**–**	**2 028**	**2 069**	**–**	**2 069**
(8)	**(1 686)**	**(78)**	**–**	**(1 772)**	**–**	**(1 772)**
–	**–**	**–**	**(591)**	**(613)**	**–**	**(613)**
–	**–**	**–**	**–**	**(1)**	**–**	**(1)**
–	**–**	**–**	**(11)**	**–**	**–**	**–**
–	**–**	**–**	**–**	*****	**–**	*****
–	**–**	**–**	**–**	**9**	**–**	**9**
–	**–**	**–**	**–**	**(41)**	**–**	**(41)**
–	**–**	**–**	**(580)**	**(580)**	**–**	**(580)**
156	**(201)**	**(112)**	**21 031**	**30 291**	**–**	**30 291**
171	1 373	161	17 065	27 356	–	27 356
18	1 969	(43)	1 773	3 754	–	3 754
–	–	–	1 773	1 810	–	1 810
18	1 969	(43)	–	1 944	–	1 944
–	–	–	(575)	201	–	201
–	–	–	–	(4)	–	(4)
–	–	–	–	*	–	*
–	–	–	–	817	–	817
–	–	–	–	*	–	*
–	–	–	–	(37)	–	(37)
–	–	–	(575)	(575)	–	(575)
189	3 342	118	18 263	31 311	–	31 311

Statement of cash flows
for the six months ended 31 December 2016

R million	Group Six months ended December 2016 Unaudited	Group Six months ended December 2015 Unaudited	Group Year ended June 2016 Audited
Cash flow from operating activities	**(2 140)**	527	985
Cash generated by operations	**4 666**	4 325	8 481
Net purchase of investments held to back policyholder liabilities	**(3 205)**	(2 493)	(9 597)
Working capital changes	**(3 884)**	(1 527)	1 699
	(2 423)	305	583
Dividends received	**61**	265	171
Interest received	**896**	483	1 478
Interest paid	**(214)**	(73)	(277)
Taxation paid	**(460)**	(453)	(970)
Cash flow from investing activities	**(82)**	(3 994)	(2 428)
Net proceeds/(purchase) of financial assets	**682**	(1 892)	286
Purchase of equipment	**(224)**	(222)	(465)
Proceeds from the sale of equipment	**2**	–	20
Purchase of intangible assets	**(399)**	(1 880)	(2 253)
Proceeds from the sale of intangible assets	**–**	–	4
Increase in investment in associate	**(143)**	–	–
Purchase of businesses	**–**	–	(20)
Cash flow from financing activities	**763**	4 349	4 009
Proceeds from issuance of ordinary shares	**–**	817	817
Share buy-back	*****	*	*
Share issue costs	**–**	*	*
Dividends paid to ordinary shareholders	**(581)**	(574)	(1 130)
Dividends paid to preference shareholders	**(41)**	(37)	(75)
Increase in borrowings	**1 548**	4 162	7 608
Repayment of borrowings	**(163)**	(19)	(3 211)
Net (decrease)/increase in cash and cash equivalents	**(1 459)**	882	2 566
Cash and cash equivalents at beginning of period	**8 614**	6 251	6 251
Exchange (losses)/gains on cash and cash equivalents	**(610)**	245	(203)
Cash and cash equivalents at end of period	**6 545**	7 378	8 614
Reconciliation to statement of financial position			
Cash and cash equivalents	**6 545**	7 378	8 634
Bank overdraft included in borrowings at amortised cost	**–**	–	(20)
Cash and cash equivalents at end of period	**6 545**	7 378	8 614

* *Amount is less than R500 000.*

Additional information

at 31 December 2016

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 2016			
R million (unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss:				
– Equity securities	16 193	3 922	–	20 115
– Equity linked notes	–	2 532	–	2 532
– Debt securities	2 980	6 587	–	9 567
– Inflation linked securities	303	–	–	303
– Money market securities	5 128	3 334	–	8 462
– Mutual funds	12 780	–	–	12 780
Available-for-sale financial instruments:				
– Equity securities	130	5	–	135
– Equity linked notes	–	15	–	15
– Debt securities	71	673	–	744
– Inflation linked securities	5	–	–	5
– Money market securities	323	1 082	–	1 405
– Mutual funds	6 426	–	–	6 426
Derivative financial instruments at fair value:				
– Hedges	–	254	–	254
– Non-hedges	–	4	–	4
	44 339	18 408	–	62 747
Financial liabilities				
Derivative financial instruments at fair value:				
– Hedges	–	79	–	79
– Non-hedges	–	171	–	171
	–	250	–	250

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 hedged derivatives is calculated by the issuers of those instruments, 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 2016			
R million (audited)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss:				
– Equity securities	20 049	–	–	20 049
– Equity linked notes	–	2 462	–	2 462
– Debt securities	10 238	731	–	10 969
– Inflation linked securities	429	–	–	429
– Money market securities	601	4 157	–	4 758
– Mutual funds	12 281	–	–	12 281
Available-for-sale financial instruments:				
– Equity securities	151	–	–	151
– Equity linked notes	–	5	–	5
– Debt securities	91	189	–	280
– Inflation linked securities	5	–	–	5
– Money market securities	299	1 571	–	1 870
– Mutual funds	7 483	–	–	7 483
Derivative financial instruments at fair value:				
– Hedges	–	521	–	521
– Non-hedges	–	69	–	69
	51 627	9 705	–	61 332
Financial liabilities				
Derivative financial instruments at fair value:				
– Hedges	–	29	–	29
– Non-hedges	–	20	–	20
	–	49	–	49

EXCHANGE RATES USED IN THE PREPARATION OF THESE RESULTS

	USD	GBP
31 December 2016		
– Average	**13.97**	**17.76**
– Closing	**13.74**	**16.92**
30 June 2016		
– Average	14.60	21.44
– Closing	14.73	19.78
31 December 2015		
– Average	13.97	21.25
– Closing	15.63	23.18
30 June 2015		
– Average	11.49	18.04
– Closing	12.18	19.19

Segmental information

for the six months ended 31 December 2016

R million	SA Health	SA Life	SA Invest	SA Vitality
Income statement				
Insurance premium revenue	8	4 844	5 727	–
Reinsurance premiums	(1)	(867)	–	–
Net insurance premium revenue	7	3 977	5 727	–
Fee income from administration business	3 014	10	799	–
Vitality income	–	–	–	1 180
Investment income on assets backing policyholder liabilities	–	258	–	–
Finance charge on negative reserve funding	–	–	–	–
Inter-segment funding[1]	–	(269)	269	–
Net fair value gains on financial assets at fair value through profit or loss	–	184	120	–
Net income	3 021	4 160	6 915	1 180
Claims and policyholders' benefits	(1)	(2 927)	(3 405)	–
Insurance claims recovered from reinsurers	1	585	–	–
Recapture of reinsurance	–	–	–	–
Net claims and policyholders' benefits	–	(2 342)	(3 405)	–
Acquisition costs	–	(823)	(510)	(43)
Marketing and administration expenses				
– depreciation and amortisation	(148)	(8)	–	–
– other expenses	(1 685)	(757)	(319)	(1 104)
Recovery of expenses from reinsurers	–	–	–	–
Transfer from assets/liabilities under insurance contracts				
– change in assets arising from insurance contracts	–	1 735	–	–
– change in assets arising from reinsurance contracts	–	(11)	–	–
– change in liabilities arising from insurance contracts	–	11	(2 402)	–
– change in liabilities arising from reinsurance contracts	–	(196)	–	–
Fair value adjustment to liabilities under investment contracts	–	(1)	47	–
Share of profits from equity accounted investments	–	–	–	–
Normalised profit/(loss) from operations	1 188	1 768	326	33
Investment income earned on shareholder investments and cash	24	7	11	7
Net realised gains on available-for-sale financial assets	–	–	5	–
Rebranding and business acquisitions expenses	–	–	–	–
Amortisation of intangibles from business combinations	–	–	–	–
Finance costs	(17)	(4)	–	–
Foreign exchange losses	–	–	(10)	–
Profit before tax	1 195	1 771	332	40
Income tax expense	(327)	(502)	(92)	(11)
Profit for the period	868	1 269	240	29

1 *The inter-segment funding of R269 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			IFRS total
				UK Life[2]	DUT[3]	Normalised profit adjustments[4]	
3 641	1 824	972	17 016	(364)	–	–	16 652
(806)	(541)	(98)	(2 313)	364	–	–	(1 949)
2 835	1 283	874	14 703	–	–	–	14 703
10	–	169	4 002	–	–	–	4 002
269	40	640	2 129	–	–	–	2 129
10	11	51	330	–	–	(330)	–
–	(26)	–	(26)	4	–	–	(22)
–	–	–	–	–	–	–	–
–	(101)	–	203	–	(31)	–	172
3 124	1 207	1 734	21 341	4	(31)	(330)	20 984
(2 195)	(326)	(683)	(9 537)	149	–	–	(9 388)
699	167	133	1 585	(149)	–	–	1 436
(882)	–	–	(882)	–	–	–	(882)
(2 378)	(159)	(550)	(8 834)	–	–	–	(8 834)
(294)	(936)	(93)	(2 699)	(4)	–	–	(2 703)
(108)	–	(79)	(343)	–	–	–	(343)
(1 248)	(698)	(1 316)	(7 127)	(65)	(88)	(84)	(7 364)
1 296	703	–	1 999	–	–	–	1 999
–	394	–	2 129	500	–	–	2 629
(123)	4	–	(130)	(2)	–	–	(132)
(127)	(6)	(15)	(2 539)	2	–	–	(2 537)
–	(251)	–	(447)	(500)	–	–	(947)
–	–	–	46	–	119	–	165
–	–	16	16	–	–	–	16
142	258	(303)	3 412	(65)	–	(414)	2 933
1	4	8	62	–	–	330	392
–	–	–	5	–	–	–	5
(76)	–	(8)	(84)	–	–	84	–
–	–	(87)	(87)	–	–	–	(87)
–	(7)	(182)	(210)	–	–	–	(210)
–	–	(7)	(17)	–	–	–	(17)
67	255	(579)	3 081	(65)	–	–	3 016
(6)	(126)	52	(1 012)	65	–	–	(947)
61	129	(527)	2 069	–	–	–	2 069

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 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 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. Rebranding and business acquisitions expenses are excluded from normalised profit from operations, but are included in marketing and administration expenses for IFRS purposes.

Segmental information continued

for the six months ended 31 December 2015

Unaudited and restated

R million	SA Health	SA Life Restated[2]	SA Invest Restated[2]	SA Vitality
Income statement				
Insurance premium revenue	8	4 366	5 298	–
Reinsurance premiums	(1)	(988)	–	–
Net insurance premium revenue	7	3 378	5 298	–
Fee income from administration business	2 622	16	716	–
Vitality income	–	–	–	1 085
Investment income on assets backing policyholder liabilities	–	138	–	–
Finance charge on negative reserve funding	–	–	–	–
Inter-segment funding[1]	–	(215)	215	–
Net fair value gains on financial assets at fair value through profit or loss	–	(77)	1 022	–
Net income	2 629	3 240	7 251	1 085
Claims and policyholders' benefits	(1)	(2 552)	(2 672)	–
Insurance claims recovered from reinsurers	*	767	–	–
Net claims and policyholders' benefits	(1)	(1 785)	(2 672)	–
Acquisition costs	(3)	(761)	(490)	(33)
Marketing and administration expenses				
– depreciation and amortisation	(120)	(12)	–	–
– other expenses	(1 444)	(680)	(278)	(1 021)
Recovery of expenses from reinsurers	–	–	–	–
Transfer from assets/liabilities under insurance contracts				
– change in assets arising from insurance contracts	–	1 553	–	–
– change in assets arising from reinsurance contracts	–	11	–	–
– change in liabilities arising from insurance contracts	–	171	(3 398)	–
– change in liabilities arising from reinsurance contracts	–	(175)	–	–
Fair value adjustment to liabilities under investment contracts	–	(1)	(143)	–
Share of profits/(losses) from equity accounted investments	–	–	–	–
Normalised profit/(loss) from operations	1 061	1 561	270	31
Investment income earned on shareholder investments and cash	60	46	14	7
Net realised gains on available-for-sale financial assets	–	1	2	–
Rebranding and business acquisitions expenses	–	–	–	–
Amortisation of intangibles from business combinations	–	–	–	–
Finance costs	(21)	(9)	–	–
Foreign exchange gains/(losses)	1	–	6	–
Profit before tax	1 101	1 599	292	38
Income tax expense	(312)	(443)	(79)	(11)
Profit for the period	789	1 156	213	27

** Amount is less than R500 000.*

1 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.

The segment information is presented on the same basis as reported to the Chief Executive Officers (CEO) of the reportable segments. At each reporting date, Discovery must review whether the segments being disclosed still comply with IFRS8 – Segment reporting. Based on this review, the following changes were required:

2 Since the beginning of the current financial period, the performance of the Discovery Retirement Optimiser (DRO) product is reported to the CEO of Discovery Invest. DRO was previously reported as part of the SA Life segment. The comparatives have been restated to include the DRO product in the SA Invest segment, in line with the current year disclosure.

UK Health	UK Life	All other segments Restated[3]	Segment total	IFRS reporting adjustments			IFRS total
				UK Life[4]	DUT[5]	Normalised profit adjustments[6]	
4 227	1 828	724	16 451	(404)	–	–	16 047
(1 013)	(404)	(91)	(2 497)	404	–	–	(2 093)
3 214	1 424	633	13 954	–	–	–	13 954
24	–	260	3 638	–	–	–	3 638
259	30	464	1 838	–	–	–	1 838
24	–	29	191	–	–	(191)	–
–	(172)	–	(172)	172	–	–	–
–	–	–	–	–	–	–	–
–	–	–	945	–	373	–	1 318
3 521	1 282	1 386	20 394	172	373	(191)	20 748
(3 342)	(348)	(470)	(9 385)	193	–	–	(9 192)
832	193	63	1 855	(193)	–	–	1 662
(2 510)	(155)	(407)	(7 530)	–	–	–	(7 530)
(294)	(1 130)	(82)	(2 793)	(172)	–	–	(2 965)
(76)	–	(49)	(257)	–	–	–	(257)
(1 310)	(596)	(1 182)	(6 511)	(113)	–	(199)	(6 823)
297	–	–	297	–	–	–	297
–	1 528	–	3 081	(580)	–	–	2 501
1	6	–	18	(6)	–	–	12
463	(12)	(13)	(2 789)	6	–	–	(2 783)
–	(580)	–	(755)	580	–	–	(175)
–	–	–	(144)	–	(373)	–	(517)
1	–	(55)	(54)	–	–	–	(54)
93	343	(402)	2 957	(113)	–	(390)	2 454
3	–	33	163	–	–	191	354
–	–	–	3	–	–	–	3
(199)	–	–	(199)	–	–	199	–
–	–	(122)	(122)	–	–	–	(122)
(3)	–	(64)	(97)	–	–	–	(97)
(96)	–	114	25	–	–	–	25
(202)	343	(441)	2 730	(113)	–	–	2 617
38	(113)	–	(920)	113	–	–	(807)
(164)	230	(441)	1 810	–	–	–	1 810

3 The operating segments that were previously reported in the "New Business Development" segment no longer meet the aggregation criteria. As they do not meet the quantitative thresholds either, they have moved to the "All other segments" column. Comparative disclosure has been updated to be consistent with the current year disclosure. New business development previously included The Vitality Group in the United States of America, Ping An Health in China, AIA Vitality in Asia and Discovery Insure in South Africa, as well as expenses incurred to investigate new products and markets.

The segment total, as reported to the Chief Executive Officers, is adjusted for accounting reclassifications and entries required to produce IFRS compliant results. These adjustments include the following:

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

5 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.

6 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. Rebranding and business acquisitions expenses are excluded from normalised profit from operations, but are included in marketing and administration expenses for IFRS purposes.

NEW BUSINESS ANNUALISED PREMIUM INCOME

R million	December 2016	December 2015	% change
Discovery Health – DHMS	**2 552**	2 190	17
Discovery Health – Closed Schemes[1]	**478**	337	42
Discovery Life[2]	**1 053**	970	9
Discovery Invest[2]	**1 278**	1 168	9
Discovery Insure	**495**	402	23
Discovery Vitality	**92**	97	(5)
VitalityHealth	**443**	513	(14)
VitalityLife	**581**	643	(10)
Vitality Group (stand alone)	**33**	60	(45)
Ping An Health	**1 169**	752	55
Fees earned from Vitality Group partners[3]	**71**	24	196
New business API of Group excluding new Closed Schemes	**8 245**	7 156	15
New Closed Schemes[1]	**487**	1 303	(63)
New business API of Group including new Closed Schemes	**8 732**	8 459	3

1 *The new business API for Closed Schemes includes additional lives on existing closed schemes. The new business API for New Closed Schemes includes contracted new business API and business in the first twelve months of on-boarding.*
2 *The comparative has been restated to include Discovery Retirement Optimiser (DRO) in the Discovery Invest new business API. This was previously reported under Discovery Life.*
3 *Not annualised.*

In the past two years, Discovery Health has brought on a number of new Closed Schemes, of varying sizes, resulting in large fluctuations in the new business annualised premium income in the year of acquisition. By excluding the new business annualised premium income for these new schemes, hence reducing the volatility caused, the new business annualised premium income for Discovery increased 15% for the six months ended 31 December 2016, when compared to the same period in the prior year.

Calculation of new business annualised premium income (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 policies.

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.

For Vitality Group and Ping An Health, the embedded value definition of new business is used in the table above.

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 12% for the six months ended 31 December 2016 when compared to the same period in the prior year.

R million	December 2016	December 2015	% change
Discovery Health	**32 239**	27 434	18
Discovery Life[1]	**4 854**	4 382	11
Discovery Invest[1]	**9 364**	8 618	9
Discovery Insure	**980**	734	34
Discovery Vitality	**1 180**	1 085	9
VitalityHealth	**3 920**	4 510	(13)
VitalityLife	**1 864**	1 858	–
Vitality Group	**569**	474	20
All other businesses	**232**	240	(3)
Gross inflows under management	**55 202**	49 335	12
Less: collected on behalf of third parties	**(32 055)**	(27 408)	17
Discovery Health	**(29 217)**	(24 804)	18
Discovery Invest	**(2 838)**	(2 604)	9
Gross income of Group per the segmental information[2]	**23 147**	21 927	6
Gross income is made up as follows:			
– Insurance premium revenue	**17 016**	16 451	3
– Fee income from administration business	**4 002**	3 638	10
– Vitality income	**2 129**	1 838	16
Gross income of Group per the segmental information[2]	**23 147**	21 927	6

1 The comparative has been restated to include Discovery Retirement Optimiser (DRO) inflows in Discovery Invest. This was previously reported under Discovery Life.
2 The appreciation of the rand over the period had a negative impact of 5% on Gross income of the Group.

NORMALISED PROFIT FROM OPERATIONS

The following table shows the main components of the normalised profit from operations for the six months ended 31 December 2016:

R million	December 2016	December 2015	% change
Discovery Health	**1 188**	1 061	12
Discovery Life[1]	**1 768**	1 561	13
Discovery Invest[1]	**326**	270	21
Discovery Vitality	**33**	31	6
VitalityHealth	**142**	93	53
VitalityLife	**258**	343	(25)
Additional 54.99% share of DiscoveryCard after tax profit	**71**	58	22
– Included in profit or loss in 'All other segments'	**71**	–	
– Included in normalised profit from operations	**–**	58	
Normalised profit from established businesses	**3 786**	3 417	11
All other segments (excluding additional 54.99% share of DiscoveryCard after tax profit)	**(374)**	(402)	7
– Emerging businesses	**(130)**	(223)	
– Development and other segments	**(244)**	(179)	
Normalised profit from operations[2]	**3 412**	3 015	13

1 The comparative has been restated to include Discovery Retirement Optimiser (DRO) profits in Discovery Invest. This was previously reported under Discovery Life.
2 The comparative figure does not agree to the normalised profit from operations per the segmental information due to the inclusion of the additional 54.99% share of DiscoveryCard after tax profit.

SIGNIFICANT TRANSACTIONS AFFECTING THE CURRENT RESULTS

Increase in borrowings

United Kingdom borrowings

During the current financial period, VitalityLife utilised the remaining GBP 30 million of its facilities with HSBC Bank Plc, totalling GBP 150 million. These borrowings have been used to fund the new business acquisition costs incurred. These costs were previously funded by The Prudential Assurance Company Limited and disclosed as Negative Reserve Funding in the Statement of financial position.

GBP 7.5 million of this facility was repaid on 31 May 2016 and 30 November 2016 respectively. The balance owing to HSBC Bank Plc as at 31 December 2016 amounts to GBP 135 million (R2 287 million) (30 June 2016: GBP 112.5 million (R2 226 million)).

Interest rates on the HSBC facilities are floating, linked to 3 month LIBOR, payable quarterly in arrears. Finance charges of R29 million in respect of these borrowings have been recognised in profit or loss.

South African borrowings

During the current financial period, Discovery utilised an additional R825 million of its bank syndicated loan programme entered into in June 2016. The amount outstanding under this programme totals R3 856 million (30 June 2016: R3 014 million), including accrued interest.

The additional R825 million facility has the following profile:

- R375 million has been fixed over a 5 year term at 10.39% per annum, payable quarterly in arrears, with capital repayable on 30 September 2021.
- R450 million is linked to 3 month JIBAR, currently 9.79% per annum, payable quarterly in arrears, with capital repayable on 15 December 2021.

Furthermore, a subsidiary of the Discovery Group concluded a 10 year loan facility agreement of R650 million with Investec Bank Limited, of which R189 million was utilised in the current financial period. Interest rates on the utilised amount is fixed at a weighted average rate of 11.44% per annum, with capital and interest repayable in instalments over the duration of the loan facility.

The Group entered into various finance leases during the current financial period in the ordinary course of business, totalling a net increase of R86 million.

Finance charges of R96 million in respect of these South African borrowings have been recognised in profit or loss.

Negative reserve funding

The negative reserve funding liability on Discovery's Statement of financial position represents the acquisition costs that were 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 decrease in the negative reserve funding liability relates to the repayment of funding by VitalityLife in the current financial period.

Expiry of BEE transaction

In September 2005, Discovery concluded a BEE transaction pursuant to which 38 725 909 shares were issued to a consortium of BEE parties. 1 106 455 of these shares were issued to the Maphai SPV being one of the BEE consortium members, at R0.001 each, for an initial period of 11 years (initial period).

The difference between the market value of the ordinary shares issued to the BEE parties and the subscription consideration of R1.72 per share, represented an outstanding funded amount provided by Discovery shareholders (funded amount). These shares were treated as treasury shares.

At the end of the initial period,

- Discovery had the right to repurchase such number of ordinary shares at R0.001 per share that would provide Discovery with a notional return of the funded amount.
- In order for the Maphai SPV to retain the full number of Discovery shares originally issued to them, the Maphai SPV then had the right to simultaneously acquire from Discovery, at the then thirty-day volume-weighted average price per Discovery share, the same number of shares repurchased by Discovery.

The initial period expired in December 2016 and resulted in the following transactions:

- Discovery repurchased 582 954 Discovery shares held by the Maphai SPV at a price of R0.001 per Discovery share.
- The Maphai SPV chose not to exercise their right to acquire the shares repurchased by Discovery. These shares have been cancelled from issue.

As a result of this transaction, treasury shares have decreased by 1 200 554 shares, representing all shares previously held by the Maphai SPV.

All amounts funded in terms of the September 2005 BEE transaction have now been repaid.

Consolidation of Discovery Unit Trusts

The Discovery Unit Trusts are consolidated into Discovery's results in both the current and prior financial year. The following large increases in the Discovery Unit Trusts' Statement of financial position have had a direct impact on the Group's Statement of financial position:

- Cash and cash equivalents decreased by R1 259 million.
- Loans and receivables decreased by R655 million.
- Trade and other payables decreased by R1 727 million.
- Investments at fair value through profit or loss increased by R1 728 million.
- Investment contracts at fair value through profit or loss increased by R491 million.

OTHER SIGNIFICANT ITEMS IN THESE RESULTS

Increase in the DiscoveryCard profit share arrangement in the prior period

In December 2015, Discovery increased its economic interest in the DiscoveryCard (a "Discovery" branded FNB credit card), by subscribing for R1.4 billion redeemable preference shares in the share capital of FirstRand Bank Limited (FRB). This entitled Discovery to receive an additional 54.99% of the profits generated by the DiscoveryCard effective from 1 July 2015.

The contractual rights under the preference shares were only finalised in April 2016 and as such, any profits earned prior to that represented an adjustment to the purchase price rather than income received. At 31 December 2015, the after tax profit share in respect of the additional 54.99% was calculated as R58 million and, in order to reflect the economic effect of the transaction, was added to Normalised Headline Earnings. R71 million has been recognised in profit or loss in respect of the 54.99% profits generated by the DiscoveryCard for the six month period ended 31 December 2016 and has been included in Normalised profit from operations.

In terms of IAS 38: Intangible Assets, the preference shares have been disclosed as an intangible asset in the Statement of financial position as the substance of the arrangement is a right to receive additional 54.99% of the profits generated by the DiscoveryCard. This intangible asset is amortised through profit or loss as profits are expected to emerge. R42 million amortisation has been recognised for the current financial period. This has been added back in the calculation of Normalised Headline Earnings.

Taxation

For South African entities that are in a tax paying position, tax has been provided at 28% (2015: 28%) in the financial statements. No deferred tax assets have been recognised on the assessed losses in Discovery Insure and Vitality Group and no further deferred tax asset has been raised in respect of the VitalityHealth assessed losses.

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 448 million for the six months ended 31 December 2016 (2015: R2 285 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 R2.8 billion due to the sale of Discovery Invest products. This includes the impact of consolidating the Discovery Unit Trusts into the Group's results. The increase in the financial assets at fair value through profit or loss has been presented in 'Net purchase of investments held to back policyholder liabilities' of R3 205 million in the Statement of cash flows.

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.

A new tax basis for Life companies was promulgated in January 2017. The effective date of the new 'adjusted IFRS' tax valuation basis will align with the implementation of Solvency Assessment and Management (SAM).

SHAREHOLDER INFORMATION

Directorate

Changes to the Board of Discovery Limited from 1 July 2016 to the date of this announcement are as follows:

- Mr R Farber will relinquish his role as Chief Financial Officer and Group Financial Director of Discovery with effect from 30 April 2017. Mr Farber remains a director on the Board of Discovery.
- Mr DM Viljoen has been appointed as Chief Financial Officer and Group Financial Director of Discovery with effect from 1 May 2017.
- Mr SB Epstein resigned as a non-executive director on 5 December 2016.

Dividend policy and capital

Final dividends paid

The following final dividends were paid during the current period:

- B preference share dividend of 514.24658 cents per share (437.10959 cents net of dividend withholding tax), paid on 19 September 2016.
- Ordinary share dividend of 90 cents per share (76.5 cents net of dividend withholding tax), paid on 10 October 2016.

Interim dividend declaration

B preference share cash dividend declaration:

On 16 February 2017, the directors declared an interim gross cash dividend of 529.31507 cents (449.91781 cents net of dividend withholding tax) per B preference share for the period 1 July 2016 to 31 December 2016, payable from the income reserves of the Company. 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	Tuesday, 7 March 2017
Shares commence trading "ex" dividend	Wednesday, 8 March 2017
Record date	Friday, 10 March 2017
Payment date	Monday, 13 March 2017

B preference share certificates may not be dematerialised or rematerialised between Wednesday, 8 March 2017 and Friday, 10 March 2017, both days inclusive.

Ordinary share cash dividend declaration:

Notice is hereby given that the directors have declared an interim gross cash dividend of 88 cents (74.8 cents net of dividend withholding tax) per ordinary share, out of income reserves for the six month period ended 31 December 2016. 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 646 844 992 ordinary shares.

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Tuesday, 14 March 2017
Shares commence trading "ex" dividend	Wednesday, 15 March 2017
Record date	Friday, 17 March 2017
Payment date	Monday, 20 March 2017

Share certificates may not be dematerialised or rematerialised between Wednesday, 15 March 2017 and Friday, 17 March 2017, both days inclusive.

Capital

At 31 December 2016, the capital adequacy requirement on the statutory basis for Discovery Life was R684 million (2015: R549 million) and was covered 3.2 times (2015: 3.9 times). Vitality Life Limited's actual solvency was 218% of the required capital.

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 prior Annual Financial Statements.

Embedded value statement

for the six months ended 31 December 2016

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 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.

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 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 The Vitality Group (USA), 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 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.

In June 2015, the methodology to derive the assumed beta was amended. Under this revised methodology, the assumed beta is set with reference to the observed beta calculated using daily returns over a long time period and with reference to the ALSI. The resulting assumed beta is then fixed at this level unless the observed beta calculated using daily returns over a long time period departs significantly from this assumption at the financial year end. The beta assumption used at 31 December 2016 is 0.75 (30 June 2016: 0.75; 31 December 2015: 0.55).

In December 2015, the initial period expired on the BEE transaction that was concluded in September 2005 with the Discovery Foundation. In the transaction, shares were issued to the Discovery Foundation at R0.001 per share for an initial period of 10 years. At the end of this initial period Discovery has the right to repurchase these ordinary shares at R0.001 per share which would provide Discovery with the notional return of the funded amount. Simultaneously, the Discovery Foundation has the right to acquire from Discovery the same number of shares repurchased by Discovery. At the expiry of the initial period, the above transactions were executed resulting in an increased share capital and premium of R817 million and a decrease of 14 226 181 treasury shares.

In January 2016, the European insurance regulation Solvency II came into effect and Vitality Life Limited was granted a life insurance licence in the United Kingdom on which it commenced writing new business. These two changes required that the embedded value methodology for VitalityLife be reviewed. The key methodology change was the zeroisation of the negative reserves emerging under insurance contracts in Vitality Life Limited and Discovery funded VitalityLife business on the Prudential licence. This effectively moves the negative reserve from net worth to the value of in-force.

The 31 December 2016 embedded value results and disclosures were not subjected to an external review or audit.

TABLE 1: GROUP EMBEDDED VALUE

R million	31 December 2016	31 December 2015	% Change	30 June 2016
Shareholders' funds	**30 291**	31 311	(3)	30 607
Adjustment to shareholders' funds from published basis[1]	**(25 815)**	(19 980)		(23 583)
Adjusted net worth[2]	**4 476**	11 331		7 024
Value of in-force covered business before cost of required capital	**50 970**	46 700		48 121
Cost of required capital	**(2 137)**	(1 506)		(2 065)
Discovery Limited embedded value	**53 309**	56 525	(6)	53 080
Number of shares (millions)	**645.0**	644.2		644.2
Embedded value per share	**R82.65**	R87.74	(6)	R82.40
Diluted number of shares (millions)	**646.2**	646.7		646.7
Diluted embedded value per share[3]	**R82.60**	R87.40	(5)	R82.17

1 A breakdown of the adjustment to shareholders' funds is shown in the table below. An additional adjustment has been included as at 31 December 2016 to reflect the methodology change in VitalityHealth where the financial reinsurance cash flows have been removed from the value of in-force and deducted from the net worth. Note that where relevant, adjustments have been converted using the closing exchange rate of R16.92/GBP (June 2016: R19.78/GBP; December 2015: R23.18/GBP):

R million	*31 December 2016*	*31 December 2015*	*30 June 2016*
Life net assets under insurance contracts	*(17 258)*	*(14 574)*	*(15 768)*
Vitality Life Limited and Discovery funded VitalityLife business on the Prudential licence net assets under insurance contracts	*(3 176)*	*–*	*(3 090)*
VitalityHealth financial reinsurance liability	*(1 279)*	*–*	*–*
VitalityHealth and VitalityHealth Insurance Limited deferred acquisition costs (net of deferred tax)	*(233)*	*(287)*	*(290)*
VitalityLife receivable relating to the Unemployment Cover benefit (net of deferred tax)	*(32)*	*(50)*	*(41)*
Goodwill and intangible assets (net of deferred tax) relating to the acquisition of Standard Life Healthcare and the Prudential joint venture	*(3 058)*	*(4 290)*	*(3 615)*
Net preference share capital	*(779)*	*(779)*	*(779)*
	(25 815)	*(19 980)*	*(23 583)*

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 2016*	*31 December 2015*	*30 June 2016*
Shareholders' funds	*30 291*	*31 311*	*30 607*
Adjustment to shareholders' funds	*(25 815)*	*(19 980)*	*(23 583)*
Adjusted net worth	*4 476*	*11 331*	*7 024*
Excess of available regulatory capital over adjusted net worth	*3 708*	*779*	*2 417*
Available regulatory capital	*8 184*	*12 110*	*9 441*
Regulatory required capital	*4 024*	*3 627*	*3 947*
Required capital buffer	*2 414*	*1 972*	*2 257*
Required capital	*6 438*	*5 599*	*6 204*
Excess available capital	*1 746*	*6 511*	*3 237*

The excess of available regulatory capital over adjusted net worth reflects the difference between the adjusted net worth and the available regulatory capital. This includes the net preference share capital of R779 million which is included as available regulatory capital. At 31 December 2016, this adjustment also includes 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 required capital at December 2016 for Life is R1 369 million (June 2016: R1 255 million; December 2015: R1 098 million), for Health and Vitality is R751 million (June 2016: R725 million; December 2015: R683 million), for VitalityHealth and VitalityHealth Insurance Limited is R1 931 million (June 2016: R2 212 million; December 2015: R2 590 million) and for VitalityLife is R2 387 million (June 2016: R2 011 million (restated in line with new capital position table above); December 2015: R1 228 million). For Life, the required capital was set equal to two times the statutory Capital Adequacy 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 1.4 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 the excess of 1.4 times the Solvency II Pillar 1 Solvency Capital Requirement. The Regulatory Required Capital is calculated as the relevant regulatory solvency capital requirement for each insurance business.

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.

Embedded value statement continued

for the six months ended 31 December 2016

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 2016			
Health and Vitality	**17 415**	**(329)**	**17 086**
Life and Invest[1]	**23 901**	**(796)**	**23 105**
VitalityHealth[2]	**5 028**	**(320)**	**4 708**
VitalityLife[2]	**4 626**	**(692)**	**3 934**
Total	**50 970**	**(2 137)**	**48 833**
at 31 December 2015			
Health and Vitality	16 013	(282)	15 731
Life and Invest[1]	23 119	(584)	22 535
VitalityHealth[2]	5 135	(302)	4 833
VitalityLife[2]	2 433	(338)	2 095
Total	46 700	(1 506)	45 194
at 30 June 2016			
Health and Vitality	16 834	(315)	16 519
Life and Invest[1]	22 411	(723)	21 688
VitalityHealth[2]	4 421	(377)	4 044
VitalityLife[2]	4 455	(650)	3 805
Total	48 121	(2 065)	46 056

1 *Included in the Life and Invest value of in-force covered business is R1 155 million (June 2016: R1 100 million; December 2015: R997 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 R16.92/GBP (June 2016: R19.78/GBP; December 2015: R23.18/GBP).*

TABLE 3: GROUP EMBEDDED VALUE EARNINGS

	Six months ended		Year ended
R million	31 December 2016	31 December 2015	30 June 2016
Embedded value at end of period	**53 309**	56 525	53 080
Less: Embedded value at beginning of period	**(53 080)**	(52 295)	(52 295)
Increase in embedded value	**229**	4 230	784
Net change in capital[1]	**1**	(813)	(812)
Dividends paid	**621**	612	1 201
Transfer to hedging reserve	**67**	38	171
Employee share option schemes	**(9)**	–	–
Embedded value earnings	**909**	4 067	1 345
Annualised return on opening embedded value	**3.5%**	16.2%	2.6%

1 *The net change in capital reflects an increase in treasury shares in the period. For the comparative periods, the net change in capital includes the R817 million increase in share capital and premium associated with the Discovery Foundation BEE Share recapture in December 2015.*

TABLE 4: COMPONENTS OF GROUP EMBEDDED VALUE EARNINGS

	Six months ended 31 December 2016				Six months ended 31 December 2015	Year ended 30 June 2016
R million	Net worth	Cost of required capital	Value of in–force covered business	**Embedded value**	Embedded value	Embedded value
Total profit from new business (at point of sale)	(2 333)	(136)	3 625	**1 156**	1 386	2 332
Profit from existing business						
■ Expected return	2 239	(77)	269	**2 431**	2 230	4 622
■ Change in methodology and assumptions[1]	(169)	(34)	159	**(44)**	(1 182)	(3 764)
■ Experience variances	(383)	20	168	**(195)**	35	(178)
Impairment, amortisation and fair value adjustment[2]	(54)	–	–	**(54)**	–	(37)
Increase in goodwill and intangibles	(69)	–	–	**(69)**	(214)	(366)
Other initiative costs[3]	(485)	–	7	**(478)**	(362)	(878)
Non-recurring expenses[4]	(83)	–	–	**(83)**	(254)	(508)
Acquisition costs[5]	(92)	–	(2)	**(94)**	(29)	(23)
Finance costs	(68)	–	–	**(68)**	1	(107)
Foreign exchange rate movements	(367)	155	(1 387)	**(1 599)**	2 256	(39)
Other[6]	(16)	–	10	**(6)**	33	56
Return on shareholders' funds[7]	12	–	–	**12**	167	235
Embedded value earnings	(1 868)	(72)	2 849	**909**	4 067	1 345

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 DiscoveryCard profit share arrangement, banking costs and the PrimeMed acquisition.
3 This item reflects Group initiatives including expenses relating to the investment in Vitality Group, banking development costs, Vitality International, Discovery Insure, other new business initiatives and unallocated head office costs.
4 This item includes rebranding costs, as well as other once-off costs relating to the acquisition of 25% of PHHL.
5 Acquisition costs relate to commission paid on the VitalityLife and 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.
6 This item includes, among other items, the tax benefit that will be obtained as the VitalityHealth DAC and intangible software assets amortise.
7 The return on shareholders' funds is shown net of tax and management charges.

Embedded value statement continued
for the six months ended 31 December 2016

TABLE 5: EXPERIENCE VARIANCES

	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		
R million	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Total
Renewal expenses	40	–	14	(2)	(100)	–	27	–	**(21)**
Lapses and surrenders	–	32	(58)	59	–	42	(44)	(31)	**–**
Mortality and morbidity	–	–	15	6	51	–	22	–	**94**
Policy alterations	–	2	(231)	86	–	–	(50)	30	**(163)**
Premium and fee income[1]	2	152	(135)	(80)	–	–	(16)	(19)	**(96)**
Economic assumptions	–	–	(25)	(209)	–	–	–	–	**(234)**
Commission	–	–	–	–	31	–	–	–	**31**
Tax[2]	8	–	97	(109)	(5)	–	(65)	–	**(74)**
Reinsurance	–	–	–	–	6	–	11	(4)	**13**
Maintain modelling term[3]	–	135	–	29	–	26	–	–	**190**
Vitality benefits	11	–	–	–	(29)	–	–	–	**(18)**
Other	70	–	(42)	29	12	–	–	14	**83**
Total	131	321	(365)	(191)	(34)	68	(115)	(10)	**(195)**

1 The premium and fee income experience for Life arises largely due to the impact of Vitality distribution shifts compared to expected levels.
2 The tax variance for Life and Invest arises due to a movement in the deferred tax asset which delays the payment of tax. The tax variance for VitalityLife arises due to actual shareholder and policyholder tax being higher than expected.
3 The projection term for Health and Vitality, Group Life and VitalityHealth at 31 December 2016 has not been changed from that used in the 30 June 2016 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

	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		
R million	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Total
Modelling changes	–	–	(51)	35	–	–	(17)	(1)	**(34)**
Expenses	–	–	–	–	–	–	162	27	**189**
Lapses	–	–	–	–	–	–	–	–	**–**
Mortality and morbidity	–	–	–	–	–	–	–	–	**–**
Benefit enhancements	–	–	–	–	–	–	–	–	**–**
Vitality benefits	–	(1)	–	–	–	–	–	–	**(1)**
Tax	–	–	–	–	–	37	–	1	**38**
Economic assumptions	–	(256)	(2)	(3)	–	(45)	(100)	114	**(292)**
Premium and fee income	–	–	–	–	–	–	–	–	**–**
Reinsurance[1]	–	–	695	(698)	(855)	908	–	–	**50**
Other	–	–	(1)	2	–	–	–	5	**6**
Total	–	(257)	641	(664)	(855)	900	45	146	**(44)**

1 For Life the reinsurance item primarily relates to the impact of the financing reinsurance arrangements. For VitalityHealth this reflects a change in methodology where financial reinsurance cash flows have been removed from the value of in-force and deducted from the net worth.

TABLE 7: EMBEDDED VALUE OF NEW BUSINESS

R million	Six months ended 31 December 2016	Six months ended 31 December 2015	% Change	Year ended 30 June 2016
Health and Vitality				
Present value of future profits from new business at point of sale	**333**	270		844
Cost of required capital	**(15)**	(11)		(48)
Present value of future profits from new business at point of sale after cost of required capital	**318**	259	23	796
New business annualised premium income[1]	**1 685**	1 102	53	7 415
Life and Invest				
Present value of future profits from new business at point of sale[2]	**689**	651		1 263
Cost of required capital	**(37)**	(30)		(67)
Present value of future profits from new business at point of sale after cost of required capital	**652**	621	5	1 196
New business annualised premium income[3]	**1 437**	1 366	6	2 798
Annualised profit margin[4]	**5.8%**	5.6%		5.3%
Annualised profit margin excluding Invest business[5]	**10.5%**	9.1%		8.9%
VitalityHealth				
Present value of future profits from new business at point of sale	**27**	34		109
Cost of required capital	**(17)**	(15)		(47)
Present value of future profits from new business at point of sale after cost of required capital	**10**	19	(50)	62
New business annualised premium income (Rand)[6]	**418**	559	(25)	1 071
Annualised profit margin[4]	**0.4%**	0.6%		0.9%
VitalityLife[7]				
Present value of future profits from new business at point of sale	**243**	517		593
Cost of required capital	**(67)**	(30)		(315)
Present value of future profits from new business at point of sale after cost of required capital	**176**	487	(64)	278
New business annualised premium income (Rand)	**490**	553	(11)	1 083
Annualised profit margin[4]	**5.1%**	11.5%		3.5%

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 2016.*
The total Health and Vitality new business annualised premium income written over the period was R3 122 million (June 2016: R6 764 million; December 2015: R4 028 million).

2 *Included in the Life and Invest embedded value of new business is R93 million (June 2016: R159 million; December 2015: R48 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 437 million (June 2016: R2 798 million; December 2015: R1 366 million) (single premium APE: R592 million (June 2016: R1 175 million; December 2015: R555 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 R574 million (June 2016: R966 million; December 2015: R498 million) and servicing increases of R320 million (June 2016: R516 million; December 2015: R274 million) was R2 331 million (June 2016: R4 279 million; December 2015: R2 138) (single premium APE: R620 million (June 2016: R1 218 million; December 2015: R579 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 *From 31 December 2016, Discovery Retirement Optimiser policies fall under Invest. Therefore, the "Annualised profit margin excluding Invest business" at 31 December 2016 excludes Discovery Retirement Optimiser policies, whereas these policies are included in the two comparative periods. On a like-for-like basis to the comparative periods the "Annualised profit margin excluding Invest business" at 31 December 2016 would have been 9.9%.*

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 2016.*

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.*

TABLE 8: EMBEDDED VALUE ECONOMIC ASSUMPTIONS

		31 December 2016	31 December 2015	30 June 2016
Beta coefficient		**0.75**	0.55	0.75
Equity risk premium (%)		**3.5**	3.5	3.5
Risk discount rate (%)				
Health and Vitality		**12.125**	12.175	11.875
Life and Invest		**12.625**	12.925	12.625
VitalityHealth		**3.93**	3.96	3.77
VitalityLife		**4.725**	5.005	4.695
Rand/GB Pound exchange rate				
Closing		**16.92**	23.18	19.78
Average		**17.76**	21.25	21.44
Medical inflation (%)				
South Africa		**9.00**	10.00	9.00
Expense inflation (%)				
South Africa		**6.0**	7.0	6.0
United Kingdom		**3.4**	3.1	2.9
Pre-tax investment return (%)				
South Africa	– Cash	**8.50**	9.50	8.50
	– Life and Invest bonds	**10.00**	11.00	10.00
	– Health and Vitality bonds	**9.50**	10.25	9.25
	– Equity	**13.50**	14.50	13.50
United Kingdom	– VitalityHealth investment return	**1.31**	2.04	1.15
	– VitalityLife investment return	**2.10**	3.08	2.07
Income tax rate (%)				
South Africa		**28**	28	28
United Kingdom	– long term[1]	**17**	18	18
Projection term				
– Health and Vitality		**20 years**	20 years	20 years
– Life		**No cap**	No cap	No cap
– Group Life		**10 years**	10 years	10 years
– VitalityHealth		**20 years**	20 years	20 years

1 The United Kingdom Corporation tax rate assumed is 20% in 2017, 19% in 2018 to 2020, and 17% beyond that.

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 set with reference to the observed beta calculated using daily returns over a long time period. The beta is calculated with reference to the ALSI. The resulting assumed beta will be fixed at this level unless the observed beta calculated using daily returns over a long time period departs significantly from this 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, augmented by industry information.

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.

The South African investment return assumption for Life and Invest and Health and Vitality 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, VitalityHealth and Vitality Life Limited required capital amounts will be fully backed by cash. 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. Allowance has been made for tax and investment expenses in the calculation of the cost of required capital. In calculating the capital gains tax liability, it is assumed that the portfolio is realised every 5 years. The Life and Invest cost of required capital is calculated using the difference between the gross of tax equity return and the equity return net of tax and expenses. The Health, Vitality, VitalityHealth and Vitality Life Limited cost of required capital is calculated using the difference between the risk discount rate and the net of tax cash return. The VitalityLife business on the Prudential licence cost of required capital is calculated using the difference between the risk discount rate and the net of tax asset return assumption.

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 revised capital requirements and resources arising from Solvency II in the United Kingdom 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 2016 to changes in the risk discount rate is included in the tables below.

TABLE 9: EMBEDDED VALUE SENSITIVITY

		Health and Vitality	
R million	Adjusted net worth[2]	Value of in-force	Cost of required capital
Base	4 476	17 415	(329)
Impact of:			
Risk discount rate +1%	4 476	16 397	(359)
Risk discount rate -1%	4 476	18 546	(295)
Lapses -10%	4 361	18 008	(344)
Interest rates -1%[1]	3 365	17 514	(316)
Equity and property market value -10%	4 415	17 415	(329)
Equity and property return +1%	4 476	17 415	(329)
Renewal expenses -10%	4 583	19 180	(305)
Mortality and morbidity -5%	4 605	17 415	(329)
Projection term +1 year	4 476	17 676	(333)

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	333	(15)
Impact of:		
Risk discount rate +1%	303	(16)
Risk discount rate -1%	365	(13)
Lapses -10%	353	(15)
Interest rates -1%[1]	338	(14)
Equity and property return +1%	333	(15)
Renewal expense -10%	394	(14)
Mortality and morbidity -5%	333	(15)
Projection term +1 year	341	(15)
Acquisition costs -10%	344	(15)

1 All economic assumptions were reduced by 1%.

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			
Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	Embedded value	% Change
23 901	(796)	5 028	(320)	4 626	(692)	**53 309**	
21 370	(697)	4 740	(425)	4 405	(726)	**49 181**	(8)
27 044	(921)	5 348	(202)	4 859	(639)	**58 216**	9
25 863	(851)	5 631	(347)	4 864	(773)	**56 412**	6
24 287	(867)	5 326	(303)	4 816	(889)	**52 933**	(1)
23 664	(796)	5 028	(320)	4 626	(692)	**53 011**	(1)
24 141	(796)	5 028	(320)	4 626	(692)	**53 549**	0
24 212	(794)	5 444	(320)	4 656	(667)	**55 989**	5
25 423	(784)	6 289	(320)	4 662	(679)	**56 282**	6
23 957	(796)	5 082	(322)	4 626	(692)	**53 674**	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
689	(37)	27	(17)	243	(67)	**1 156**	
550	(33)	9	(23)	200	(81)	**909**	(21)
860	(43)	47	(11)	282	(52)	**1 435**	24
834	(40)	71	(19)	286	(118)	**1 352**	17
720	(41)	46	(16)	217	(180)	**1 070**	(7)
712	(37)	27	(17)	242	(67)	**1 178**	2
711	(37)	47	(17)	233	(85)	**1 232**	7
752	(37)	92	(17)	240	(89)	**1 259**	9
692	(37)	30	(18)	242	(67)	**1 168**	1
757	(37)	40	(17)	271	(84)	**1 259**	9

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STUDIO⑤

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