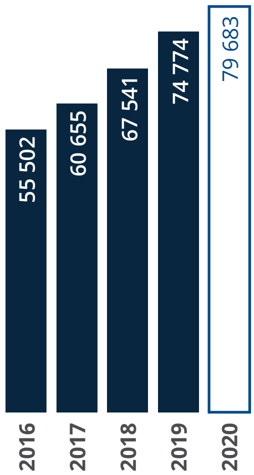
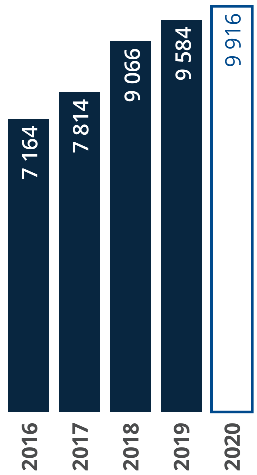
# UNAUDITED INTERIM RESULTS AND TRADING STATEMENT

for the six months ended 31 December 2020

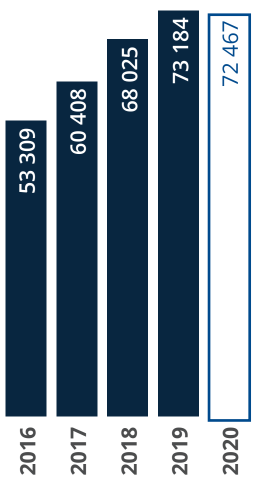
Gross inflows under management
(R million)



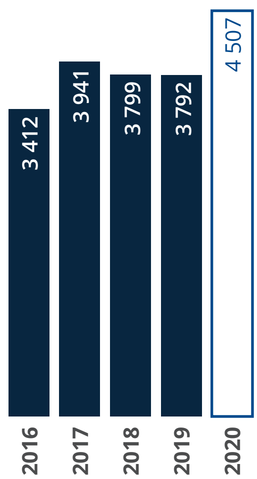

Core new business API
(R million)




Embedded value
(R million)




Normalised profit from operations
(R million)



**Discovery delivered a robust operating performance while maintaining prudent COVID-19 provisions. The business model has proven to be highly relevant and is well positioned to grow on the back of trends emerging from the pandemic**

# Commentary

The period under review was complex, dominated by the COVID-19 pandemic with corresponding economic uncertainty, market volatility and societal need. Against this backdrop, the period for the Group was characterised by a continued excellent operating performance, and resilient COVID-19 provisions and reserves. However, ongoing market volatility impacted the Group's normalised and headline earnings.

## Operating strength during COVID-19

For the six months ended 31 December 2020, normalised operating profit increased by 19% to R4 507 million, normalised headline earnings decreased by 1% to R2 284 million and total new business was up 8% to R10 920 million. Investment in new initiatives was at 22% of earnings, compared with 26% in the previous period. Headline earnings per share (HEPS) (basic) decreased by 10% to 280.3 cents and normalised headline earnings per share (NHEPS) (basic) decreased by 1% to 347.9 cents.

The following table highlights key items in the Group's normalised profit from operations:

| Business | Current period, in ZAR million | % change (Current period vs prior period) | Strategic observation |
|---|---|---|---|
| Discovery Health | 1 670 | 6 | Continued operational excellence with significant support to medical scheme members and society |
| Discovery Life | 1 922 | 3 | Excellent operating performance and positive variances delivering growth on optimised capital base |
| Discovery Invest | 471 | (3) | High-quality earnings driven by positive flows and market growth albeit in difficult market conditions |
| VitalityHealth | 613 | 24 | Excellent performance driven by continued retention and proven relevance of the business model |
| VitalityLife[1] | 327 | 206 | Robust recovery with positive lapse experience and resilience to interest-rate volatility |
| **Profit from established businesses[2]** | **5 049** | **11** | |
| Discovery Insure | 107 | 43 | Strong new business and retention dynamics driving growth with consistently expanding margins and proven efficacy of the model |
| Vitality Group | 238 | 116 | Global relevance gaining significant traction with excellent operating performance |
| Ping An Health | 112 | 65 | Continuation of remarkable revenue, new business and profit growth |
| **Emerging businesses** | **457** | **81** | |
| Discovery Bank and other development segments | (999) | 0 | Prudent Bank rollout pivoting towards growth, with other segments gaining further traction |
| **Normalised profit from operations** | **4 507** | **19** | |

1 *Note on VitalityLife H1 20 restatement: The six months ended 31 December 2019 has been restated in line with the amendment of the NHEPS policy for the financial period 30 June 2020 to specifically adjust for changes in economic assumptions recognised in profit or loss, net of any gains or losses on derivatives to offset such changes in economic assumptions.*

2 *Includes SA Vitality, R46 million (prior: R5 million).*

## Growth engine remains robust with Emerging and New businesses contributing strongly to growth

Discovery has continued to organically invest to capture the growth potential that emerges as new market and global opportunities arise, both through developing the assets within its businesses as well as through investing in Emerging and New businesses. Discovery's operations demonstrated remarkable strength during the period, delivering excellent growth in normalised operating profits, up 19%, as the organic growth model continues to manifest through our Established, Emerging and New businesses. Established businesses delivered a solid 11% profit growth, while Emerging businesses continued their exceptional growth rates, up 81%, with the same level of investment in New initiatives, of which more than 60% goes into Discovery Bank.

The challenging sales environment curtailed core new business levels in Established businesses; however, total new business API and other new business grew 8%, as contributions by Emerging and New businesses provided further evidence of the efficacy of the Group's organic growth model. New business margins also recovered strongly compared with the second half of the 2020 financial year through diligent cost management and improvements in product mix. The resilience of the business model was further demonstrated through sustained momentum in gross income as particularly strong retention dynamics across the Group mitigated the slower new business growth rate. The return on embedded value was 4.2% for the period and 11.7%, when excluding forex and economic changes, supported by the strong retention and other positive non-economic experience variances.

## COVID-19 provisions and reserves have been resilient and remain prudent at R3.4 billion

Discovery established COVID-19 provisions of R3.4 billion at the end of the prior reporting period for the future effects of claims and lapses across its operations in South Africa (SA) and the United Kingdom (UK). The utilisation of these previously established provisions has been relatively low by the end of this reporting period. In SA, it became clear that the second wave of infections was having a more significant impact on Discovery's target market compared to the first wave and, to ensure prudency, Discovery Life has provided an additional R153 million claims provision. In the UK, VitalityHealth's unearned premium reserve (UPR) continued to increase to allow for the potential effect of delayed elective healthcare treatment following the second wave of COVID-19 infections. Overall, as at 31 December 2020, Discovery's COVID-19 provisions and reserves were sustained at R3.4 billion.

## Headline and normalised headline earnings impacted by market volatility

### Average effective interest rates increased further in SA

Changes in average effective interest rates impact the value of assets under insurance contracts in SA. The continued increase in rates from the prior reporting period, notably in the case of real rates, reduced the value of assets under insurance contracts by R493 million (before taxation), net of discretionary margins over this period. This has no material impact on cash flows, solvency or capital, as explained previously, and has been excluded from the normalised measures.

The UK interest rate hedge structure implemented in the previous financial year provided an effective hedge against movements in long-term interest rates in the UK and no material net impact was reported in the period for VitalityLife (loss in prior period of R241 million (before taxation)).

### Rand strength towards the end of the period

Discovery manages its international expansion by ensuring future offshore capital commitments are derisked by either holding matched foreign currency assets or through appropriate currency hedges to ensure predictability and prudence in capital planning. This can result in intra-period volatility should the rand fluctuate against other currencies. The strengthening of the rand at the end of the period resulted in foreign currency losses of R362 million (before taxation) on the translation of foreign currency assets. A fair value loss of R207 million (before taxation) was incurred on the currency hedge to ensure earmarked capital for the UK Part VII transfer from Prudential to VitalityLife planned for 2023 is derisked.

## The Group continued to focus on capital strength and liquidity

Financial prudence remains a key focus, ensuring the Group's resilience in the current environment. The capital metrics remained above target for all businesses, with excess liquidity held at the centre of R1.7 billion in South Africa, sufficient to withstand additional waves and economic risks from the pandemic, and the Group's Financial Leverage Ratio stabilised at 25.7%[1].

## Business-specific performance

Discovery's Ambition 2023 remains the strategic focus for the medium term, with the goal of being a leading financial services organisation globally, positively influencing 100 million lives – with 10 million directly insured – and being a powerful force for social good. Key to achieving this is Discovery's unique foundation – its core purpose, values, people and brand, as well as the continued execution of market-specific strategies:

i South Africa: a disruptive composite model, with market-leading businesses and pivoting Discovery Bank to growth

ii United Kingdom: a differentiated offering through a composite Vitality Shared-value model

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

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

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

## South Africa

### Discovery Health

#### Financial performance

**Discovery Health (DH) delivered a resilient financial performance in a challenging environment for the first half of the financial year. Total revenue grew 5% to R4 249 million while normalised operating profit increased by 6% to R1 670 million, demonstrating continued operational efficiency gains. Total new business API decreased 5% to R3 167 million (core new business API decreased 17%) relative to the prior period, impacted by a contraction in employment in the constrained economic climate. Notably, over the period, Discovery Health acquired 100% ownership of Liberty Health Administration (Pty) Ltd with effect from 1 October 2020, which administers Libcare Medical Scheme (c.13 000 lives and c.R379 million in API). Non-medical scheme retail products (Discovery Primary Care, Gap Cover and Healthy Company) grew strongly, and now account for c.186 000 lives under DH administration.**

**Discovery Health Medical Scheme (DHMS) continued to perform strongly, growing its market share of the open medical scheme market to more than 57%. The Scheme continued to demonstrate stability with low withdrawals and limited plan downgrades as 94% of members chose to remain on the same plan. DHMS did not increase its member contributions for the period January to June 2021, following lower-than-expected claims in 2020, recognising the economic pressure on employer groups and members. DHMS will apply a contribution increase from 1 July 2021, resulting in a weighted average increase of no more than 2.9% for the full year, positioning the average DHMS contributions at 17.4% lower than the weighted average for the top eight competitor medical schemes. The Scheme is in a strong financial position with unaudited operating surplus and solvency of R7 451 million and 36.8%, respectively, at the end of 2020. This reflects the reduction in non-COVID-19-related health system utilisation which included a year-on-year reduction of 27% in the total pre-authorised hospital admissions. It is important to view this operating surplus in the context of the ongoing COVID-19 claims including anticipated vaccine costs as well as the likely utilisation catch-up of deferred procedures, which DHMS will fund in 2021. Finality on the medical schemes industry's final cost of the vaccination programme is awaited, considering that the COVID-19 vaccination has been gazetted as a Prescribed Minimum Benefit for all medical scheme members, mandating all medical schemes to pay it in full from risk funds.**

### Business relevance

DH continued to drive COVID-19 initiatives aimed at assisting employees, members, the healthcare system and society. DH continued its extensive investment in technology and data analytics to develop its digital healthcare ecosystem, enhancing healthcare quality and experience for members. The Discovery Connected Care platform went live in November 2020 and now seamlessly aggregates members, providers and case managers, through a patient-centric model, on a single digital engagement platform.

Several other product enhancements were launched for 2021, with a focus on healthcare system digitisation, quality measurement and broadened access to care. COVID-19 has created opportunities for successful public-private partnerships, with DH supporting the National Department of Health in South Africa with its COVID-19 vaccine funding and roll-out strategy.

## Discovery Life

### Financial performance

**Discovery Life delivered a robust operating performance for the period, with strong positive experience. Normalised earnings of R1.9 billion were up 3% relative to the prior year despite the material impact of the capital release from Discovery Life in the prior period and elevated Group Life claims. Negative economic assumption changes of R493 million emerged in this period, net of released margin, as a result of a lower discounted value of future cash flows due to higher long-term real interest rates, together with the strengthening rand. New business decreased by 6% to R1.2 billion, with lower core new business sales and lower Automatic Contribution Increases in line with lower CPI, while margins saw a robust recovery compared with June 2020 increasing to 8.2% aided by tight expense management and an improved business mix. Discovery Life's financial position remains robust with positive cash flow of R231 million, solvency ratio of 182% and tangible free assets of R4.1 billion, providing high levels of liquidity.**

### Business relevance

Discovery Life saw a material increase in COVID-19 claims during the final month of the period, with net identified COVID-19 claims at c.R400 million for the period, representing c.34% of the COVID-19 claims provision as at 30 June 2020. Given the very significant increase in COVID-19-related death claims during January, it was concluded that, in isolation, the COVID-19 claims provision might be inadequate and the provision as at 31 December 2020 was strengthened by R153 million. Lapse experience during January was at an all-time best indicating potential prudence in the COVID-19 lapse provision.

## Discovery Invest

### Financial performance

**Discovery Invest's total Assets under Administration increased by 11% to R107 billion. Assets under Management increased by 6% with linked funds placed in Discovery funds remaining impressive at 78.3%. Operating profit was 3% lower than the prior period at R471 million, as a result of a once-off fee recovery on a significant tranche of structured notes that matured in the prior period as well as product changes made following the new tax regime for life insurers. Net inflows amounted to R2.8 billion, a decrease of 5% while new business reduced slightly by 3% to R1 316 million.**

### Business relevance

Discovery Invest continued to successfully apply the Shared-value model in the long-term savings market, with engaged Vitality clients exhibiting 12% lower drawdowns, up to 28% reduced withdrawals and two times more ad-hoc contributions to their investment savings in comparison with the pre-launch experience in June 2015.

The Global Endowment, underpinned by BlackRock and Goldman Sachs Asset Management, continues to gain traction with sales up 448% compared with the prior period. Discovery Invest's Umbrella Fund offering has also seen new business gains.

## Discovery Insure

### Financial performance

**Discovery Insure (DI) has demonstrated resilience with operating profit of R107 million for the personal lines business, 43% higher than the prior year. Loss ratios were lower than the prior year due to the impact of reduced driving activity during the period and as result of a continued improvement in both policy duration and applying efficiencies in claims management. Gross new business API for the personal lines business was up 12% to R617 million compared with the prior period; while gross premium income increased by 16% to R2 121 million, achieving an estimated 7% market share.**

### Business relevance

The period saw continued evidence of the efficacy of the Discovery Insure model. The quality of the client base is evident, with the business experiencing the lowest lapse rates since inception, and the past six months' lapse rates 5% lower than those in a similar period in the prior year. Through the Vitality Drive programme, over R1 billion has been paid back to clients in the form of rewards for good driving.

The business has continued to develop the sophistication of the driving data, with 14 billion kilometres tracked, and has expanded the application of the rating factors. The model is proving replicable in global markets and during the period it was announced that Vitality Drive would be extended to both the UK and Saudi Arabia in partnership with Covéa and Tawuniya, respectively.

## Discovery Bank

### Financial performance

**Discovery Bank made pleasing progress over the period, growing to over 287 000 clients with more than 540 000 accounts, with weekly average new-to-bank clients continuing to grow. Retail deposits grew strongly and reached R5.7 billion, as at 31 December 2020, with advances more stable at R3.8 billion reflecting the conservative lending strategy, resulting in a 69% lower arrears rate compared with the market. The migration of the FNB JV loan book was successfully completed and migrated clients continue to be highly engaged, with 53% upgrading to Discovery Bank. The IT systems are managing the growing customer and transactional volumes well and proved very stable over the 2020 year-end period, maintaining a systems uptime of >99.9%. Subsequent to the JV book migration, and through new digital banking features and ongoing innovation across key client journeys, service levels have been continuously improving with an average service score of 4.7 out of 5 and a >99% service level being recorded by the end of the period.**

### Business relevance

The Bank remained resilient during COVID-19 with robust spending levels despite the reduction in travel and leisure. Clients also showed positive engagement in 2020, with 70% Vitality Money take-up and clients earning more than 500 million Discovery Miles each month and spending over 2.3 billion Miles at Discovery Bank partners.

The Bank has significantly enhanced its value proposition through changes to the AI-powered behaviour-change programme, Vitality Money, with features such as Virtual Cards and Discovery Pay, and an intuitive client experience. Going forward, the Bank is focused on accelerating growth and increasing integration, offering differentiated, market-leading products and digital sophistication as well as providing service and operational excellence resulting in seamless customer journeys.

## United Kingdom

### Financial performance

**The UK business, with its adapted structure and functions consolidated at a UK Group level, delivered a strong performance for the period as the normalised operating profit for VitalityHealth and VitalityLife increased by 36% year-on-year to £44.2 million (R940 million, up 56%). Earned premiums increased by 6% year-on-year to £409.4 million (R8 707 million, up 21%), excluding the unearned premium reserve (UPR) adjustment. In a challenging sales environment, combined new business for VitalityHealth and VitalityLife reduced by 17% year-on-year to £56.4 million (R1 199 million, down 5%), while total lives covered exceeded 1.3 million.**

### Business relevance

Vitality UK continued to address the ongoing impact of COVID-19, with the UK experiencing a severe second wave. The book is showing strong correlations between Vitality engagement and the claims and lapse experience. In expanding its composite strategy, Vitality UK, in January, announced its entry into the UK car insurance market with VitalityCar, which will open to new business in the UK spring. VitalityCar is a capital-light joint venture with Covéa Insurance who will provide the regulatory capital and insurance licence for the venture. VitalityCar will leverage the Shared-value Insurance model, supporting members to drive more safely and to consider the environmental impact of their driving.

VitalityInvest (VI) had its strongest period since inception, continuing to build traction with wealth advisers and writing new business annual premium equivalent of £16 million (R339 million), up 88% year-on-year. Total funds under management at 31 December 2020 was £335.3 million (R6 740 million), more than triple that of 12 months prior.

The restructure of VI, which took place successfully over the course of 2020, positions it for future growth off a significantly reduced cost base, with losses down to £3.7 million for the period (prior year loss of £8.5 million for December 2020).

## VitalityHealth

### Financial performance

**VitalityHealth's (VH) operating profit grew by 8% year-on-year to £28.8 million (up 24% to R613 million). While claims had initially started to return toward normal levels, the second COVID-19 wave again led to postponement of some elective health treatments, and hence lower claims. In light of this, an additional UPR was set up at the end of the period to match earning of premiums with the postponement of claims and anticipated higher costs of treatment. This approach ensures that VH's reported profit numbers are not being influenced by the impact of lower claims during the COVID-19 period as it is expected that a claims catch-up may still occur. Earned premiums grew by 4% to £256.5 million (R5 455 million), excluding the UPR adjustment, while total lives reached 693 000. New business declined by 9% year-on-year to £30 million (increased 4% to R638 million).**

### Business relevance

In light of the second wave, VH continues to offer a cash benefit payable to members who are hospitalised with COVID-19 and continues to expand the broad range of digital healthcare services available to its members. In a challenging and highly competitive sales environment, sales in the profitable individual segment grew strongly, with individual direct-to-consumer sales – a good barometer of the demand for private medical insurance – growing by 6% year-on-year.

Cash generation was robust over the period, with the back book generating £58.7 million (R1 249 million) in cash, after allowing for the UPR adjustment. After new business acquisition costs and investment in developing the business, VH generated a £24.8 million (R527 million) cash surplus.

## VitalityLife

### Financial performance

**VitalityLife's normalised operating profit grew 166% to £15.4 million (R327 million), and VL continues to hold significant provisions considering the uncertainty around the potential impact of COVID-19 over the remainder of the financial year. In a difficult sales environment, with lockdown periods impacting on face-to-face distribution, and in combination with a strict focus on writing quality new business, VL new business API reduced by 24% year-on-year to £26.4 million (13% to R561 million). Given the exceptional retention performance, earned premiums grew strongly by 8% year-on-year to £152.9 million (R3 251 million), while lives covered and in-force policies both grew by 7% year-on-year, exceeding 648 000 and 491 000, respectively.**

### Business relevance

A range of management actions were put in place over the past year to strengthen VL's capital position, lower its cost of liquidity funding, and reduce its need for Discovery Group funding. These initiatives have allowed VL to return to robust profitability, putting it in a strong position to achieve future growth. As previously reported, VL had also implemented a hedge structure to protect it against interest rate exposure, and this structure successfully negated the impact of interest rate movements over the period.

Another key focus was improving retention and addressing negative lapse experience variances. Several management actions were implemented, including consolidation of VL's and VH's retention capabilities at a Vitality UK Group level. This, in combination with the net positive impact of COVID-19 on retention, manifested as a marked reduction in lapse rates, and significant positive experience variances for the period.

## Ping An Health (PAH)

### Financial Performance

**PAH had a strong performance: total revenue[2] grew by 62% to R18.1 billion (RMB7.5 billion) and new business premium by 31% to R7.2 billion[3] (RMB3 billion). Revenue growth was driven by continued demand for its flagship eShengBao product, due to increased awareness of the need for health insurance, as well as continued improvements in persistency. Profit from operations, represented by the Group's share of after-tax operating profit less the costs to support the business, grew by 65% to R112 million.**

### Business relevance

China's healthcare market is rapidly expanding, with considerable growth expected in its internet healthcare market. To capture this opportunity, PAH is focused on three key delivery areas: deeply integrating into the Ping An Group (PAG) healthcare ecosystem; enhancements to its products and digital health insurance servicing capabilities; and broadening its distribution strategy. In December 2020, PAH appointed a new CEO, Zhu Yougang, the previous Senior VP of Ping An P&C, to drive these strategies.

PAG is accelerating the roll-out of its healthcare ecosystem strategy. In a significant move, announced in January 2021, the previous Good Doctor app will be renamed 'Ping An Health' and will serve as the digital platform for the entire Ping An healthcare ecosystem, including for PAH, whose own app will be merged into this new Ping An Health app. The new app aims to be the go-to health and wellness digital platform for users in China and is expected to unlock significant value for PAH and other PAG subsidiaries. PAH, with the role of the funder, will benefit by leveraging the ecosystem's network, services and digital and channel assets, to build capabilities and products that differentiate it from the market and provide superior sustainable value to customers.

PAH has continued to successfully open new branches, with one provincial-level and one city-level branch opened in the period under review. PAH is rolling out a four-tiered distribution strategy to broaden its scope to acquire customers and mitigate signs of declining sales growth from the Ping An Life agency force.

## Vitality Group

### Financial performance

**Vitality Group (VG) achieved a profit of $14.6 million (R238 million), up 95% from the prior year. The global challenges wrought by COVID-19 affected the distribution channels of insurance partners. Despite these challenges, fee income grew 10% to $38.4 million (R625 million)[4] and insurance partners' integrated premiums reached $537 million (R8.7 billion). Vitality has a global presence across 27 markets (including primary markets of SA and the UK) through partnerships with some of the world's leading insurers and continues to expand and evolve. Total Vitality membership declined to 4.1 million, of which 1.3 million are administered on Vitality1, the behaviour-change platform. The overall membership decline relates to a decrease in AIA Korea members who are offered Vitality on a trial basis as part of a leads generation strategy. Membership from insurance partners' integrated products grew to 2.1 million, an increase of 17% from the prior year.**

### Business relevance

NATIONAL CHAMPIONS

Despite the challenges of the COVID-19 pandemic, partners delivered robust results as the efficacy and resilience of the Shared-value Insurance model continued to gain endorsement, with all partners delivering exceptional Vitality-integrated sales versus non-integrated sales.

During the period, AIA unveiled its strategy, building on the Group's existing strengths with a strong focus on customer centricity and digital transformation, with AIA Vitality as a key enabler to business growth and the attainment of strategic and financial objectives across all markets. The AIA Vitality programme is now live in 12 markets, with a successful public launch in Indonesia in January 2021.

Sumitomo Life Vitality passed 570 000 members, and launched a Healthy Food partnership with Japan's largest supermarket chain. The existing Generali markets showed improved sales trajectories and engagement since moving onto the feature rich Vitality1 platform. The implementation of an additional four new markets (Italy, Spain, Poland and the Czech Republic) is underway and planned to launch between June 2021 and March 2022.

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

3 *100% of PAH, not Discovery's 25% share.*

4 *Excluding revenue related to cost recoveries and rewards.*

Despite COVID-19 impacts in the US market, John Hancock's sales from Vitality-integrated products outperformed 2019 by 12% while the election rate for Vitality-integrated products over non-integrated products increased to 50%. Manulife's performance remained similarly strong with more than a 17% increase over the same period last year.

VG's partnership with Hanover Re to expand Shared-value Insurance into next tier markets grew steadily, with the total number of signed markets at nine, of which six are live. The review period saw launches in Saudi Arabia and Portugal, with Mexico and Brazil scheduled to launch in the next six months.

Vitality1 is driving rapid scaling and servicing 13 countries while maintaining high service level standards, speed, and accurately processing vast amounts of data. It plans to add eight new markets over the next 18 months while platform and product teams are driving innovation and continued product feature enhancement.

## Vitality USA

Vitality USA performed well over the period, increasing membership by 20% from the prior year and adding 106 new employer clients during the year. This performance was supported by a strong distribution structure and Vitality's strategic partnerships. To support future growth, Vitality USA will continue to work with its partners while also rolling out Gateway Flex, a unique pay-as-you-go benefits marketplace, which is expected to deliver a significant competitive advantage.

## Growth prospects, dividend and trading statement

Discovery's business model has proven to be highly relevant during the COVID-19 pandemic and the trends that are emerging are likely to accentuate this relevance in a post COVID world. The Group is confident in its ability to capitalise on these emerging opportunities.

Despite the Group's strong capital position, due to the uncertain and potentially volatile economic environment caused by the COVID-19 pandemic, the Discovery Board has decided not to declare an ordinary interim dividend for the period ended 31 December 2020.

For the year ended 30 June 2020, the Group provided for future COVID-19 related impacts on claims and lapses, so the expected effects are recognised and reserved for in that reporting year. In addition, substantial movements in long-term rates of interest both in South Africa and the UK had a significant effect on earnings. Given the combined effect on prior year earnings, Discovery's earnings per share (basic) and headline earnings per share (basic), for the period ending 30 June 2021, are expected to be at least 20% higher (17.8 cents and 54.0 cents, respectively) than that reported for the year ended 30 June 2020 (14.8 cents and 45.0 cents, respectively).

Shareholders are advised that the Group does not currently have reasonable certainty to provide guidance as to either the specific percentage and numbers, or the range and numbers, to describe the difference in the financial results in such periods. Once the Group obtains reasonable certainty in this regard, it will issue a further trading statement. Any forecast or estimate financial information on which this trading statement has been based has not been reviewed and reported on by the Group's external auditors. The Company expects to release its annual financial results for the year ending 30 June 2021 on SENS during or about September 2021.

## Notes to analysts

- Any forecast financial information contained in this announcement has not been reviewed or reported on by the company's external auditors.
- Discovery has published supplemental unaudited information on the website. For this and other results information, go to https://www.discovery.co.za/corporate/investor-relations and page down to Financial results and reports, Interim results 2021.

On behalf of the Board

**A Gore**
Chief Executive Officer

**ME Tucker**
Chairperson

Sandton 24 February 2021

# STATEMENT OF FINANCIAL POSITION

at 31 December 2020

| R million | Group December 2020 Unaudited | Group June 2020 Audited |
|---|---|---|
| **Assets** | | |
| Goodwill | **4 924** | 5 070 |
| Intangible assets | **6 308** | 6 381 |
| Property and equipment | **4 434** | 4 643 |
| Assets arising from insurance contracts | **49 688** | 48 042 |
| Deferred acquisition costs | **611** | 632 |
| Assets arising from contracts with customers | **1 041** | 954 |
| Investment in equity-accounted investments | **2 737** | 2 713 |
| Deferred income tax | **3 537** | 3 511 |
| Financial assets | | |
| – Loans and advances to customers at amortised cost | **3 365** | 1 848 |
| – Investments at amortised cost | **3 887** | 2 523 |
| – Investments at fair value through profit or loss | **114 598** | 102 714 |
| – Derivative financial instruments at fair value through profit or loss | **730** | 1 370 |
| Insurance receivables, contract receivables and other non-financial receivables | **9 965** | 11 436 |
| Current income tax asset | **250** | 182 |
| Reinsurance contracts | **468** | 400 |
| Cash and cash equivalents | **20 737** | 17 909 |
| **TOTAL ASSETS** | **227 280** | 210 328 |
| **Equity** | | |
| **Capital and reserves** | | |
| Ordinary share capital and share premium | **10 160** | 10 148 |
| Perpetual preference share capital | **779** | 779 |
| Other reserves | **1 998** | 3 269 |
| Retained earnings | **32 194** | 30 353 |
| | **45 131** | 44 549 |
| Non-controlling interest | **4** | 4 |
| **TOTAL EQUITY** | **45 135** | 44 553 |
| **Liabilities** | | |
| Liabilities arising from insurance contracts | **90 840** | 82 411 |
| Liabilities arising from reinsurance contracts | **13 093** | 12 465 |
| Deferred income tax liability | **8 790** | 8 514 |
| Contract liabilities to customers | **704** | 808 |
| Financial liabilities | | |
| – Borrowings at amortised cost | **20 520** | 19 836 |
| – Other payables at amortised cost | **14 128** | 14 233 |
| – Deposits from customers | **6 445** | 2 427 |
| – Investment contracts at fair value through profit or loss | **26 166** | 23 012 |
| – Derivative financial instruments at fair value through profit or loss | **716** | 992 |
| Employee benefits | **289** | 284 |
| Current income tax liability | **454** | 793 |
| **TOTAL LIABILITIES** | **182 145** | 165 775 |
| **TOTAL EQUITY AND LIABILITIES** | **227 280** | 210 328 |

# INCOME STATEMENT

for the six months ended 31 December 2020

| R million | Group Six months ended December 2020 Unaudited | Group Six months ended December 2019 Unaudited | % change | Group Year ended June 2020 Audited |
|---|---|---|---|---|
| Insurance premium revenue | **26 539** | 23 378 | | 49 775 |
| Reinsurance premiums | **(3 818)** | (3 001) | | (6 308) |
| **Net insurance premium revenue** | **22 721** | 20 377 | 12 | 43 467 |
| Fee income from administration businesses | **5 695** | 5 564 | | 11 337 |
| Net banking fee and commission income | **219** | – | | 150 |
| Banking fee and commission income | **296** | – | | 182 |
| Banking fee and commission expense | **(77)** | – | | (32) |
| Vitality income | **1 743** | 2 007 | | 3 875 |
| Other income[1] | **499** | 617 | | 1 100 |
| Receipts arising from reinsurance contracts | **500** | – | | – |
| Investment income using the effective interest rate method | **150** | 215 | | 379 |
| Net bank interest and similar income | **137** | 22 | | 71 |
| Bank interest and similar income using the effective interest rate | **302** | 48 | | 162 |
| Bank interest and similar expense using the effective interest rate[2] | **(165)** | (26) | | (91) |
| Net fair value gains on financial assets at fair value through profit or loss | **5 513** | 2 658 | | 4 093 |
| **Net income** | **37 177** | 31 460 | 18 | 64 472 |
| **Net claims and policyholders' benefits** | **(13 147)** | (11 955) | | (23 246) |
| Claims and policyholders' benefits | **(15 604)** | (13 937) | | (26 856) |
| Insurance claims recovered from reinsurers | **2 457** | 1 982 | | 3 610 |
| Acquisition costs | **(2 883)** | (3 134) | | (6 547) |
| Marketing and administration expenses | **(10 824)** | (11 022) | | (22 118) |
| Amortisation of intangibles from business combinations | **(35)** | (36) | | (76) |
| Expected credit losses | **(228)** | (36) | | (181) |
| Recovery of expenses from reinsurers | **1 317** | 1 512 | | 2 876 |
| Net transfer to/from assets and liabilities under insurance contracts | **(6 534)** | (2 641) | | (13 497) |
| – change in assets arising from insurance contracts | **2 858** | 2 584 | | 2 038 |
| – change in assets arising from reinsurance contracts | **87** | (480) | | 53 |
| – change in liabilities arising from insurance contracts | **(8 166)** | (4 182) | | (9 418) |
| – change in liabilities arising from reinsurance contracts | **(1 138)** | (563) | | (462) |
| – economic assumption adjustments net of discretionary margins | **(175)** | – | | (5 708) |
| Fair value adjustment to liabilities under investment contracts | **(1 207)** | (584) | | (151) |
| **Profit from operations** | **3 636** | 3 564 | 2 | 1 532 |
| Finance costs | **(826)** | (755) | | (1 568) |
| Gain on dilution and disposal of equity-accounted investments | **–** | – | | 3 |
| Impairment of goodwill | **–** | (9) | | (9) |
| Foreign exchange (losses)/gains | **(362)** | 44 | | 578 |
| Share of net profits from equity-accounted investments | **155** | 125 | | 264 |
| **Profit before tax** | **2 603** | 2 969 | (12) | 800 |
| Income tax expense | **(728)** | (891) | (18) | (624) |
| **Profit for the period** | **1 875** | 2 078 | (10) | 176 |
| Profit/(loss) attributable to: | | | | |
| – ordinary shareholders | **1 841** | 2 037 | | 97 |
| – preference shareholders | **34** | 41 | | 81 |
| – non-controlling interest | ***** | * | | (2) |
| | **1 875** | 2 078 | (10) | 176 |
| **Earnings per share for profit attributable to ordinary shareholders of the company during the year (cents):** | | | | |
| – basic | **280. 2** | 310. 3 | (10) | 14. 8 |
| – diluted | **277. 8** | 310. 2 | (10) | 14. 7 |

* *Amount is less than R500 000*

1 *Included in 'Other income' for the six months ending 31 December 2019, is net banking fee and commission income of R61 million.*

2 *'Bank interest and similar expense using the effective interest rate' was previously presented below the 'Net income' line. Since June 2020, the figure is presented as part of 'Net bank interest and similar income'.*

# STATEMENT OF OTHER COMPREHENSIVE INCOME

for the six months ended 31 December 2020

| R million | Group Six months ended December 2020 Unaudited | Group Six months ended December 2019 Unaudited | % change | Group Year ended June 2020 Audited |
|---|---|---|---|---|
| **Profit for the period** | **1 875** | 2 078 | (10) | 176 |
| **Items that are or may be reclassified subsequently to profit or loss:** | | | | |
| **Currency translation differences** | **(1 306)** | 354 | | 2 800 |
| – unrealised (losses)/gains | **(1 306)** | 354 | | 2 768 |
| – tax on unrealised losses/gains | **–** | – | | 32 |
| **Cash flow hedges** | **77** | (102) | | (430) |
| – unrealised gains/(losses) | **276** | (329) | | (762) |
| – tax on unrealised gains/losses | **(55)** | 50 | | 59 |
| – (gains)/losses recycled to profit or loss | **(180)** | 211 | | 319 |
| – tax on recycled gains/losses | **36** | (34) | | (46) |
| **Share of other comprehensive income from equity-accounted investments** | **(153)** | 6 | | 293 |
| – change in fair value of debt instruments at fair value through other comprehensive income | **7** | 29 | | 3 |
| – currency translation differences | **(160)** | (23) | | 290 |
| **Other comprehensive (losses)/income for the period, net of tax** | **(1 382)** | 258 | (636) | 2 663 |
| **Total comprehensive income for the period** | **493** | 2 336 | (79) | 2 839 |
| Attributable to: | | | | |
| – ordinary shareholders | **459** | 2 295 | (80) | 2 760 |
| – preference shareholders | **34** | 41 | | 81 |
| – non-controlling interest | ***** | * | | (2) |
| **Total comprehensive income for the period** | **493** | 2 336 | (79) | 2 839 |

* *Amount is less than R500 000*

# STATEMENT OF CHANGES IN EQUITY

at 31 December 2020

| R million | Attributable to equity holders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital and share premium** | **Preference share capital** | **Share-based payment reserve** | **Investment reserve[1]** | **Foreign currency translation reserve** | **Hedging reserve** | **Retained earnings** | **Total** | **Non-controlling interest** | **Total** |
| **Period ended 31 December 2020** | | | | | | | | | | |
| **At beginning of the period** | **10 148** | **779** | **195** | **3** | **3 675** | **(604)** | **30 353** | **44 549** | **4** | **44 553** |
| **Total comprehensive income for the period** | **–** | **34** | **–** | **7** | **(1 466)** | **77** | **1 841** | **493** | ***** | **493** |
| Profit for the period | **–** | **34** | **–** | **–** | **–** | **–** | **1 841** | **1 875** | ***** | **1 875** |
| Other comprehensive income | **–** | **–** | **–** | **7** | **(1 466)** | **77** | **–** | **(1 382)** | **–** | **(1 382)** |
| **Transactions with owners** | **12** | **(34)** | **111** | **–** | **–** | **–** | **–** | **89** | **–** | **89** |
| Share issue | **907** | **–** | **–** | **–** | **–** | **–** | **–** | **907** | **–** | **907** |
| Increase in treasury shares | **(907)** | **–** | **–** | **–** | **–** | **–** | **–** | **(907)** | **–** | **(907)** |
| Delivery of treasury shares | **12** | **–** | **(10)** | **–** | **–** | **–** | **–** | **2** | **–** | **2** |
| Employee share option schemes: | | | | | | | | | | |
| – Value of employee services | **–** | **–** | **121** | **–** | **–** | **–** | **–** | **121** | **–** | **121** |
| Dividends paid to preference shareholders | **–** | **(34)** | **–** | **–** | **–** | **–** | **–** | **(34)** | **–** | **(34)** |
| **At end of the period** | **10 160** | **779** | **306** | **10** | **2 209** | **(527)** | **32 194** | **45 131** | **4** | **45 135** |
| **Period ended 31 December 2019** | | | | | | | | | | |
| **At beginning of the period** | 10 142 | 779 | 41 | – | 585 | (174) | 31 669 | 43 042 | * | 43 042 |
| **Total comprehensive income for the period** | – | 41 | – | 29 | 331 | (102) | 2 037 | 2 336 | * | 2 336 |
| Profit for the period | – | 41 | – | – | – | – | 2 037 | 2 078 | * | 2 078 |
| Other comprehensive income | – | – | – | 29 | 331 | (102) | – | 258 | – | 258 |
| **Transactions with owners** | 6 | (41) | 52 | – | – | – | (748) | (731) | 6 | (725) |
| Delivery of treasury shares | 6 | – | (6) | – | – | – | – | – | – | – |
| Acquisition of subsidiaries with non-controlling interest | – | – | – | – | – | – | – | – | 6 | 6 |
| Employee share option schemes: | | | | | | | | | | |
| – Value of employee services | – | – | 58 | – | – | – | – | 58 | – | 58 |
| Dividends paid to preference shareholders | – | (41) | – | – | – | – | – | (41) | – | (41) |
| Dividends paid to ordinary shareholders | – | – | – | – | – | – | (748) | (748) | – | (748) |
| **At end of the period** | 10 148 | 779 | 93 | 29 | 916 | (276) | 32 958 | 44 647 | 6 | 44 653 |

* *Amount is less than R500 000*

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

# STATEMENT OF CASH FLOWS

for the six months ended 31 December 2020

| R million | Group Six months ended December 2020 Unaudited | Group Six months ended December 2019 Unaudited | Group Year ended June 2020 Audited |
|---|---|---|---|
| **Cash flow from operating activities** | **6 612** | 73 | 8 065 |
| Cash generated by operations | **7 247** | 6 787 | 17 372 |
| Purchase of investments held to back policyholder liabilities | **(24 105)** | (13 227) | (37 316) |
| Proceeds from disposal of investments held to back policyholder liabilities | **19 335** | 6 639 | 26 218 |
| Working capital changes | **4 667** | (346) | 1 628 |
| | **7 144** | (147) | 7 902 |
| Dividends received | **59** | 182 | 342 |
| Interest received | **1 012** | 1 217 | 2 516 |
| Interest paid | **(606)** | (640) | (1 406) |
| Taxation paid | **(997)** | (539) | (1 289) |
| **Cash flow from investing activities** | **(3 599)** | (9) | (3 030) |
| Purchase of financial assets | **(15 658)** | (8 944) | (26 497) |
| Proceeds from disposal of financial assets | **13 136** | 9 994 | 25 532 |
| Purchase of property and equipment | **(136)** | (114) | (290) |
| Proceeds from disposal of property and equipment | **3** | – | 4 |
| Purchase of software and other intangible assets | **(771)** | (809) | (1 726) |
| Additional investment in equity-accounted investments | **(148)** | (152) | (69) |
| Acquisition of business net of cash | **(25)** | 16 | 16 |
| **Cash flow from financing activities** | **595** | 749 | 2 202 |
| Purchase of treasury shares | **–** | – | (4) |
| Dividends paid to ordinary shareholders | **–** | (748) | (1 413) |
| Dividends paid to preference shareholders | **(34)** | (41) | (81) |
| Proceeds from borrowings | **919** | 2 320 | 10 339 |
| Repayment of borrowings | **(290)** | (782) | (6 639) |
| Net increase in cash and cash equivalents | **3 608** | 813 | 7 237 |
| Cash and cash equivalents at beginning of the period | **17 909** | 9 403 | 9 403 |
| Exchange (losses)/gains on cash and cash equivalents | **(780)** | 113 | 1 269 |
| **Cash and cash equivalents at end of the period** | **20 737** | 10 329 | 17 909 |

# ADDITIONAL DISCLOSURE

at 31 December 2020

## FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

For the amounts disclosed in the fair value hierarchy table, the look-through basis has not been applied to the mutual fund balances.

| | 31 December 2020 | | | |
|---|---|---|---|---|
| R million (unaudited) | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets** | | | | |
| Financial instruments mandatorily at fair value through profit or loss: | | | | |
| – Equity securities | **35 743** | **–** | **–** | **35 743** |
| – Equity linked notes | **–** | **2 871** | **–** | **2 871** |
| – Debt securities | **34 498** | **1 814** | **–** | **36 312** |
| – Inflation linked securities | **1 112** | **305** | **–** | **1 417** |
| – Money market securities | **2 554** | **12 736** | **–** | **15 290** |
| – Mutual funds | **22 965** | **–** | **–** | **22 965** |
| Derivative financial instruments at fair value: | | | | |
| – used as cash flow hedges | **–** | **69** | **–** | **69** |
| – not designated as hedging instruments | **–** | **661** | **–** | **661** |
| **Total financial assets** | **96 872** | **18 456** | **–** | **115 328** |
| **Financial liabilities** | | | | |
| Investment contracts at fair value through profit or loss | **–** | **26 166** | **–** | **26 166** |
| Derivative financial instruments at fair value: | | | | |
| – used as cash flow hedges | **–** | **620** | **–** | **620** |
| – not designated as hedging instruments | **–** | **96** | **–** | **96** |
| **Total financial liabilities** | **–** | **26 882** | **–** | **26 882** |

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

# ADDITIONAL DISCLOSURE *continued*

at 31 December 2020

## FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *continued*

| R million (audited) | 30 June 2020<br>Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial instruments mandatorily at fair value through profit or loss: | | | | |
| – Equity securities | 32 953 | 120 | – | 33 073 |
| – Equity linked notes | – | 2 318 | – | 2 318 |
| – Debt securities | 29 965 | 1 708 | – | 31 673 |
| – Inflation linked securities | 1 332 | 156 | – | 1 488 |
| – Money market securities | 2 688 | 10 289 | – | 12 977 |
| – Mutual funds | 21 185 | – | – | 21 185 |
| Derivative financial instruments at fair value: | | | | |
| – used as cash flow hedges | – | 14 | – | 14 |
| – not designated as hedging instruments | – | 1 356 | – | 1 356 |
| **Total financial assets** | 88 123 | 15 961 | – | 104 084 |
| **Financial liabilities** | | | | |
| Investment contracts at fair value through profit and loss | – | 23 012 | – | 23 012 |
| Derivative financial instruments at fair value: | | | | |
| – used as cash flow hedges | – | 854 | – | 854 |
| – not designated as hedging instruments | – | 138 | – | 138 |
| **Total financial liabilities** | – | 24 004 | – | 24 004 |

### 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 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; and

  (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.

# ADDITIONAL DISCLOSURE *continued*

at 31 December 2020

## EXCHANGE RATES USED IN THE PREPARATION OF THESE RESULTS

| | USD | GBP |
|---|---|---|
| **31 December 2020** | | |
| – Average | **16.28** | **21.27** |
| – Closing | **14.71** | **20.10** |
| 30 June 2020 | | |
| – Average | 15.70 | 19.75 |
| – Closing | 17.41 | 21.44 |
| 31 December 2019 | | |
| – Average | 14.71 | 18.53 |
| – Closing | 14.07 | 18.50 |

# SEGMENTAL INFORMATION

for the six months ended 31 December 2020

| R million | SA Health | SA Life | SA Invest | SA Insure[2,3] | SA Vitality | SA Bank[2] | UK Health | UK Life | All other segments | Segment total | IFRS reporting adjustments[5] | **IFRS total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Income statement** | | | | | | | | | | | | |
| Insurance premium revenue | 155 | 6 709 | 7 230 | 1 979 | – | – | 5 076 | 3 250 | 2 594 | 26 993 | (454) | 26 539 |
| Reinsurance premiums | (1) | (1 617) | – | (31) | – | – | (907) | (1 683) | (33) | (4 272) | 454 | (3 818) |
| Net insurance premium revenue | 154 | 5 092 | 7 230 | 1 948 | – | – | 4 169 | 1 567 | 2 561 | 22 721 | – | 22 721 |
| Fee income from administration businesses | 3 707 | – | 1 120 | 7 | – | 2 | 16 | – | 849 | 5 701 | (6) | 5 695 |
| Net banking fee and commission income | – | – | – | – | – | 215 | – | – | 4 | 219 | – | 219 |
| Banking fee and commission income | – | – | – | – | – | 296 | – | – | – | 296 | – | 296 |
| Banking fee and commission expense | – | – | – | – | – | (81) | – | – | 4 | (77) | – | (77) |
| Vitality income | – | – | – | – | 1 132 | 15 | 150 | 118 | 328 | 1 743 | – | 1 743 |
| Other income | 434 | 1 | – | – | – | 41 | 14 | – | 9 | 499 | – | 499 |
| Receipts arising from reinsurance contracts | – | 500 | – | – | – | – | – | – | – | 500 | – | 500 |
| Investment income earned on assets backing policyholder liabilities | – | 6 | – | 64 | – | – | 1 | 1 | 1 | 73 | (73) | – |
| Net bank interest and similar income | – | – | – | – | – | 121 | – | – | – | 121 | 16 | 137 |
| Bank interest and similar income using the effective interest rate | – | – | – | – | – | 302 | – | – | – | 302 | – | 302 |
| Bank interest and similar expense using the effective interest rate | – | – | – | – | – | (181) | – | – | – | (181) | 16 | (165) |
| Finance charge on negative reserve funding | – | – | – | – | – | – | – | 86 | – | 86 | (86) | – |
| Inter-segment funding[1] | – | (373) | 373 | – | – | – | – | – | – | – | – | – |
| Net fair value gains on financial assets at fair value through profit or loss | 5 | 389 | 4 167 | 6 | – | 83 | 38 | (105) | 540 | 5 123 | 390 | 5 513 |
| Net income | 4 300 | 5 615 | 12 890 | 2 025 | 1 132 | 477 | 4 388 | 1 667 | 4 292 | 36 786 | 241 | 37 027 |
| Claims and policyholders' benefits | (62) | (5 123) | (5 938) | (1 072) | – | – | (2 420) | (899) | (316) | (15 830) | 226 | (15 604) |
| Insurance claims recovered from reinsurers | – | 1 504 | – | (1) | – | – | 611 | 539 | 30 | 2 683 | (226) | 2 457 |
| Net claims and policyholders' benefits | (62) | (3 619) | (5 938) | (1 073) | – | – | (1 809) | (360) | (286) | (13 147) | – | (13 147) |
| Acquisition costs | (19) | (798) | (493) | (285) | (29) | – | (427) | (983) | 65 | (2 969) | 86 | (2 883) |
| Expected credit losses | – | – | – | – | – | (228) | – | – | – | (228) | – | (228) |
| Marketing and administration expenses | | | | | | | | | | | | |
| – depreciation and amortisation | (58) | (4) | (5) | (34) | (7) | (130) | (212) | (29) | (337) | (816) | (105) | (921) |
| – derecognition of intangible assets and property and equipment | – | – | – | (3) | – | – | – | – | – | (3) | – | (3) |
| – other expenses | (2 491) | (988) | (487) | (463) | (1 050) | (730) | (1 608) | (765) | (1 203) | (9 785) | (115) | (9 900) |
| Recovery of expenses from reinsurers | – | – | – | – | – | – | 404 | 913 | – | 1 317 | – | 1 317 |
| Transfer to/from assets/liabilities under insurance contracts | | | | | | | | | | | | |
| – change in assets arising from insurance contracts | – | 2 627 | – | – | – | – | – | 231 | 39 | 2 897 | (39) | 2 858 |
| – change in assets arising from reinsurance contracts | – | 35 | – | – | – | – | 47 | 5 | – | 87 | – | 87 |
| – change in liabilities arising from insurance contracts | – | (111) | (5 227) | (56) | – | – | (169) | (9) | (2 680) | (8 252) | 86 | (8 166) |
| – change in liabilities arising from reinsurance contracts | – | (834) | – | – | – | – | – | (343) | – | (1 177) | 39 | (1 138) |
| Fair value adjustment to liabilities under investment contracts | – | (1) | (269) | – | – | – | – | – | (88) | (358) | (849) | (1 207) |
| Share of net profits from equity-accounted investments | – | – | – | (4) | – | – | (1) | – | 160 | 155 | – | 155 |
| **Normalised profit/(loss) from operations** | 1 670 | 1 922 | 471 | 107 | 46 | (611) | 613 | 327 | (38) | 4 507 | (656) | 3 851 |
| Investment income earned on shareholder investments and cash[4] | 21 | 4 | 17 | – | 21 | – | – | 6 | 336 | 405 | (255) | 150 |
| Economic assumption adjustments net of discretionary margins and interest rate derivative | – | (493) | – | – | – | – | – | 1 | – | (492) | 317 | (175) |
| Economic assumption adjustments net of discretionary margins | – | (493) | – | – | – | – | – | 318 | – | (175) | – | (175) |
| Fair value gains on VitalityLife interest rate derivatives | – | – | – | – | – | – | – | (317) | – | (317) | 317 | – |
| Net fair value gains/(losses) on financial assets at fair value through profit or loss | – | 79 | (3) | – | – | – | – | (47) | (211) | (182) | 182 | – |
| Restructuring costs | – | – | – | – | – | – | – | (25) | – | (25) | 25 | – |
| Expenses related to Prudential Book transfer | – | – | – | – | – | – | – | (96) | – | (96) | 96 | – |
| Amortisation of intangibles from business combinations | – | – | – | – | – | – | – | – | (35) | (35) | – | (35) |
| Market rentals related to Head Office building adjusted for finance costs and depreciation | – | – | – | – | – | – | – | – | (124) | (124) | 124 | – |
| Finance costs[4] | (132) | – | – | – | – | – | (4) | (162) | (679) | (977) | 151 | (826) |
| Foreign exchange losses | (14) | – | (28) | – | – | – | – | – | (320) | (362) | – | (362) |
| **Profit before tax** | 1 545 | 1 512 | 457 | 107 | 67 | (611) | 609 | 4 | (1 071) | 2 619 | (16) | 2 603 |
| Income tax expense | (436) | (455) | (126) | (31) | (20) | 147 | (120) | 11 | 286 | (744) | 16 | (728) |
| **Profit for the period** | 1 109 | 1 057 | 331 | 76 | 47 | (464) | 489 | 15 | (785) | 1 875 | – | 1 875 |

1 *The inter-segment funding of R373 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.*

2 *In line with the change in reportable segments reported at 30 June 2020, Discovery Insure (South Africa) and Discovery Bank (South Africa) are now shown as separate segments. The comparative information has been restated accordingly.*

3 *This segment relates to SA Insure – Personal lines.*

4 *These lines include intercompany investment income and finance costs respectively.*

5 *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:*
- *The VitalityLife results, for business written on the Prudential Assurance Company license, are reclassified to account for the contractual arrangement as a reinsurance contract under IFRS 4.*
- *The Discovery Unit Trusts (DUT) are consolidated into Discovery's results for IFRS purposes. The IFRS reporting adjustments include the effects of consolidating the unit trusts into Discovery's results, effectively being the income and expenses relating to units held by third parties.*
- *The effects of eliminating intercompany transactions on consolidation and normalised operating profit adjustments.*

# SEGMENTAL INFORMATION *continued*

for the six months ended 31 December 2019

| R million | SA Health | SA Life | SA Invest | SA Insure[2,3] | SA Vitality | SA Bank[2] | UK Health | UK Life[4] | All other segments | Segment total | IFRS reporting adjustments[5] | **IFRS total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Income statement** | | | | | | | | | | | | |
| Insurance premium revenue | 114 | 6 419 | 7 001 | 1 759 | – | – | 4 569 | 2 620 | 1 239 | 23 721 | (343) | 23 378 |
| Reinsurance premiums | (1) | (1 247) | – | (29) | – | – | (787) | (1 254) | (26) | (3 344) | 343 | (3 001) |
| Net insurance premium revenue | 113 | 5 172 | 7 001 | 1 730 | – | – | 3 782 | 1 366 | 1 213 | 20 377 | – | 20 377 |
| Fee income from administration businesses | 3 525 | – | 1 121 | 7 | – | 86 | 16 | – | 815 | 5 570 | (6) | 5 564 |
| Vitality income | – | – | – | – | 1 187 | 68 | 270 | 98 | 384 | 2 007 | – | 2 007 |
| Other income[7] | 433 | 24 | – | – | – | 143 | 22 | – | 10 | 632 | (15) | 617 |
| Investment income earned on assets backing policyholder liabilities | – | 22 | – | 64 | – | – | 5 | 23 | – | 114 | (114) | – |
| Net bank interest and similar income | – | – | – | – | – | 22 | – | – | – | 22 | – | 22 |
| Bank interest and similar income using the effective interest rate | – | – | – | – | – | 48 | – | – | – | 48 | – | 48 |
| Bank interest and similar expense using the effective interest rate | – | – | – | – | – | (26) | – | – | – | (26) | – | (26) |
| Finance charge on negative reserve funding | – | – | – | – | – | – | – | (113) | – | (113) | 113 | – |
| Inter-segment funding[1] | – | (383) | 383 | – | – | – | – | – | – | – | – | – |
| Net fair value gains on financial assets at fair value through profit or loss | – | 366 | 1 685 | 10 | – | 19 | 20 | 95 | 59 | 2 254 | 404 | 2 658 |
| Net income | 4 071 | 5 201 | 10 190 | 1 811 | 1 187 | 338 | 4 115 | 1 469 | 2 481 | 30 863 | 382 | 31 245 |
| Claims and policyholders' benefits | (45) | (4 118) | (5 402) | (1 014) | – | – | (2 549) | (905) | (108) | (14 141) | 204 | (13 937) |
| Insurance claims recovered from reinsurers | – | 970 | – | – | – | – | 618 | 582 | 16 | 2 186 | (204) | 1 982 |
| Net claims and policyholders' benefits | (45) | (3 148) | (5 402) | (1 014) | – | – | (1 931) | (323) | (92) | (11 955) | – | (11 955) |
| Acquisition costs | (5) | (881) | (582) | (232) | (43) | (13) | (404) | (928) | 67 | (3 021) | (113) | (3 134) |
| Expected credit losses | – | – | – | – | – | (36) | – | – | – | (36) | – | (36) |
| Marketing and administration expenses | | | | | | | | | | | | |
| – depreciation and amortisation | (93) | (3) | (4) | (42) | (7) | (111) | (147) | (21) | (280) | (708) | (105) | (813) |
| – impairment | – | – | – | – | (2) | – | – | – | – | (2) | – | (2) |
| – other expenses | (2 355) | (1 026) | (479) | (424) | (1 130) | (708) | (1 641) | (1 021) | (1 411) | (10 195) | (12) | (10 207) |
| Recovery of expenses from reinsurers | – | – | – | – | – | – | 436 | 1 076 | – | 1 512 | – | 1 512 |
| Transfer to/from assets/liabilities under insurance contracts | | | | | | | | | | | | |
| – change in assets arising from insurance contracts | – | 1 724 | – | – | – | – | – | 377 | – | 2 101 | 483 | 2 584 |
| – change in assets arising from reinsurance contracts | – | 10 | – | – | – | – | (12) | 5 | – | 3 | (483) | (480) |
| – change in liabilities arising from insurance contracts | 1 | 44 | (3 073) | (33) | – | – | 79 | (8) | (1 155) | (4 145) | (37) | (4 182) |
| – change in liabilities arising from reinsurance contracts | – | (45) | – | – | – | – | – | (519) | – | (564) | 1 | (563) |
| Fair value adjustment to liabilities under investment contracts | – | (1) | (165) | – | – | – | – | – | (20) | (186) | (398) | (584) |
| Share of net profits from equity-accounted investments | 1 | – | – | 9 | – | – | – | – | 115 | 125 | – | 125 |
| **Normalised profit/(loss) from operations** | 1 575 | 1 875 | 485 | 75 | 5 | (530) | 495 | 107 | (295) | 3 792 | (282) | 3 510 |
| Investment income earned on shareholder investments and cash[6] | 29 | 9 | 25 | 9 | 9 | 1 | 1 | 8 | 366 | 457 | (242) | 215 |
| Economic assumption adjustments net of discretionary margins and interest rate derivative | – | – | – | – | – | – | – | (230) | – | (230) | 230 | – |
| Economic assumption adjustments net of discretionary margins | – | – | – | – | – | – | – | – | – | – | – | – |
| Fair value losses on VitalityLife interest rate derivatives | – | – | – | – | – | – | – | (230) | – | (230) | 230 | – |
| Net fair value gains/(losses) on financial assets at fair value through profit or loss | – | 87 | 5 | – | – | – | – | (11) | (8) | 73 | (73) | – |
| Impairment of goodwill | – | – | – | – | – | – | – | – | (9) | (9) | – | (9) |
| Initial expenses related to Prudential Book transfer | – | – | – | – | – | – | – | (18) | – | (18) | 18 | – |
| Transaction costs related to VitalityLife interest rate derivatives | – | – | – | – | – | – | – | (24) | – | (24) | 24 | – |
| Amortisation of intangibles from business combinations | – | – | – | – | – | – | – | – | (36) | (36) | – | (36) |
| Market rentals related to Head Office building adjusted for finance costs and depreciation | – | – | – | – | – | – | – | – | (137) | (137) | 137 | – |
| Finance costs | (143) | – | – | – | – | (1) | (4) | (115) | (674) | (937) | 182 | (755) |
| Foreign exchange gains | 2 | – | 3 | – | – | – | – | – | 39 | 44 | – | 44 |
| **Profit before tax** | 1 463 | 1 971 | 518 | 84 | 14 | (530) | 492 | (283) | (754) | 2 975 | (6) | 2 969 |
| Income tax expense | (378) | (556) | (145) | (21) | (4) | 129 | (58) | 27 | 109 | (897) | 6 | (891) |
| **Profit for the period** | 1 085 | 1 415 | 373 | 63 | 10 | (401) | 434 | (256) | (645) | 2 078 | – | 2 078 |

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

2 *In line with the change in reportable segments reported at 30 June 2020, Discovery Insure (South Africa) and Discovery Bank (South Africa) are now shown as separate segments. The comparative information has been restated accordingly.*

3 *This segment relates to SA Insure – Personal lines.*

4 *The UK Life normalised profit from operations has been restated by R241 million to exclude the impact of the economic assumptions adjustments net of discretionary margins and interest rate derivative, in line with the normalisation policy adopted at 30 June 2020. This is presented as R230 million in 'Fair value losses on VitalityLife interest rate derivatives' and R11 million presented in 'Net fair value gains/(losses) on financial assets at fair value through profit or loss'. This has no impact on the profit for the period reported for UK Life.*

5 *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:*
- *The VitalityLife results, for business written on the Prudential Assurance Company license, are reclassified to account for the contractual arrangement as a reinsurance contract under IFRS 4.*
- *The Discovery Unit Trusts (DUT) are consolidated into Discovery's results for IFRS purposes. The IFRS reporting adjustments include the effects of consolidating the unit trusts into Discovery's results, effectively being the income and expenses relating to units held by third parties.*
- *The effects of eliminating intercompany transactions on consolidation and normalised operating profit adjustments.*

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

7 *Included in 'Other income' for the six months ending 31 December 2019, is net banking fee and commission income of R61 million.*

## ADDITIONAL INFORMATION

### Normalised profit from operations

The following table shows the main components of the normalised profit from operations for the six months ended 31 December 2020:

| R million | December 2020 | December 2019 | % change |
|---|---|---|---|
| Discovery Health | **1 670** | 1 575 | 6 |
| Discovery Life | **1 922** | 1 875 | 3 |
| Discovery Invest | **471** | 485 | (3) |
| Discovery Vitality | **46** | 5 | 820 |
| VitalityHealth | **613** | 495 | 24 |
| VitalityLife[1] | **327** | 107 | 206 |
| **Normalised profit from established businesses** | **5 049** | 4 542 | 11 |
| Emerging businesses | **457** | 253 | 81 |
| – Discovery Insure (Personal lines) | **107** | 75 | 43 |
| – Vitality Group including Ping An Health | **350** | 178 | 97 |
| Development and other segments | **(999)** | (1 003) | – |
| – Discovery Bank | **(611)** | (530) | (15) |
| – Other new initiatives | **(388)** | (473) | 18 |
| **Normalised profit from operations[2]** | **4 507** | 3 792 | 19 |

1 *The Normalised Headline Earnings Per Share (NHEPS) policy was amended for the financial year ended 30 June 2020 to specifically adjust for changes in economic assumptions recognised in profit or loss, net of any gains or losses on derivatives to offset such changes in economic assumptions. The period 31 December 2019 has been restated in line with this policy for consistency in the calculation of the NHEPS and normalised profit from operations. The restatement resulted in an increase of R241 million.*

2 *This amount can be further analysed by referring to the Normalised profit/(loss) from operations as per the Segment Total in the Segmental information.*

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

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

## Normalised headline earnings

Discovery's policy on the calculation of Normalised headline earnings is set out in Accounting Policies, refer to page 34.

| R million | **Group Six months ended December 2020 Unaudited** | Group Six months ended December 2019 Unaudited Restated[1] | % change | Group Year ended June 2020 Audited |
|---|---|---|---|---|
| **Earnings per share (cents):** | | | | |
| – basic | **280.2** | 310.3 | (10) | 14.8 |
| – diluted | **277.8** | 310.2 | (10) | 14.7 |
| **Headline earnings per share (cents):** | | | | |
| – basic | **280.3** | 311.7 | (10) | 45.0 |
| – diluted | **277.9** | 311.7 | (11) | 44.7 |
| **Normalised headline earnings per share (cents):** | | | | |
| – basic | **347.9** | 352.1 | (1) | 570.7 |
| – diluted | **344.9** | 352.0 | (2) | 566.7 |
| **The reconciliation between earnings and headline earnings is shown below:** | | | | |
| Net profit attributable to ordinary shareholders | **1 841** | 2 037 | (10) | 97 |
| Adjusted for: | | | | |
| – derecognition of intangible assets and property and equipment, net of tax | **2** | – | | 149 |
| – gain on dilution and disposal of equity-accounted investments, net of tax | **–** | – | | (3) |
| – gain on disposal of property and equipment, net of capital gains tax | **(1)** | – | | (2) |
| – impairment of goodwill | **–** | 9 | | 9 |
| – impairment of intangible assets, net of tax | **–** | 1 | | 44 |
| – Discovery Limited's share of headline earnings adjustments made by equity-accounted investees: | | | | |
| – derecognition of intangible assets and property and equipment, net of tax | **–** | – | | 2 |
| **Headline earnings** | **1 842** | 2 047 | (10) | 296 |
| Adjusted for: | | | | |
| – economic assumption adjustments net of discretionary margins and interest rate derivative, net of tax[1] | **354** | 186 | | 3 584 |
| – economic assumption adjustments net of discretionary margin, net of tax | **98** | – | | 4 295 |
| – fair value gains on VitalityLife interest rate derivative, net of tax | **256** | 186 | | (711) |
| – other: | **88** | 79 | | (133) |
| – amortisation of intangibles from business combinations, net of tax | **27** | 28 | | 60 |
| – deferred tax asset raised on assessed losses | **(146)** | – | | (275) |
| – fair value losses/(gains) on foreign exchange contracts not designated as hedges, net of tax | **149** | 8 | | (189) |
| – initial expenses related to Prudential Book transfer, net of tax | **–** | 15 | | 57 |
| – restructuring costs, net of tax | **20** | – | | 80 |
| – time value of money movement of swaption contract in VitalityLife, net of tax | **38** | 9 | | 97 |
| – transaction costs related VitalityLife interest rate derivative, net of tax | **–** | 19 | | 37 |
| **Normalised headline earnings** | **2 284** | 2 312 | (1) | 3 747 |
| Weighted number of shares in issue (000's) | **656 668** | 656 623 | | 656 648 |
| Diluted weighted number of shares (000's) | **662 422** | 656 805 | | 661 242 |

1 *The Normalised Headline Earnings Per Share (NHEPS) policy was amended for the year ended 30 June 2020 to specifically adjust for the impact of changes in economic assumptions recognised in profit or loss, net of any gains or losses on derivatives to offset such changes in economic assumptions. The period 31 December 2019 has been restated in line with this policy for consistency in the calculation of the NHEPS.*

## ADDITIONAL INFORMATION *continued*

## New business annualised premium income

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

Core new business API increased by 3% for the six months ended 31 December 2020 when compared to the same period in the prior year.

| R million | **December 2020** | December 2019 | % change |
|---|---|---|---|
| Discovery Health[1] | **2 788** | 3 350 | (17) |
| Discovery Life | **1 162** | 1 240 | (6) |
| Discovery Invest | **1 316** | 1 357 | (3) |
| Discovery Insure | **617** | 551 | 12 |
| Discovery Vitality | **24** | 71 | (66) |
| VitalityHealth | **638** | 613 | 4 |
| VitalityLife | **561** | 646 | (13) |
| Ping An Health (25% interest) | **1 805** | 1 382 | 31 |
| Other new businesses[2] | **1 005** | 374 | 169 |
| **Core new business API of Group[1]** | **9 916** | 9 584 | 3 |
| New Closed Schemes[1] | **379** | – | |
| **New business API of Group including new Closed Schemes** | **10 295** | 9 584 | 7 |
| Gross revenue Vitality Group[3] | **625** | 515 | 21 |
| **Total new business API and other new business[1]** | **10 920** | 10 099 | 8 |

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

*The comparative period total for Discovery Health has been restated to include R61 million previously incorrectly included in 'New Closed Schemes'. The balance has been reclassified and included as part of the Discovery Health balance. 'New Closed Schemes' and 'Total new business API and other new business' for the six months ended 31 December 2019 has further been restated to exclude R1 017 million. The amount was for a scheme tender that was awarded to Discovery, but was subsequently withdrawn due to corporate action within the employer group, unrelated to Discovery Health's contract, but that resulted in the need to halt the move of scheme administration to Discovery Health. The restated results exclude this contract.*

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

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

### Calculation of new business API

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

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

– *The timing of inclusion of policyholders in the calculation of new business API* – In the embedded value, new business is included from the earlier of the date that the first premium has been received or when the policy is on risk, whereas in the table above, new business is included when the policy has been contractually committed.

– *Inclusion of automatic premium increases and servicing increases on existing life policies* – These are included in the table above but excluded in the embedded value API values disclosed.

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

## Gross inflows under management

Gross inflows under management measures the total funds collected by Discovery. Gross inflows under management increased by 7% for the six months ended 31 December 2020 when compared to the same period in the prior year.

| R million | December 2020 | December 2019 | % change |
|---|---|---|---|
| Discovery Health | **45 876** | 43 099 | 6 |
| Discovery Life | **6 710** | 6 443 | 4 |
| Discovery Invest | **11 517** | 11 939 | (4) |
| Discovery Insure | **1 986** | 1 766 | 12 |
| Discovery Vitality | **1 132** | 1 187 | (5) |
| VitalityHealth | **5 256** | 4 877 | 8 |
| VitalityLife | **3 368** | 2 718 | 24 |
| All other businesses | **3 838** | 2 745 | 40 |
| **Gross inflows under management** | **79 683** | 74 774 | 7 |
| Less: collected on behalf of third parties | **(44 747)** | (42 844) | 4 |
| Discovery Health | **(41 580)** | (39 027) | 7 |
| Discovery Invest | **(3 167)** | (3 817) | (17) |
| **Gross income of Group per the segmental** | **34 936** | 31 930 | 9 |
| **Gross income is made up as follows:** | | | |
| – Insurance premium revenue | **26 993** | 23 721 | 14 |
| – Fee income from administration businesses | **5 701** | 5 570 | 2 |
| – Vitality income | **1 743** | 2 007 | (13) |
| – Other income | **499** | 632 | (21) |
| **Gross income of Group per the segmental information** | **34 936** | 31 930 | 9 |

# SIGNIFICANT TRANSACTIONS AFFECTING THE CURRENT RESULTS

## Provision and reserves for expected COVID-19

At 30 June 2020, Discovery had reserved R3.4 billion (R2.3 billion net of discretionary margin offset), for both future claims and lapses as a result of the COVID-19 pandemic. This estimation reflected management's best estimate of the impact as at 30 June 2020. The COVID-19 provisions comprise of provisions made in Discovery Life and VitalityLife and unearned premium reserves in VitalityHealth. Due to the utilisation of the available discretionary margin, some of these provisions are accounted for against the discretionary margins in accordance with IFRS and Discovery's accounting policy.

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

| R million | December 2020 |
|---|---|
| **At beginning of the period** | **3 442** |
| – Provisions | **2 729** |
| – Unearned premium reserve | **713** |
| **Movements:** | |
| Unwinding, utilisation and release of provisions | **(1 116)** |
| Provisions made during the period, including in respect of new business | **542** |
| Net movement in unearned premium reserve | **357** |
| Other | **131** |
| **At end of the period** | **3 356** |
| – Provisions | **2 293** |
| – Unearned premium reserve | **1 063** |

## SIGNIFICANT TRANSACTIONS AFFECTING THE CURRENT RESULTS *continued*

### Continued volatility in global markets which affected economic assumptions

There has been continued substantial volatility in global markets and in particular, material increases in average effective interest rates in SA. These result in materially different valuation rates that are used to discount future cash flows which emerge as economic assumption changes. For Discovery Life, this impact manifests as a lower discounted value of future cash flows, even though the actual cash flows themselves are not materially affected, with no negative solvency and liquidity consequences within Discovery Life. In addition, the impact of the strengthening of ZAR against the USD has resulted in additional strain on specified Discovery Life products.

The impact of the economic assumptions in profit or loss, compared to what it would have been at the rates prevailing at the previous year-end, was a net loss in SA Life of R493 million. In contrast, the impact of economic assumptions within the UK has been mitigated by the VL hedge strategy (as described below) resulting in a minimal impact for the six months ended 31 December 2020.

### Derivative instruments – VitalityLife business

Interest rates in the United Kingdom (UK) continued to display significant volatility and have generally been on a downward trend in recent years. As a long-term insurance provider in the UK, VitalityLife has significant exposure to long-term interest rate risk. Since October 2019, VitalityLife has implemented an interest rate risk mitigation strategy to ensure that the VitalityLife business operates well within its pre-determined risk appetite. The mitigation strategy is a combination of interest swaps referenced to the 25-year UK swap rate and put swap options (payer options).

Due to the nature of the underlying exposures, the hedge accounting requirements of IFRS were not met. Therefore, these two derivative instruments were classified at fair value with changes recognised in profit or loss throughout the term which may result in volatility in the reported IFRS earnings of VitalityLife. At 31 December, the following mark-to-market positions were recorded:

| | Line item in financial statements | December 2020 | June 2020 |
|---|---|---|---|
| **Statement of Financial Position** | | | |
| Interest rate swap valuation | Financial assets: Derivative – financial instruments at fair value through profit or loss | **GBP 30.5 million (R640 million)** | GBP 44.3 million (R950 million) |
| Swaption valuation | Financial assets/(Financial liabilities): Derivative – financial instruments at fair value through profit or loss | **(GBP 2.1 million (R42.2 million))** | GBP 0.1 million (R2 million) |
| | | **December 2020** | December 2019 |
| **Income Statement** | | | |
| Fair value remeasurement | Net fair value (losses)/gains on financial assets at fair value through profit or loss | **(GBP 17.1 million (R364 million))** | (GBP 13 million (R241 million)) |
| Transaction costs | Marketing and administration expenses | – | (GBP 1.3 million (R24 million)) |

## Foreign exchange gains or losses

The last 12 months have seen significant volatility in the ZAR exchange rates against the USD and GBP currencies. Refer to 'Exchange rates used in the preparation of these results' on page 18. The volatility saw a sharp weakening of the ZAR during the period 1 January 2020 to 30 June 2020 and strengthening in ZAR during the period 1 July 2020 to 31 December 2020. The strengthening of ZAR resulted in a foreign exchange loss for the six months ended 31 December 2020 of R362 million, compared to a foreign exchange gain of R578 million in the financial year ended 30 June 2020 arising primarily from the weakening in ZAR in the period 1 January 2020 to 30 June 2020. These foreign exchange gains or losses mainly originate from the intergroup funding provided for international businesses.

The significant volatility has also resulted in large currency translation differences during the same observed periods on the translation of Discovery's foreign operations into the Group's presentation currency of ZAR. For the six months ended 31 December 2020, Discovery recognised currency translation losses of R1 466 million (30 June 2020: currency translations gains of R3 058 million).

## Borrowings at amortised cost

| R million | Reference | December 2020 | June 2020 |
|---|---|---|---|
| Borrowings from Banks and listed debt | | **16 140** | 15 456 |
| – United Kingdom borrowings | i | **3 679** | 3 498 |
| – South African borrowings | ii | **12 461** | 11 958 |
| Lease liabilities | | **4 380** | 4 380 |
| – 1 Discovery Place | | **3 389** | 3 370 |
| – Other lease liabilities | | **991** | 1 010 |
| **Total borrowings at amortised cost** | | **20 520** | 19 836 |

### i. United Kingdom borrowings

| Facility amount GBP million | Variable rate | Interest rate per annum | Capital repayment and maturity date | Carrying value GBP (Rand) million December 2020 GBP | December 2020 R | June 2020 GBP | June 2020 R |
|---|---|---|---|---|---|---|---|
| 80 | LIBOR + 265bps[1] | | Instalments – 31 July 2023 | **80** | **1 611** | 80 | 1 719 |
| 28 | – | 1%[1] | At maturity – 17 April 2021 | **28** | **564** | 28 | 602 |
| 75 | LIBOR + 229bps[1] | | At maturity – 31 July 2023 | **75** | **1 504** | 55 | 1 177 |
| | | | | **183** | **3 679** | 163 | 3 498 |

1 *Interest payable quarterly in arrears.*

Total finance cost for the UK borrowings for the six months ended 31 December 2020 was GBP 3.2 million (R65 million) (31 December 2019: GBP 1.1 million (R20 million)).

### ii. South African borrowings

#### Credit Rating

Following the downgrade of the South African Government's issuer rating to Ba2 from Ba1 on 20 November 2020, Moody's Investors Service ("Moody's") downgraded Discovery Limited's Global scale long term issuer rating to Ba3 from Ba2 on 25 November 2020. Similar to the country's outlook, the credit outlook assigned by Moody's remains negative. The national scale long term issuer rating of Discovery was reaffirmed at A1.za.

## SIGNIFICANT TRANSACTIONS AFFECTING THE CURRENT RESULTS *continued*

# Borrowings at amortised cost *continued*

### Discovery Limited

| Facility amount R million | Variable rate | Interest rate per annum (fixed) | Capital repayment and maturity date | Carrying value R million December 2020 | Carrying value R million June 2020 |
|---|---|---|---|---|---|
| Listed DMTN[4] | | | | | |
| 500 | 3-month JIBAR | 9.71%[1,3] | At maturity – 21 November 2022 | **502** | 503 |
| 500 | 3-month JIBAR + 205bps | 6.30%[1,3] | At maturity – 21 August 2023 | **502** | – |
| 200 | – | 10.46%[2] | At maturity – 21 November 2024 | **202** | 202 |
| 800 | 3-month JIBAR + 191bps | 10.31%[1,3] | At maturity – 21 November 2024 | **804** | 805 |
| 1 200 | 3-month JIBAR + 191bps | 9.21%[1,3] | At maturity – 21 November 2024 | **1 222** | 1 225 |
| 700 | 3-month JIBAR + 180bps | 10.29%[1,3] | At maturity – 21 August 2026 | **703** | 704 |
| 300 | 3-month JIBAR + 180bps | 9.40%[1,3] | At maturity – 21 November 2026 | **303** | 303 |
| Unlisted DMTN[4,5] | | | | | |
| 1 100 | – | 8.92%[3] | At maturity – 10 March 2023 | **1 102** | 1 101 |
| 2 500 | – | 9.62%[3] | At maturity – 22 February 2025 | **2 516** | 2 516 |
| Other | | | | | |
| 1 000 | 3-month JIBAR + 245bps | 10.28%[1,3] | At maturity – 02 March 2023 | **998** | 997 |
| 500 | 3-month JIBAR + 86bps | – | At maturity – 30 June 2022 | **644** | 630 |
| | | | | **9 498** | 8 986 |

1 *The interest rate has been fixed through interest rate swaps.*
2 *Interest is payable semi-annually in arrears.*
3 *Interest payable quarterly in arrears.*
4 *DMTN refers to the R10 billion Discovery Domestic Medium Term Note (DMTN) program registered in 2017.*
5 *During the financial year ended 30 June 2020, Discovery Limited refinanced R3.6 billion bank syndicated loans through the issue of unlisted DMTN notes. The notes, although underwritten by a bank until maturity, are structured to enable short-term issuances into the commercial paper market on an ongoing basis.*

### Discovery Central Services

| Facility amount R million | Interest rate per annum | Capital repayment and maturity date | Carrying value R million December 2020 | Carrying value R million June 2020 |
|---|---|---|---|---|
| 1 400 | 10.60%[1] | At maturity – 20 December 2023 | **1 427** | 1 430 |
| 650 | 11.56%[2] | Instalments – 29 October 2027 | **536** | 542 |
| | | | **1 963** | 1 972 |

1 *Interest payable quarterly in arrears.*
2 *Instalments of interest and capital is monthly.*

### Discovery Bank

| Facility amount R million | Variable rate | Capital repayment and maturity date | Carrying value R million December 2020 | Carrying value R million June 2020 |
|---|---|---|---|---|
| 500 | JIBAR + 125 bps[1] | At maturity – 19 July 2021 | **500** | 500 |
| 500 | JIBAR + 135bps[1] | At maturity – 19 July 2021 | **500** | 500 |
| | | | **1 000** | 1 000 |

1 *Interest payable quarterly in arrears.*

Total finance cost for in respect of South African borrowings and related hedges for the six months ended 31 December 2020 was R544 million (2019: R513 million).

## OTHER SIGNIFICANT ITEMS IN THESE RESULTS

### Analysis of cash and cash equivalents

| R million | December 2020 | June 2020 | June 2019 |
|---|---|---|---|
| Unit-linked investment and insurance contracts[1] | **3 816** | 2 502 | 2 751 |
| Shareholder cash | **16 921** | 15 407 | 6 652 |
| Closing balance | **20 737** | 17 909 | 9 403 |

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

The shareholder Cash and cash equivalents position at 31 December 2020, increased by R1.5 billion when compared to 30 June 2020 (30 June 2020: R8.8 billion compared to 30 June 2019). The increase can mainly be attributed to the following:

| R billion | Reference | Increase in shareholder cash position at 31 December 2020 | Increase in shareholder cash position at 30 June 2020 |
|---|---|---|---|
| Translation differences | | **(0.7)** | 1.3 |
| Discovery Bank | i | **1.2** | 2.0 |
| VitalityLife | ii | **0.5** | 4.7 |
| Increase in operational cash in various subsidiaries | | **0.5** | 0.4 |
| Matured investments | | **–** | 0.4 |
| Total | | **1.5** | 8.8 |

i. During the six months ended 31 December 2020, Discovery Bank's deposits from customers increased by R4 billion, with retail advances growing by R1.5 billion in the same period. This resulted in additional surplus liquidity of R2.5 billion at the end of the period, of which R1.2 billion is held as cash and cash equivalents and the balance invested in treasury bills. Treasury bills have been disclosed as 'Investments at amortised cost'.

ii Collateral deposits in VitalityLife increased by a net R513 million during the current period.

### Loans and advances to customers at amortised cost

Retail advances grew by R1.5 billion, primarily driven by the migration of the DiscoveryCard Platinum client portfolio, comprising of 62 512 customers from the FNB platform onto the Discovery Bank platform.

## OTHER SIGNIFICANT ITEMS IN THESE RESULTS *continued*

## Consolidation of Discovery Unit Trusts

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

Assets and liabilities of the Discovery Unit Trusts increased by R1 689 million respectively, compared to the prior financial year, with movements in the following line items on the Group's Statement of Financial Position:

Changes in assets

- Investments at fair value through profit or loss increased by R2 143 million.
- Cash and cash equivalents increased by R686 million.
- Insurance receivables, contract receivables and other non-financial receivables decreased by R1 139 million.
- Other assets decreased by R1 million.

Changes in liabilities

- Investment contracts at fair value through profit or loss increased by R2 064 million.
- Other liabilities decreased by R375 million.

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

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

- Purchase of investments held to back policyholder liabilities includes cash outflows of R14.9 billion
- Proceeds from the disposal of investments held to back policyholder liabilities includes cash inflows of R13.7 billion.

## Material transactions with related parties

### Discovery Health Medical Scheme (DHMS)

Discovery Health administers DHMS and provides managed care services for which it charges an administration fee and a managed healthcare fee respectively. These fees are determined on an annual basis and approved by the trustees of DHMS. The fees totalled R3 140 million for the six months ended 31 December 2020 (2019: R3 020 million). Discovery offers the members of DHMS access to the Vitality programme.

### Discovery Long Term-Incentive Plan Trust

At the annual general meeting held on 28 November 2019, the shareholders approved the establishment of the Discovery Long-Term Incentive Plan Trust (Trust) with the purpose, inter-alia, to subscribe, purchase and/or otherwise acquire and hold Discovery ordinary shares from time to time for the benefit of the share-based payment plan for employees, in accordance with the requirements of the Trust. During December 2020, 7 477 865 new shares were issued by Discovery Limited to the Trust (representing the allocation over the past two years) at a value of R907 million, with a par value of 0.01 cents per share. While held in the Trust, these shares are treated as treasury shares and not treated as issued.

# SHAREHOLDER INFORMATION

## Directorate

Changes to the Board of Discovery Limited from 1 July 2020 to the date of this announcement are as follows:

- Mr HP Mayers, formally retired as a non-executive director effective 26 November 2020.
- Ms M Schreuder has been appointed as an independent non-executive director with effect from 19 February 2021. Ms Schreuder will be a member of the Audit Committee, Actuarial Committee as well as the Risk and Compliance Committee, which Ms Schreuder will take over as Chairperson with effect from 1 April 2021. Ms Schreuder's appointment strengthens the independence and actuarial skills on the board and respective committees.

Changes in executive director responsibilities from 1 July 2020 to the date of this announcement are as follows:

- Mr HD Kallner, CEO of Discovery's South African operations, has been appointed as the new CEO of Discovery Bank and Discovery Bank Holdings effective 1 January 2021. Mr Kallner replaces Mr BJS Hore. Mr Kallner will continue to chair the SA Executive Committee, as the core governance forum of the SA composite.

Changes in company secretary:

- Mr MJ Botha formally retired as company secretary of Discovery with effect from 30 November 2020. Mr Botha held the position since 2001 and will be retained in an advisory capacity for a period of handover.
- The Board announced the appointment of Ms NN Mbongo as company secretary of Discovery with effect from 1 December 2020.

Appointment of debt officer:

- In accordance with paragraph 7.3(g) of the JSE Debt Listing Requirements, Mr DM Viljoen was appointed as the Debt officer with effect from 2 November 2020.

## Dividend and capital

### Final dividends paid in respect of the 2020 financial year

The following final dividends were paid during the current period:

- B preference share dividend of 433.21918 cents per share (346.57534 cents net of dividend withholding tax), paid on Monday 28 September 2020.
- No final ordinary share dividend was recommended in light of the COVID-19 pandemic.

## Interim dividend declaration in respect of the 2021 financial year

### B preference share cash dividend declaration:

On 19 February 2021, the directors declared an interim gross cash dividend of 354.52055 cents (283.61644 cents net of dividend withholding tax) per B preference share for the period 1 July 2020 to 31 December 2020, payable from the income reserves of the Company. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

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

The salient dates for the dividend will be as follows:

| | |
|---|---|
| Last day of trade to receive a dividend | Tuesday, 9 March 2021 |
| Shares commence trading "ex" dividend | Wednesday, 10 March 2021 |
| Record date | Friday, 12 March 2021 |
| Payment date | Monday, 15 March 2021 |

B Preference share certificates may not be dematerialised or rematerialised between Wednesday, 10 March 2021 and Friday, 12 March 2021.

### Ordinary share cash dividend declaration:

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

## Capital

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

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

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

| | **December 2020 Statutory capital requirements** | **Cover** | June 2020 Statutory capital requirements | Cover |
|---|---|---|---|---|
| Discovery Life | **R16 352 million** | **1.8 times** | R14 835 million | 1.8 times |
| Discovery Insure | **R967 million** | **1.8 times** | R885 million | 1.8 times |
| Vitality Health | **GBP 106.0 million (R2 130 million)** | **2.0 times** | GBP 102.3 million (R2 194 million) | 1.7 times |
| Vitality Life | **GBP 256.4 million (R5 153 million)** | **2.0 times** | GBP 228.3 million (R4 896 million) | 2.0 times |

# ACCOUNTING POLICIES

## Interest Rate Benchmark Reforms

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group has exposures to IBORs on its financial instruments which will be replaced or reformed as part of these market-wide initiatives, such as LIBOR and JIBAR. There is uncertainty over the timing and the methods of transition in some jurisdictions that the Group operates in.

The Group anticipates that IBOR reform will impact some of its JIBAR-rate risk management and hedge accounting relationships in the longer term. The South African Reserve Bank is still in the early stages of the replacement project. The Group does not have LIBOR-rate hedge accounting relationships. More recent borrowings entered into have contractually already made provision for revised interest rates.

## Basis of preparation

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

## Normalised Headline earnings

Discovery assesses its performance using Normalised Headline Earnings, an alternative non-IFRS profit measure, alongside its IFRS profit. Management considers that Normalised Headline Earnings Per Share (NHEPS) is an appropriate alternative performance measure to enhance the comparability and understanding of the financial performance of the Group.

Non-IFRS measures are not uniformly defined or used by all entities and may not be comparable with similarly labelled measures and disclosures provided by other entities.

Discovery calculates headline earnings in accordance with the latest SAICA Circular 'Headline Earnings'. NHEPS is calculated by starting with headline earnings and adjusted to exclude material items that are not considered to be part of Discovery's normal operations as follows:

- Once-off transactions, for example restructuring costs, initial costs related to the Prudential book transfer, transaction costs related to interest rate derivatives and initial deferred tax assets raised on previously unrecognised assessed losses;
- Unusual items – Discovery considers items to be unusual when they have limited predictive value and it is reasonable that items of similar nature would not necessarily arise for several future annual reporting periods. These adjustments include those gains or losses impacting profit or loss associated with changes in economic assumptions recognised in profit or loss, net of any gains or losses on derivatives to offset such changes in economic assumptions; or
- Income or expenses not considered to be part of Discovery's normal operations, for example amortisation of intangibles from business combinations and fair value gains or losses on foreign exchange contracts not designated as hedges.

Management is responsible for the calculation of NHEPS and determining the inclusions and exclusions in accordance with the policy. The Discovery Limited Audit Committee reviews the normalised headline earnings for transparency and consistency.

# EMBEDDED VALUE STATEMENT

for the six months ended 31 December 2020

The embedded value of Discovery consists of the following components:

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

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

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

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

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

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

The 31 December 2020 embedded value results and disclosures were not subjected to an external review.

# EMBEDDED VALUE STATEMENT *continued*

for the six months ended 31 December 2020

## TABLE 1: GROUP EMBEDDED VALUE

| R million | 31 December 2020 | 31 December 2019 | % change | 30 June 2020 |
|---|---|---|---|---|
| Shareholders' funds | **45 135** | 44 681 | 1 | 44 553 |
| Adjustment to shareholders' funds from published basis[1] | **(32 996)** | (34 977) | | (32 080) |
| Adjusted net worth[2] | **12 139** | 9 704 | | 12 473 |
| Value of in-force covered business before cost of required capital | **66 010** | 66 707 | | 64 305 |
| Cost of required capital | **(5 682)** | (3 227) | | (5 944) |
| **Discovery Limited embedded value** | **72 467** | 73 184 | (1) | 70 834 |
| Number of shares (millions) | **656.8** | 656.7 | | 656.6 |
| Embedded value per share | **R110.33** | R111.45 | (1) | R107.88 |
| Diluted number of shares (millions) | **665.1** | 657.6 | | 657.6 |
| Diluted embedded value per share[3] | **R108.96** | R111.29 | (2) | R107.71 |

1 *A breakdown of the adjustment to shareholders' funds is shown in the table below. Note that where relevant, adjustments have been converted using the closing exchange rate of R20.10/GBP (June 2020: R21.44/GBP; December 2019: R18.50/GBP).*

| *R million* | 31 December 2020 | 31 December 2019 | 30 June 2020 |
|---|---|---|---|
| *Life net assets under insurance contracts* | **(19 785)** | (22 355) | (18 564) |
| *Vitality Life Limited and Discovery funded VitalityLife business on the Prudential licence net assets under insurance contracts* | **(6 427)** | (6 231) | (6 320) |
| *VitalityHealth financial reinsurance asset* | **(3 005)** | (2 600) | (3 078) |
| *VitalityHealth and VitalityHealth Insurance Limited deferred acquisition costs (net of deferred tax)* | **(439)** | (365) | (467) |
| *VitalityLife receivable relating to the Unemployment Cover benefit (net of deferred tax)* | **(16)** | (19) | (21) |
| *Goodwill relating to the acquisition of Standard Life Healthcare and the Prudential joint venture* | **(2 487)** | (2 289) | (2 653) |
| *Intangible assets (net of deferred tax) in covered businesses* | **(867)** | (964) | (945) |
| *Net preference share capital* | **(779)** | (779) | (779) |
| *Reversal of 1 Discovery Place IAS 17 financial lease accounting* | **871** | 625 | 747 |
| *Equity settled share based payment provision adjustment* | **(62)** | – | – |
| | **(32 996)** | (34 977) | (32 080) |

*The equity settled share based payment provision adjustment reflects the difference between the provision in the IFRS equity and the mark-to-market value of the equity settled share based payments.*

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

# EMBEDDED VALUE STATEMENT *continued*

for the six months ended 31 December 2020

| *R million* | **31 December 2020** | 31 December 2019 | 30 June 2020 |
|---|---|---|---|
| *Shareholders' funds* | **45 135** | 44 681 | 44 553 |
| *Adjustment to shareholders' funds* | **(32 996)** | (34 977) | (32 080) |
| **Adjusted net worth** | **12 139** | 9 704 | 12 473 |
| *Excess of available capital over adjusted net worth* | **26 659** | 25 668 | 23 231 |
| **Available capital** | **38 798** | 35 372 | 35 704 |
| **Required capital** | **31 951** | 29 416 | 29 932 |
| **Excess available capital** | **6 847** | 5 956 | 5 772 |

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

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

*The required capital at December 2020 for Life and Invest is R20 440 million (June 2020: R18 544 million; December 2019: R20 348 million), for Health and Vitality is R960 million (June 2020: R935 million; December 2019: R949 million), for VitalityHealth is R2 877 million (June 2020: R2 963 million; December 2019: R2 411 million) and for VitalityLife is R7 674 million (June 2020: R7 490 million; December 2019: R5 708 million). For Life and Invest, the required capital was set equal to 1.25 times the SAM Pillar 1 Solvency Capital Requirement. For Health and Vitality, the required capital was set equal to two times the monthly renewal expense and Vitality benefit cost. For VitalityHealth, the required capital amount was set equal to 1.35 times the Solvency II Pillar 1 Solvency Capital Requirement. For the VitalityLife business on the Prudential licence, the required capital was set equal to the UK Solvency I long term insurance capital requirement as per the agreement with Prudential up to the Part VII transfer, thereafter it is set equal to 1.4 times the Solvency II Pillar 1 Solvency Capital Requirement. For the business sold on the Vitality Life Limited licence, the required capital was set equal to 1.4 times the Solvency II Pillar 1 Solvency Capital Requirement.*

3 *The diluted embedded value per share adjusts for treasury shares held in the Discovery BEE Share Trust and as part of Discovery's Long-term Incentive Plan where the impact is dilutive.*

## 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 2020** | | | |
| Health and Vitality | **22 624** | **(408)** | **22 216** |
| Life and Invest[1] | **25 612** | **(1 081)** | **24 531** |
| VitalityHealth[2] | **9 474** | **(481)** | **8 993** |
| VitalityLife[2] | **8 300** | **(3 712)** | **4 588** |
| **Total** | **66 010** | **(5 682)** | **60 328** |
| **at 31 December 2019** | | | |
| Health and Vitality | 21 574 | (404) | 21 170 |
| Life and Invest[1] | 28 812 | (1 230) | 27 582 |
| VitalityHealth[2] | 8 398 | (388) | 8 010 |
| VitalityLife[2] | 7 923 | (1 205) | 6 718 |
| **Total** | 66 707 | (3 227) | 63 480 |
| **at 30 June 2020** | | | |
| Health and Vitality | 22 321 | (419) | 21 902 |
| Life and Invest[1] | 23 752 | (1 244) | 22 508 |
| VitalityHealth[2] | 10 077 | (495) | 9 582 |
| VitalityLife[2] | 8 155 | (3 786) | 4 369 |
| **Total** | 64 305 | (5 944) | 58 361 |

1 *Included in the Life and Invest value of in-force covered business is R1 543 million (June 2020: R1 440 million; December 2019: R1 522 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 R20.10/GBP (June 2020: R21.44/GBP; December 2019: R18.50/GBP).*

## TABLE 3: GROUP EMBEDDED VALUE EARNINGS

| R million | Six months ended 31 December 2020 | 31 December 2019 | 30 June 2020 |
|---|---|---|---|
| Embedded value at end of period | **72 467** | 73 184 | 70 834 |
| Less: Embedded value at beginning of period | **(70 834)** | (71 217) | (71 217) |
| Increase in embedded value | **1 633** | 1 967 | (383) |
| Net change in capital[1] | **(909)** | – | – |
| Dividends paid | **34** | 789 | 1 494 |
| Transfer to hedging reserve | **(77)** | 102 | 430 |
| Employee share option schemes | **(121)** | (58) | (164) |
| Increase in treasury shares | **907** | – | 4 |
| Acquisition of subsidiaries with non-controlling interest[2] | **–** | (6) | (6) |
| IFRS transitional arrangements[3] | **–** | 13 | 41 |
| Embedded value earnings | **1 467** | 2 807 | 1 416 |
| Annualised return on opening embedded value | **4.2%** | 8.0% | 2.0% |

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

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

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

# EMBEDDED VALUE STATEMENT *continued*

for the six months ended 31 December 2020

## TABLE 4: COMPONENTS OF GROUP EMBEDDED VALUE EARNINGS

| | Six months ended 31 December 2020 | | | | Six months ended 31 December 2019 | Year ended 30 June 2020 |
|---|---|---|---|---|---|---|
| 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) | (2 338) | (120) | 3 403 | **945** | 1 196 | 1 922 |
| Profit from existing business | | | | | | |
| ▪ Expected return | 2 599 | 167 | 423 | **3 189** | 2 609 | 6 388 |
| ▪ Change in methodology and assumptions[1] | 1 146 | 37 | (3 114) | **(1 931)** | (765) | (8 759) |
| ▪ Experience variances | 178 | (101) | 2 161 | **2 238** | 542 | 133 |
| Impairment, amortisation and fair value adjustment[2] | (7) | – | – | **(7)** | (8) | (16) |
| Increase in goodwill and intangibles | (156) | – | – | **(156)** | (271) | (313) |
| Other initiative costs[3, 5] | (462) | – | 18 | **(444)** | (532) | (781) |
| Non-recurring expenses | (12) | – | – | **(12)** | – | (181) |
| Acquisition costs[4] | (7) | – | (2) | **(9)** | (10) | (12) |
| Finance costs[5,6] | (958) | – | – | **(958)** | (953) | (1 946) |
| Foreign exchange rate movements[6] | (946) | 279 | (1 184) | **(1 851)** | 437 | 3 922 |
| Other[7] | – | – | – | **–** | 1 | 19 |
| Return on shareholders' funds[5,8] | 463 | – | – | **463** | 561 | 1 040 |
| Embedded value earnings | (500) | 262 | 1 705 | **1 467** | 2 807 | 1 416 |

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

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

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

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

5 *Finance costs are aligned to the segmental earnings view of finance costs, before IFRS reporting adjustments. From 30 June 2020, the segmental view of finance costs is shown gross of finance costs relating to intercompany loans between entities within the Group (R328 million for the six months to 31 December 2020, R356 million for the six months to December 2019 and R720 million for the twelve months to 30 June 2020). Similar offsetting adjustments, which had previously been included as investment return components in other initiative costs and return on shareholders' funds, have been reallocated and are now entirely included in the return on shareholders' funds. The prior period comparatives have been restated to reflect this reallocation.*

6 *From 31 December 2020, foreign exchange gains/losses emerging through the income statement have been re-allocated out of finance costs and into foreign exchange rate movements. The prior period comparatives have been restated to reflect this reallocation.*

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

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

## 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 | 102 | – | 15 | (2) | 80 | – | 25 | – | **220** |
| Lapses and surrenders[1] | 4 | (16) | 105 | 323 | – | 67 | (117) | 275 | **641** |
| Mortality and morbidity[2] | – | – | 11 | 51 | 92 | – | 24 | (12) | **166** |
| Policy alterations[1] | – | (24) | (255) | 202 | – | – | 4 | 31 | **(42)** |
| Premium and fee income | 53 | – | (38) | 28 | 11 | – | (5) | 5 | **54** |
| Economic[3] | 1 | 469 | (126) | 588 | – | – | – | – | **932** |
| Commission | – | – | – | – | 21 | – | – | – | **21** |
| Tax[4] | 33 | – | 272 | (256) | (11) | – | (63) | – | **(25)** |
| Reinsurance | – | – | – | – | – | – | (26) | (50) | **(76)** |
| Maintain modelling term[5] | – | 164 | – | 79 | – | 40 | – | – | **283** |
| Vitality benefits | 20 | – | – | – | – | – | 28 | – | **48** |
| Other | (9) | – | (105) | 133 | 28 | – | 4 | (35) | **16** |
| Total | 204 | 593 | (121) | 1 146 | 221 | 107 | (126) | 214 | **2 238** |

1 *For Life and Invest, the combined lapse and surrender experience and policy alterations experience is relative to assumptions which include the allowance for a short term stress set for lapses and policy alterations introduced at 30 June 2020. For VitalityLife, the lapse and surrender experience is relative to assumptions which include the allowance for a short term stress for lapses introduced at 30 June 2020.*

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

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

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

5 *The projection term for Health and Vitality, Life and Invest and VitalityHealth at 31 December 2020 has not been changed from that used in the 30 June 2020 embedded value calculation. Therefore, an experience variance arises because the total term of the in-force covered business is effectively increased by six months.*

# EMBEDDED VALUE STATEMENT *continued*

for the six months ended 31 December 2020

## TABLE 6: METHODOLOGY AND ASSUMPTION CHANGES

| | Health and Vitality | | Life and Invest | | VitalityHealth | | VitalityLife | | |
|---|---|---|---|---|---|---|---|---|---|
| R million | Net worth | Value of in-force | Net worth | Value of in-force | Net worth | Value of in-force | Net worth | Value of in-force | **Total** |
| Modelling changes[1] | – | 44 | (4) | 99 | – | (65) | – | (101) | **(27)** |
| Expenses | – | – | – | – | – | – | – | – | **–** |
| Lapses | – | – | – | – | – | – | – | – | **–** |
| Mortality and morbidity[2] | – | – | – | (171) | – | – | – | – | **(171)** |
| Benefit changes | – | – | – | – | – | – | – | – | **–** |
| Tax | – | – | – | – | – | – | – | 54 | **54** |
| Economic assumptions[3] | – | (1 029) | (28) | (463) | – | – | (80) | (49) | **(1 649)** |
| Premium and fee income[4] | – | (63) | – | – | – | – | – | – | **(63)** |
| Reinsurance and financing[5] | – | – | 1 257 | (1 311) | – | (13) | – | 36 | **(31)** |
| Other[6] | – | – | 1 | (31) | – | – | – | (14) | **(44)** |
| Total | – | (1 048) | 1 226 | (1 877) | – | (78) | (80) | (74) | **(1 931)** |

1 *For Life and Invest, a correction to the calculation of the overall tax adjustment to the value of in-force was made. For VitalityHealth, the modelling changes relate to a correction to the premium recorded against certain lapsed policies. For VitalityLife, the premium increases on index-linked policies were reduced as per product specifications under current low inflation rates.*

2 *For Life and Invest, the mortality and morbidity assumption change relates to a strengthening of the provision for COVID-19 related claims.*

3 *For Life and Invest and Health and Vitality, the economic assumptions item relates to the impact of updating exchange rates, and the assumptions relative to the Johannesburg Stock Exchange ("JSE") nominal and real yield risk-free curves at 31 December 2020. For VitalityLife the item includes the impact of updating the assumptions relative to the Solvency II yield curves and the IFRS interest rates, offset by the net change in the interest rate hedge, as well as an alignment of the calculation of shareholder returns relative to the overall interest rate basis.*

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

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

6 *For Life and Invest and VitalityLife, the other item relates to the margin reset to offset experience variances, as per the accounting policy. Additionally for Life and Invest, this item also includes other minor assumption changes.*

# EMBEDDED VALUE STATEMENT *continued*

for the six months ended 31 December 2020

## TABLE 7: EMBEDDED VALUE OF NEW BUSINESS

| R million | Six months ended 31 December 2020 | Six months ended 31 December 2019 | % change | Year ended 30 June 2020 |
|---|---|---|---|---|
| **Health and Vitality** | | | | |
| Present value of future profits from new business (at point of sale) | **317** | 391 | | 910 |
| Cost of required capital | **(9)** | (14) | | (27) |
| Present value of future profits from new business (at point of sale) after cost of required capital | **308** | 377 | (18) | 883 |
| New business annualised premium income[1] | **1 416** | 1 714 | (17) | 3 972 |
| **Life and Invest** | | | | |
| Present value of future profits from new business (at point of sale)[2] | **468** | 570 | | 668 |
| Cost of required capital | **(39)** | (44) | | (82) |
| Present value of future profits from new business (at point of sale) after cost of required capital | **429** | 526 | (18) | 586 |
| New business annualised premium income[3] | **1 405** | 1 457 | (4) | 2 886 |
| Annualised profit margin[4] | **3.7%** | 4.3% | | 2.5% |
| Annualised profit margin excluding Invest business | **8.2%** | 9.5% | | 5.8% |
| **VitalityHealth**[5] | | | | |
| Present value of future profits from new business (at point of sale) | **93** | 121 | | 262 |
| Cost of required capital | **(30)** | (26) | | (56) |
| Present value of future profits from new business (at point of sale) after cost of required capital | **63** | 95 | (34) | 206 |
| New business annualised premium income[6] | **598** | 609 | (2) | 1 308 |
| Annualised profit margin[4] | **1.5%** | 2.5% | | 2.5% |
| **VitalityLife**[7] | | | | |
| Present value of future profits from new business (at point of sale) | **187** | 288 | | 353 |
| Cost of required capital | **(42)** | (90) | | (106) |
| Present value of future profits from new business (at point of sale) after cost of required capital | **145** | 198 | (27) | 247 |
| New business annualised premium income | **448** | 524 | (15) | 956 |
| Annualised profit margin[4] | **4.0%** | 4.9% | | 3.2% |

# EMBEDDED VALUE STATEMENT *continued*

for the six months ended 31 December 2020

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 2020.*

*The total Health and Vitality new business annualised premium income written over the period was R2 823 million (June 2020: R6 146 million; December 2019: R3 421 million).*

2 *Included in the Life and Invest embedded value of new business is R29 million (June 2020: R29 million; December 2019: R22 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 405 million (June 2020: R2 886 million; December 2019: R1 457 million) (single premium APE: R699 million (June 2020: R1 453 million; December 2019: R635 million)) shown above excludes automatic premium increases and servicing increases in respect of existing business. The total new business annualised premium income written over the period, including automatic premium increases of R728 million (June 2020: R1 496 million; December 2019: R773 million) and servicing increases of R345 million (June 2020: R576 million; December 2019: R367 million), was R2 478 million (June 2020: R4 958 million; December 2019: R2 597 million) (single premium APE: R744 million (June 2020: R1 507 million; December 2019: R671 million)). Single premium business is included at 10% of the value of the single premium.*

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

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

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

6 *VitalityHealth new business is defined as individuals and employer groups which incepted during the reporting period. The new business annualised premium income shown above has been adjusted to exclude premiums in respect of members who join an existing employer group after the first month, as well as premiums in respect of new business written during the period but only activated after 31 December 2020.*

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

# BASIS OF PREPARATION

## TABLE 8: EMBEDDED VALUE ECONOMIC ASSUMPTIONS

| | **31 December 2020** | 31 December 2019 | 30 June 2020 |
|---|---|---|---|
| Beta coefficient | **0.75** | 0.75 | 0.75 |
| Equity risk premium (%) | **3.5** | 3.5 | 3.5 |
| Risk discount rate (%) | | | |
| Health and Vitality[1] | **13.625** | 12.375 | 14.125 |
| Life and Invest[1] | **14.375** | 13.435 | 15.125 |
| VitalityHealth | **2.92** | 3.61 | 2.89 |
| VitalityLife | **3.206** | 4.725 | 3.065 |
| Rand/GB Pound exchange rate | | | |
| Closing | **20.10** | 18.50 | 21.44 |
| Average | **21.27** | 18.53 | 19.75 |
| Margin over Expense inflation to derive Medical inflation (%) | | | |
| South Africa | **3.00** | 3.00 | 3.00 |
| Expense inflation (%)[2] | | | |
| South Africa – Health and Vitality | **6.50** | 6.29 | 7.39 |
| – Life and Invest | **6.76** | 7.28 | 8.33 |
| United Kingdom | **1.50** | 3.00 | 2.50 |
| Pre-tax investment return (%) | | | |
| South Africa – Cash[1] | **10.25** | 9.31 | 11.00 |
| – Life and Invest bonds[3] | **11.75** | 10.81 | 12.50 |
| – Health and Vitality bonds[3] | **11.00** | 9.75 | 11.50 |
| – Equity[1] | **15.25** | 14.00 | 16.00 |
| United Kingdom – VitalityHealth risk-free rate | **0.27** | 0.27 | 0.27 |
| – VitalityLife risk–free rate | **0.58** | 0.44 | 0.44 |
| – VitalityLife IFRS interest rate | **1.49** | 2.50 | 1.35 |
| – VitalityLife investment return | **1.59** | 2.50 | 1.58 |
| Income tax rate (%) | | | |
| South Africa | **28** | 28 | 28 |
| United Kingdom – long term | **19** | 17 | 19 |
| VitalityHealth Assumptions | | | |
| – Margin (net of tax and cost of capital) (%) | **14.1** | 14.1 | 14.1 |
| – Annuity Factor | **6.37** | 6.13 | 6.37 |
| Projection term | | | |
| – Health and Vitality | **20 years** | 20 years | 20 years |
| – Discovery Life – VIF | **40 years** | 40 years | 40 years |
| – Group Life | **10 years** | 10 years | 10 years |
| – VitalityLife | **No cap** | No cap | No cap |
| – VitalityHealth[4] | **20 years** | 20 years | 20 years |

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

2 *The inflation assumption is derived as the difference between the nominal and real yield curve at each duration. As an indication, the cash flow weighted average inflation is shown in the table. For the United Kingdom, the expense inflation assumption is 1.50% in the first year and 2.50% thereafter.*

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

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

# EMBEDDED VALUE STATEMENT *continued*

for the six months ended 31 December 2020

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

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

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

The VitalityHealth assumptions were derived from internal experience.

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

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

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

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

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

# EMBEDDED VALUE STATEMENT *continued*

for the six months ended 31 December 2020

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

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

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

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

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

EMBEDDED VALUE STATEMENT *continued*
for the six months ended 31 December 2020

## Sensitivity to the embedded value assumptions

The risk discount rate uses the CAPM approach with specific reference to the Discovery beta coefficient. As beta values reflect the historic performance of share prices relative to the market they may not allow fully for non-market related and non-financial risk. Investors may want to form their own view on an appropriate allowance for these risks which have not been modelled explicitly. The sensitivity of the embedded value and the embedded value of new business at 31 December 2020 to changes in the risk discount rate is included in the tables below.

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

### TABLE 9: EMBEDDED VALUE SENSITIVITY

| | | Health and Vitality | | Life and Invest | | VitalityHealth | | VitalityLife | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| R million | Adjusted net worth[2] | Value of in-force | Cost of required capital | Value of in-force | Cost of required capital | Value of in-force | Cost of required capital | Value of in-force | Cost of required capital | **Embedded value** | % change |
| Base | 12 139 | 22 624 | (408) | 25 612 | (1 081) | 9 474 | (481) | 8 300 | (3 712) | **72 467** | |
| Impact of: | | | | | | | | | | | |
| Risk discount rate +1% | 12 139 | 21 335 | (441) | 23 299 | (1 148) | 8 973 | (456) | 7 691 | (4 962) | **66 430** | (8) |
| Risk discount rate – 1% | 12 139 | 24 048 | (371) | 28 332 | (1 002) | 10 029 | (509) | 9 003 | (2 044) | **79 625** | 10 |
| Lapses – 10% | 11 750 | 23 390 | (430) | 27 844 | (1 140) | 10 719 | (544) | 8 929 | (4 193) | **76 325** | 5 |
| Interest rates – 1%[1] | 10 139 | 22 782 | (392) | 25 919 | (1 068) | 9 940 | (509) | 7 684 | (4 661) | **69 834** | (4) |
| Equity and property market value – 10% | 12 110 | 22 624 | (408) | 25 164 | (1 101) | 9 474 | (481) | 8 300 | (3 712) | **71 970** | (1) |
| Equity and property return +1% | 12 139 | 22 624 | (408) | 25 937 | (1 084) | 9 474 | (481) | 8 300 | (3 712) | **72 789** | 0 |
| Renewal expenses – 10% | 12 215 | 24 708 | (378) | 26 069 | (1 049) | 10 182 | (481) | 8 447 | (3 668) | **76 045** | 5 |
| Mortality and morbidity – 5% | 12 326 | 22 624 | (408) | 27 394 | (965) | 10 942 | (481) | 8 529 | (3 694) | **76 267** | 5 |
| Projection term +1 year | 12 139 | 22 910 | (413) | 25 760 | (1 092) | 9 545 | (485) | 8 300 | (3 712) | **72 952** | 1 |

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 | | Life and Invest | | VitalityHealth | | VitalityLife | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| R million | 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 | Cost of required capital | **Value of new business** | % change |
| Base | 317 | (9) | 468 | (39) | 93 | (30) | 187 | (42) | **945** | |
| Impact of: | | | | | | | | | | |
| Risk discount rate +1% | 288 | (11) | 368 | (41) | 58 | (28) | 122 | (51) | **705** | (25) |
| Risk discount rate – 1% | 349 | (9) | 585 | (36) | 132 | (32) | 261 | (25) | **1 225** | 30 |
| Lapses – 10% | 337 | (11) | 578 | (41) | 166 | (33) | 269 | (61) | **1 204** | 27 |
| Interest rates – 1%[1] | 323 | (10) | 472 | (38) | 127 | (32) | 111 | (60) | **893** | (6) |
| Equity and property return +1% | 317 | (9) | 481 | (39) | 93 | (30) | 187 | (42) | **958** | 1 |
| Renewal expense – 10% | 364 | (10) | 487 | (38) | 135 | (30) | 202 | (38) | **1 072** | 13 |
| Mortality and morbidity – 5% | 317 | (9) | 531 | (35) | 180 | (30) | 205 | (37) | **1 122** | 19 |
| Projection term +1 year | 323 | (10) | 475 | (39) | 98 | (30) | 187 | (42) | **962** | 2 |
| Acquisition costs – 10% | 331 | (10) | 527 | (39) | 113 | (30) | 248 | (42) | **1 098** | 16 |

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

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

**Sponsors and debt sponsors** Rand Merchant Bank (A division of FirstRand Bank Limited)

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

| | |
|---|---|
| JSE share code: | DSY ISIN: ZAE000022331 |
| JSE share code: | DSBP ISIN: ZAE000158564 |
| JSE company code: | DSYI |

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

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

* *Executive.*
1 *Retired effective 26 November 2020.*
2 *Appointed effective 19 February 2021.*

**Debt officer** DM Viljoen

**Interim financial results**
– supervised by DM Viljoen CA(SA)

**Embedded value statement**
– prepared by P Bolink FASSA
– supervised by A Rayner FASSA, FIA

STUDIO 5

Discovery

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