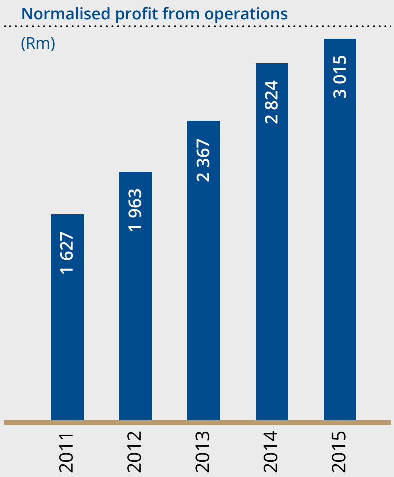
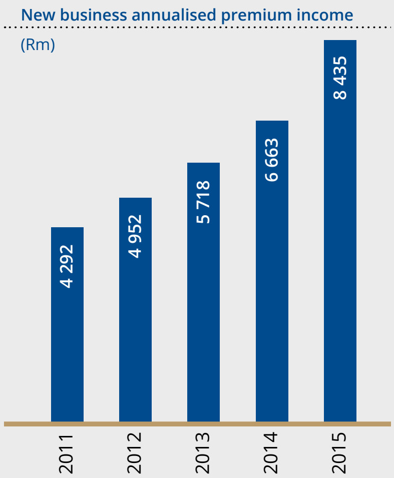
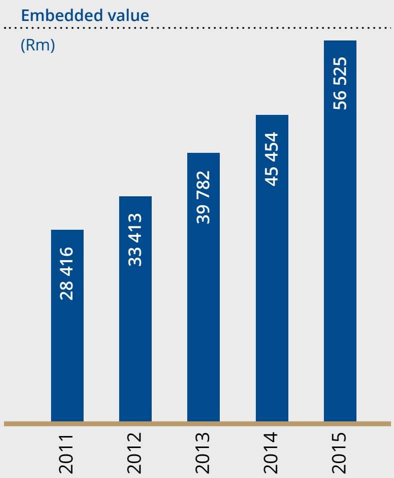
Unaudited interim results, cash dividend declaration and trading statement

for the six months ended 31 December 2015







Normalised profit from operations
R3 015 million
↑7%

New business annualised premium income
R8 435 million
↑27%

Embedded value
R56.5 billion
↑24%

Commentary

01 | Group Financial Performance

The six-month period ended 31 December 2015 saw a robust financial performance, accompanied by significant investment in new initiatives.

At a Group level, new business displayed excellent growth of 27% to R8 435 million, above the 10-year compound annual growth rate of 15%.

From an earnings perspective, headline earnings in the prior year were positively impacted by the once-off accounting treatment resulting from the lapsing of the put options Prudential held in respect of its interest in the UK joint venture – this was due to Discovery´s purchase of Prudential´s remaining 25% of the joint venture in November 2014. As a result, earnings per share decreased by 53% to 281.0 cents per share.

Normalised profit from operations increased 7% to R3 015 million; and normalised headline earnings were up 7% to R2 124 million, a growth rate lower than Discovery's historic rate due to:

1. An accelerated and substantial investment in new initiatives in excess of 60% over the prior period, including the banking initiative; Ping An Health; Discovery Partner Markets and further development of the Vitality Network; the take-on of the Bankmed Medical Scheme; and refining the underlying Vitality Chassis, manifesting in the SA launch of the global product, Vitality Active Rewards with Apple Watch.
2. Higher-than-expected costs associated with moving VitalityHealth in the UK onto its own system infrastructure.

Finally, embedded value grew 24% to R56.5 billion, despite a rising interest rate and currency depreciation; and return on average equity was 13%.

This performance takes place amidst an environment of considerable volatility, with increasing interest rates, a depreciating currency and weak equity market sentiment. Given the prudent way the Discovery Group has been structured, for example, through geographic and industry diversification and product design that links to economic factors and accurately matches price to risk, the Group remains resilient in the face of economic and non-economic stresses in terms of its earnings, embedded value and solvency position.

Consistent with its dividend policy, Discovery declared an increase in total dividends payable of 10%. Given the change in the number of shares, this results in a gross dividend per share of 85.5 cents, flat on the prior year, though in line with the growth in normalised headline earnings per share. This will allow Discovery the flexibility to continue to invest for future growth.

02 | Strategic Overview

Considerable work was done over the period to **refine the business model**, resulting in a disciplined and scalable shared-value model aligned to Discovery's core purpose and consistent with emerging trends, including the increasingly behavioural nature of insurance risk; the rise of technology as an enabler of accurate risk segmentation; and the growing social responsibility of insurers to make people healthier. The output is twofold: 1) better value for money, social outcomes, and actuarial performance; and 2) the imperative for organic growth.

Discovery has thus developed a growth engine where significant investment is made in new businesses – between 8% and 10% of earnings historically, and in excess of this over the period – to develop them into emerging businesses that exhibit strong new business and operating profit growth, and over time, become incumbents that track well above economic growth. This philosophy of sustainable, organic growth was evident over the period in, for example, Discovery Insure, which is now at the inflection point of becoming an emerging business; and Discovery Partner Markets, which is still fairly young in maturity but promises significant potential earnings with low levels of capital deployed.

Furthermore, underpinning the business model is continual **investment in the science of the model and the Vitality chassis**. Building on the success of the UK launch of Vitality Active Rewards, the South African launch of Vitality Active Rewards with Apple Watch saw unprecedented success. To date, the take-up and engagement levels in SA have been exceptional – over 160 000 members have joined the programme, with significant behaviour change illustrated by an increase of 21% in physical activity events per week. This makes it the most successful Vitality benefit launched to date. The nature of the UK (Active Rewards) and South African (Active Rewards with Apple Watch) experience is encouraging for the global business, given the planned roll-outs of Vitality Active Rewards with Apple Watch in Discovery's other territories over the course of 2016.

The focus on the Group's capital structure, to support both new initiatives and growth within established businesses, continued during the six months under review. The period included both the impact of additional financial reinsurance taken out in November 2014 by Discovery Life to support Group expansion, and the Rights Issue in March 2015 of R5 billion. The capital raised through the Rights Issue was allocated to the purchase of another 54.99% share in the DiscoveryCard, as well as to capitalise the UK business and provide the capital foundation for Discovery's banking aspirations.

03 | Business-specific Performance

3.1 SOUTH AFRICA

Discovery Health

Discovery Health performed better than expectation. During the period, normalised operating profit increased by 11% to R1 061 million. In addition, new business API (excluding Bankmed, which reflected in new business in the prior period) increased off a significant base by 36% to R3 826 million.

The period under review also saw the impact of Discovery Health's innovation and expertise on the sustained excellent performance of the Discovery Health Medical Scheme: lives administered grew by 2.2% to 2.7 million; and the solvency ratio remained above the statutory 25% – with reserves higher than the next 10 open schemes combined.

Discovery Health continued to build strategic assets across the healthcare system to generate savings for its medical scheme clients, and efficiencies within administration. An example is its direct delivery service for medicines (SouthernRx), and Discovery HomeCare, both of which are saving significant amounts for Discovery Health's scheme clients, while improving the quality of care received by members.

Discovery Health continued its strategic move towards digital healthcare. Over the period, the Discovery Health Medical Scheme launched the country's first fully-digital healthcare plan – the

Smart Plan. The Smart Plan has proven successful in attracting a younger demographic, and demonstrates the lowest premium per unit of benefit in the market – a result of its advanced analytical backbone that optimises healthcare network utilisation by matching member supply and demand in real-time.

Furthermore, the focused investment in the administration platform, in preparation for Bankmed (representing over 200 000 new members from 1 January 2016), laid the foundation for the attraction of two significant new restricted scheme clients, which are scheduled to join on 1 July 2016, continuing Discovery Health's significant success in the restricted scheme market.

Discovery Health strongly supports the objectives of universal health coverage that underpin the NHI White Paper and will work closely with the Department of Health and all other stakeholders on the details of the proposal, and assist with implementation where possible. Discovery Health is also actively participating in the Health Market Inquiry of the Competition Commission.

Discovery Life

Discovery Life's performance was robust with excellent market share growth overall (28% of new business share this year versus 26% last year). Earnings were 13% higher (pre-FinRe) than the prior period, with normalised operating profit growing 13% to R1 658 million, reversing out the impact of additional cash FinRe from November 2014. Lapse rates demonstrated an improving trend and the claims experience was in line with long-term expectation. Experience variances were positive excluding economic variances. The business generated R187 million in cash over the period (pre-FinRe and repayments), with the cash position remaining strong with CAR cover unchanged at 3.9 times.

The period was notable for Discovery Life's continued investment in building a strong and sophisticated adviser force. The large tied adviser force exhibited productivity levels 200% above that of the market. This also led to the development of the Discovery Financial Adviser Academy, aimed at training and accelerating the entrance of new tied advisers into the insurance market.

At the same time, the impact of the Discovery business model is evident. An analysis of the dynamic pricing structure shows that when comparing the transition of integrated versus non-integrated cohorts over time – the integrated cohort is superior from a retention and health profile perspective.

Discovery Invest

The performance of Discovery Invest was excellent with new business year-on-year growth of 17%, assets under management exceeding R56 billion and operating profit growth of 25% to R238 million. Invest new business margins improved through product innovation.

During the period under review, the business continued to drive innovation by launching pre-retirement accumulation products and linked annuities in retirement, that pivot off the shared-value model. Given the scientific evidence of Vitality improving mortality and morbidity, there is a genuine need for additional retirement savings to cater for extended lifespans. Using the shared-value model, and underpinned by Vitality, these products create higher retirement benefits, larger income in retirement and longer-lasting retirement assets through increased longevity.

Discovery Insure

Over the period, Discovery Insure continued its progression towards meeting the criteria of a Discovery business, namely: insurgency and market leadership in new business, driven by superior products that drive engagement and improve actuarial dynamics, and existing within an exceptional service ecosystem. New business was maintained at the high base set in the prior period, with an increased focus on quality; and growth was witnessed in gross written premiums and cumulative inforce policies. In addition, the profit signature continued its trend towards breakeven.

More importantly, the period saw the business deliver on the key drivers of value – selection and behaviour change; and durational impact. The Vitalitydrive model continued to deliver superior actuarial dynamics: risk profile varied by Vitalitydrive status, and initial indications of sustained behaviour change were witnessed by a 14% improvement in driving scores after seven months using the smartphone app and sensor technology. Furthermore, analysis done on Discovery Insure clients compared to the industry, revealed that Insure clients have a better risk profile by claims experience – by a minimum of 19% as derived by comparing the cause of an accident between Insure drivers and other third party drivers. In addition, continued evidence exists for the loss ratio improving by duration.

Finally, Discovery Insure remains focused on its pioneering technology in terms of claims and telematics. During the period, recognition included winning the "Most Innovative New Digital Product" at the Gartner Annual symposium in Barcelona in November 2015.

3.2 THE UNITED KINGDOM

The UK business is a fundamental beachhead for Discovery's strategy of internationalising its composite Health and Life insurance model, given the UK's lifestyle disease burden, aging population, sizeable protection market and commoditised offerings. Against this backdrop, the business is now established – VitalityLife was granted its own life insurance licence in December 2015; VitalityHealth has transitioned to its own systems chassis, off that of Standard Life Healthcare; the branding strategy for the combined business is now paying dividends in terms of brand recall and social presence; the business is now capitalised; and an integrated Health and Life Vitality platform has been successfully developed, evidenced by the success of Active Rewards.

VitalityLife

From a financial perspective, VitalityLife produced an excellent six-month performance, with new business sales up 28% in Rand terms (R643 million vs R502 million). This resulted in a 28% increase in normalised profit (R343 million vs R269 million) over the period. VitalityLife is currently in third position in the IFA sector with a market share of 11.3%. VitalityLife's distribution footprint continued to grow significantly with the 18 active Franchises accounting for 72% of all new business sales over the period, and the single ties channel growing to 23 as at December 2015.

During the period under review, VitalityLife achieved strong success in positioning its new-generation risk offering to the market, this being evident through strong continued adoption of the Vitality-integrated model with the Vitality Optimiser product comprising 63% of all new business sales in the six months to 31 December 2015. The period also showed lower mortality for Vitality Optimiser cases versus non-Vitality Optimiser cases. 2016 will also see the introduction of a new form of life insurance integration and dynamic pricing using both the wellness of the client through Vitality and the underlying interest rates to create a better match of premium to client overall cost of risk. This product innovation presents a sophisticated client expense and risk management product, and economically robust new business values for VitalityLife.

Finally, new business commenced being written on the VitalityLife insurance licence on 1 January 2016.

VitalityHealth

From a financial perspective, the period was dominated by the extensive work undertaken following the exit of the Transitional

Services Agreement (TSA) with Standard Life Healthcare. This work resulted in significant unplanned and exceptional costs for the period, predominately in the areas of IT development, administration and claims, in the order of £5 million. VitalityHealth returned to new business API growth (+24%) despite a complex environment characterised by aggressive new business pricing and increases in the Insurance Premium Tax, which impacts on the end price paid by consumers. Strong growth was generated in the more profitable Individual (+24%) and Direct channels (+21%), VitalityHealth's areas of focus, while less profitable Corporate new business declined over the period. VitalityHealth's lapse rates remained strong over the period.

During the period under review, VitalityHealth made excellent progress in further embedding its wellness-integrated insurance model. From a product perspective, VitalityHealth's new virtual primary care service, Vitality GP, resonated strongly with members and is delivering on its mandate to provide integrated wellness and sickness pathways. Nearly half of those who have used the service have received wellness coaching from the Vitality GP. Active Rewards, which was initiated in the UK, saw significant behaviour change in the complex area of physical activity engagement, with 34% of members who had not previously engaged in physical activity now doing so for the first time. In addition, overall Vitality engagement is at an all-time high and continues to increase across all dimensions of the programme.

During October, VitalityHealth concluded a joint purchasing agreement with Aviva Health for the procurement of hospital services. The Healthcare Purchasing Alliance, with approximately 25% share of the market, creates a new, significant player of scale that will negotiate hospital tariffs on VitalityHealth's behalf, which should positively support the loss ratio going forward.

3.3 DISCOVERY PARTNER MARKETS (DPM)

Discovery Partner Markets now comprises significant global operations, with limited capital deployment. Over the period, the business experienced a period of continued growth across established markets, and expansion within the Asia-Pacific region and new markets. In addition, the overwhelming response to Vitality Active Rewards in both the UK and SA confirmed the veracity of the Vitality model and its ability to effectively promote healthy behaviour. This led to the investment and development of a global Vitality Active Rewards platform.

The devaluation of the Rand against the US Dollar between the end of the last interim reporting period and the current period had the effect of augmenting Dollar-based losses in both The Vitality Group (TVG) and Ping An Health.

TVG

The period was a noteworthy one for TVG for multiple reasons. First, the combination of the shared-value pricing structure and investments in the distribution support channel saw a positive response from the large Employee Benefits broking houses. In addition, TVG significantly strengthened its member engagement toolkit with a new member portal, enhanced features on mobile, and new challenges engine. The business also realised positive member engagement with a direct correlation to improved health outcomes. Finally, the period was noteworthy for its endorsement of Vitality's business model. TVG's client McKesson won the C. Everett Koop National health Award – in recognition of the effectiveness of the Vitality programme in improving the health of its employees.

From the perspective of John Hancock, early traction in the market reflected pleasing support of shared-value products by John Hancock's distribution channels.

Manulife Vitality

A significant development over the period involved Discovery entering into an agreement with John Hancock's parent company, Manulife, for Canada. This will see the roll-out of shared-value products in Canada in the latter half of the 2016 calendar year, where Manulife is the largest life insurance company with over 13.5 million clients across all product types.

AIA

The last six months saw AIA Vitality continue to expand its footprint across the Asia-Pacific region. In addition to Australia and Singapore, where AIA Vitality is already established, AIA Vitality has now launched in Hong Kong and the Philippines.

Generali

A framework agreement has now been reached, and the business has shifted its focus towards roll-out in Germany, followed by France. The launch of Generali Vitality to staff in Germany is imminent, with the public launch due before the end of the financial year.

Ping An Health

Healthcare reform is one of the core subjects in the Government's new five-year plan that relies heavily on private business involvement.

This trend is expected to build on the business' already-impressive performance, where Ping An Health realised total new business sales of R752 million, comprising R173 million and R579 million in the Group and Individual segments respectively during the period. This represents an overall increase of 77% on the corresponding period in 2014. Despite new business strain realised in full in the year business is written, the strategic decision is to focus on growth and expand along new lines such as with the launch of the Group mid-market product.

Business fundamentals also remained strong within Ping An Health. Loss ratios for both the Individual and Group products were well managed and below expectation, while lapse rates in all areas of the business remained as expected throughout the period.

04 | Prospects for Future Growth and Trading Statement

The progress made over the past six months – specifically the substantial investment in new initiatives and the capital restructuring to support this and to ensure robustness – positions Discovery positively for long-term growth.

Due to the once-off accounting treatment resulting from the lapsing of the put options Prudential held in respect of its interest in the UK joint venture, Discovery's undiluted headline earnings per share and basic earnings per share for the year ending 30 June 2016 ("next period") is expected to be at least 20% lower (176.5 cents and 183.0 cents respectively) than that of the year ended 30 June 2015 (882.4 cents and 914.8 cents respectively). Normalised headline earnings per share, which the Company views as the most appropriate measure of its performance, will not be impacted by this accounting treatment.

Any forecast information contained in this announcement has not been reviewed and reported by the Group's external auditors and a further trading statement will be released when the Company has the reasonable certainty required to be able to provide specific guidance.

On behalf of the Board

MI HILKOWITZ
Chairperson

A GORE
Group Chief Executive

Sandton
24 February 2016

Statement of financial position

at 31 December 2015

R million	Group December 2015 Unaudited	Group June 2015 Audited
ASSETS		
Assets arising from insurance contracts	**25 210**	21 726
Property and equipment	**1 036**	727
Intangible assets including deferred acquisition costs	**3 174**	2 526
Goodwill	**2 868**	2 375
Investment in equity accounted investments	**538**	505
Financial assets		
– Available-for-sale investments	**11 651**	9 454
– Investments at fair value through profit or loss	**43 515**	40 132
– Derivatives	**720**	825
– Loans and receivables including insurance receivables	**5 198**	3 884
Deferred income tax	**880**	690
Current income tax asset	**15**	5
Reinsurance contracts	**429**	362
Cash and cash equivalents	**7 378**	6 251
Total assets	**102 612**	89 462
EQUITY		
Capital and reserves		
Ordinary share capital and share premium	**8 301**	7 488
Perpetual preference share capital	**779**	779
Other reserves	**3 968**	2 024
Retained earnings	**18 263**	17 065
	31 311	27 356
Non-controlling interest	**–**	–
Total equity	**31 311**	27 356
LIABILITIES		
Liabilities arising from insurance contracts	**33 512**	30 818
Liabilities arising from reinsurance contracts	**4 002**	3 827
Financial liabilities		
– Negative reserve funding	**4 179**	5 437
– Borrowings at amortised cost	**5 481**	954
– Investment contracts at fair value through profit or loss	**11 585**	10 059
– Derivatives	**14**	7
– Trade and other payables	**6 470**	5 506
Deferred income tax	**5 606**	5 077
Deferred revenue	**197**	192
Employee benefits	**150**	152
Current income tax liability	**105**	77
Total liabilities	**71 301**	62 106
Total equity and liabilities	**102 612**	89 462

Income statement

for the six months ended 31 December 2015

R million	Group Six months ended December 2015 Unaudited	Group Six months ended December 2014 Unaudited	% change	Group Year ended June 2015 Audited
Insurance premium revenue	**16 047**	13 529		27 694
Reinsurance premiums	**(2 093)**	(1 368)		(3 113)
Net insurance premium revenue	**13 954**	12 161		24 581
Fee income from administration business	**3 638**	3 082		6 630
Vitality income	**1 838**	1 459		3 029
Receipt arising from reinsurance contracts	**–**	1 250		1 250
Investment income	**354**	212		507
– investment income earned on shareholder investments and cash	**163**	74		188
– investment income earned on assets backing policyholder liabilities	**191**	138		319
Net realised gains/(losses) on available-for-sale financial assets	**3**	(8)		188
Net fair value gains on financial assets at fair value through profit or loss	**1 318**	1 023		3 124
Net income	**21 105**	19 179		39 309
Claims and policyholders' benefits	**(9 192)**	(7 415)		(15 805)
Insurance claims recovered from reinsurers	**1 662**	1 132		2 503
Net claims and policyholders' benefits	**(7 530)**	(6 283)		(13 302)
Acquisition costs	**(2 965)**	(2 472)		(5 294)
Marketing and administration expenses	**(7 080)**	(5 883)		(12 251)
Amortisation of intangibles from business combinations	**(122)**	(113)		(227)
Recovery of expenses from reinsurers	**297**	214		447
Transfer from assets/liabilities under insurance contracts	**(445)**	(1 770)		(2 541)
– change in assets arising from insurance contracts	**1 703**	1 772		3 278
– change in assets arising from reinsurance contracts	**12**	23		81
– change in liabilities arising from insurance contracts	**(1 985)**	(2 153)		(4 320)
– change in liabilities arising from reinsurance contracts	**(175)**	(1 412)		(1 580)
Fair value adjustment to liabilities under investment contracts	**(517)**	(276)		(912)
Profit from operations	**2 743**	2 596	6	5 229
Puttable non-controlling interest fair value adjustment	**–**	1 661		1 661
Finance costs	**(97)**	(106)		(197)
– finance costs raised on puttable non-controlling interest financial liability	**–**	(64)		(64)
– other finance costs	**(97)**	(42)		(133)
Foreign exchange gains	**25**	18		40
Realised gains from the sale of associate	**–**	7		7
Share of net (losses)/profits from equity accounted investments	**(54)**	48		26
Profit before tax	**2 617**	4 224	(38)	6 766
Income tax expense	**(807)**	(694)	(16)	(1 214)
Profit for the period	**1 810**	3 530	(49)	5 552
Profit attributable to:				
– ordinary shareholders	**1 773**	3 495	(49)	5 480
– preference shareholders	**37**	35		72
– non-controlling interest	**–**	–		–
	1 810	3 530	(49)	5 552
Earnings per share for profit attributable to ordinary shareholders of the company during the period (cents):				
– basic*	**281.0**	592.6	(53)	914.8
– diluted*	**277.1**	584.7	(53)	902.2

* *December 2014 earnings per share has been restated*

Statement of comprehensive income

for the six months ended 31 December 2015

R million	Group Six months ended December 2015 Unaudited	Group Six months ended December 2014 Unaudited	% change	Group Year ended June 2015 Audited
Profit for the period	**1 810**	3 530		5 552
Items that are or may be reclassified subsequently to profit or loss:				
Change in available-for-sale financial assets	**9**	13		(92)
– unrealised gains	**9**	4		72
– capital gains tax on unrealised gains	**2**	2		(11)
– realised (gains)/losses transferred to profit or loss	**(3)**	8		(188)
– capital gains tax on realised gains/losses	**1**	(1)		35
Currency translation differences	**1 891**	57		492
– unrealised gains	**1 926**	58		504
– deferred tax on unrealised gains	**(35)**	(1)		(12)
Cash flow hedges	**(43)**	47		58
– unrealised gains	**9**	79		143
– tax on unrealised gains	**(1)**	(12)		(23)
– gains recycled to profit or loss	**(61)**	(24)		(75)
– tax on recycled gains	**10**	4		13
Share of other comprehensive income from equity accounted investments	**87**	35		65
– change in available-for-sale financial assets	**9**	4		13
– currency translation differences	**78**	31		52
Other comprehensive income for the period, net of tax	**1 944**	152		523
Total comprehensive income for the period	**3 754**	3 682	2	6 075
Attributable to:				
– ordinary shareholders	**3 717**	3 647	2	6 003
– preference shareholders	**37**	35		72
– non-controlling interest	**–**	–		–
Total comprehensive income for the period	**3 754**	3 682	2	6 075

Headline earnings

for the six months ended 31 December 2015

R million	Group Six months ended December 2015 Unaudited	Group Six months ended December 2014 Unaudited and restated	% change	Group Year ended June 2015 Audited
Normalised headline earnings per share (cents):				
– undiluted	**336.6**	335.9	*	672.2
– diluted	**331.9**	331.4	*	663.0
Headline earnings per share (cents):				
– undiluted	**280.6**	586.6	(52)	882.4
– diluted	**276.7**	578.9	(52)	870.2
The reconciliation between earnings and headline earnings is shown below:				
Net profit attributable to ordinary shareholders	**1 773**	3 495		5 480
Adjusted for:				
– realised (gains)/losses on available-for-sale financial assets net of CGT	**(2)**	7		(153)
– realised gain from sale of associate including deferred tax reversal	**–**	(42)		(42)
Headline earnings	**1 771**	3 460	(49)	5 285
– accrual of dividends payable to preference shareholders	**(1)**	(2)		(1)
– amortisation of intangibles from business combinations net of deferred tax	**97**	89		170
– costs relating to the AIA restructure	**–**	–		87
– deferred tax asset recognised on VitalityHealth assessed losses	**–**	–		(295)
– fair value adjustment to puttable non-controlling interest financial liability	**–**	(1 661)		(1 661)
– finance costs raised on puttable non-controlling interest financial liability	**–**	64		64
– non-controlling interest allocation if no put options	**–**	(42)		(42)
– rebranding and business acquisitions expenses	**199**	73		420
– additional 54.99% share of DiscoveryCard profits	**58**	–		–
Normalised headline earnings	**2 124**	1 981	7	4 027
Weighted number of shares in issue (000's)	**631 079**	589 808	7	598 946
Diluted weighted number of shares (000's)	**639 919**	597 712	7	607 290

* *Less than 1%*

Statement of changes in equity

for the six months ended 31 December 2015

R million	Share capital and share premium	Preference share capital	Share-based payment reserve
	Attributable to equity holders of the Company		
Period ended 31 December 2015			
At beginning of the period	**7 488**	**779**	**319**
Total comprehensive income for the period	**–**	**37**	**–**
Profit for the period	**–**	**37**	**–**
Other comprehensive income	**–**	**–**	**–**
Transactions with owners	**813**	**(37)**	**–**
Increase in treasury shares	**(4)**	**–**	**–**
Proceeds from treasury shares	*****	**–**	**–**
Share issue	**817**	**–**	**–**
Share buy-back	******	**–**	**–**
Dividends paid to preference shareholders	**–**	**(37)**	**–**
Dividends paid to ordinary shareholders	**–**	**–**	**–**
At end of the period	**8 301**	**779**	**319**
Period ended 31 December 2014			
At beginning of the period	2 582	779	319
Total comprehensive income for the period	–	35	–
Profit for the period	–	35	–
Other comprehensive income	–	–	–
Transactions with owners	1	(35)	–
Increase in treasury shares	1	–	–
Dividends paid to preference shareholders	–	(35)	–
Dividends paid to ordinary shareholders	–	–	–
At end of the period	2 583	779	319

1 This relates to the fair value adjustments of available-for-sale financial assets
** Amount is less than R500 000*
*** Amount is R5 666*

	Attributable to equity holders of the Company						
	Available-for-sale investments[1]	Translation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total
	171	**1 373**	**161**	**17 065**	**27 356**	**–**	**27 356**
	18	**1 969**	**(43)**	**1 773**	**3 754**	**–**	**3 754**
	–	**–**	**–**	**1 773**	**1 810**	**–**	**1 810**
	18	**1 969**	**(43)**	**–**	**1 944**	**–**	**1 944**
	–	**–**	**–**	**(575)**	**201**	**–**	**201**
	–	**–**	**–**	**–**	**(4)**	**–**	**(4)**
	–	**–**	**–**	**–**	*****	**–**	*****
	–	**–**	**–**	**–**	**817**	**–**	**817**
	–	**–**	**–**	**–**	******	**–**	******
	–	**–**	**–**	**–**	**(37)**	**–**	**(37)**
	–	**–**	**–**	**(575)**	**(575)**	**–**	**(575)**
	189	**3 342**	**118**	**18 263**	**31 311**	**–**	**31 311**
	250	829	103	12 549	17 411	–	17 411
	17	88	47	3 495	3 682	–	3 682
	–	–	–	3 495	3 530	–	3 530
	17	88	47	–	152	–	152
	–	–	–	(460)	(494)	–	(494)
	–	–	–	–	1	–	1
	–	–	–	–	(35)	–	(35)
	–	–	–	(460)	(460)	–	(460)
	267	917	150	15 584	20 599	–	20 599

Statement of cash flows

for the six months ended 31 December 2015

R million	Group Six months ended December 2015 Unaudited	Group Six months ended December 2014 Unaudited	Group Year ended June 2015 Audited
Cash flow from operating activities	**527**	3 057	3 415
Cash generated by operations	**4 325**	3 296	5 340
Receipt arising from reinsurance contracts	**–**	1 250	1 250
Net purchase of investments held to back policyholder liabilities	**(2 493)**	(2 581)	(5 232)
Working capital changes	**(1 527)**	877	1 711
	305	2 842	3 069
Dividends received	**265**	112	499
Interest received	**483**	411	923
Interest paid	**(73)**	(41)	(131)
Taxation paid	**(453)**	(267)	(945)
Cash flow from investing activities	**(3 994)**	(71)	(2 229)
Net purchase of financial assets	**(1 892)**	121	(1 656)
Purchase of equipment	**(222)**	(126)	(172)
Proceeds from the sale of property and equipment	**–**	–	7
Purchase of intangible assets	**(1 880)**	(208)	(559)
Proceeds from the sale of intangible assets	**–**	–	9
Increase in investment in associate	**–**	(58)	(59)
Disposal of investment in associate	**–**	200	201
Cash flow from financing activities	**4 349**	(1 853)	1 485
Proceeds from rights-issue	**–**	–	5 000
Rights-issue costs	**–**	–	(94)
Proceeds from issuance of ordinary shares	**817**	–	–
Share buy-back	*****	–	–
Dividends paid to ordinary shareholders	**(574)**	(460)	(964)
Dividends paid to preference shareholders	**(37)**	(35)	(72)
Increase in borrowings	**4 162**	1 500	1 992
Repayment of borrowings	**(19)**	(14)	(1 533)
Settlement of puttable non-controlling interest liability	**–**	(2 844)	(2 844)
Net increase in cash and cash equivalents	**882**	1 133	2 671
Cash and cash equivalents at beginning of period	**6 251**	3 520	3 520
Exchange gains on cash and cash equivalents	**245**	5	60
Cash and cash equivalents at end of period	**7 378**	4 658	6 251

* *Amount is R5 666*

Additional information

at 31 December 2015

FINANCIAL ASSETS – INVESTMENTS

R million	Group December 2015 Unaudited	Group June 2015 Audited
Available-for-sale financial assets:	**11 651**	9 454
– Equity securities	**52**	65
– Equity linked notes	**19**	19
– Debt securities	**466**	532
– Money market securities	**2 076**	992
– Mutual funds	**9 038**	7 846
Financial assets at fair value through profit or loss:	**43 515**	40 132
– Equity securities	**10 073**	10 584
– Equity linked notes	**2 483**	2 576
– Debt securities	**8 421**	7 552
– Inflation linked securities	**246**	218
– Money market securities	**1 279**	1 170
– Mutual funds	**21 013**	18 032
	55 166	49 586

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

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

EXCHANGE RATES USED IN THE PREPARATION OF THESE RESULTS

	USD	GBP
31 December 2015		
– Average	**13.97**	**21.25**
– Closing	**15.63**	**23.18**
30 June 2015		
– Average	11.49	18.04
– Closing	12.18	19.19
31 December 2014		
– Average	11.04	17.82
– Closing	11.57	18.03
30 June 2014		
– Average	10.43	17.06
– Closing	10.63	18.17

FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

	31 December 2015			
R million (unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss:				
– Equity securities	10 073	–	–	10 073
– Equity linked notes	–	2 483	–	2 483
– Debt securities	7 718	703	–	8 421
– Inflation linked securities	246	–	–	246
– Money market securities	39	1 240	–	1 279
– Mutual funds	21 013	–	–	21 013
Available-for-sale financial instruments:				
– Equity securities	52	–	–	52
– Equity linked notes	–	19	–	19
– Debt securities	73	393	–	466
– Money market securities	280	1 796	–	2 076
– Mutual funds	9 038	–	–	9 038
Derivative financial instruments at fair value:				
– Hedges	–	719	–	719
– Non-hedges	–	1	–	1
	48 532	7 354	–	55 886
Financial liabilities				
Derivative financial instruments at fair value:				
– Hedges	–	11	–	11
– Non-hedges	–	3	–	3
	–	14	–	14

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

Specific valuation techniques used to value financial instruments in level 2

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

	30 June 2015			
R million (audited)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss:				
– Equity securities	10 584	–	–	10 584
– Equity linked notes	–	2 576	–	2 576
– Debt securities	6 947	605	–	7 552
– Inflation linked securities	218	–	–	218
– Money market securities	157	1 013	–	1 170
– Mutual funds	18 032	–	–	18 032
Available-for-sale financial instruments:				
– Equity securities	65	–	–	65
– Equity linked notes	–	19	–	19
– Debt securities	66	466	–	532
– Money market securities	152	840	–	992
– Mutual funds	7 846	–	–	7 846
Derivative financial instruments at fair value:				
– Hedges	–	824	–	824
– Non-hedges	–	1	–	1
	44 067	6 344	–	50 411
Financial liabilities				
Derivative financial instruments at fair value:				
– Hedges	–	4	–	4
– Non-hedges	–	3	–	3
	–	7	–	7

Segmental information

for the six months ended 31 December 2015

R million	SA Health	SA Life	SA Invest	SA Vitality
Income statement				
Insurance premium revenue	**8**	**5 394**	**4 270**	**–**
Reinsurance premiums	**(1)**	**(988)**	**–**	**–**
Net insurance premium revenue	**7**	**4 406**	**4 270**	**–**
Fee income from administration business	**2 622**	**140**	**592**	**–**
Vitality income	**–**	**–**	**–**	**1 085**
Investment income on assets backing policyholder liabilities	**–**	**138**	**–**	**–**
Finance charge on negative reserve funding	**–**	**–**	**–**	**–**
Inter-segment funding[1]	**–**	**(215)**	**215**	**–**
Net fair value gains on financial assets at fair value through profit or loss	**–**	**113**	**832**	**–**
Net income	**2 629**	**4 582**	**5 909**	**1 085**
Claims and policyholders' benefits	**(1)**	**(2 873)**	**(2 351)**	**–**
Insurance claims recovered from reinsurers	*****	**767**	**–**	**–**
Net claims and policyholders' benefits	**(1)**	**(2 106)**	**(2 351)**	**–**
Acquisition costs	**(3)**	**(896)**	**(355)**	**(33)**
Marketing and administration expenses				
– depreciation and amortisation	**(120)**	**(12)**	**–**	**–**
– other expenses	**(1 444)**	**(736)**	**(222)**	**(1 021)**
Recovery of expenses from reinsurers	**–**	**–**	**–**	**–**
Transfer from assets/liabilities under insurance contracts				
– change in assets arising from insurance contracts	**–**	**755**	**–**	**–**
– change in assets arising from reinsurance contracts	**–**	**11**	**–**	**–**
– change in liabilities arising from insurance contracts	**–**	**171**	**(2 600)**	**–**
– change in liabilities arising from reinsurance contracts	**–**	**(175)**	**–**	**–**
Fair value adjustment to liabilities under investment contracts	**–**	**(1)**	**(143)**	**–**
Share of profits/(losses) from equity accounted investments	**–**	**–**	**–**	**–**
Normalised profit/(loss) from operations	**1 061**	**1 593**	**238**	**31**
Investment income earned on shareholder investments and cash	**60**	**47**	**13**	**7**
Net realised gains on available-for-sale financial assets	**–**	**1**	**2**	**–**
Rebranding and business acquisitions expenses	**–**	**–**	**–**	**–**
Amortisation of intangibles from business combinations	**–**	**–**	**–**	**–**
Finance costs	**(21)**	**(9)**	**–**	**–**
Foreign exchange gains/(losses)	**1**	**–**	**6**	**–**
Profit before tax	**1 101**	**1 632**	**259**	**38**
Income tax expense	**(312)**	**(452)**	**(70)**	**(11)**
Profit for the period	**789**	**1 180**	**189**	**27**

** Amount is less than R500 000*

1 The inter-segment funding of R215 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.

Discovery

UK Health	UK Life	New business development	All other segments	Segment total	IFRS reporting adjustments: UK Life[2]	IFRS reporting adjustments: DUT[3]	IFRS reporting adjustments: Normalised profit adjustments[4]	IFRS total
4 227	1 828	724	–	16 451	(404)	–	–	16 047
(1 013)	(404)	(91)	–	(2 497)	404	–	–	(2 093)
3 214	1 424	633	–	13 954	–	–	–	13 954
24	–	260	–	3 638	–	–	–	3 638
259	30	464	–	1 838	–	–	–	1 838
24	–	29	–	191	–	–	(191)	–
–	(172)	–	–	(172)	172	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	945	–	373	–	1 318
3 521	1 282	1 386	–	20 394	172	373	(191)	20 748
(3 342)	(348)	(470)	–	(9 385)	193	–	–	(9 192)
832	193	63	–	1 855	(193)	–	–	1 662
(2 510)	(155)	(407)	–	(7 530)	–	–	–	(7 530)
(294)	(1 130)	(82)	–	(2 793)	(172)	–	–	(2 965)
(76)	–	(49)	–	(257)	–	–	–	(257)
(1 310)	(596)	(1 151)	(31)	(6 511)	(113)	–	(199)	(6 823)
297	–	–	–	297	–	–	–	297
–	1 528	–	–	2 283	(580)	–	–	1 703
1	6	–	–	18	(6)	–	–	12
463	(12)	(13)	–	(1 991)	6	–	–	(1 985)
–	(580)	–	–	(755)	580	–	–	(175)
–	–	–	–	(144)	–	(373)	–	(517)
1	–	(55)	–	(54)	–	–	–	(54)
93	343	(371)	(31)	2 957	(113)	–	(390)	2 454
3	–	2	31	163	–	–	191	354
–	–	–	–	3	–	–	–	3
(199)	–	–	–	(199)	–	–	199	–
–	–	–	(122)	(122)	–	–	–	(122)
(3)	–	(1)	(63)	(97)	–	–	–	(97)
(96)	–	8	106	25	–	–	–	25
(202)	343	(362)	(79)	2 730	(113)	–	–	2 617
38	(113)	21	(21)	(920)	113	–	–	(807)
(164)	230	(341)	(100)	1 810	–	–	–	1 810

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

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

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

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

Segmental information continued

for the six months ended 31 December 2014

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

** Amount is less than R500 000.*

1 The inter-segment funding of R234 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.

UK Health	UK Life	New business development	All other segments	Segment total	IFRS reporting adjustments			IFRS total
					UK Life[2]	DUT[3]	Normalised profit adjustments[4]	
3 434	1 213	498	–	13 785	(256)	–	–	13 529
(607)	(256)	(95)	–	(1 624)	256	–	–	(1 368)
2 827	957	403	–	12 161	–	–	–	12 161
44	–	147	–	3 082	–	–	–	3 082
156	–	300	–	1 459	–	–	–	1 459
–	–	–	–	1 250	–	–	–	1 250
26	–	10	–	138	–	–	(138)	–
–	(153)	–	–	(153)	153	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	777	–	246	–	1 023
3 053	804	860	–	18 714	153	246	(138)	18 975
(2 146)	(192)	(325)	–	(7 513)	98	–	–	(7 415)
532	98	60	–	1 230	(98)	–	–	1 132
(1 614)	(94)	(265)	–	(6 283)	–	–	–	(6 283)
(275)	(758)	(68)	–	(2 319)	(153)	–	–	(2 472)
(39)	–	(25)	(1)	(179)	–	–	–	(179)
(1 069)	(529)	(783)	(61)	(5 571)	(60)	–	(73)	(5 704)
151	–	63	–	214	–	–	–	214
–	(98)	–	–	825	947	–	–	1 772
39	2	–	–	23	–	–	–	23
(83)	(5)	(13)	–	(2 153)	–	–	–	(2 153)
–	947	–	–	(465)	(947)	–	–	(1 412)
–	–	–	–	(30)	–	(246)	–	(276)
–	–	48	–	48	–	–	–	48
163	269	(183)	(62)	2 824	(60)	–	(211)	2 553
3	–	7	10	74	–	–	138	212
–	–	–	–	(8)	–	–	–	(8)
(46)	–	–	(27)	(73)	–	–	73	–
–	–	–	(113)	(113)	–	–	–	(113)
–	–	–	1 661	1 661	–	–	–	1 661
(1)	–	–	(90)	(106)	–	–	–	(106)
2	–	14	–	18	–	–	–	18
–	–	–	7	7	–	–	–	7
121	269	(162)	1 386	4 284	(60)	–	–	4 224
(14)	(60)	13	56	(754)	60	–	–	(694)
107	209	(149)	1 442	3 530	–	–	–	3 530

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

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

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

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

NEW BUSINESS ANNUALISED PREMIUM INCOME

New business annualised premium income increased 27% for the six months ended 31 December 2015 when compared to the same period in the prior year.

R million	December 2015	December 2014	% change
Discovery Health[1]	**3 826**	2 806	36
Discovery Life	**1 206**	1 151	5
Discovery Invest	**932**	797	17
Discovery Insure	**402**	403	–
Discovery Vitality	**101**	104	(3)
VitalityHealth	**513**	413	24
VitalityLife	**643**	502	28
The Vitality Group	**60**	61	(2)
Ping An Health	**752**	426	77
New business API of Group	**8 435**	6 663	27

1 New business API for Discovery Health at December 2015 includes the take-on of two new in-house schemes.

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

GROSS INFLOWS UNDER MANAGEMENT

Gross inflows under management measures the total funds collected by Discovery. Gross inflows under management increased 15% for the six months ended 31 December 2015 when compared to the same period in the prior year.

R million	December 2015	December 2014	% change
Discovery Health	**27 434**	24 589	12
Discovery Life	**5 534**	4 809	15
Discovery Invest	**7 466**	6 770	10
Discovery Insure	**734**	506	45
Discovery Vitality	**1 085**	1 003	8
VitalityHealth	**4 510**	3 634	24
VitalityLife	**1 858**	1 213	53
The Vitality Group	**474**	300	58
Other partner markets	**240**	139	73
Gross inflows under management	**49 335**	42 963	15
Less: collected on behalf of third parties	**(27 408)**	(24 637)	11
Discovery Health	**(24 804)**	(22 260)	11
Discovery Invest	**(2 604)**	(2 377)	10
Gross income of Group per the segmental information	**21 927**	18 326	20
Gross income is made up as follows:			
– Insurance premium revenue	**16 451**	13 785	19
– Fee income from administration business	**3 638**	3 082	18
– Vitality income	**1 838**	1 459	26
Gross income of Group per the segmental information	**21 927**	18 326	20

NORMALISED PROFIT FROM OPERATIONS

The following table shows the main components of the normalised profit from operations for the six months ended 31 December 2015:

R million	December 2015	December 2014	% change
Discovery Health	**1 061**	954	11
Discovery Life	**1 593**	1 464	9
Discovery Invest	**238**	191	25
Discovery Vitality	**31**	28	11
VitalityHealth	**93**	163	(43)
VitalityLife	**343**	269	28
Normalised profit from established businesses	**3 359**	3 069	9
Development and other segments	**(402)**	(245)	64
Additional 54.99% share of DiscoveryCard profits	**58**	–	
Normalised profit from operations[1]	**3 015**	2 824	7

1 This does not agree to the normalised profit from operations per the segmental information due to the inclusion of the additional 54.99% share of DiscoveryCard profits discussed below.

SIGNIFICANT TRANSACTIONS AFFECTING THE CURRENT RESULTS

Increase in the DiscoveryCard profit share arrangement

Discovery and FirstRand Bank Limited (FRB) currently have a joint arrangement in place that makes a "Discovery" branded FNB credit card (DiscoveryCard) available to the clients within the Discovery Group. In terms of this arrangement, FRB pays Discovery an amount equal to 20% of the profits generated by the DiscoveryCard.

In the period under review, both parties have agreed that Discovery will increase its economic interest in the DiscoveryCard by subscribing for redeemable preference shares in the share capital of FRB. This will entitle Discovery to receive an additional 54.99% of the profits generated by the DiscoveryCard. In December 2015, Discovery paid R1.4 billion to FRB in this regard. The contractual rights under the preference shares were finalised subsequent to 31 December 2015 and the payment has therefore been accounted for as a prepayment in 'Loans and receivables' in the statement of financial position.

Once the preference shares have been issued, Discovery will be entitled to the additional 54.99% profits from the DiscoveryCard effective from 1 July 2015. At 31 December 2015, the after tax profit share in respect of the additional 54.99% has been calculated as R58 million and has been added to Normalised Headline Earnings.

Increase in borrowings

During the prior financial year, Discovery entered into a GBP 100 million term facility with HSBC Bank Plc which would be used to fund the operations of VitalityLife. At 30 June 2015, GBP 26.4 million of the facility was utilised. During the current financial period, Discovery has drawn on the remaining balance of GBP 73.6 million, increasing borrowings by R1.6 billion. Finance charges of R40 million in respect of these borrowings has been recognised in profit or loss.

During the period under review, Discovery has also entered into a short-term bridge loan of R2.6 billion with RMB Limited to fund the subscription of the FRB preference shares discussed above and to further fund its international operations.

Refinancing of BEE transaction by a BEE partner

In December 2005, Discovery concluded a BEE transaction pursuant to which 38 725 909 shares were issued to a consortium of BEE parties. 14 226 181 of these shares were issued to the Discovery Foundation (The Foundation) being one of the BEE consortium members, at R0.001 each, for an initial period of 10 years (initial period).

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

At the end of the initial period,

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

The initial period expired in December 2015 and resulted in the following transactions:

- Discovery repurchased 5 666 134 Discovery shares held by The Foundation at a price of R0.001 per Discovery share.
- The issue to The Foundation by Discovery of 5 666 134 new Discovery shares at a price of R144.22 per Discovery share (representing the 30 day VWAP to 9 December 2015). This increased Share Capital and Share Premium by R817.2 million.

Treasury shares have therefore decreased by 14 226 181.

Increase in cash and cash equivalents

The Discovery Unit Trusts are consolidated into Discovery's results for IFRS purposes. At 31 December 2015, the cash held by the Discovery Balanced fund increased by R1.6 billion to reduce equity exposure in this fund.

OTHER SIGNIFICANT ITEMS IN THESE RESULTS

Share-based payments

Included in marketing and administration expenses, in employee costs, is R245 million (2014: R203 million) in respect of phantom shares and options granted under the employee share incentive schemes, which is expensed in accordance with the requirements of IFRS 2. Discovery has entered into transactions to hedge its exposure to changes in the Discovery share price arising from these schemes. As at 31 December 2015, approximately 91.7% (2014: 92.6%) of this exposure was hedged. Fair value gains of R126 million (2014: R96 million) relating to the hedge were recognised in profit or loss resulting in a net expense to Discovery of R119 million (2014: R107 million).

Taxation

For South African entities that are in a tax paying position, tax has been provided at 28% (2014: 28%) in the financial statements. No deferred tax assets have been recognised on the assessed losses in Discovery Insure and The Vitality Group.

At 30 June 2015, a deferred tax asset of R295 million was raised in respect of the VitalityHealth assessed losses. This approximated 50% of the potential deferred tax asset and was based on forecast taxable income for the next five years. No further asset has been raised in the current results.

Material transactions with related parties

Discovery Health administers the Discovery Health Medical Scheme (DHMS) and provides managed care services for which it charges an administration fee and a managed healthcare fee respectively. These fees are determined on an annual basis and approved by the trustees of DHMS. The fees totalled R2 285 million for the six months ended 31 December 2015 (2014: R2 094 million). Discovery offers the members of DHMS access to the Vitality programme.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss have increased by R3.4 billion due to the sale of Discovery Invest products.

Negative reserve funding

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

The decrease in the negative reserve funding liability relates to the repayment of funding by VitalityLife in the current period.

Deferred tax liability

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

Restatement of earnings per share

In the prior financial year, Discovery raised capital by way of an underwritten renounceable rights issue. This resulted in an increase in capital of R5 billion. Shares in issue increased by 55 555 556 shares to 647 427 946 shares.

When ordinary shares are issued at a discount to the market price, IAS 33 (Earnings per Share) requires that the discount is treated as a bonus given to the shareholders in the form of shares for no consideration and this "bonus" element must be separately taken into account in calculating the weighted average number of shares. Further IAS 33 requires that the "bonus" shares must be added to the previous period in order to reflect the bonus element in the rights issue. This has resulted in a restatement of the prior period's earnings per share calculations for the "bonus" element of 16 065 241 shares.

Cents per share	31 December 2014 Previously reported	31 December 2014 Restated
Weighted number of shares in issue	574 156 946	589 808 415
Diluted weighted number of shares	582 060 251	597 711 720
Earnings per share		
– basic	608.7	592.6
– diluted	600.4	584.7
Headline earnings per share		
– undiluted	602.6	586.6
– diluted	594.4	578.9
Normalised headline earnings per share		
– undiluted	345.0	335.9
– diluted	340.3	331.4

SHAREHOLDER INFORMATION

Directorate

Changes to the Board of Discovery Limited from 1 July 2015 to the date of this announcement are as follows:

- Ms T Slabbert resigned as a non-executive director on 22 October 2015.
- Ms F Khanyile was appointed as a non-executive director on 22 October 2015.
- Mr J Durand resigned as a non-executive director on 13 January 2016.

Dividend policy and capital

The following final dividends were paid during the current period:

- Preference share dividend of 458.699 cents per share, paid on 21 September 2015.
- Ordinary share dividend of 89.0 cents per share, paid on 12 October 2015.

At 31 December 2015, the capital adequacy requirement on the statutory basis for Discovery Life was R549 million (2014: R519 million) and was covered 3.9 times (2014: 3.5 times).

B preference share cash dividend declaration:

On 18 February 2016, the directors declared an interim gross cash dividend of 480.06849 cents (408.05822 cents net of dividend withholding tax) per B preference share for period 1 July 2015 to 31 December 2015. A dividend withholding tax of 15% will be applicable to all shareholders who are not exempt.

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

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Friday, 4 March 2016
Shares commence trading "ex" dividend	Monday, 7 March 2016
Record date	Friday, 11 March 2016
Payment date	Monday, 14 March 2016

B preference share certificates may not be dematerialised or rematerialised between Monday, 7 March 2016 and Friday, 11 March 2016, both days inclusive.

Ordinary share cash dividend declaration:

Notice is hereby given that the directors have declared an interim gross cash dividend of 85.5 cents (72.675 cents net of dividend withholding tax) per ordinary share, out of income reserves for the six month period ended 31 December 2015. A dividend withholding tax of 15% will be applicable to all shareholders who are not exempt.

The issued ordinary share capital at the declaration date is 647 427 946 ordinary shares.

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Friday, 11 March 2016
Shares commence trading "ex" dividend	Monday, 14 March 2016
Record date	Friday, 18 March 2016
Payment date	Tuesday, 22 March 2016

Share certificates may not be dematerialised or rematerialised between Monday, 14 March 2016 and Friday, 18 March 2016, both days inclusive.

ACCOUNTING POLICIES

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

Embedded value statement

for the six months ended 31 December 2015

The embedded value of Discovery consists of the following components:

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

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

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

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

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

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

In November 2014, the following events occurred:

- Prudential Assurance Company (Prudential) agreed to sell its remaining 25% shareholding in Prudential Health Holdings Limited (PHHL) to Discovery Limited for GBP 155 million (R2 790 million). Following the purchase of the remaining 25% in PHHL, PruHealth and PruProtect have been rebranded as VitalityHealth and VitalityLife respectively.
- During the 2011 financial year, put options were granted to the non-controlling interests of PHHL and TVG LLC, entitling the non-controlling interest to sell their interests in the subsidiaries to Discovery at contracted dates at fair value. In November 2014, both these put options lapsed, with the purchase by Discovery of the remaining 25% of PHHL and TVG LLC.
- The HumanaVitality partnership concluded. As a result, Humana purchased The Vitality Group's 25% shareholding in HumanaVitality and The Vitality Group purchased Humana's 25% shareholding in TVG LLC.

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

The 31 December 2015 embedded value results and disclosures were not subjected to an external review or audit.

TABLE 1: GROUP EMBEDDED VALUE

R million	31 December 2015	31 December 2014	% Change	30 June 2015
Shareholders' funds	**31 311**	20 599	52	27 356
Adjustment to shareholders' funds from published basis[1]	**(19 980)**	(16 441)		(17 784)
Adjusted net worth	**11 331**	4 158		9 572
– Free surplus	**5 732**	192		5 188
– Required capital[2]	**5 599**	3 966		4 384
Value of in-force covered business before cost of required capital	**46 700**	42 299		44 006
Cost of required capital	**(1 506)**	(1 003)		(1 283)
Discovery Limited embedded value	**56 525**	45 454	24	52 295
Number of shares (millions)	**644.2**	574.2		629.0
Embedded value per share	**R87.74**	R79.16	11	R83.14
Diluted number of shares (millions)	**646.7**	591.2		646.7
Diluted embedded value per share[3]	**R87.40**	R78.25	12	R82.29

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 R23.18/GBP (June 2015: R19.19/GBP; December 2014: R18.03/GBP):*

R million	*31 December 2015*	*31 December 2014*	*30 June 2015*
Life net assets under insurance contracts	*(14 574)*	*(12 119)*	*(13 208)*
VitalityHealth and VitalityHealth Insurance Limited deferred acquisition costs (net of deferred tax)	*(287)*	*(226)*	*(230)*
VitalityLife receivable relating to the Unemployment Cover benefit (net of deferred tax)	*(50)*	*(43)*	*(44)*
Goodwill and intangible assets (net of deferred tax) relating to the acquisition of Standard Life Healthcare and the Prudential joint venture	*(4 290)*	*(3 274)*	*(3 523)*
Net preference share capital	*(779)*	*(779)*	*(779)*
	(19 980)	*(16 441)*	*(17 784)*

2 *The required capital at December 2015 for Life is R1 098 million (June 2015: R1 114 million; December 2014: R1 037 million), for Health and Vitality is R683 million (June 2015: R642 million; December 2014: R653 million), for VitalityHealth and VitalityHealth Insurance Limited is R2 590 million (June 2015: R1 693 million; December 2014: R1 647 million) and for VitalityLife is R1 228 million (June 2015: R935 million; December 2014: R647 million). For Life, the required capital was set equal to two times the statutory Capital Adequacy Requirement. For Health and Vitality, the required capital was set equal to two times the monthly renewal expense and Vitality benefit cost. For VitalityHealth, the required capital amount was set equal to 1.4 times the Solvency II Pillar 1 Solvency Capital Requirement. For VitalityLife, the required capital was set equal to the UK Solvency I long term insurance capital requirement as per the agreement with Prudential.*

3 *The diluted embedded value per share allows for Discovery's BEE transaction where the impact is dilutive i.e. where the current embedded value per share exceeds the current transaction value.*

Embedded value statement continued

for the six months ended 31 December 2015

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 2015			
Health and Vitality	**16 013**	**(282)**	**15 731**
Life and Invest[1]	**23 119**	**(584)**	**22 535**
VitalityHealth[2]	**5 135**	**(302)**	**4 833**
VitalityLife[2]	**2 433**	**(338)**	**2 095**
Total	**46 700**	**(1 506)**	**45 194**
at 31 December 2014			
Health and Vitality	14 670	(207)	14 463
Life and Invest[1]	22 050	(523)	21 527
VitalityHealth[2]	3 996	(122)	3 874
VitalityLife[2]	1 583	(151)	1 432
Total	42 299	(1 003)	41 296
at 30 June 2015			
Health and Vitality	15 500	(254)	15 246
Life and Invest[1]	22 464	(556)	21 908
VitalityHealth[2]	4 188	(208)	3 980
VitalityLife[2]	1 854	(265)	1 589
Total	44 006	(1 283)	42 723

1 *Included in the Life and Invest value of in-force covered business is R997 million (June 2015: R884 million; December 2014: R800 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 R23.18/GBP (June 2015: R19.19/GBP; December 2014: R18.03/GBP).*

TABLE 3: GROUP EMBEDDED VALUE EARNINGS

	Six months ended		Year ended
R million	31 December 2015	31 December 2014	30 June 2015
Embedded value at end of period	**56 525**	45 454	52 295
Less: Embedded value at beginning of period	**(52 295)**	(43 050)	(43 050)
Increase in embedded value	**4 230**	2 404	9 245
Net change in capital[1]	**(813)**	(1)	–
Dividends paid	**612**	495	1 036
Transfer to hedging reserve	**38**	(41)	(50)
Proceeds from rights-issue	**–**	–	(5 000)
Rights-issue costs	**–**	–	94
Embedded value earnings	**4 067**	2 857	5 325
Annualised return on opening embedded value	**16.2%**	13.7%	12.4%

1 *The net change in capital includes the R817 million increase in share capital and premium associated with the Discovery Foundation BEE Share recapture, as well as an offsetting R4 million decrease from the increase in treasury shares.*

TABLE 4: COMPONENTS OF GROUP EMBEDDED VALUE EARNINGS

R million	Six months ended 31 December 2015 Net worth	Cost of required capital	Value of in-force covered business	Embedded value	Six months ended 31 December 2014 Embedded value	Year ended 30 June 2015 Embedded value
Total profit from new business (at point of sale)	(1 500)	(86)	2 972	**1 386**	1 219	2 614
Profit from existing business						
■ Expected return	2 061	22	147	**2 230**	1 904	3 989
■ Change in methodology and assumptions[1]	955	(35)	(2 102)	**(1 182)**	931	(799)
■ Experience variances	(336)	(20)	391	**35**	505	1 452
Acquisition of Prudential joint venture[2]	–	–	–	**–**	(774)	(774)
Intangibles no longer allocated to minorities[3]	–	–	–	**–**	(765)	(765)
Increase in goodwill and intangibles	(214)	–	–	**(214)**	(90)	(277)
Other initiative costs[4]	(368)	–	6	**(362)**	(211)	(485)
Non-recurring expenses[5]	(254)	–	–	**(254)**	(100)	(488)
Acquisition costs[6]	(28)	–	(1)	**(29)**	(34)	(15)
Finance costs	1	–	–	**1**	(19)	(103)
Foreign exchange rate movements	1 082	(104)	1 278	**2 256**	63	581
Other[7]	30	–	3	**33**	132	169
Return on shareholders' funds[8]	167	–	–	**167**	97	225
Embedded value earnings	1 596	(223)	2 694	**4 067**	2 857	5 325

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 represents the difference between the purchase price and the minority share of PHHL's tangible net asset value at the acquisition date plus 25% of the value in-force and cost of required capital that Discovery purchased in the transaction at the acquisition date.*
3 *This item reflects the unwinding of the goodwill and intangible assets (net of deferred tax) relating to the acquisition of Standard Life Healthcare and the Prudential joint venture allocated to minorities.*
4 *This item reflects Group initiatives including expenses relating to the investment in The Vitality Group, Discovery Partner Markets, Vitality International, once-off expenses in Invest, Discovery Insure, other new business initiatives and unallocated head office costs.*
5 *This item includes rebranding costs, as well as other once-off costs relating to the acquisition of 25% of PHHL.*
6 *Acquisition costs relate to commission paid on Life business and expenses incurred in writing Health and Vitality business that has been written over the period but will only be activated and on risk after the valuation date. These policies are not included in the embedded value or the value of new business and therefore the costs are excluded.*
7 *This item includes the tax benefit that will be obtained as the VitalityHealth DAC and intangible software assets amortise.*
8 *The return on shareholders' funds is shown net of tax and management charges.*

Embedded value statement continued

for the six months ended 31 December 2015

TABLE 5: EXPERIENCE VARIANCES

R million	Health and Vitality Net worth	Health and Vitality Value of in-force	Life and Invest Net worth	Life and Invest Value of in-force	VitalityHealth Net worth	VitalityHealth Value of in-force	VitalityLife Net worth	VitalityLife Value of in-force	Total
Renewal expenses	23	–	27	(5)	(72)	–	30	–	**3**
Other expenses	6	–	–	–	–	–	–	–	**6**
Lapses and surrenders	1	34	(130)	124	–	4	(69)	(0)	**(36)**
Mortality and morbidity	–	–	32	12	(94)	–	14	–	**(36)**
Policy alterations[1]	–	(9)	(219)	107	–	–	(28)	23	**(126)**
Premium and fee income	3	(79)	(73)	103	–	–	–	–	**(46)**
Economic assumptions	–	–	(81)	(33)	–	–	–	–	**(114)**
Commission	–	–	–	–	54	–	–	–	**54**
Tax[2]	(4)	–	120	(146)	(10)	–	–	–	**(40)**
Reinsurance	–	–	–	–	57	–	–	–	**57**
Maintain modelling term[3]	–	127	–	29	–	27	–	–	**183**
Vitality benefits	25	–	–	–	(4)	–	–	–	**21**
Other	28	–	(16)	53	47	–	(3)	(0)	**109**
Total	82	73	(340)	244	(22)	31	(56)	23	**35**

1 *Policy alterations relate to changes to existing benefits at the request of the policyholder.*
2 *The tax variance for Life and Invest arises due to a movement in the deferred tax asset which delays the payment of tax.*
3 *The projection term for Health and Vitality, Group Life and VitalityHealth at 31 December 2015 has not been changed from that used in the 30 June 2015 embedded value calculation. Therefore, an experience variance arises because the total term of the in-force covered business is effectively increased by six months.*

TABLE 6: METHODOLOGY AND ASSUMPTION CHANGES

R million	Health and Vitality Net worth	Health and Vitality Value of in-force	Life and Invest Net worth	Life and Invest Value of in-force	VitalityHealth Net worth	VitalityHealth Value of in-force	VitalityLife Net worth	VitalityLife Value of in-force	Total
Modelling changes	–	–	(14)	(24)	–	–	(89)	70	**(57)**
Expenses	–	–	–	–	–	–	–	–	**–**
Lapses	–	–	–	–	–	–	–	–	**–**
Mortality and morbidity	–	–	–	–	–	1	–	–	**1**
Benefit enhancements	–	–	(1)	(12)	–	–	–	–	**(13)**
Vitality benefits	–	3	–	–	–	–	–	–	**3**
Tax	–	–	–	–	–	91	–	48	**139**
Economic assumptions[1]	–	58	16	(1 174)	–	6	(55)	54	**(1 095)**
Premium and fee income	–	–	–	–	–	–	–	–	**–**
Reinsurance[2]	–	–	512	(498)	238	(281)	33	(78)	**(74)**
Other[3]	–	–	(14)	21	–	(38)	329	(384)	**(86)**
Total	–	61	499	(1 687)	238	(221)	218	(290)	**(1 182)**

1 *The economic assumption change is due to the increase in the risk discount rate following the increase in the South African risk-free rate since 30 June 2015 for Health and Vitality and Discovery Life, and the reduction in the risk discount rate following the decrease in the UK risk-free rate since 30 June 2015 for VitalityHealth and VitalityLife.*
2 *For Life and VitalityHealth, the reinsurance item primarily relates to the impact of the financing reinsurance arrangements.*
3 *For VitalityLife, the other item relates to the margin reset as per the accounting policy.*

TABLE 7: EMBEDDED VALUE OF NEW BUSINESS

R million	Six months ended 31 December 2015	Six months ended 31 December 2014	% change	Year ended 30 June 2015
Health and Vitality				
Present value of future profits from new business at point of sale	**270**	269		606
Cost of required capital	**(11)**	(9)		(22)
Present value of future profits from new business at point of sale after cost of required capital	**259**	260	(0)	584
New business annualised premium income[1]	**1 102**	1 032	7	2 829
Life and Invest				
Present value of future profits from new business at point of sale[2]	**651**	680		1 268
Cost of required capital	**(30)**	(29)		(56)
Present value of future profits from new business at point of sale after cost of required capital	**621**	651	(5)	1 212
New business annualised premium income[3]	**1 366**	1 239	10	2 490
Annualised profit margin[4]	**5.6%**	6.2%		5.9%
Annualised profit margin excluding Invest business	**9.1%**	9.5%		9.7%
VitalityHealth				
Present value of future profits from new business at point of sale	**34**	22		45
Cost of required capital	**(15)**	(6)		(20)
Present value of future profits from new business at point of sale after cost of required capital[5]	**19**	16	19	25
New business annualised premium income (Rand)[6]	**559**	345	62	833
Annualised profit margin[4]	**0.6%**	0.7%		0.6%
VitalityLife[7]				
Present value of future profits from new business at point of sale	**517**	311		850
Cost of required capital	**(30)**	(17)		(57)
Present value of future profits from new business at point of sale after cost of required capital[5]	**487**	294	66	793
New business annualised premium income (Rand)	**553**	391	41	967
Annualised profit margin[4]	**11.5%**	9.5%		11.0%

1 Health new business annualised premium income is the gross contribution to the medical schemes. The new business annualised premium income shown above excludes premiums in respect of members who join an existing employer where the member has no choice of medical scheme, as well as premiums in respect of new business written during the period but only activated after 31 December 2015.
The total Health and Vitality new business annualised premium income written over the period was R4 028 million (June 2015: R5 622 million; December 2014: R2 910 million).

2 Included in the Life and Invest embedded value of new business is R48 million (June 2015: R60 million; December 2014: R32 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 or Discovery Retirement Optimiser 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.
The new business annualised premium income of R1 366 million (June 2015: R2 490 million; December 2014: R1 239 million) (single premium APE: R555 million (June 2015: R1 005 million; December 2014: R481 million)) shown above excludes automatic premium increases and servicing increases in respect of existing business. The total Life new business annualised premium income written over the period, including automatic premium increases of R498 million (June 2015: R887 million; December 2014: R457 million) and servicing increases of R274 million (June 2015: R500 million; December 2014: R252 million) was R2 138 million (June 2015: R3 877 million; December 2014: R1 948 million) (single premium APE: R579 million (June 2015: R1 048 million; December 2014: R502 million)). Single premium business is included at 10% of the value of the single premium.
Policy alterations, including Discovery Retirement Optimisers added to existing Life Plans, are shown in Table 5 as experience variances and not included as new business.
Term extensions on existing contracts are not included as new business.

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

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

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 2015.

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

Embedded value statement continued

for the six months ended 31 December 2015

TABLE 8: EMBEDDED VALUE ECONOMIC ASSUMPTIONS

	31 December 2015	31 December 2014	30 June 2015
Beta coefficient	**0.55**	0.33	0.55
Equity risk premium (%)	**3.5**	3.5	3.5
Risk discount rate (%)			
Health and Vitality	**12.175**	10.155	10.675
Life and Invest	**12.925**	10.155	11.175
VitalityHealth	**3.96**	3.03	4.05
VitalityLife	**5.005**	4.22	5.045
Rand/GB Pound Exchange Rate			
Closing	**23.18**	18.03	19.19
Average	**21.25**	17.82	18.04
Medical inflation (%)			
South Africa	**10.0**	8.0	8.25
Expense inflation (%)			
South Africa	**7.0**	5.0	5.25
United Kingdom	**3.1**	3.0	3.3
Pre-tax investment return (%)			
South Africa – Cash	**9.50**	7.50	7.75
– Life and Invest Bonds	**11.00**	9.00	9.25
– Health and Vitality Bonds	**10.25**	9.00	8.75
– Equity	**14.50**	12.50	12.75
United Kingdom – VitalityHealth investment return	**2.04**	1.87	2.12
– VitalityLife investment return	**3.08**	3.26	3.12
Income tax rate (%)			
South Africa	**28**	28	28
United Kingdom – Long Term[1]	**18**	20	20
Projection term			
– Health and Vitality	**20 years**	20 years	20 years
– Life	**No cap**	40 years	No cap
– Group Life	**10 years**	10 years	10 years
– VitalityHealth	**20 years**	20 years	20 years

1 The United Kingdom Corporation tax rate assumed is 20% in 2016 to 2017, 19% in 2018 to 2020, and 18% beyond that.

The Discovery Limited embedded value is calculated based on a risk discount rate using the CAPM approach with specific reference to the Discovery beta coefficient. From 30 June 2015 the methodology to derive the assumed beta was amended. Under this revised methodology, the assumed beta is set with reference to the observed beta calculated using daily returns over a long time period. The beta will continue to be calculated with reference to the ALSI. The resulting assumed beta will be fixed at this level unless the observed beta calculated using daily returns over a long time period departs significantly from this assumption at the financial year end. As beta values reflect the historic performance of share prices relative to the market they may not allow fully for non-market related and non-financial risk. Investors may want to form their own view on an appropriate allowance for these risks which have not been modelled explicitly.

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

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

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

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

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

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

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

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

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

Sensitivity to the embedded value assumptions

The embedded value has been calculated in accordance with the Actuarial Society of South Africa's Advisory Practice Note APN 107: Embedded Value Reporting. The risk discount rate, calculated in accordance with the practice note, 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

TABLE 9: EMBEDDED VALUE SENSITIVITY

R million	Adjusted net worth	Health and Vitality: Value of in-force	Health and Vitality: Cost of required capital
Base	11 331	16 013	(282)
Impact of:			
Risk discount rate +1%	11 331	15 048	(310)
Risk discount rate -1%	11 331	17 088	(249)
Lapses -10%	11 331	16 577	(296)
Interest rates -1%[1]	11 331	16 112	(270)
Equity and property market value -10%	11 277	16 013	(282)
Equity and property return +1%	11 331	16 013	(282)
Renewal expenses -10%	11 331	17 670	(261)
Mortality and morbidity -5%	11 331	16 013	(282)
Projection term +1 year	11 331	16 281	(286)

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

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

TABLE 10: VALUE OF NEW BUSINESS SENSITIVITY

R million	Health and Vitality: Value of new business	Health and Vitality: Cost of required capital
Base	270	(11)
Impact of:		
Risk discount rate +1%	244	(12)
Risk discount rate -1%	297	(10)
Lapses -10%	287	(12)
Interest rates -1%[1]	274	(10)
Equity and property return +1%	269	(11)
Renewal expense -10%	317	(10)
Mortality and morbidity -5%	269	(11)
Projection term +1 year	276	(11)
Acquisition costs -10%	279	(11)

1 All economic assumptions were reduced by 1%.

modelled explicitly. The sensitivity of the embedded value and the embedded value of new business at 31 December 2015 to changes in the risk discount rate is included in the tables below.

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

	Life and Invest		VitalityHealth		VitalityLife[2]			
	Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	**Embedded value**	% change
	23 119	(584)	5 135	(302)	2 433	(338)	**56 525**	
	20 686	(506)	4 786	(451)	2 200	(424)	**52 360**	(7)
	26 157	(684)	5 526	(134)	2 726	(235)	**61 526**	9
	25 055	(628)	5 879	(322)	2 577	(381)	**59 792**	6
	23 522	(628)	5 489	(311)	3 093	(403)	**57 935**	2
	22 868	(584)	5 135	(302)	2 433	(338)	**56 220**	(1)
	23 349	(584)	5 135	(302)	2 433	(338)	**56 755**	0
	23 410	(582)	5 724	(302)	2 398	(340)	**59 048**	4
	24 522	(571)	6 820	(302)	2 426	(336)	**59 621**	5
	23 180	(584)	5 194	(303)	2 433	(338)	**56 908**	1

	Life and Invest		VitalityHealth		VitalityLife			
	Value of new business	Cost of required capital	Value of new business	Cost of required capital	Value of new business	Cost of required capital	**Value of new business**	% change
	651	(30)	34	(15)	517	(30)	**1 386**	
	517	(25)	13	(23)	480	(38)	**1 156**	(17)
	815	(34)	56	(7)	561	(20)	**1 658**	20
	779	(31)	73	(16)	592	(33)	**1 639**	18
	684	(31)	54	(16)	445	(33)	**1 367**	(1)
	675	(29)	33	(15)	517	(30)	**1 409**	2
	669	(29)	59	(15)	536	(30)	**1 497**	8
	711	(28)	114	(15)	532	(29)	**1 543**	11
	653	(29)	37	(16)	517	(30)	**1 397**	1
	711	(29)	49	(16)	567	(30)	**1 520**	10

Transfer secretaries Computershare Investor Services Pty Limited
(Registration number: 2004/003647/07)
Ground Floor, 70 Marshall Street, Johannesburg 2001
PO Box 61051, Marshalltown 2107

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

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

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

155 West Street, Sandton 2146 PO Box 786722, Sandton 2146
Tel: (011) 529 2888 Fax: (011) 539 8003

Directors MI Hilkowitz (Chairperson), A Gore* (Chief Executive Officer), HL Bosman, Dr BA Brink, SE de Bruyn Sebotsa, JJ Durand[1], SB Epstein (USA), R Farber* (Financial Director), HD Kallner*, F Khanyile[2], NS Koopowitz*, Dr TV Maphai, HP Mayers*, TT Mboweni, Dr A Ntsaluba*, AL Owen (UK), A Pollard*, JM Robertson*, T Slabbert[3], B Swartzberg*, SV Zilwa

*Executive [1] Resigned 13 January 2016 [2] Appointed 22 October 2015 [3] Resigned 22 October 2015

Interim financial results
- prepared by L Capon CA(SA) and L van Jaarsveldt CA(SA)
- supervised by R Farber CA(SA), FCMA

Embedded value statement
- prepared by M Curtis FASSA, FIA
- supervised by A Rayner FASSA, FIA

STUDIO⑤

Discovery

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