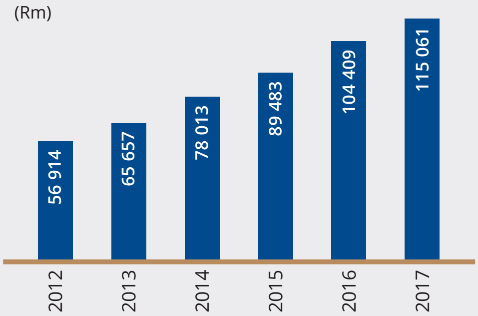
Audited results

and cash dividend declaration

for the year ended 30 June 2017

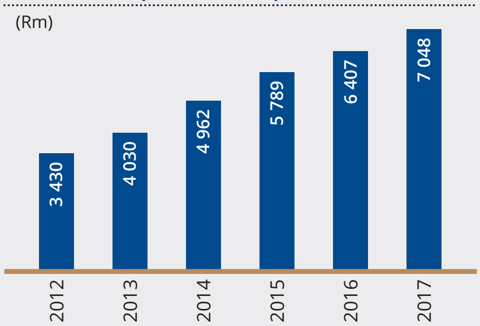
RESULTS AND COMMENTARY

Gross inflows under management



Gross inflows under management
R115 061 million
10% ↑

Normalised profit from operations



Normalised profit from operations
R7 048 million
10% ↑

Core new business API
R16 993 million
16% ↑

Discovery now operating in **16 countries** serving close to **10 million clients**

COMMENTARY

Robust Group performance and progression towards Ambition 2018

Discovery produced a robust result for the financial year ended 30 June 2017. The core new business annualised premium income (API) of the Group increased by 16% to R16 993 million[1], and normalised profit from operations increased by 10% to R7 048 million. In constant currency terms, core new business annualised premium income grew by 22% to R17 871 million and normalised profit from operations grew 12% to R7 190 million. This demonstrates an acceleration in new business growth with strong operating profit gains, notwithstanding undertaking significant new initiatives.

The combination of Discovery's unique 'why' and pioneering 'how' – its core purpose of making people healthier, and its Vitality Shared-Value Insurance model – justified investment over the period in Discovery's stated 2018 Ambition, articulated in three overarching criteria:

1. Financial and social impact, measured against R10 billion in normalised profit from operations, with growth of CPI +10%; return on capital of risk-free +10%; and making 10 million people around the world healthier.
2. A unique foundation, comprising a sophisticated data and science capability; an aspirational global Vitality brand; exceptional talent, particularly in terms of critical skills; and an entrenched values-based culture.
3. A portfolio of businesses that are
   1) insurgent in their markets
   2) offer sustainable products that meet complex consumer needs
   3) generate excellent member engagement
   4) deliver superior actuarial dynamics
   5) offer an exceptional service ecosystem.

The Group saw substantive progress against all three criteria over the period.

In terms of financial impact, the nature of the Vitality Shared-Value Insurance model means that businesses are grown organically, guided by an earnings growth methodology that targets growth in normalised profit from operations of CPI +10% with a substantive investment in new initiatives (set at 10% of earnings). The emerging businesses that evolve from these new initiatives have a targeted profit growth of CPI +30%; and ultimately develop into established businesses, which are set a targeted profit growth of CPI +5%.

In terms of our earnings growth target of CPI +10%, earnings grew by 12% in constant currency terms during the period. The established businesses achieved the target of CPI +5% in constant currency terms, while the emerging businesses tracked above target showing a decrease in operating losses of 61%, although not yet significantly contributing to earnings. Further, 8% of earnings was invested in new initiatives, which include Discovery's intent to enter banking, the planned UK investment business, a commercial offering in Discovery Insure, and Discovery Invest's Umbrella Fund offering.

This organic growth engine is supported by a three-tiered capital structure, which allows for regulated entities to be well capitalised, funding of all planned initiatives, while maintaining an additional liquidity buffer of between R1 billion and R2 billion. This was both true at the end of the financial year and throughout the five-year planning period. The required return of risk free +10% continues to serve as a guide for the organisation's strategic decision-making and capital allocation. On an aggregate basis, the Group exceeded this target, both cumulatively to date, and for the expected return on current new business and approved initiatives.

In terms of social impact, the Group is now operating in 16 countries through seven insurers, serving close to 10 million clients, with over 150 000 new members added each month. Engagement levels over the period were excellent, with most markets experiencing Vitality take-up in excess of 40%. Engaged Vitality members continue to exhibit better health outcomes, driving and savings behaviour, while the launch of Vitality Active Rewards has seen a dramatic increase in physical activity levels globally.

The period witnessed several important investments in developing **Discovery's unique foundation**.

In terms of science and data, the Global Vitality Network – Discovery's central insurance platform to advance the Vitality Shared-Value Insurance model – developed new IP in product, programme, and partnership constructs that can be deployed across Discovery's markets. For example, work is underway with Columbia University to promote healthy longevity at older ages by developing age-specific preventive recommendations. Further, the Global Vitality Network has invested in a centralised data capability that houses the richest set of mortality, morbidity, and engagement data globally (40 million life years of behaviour-linked data), which is used to optimise value-creation in pricing and product design.

With reference to brand consolidation, work was done to advance Discovery's leadership to own the category of Shared-Value Insurance, with the Shared Value Initiative and FSG (a leading social change consulting firm) releasing a white paper in the period that highlighted Discovery and its insurance partners as global pioneers of Shared-Value Insurance.

1 Core new business API excludes Discovery Health's take-on of new closed schemes and gross revenue in respect of Vitality Group

Discovery also invested significantly in strengthening recruitment processes and leadership development to meet its criteria of attracting and retaining the best people within a values-based culture. Over the period, an average of 1 500 candidates were screened per open position. Work also continued to achieve an inclusive and transformed workforce, prioritising the recruitment, development and retention of black South Africans in senior positions.

Discovery's portfolio of businesses all achieved at least four out of the five criteria. Over the period, dedicated work was done to address the gaps in requirements, including:

1. in the SA primary market – further integration and expansion of the model to cater for different client segments across the income spectrum
2. in the UK primary market – focus on business quality with targeted growth
3. in Vitality Group – expansion of the Vitality Shared-Value Insurance model
4. in Ping An Health – building the leading specialist health insurance company in China.

BUSINESS-SPECIFIC PERFORMANCE: SOUTH AFRICA

Discovery Health

Both Discovery Health and Discovery Health Medical Scheme (DHMS) delivered excellent results. During the financial year, Discovery Health's normalised operating profit increased by 11% to R2 505 million; new business annualised premium income increased by 18% to R6 109 million (excluding take-on of new closed schemes); and lives under management reached 3.39 million. In addition, DHMS announced a highly competitive contribution increase of 7.9%, and ended the 2016 calendar year with a total surplus in excess of R1.3 billion.

The period witnessed continued success in growing the closed scheme client base. Discovery Health was awarded contracts to administer the SAB, Glencore and Netcare Medical Aid Schemes, bringing its restricted scheme client base to 18 with over 635 000 lives under management.

Furthermore, notwithstanding significant claims-cost pressures, Discovery Health's substantial investment in risk management systems ensured that DHMS ended the calendar year with a substantial total surplus, taking capital reserves to 26.3% of gross contributions, well above the statutory level of 25%. This excellent performance has continued into 2017, and DHMS is now in the strongest financial position in its history, with membership of 2.76 million lives at year-end.

Discovery Health increased its investment in the healthcare system and digital assets over the period. This included further expansion in the HomeCare, pharmacy distribution and wellness operations; and enhanced value-based contracting with health professionals, and with hospital centres of excellence. Discovery Health's investment in technology and expertise to address medical scheme fraud led to recoveries of over R405 million for its client medical schemes during the 2016 calendar year.

The business also made significant new investments in big data analytics and artificial intelligence capabilities. This included the launch of DrConnect, a health information and virtual consultation app, as well as enhancements to the functionality and coverage of Discovery HealthID – the country's leading electronic health record system, in regular use by over 1.37 million members.

Several innovative changes were developed over the year for the 2018 DHMS and Discovery Health launch. This included DHMS's benefit changes to enhance cover for young families; and Discovery Health's significant enhancements to its Gap Cover and Primary Care products, as well as Discovery for Corporates – a fully integrated employee assistance offering for corporate clients.

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

Discovery Life

Discovery Life performed strongly over the period. New business annualised premium income increased by 17% to R2 175 million, and earnings increased by 10% to R3 588 million, despite the impact of higher-than-expected claims. Market share increased to 29.7%[2] in the retail affluent protection segment, while the value of new business grew by 17%.

From a new business annualised premium income perspective, Group Risk increased by 96%, facilitated by the provision of risk cover to a large employer group; and Individual Life new business increased by 12% to R1 970 million. While claims were above expectation over the period, the long-term historic claims experience remained below embedded value expectation. Lapses were at 83% of expectation on a policy count basis, emphasising the value of integration; and PayBack of R986 million was paid to policyholders – demonstrating the impact of the Vitality Shared-Value Insurance model.

Work done over the period for Discovery Life's 2018 launch saw the introduction of a suite of products that address needs at each stage of clients' lives, aimed at driving further market share and new business. This included the Smart Life Plan, tailored for young professionals; the Global Education Protector, for young families; and the Purple Life Plan, aimed at meeting the protection needs of high net-worth clients.

2 NMG Life Insurance New Sales Report Q2 2017

Discovery Invest

Discovery Invest saw a solid performance during the period. Operating profit grew 12% to R744 million and assets under administration grew by 14% to R69.5 billion, with 76% of linked funds in Discovery Funds. New business growth was 3%, in a challenging market. Discovery Balanced Fund was in the top six retail net flow takers in each quarter over the past two years and significant inroads were made in the retirement annuity, preservation, and income space.

Discovery Invest's application of the Shared-Value Insurance model has resulted in clients starting to save on average two years earlier for retirement, and withdrawing 2% less from their living annuity in retirement. This is projected to result in them having, on average, a 50% greater fund value 10 years into retirement[3]. Since inception, the business has given clients in excess of R5.7 billion in Shared-Value benefits. It also reduced lapse rates to below expectation through a combination of the model and a dedicated conservation strategy.

Since the launch of Shared-Value retirement savings and linked annuities products in September 2015, Discovery Invest's share of flows in the Linked Investment Service Provider industry has increased from 4.4% (in Q3 2015) to 20.7% (in Q2 2017) for retirement savings, and from 2.3% (in Q3 2015) to 6.8% (in Q2 2017) for linked annuities. Following the success of this focused retirement strategy, the business has extended the Vitality Shared-Value Insurance model to discretionary investment vehicles. Discovery Invest also launched a hedge fund, share portfolio porting capabilities, as well as a more accessible offering for young professionals.

Discovery Insure

Discovery Insure's performance exceeded expectation. The business achieved a cumulative profit in the second half of the financial year and reduced its combined ratio by 8.4%. Gross written premium increased by 32% to R2.1 billion, driven by new business annualised premium income growth of 19%, to R895 million. This has brought the inforce annualised premium to just under R3 billion, reflecting the rapid scaling of the business, and support for mainstream adoption of telematics insurance.

The Vitality Shared-Value Insurance model has continued to prove itself through better upfront selection, ongoing risk improvement through incentives, and the retention of good risk, which has improved the quality of the book over time.

During the period, the Vitality Shared-Value Insurance model was extended to the car rental industry through a partnership with Avis (Avis SafeDrive), giving its clients access to Discovery Insure's sensor and app technology, and rewards for good driving. This solution aims to curb the high accident rate in the car rental industry, which is twice as high as private vehicles[4].

In addition, Discovery Insure's 2018 launch focused on enhancing rewards for all drivers, and particularly the safest drivers. This included an enhanced rewards and partner platform for Vitality Active Rewards and the launch of a new Diamond status. The launch also focused on particular market segments, introducing a Young Adult benefit to reduce risks for drivers under 30, and replacing the current Executive Plan with the Purple Plan for high net-worth clients.

Discovery Card

The Discovery Card business exceeded expectation over the period, with the FNB Card JV profits growing by 16% to R355 million.

Net interest income increased by 9.7%, and non-interest revenue grew by 10%. Discovery's credit card base is less sensitive to current negative market conditions due to a substantially better risk profile. The credit loss rate to advances was 1.7%, compared to the market average of 6% for tier 1 credit providers.

In the past year turnover spend on Discovery Card was up 6.2% versus that of the market, which was up 1.7%. Debt balances (advances) were up 5.4%, compared with 2.5% in the market.

Intent to enter banking

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

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

Significant progress has been made in developing the system infrastructure, operating processes, regulatory engagement and the customer value proposition, with a number of key milestones having already been reached.

Subject to the above, Discovery anticipates launching its proposed banking offering during 2018.

BUSINESS-SPECIFIC PERFORMANCE: UNITED KINGDOM

Discovery's UK business delivered a robust performance despite the challenging economic landscape. For the combined business, new business increased by 1% to £118 million[5], insured lives approached one million, and operating profit grew by 10% to £44.4 million[6].

3 Discovery Invest experience Sept 2015 – Dec 2016
4 Avis claims data July 2014 – June 2015
5 -18% in Rand terms to R2 040 million
6 -11% in Rand terms to R768 million

The Vitality product enhancements launched at the end of the 2016 calendar year resonated strongly with the market, and precipitated significant behaviour change in the areas of physical activity and nutrition. The HealthyFood benefit with Ocado, which provides a discount of up to 25% on healthy food items, resulted in a 19% increase of healthy food in members' baskets during the first six months of the benefit. Similarly, the inclusion of Apple Watch in the Vitality Active Rewards benefit has driven a 42% increase in the number of physical activity points earned by members taking up the Apple Watch benefit in the six months from December 2016 to June 2017. Vitality UK plans to launch a suite of investment products in 2018, subject to regulatory approval.

VitalityHealth

VitalityHealth's new business, loss ratio, Vitality engagement, and operating profit all recorded best-ever performance levels during the financial year. Operating profit grew by 89%, at £16.4 million[7]; and new business grew by 4% to £56.2 million[8], with continued strong growth in the more profitable individual market (+9%) and direct channels (+13%).

Individual new business comprised 50% of overall new business, demonstrating the powerful selection effect of the Vitality Shared-Value Insurance model in this market. From a claims perspective, the combined effect of Vitality on member selection, retention and risk; the purchasing power achieved through the Healthcare Purchasing Alliance; and a re-engineering of the claims management process, contributed to the excellent claims performance over the period.

The period was further characterised by the strong delivery of the Vitality Shared-Value Insurance model. From a member perspective, the value of Vitality rewards and healthy activity discounts increased to £62.7 million from £48.6 million, with 46% of engaged individual members saving more than half their premium.

VitalityLife

The UK's decision to leave the European Union created volatility at the beginning of the financial year, with this environment of uncertainty, and low long-term interest rates, leading to a decrease of 1% in new business to £61.8 million[9] and a decrease of 11% in normalised operating profit to £28.1 million[10]. The prior period margin releases, driven by the fall in interest rates, led to a reduction of c.25% in the current period earnings. Consequently, over the second half of the financial year, VitalityLife re-configured its products and strategy to right-size the business for this new operating environment. The new structure is robust in the current environment with upside should interest rates increase, which is the expectation considering the current negative yield environment.

The fundamentals of the VitalityLife business remained strong over the period, with claims ratios significantly below expectation. The steady and continued adoption of the Vitality Shared-Value Insurance model (Vitality-linked products comprise c.63% of new business), has been a key driver of the increasing value of new business margin, which improved to 36%.

VitalityLife's continued product innovation saw a drive towards more capital-efficient products with a focus on business mix. Over the period, VitalityLife further embedded wellness into its product range, with the most notable addition being the Wellness Optimiser that rewards clients for improving their health status.

VitalityLife also launched Vitality Nurse, a proprietary range of medical screening and nursing services aimed at significantly improving the underwriting process. Vitality Nurse offers screening by a clinically qualified nurse in clients' homes in as little as two hours from the time of submission of the application.

BUSINESS-SPECIFIC PERFORMANCE: VITALITY GROUP

Over the period, Vitality Group launched Vitality Shared-Value Insurance in six new markets worldwide, bringing the total number of countries with a Vitality Shared-Value Insurance offering to 16, including the primary markets in South Africa and the United Kingdom. Vitality membership grew 20% to 1.25 million with Vitality-integrated insurance in-force premiums increasing by 226% to R2.7 billion year-on-year. Vitality Group's operating result improved by 39% (excluding Ping An Health), with the expectation that the business will reach profitability within the next financial year.

Vitality Group's strategy remained focused on expanding the Vitality Shared-Value Insurance model to more insurers globally, integrating with more products from existing partners, and maximising penetration and engagement. To this end, Vitality Group partnered with Hannover Re to market Vitality Active, a mobile-only version of Vitality Shared-Value Insurance focused primarily on Vitality Active Rewards. Vitality Active is both faster and more economical to launch than traditional Vitality, making it attractive to smaller life and health insurance markets. So far, three insurers have signed Letters of Intent.

In addition, Vitality Shared-Value Insurance expanded to Canada, Germany, Austria and France, with standalone Vitality Active Rewards going live in Hong Kong, Malaysia, the Philippines, Singapore, Sri Lanka and Vietnam.

In terms of systems assets, Vitality Group has invested in the development of Vitality One – a cost-effective and configurable technology chassis for rolling out Vitality Shared-Value Insurance to new and existing health and life insurance markets, allowing for more rapid deployment of innovation globally.

The period also saw market recognition of partner insurers: AIA Australia won the Customer Innovation award for Vitality at the Financial Services Life Insurance Awards, and AIA Hong Kong received five gold awards at Marketing Magazine's Mob-Ex Awards 2017 for the Active Rewards campaign. The French insurance magazine *L'Argus de l'Assurance* presented Generali Vitality the Innovation of the Year Award for the Corporate Life Business segment.

7 52% in Rand terms to R283 million
8 -16% in Rand terms to R972 million
9 -20% in Rand terms to R1 068 million
10 -28% in Rand terms to R485 million

John Hancock Vitality and Manulife Vitality

The John Hancock and Manulife partnerships continued to gain traction in North America. John Hancock Vitality-linked policies grew significantly on both a policy count and premium basis, due to more US States approving the Vitality-integrated insurance product, strengthening the term and unit-linked offerings, increased broker adoption resulting from immersive Vitality training programmes, and resonance of the Apple Watch benefit.

Manulife anticipates accelerated growth and penetration in Canada with a broader set of insurance products linked with Vitality, and the launch of Active Rewards with Apple Watch later this year.

AIA Vitality

During the period, AIA Vitality, the most mature Vitality Group partner market, launched stand-alone Active Rewards campaigns to market Vitality and create up-sell opportunities in Hong Kong, Malaysia, the Philippines, Singapore, Sri Lanka, and Vietnam.

myOwn, a new Australian health insurer and joint venture between Discovery, AIA Australia, and GMHBA Ltd, launched in July 2017. myOwn offers health insurance integrated with AIA Vitality through various channels, including direct and online aggregators; and will soon also integrate with AIA Life to create a compelling product offering combining both health and life insurance with Vitality.

Generali Vitality

Generali Vitality's launch in Germany received excellent media and market responses and has resulted in high sales volumes, large policy premium sizes and good client engagement. The product is distributed via numerous channels including the tied agency channel of Generali Lebensversicherung, independent brokers Dialog Lebensversicherung and CosmosDirekt online. Deutsche Vermögensberatung, Germany's largest independent financial advisor network, will launch Vitality in January 2018.

Generali France's corporate Vitality Shared-Value Insurance offering has seen a significant number of corporates activating Vitality; with exciting prospects for the Generali Austria Vitality offering, which commences sales from 1 October 2017.

BUSINESS-SPECIFIC PERFORMANCE: PING AN HEALTH

Ping An Health performed excellently over the period, with membership growing by 428% to 3.7 million. Its annualised new business net premium increased 103% to RMB 1.6 billion year-on-year, driven largely by the success of the Internet product, with operating profit in Rand terms increasing by 66%.

As part of Ping An Health's strategy to reach more cities in China, a new branch has opened in the Chengdu region which has a population of more than 14 million. Further provincial level branches and several smaller branches are planned to open in 2018.

Growth projections for Ping An Health's revenue remain high, largely as a result of Ping An Group's broad distribution footprint. After receiving an "A-" credit rating from AM Best Credit Rating Company, Ping An Health qualified for a reinsurance licence from the Chinese Insurance Regulatory Commission in August 2017. This is a significant step in Ping An Health's development plan and its continuing growth.

Vitality continues to gain traction throughout Ping An. Vitality Active Rewards with Ping An Life has reached 2.4 million members in only 12 months, with high member engagement levels. In addition, Ping An Health's Vitality programme has been upgraded and is live on three products.

PROSPECTS FOR GROWTH

A sophisticated capital management structure supports the organic growth methodology to ensure Discovery's financial strength, sufficient financial flexibility through cash generation, and production of above-target returns. Discovery foresees continued strong performance from existing businesses going forward; and spend on new initiatives to reduce over time, absent of the intent to enter banking. The combination of the above positions Discovery for continued growth in the future.

On behalf of the Board

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

Sandton
15 September 2017

Statement of financial position
at 30 June 2017

R million	Group 2017 Audited	Group 2016 Audited
ASSETS		
Assets arising from insurance contracts	**37 691**	33 815
Property and equipment	**1 210**	1 052
Intangible assets including deferred acquisition costs	**5 096**	4 584
Goodwill	**2 107**	2 447
Investment in equity-accounted investees	**979**	491
Financial assets		
– Available-for-sale investments	**7 298**	9 794
– Investments at fair value through profit or loss	**58 948**	50 948
– Derivatives	**392**	590
– Loans and receivables including insurance receivables	**6 470**	4 891
Deferred income tax	**1 337**	824
Current income tax asset	**34**	97
Reinsurance contracts	**263**	410
Cash and cash equivalents	**9 098**	8 634
Total assets	**130 923**	118 577
EQUITY		
Capital and reserves		
Ordinary share capital and share premium	**8 306**	8 300
Perpetual preference share capital	**779**	779
Other reserves	**346**	1 934
Retained earnings	**22 859**	19 594
	32 290	30 607
Non-controlling interest	*****	*
Total equity	**32 290**	30 607
LIABILITIES		
Liabilities arising from insurance contracts	**52 477**	44 673
Liabilities arising from reinsurance contracts	**6 746**	4 894
Financial liabilities		
– Negative reserve funding	**847**	4 248
– Borrowings at amortised cost	**8 524**	5 400
– Investment contracts at fair value through profit or loss	**14 867**	13 514
– Derivatives	**135**	49
– Trade and other payables	**7 369**	8 563
Deferred income tax	**6 963**	6 035
Deferred revenue	**291**	291
Employee benefits	**191**	169
Current income tax liability	**223**	134
Total liabilities	**98 633**	87 970
Total equity and liabilities	**130 923**	118 577

* *Amount is less than R500 000.*

Income statement
for the year ended 30 June 2017

R million	Group 2017 Audited	Group 2016 Audited	% change
Insurance premium revenue	**33 533**	33 074	
Reinsurance premiums	**(3 837)**	(4 316)	
Net insurance premium revenue	**29 696**	28 758	
Fee income from administration business	**8 372**	7 651	
Vitality income	**4 267**	3 844	
Investment income	**758**	745	
– investment income earned on shareholder investments and cash	**150**	265	
– investment income earned on assets backing policyholder liabilities	**608**	480	
Net realised gains on available-for-sale financial assets	**8**	5	
Net fair value gains on financial assets at fair value through profit or loss	**2 108**	2 720	
Net income	**45 209**	43 723	3%
Claims and policyholders' benefits	**(19 237)**	(19 163)	
Insurance claims recovered from reinsurers	**2 816**	3 586	
Recapture of reinsurance	**(858)**	–	
Net claims and policyholders' benefits	**(17 279)**	(15 577)	
Acquisition costs	**(5 237)**	(6 185)	
Marketing and administration expenses	**(15 652)**	(14 789)	
Amortisation of intangibles from business combinations	**(171)**	(275)	
Recovery of expenses from reinsurers	**2 985**	1 346	
Transfer from assets/liabilities under insurance contracts	**(3 362)**	(1 745)	
– change in assets arising from insurance contracts	**5 346**	5 591	
– change in assets arising from reinsurance contracts	**(109)**	41	
– change in liabilities arising from insurance contracts	**(6 625)**	(6 250)	
– change in liabilities arising from reinsurance contracts	**(1 974)**	(1 127)	
Fair value adjustment to liabilities under investment contracts	**(248)**	(695)	
Profit from operations	**6 245**	5 803	8%
Gain from business combination	**–**	8	
Finance costs	**(478)**	(293)	
Foreign exchange (losses)/gains	**(21)**	18	
Share of net profits/(losses) from equity-accounted investments	**26**	(66)	
Profit before tax	**5 772**	5 470	6%
Income tax expense	**(1 278)**	(1 740)	27%
Profit for the year	**4 494**	3 730	20%
Profit attributable to:			
– ordinary shareholders	**4 411**	3 655	21%
– preference shareholders	**83**	75	
– non-controlling interest	*****	*	
	4 494	3 730	20%
Earnings per share for profit attributable to ordinary shareholders of the company during the year (cents):			
– undiluted	**684.2**	573.1	19%
– diluted	**683.6**	568.8	20%

* *Amount is less than R500 000.*

Statement of other comprehensive income

for the year ended 30 June 2017

R million	Group 2017 Audited	Group 2016 Audited	% change
Profit for the year	**4 494**	3 730	
Items that are or may be reclassified subsequently to profit or loss:			
Change in available-for-sale financial assets	**17**	4	
– unrealised gains	**29**	24	
– capital gains tax on unrealised gains	**(6)**	(16)	
– realised gains transferred to profit or loss	**(8)**	(5)	
– capital gains tax on realised gains	**2**	1	
Currency translation differences	**(1 575)**	62	
– unrealised gains	**(1 581)**	86	
– tax on unrealised gains	**6**	(24)	
Cash flow hedges	**33**	(195)	
– unrealised (losses)/gains	**159**	(129)	
– tax on unrealised losses/gains	**(25)**	14	
– gains recycled to profit or loss	**(123)**	(95)	
– tax on recycled gains	**22**	15	
Share of other comprehensive (loss)/income from equity-accounted investments	**(58)**	39	
– change in available-for-sale financial assets	**(1)**	(11)	
– currency translation differences	**(57)**	50	
Other comprehensive loss for the year, net of tax	**(1 583)**	(90)	
Total comprehensive income for the year	**2 911**	3 640	(20%)
Attributable to:			
– ordinary shareholders	**2 828**	3 565	(21%)
– preference shareholders	**83**	75	
– non-controlling interest	*****	*	
Total comprehensive income for the year	**2 911**	3 640	(20%)

* *Amount is less than R500 000.*

Headline earnings

for the year ended 30 June 2017

R million	Group 2017 Audited	Group 2016 Audited	% change
Normalised headline earnings per share (cents):			
– undiluted	**722.2**	676.3	7%
– diluted	**721.5**	671.1	8%
Headline earnings per share (cents):			
– undiluted	**683.1**	571.1	20%
– diluted	**682.5**	566.7	20%
The reconciliation between earnings and headline earnings is shown below:			
Net profit attributable to ordinary shareholders	**4 411**	3 655	
Adjusted for:			
– gains from business combination	**–**	(8)	
– gain on disposal of property and equipment	**(1)**	(2)	
– realised gains on available-for-sale financial assets net of CGT	**(6)**	(4)	
Headline earnings	**4 404**	3 641	21%
– accrual of dividends payable to preference shareholders	**(1)**	(4)	
– additional 54.99% share of DiscoveryCard profits	**–**	86	
– amortisation of intangibles from business combinations net of deferred tax	**154**	224	
– rebranding and business acquisitions expenses	**99**	365	
Normalised headline earnings	**4 656**	4 312	8%
Weighted number of shares in issue (000's)	**644 651**	637 608	
Diluted weighted number of shares (000's)	**645 236**	642 534	

Statement of changes in equity

for the year ended 30 June 2017

R million	Share capital and share premium	Preference share capital	Share-based payment reserve
	Attributable to equity holders of the Company		
Year ended 30 June 2017			
At beginning of year	**8 300**	**779**	**319**
Total comprehensive income/(loss) for the year	**–**	**83**	**–**
Profit for the year	**–**	**83**	**–**
Other comprehensive income/(losses)	**–**	**–**	**–**
Transactions with owners	**6**	**(83)**	**(5)**
Increase in treasury shares	**(4)**	**–**	**–**
Delivery of treasury shares	**11**	**–**	**–**
Share buy-back	**(1)**	**–**	**–**
Employee share option schemes:			
– Share schemes cancelled	**–**	**–**	**(19)**
– Value of employee services	**–**	**–**	**14**
Dividends paid to preference shareholders	**–**	**(83)**	**–**
Dividends paid to ordinary shareholders	**–**	**–**	**–**
At end of year	**8 306**	**779**	**314**
Year ended 30 June 2016			
At beginning of year	7 488	779	319
Total comprehensive income/(loss) for the year	–	75	–
Profit for the year	–	75	–
Other comprehensive income/(losses)	–	–	–
Transactions with owners	812	(75)	–
Increase in treasury shares	(5)	–	–
Proceeds from treasury shares	*	–	–
Share issue	817	–	–
Share issue costs	*	–	–
Share buy-back	*	–	–
Dividends paid to preference shareholders	–	(75)	–
Dividends paid to ordinary shareholders	–	–	–
At end of year	8 300	779	319

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

Attributable to equity holders of the Company						
Available-for-sale investments[1]	Foreign currency translation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total
164	**1 485**	**(34)**	**19 594**	**30 607**	*	**30 607**
16	**(1 632)**	**33**	**4 411**	**2 911**	*	**2 911**
–	–	–	**4 411**	**4 494**	*	**4 494**
16	**(1 632)**	**33**	–	**(1 583)**	*	**(1 583)**
–	–	–	**(1 146)**	**(1 228)**	–	**(1 228)**
–	–	–	–	**(4)**	–	**(4)**
–	–	–	**(11)**	–	–	–
–	–	–	**1**	–	–	–
–	–	–	**12**	**(7)**	–	**(7)**
–	–	–	–	**14**	–	**14**
–	–	–	–	**(83)**	–	**(83)**
–	–	–	**(1 148)**	**(1 148)**	–	**(1 148)**
180	**(147)**	**(1)**	**22 859**	**32 290**	*	**32 290**
171	1 373	161	17 065	27 356	*	27 356
(7)	112	(195)	3 655	3 640	*	3 640
–	–	–	3 655	3 730	*	3 730
(7)	112	(195)	–	(90)	*	(90)
–	–	–	(1 126)	(389)	–	(389)
–	–	–	–	(5)	–	(5)
–	–	–	–	*	–	*
–	–	–	–	817	–	817
–	–	–	–	*	–	*
–	–	–	–	*	–	*
–	–	–	–	(75)	–	(75)
–	–	–	(1 126)	(1 126)	–	(1 126)
164	1 485	(34)	19 594	30 607	*	30 607

Statement of cash flows

for the year ended 30 June 2017

R million	Group 2017 Audited	Group 2016 Audited
Cash flow from operating activities	**(832)**	985
Cash generated by operations	**9 672**	8 481
Net purchase of investments held to back policyholder liabilities[1]	**(7 084)**	(9 597)
Working capital changes	**(4 146)**	1 699
	(1 558)	583
Dividends received	**197**	171
Interest received	**1 711**	1 478
Interest paid	**(437)**	(277)
Taxation paid	**(745)**	(970)
Cash flow from investing activities	**15**	(2 428)
Net disposal of financial assets[2]	**2 125**	286
Purchase of property and equipment	**(239)**	(465)
Proceeds from disposal of property and equipment	**5**	20
Purchase of software and other intangible assets	**(1 353)**	(2 253)
Proceeds from the disposal of intangible assets	**7**	4
Increase in investment in associate	**(530)**	–
Purchase of businesses	**–**	(20)
Cash flow from financing activities	**1 913**	4 009
Proceeds from issuance of ordinary shares	**–**	817
Share buy-back	*****	*
Share issue costs	**–**	*
Dividends paid to ordinary shareholders	**(1 152)**	(1 130)
Dividends paid to preference shareholders	**(83)**	(75)
Increase in borrowings	**3 514**	7 608
Repayment of borrowings	**(366)**	(3 211)
Net increase in cash and cash equivalents	**1 096**	2 566
Cash and cash equivalents at beginning of year	**8 614**	6 251
Exchange losses on cash and cash equivalents	**(613)**	(203)
Cash and cash equivalents at end of year	**9 097**	8 614
Reconciliation to statement of financial position		
Cash and cash equivalents	**9 098**	8 634
Bank overdraft included in borrowings at amortised cost	**(1)**	(20)
Cash and cash equivalents at end of year	**9 097**	8 614
1 Net purchase of investments held to back policyholder liabilities	**(7 084)**	(9 597)
Purchase of investments held to back policyholder liabilities	**(32 104)**	(20 098)
Disposal of investments held to back policyholder liabilities	**25 020**	10 501
2 Net disposal of financial assets	**2 125**	286
Purchase of financial assets	**(14 083)**	(14 409)
Disposal of financial assets	**16 208**	14 695

* *Amount is less than R500 000.*

Additional information

at 30 June 2017

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.

	30 June 2017			
R million	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss:				
– Equity securities	24 069	–	–	24 069
– Equity linked notes	–	2 557	–	2 557
– Debt securities	11 815	462	–	12 277
– Inflation linked securities	386	–	–	386
– Money market securities	590	5 628	–	6 218
– Mutual funds	13 441	–	–	13 441
Available-for-sale financial instruments:				
– Equity securities	145	–	–	145
– Equity linked notes	–	17	–	17
– Debt securities	94	147	–	241
– Inflation linked securities	5	–	–	5
– Money market securities	642	1 588	–	2 230
– Mutual funds	4 660	–	–	4 660
Derivative financial instruments at fair value:				
– Hedges	–	354	–	354
– Non-hedges	–	38	–	38
	55 847	10 791	–	66 638
Financial liabilities				
Derivative financial instruments at fair value:				
– Hedges	–	29	–	29
– Non-hedges	–	106	–	106
	–	135	–	135

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

FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS CONTINUED

Specific valuation techniques used to value financial instruments in level 2

– Discovery has invested in equity linked notes offered by international banks in order to back certain unit-linked contract liabilities. The calculation of the daily value of the equity linked investments is made by the provider of the note. Discovery has procedures in place to ensure that these prices are correct. Aside from the daily reasonableness checks versus similar funds and movement since the prior day's price, the fund values are calculated with reference to a specific formula or index, disclosed to the policyholders, which is recalculated by Discovery in order to check if the price provided by the provider is correct.

– If a quoted market price is not available on a recognised stock exchange or from a broker for non-exchange traded financial instruments, the fair value of the instrument is estimated by the asset managers, using valuation techniques including the use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions.

– The fair value of the hedged derivatives is calculated by the issuers of those instruments, as follows:

(a) The fair value of call options is calculated on a Black-Scholes model.

(b) The fair value of the return swaps is calculated by discounting the future cash flows of the instruments.

(c) The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

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

EXCHANGE RATES USED IN THE PREPARATION OF THESE RESULTS

	USD	GBP
30 June 2017		
– Average	**13.61**	**17.29**
– Closing	**13.12**	**17.03**
30 June 2016		
– Average	14.60	21.44
– Closing	14.73	19.78

Segmental information
for the year ended 30 June 2017

R million	SA Health	SA Life	SA Invest	SA Vitality
Income statement				
Insurance premium revenue	16	9 993	11 515	–
Reinsurance premiums	(2)	(1 838)	–	–
Net insurance premium revenue	14	8 155	11 515	–
Fee income from administration business	6 314	26	1 677	–
Vitality income	–	–	–	2 472
Investment income earned on assets backing policyholder liabilities	–	431	38	–
Finance charge on negative reserve funding	–	–	–	–
Inter-segment funding[1]	–	(573)	573	–
Net fair value gains on financial assets at fair value through profit or loss	–	476	1 317	–
Net income	6 328	8 515	15 120	2 472
Claims and policyholders' benefits	(1)	(6 241)	(6 800)	–
Insurance claims recovered from reinsurers	1	1 365	–	–
Recapture of reinsurance	–	–	–	–
Net claims and policyholders' benefits	–	(4 876)	(6 800)	–
Acquisition costs	–	(1 565)	(1 022)	(89)
Marketing and administration expenses				
– depreciation and amortisation	(303)	(15)	–	–
– other expenses	(3 520)	(1 521)	(663)	(2 333)
Recovery of expenses from reinsurers	–	–	–	–
Transfer from assets/liabilities under insurance contracts				
– change in assets arising from insurance contracts	–	3 577	–	–
– change in assets arising from reinsurance contracts	–	(4)	–	–
– change in liabilities arising from insurance contracts	–	(124)	(5 867)	–
– change in liabilities arising from reinsurance contracts	–	(397)	–	–
Fair value adjustment to liabilities under investment contracts	–	(2)	(24)	–
Share of net profits from equity-accounted investments	–	–	–	–
Normalised profit/(loss) from operations	2 505	3 588	744	50
Investment income earned on shareholder investments and cash	55	26	21	17
Net realised gains on available-for-sale financial assets	–	1	7	–
Rebranding and business acquisitions expenses	–	–	–	–
Amortisation of intangibles from business combinations	–	–	–	–
Finance costs	(49)	(8)	–	–
Foreign exchange losses	–	–	(8)	–
Profit before tax	2 511	3 607	764	67
Income tax expense	(685)	(1 008)	(214)	(20)
Profit for the year	1 826	2 599	550	47

1 The inter-segment funding of R573 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.

	UK Health	UK Life	All other segments	Segment total	IFRS reporting adjustments			IFRS total
					UK Life[2]	DUT[3]	Normalised profit adjustments[4]	
	7 040	3 617	2 076	34 257	(724)	–	–	33 533
	(1 335)	(1 183)	(203)	(4 561)	724	–	–	(3 837)
	5 705	2 434	1 873	29 696	–	–	–	29 696
	24	–	331	8 372	–	–	–	8 372
	538	94	1 163	4 267	–	–	–	4 267
	15	18	106	608	–	–	(608)	–
	–	(43)	–	(43)	43	–	–	–
	–	–	–	–	–	–	–	–
	–	(109)	–	1 684	–	424	–	2 108
	6 282	2 394	3 473	44 584	43	424	(608)	44 443
	(4 376)	(740)	(1 426)	(19 584)	347	–	–	(19 237)
	1 125	407	265	3 163	(347)	–	–	2 816
	(858)	–	–	(858)	–	–	–	(858)
	(4 109)	(333)	(1 161)	(17 279)	–	–	–	(17 279)
	(574)	(1 744)	(200)	(5 194)	(43)	–	–	(5 237)
	(214)	(6)	(161)	(699)	–	–	–	(699)
	(2 533)	(1 431)	(2 548)	(14 549)	(103)	(202)	(99)	(14 549)
	1 566	1 419	–	2 985	–	–	–	2 985
	–	1 406	–	4 983	363	–	–	5 346
	(111)	8	–	(107)	(2)	–	–	(109)
	(25)	(14)	(35)	(6 065)	2	–	(562)	(6 625)
	–	(1 214)	–	(1 611)	(363)	–	–	(1 974)
	–	–	–	(26)	–	(222)	–	(248)
	1	–	25	26	–	–	–	26
	283	485	(607)	7 048	(103)	–	(1 269)	5 676
	2	6	23	150	–	–	608	758
	–	–	–	8	–	–	–	8
	(91)	–	(8)	(99)	–	–	99	–
	–	–	(171)	(171)	–	–	–	(171)
	(2)	(1)	(418)	(478)	–	–	–	(478)
	–	–	(13)	(21)	–	–	–	(21)
	192	490	(1 194)	6 437	(103)	–	(562)	5 772
	(21)	(119)	124	(1 943)	103	–	562	(1 278)
	171	371	(1 070)	4 494	–	–	–	4 494

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

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

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

4 *Normalised profit adjustments:*
Investment income on assets backing policyholder liabilities is included as part of the normalised profit from operations in the segmental disclosure, but is included together with shareholder investment income for IFRS purposes. Rebranding and business acquisitions expenses are excluded from normalised profit from operations, but are included in marketing and administration expenses for IFRS purposes.
The accounting impact of the recognition of a deferred tax asset arising from the Discovery Life Individual Policyholder Fund ('IPF'), has been excluded from normalised profit from operations for segmental purposes.

Segmental information continued

for the year ended 30 June 2016

Audited and restated

R million	SA Health	SA Life Restated[2]	SA Invest Restated[2]	SA Vitality
Income statement				
Insurance premium revenue	16	8 974	10 968	–
Reinsurance premiums	(1)	(2 014)	–	–
Net insurance premium revenue	15	6 960	10 968	–
Fee income from administration business	5 582	17	1 541	–
Vitality income	–	–	–	2 253
Investment income earned on assets backing policyholder liabilities	–	320	29	–
Finance charge on negative reserve funding	–	–	–	–
Inter-segment funding[1]	–	(452)	452	–
Net fair value gains on financial assets at fair value through profit or loss	–	285	1 638	–
Net income	5 597	7 130	14 628	2 253
Claims and policyholders' benefits	(1)	(5 670)	(5 741)	–
Insurance claims recovered from reinsurers	1	1 658	–	–
Net claims and policyholders' benefits	–	(4 012)	(5 741)	–
Acquisition costs	–	(1 489)	(981)	(82)
Marketing and administration expenses				
– depreciation and amortisation	(253)	(23)	–	–
– other expenses	(3 079)	(1 410)	(567)	(2 127)
Recovery of expenses from reinsurers	–	–	–	–
Transfer from assets/liabilities under insurance contracts				
– change in assets arising from insurance contracts	–	3 429	–	–
– change in assets arising from reinsurance contracts	–	17	–	–
– change in liabilities arising from insurance contracts	–	(15)	(6 556)	–
– change in liabilities arising from reinsurance contracts	–	(354)	–	–
Fair value adjustment to liabilities under investment contracts	–	(2)	(118)	–
Share of net profits/(losses) from equity-accounted investments	–	–	–	–
Normalised profit/(loss) from operations	2 265	3 271	665	44
Investment income earned on shareholder investments and cash	90	77	19	14
Net realised gains on available-for-sale financial assets	–	1	4	–
Rebranding and business acquisitions expenses	–	–	–	–
Gain from business combination	–	–	–	–
Amortisation of intangibles from business combinations	–	–	–	–
Finance costs	(37)	(15)	–	–
Foreign exchange gains/(losses)	–	–	(1)	–
Profit before tax	2 318	3 334	687	58
Income tax expense	(646)	(925)	(192)	(16)
Profit for the year	1 672	2 409	495	42

1 The inter-segment funding of R452 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.

				IFRS reporting adjustments			
UK Health	UK Life	All other segments	Segment total	UK Life[3]	DUT[4]	Normalised profit adjustments[5]	IFRS total
8 530	3 854	1 558	33 900	(826)	–	–	33 074
(2 030)	(884)	(213)	(5 142)	826	–	–	(4 316)
6 500	2 970	1 345	28 758	–	–	–	28 758
41	–	470	7 651	–	–	–	7 651
561	67	963	3 844	–	–	–	3 844
62	–	69	480	–	–	(480)	–
–	(632)	–	(632)	632	–	–	–
–	–	–	–	–	–	–	–
–	59	–	1 982	–	738	–	2 720
7 164	2 464	2 847	42 083	632	738	(480)	42 973
(6 357)	(781)	(1 043)	(19 593)	430	–	–	(19 163)
1 771	436	150	4 016	(430)	–	–	3 586
(4 586)	(345)	(893)	(15 577)	–	–	–	(15 577)
(617)	(2 218)	(166)	(5 553)	(632)	–	–	(6 185)
(197)	(1)	(117)	(591)	–	–	–	(591)
(2 637)	(1 264)	(2 372)	(13 456)	(214)	(163)	(365)	(14 198)
686	660	–	1 346	–	–	–	1 346
–	1 035	–	4 464	1 127	–	–	5 591
6	10	15	48	(7)	–	–	41
366	(17)	(35)	(6 257)	7	–	–	(6 250)
–	354	–	–	(1 127)	–	–	(1 127)
–	–	–	(120)	–	(575)	–	(695)
1	–	(67)	(66)	–	–	–	(66)
186	678	(788)	6 321	(214)	–	(845)	5 262
7	14	44	265	–	–	480	745
–	–	–	5	–	–	–	5
(365)	–	–	(365)	–	–	365	–
–	–	8	8	–	–	–	8
–	–	(275)	(275)	–	–	–	(275)
(7)	(18)	(216)	(293)	–	–	–	(293)
(30)	–	49	18	–	–	–	18
(209)	674	(1 178)	5 684	(214)	–	–	5 470
29	(237)	33	(1 954)	214	–	–	(1 740)
(180)	437	(1 145)	3 730	–	–	–	3 730

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

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

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

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

4 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.

5 Investment income on assets backing policyholder liabilities is included as part of the normalised profit from operations in the segmental disclosure, but is included together with shareholder investment income for IFRS purposes. Rebranding and business acquisitions expenses are excluded from normalised profit from operations, but are included in marketing and administration expenses for IFRS purposes.

NEW BUSINESS ANNUALISED PREMIUM INCOME

R million	June 2017	June 2016	% change
Discovery Health – DHMS	**5 157**	4 558	13%
Discovery Health – Closed Schemes[1]	**952**	629	51%
Discovery Life[2]	**2 175**	1 866	17%
Discovery Invest[2]	**2 496**	2 413	3%
Discovery Insure[3]	**895**	749	19%
Discovery Vitality	**167**	162	3%
VitalityHealth	**972**	1 161	(16%)
VitalityLife	**1 068**	1 332	(20%)
Ping An Health	**3 111**	1 732	80%
Core new business API of Group	**16 993**	14 602	16%
New Closed Schemes[1]	**623**	1 392	(55%)
New business API of Group including new Closed Schemes	**17 616**	15 994	10%
Gross revenue Vitality Group[4]	**634**	512	24%
Total new business API and other new business	**18 250**	16 506	11%

1 *The new business API for Closed Schemes includes additional lives on existing closed schemes. The new business API for New Closed Schemes includes contracted new business API and business in the first twelve months of on-boarding. Closed Schemes are restricted to certain employers and industries.*
2 *The comparatives have been restated to include the Discovery Retirement Optimiser (DRO) in the Discovery Invest new business API which was previously included in the Discovery Life new business API.*
3 *The comparative for Discovery Insure has been restated to only include first year servicing, and is net of indirect taxes.*
4 *Vitality Group new business includes gross recurring and lump sum revenues earned by Vitality Group and specifically excludes fees collected for administrative and implementation services.*

In the past two years, Discovery Health has brought on a number of new Closed Schemes, of varying sizes, resulting in large fluctuations in the new business annualised premium income in the year of acquisition. By excluding the new business annualised premium income for these new schemes, hence reducing the volatility caused, the new business annualised premium income for Discovery increased 16% for the year ended 30 June 2017, when compared to the same period in the prior year.

Calculation of new business annualised premium income (API)

New business API is calculated at 12 times the monthly premium for new recurring premium policies and 10% of the value of new single premium policies. It also includes both automatic premium increases and servicing increases on existing policies. The amounts exclude indirect taxes and the comparatives have been restated where necessary.

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

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

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

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

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

GROSS INFLOWS UNDER MANAGEMENT

Gross inflows under management measures the total funds collected by Discovery. Gross inflows under management increased 10% for the year ended 30 June 2017 when compared to the same period in the prior year.

R million	June 2017	June 2016	% change
Discovery Health	**68 226**	59 303	15%
Discovery Life[1]	**10 019**	8 991	11%
Discovery Invest[1]	**19 461**	17 818	9%
Discovery Insure	**2 099**	1 583	33%
Discovery Vitality	**2 472**	2 253	10%
VitalityHealth	**7 602**	9 132	(17%)
VitalityLife	**3 711**	3 921	(5%)
All other businesses	**1 471**	1 408	4%
Gross inflows under management	**115 061**	104 409	10%
Less: collected on behalf of third parties	**(68 165)**	(59 014)	16%
Discovery Health	**(61 896)**	(53 705)	15%
Discovery Invest	**(6 269)**	(5 309)	18%
Gross income of Group per the segmental information	**46 896**	45 395	3%
Gross income is made up as follows:			
– Insurance premium revenue	**34 257**	33 900	1%
– Fee income from administration business	**8 372**	7 651	9%
– Vitality income	**4 267**	3 844	11%
Gross income of Group per the segmental information[2]	**46 896**	45 395	3%

1 The comparatives have been restated to include the Discovery Retirement Optimiser (DRO) inflows in Discovery Invest. This was previously reported under Discovery Life.
2 The appreciation of the rand over the period had a negative impact of 6% on Gross income of the Group.

NORMALISED PROFIT FROM OPERATIONS

The following table shows the main components of the normalised profit from operations for the year ended 30 June 2017:

R million	June 2017	June 2016	% change
Discovery Health	**2 505**	2 265	11%
Discovery Life[1]	**3 588**	3 271	10%
Discovery Invest[1]	**744**	665	12%
Discovery Vitality	**50**	44	14%
VitalityHealth	**283**	186	52%
VitalityLife	**485**	678	(28%)
Additional 54.99% share of DiscoveryCard after tax profit	**140**	121	16%
– Included in profit or loss in 'All other segments'	**140**	35	
– included in normalised headline earnings	**–**	86	
Normalised profit from established businesses	**7 795**	7 230	8%
All other segments (excluding additional 54.99% share of DiscoveryCard after tax profit)	**(747)**	(823)	9%
– Emerging businesses	**(170)**	(439)	61%
– Development and other segments	**(577)**	(384)	(50%)
Normalised profit from operations[2]	**7 048**	6 407	10%

1 The comparatives have been restated to include the Discovery Retirement Optimiser (DRO) profits in Discovery Invest. This was previously reported under Discovery Life.
2 The comparative figure does not agree to the normalised profit from operations per the segmental information due to the inclusion of the additional 54.99% share of DiscoveryCard after tax profit of R86 million, which is adjusted for in Normalised headline earnings and not included in earnings.

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

Development and other segments include costs of start-up businesses and expenses incurred to investigate new products and markets. Start-up costs include costs in relation to the bank, the planned UK investment business, a commercial offering in Discovery Insure, and an Umbrella Fund offering in Discovery Invest. Head office costs are also included in this segment.

SIGNIFICANT TRANSACTIONS AFFECTING THE CURRENT RESULTS

Increase in borrowings

United Kingdom borrowings

During the past two financial years, Discovery entered into term facilities totalling GBP 150 million, of which GBP 120 million was utilised by the end of June 2016. In the current financial year, Discovery utilised the remaining GBP 30 million of its facilities. These borrowings have been used to fund the new business acquisition costs incurred by VitalityLife. These costs were previously funded by The Prudential Assurance Company Limited (Prudential) and disclosed as Negative Reserve Funding in the Statement of financial position.

Discovery repaid GBP 7.5 million of this facility on 30 November 2016 and 31 May 2017 respectively, as per the agreed terms (2016: GBP 7.5 million). The balance owing at 30 June 2017 amounts to GBP 127.5 million (R2 174 million) (2016: GBP 112.5 million (R2 226 million)).

Interest rates on these facilities are floating, linked to 3 month LIBOR, payable quarterly in arrears. Finance charges of R50 million (2016: R60 million) in respect of these borrowings have been recognised in profit or loss.

South African borrowings

During the current financial year, Discovery utilised an additional R2 billion of its bank syndicated loan programme entered into in June 2016. The amount outstanding under this programme totals R5 billion (2016: R3 billion).

The additional 5 year term facility of R2 billion, has the following profile:

Interest*	Maturity date	Amount (R million)
fixed at 10.39% per annum	30 September 2021	375
fixed at 10.31% per annum	15 December 2021	450
linked to 3 month JIBAR, (currently 9.77% per annum)	10 March 2022	175
fixed at 10.20% per annum	17 March 2022	800
fixed at 10.23% per annum	16 May 2022	200
		2 000

* *Interest is payable quarterly in arrears.*

- Furthermore, Discovery Central Services, a subsidiary of the Discovery Group, concluded a 10 year loan facility agreement of R650 million, of which R495 million was utilised in the current financial year. Interest rates on the utilised amount is fixed at a weighted average rate of 11.44% per annum, with capital and interest repayable in instalments over the duration of the loan facility.
- On 30 June 2017, R500 million was raised in the form of unsecured Investment Notes with a 5 year term, on which interest accrues at a floating margin linked to 3 month JIBAR. Interest and capital are repayable on 30 June 2022.
- The Group entered into various finance leases during the current financial year in the ordinary course of business, totalling a net increase of R209 million.

Finance charges of R368 million (2016: R155 million) in respect of these South African borrowings have been recognised in profit or loss.

Negative reserve funding

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

In terms of the level premium reinsurance treaty that VitalityLife entered into, the reinsurer is required to place a security deposit with Prudential to reduce counterparty risk. At 30 June 2017, Prudential held GBP 147 million (2016: GBP 85 million) as a security deposit. The contractual arrangement in respect of the business written on the Prudential license is accounted for as a reinsurance contract under IFRS 4 and as a result, the 'deposit back' held by Prudential has been disclosed as a reduction of the negative reserve funding liability. The corresponding liability to the reinsurer has been accounted for in Trade and other payables.

The decrease in the negative reserve funding liability in the current financial year, relates to the repayment of funding by VitalityLife as well as an increase in the amount of deposit back held by Prudential.

Expiry of BEE transaction

In September 2005, Discovery concluded a BEE transaction pursuant to which 38 725 909 shares were issued to a consortium of BEE parties. 1 106 455 of these shares were issued to the Maphai SPV being one of the BEE consortium members for an initial period of 11 years (initial period). The shares were issued at R0.001 each, with a subscription consideration of R1.72 per share.

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). As a result, 1 017 939 of the shares issued to the Maphai SPV were treated as treasury shares.

The BEE parties committed to utilise any dividend or capital distributions made by Discovery to acquire additional Discovery shares in the market within three months of the date of any distributions. These additional shares were also treated as treasury shares.

At the end of the initial period,

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

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

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

As a result of this transaction, treasury shares have decreased by 1 200 554 shares, representing shares funded through this transaction as well additional shares purchased by the Maphai SPV utilising dividend distributions. The delivery of treasury shares purchased by the Maphai SPV using dividend distributions received in the past, resulted in an increase in Share Premium of R11 million.

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

Consolidation of Discovery Unit Trusts

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

- Cash and cash equivalents decreased by R667 million.
- Loans and receivables decreased by R250 million.
- Trade and other payables decreased by R1 476 million.
- Investments at fair value through profit or loss increased by R4 099 million.
- Investment contracts at fair value through profit or loss increased by R1 412 million.

OTHER SIGNIFICANT ITEMS IN THESE RESULTS

Increase in the DiscoveryCard profit share arrangement in the prior period

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

The contractual rights under the preference shares were only finalised in April 2016 and as such, any profits earned prior to that, being R86 million, represented an adjustment to the purchase price rather than income received. In order to reflect the economic effect of the transaction, this was added to Normalised headline earnings for the year ended 30 June 2016.

In terms of IAS 38: Intangible Assets, the preference shares have been disclosed as an intangible asset in the Statement of financial position as the substance of the arrangement is a right to receive additional 54.99% of the profits generated by the DiscoveryCard. This intangible asset is amortised through profit or loss as and when profits are expected to emerge. R84 million (2016: R26 million) amortisation has been recognised for the current financial year. This has been added back in the calculation of Normalised headline earnings.

Recapture of reinsurance

VitalityHealth makes use of financial reinsurance as a financing tool for new business acquisition costs. The receipt from the reinsurer is recognised in profit or loss upfront in the year received. Thereafter, the repayment to the reinsurer and the cost of funding are expensed through profit or loss.

During the current financial year, VitalityHealth converted their Cash financial reinsurance to Cashless financial reinsurance to minimise the cost of funding. This was done by recapturing GBP 49.6 million of reinsurance obligations and replacing this with new cashless reinsurance treaties. The impact on the Income statement is an expense of R858 million in 'Recapture of reinsurance' which is offset by new financing recognised in 'Recovery of expenses from reinsurers'.

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 R5 089 million for the year ended 30 June 2017 (2016: R4 711 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 R7.8 billion due to the sale of Discovery Invest products. This includes the impact of consolidating the Discovery Unit Trusts into the Group's results. The increase in the financial assets at fair value through profit or loss has been presented in 'Net purchase of investments held to back policyholder liabilities' of R7 084 million in the Statement of cash flows.

Deferred tax

Deferred tax liability

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

A new tax basis for Life companies was promulgated in January 2017. The effective date of the new 'adjusted IFRS' tax valuation basis will align with the implementation of Solvency Assessment and Management (SAM) and has had no impact on the current year's results.

Deferred tax asset

Recent tax amendments for Life companies introduced a Risk Policy Fund for all new risk business written, effective 1 July 2016. In terms of the legislation, Discovery Life has elected to move existing risk business to this fund. A portion of the assessed loss of R16.5 billion in the Individual Policyholder Fund is now expected to be utilised over time. A value of R562 million, implicit in the valuation of insurance contract liabilities have therefore been recognised as an explicit deferred tax asset in terms of IAS 12: Income Taxes.

The impact of this recognition on the Statement of financial position is an increase in the deferred tax asset of R562 million and a corresponding increase in Liabilities arising from insurance contracts. The impact on the Income statement is an increase in Transfer from liabilities under insurance contracts of R562 million and a corresponding decrease in Income tax expense.

Taxation

For South African entities that are in a tax paying position, tax has been provided at 28% (2016: 28%) in the financial statements. No deferred tax assets have been recognised on the assessed losses in Discovery Insure and Vitality Group and no further deferred tax asset has been raised in respect of the VitalityHealth assessed losses.

SHAREHOLDER INFORMATION

Directorate

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

- Mr R Farber relinquished his role as Chief Financial Officer and Group Financial Director of Discovery with effect from 30 April 2017. Mr R Farber remains a director on the Board of Discovery.
- Mr DM Viljoen was appointed as Chief Financial Officer and Group Financial Director of Discovery with effect from 1 May 2017.
- Mr SB Epstein resigned as a non-executive director on 5 December 2016.
- Mr R Enslin was appointed as a non-executive director on 4 May 2017.

Mr MI Hilkowitz, Ms SV Zilwa, Ms F Khanyile and Mr HL Bosman retire by rotation at the forthcoming Annual General Meeting of shareholders and are eligible and available for re-election.

Dividend and capital

Interim dividends paid

The following interim dividends were paid during the current financial year:

- B preference share dividend of 529.31507 cents per share (423.45206 cents net of dividend withholding tax), paid on 13 March 2017.
- Ordinary share dividend of 88 cents per share (70.4 cents net of dividend withholding tax), paid on 20 March 2017.

Final dividend declaration

B preference share cash dividend declaration:

On 24 August 2017, the directors declared a final gross cash dividend of 520.68493 cents (416.54794 cents net of dividend withholding tax) per B preference share for the period 1 January 2017 to 30 June 2017, payable from the income reserves of the Company. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

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

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Tuesday, 12 September 2017
Shares commence trading "ex" dividend	Wednesday, 13 September 2017
Record date	Friday, 15 September 2017
Payment date	Monday, 18 September 2017

B preference share certificates may not be dematerialised or rematerialised between Wednesday, 13 September 2017 and Friday, 15 September 2017, both days inclusive.

Ordinary share cash dividend declaration:

Notice is hereby given that the directors have declared a final gross cash dividend of 98 cents (78.4 cents net of dividend withholding tax) per ordinary share, out of income reserves for the year ended 30 June 2017. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

The issued ordinary share capital at the declaration date is 646 844 992 ordinary shares.

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Tuesday, 3 October 2017
Shares commence trading "ex" dividend	Wednesday, 4 October 2017
Record date	Friday, 6 October 2017
Payment date	Monday, 9 October 2017

Share certificates may not be dematerialised or rematerialised between Wednesday, 4 October 2017 and Friday, 6 October 2017, both days inclusive.

Capital requirements

At 30 June 2017, the capital adequacy requirement on the statutory basis for Discovery Life was R705 million (2016: R628 million) and was covered 3.9 times (2016: 3.6 times). Vitality Life Limited's capital adequacy requirement on the statutory basis was GBP 87.5 million (R1 490 million) (2016: GBP 34.3 million (R678 million)) and was covered 2.15 times (2016: 2.95 times). Both VitalityHealth and Discovery Insure are adequately capitalised at 145% (2016: 140%) and 221% (2016: 265%) respectively.

ACCOUNTING POLICIES

The Annual Financial Statements 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.

AUDIT

The consolidated financial statements are considered preliminary based on the JSE Listings Requirements and are summarised from a complete set of the Group financial statements.

This summarised report is extracted from audited information, but is not itself audited. The Annual Financial Statements were audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon. The audited Annual Financial Statements and Auditor's Report thereon are available for inspection at the Company's registered office.

The directors of Discovery take full responsibility for the preparation of this report and that the financial information has been correctly extracted from the underlying Annual Financial Statements.

Embedded value statement

for the year ended 30 June 2017

The embedded value of Discovery consists of the following components:

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

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

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

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

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

The embedded value includes the insurance and administration profits of the covered business in the Discovery Limited group. Covered business includes business written in South Africa through Discovery Life ("Life"), Discovery Invest ("Invest"), Discovery Health ("Health") and Discovery Vitality ("Vitality"), and in the United Kingdom through VitalityLife and VitalityHealth. For Vitality Group, 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 January 2016, the European insurance regulation Solvency II came into effect and Vitality Life Limited was granted a life insurance licence in the United Kingdom on which it commenced writing new business. These two changes required that the embedded value methodology for VitalityLife be reviewed. The key methodology change was the zeroisation of the negative reserves emerging under insurance contracts in Vitality Life Limited and Discovery funded VitalityLife business on the Prudential licence. This effectively moves the negative reserve from net worth to the value of in-force.

The 30 June 2017 embedded value results and disclosures were subjected to an external review.

TABLE 1: GROUP EMBEDDED VALUE

R million	30 June 2017	30 June 2016	% Change
Shareholders' funds	**32 290**	30 607	5%
Adjustment to shareholders' funds from published basis[1]	**(27 558)**	(23 583)	
Adjusted net worth[2]	**4 732**	7 024	
Value of in-force covered business before cost of required capital	**54 756**	48 121	
Cost of required capital	**(2 194)**	(2 065)	
Discovery Limited embedded value	**57 294**	53 080	8%
Number of shares (millions)	**645.0**	644.2	
Embedded value per share	**R88.83**	R82.40	8%
Diluted number of shares (millions)	**646.2**	646.7	
Diluted embedded value per share[3]	**R88.67**	R82.17	8%

1 A breakdown of the adjustment to shareholders' funds is shown in the table below. An additional adjustment has been included as at 30 June 2017 to reflect the methodology change in VitalityHealth where the financial reinsurance cash flows have been removed from the value of in-force and deducted from the net worth. Note that where relevant, adjustments have been converted using the closing exchange rate of R17.03/GBP (June 2016: R19.78/GBP):

R million	*30 June 2017*	*30 June 2016*
Life net assets under insurance contracts	*(18 354)*	*(15 768)*
Vitality Life Limited and Discovery funded VitalityLife business on the Prudential licence net assets under insurance contracts	*(3 620)*	*(3 090)*
VitalityHealth financial reinsurance liability	*(1 440)*	*–*
VitalityHealth and VitalityHealth Insurance Limited deferred acquisition costs (net of deferred tax)	*(252)*	*(290)*
VitalityLife receivable relating to the Unemployment Cover benefit (net of deferred tax)	*(27)*	*(41)*
Goodwill and intangible assets (net of deferred tax) relating to the acquisition of Standard Life Healthcare and the Prudential joint venture	*(3 086)*	*(3 615)*
Net preference share capital	*(779)*	*(779)*
	(27 558)	*(23 583)*

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

R million	*30 June 2017*	*30 June 2016*
Shareholders' funds	*32 290*	*30 607*
Adjustment to shareholders' funds	*(27 558)*	*(23 583)*
Adjusted net worth	*4 732*	*7 024*
Excess of available regulatory capital over adjusted net worth	*4 100*	*2 417*
Available regulatory capital	*8 832*	*9 441*
Regulatory required capital	*4 477*	*3 947*
Required capital buffer	*2 664*	*2 257*
Required capital	*7 141*	*6 204*
Excess available capital	*1 691*	*3 237*

The excess of available regulatory capital over adjusted net worth reflects the difference between the adjusted net worth and the available regulatory capital. This includes the net preference share capital of R779 million which is included as available regulatory capital. At 30 June 2017, this adjustment also includes the difference between Vitality Life Limited's Solvency II Pillar 1 Own Funds and its adjusted net worth and adds back the negative reserves eliminated on the Discovery funded VitalityLife business on the Prudential licence.

The required capital at June 2017 for Life is R1 409 million (June 2016: R1 255 million), for Health and Vitality is R797 million (June 2016: R725 million), for VitalityHealth is R1 984 million (June 2016: R2 212 million) and for VitalityLife is R2 951 million (June 2016: R2 011 million (restated in-line with new capital position table above)). For Life, the required capital was set equal to two times the statutory Capital Adequacy Requirement. For Health and Vitality, the required capital was set equal to two times the monthly renewal expense and Vitality benefit cost. For VitalityHealth, the required capital amount was set equal to 1.4 times the Solvency II Pillar 1 Solvency Capital Requirement. For the VitalityLife business on the Prudential licence, the required capital was set equal to the UK Solvency I long term insurance capital requirement as per the agreement with Prudential. For the business sold on the Vitality Life Limited licence, the required capital was set equal to the excess of 1.4 times the Solvency II Pillar 1 Solvency Capital Requirement. The Regulatory Required Capital is calculated as the relevant regulatory solvency capital requirement for each insurance business.

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

Embedded value statement continued

for the year ended 30 June 2017

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 30 June 2017			
Health and Vitality	**18 595**	**(352)**	**18 243**
Life and Invest[1]	**25 102**	**(780)**	**24 322**
VitalityHealth[2]	**5 959**	**(307)**	**5 652**
VitalityLife[2]	**5 100**	**(755)**	**4 345**
Total	**54 756**	**(2 194)**	**52 562**
at 30 June 2016			
Health and Vitality	16 834	(315)	16 519
Life and Invest[1]	22 411	(723)	21 688
VitalityHealth[2]	4 421	(377)	4 044
VitalityLife[2]	4 455	(650)	3 805
Total	48 121	(2 065)	46 056

1 Included in the Life and Invest value of in-force covered business is R1 153 million (June 2016: R1 100 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 R17.03/GBP (June 2016: R19.78/GBP).

TABLE 3: GROUP EMBEDDED VALUE EARNINGS

R million	Year ended 30 June 2017	Year ended 30 June 2016
Embedded value at end of period	**57 294**	53 080
Less: Embedded value at beginning of period	**(53 080)**	(52 295)
Increase in embedded value	**4 214**	784
Net change in capital[1]	**4**	(812)
Dividends paid	**1 231**	1 201
Transfer to hedging reserve	**(29)**	171
Employee share option schemes	**(7)**	–
Embedded value earnings	**5 413**	1 345
Annualised return on opening embedded value	**10.2%**	2.6%

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

TABLE 4: COMPONENTS OF GROUP EMBEDDED VALUE EARNINGS

R million	Year ended 30 June 2017				Year ended 30 June 2016
	Net worth	Cost of required capital	Value of in–force covered business	**Embedded value**	Embedded value
Total profit from new business (at point of sale)	(4 436)	(276)	7 149	**2 437**	2 332
Profit from existing business					
■ Expected return	4 840	(66)	446	**5 220**	4 622
■ Change in methodology and assumptions[1]	1 044	51	(237)	**858**	(3 764)
■ Experience variances	(504)	17	553	**66**	(178)
Impairment, amortisation and fair value adjustment[2]	(95)	–	–	**(95)**	(37)
Increase in goodwill and intangibles	(203)	–	–	**(203)**	(366)
Other initiative costs[3]	(707)	–	16	**(691)**	(878)
Non-recurring expenses[4]	(103)	–	–	**(103)**	(508)
Acquisition costs[5]	(196)	–	–	**(196)**	(23)
Finance costs	(500)	–	–	**(500)**	(107)
Foreign exchange rate movements	(431)	145	(1 283)	**(1 569)**	(39)
Other[6]	13	–	(9)	**4**	56
Return on shareholders' funds[7]	185	–	–	**185**	235
Embedded value earnings	(1 093)	(129)	6 635	**5 413**	1 345

1 The changes in methodology and assumptions will vary over time to reflect adjustments to the model and assumptions as a result of changes to the operating and economic environment. The current period's changes are described in detail in Table 6 below (for previous periods refer to previous embedded value statements).
2 This item reflects the amortisation of the intangible assets reflecting the DiscoveryCard profit share arrangement, banking costs and the PrimeMed acquisition.
3 This item reflects Group initiatives including expenses relating to the investment in Vitality Group, banking development costs, Vitality International, Discovery Insure, other new business initiatives and unallocated head office costs.
4 This item includes rebranding costs, as well as other once-off costs relating to the acquisition of 25% of Prudential Health Holdings Limited.
5 Acquisition costs relate to commission paid on the VitalityLife and Life business and expenses incurred in writing Health and Vitality business that has been written over the period but will only be activated and on risk after the valuation date. These policies are not included in the embedded value or the value of new business and therefore the costs are excluded.
6 This item includes, among other items, the tax benefit that will be obtained as the VitalityHealth DAC and intangible software assets amortise.
7 The return on shareholders' funds is shown net of tax and management charges.

Embedded value statement continued

for the year ended 30 June 2017

TABLE 5: EXPERIENCE VARIANCES

	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		
R million	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Total
Renewal expenses	161	–	60	(12)	(202)	–	22	–	**29**
Lapses and surrenders	18	198	(133)	183	–	1	(19)	(67)	**181**
Mortality and morbidity	–	–	(131)	(45)	284	–	30	–	**138**
Policy alterations	–	64	(491)	249	–	–	(29)	(43)	**(250)**
Premium and fee income[1]	16	74	(251)	60	–	–	(3)	(4)	**(108)**
Economic assumptions	–	–	14	(359)	–	–	–	–	**(345)**
Commission	–	–	–	–	32	–	–	–	**32**
Tax[2]	31	–	202	(225)	(80)	–	83	–	**11**
Reinsurance	–	–	–	–	26	–	(33)	(3)	**(10)**
Maintain modelling term[3]	–	285	–	60	–	62	–	–	**407**
Vitality benefits	17	–	–	–	(71)	–	–	–	**(54)**
Other	5	0	(24)	88	(51)	–	13	4	**35**
Total	248	621	(754)	(1)	(62)	63	64	(113)	**66**

1 The premium and fee income experience for Life arises largely due to the impact of Vitality distribution shifts compared to expected levels.
2 The tax variance for Life and Invest arises due to a movement in the deferred tax asset which delays the payment of tax. The tax variance for VitalityLife arises due to actual shareholder and policyholder tax being lower than expected.
3 The projection term for Health and Vitality, Group Life and VitalityHealth at 30 June 2017 has not been changed from that used in the 30 June 2016 embedded value calculation. Therefore, an experience variance arises because the total term of the in-force covered business is effectively increased by twelve months.

TABLE 6: METHODOLOGY AND ASSUMPTION CHANGES

	Health and Vitality		Life and Invest		VitalityHealth[2]		VitalityLife		
R million	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Total
Modelling changes	–	–	(114)	159	–	–	(14)	12	**43**
Expenses	–	–	–	(1)	–	(202)	148	(3)	**(58)**
Lapses	–	–	–	–	–	(505)	–	–	**(505)**
Mortality and morbidity	–	–	–	–	–	1 472	–	–	**1 472**
Benefit enhancements	–	–	–	–	–	–	–	–	**–**
Vitality benefits	–	(1)	–	–	–	(142)	2	34	**(107)**
Tax	–	–	–	(3)	–	45	–	16	**58**
Economic assumptions	–	10	3	(118)	–	(69)	(28)	74	**(128)**
Premium and fee income	–	–	(1)	(5)	–	–	–	–	**(6)**
Reinsurance[1]	–	–	1 649	(1 722)	(622)	642	–	–	**(53)**
Other	–	–	21	(12)	–	123	–	10	**142**
Total	–	9	1 558	(1 702)	(622)	1 364	108	143	**858**

1 For Life the reinsurance item primarily relates to the impact of the financing reinsurance arrangements. For VitalityHealth this includes a change in methodology where financial reinsurance cash flows have been removed from the value of in-force and deducted from the net worth.
2 For VitalityHealth, the granularity, level and shape of the assumptions have been rebalanced to reflect experience. Furthermore, policy projections truncate all cash flows after the 20th anniversary of the policy from original date of inception.

TABLE 7: EMBEDDED VALUE OF NEW BUSINESS

R million	Twelve months ended 30 June 2017	30 June 2016	% Change
Health and Vitality			
Present value of future profits from new business at point of sale	**820**	844	
Cost of required capital	**(31)**	(48)	
Present value of future profits from new business at point of sale after cost of required capital	**789**	796	(1%)
New business annualised premium income[1]	**4 533**	7 415	(39%)
Life and Invest			
Present value of future profits from new business at point of sale[2]	**1 304**	1 263	
Cost of required capital	**(73)**	(67)	
Present value of future profits from new business at point of sale after cost of required capital	**1 231**	1 196	3%
New business annualised premium income[3]	**2 840**	2 798	2%
Annualised profit margin[4]	**5.5%**	5.3%	
Annualised profit margin excluding Invest business[5]	**10.2%**	8.9%	
VitalityHealth			
Present value of future profits from new business at point of sale	**157**	109	
Cost of required capital	**(46)**	(47)	
Present value of future profits from new business at point of sale after cost of required capital	**111**	62	79%
New business annualised premium income (Rand)[6]	**958**	1 071	(11%)
Annualised profit margin[4]	**1.8%**	0.9%	
VitalityLife[7]			
Present value of future profits from new business at point of sale	**432**	593	
Cost of required capital	**(126)**	(315)	
Present value of future profits from new business at point of sale after cost of required capital	**306**	278	10%
New business annualised premium income (Rand)	**844**	1 083	(22%)
Annualised profit margin[4]	**5.2%**	3.5%	

1 *Health new business annualised premium income is the gross contribution to the medical schemes. The new business annualised premium income shown above excludes premiums in respect of members who join an existing employer where the member has no choice of medical scheme, as well as premiums in respect of new business written during the period but only activated after 30 June 2017.*
The total Health and Vitality new business annualised premium income written over the period was R6 276 million (June 2016: R6 764 million).

2 *Included in the Life and Invest embedded value of new business is R109 million (June 2016: R159 million) in respect of investment management services provided on off balance sheet investment business.*
Risk business written prior to the valuation date allows certain Invest business to be written at financially advantageous terms, the impact of which has been recognised in the value of new business.

3 *Life new business is defined as Life policies to which Life became contractually bound during the reporting period, including policies whose first premium is due after the valuation date. Invest new business is defined as business where at least one premium has been received and which has not been refunded after receipt. Invest new business also includes Discovery Retirement Optimiser policies to which Life and Invest became contractually bound during the reporting period, including policies whose first premium is due after the valuation date.*
The new business annualised premium income of R2 840 million (June 2016: R2 798 million) (single premium APE: R1 169 million (June 2016: R1 175 million)) shown above excludes automatic premium increases and servicing increases in respect of existing business. The total new business annualised premium income written over the period, including automatic premium increases of R1 172 million (June 2016: R966 million) and servicing increases of R659 million (June 2016: R516 million), was R4 671 million (June 2016: R4 279 million) (single premium APE: R1 277 million (June 2016: R1 218 million)). Single premium business is included at 10% of the value of the single premium.
Policy alterations and internal replacement policies, including Discovery Retirement Optimisers added to existing Life Plans, are shown in Table 5 as experience variances and not included as new business. Term extensions on existing contracts are not included as new business.

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

5 *From 30 June 2017, Discovery Retirement Optimiser policies fall under Invest. Therefore, the "Annualised profit margin excluding Invest business" at 30 June 2017 excludes Discovery Retirement Optimiser policies, whereas these policies are included in the comparative period. On a like-for-like basis to the comparative period the "Annualised profit margin excluding Invest business" at 30 June 2017 would have been 9.5%.*

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 30 June 2017.*

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 year ended 30 June 2017

TABLE 8: EMBEDDED VALUE ECONOMIC ASSUMPTIONS

		30 June 2017	30 June 2016
Beta coefficient		**0.75**	0.75
Equity risk premium (%)		**3.5**	3.5
Risk discount rate (%)			
Health and Vitality		**12.125**	11.875
Life and Invest		**12.875**	12.625
VitalityHealth		**3.90**	3.77
VitalityLife		**4.755**	4.695
Rand/GB Pound exchange rate			
Closing		**17.03**	19.78
Average		**17.29**	21.44
Medical inflation (%)			
South Africa		**9.25**	9.00
Expense inflation (%)			
South Africa		**6.25**	6.0
United Kingdom		**3.25**	2.9
Pre-tax investment return (%)			
South Africa	– Cash	**8.75**	8.50
	– Life and Invest bonds	**10.25**	10.00
	– Health and Vitality bonds	**9.50**	9.25
	– Equity	**13.75**	13.50
United Kingdom	– VitalityHealth investment return	**1.28**	1.15
	– VitalityLife investment return	**2.13**	2.07
Income tax rate (%)			
South Africa		**28**	28
United Kingdom	– long term[1]	**17**	18
Projection term			
– Health and Vitality		**20 years**	20 years
– Life		**No cap**	No cap
– Group Life		**10 years**	10 years
– VitalityHealth[2]		**20 years**	20 years

1 *The United Kingdom Corporation tax rate assumed is 20% in 2017, 19% in 2018 to 2020, and 17% beyond that.*
2 *VitalityHealth policies are projected for 20 years from the original date of inception.*

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

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

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

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

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

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

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

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

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

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

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

Sensitivity to the embedded value assumptions

The risk discount rate uses the CAPM approach with specific reference to the Discovery beta coefficient. As beta values reflect the historic performance of share prices relative to the market they may not allow fully for non-market related and non-financial risk. Investors may want to form their own view on an appropriate allowance for these risks which have not been modelled explicitly. The sensitivity of the embedded value and the embedded value of new business at 30 June 2017 to changes in the risk discount rate is included in the tables below.

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

TABLE 9: EMBEDDED VALUE SENSITIVITY

		Health and Vitality	
R million	Adjusted net worth[2]	Value of in-force	Cost of required capital
Base	4 732	18 595	(352)
Impact of:			
Risk discount rate +1%	4 732	17 494	(383)
Risk discount rate -1%	4 732	19 818	(315)
Lapses -10%	4 659	19 235	(368)
Interest rates -1%[1]	3 621	18 533	(338)
Equity and property market value -10%	4 670	18 595	(352)
Equity and property return +1%	4 732	18 595	(352)
Renewal expenses -10%	4 831	20 489	(326)
Mortality and morbidity -5%	4 929	18 595	(352)
Projection term +1 year	4 732	18 883	(356)

1 All economic assumptions were reduced by 1%.
2 The sensitivity impact on the VitalityLife net of tax change in negative reserves is included in the adjusted net worth column.

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

TABLE 10: VALUE OF NEW BUSINESS SENSITIVITY

	Health and Vitality	
R million	Value of new business	Cost of required capital
Base	820	(31)
Impact of:		
Risk discount rate +1%	751	(34)
Risk discount rate -1%	897	(28)
Lapses -10%	873	(33)
Interest rates -1%[1]	828	(30)
Equity and property return +1%	820	(31)
Renewal expense -10%	960	(29)
Mortality and morbidity -5%	820	(31)
Projection term +1 year	839	(31)
Acquisition costs -10%	843	(31)

1 All economic assumptions were reduced by 1%.

Life and Invest		VitalityHealth		VitalityLife			
Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	**Embedded value**	% Change
25 102	(780)	5 959	(307)	5 100	(755)	**57 294**	
22 441	(683)	5 591	(399)	4 814	(883)	**52 724**	(8%)
28 398	(904)	6 367	(203)	5 421	(577)	**62 737**	10%
27 150	(832)	6 646	(327)	5 338	(868)	**60 633**	6%
25 569	(841)	6 351	(284)	5 119	(1 807)	**55 923**	(2%)
24 895	(780)	5 958	(307)	5 100	(755)	**57 024**	(0%)
25 347	(780)	5 958	(307)	5 100	(755)	**57 538**	0%
25 580	(778)	6 331	(307)	5 135	(649)	**60 306**	5%
26 716	(764)	6 896	(307)	5 153	(655)	**60 211**	5%
25 163	(780)	5 959	(307)	5 100	(755)	**57 639**	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
1 304	(73)	157	(46)	432	(126)	**2 437**	
1 035	(64)	93	(60)	341	(141)	**1 921**	(21%)
1 646	(84)	231	(31)	534	(100)	**3 065**	26%
1 567	(78)	292	(51)	552	(139)	**2 983**	22%
1 367	(79)	228	(43)	442	(252)	**2 461**	1%
1 337	(73)	157	(46)	432	(126)	**2 470**	1%
1 341	(73)	231	(46)	452	(94)	**2 742**	12%
1 437	(71)	292	(46)	464	(93)	**2 772**	14%
1 311	(73)	172	(47)	432	(126)	**2 477**	2%
1 434	(73)	184	(46)	536	(126)	**2 721**	12%

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

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*Executive [1] Appointed 4 May 2017 [2] Resigned 5 December 2016

[#] Mr R Farber relinquished his role as Chief Financial Officer and Group Financial Director of Discovery with effect from 30 April 2017. Mr Farber remains a director of the Board of Discovery. Mr DM Viljoen was appointed as Chief Financial Officer and Group Financial Director of Discovery with effect from 1 May 2017.

Annual financial statements
- prepared by L van Jaarsveldt CA(SA) and A Nel CA(SA)
- supervised by DM Viljoen CA(SA)

Embedded value statement
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- supervised by A Rayner FASSA, FIA

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Discovery

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