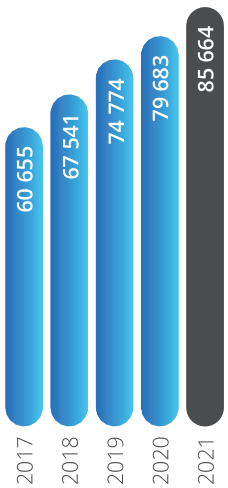
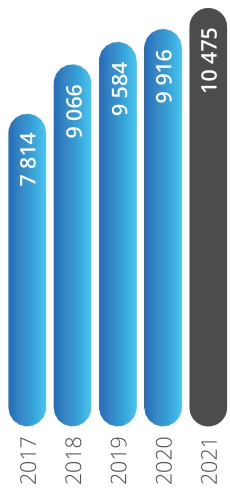
UNAUDITED INTERIM RESULTS

for the six months ended 31 December 2021

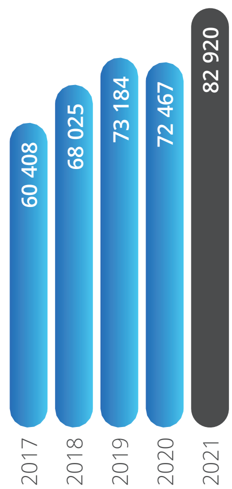
GROSS INFLOWS UNDER MANAGEMENT
(R million)



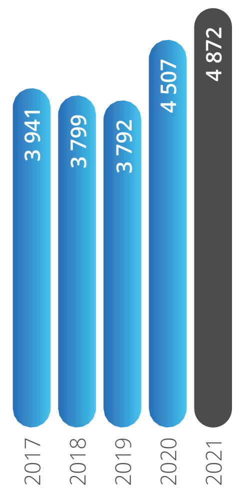
CORE NEW BUSINESS API
(R million)

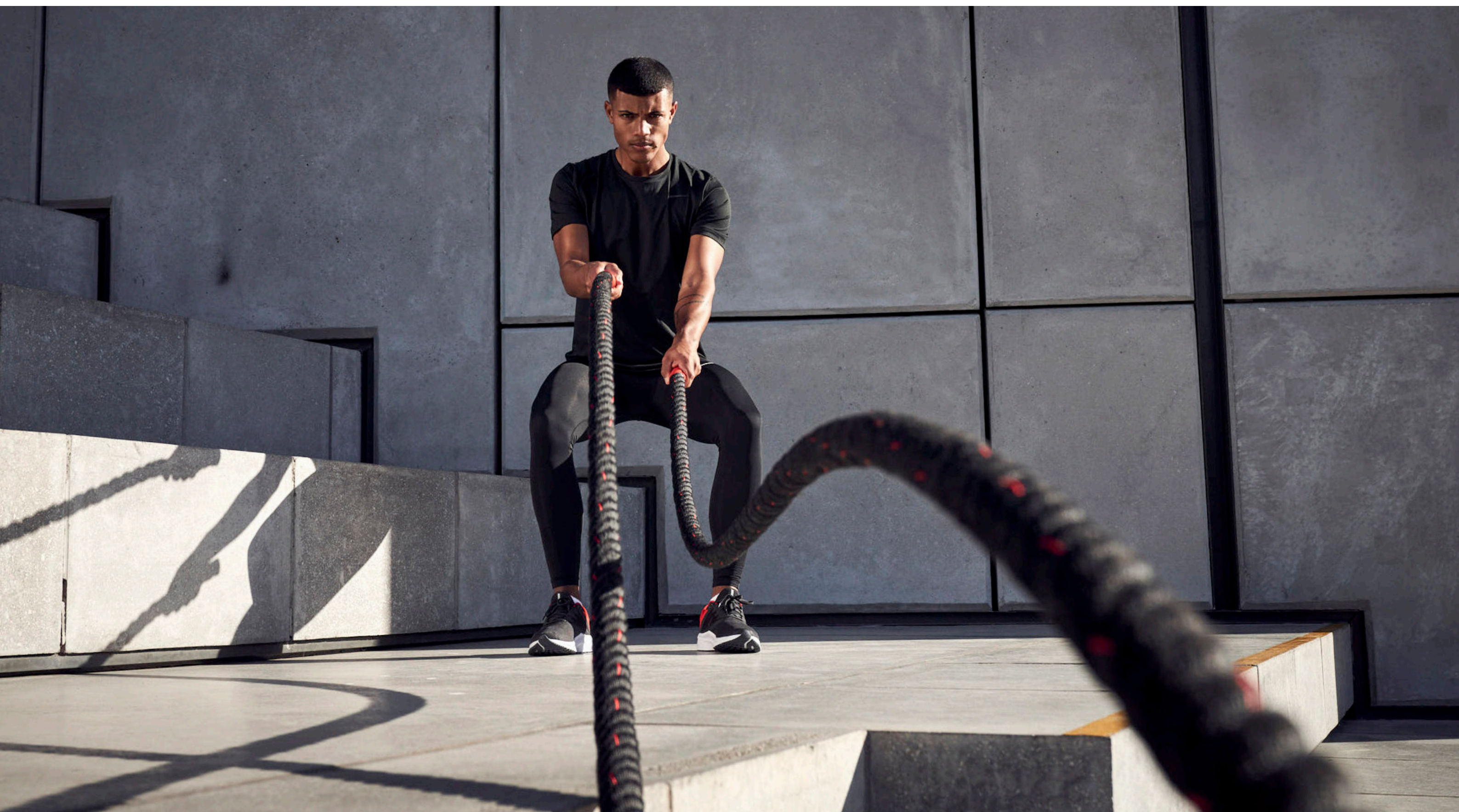


EMBEDDED VALUE
(R million)



NORMALISED PROFIT FROM OPERATIONS
(R million)





COMMENTARY

STRONG OPERATING PERFORMANCE AND RESILIENCE DURING THE PANDEMIC AND A DRIVE FOR GROWTH MANIFESTING IN THIS PERIOD THROUGH STRONG PERFORMANCE BY DISCOVERY BANK AND THE ESTABLISHMENT OF AMPLIFY HEALTH

The complexity in the operating environment continued over the six months ended 31 December 2021, which included the COVID-19 Delta and Omicron variants, as well as significant market volatility due to movements in exchange rates and interest rates in South Africa ("SA") and the United Kingdom ("UK").

Against this backdrop, the strategic focus of the Group over the period remained three-pronged: 1) Navigating the significant impact of the COVID-19 pandemic to maintain robust financial performance; 2) Building on the relevance of the business model by driving for growth, with excellent traction in Discovery Bank and the conclusion of the Amplify Health transaction with AIA Group Limited ("AIA"), announced on 15 February 2022; and 3) Ensuring financial resilience through disciplined cash and capital management.

RESILIENT OPERATING PERFORMANCE

For the six months ended 31 December 2021 ("the reporting period, current period or this period"), normalised operating profit increased by 8% to R4 872 million and normalised headline earnings increased by 26% to R2 876 million. Core new business annualised premium income (API) was up 6% to R10 475 million, as new business trends in SA and the UK improved over the period while persistency has continued to exceed expectations. Investment in new initiatives impacting normalised operating profit was at 17%[1] of earnings for the six months ended 31 December 2021, compared with 18% (in the previous period), with Discovery Bank constituting half of the investment.

Normalised headline earnings per share (basic) increased by 26% to 437.7 cents and headline earnings per share (basic) increased by 78% to 499.1 cents. Normalised headline earnings were positively impacted by mark-to-market foreign currency gains arising from a weakening of the rand during the reporting period compared with losses due to the rand strengthening in the previous period. This gain was partly offset by substantial support provided to the national mass vaccination campaign in SA, for which Discovery spent R137 million over the reporting period.

Headline earnings further improved as a significant reduction in real interest rates in SA resulted in positive economic basis changes recognised in the income statement, compared with negative economic basis changes in the prior period. In addition, the rand depreciation, as explained above, had a further positive impact on reported growth in headline earnings.

Discovery generated a strong return on opening embedded value (RoEV) of 22.7% annualised, or 14% excluding the impact of COVID-19, forex, and economic changes. Strong lapse experience remains a key feature across all operations.

1. As a percentage of established and emerging normalised profit from operations.

The following table highlights key items:

	Normalised profit from operations, current period, in ZAR million	% change (Current period vs prior period)	Core new business API, current period in ZAR million	% change (Current period vs prior period
Discovery Health	1 750	5	3 598	**29**
Discovery Life	1 934	1	1 267	**9**
Discovery Invest	517	10	1 519	**15**
VitalityHealth	850	39	708	**11**
VitalityLife	361	10	554	**(1)**
Discovery Insure	15	(86)	597	**(3)**
Vitality Group	234	(2)		
Ping An Health Insurance (25% interest)	140	25	1 426	**(21)**
Discovery Bank	(498)	18 (reduction in spend)		
Other new initiatives (Excluding Bank)[1]	(470)	21 (increase in spend)	772	**(23)**
Core new business API[2]			**10 475**	6
Normalised profit from operations[2]	**4 872**	**8**		
Normalised headline earnings	**2 876**	**26**		
Headline earnings	**3 278**	**78**		

1. Refer to normalised profit from operations regional disclosure for regional composition of new initiative spend; Core API for other new initiatives includes Umbrella Fund, Discovery Insure commercial and VitalityInvest – new business was impacted by the lumpy nature of Umbrella Fund sales which had strong growth in the prior period.

2. Includes SA Vitality: normalised profit from operations includes R39 million (prior period: R46 million); core new business API includes R34 million (prior period: R24 million).

COMMENTARY *continued*

ONGOING RESPONSE AND RESILIENCE TO THE COVID-19 PANDEMIC: PROVISIONS ADEQUATE

The Group has navigated the COVID-19 pandemic across its global operations, with mortality risk in SA having the largest impact financially. The reporting period included the end of the Delta variant third wave of the COVID-19 pandemic in SA, in the latter part of September 2021, and the start of the highly infectious Omicron variant resulting in a fourth wave in SA commencing towards the end of November 2021. During the current period, the third wave led to a significant number of deaths in SA while the fourth wave has seen a considerable increase in the number of new infections, but with less severe clinical outcomes compared with the other waves of infections. Discovery continued to support SA in its mass vaccination roll-out across its vaccination sites.

There was careful financial management of the Group during this period. While R3.4 billion in COVID-19 claims, gross of reinsurance, were paid by Discovery Life (DL) in the reporting period (the highest throughout the pandemic), the earnings impact was limited given its strong reinsurance arrangements and previously raised provisions proving adequate. The Group believes the remaining provisions are sufficient to withstand a potential fifth wave. This is supported by high levels of vaccination among its clients and high levels of immunity in SA, borne out by the significant reduction in case fatality rates from Omicron in the fourth wave. Liquidity and solvency remained strong across the Group and the financial leverage ratio improved to 23.9%[2], well below the internally set guidance threshold of 28%.

In all markets, the Group has looked to add value to its customers and to the communities in which it operates. In SA, aside from playing an active role in driving vaccination take-up as mentioned, Discovery Health (DH) contributed to the global research agenda with its COVID-19 analysis and research, releasing an at-scale, real-world analysis of the Omicron outbreak in December 2021 to analyse vaccine effectiveness.

DRIVE FOR GROWTH, WITH EXCELLENT TRACTION IN DISCOVERY bANK AND CONCLUSION OF AMPLIFY HEALTH

The Group continued to see the relevance and impact of its business model given the acceleration and deepening of global trends. These include ongoing opportunities to incentivise consumers due to the behavioural nature of risk; the acceleration of digital transformation and rise of personalisation as new standards for success; as well as the Environmental, Social and Governance imperative as business shifts to provide value for all stakeholders. The uniqueness and sophistication of the Vitality Shared-value Insurance model has led to a powerful platform of integrated assets and capabilities, well-positioned to respond to this macro context.

The model has proven its relevance in each business and organically, the Group has developed significant scale and foundations for growth in each market. In this period, the relevance of the business model was demonstrated in two specific areas and opportunities: Discovery Bank's performance exceeded expectation, with excellent performance across all metrics and advanced its strategic objective of forming the basis of the SA composite. In addition, Discovery is injecting its Vitality and Health capabilities into a new health InsurTech Joint Venture with the AIA Group in Asia, called Amplify Health – a powerful endorsement of the platform that has been built and opportunity for further expansion and growth. Amplify Health is an important manifestation of globalising Discovery's wellness and health capabilities, extending the very successful partnership between Discovery and AIA. This positions the Group for growth across fast-expanding Asian healthcare markets, covering China through Ping An Health Insurance and the remaining Pan-Asian markets through Amplify Health.

The period also saw further progress made in the market-specific strategies and strategic objectives of the Group:

i. **South Africa:** To be the perfect composite model, number 1 in every industry, and the Bank pivoting to growth as the composite-maker within SA

ii. **United Kingdom:** To have best-in-breed products across businesses and operating as a fully integrated composite business with a seamless One Vitality client journey and to have a successful entry into motor insurance

iii. **Vitality Global (incorporating Vitality Group and Ping An Health Insurance):** To be the leading wellness and healthcare platform that provides preeminent life and health insurers globally with our Vitality Shared Value and health management capabilities to assist them in making their customers healthier, while ensuring their products are more competitive with better margins

This resulted in strong operating profit in these respective strands and significant investment in offshore expansion.

2. Excludes capitalised lease liabilities under IFRS16 Leases and bank borrowings related to normal course lending and borrowing activities.

BUSINESS-SPECIFIC PERFORMANCE

South Africa

FINANCIAL PERFORMANCE

The SA composite's normalised operating profit increased by 4% to R3 582 million. Discovery Bank constitutes the largest investment into new initiatives, with Discovery Business Insurance (DBI) and Umbrella Funds (UF) being much less material, given the progress made.

Discovery Bank

Discovery Bank's normalised operating loss for the period under review was better than planned at R498 million, 18% lower than the prior period. The Bank continued to gain traction with 385 200 clients (versus 287 182 clients in December 2020) and 793 215 accounts (versus 540 252 accounts in December 2020), expanding its existing Discovery and non-Discovery client base and achieving more than 750 average daily new-to-Bank sales in January, higher than the current plan. Retail deposits grew by 69% to R9.5 billion and advances grew at 10% to R4.1 billion at 31 December 2021. Customer quality remains excellent with high average levels of non-interest revenue per client and the quality focused credit strategy was evidenced by the low credit loss ratio of 0.96%. The benefits of the business model continue to manifest in improving operating leverage, with overall costs remaining constant in real terms, notwithstanding the significant customer growth and product innovations.

Discovery Health

DH delivered a resilient financial performance, supported by continued operational efficiency and new business over the period. Normalised operating profit increased by 5% to R1 750 million, while gross income increased by 4% to R4 477 million for H1 FY22. Total new business API increased by 14% to R3 598 million (core new business API, which excludes the new closed scheme added in the prior period, increased by 29%). In addition to the Discovery Health Medical Scheme (DHMS), DH administers 18 closed medical schemes, all of which showed excellent performance across the board, with contribution increases materially lower than medical inflation, and the majority demonstrating improving solvency levels. DH has continued to grow non-medical scheme products (FlexiCare, Gap Cover and Healthy Company), showing 28% growth in this period with c.238 000 non-medical scheme lives now under DH's administration. Total non-medical scheme revenue exceeded R550 million and now represents 13% of the total DH revenue.

DHMS has continued to perform strongly: new business levels showed signs of post-COVID-19 recovery and the Scheme showed net growth of 17 835 lives for the six months, while lapse rates remained below pre-COVID-19 levels. Consequently, DHMS's share of the open medical scheme market has grown to 57.5% by the end of Q3 2021. DHMS provided financial relief for its members through the deferred implementation of both the 2021 and 2022 DHMS contribution increases. This deferral has protected DHMS members in real terms, cumulatively saving members approximately R2 billion during 2021, while concurrently ensuring that DHMS is correctly priced for forecast medical inflation. DHMS capital reserves have increased to an unaudited solvency level of 38%, pursuant to the reduction in non-COVID-19 healthcare utilisation, assuring members of robust financial strength.

COMMENTARY *continued*

Discovery Life

DL's normalised operating profit increased 1% to R1 934 million, driven by the positive overall experience and strong lapse experience in particular. The COVID-19 claims experience was consistent with provision modelling. The earnings growth must be seen in the context of Discovery Life having paid out cumulatively R6.4 billion in COVID-19 claims, gross of reinsurance, since the start of the pandemic (R3.4 billion in the current period), with returns on the reduced asset base impacting earnings by c.13%. DL also benefitted from a R498 million positive economic impact due to economic assumptions, but this is excluded from normalised operating profit. New business increased by 9% to R1 267 million, driven by strong Automatic Contribution Increases with the DL new business margin increasing to 6.8%, which contributed to a 15% RoEV (including Discovery Invest), before the inclusion of gains from the economic assumptions impact. DL's financial position remains robust with a solvency ratio of 184% and strong liquidity buffers remaining intact under all modelled COVID-19 scenarios. Provisions within the individual life book were sufficient for the claims incurred in the reporting period and the Group believes that remaining provisions of R502 million (including Discovery Invest), net of reinsurance, are sufficient to withstand a potential fifth wave. This is supported by high levels of vaccination among its clients and high levels of immunity due to previous infections in SA, borne out by the significant reduction in case fatality rates in the fourth wave.

Discovery Invest

Discovery Invest grew normalised operating profit by 10% to R517 million, while fee income grew by 24% (to R1 388 million). Normalised operating profit growth was impacted by a once-off guaranteed inflation linked matching portfolio profit in the prior period of R44 million. New business increased 15% to R1 519 million, despite a 14% drop in sales of guaranteed plans as a result of lower guaranteed rates following the depletion of the tax asset.

Total Assets under Administration grew by 19% to R128 billion, with Assets under Management increasing by 23% to R84.7 billion. Linked funds placed in Discovery funds remain high at 79.8%. Net inflows amounted to R3.1 billion, an 11% increase from the prior year.

Discovery Insure

Discovery Insure had a difficult period, with normalised operating profit falling 86% to R15 million. The increased loss ratio was driven by adverse weather events combined with motor parts inflation dramatically exceeding CPI as well as elevated power surge and fire claims. New business API declined 3%, with the prior period delivering a particularly strong result, however gross written premium remained resilient, increasing by 13% to R 2 318 million for the personal lines business, with Discovery Insure maintaining an estimated 7% of the personal lines market share.

United Kingdom

The UK composite's normalised operating profit increased by 36% to £54.2 million (R1 110 million, up 30%). Earned premiums increased by 7% year-on-year to £438.0 million (R8 965 million, up 3%), excluding the Unearned Premium Reserve adjustment. The UK has invested 8% of profits into new initiatives, predominantly VitalityInvest (VI), which at 31 December 2021 had almost doubled its total funds under management compared with 12 months prior to £659.6 million (R14.1 billion).

VitalityHealth

VitalityHealth's (VH) normalised operating profit grew by 44% year-on-year to £41.5 million (up 39% to R850 million). The incidence of claims has returned to pre-COVID-19 levels, although the severity and cost of claims were still less than expected. As uncertainty around claims persists, the Unearned Premium Reserve (UPR) adjustment at 31 December 2021 remains largely in line with June levels. There was a strong sales performance over the period with new business API increasing 15% year-on-year to £34.5 million (up 11% to R708 million), through good progress in the direct channels. Excellent retention was maintained and earned premiums grew by 7% to £274.0 million (R5 606 million, up 3%), excluding the UPR adjustment, and total lives grew 10% to c.764 000. Cash generation was robust over the period, with the back book generating £67.8 million (R1 389 million) in cash. After new business acquisition costs and investment in developing the business, VH generated a £30.7 million (R629 million) cash surplus.

VitalityLife (VL)

VitalityLife's (VL) normalised operating profit grew by 15% to £17.6 million (R361 million, up 10%), driven by strong operating variances over the period. Despite a challenging sales environment, new business API increased by 3% to £27.1 million (down 1% to R554 million). The hedge structure continues to negate the impact of interest rate movements; regular rebalancing was required given high levels of interest rate volatility in the period, resulting in rebalancing costs of £2.2 million incurred over the period. The continued strong retention performance delivered 7% higher earned premiums, to £164 million (up 3% to R3 359 million), while lives covered grew by 6% year-on-year, exceeding c. 686 000. VL maintained a £2.87m (R62 million) COVID-19 provision at 31 December 2021 because of remaining uncertainty.

Prudential and Discovery have made significant progress in agreeing the terms of a long-term deferral of the Part VII transfer of the VitalityLife book currently written on the Prudential balance sheet to Vitality Life Limited, such that a Part VII transfer would not be required by May 2023 as per the current agreement. The new agreement is currently expected to be completed by 30 June 2022 and would be reflected in the Discovery embedded value and Group funding plan at that point.

Ping An Health Insurance

Ping An Health's (PAH) profit from operations, represented by the Group's share of after-tax operating profit less the costs to support the business, grew by 25% to R140 million. Total written premium grew by 13% to R20.4 billion (RMB8.7 billion), achieving a c.8.5% market share. New business API reduced 21% to R5.7 billion (RMB2.4 billion), primarily due to a restructuring of the cooperation with Ping An Life for business written in certain regions in China. This is part of the overall re-alignment of PAH to focus on growing high quality own license business, given its increased scale and maturing business model. These changes are not expected to impact growth in profitability going forward. PAH is ranked as the 16th most profitable among all life and health insurers in China[3] and profit growth continued to outperform the market, through improved lapse experience, prudent expense management and investments in underwriting and claims management.

3. Chinese Life Insurers Ranking Q3 2021.

Vitality Group

Vitality Group's (VG) profit increased by 7% to US$15.5 million as a consequence of foreign exchange realised gains in the prior period not being repeated. In rand value, the profit decreased by 2% to R234 million due to the strengthening of the average exchange rates over the period. VG has increased its investment into Vitality Health International (VHI), leading to an expanding global reach with large upside potential – the period included the announcement of the Amplify Health transaction. Revenue growth remained resilient, with fee income growing 16% to US$44.5 million (R668 million) and insurance partners' Vitality-integrated premiums growing by 37% to US$766 million (R11.5 billion). Sales growth in AIA markets is still being adversely impacted by COVID-19 but has recovered somewhat, while Sumitomo Life Vitality is close to reaching a milestone of 1 million Vitality-linked policies sold since launching in 2018. Generali Vitality Czech Republic is expected to launch in March 2022 and Generali Vitality Poland in May 2022. The period also saw Vitality expand to 36 markets (including SA and the UK). Vitality membership from insurance partners grew 33% to 2.7 million.

GROWTH PROSPECTS AND DIVIDEND

Discovery's business model has proven to be highly relevant during the COVID-19 pandemic, with robust underlying growth trends developing in most parts of the business. The Group is capitalising on its growth opportunities while ensuring operational resilience despite the challenging macro environment. The effect of continued interest rate and currency volatility in SA is expected to remain a feature of the reported results.

During the period under review, Discovery made a capital contribution to PAH of R1.5 billion as highlighted in the previous reporting period. While this was funded in the interim by way of a bridge facility and internal resources, as explained at the time, Discovery still anticipates raising a specific quantum of equity capital for this purpose in line with the disciplined framework of its capital plan.

Despite the Group's robust capital position, due to the continued uncertainty caused by COVID-19 on the demographic and economic environment in SA, the Discovery Board has decided to retain its prior stated position during the pandemic and has decided not to declare an ordinary interim dividend for the period ended 31 December 2021. The reintroduction of an ordinary dividend will be considered on an ongoing basis.

NOTES TO ANALYSTS

- Any forecast financial information contained in this announcement has not been reviewed or reported on by the Company's external auditors.
- Discovery has published supplemental unaudited information on the website. For this and other results information, go to **https://www.discovery.co.za/corporate/investor-relations** and page down to Financial results and statements, 2022.

On behalf of the Board

ME Tucker
Chairperson

A Gore
Group Chief Executive

Sandton
23 February 2022

STATEMENT OF FINANCIAL POSITION

at 31 December 2021

R million	GROUP DECEMBER 2021 UNAUDITED	Group June 2021 Audited
Assets		
Goodwill	**5 098**	4 879
Intangible assets	**6 607**	6 371
Property and equipment	**4 044**	4 188
Assets arising from insurance contracts	**56 578**	50 483
Deferred acquisition costs	**599**	585
Assets arising from contracts with customers	**1 390**	1 248
Investment in equity-accounted investments	**5 609**	3 459
Deferred income tax	**3 917**	3 948
Financial assets		
– Loans and advances to customers at amortised cost	**3 610**	3 361
– Investments at amortised cost	**6 799**	5 604
– Investments at fair value through profit or loss	**146 524**	130 937
– Derivative financial instruments at fair value through profit or loss	**294**	249
Insurance receivables, contract receivables and other non-financial receivables	**12 558**	10 533
Current income tax asset	**485**	391
Reinsurance contracts	**522**	445
Cash and cash equivalents	**19 756**	20 013
TOTAL ASSETS	**274 390**	246 694
Equity		
Capital and reserves		
Ordinary share capital and share premium	**10 163**	10 151
Perpetual preference share capital	**779**	779
Other reserves	**4 402**	1 935
Retained earnings	**36 827**	33 550
Equity attributable to owners of the Company	**52 171**	46 415
Non-controlling interest	**4**	4
TOTAL EQUITY	**52 175**	46 419
Liabilities		
Liabilities arising from insurance contracts	**112 740**	100 977
Liabilities arising from reinsurance contracts	**14 189**	12 525
Deferred income tax liability	**9 509**	8 814
Contract liabilities to customers	**721**	776
Financial liabilities		
– Borrowings at amortised cost	**19 804**	19 493
– Other payables at amortised cost	**15 289**	14 904
– Deposits from customers at amortised cost	**10 356**	8 985
– Investment contracts at fair value through profit or loss	**38 347**	32 291
– Derivative financial instruments at fair value through profit or loss	**667**	826
Employee benefits	**299**	315
Current income tax liability	**294**	369
TOTAL LIABILITIES	**222 215**	200 275
TOTAL EQUITY AND LIABILITIES	**274 390**	246 694

INCOME STATEMENT

for the six months ended 31 December 2021

R million	**GROUP SIX MONTHS ENDED DECEMBER 2021 UNAUDITED**	Group Six months ended December 2020 Unaudited	% change	Group Year ended June 2021 Audited
Insurance premium revenue	**29 218**	26 539		55 935
Reinsurance premiums	**(3 906)**	(3 818)		(7 729)
Accelerated reinsurance premiums	**–**	–		(823)
Net insurance premium revenue	**25 312**	22 721	11	47 383
Fee income from administration businesses	**6 180**	5 695		11 700
Vitality income	**1 739**	1 743		3 340
Net banking fee and commission income	**280**	219	28	480
Banking fee and commission income	**391**	296		633
Banking fee and commission expense	**(111)**	(77)		(153)
Net bank interest and similar income	**138**	137	1	241
Bank interest and similar income using the effective interest rate	**377**	302		627
Bank interest and similar expense using the effective interest rate	**(239)**	(165)		(386)
Investment income using the effective interest rate method	**145**	150		280
Net fair value gains on financial assets at fair value through profit or loss	**8 330**	5 513		11 891
Other income	**610**	499		1 372
Receipts arising from reinsurance contracts	**–**	500		500
Net income	**42 734**	37 177	15	77 187
Net claims and policyholders' benefits	**(15 944)**	(13 147)	(21)	(28 178)
Claims and policyholders' benefits	**(20 283)**	(15 604)		(33 972)
Insurance claims recovered from reinsurers	**4 339**	2 457		5 794
Acquisition costs	**(3 061)**	(2 883)		(5 033)
Marketing and administration expenses	**(12 047)**	(10 824)		(22 679)
Amortisation of intangibles from business combinations	**(30)**	(35)		(66)
Expected credit losses	**(19)**	(228)		(271)
Recovery of expenses from reinsurers	**1 237**	1 317		2 773
Net transfer to/from assets and liabilities under insurance contracts	**(6 078)**	(6 534)		(14 795)
– change in assets arising from insurance contracts	**4 119**	2 858		545
– change in assets arising from reinsurance contracts	**57**	87		56
– change in liabilities arising from insurance contracts	**(9 780)**	(8 166)		(17 941)
– change in liabilities arising from reinsurance contracts	**(996)**	(1 138)		1 755
– economic assumption adjustments net of discretionary margins	**522**	(175)		790
Fair value adjustment to liabilities under investment contracts	**(1 576)**	(1 207)		(3 634)
Profit from operations	**5 216**	3 636	43	5 304
Finance costs	**(834)**	(826)		(1 648)
Foreign exchange gains/(losses)	**128**	(362)		(389)
Gain on dilution and disposal of equity-accounted investments	**4**	–		554
Impairment of equity-accounted investments	**–**	–		(149)
Share of net profits from equity-accounted investments	**207**	155		523
Profit before tax	**4 721**	2 603	81	4 195
Income tax expense	**(1 416)**	(728)	95	(975)
Profit for the period	**3 305**	1 875	76	3 220
Profit attributable to:				
– ordinary shareholders	**3 277**	1 841		3 157
– preference shareholders	**28**	34		63
– non-controlling interest	*****	*		*
	3 305	1 875	76	3 220
Earnings per share for profit attributable to ordinary shareholders of the company during the year (cents):				
– basic	**498.8**	280.2	78	480.7
– diluted	**492.5**	277.8	77	475.4

* *Amount is less than R500 000.*

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the six months ended 31 December 2021

R million	GROUP SIX MONTHS ENDED DECEMBER 2021 UNAUDITED	Group Six months ended December 2020 Unaudited	% change	Group Year ended June 2021 Audited
Profit for the period	**3 305**	1 875	76	3 220
Items that are or may be reclassified subsequently to profit or loss:				
Currency translation differences	**1 729**	(1 306)		(1 576)
Cash flow hedges	**117**	77		260
– unrealised gains	**146**	276		360
– tax on unrealised gains	**(5)**	(55)		(25)
– gains recycled to profit or loss	**(26)**	(180)		(90)
– tax on recycled gains	**2**	36		15
Share of other comprehensive income from equity-accounted investments	**470**	(153)		(312)
– change in fair value of debt instruments at fair value through other comprehensive income	**18**	7		15
– currency translation differences	**452**	(160)		(327)
Other comprehensive income/(losses) for the period, net of tax	**2 316**	(1 382)	(268)	(1 628)
Total comprehensive income for the period	**5 621**	493	1 040	1 592
Attributable to:				
– ordinary shareholders	**5 593**	459	1 119	1 529
– preference shareholders	**28**	34		63
– non-controlling interest	*****	*		*
Total comprehensive income for the period	**5 621**	493	1 040	1 592

* *Amount is less than R500 000.*

STATEMENT OF CHANGES IN EQUITY

at 31 December 2021

R million	SHARE CAPITAL AND SHARE PREMIUM	PREFERENCE SHARE CAPITAL	SHARE-BASED PAYMENT RESERVE	INVESTMENT RESERVE[1]	FOREIGN CURRENCY TRANSLATION RESERVE	HEDGING RESERVE	RETAINED EARNINGS	TOTAL	NON-CONTROLLING INTEREST	TOTAL
	Attributable to equity holders of the Company				Attributable to equity holders of the Company					
Period ended 31 December 2021										
At beginning of the period	**10 151**	**779**	**489**	**18**	**1 772**	**(344)**	**33 550**	**46 415**	**4**	**46 419**
Total comprehensive income for the period	**–**	**28**	**–**	**18**	**2 181**	**117**	**3 277**	**5 621**	*****	**5 621**
Profit for the period	**–**	**28**	**–**	**–**	**–**	**–**	**3 277**	**3 305**	*****	**3 305**
Other comprehensive income	**–**	**–**	**–**	**18**	**2 181**	**117**	**–**	**2 316**	**–**	**2 316**
Transactions with owners	**12**	**(28)**	**151**	**–**	**–**	**–**	**–**	**135**	**–**	**135**
Share issue	**443**	**–**	**–**	**–**	**–**	**–**	**–**	**443**	**–**	**443**
Increase in treasury shares	**(443)**	**–**	**–**	**–**	**–**	**–**	**–**	**(443)**	**–**	**(443)**
Delivery of treasury shares	**12**	**–**	**(12)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Employee share option schemes:										
– Value of employee services	**–**	**–**	**163**	**–**	**–**	**–**	**–**	**163**	**–**	**163**
Dividends paid to preference shareholders	**–**	**(28)**	**–**	**–**	**–**	**–**	**–**	**(28)**	**–**	**(28)**
At end of the period	**10 163**	**779**	**640**	**36**	**3 953**	**(227)**	**36 827**	**52 171**	**4**	**52 175**
Period ended 31 December 2020										
At beginning of the period	10 148	779	195	3	3 675	(604)	30 353	44 549	4	44 553
Total comprehensive income for the period	–	34	–	7	(1 466)	77	1 841	493	*	493
Profit for the period	–	34	–	–	–	–	1 841	1 875	*	1 875
Other comprehensive income	–	–	–	7	(1 466)	77	–	(1 382)	–	(1 382)
Transactions with owners	12	(34)	111	–	–	–	–	89	–	89
Share issue	907	–	–	–	–	–	–	907	–	907
Increase in treasury shares	(907)	–	–	–	–	–	–	(907)	–	(907)
Delivery of treasury shares	12	–	(10)	–	–	–	–	2	–	2
Employee share option schemes:										
– Value of employee services	–	–	121	–	–	–	–	121	–	121
Dividends paid to preference shareholders	–	(34)	–	–	–	–	–	(34)	–	(34)
At end of the period	10 160	779	306	10	2 209	(527)	32 194	45 131	4	45 135

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

** Amount is less than R500 000.*

STATEMENT OF CASH FLOWS

for the six months ended 31 December 2021

R million	GROUP SIX MONTHS ENDED DECEMBER 2021 UNAUDITED	Group Six months ended December 2020 Unaudited	Group Year ended June 2021 Audited
Net cash flow from operating activities	**2 185**	6 612	10 407
Cash generated by operations	**8 554**	7 247	19 485
Purchase of investments held to back policyholder liabilities	**(42 395)**	(24 105)	(54 661)
Proceeds from disposal of investments held to back policyholder liabilities	**36 138**	19 335	38 709
Working capital changes	**(66)**	4 667	6 972
Cash generated from operating activities	**2 231**	7 144	10 505
Dividends received	**482**	59	303
Interest received	**1 057**	1 012	2 513
Interest paid	**(786)**	(606)	(1 197)
Taxation paid	**(799)**	(997)	(1 717)
Net cash flow from investing activities	**(3 420)**	(3 599)	(6 740)
Purchase of financial assets	**(16 065)**	(15 658)	(32 569)
Proceeds from disposal of financial assets	**14 968**	13 136	27 828
Purchase of property and equipment	**(122)**	(136)	(277)
Proceeds from disposal of property and equipment	**13**	3	21
Purchase of software and other intangible assets	**(743)**	(771)	(1 587)
Acquistion of business net of cash	**–**	(25)	(25)
Additional investment in equity-accounted investments	**(1 525)**	(148)	(240)
Dividends from equity-accounted investments	**54**	–	109
Net cash flow from financing activities	**(127)**	595	(590)
Dividends paid to preference shareholders	**(28)**	(34)	(63)
Proceeds from borrowings	**1 548**	919	1 839
Repayment of borrowings	**(1 647)**	(290)	(2 366)
Net (decrease)/increase in cash and cash equivalents	**(1 362)**	3 608	3 077
Cash and cash equivalents at beginning of the period	**20 013**	17 909	17 909
Exchange gains/(losses) on cash and cash equivalents	**1 105**	(780)	(973)
Cash and cash equivalents at end of the period	**19 756**	20 737	20 013

ADDITIONAL DISCLOSURE

for the six months ended 31 December 2021

FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

	31 DECEMBER 2021			
R million (unaudited)	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets				
Financial instruments mandatorily at fair value through profit or loss:				
– Equity portfolios	52 581	3 892	–	56 473
– Debt portfolios	43 648	1 840	–	45 488
– Money market portfolios	6 575	5 534	–	12 109
– Multi-asset portfolios	32 454	–	–	32 454
Derivative financial instruments at fair value:				
– used as cash flow hedges	–	43	–	43
– not designated as hedging instruments	–	251	–	251
Total financial assets	135 258	11 560	–	146 818
Financial liabilities				
Investment contracts at fair value through profit or loss	–	38 347	–	38 347
Derivative financial instruments at fair value:				
– used as cash flow hedges	–	302	–	302
– not designated as hedging instruments	–	365	–	365
Total financial liabilities	–	39 014	–	39 014

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

ADDITIONAL DISCLOSURE *continued*

for the six months ended 31 December 2021

FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *continued*

	30 June 2021			
R million (audited)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments mandatorily at fair value through profit or loss:				
– Equity portfolios	40 530	2 832	–	43 362
– Debt portfolios	34 845	1 640	–	36 485
– Money market portfolios	6 451	10 802	–	17 253
– Multi-asset portfolios	33 837	–	–	33 837
Derivative financial instruments at fair value:				
– used as cash flow hedges	–	28	–	28
– not designated as hedging instruments	–	221	–	221
Total financial assets	115 663	15 523	–	131 186
Financial liabilities				
Investment contracts at fair value through profit and loss	–	32 291	–	32 291
Derivative financial instruments at fair value:				
– used as cash flow hedges	–	461	–	461
– not designated as hedging instruments	–	365	–	365
Total financial liabilities	–	33 117	–	33 117

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 verify that the price provided by the provider is correct.
- If a quoted market price is not available on a recognised stock exchange or from a broker for non-exchange traded financial instruments, the fair value of the instrument is estimated by the asset managers, using valuation techniques including the use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions.
- The fair value of the hedged derivatives is calculated as follows:
  (a) The fair value of call options is calculated on a Black-Scholes model;
  (b) The fair value of the return swaps is calculated by discounting the future cash flows of the instruments; and
  (c) The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

ADDITIONAL DISCLOSURE *continued*

for the six months ended 31 December 2021

EXCHANGE RATES USED IN THE PREPARATION OF THESE RESULTS

	USD	GBP	RMB
31 December 2021			
– Average	**15.03**	**20.49**	**2.33**
– Closing	**15.91**	**21.51**	**2.50**
30 June 2021			
– Average	15.42	20.74	2.32
– Closing	14.28	19.74	2.21
31 December 2020			
– Average	16.28	21.27	2.40
– Closing	14.71	20.10	2.26

SEGMENTAL INFORMATION

for the six months ended 31 December 2021

R million	SA Health	SA Life	SA Invest	SA Insure[4]	SA Vitality	SA Bank	UK Health	UK Life	All other segments	Segment total	IFRS reporting adjustments[5]	IFRS TOTAL
Income statement												
Insurance premium revenue	87	7 337	7 712	2 260	–	–	5 606	3 359	3 256	29 617	(399)	29 218
Reinsurance premiums	(1)	(1 730)	–	(36)	–	–	(714)	(1 755)	(69)	(4 305)	399	(3 906)
Net insurance premium revenue	86	5 607	7 712	2 224	–	–	4 892	1 604	3 187	25 312	–	25 312
Fee income from administration businesses	3 818	–	1 388	9	–	–	14	–	958	6 187	(7)	6 180
Vitality income	–	–	–	–	1 140	–	181	115	303	1 739	–	1 739
Net banking fee and commission income	–	–	–	–	–	275	–	–	5	280	–	280
Banking fee and commission income[1]	–	–	–	–	–	391	–	–	–	391	–	391
Banking fee and commission expense	–	–	–	–	–	(116)	–	–	5	(111)	–	(111)
Net bank interest and similar income	–	–	–	–	–	138	–	–	–	138	–	138
Bank interest and similar income using the effective interest rate	–	–	–	–	–	377	–	–	–	377	–	377
Bank interest and similar expense using the effective interest rate	–	–	–	–	–	(239)	–	–	–	(239)	–	(239)
Investment income earned on assets backing policyholder liabilities	–	1	–	59	–	–	–	4	3	67	(67)	–
Finance charge on negative reserve funding	–	–	–	–	–	–	–	(168)	–	(168)	168	–
Inter-segment funding[2]	–	(341)	341	–	–	–	–	–	–	–	–	–
Net fair value gains/(losses) on financial assets at fair value through profit or loss	13	293	6 223	3	1	3	(27)	159	966	7 634	696	8 330
Other income	572	7	–	–	–	–	9	–	22	610	–	610
Net income	4 489	5 567	15 664	2 295	1 141	416	5 069	1 714	5 444	41 799	790	42 589
Net claims and policyholders' benefits	(20)	(5 175)	(6 224)	(1 349)	–	–	(2 228)	(476)	(472)	(15 944)	–	(15 944)
Claims and policyholders' benefits	(20)	(8 395)	(6 224)	(1 349)	–	–	(2 876)	(1 149)	(540)	(20 553)	270	(20 283)
Insurance claims recovered from reinsurers	–	3 220	–	–	–	–	648	673	68	4 609	(270)	4 339
Acquisition costs	(12)	(814)	(592)	(342)	(46)	–	(481)	(737)	131	(2 893)	(168)	(3 061)
Marketing and administration expenses												
– depreciation and amortisation	(47)	(4)	(5)	(42)	(6)	(129)	(241)	(31)	(377)	(882)	(84)	(966)
– derecognition of intangible assets and property and equipment	–	–	–	(6)	–	–	–	–	–	(6)	–	(6)
– other expenses	(2 659)	(1 063)	(573)	(500)	(1 050)	(766)	(1 871)	(1 056)	(1 467)	(11 005)	(70)	(11 075)
Expected credit losses	–	–	–	–	–	(19)	–	–	–	(19)	–	(19)
Recovery of expenses from reinsurers	–	–	–	–	–	–	451	786	–	1 237	–	1 237
Net transfer to/from assets and liabilities under insurance contracts												
– change in assets arising from insurance contracts	–	3 769	–	–	–	–	–	(2 318)	35	1 486	2 633	4 119
– change in assets arising from reinsurance contracts	–	62	–	–	–	–	(15)	7	4	58	(1)	57
– change in liabilities arising from insurance contracts	(1)	439	(7 283)	(21)	–	–	166	(11)	(3 047)	(9 758)	(22)	(9 780)
– change in liabilities arising from reinsurance contracts	–	(846)	–	–	–	–	–	2 483	–	1 637	(2 633)	(996)
Fair value adjustment to liabilities under investment contracts	–	(1)	(470)	–	–	–	–	–	(574)	(1 045)	(531)	(1 576)
Share of net profits from equity-accounted investments	–	–	–	(20)	–	–	–	–	227	207	–	207
Normalised profit/(loss) from operations	1 750	1 934	517	15	39	(498)	850	361	(96)	4 872	(86)	4 786
Economic assumption adjustments net of discretionary margins and interest rate derivative	–	498	–	–	–	–	–	(46)	–	452	70	522
Economic assumption adjustments net of discretionary margins	–	498	–	–	–	–	–	24	–	522	–	522
Fair value losses on VitalityLife interest rate derivative	–	–	–	–	–	–	–	(70)	–	(70)	70	–
Net fair value gains on financial assets at fair value through profit or loss	–	34	16	–	–	–	–	60	102	212	(212)	–
Investment income earned on shareholder investments and cash[3]	17	6	16	–	16	–	18	1	8	82	63	145
Intercompany investment income[3]	–	–	–	–	–	–	–	3	448	451	(451)	–
Gain on dilution and disposal of equity-accounted investments	–	–	–	4	–	–	–	–	–	4	–	4
Expenses related to Prudential Book transfer	–	–	–	–	–	–	–	(92)	–	(92)	92	–
Covid-19 vaccination programme	–	–	–	–	–	–	–	–	(137)	(137)	137	–
Amortisation of intangibles from business combinations	–	–	–	–	–	–	–	–	(30)	(30)	–	(30)
Market rentals related to Head Office building adjusted for finance costs and depreciation	–	–	–	–	–	–	–	–	(83)	(83)	83	–
Finance costs	(1)	–	–	–	–	–	(3)	(50)	(640)	(694)	(140)	(834)
Intercompany finance costs	(145)	–	–	–	–	–	(3)	(113)	(195)	(456)	456	–
Foreign exchange gains	2	18	18	–	–	–	–	–	90	128	–	128
Profit/(loss) before tax	1 623	2 490	567	19	55	(498)	862	124	(533)	4 709	12	4 721
Income tax expense	(448)	(728)	(159)	(8)	(16)	128	(186)	(28)	41	(1 404)	(12)	(1 416)
Profit/(loss) for the period	1 175	1 762	408	11	39	(370)	676	96	(492)	3 305	–	3 305

1 *The banking fee and commission consists of R180 million of revenue which is recognised over time, while interchange revenue of R211 million is recognised at a point in time.*

2 *The inter-segment funding of R341 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.*

3 *From the interim period ending 31 December 2021, intercompany investment income is presented separately. In previous periods, this amount was included in 'Investment income earned on shareholder investments and cash'. The previous reporting period has been restated to align presentation.*

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

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

- *The VitalityLife results, for business written on the Prudential Assurance Company license, are reclassified to account for the contractual arrangement as a reinsurance contract under IFRS 4.*
- *Unit trusts which the Group controls in terms of IFRS 10 are consolidated into Discovery's results for IFRS purposes. The IFRS reporting adjustments include the effects of consolidating the unit trusts into Discovery's results, effectively being the income and expenses relating to units held by third parties.*
- *The effects of eliminating intercompany transactions on consolidation and normalised operating profit adjustments.*
- *The effects of reclassifying items to align to IFRS results.*

SEGMENTAL INFORMATION *continued*

for the six months ended 31 December 2020

R million	SA Health	SA Life	SA Invest	SA Insure[4]	SA Vitality	SA Bank	UK Health	UK Life	All other segments	Segment total	IFRS reporting adjustments[5]	IFRS total
Income statement												
Insurance premium revenue	155	6 709	7 230	1 979	–	–	5 076	3 250	2 594	26 993	(454)	26 539
Reinsurance premiums	(1)	(1 617)	–	(31)	–	–	(907)	(1 683)	(33)	(4 272)	454	(3 818)
Net insurance premium revenue	154	5 092	7 230	1 948	–	–	4 169	1 567	2 561	22 721	–	22 721
Fee income from administration businesses	3 707	–	1 120	7	–	2	16	–	849	5 701	(6)	5 695
Vitality income	–	–	–	–	1 132	15	150	118	328	1 743	–	1 743
Net banking fee and commission income	–	–	–	–	–	215	–	–	4	219	–	219
Banking fee and commission income[1]	–	–	–	–	–	296	–	–	–	296	–	296
Banking fee and commission expense	–	–	–	–	–	(81)	–	–	4	(77)	–	(77)
Net bank interest and similar income	–	–	–	–	–	121	–	–	–	121	16	137
Bank interest and similar income using the effective interest rate	–	–	–	–	–	302	–	–	–	302	–	302
Bank interest and similar expense using the effective interest rate	–	–	–	–	–	(181)	–	–	–	(181)	16	(165)
Investment income earned on assets backing policyholder liabilities	–	6	–	64	–	–	1	1	1	73	(73)	–
Finance charge on negative reserve funding	–	–	–	–	–	–	–	86	–	86	(86)	–
Inter-segment funding[2]	–	(373)	373	–	–	–	–	–	–	–	–	–
Net fair value gains/(losses) on financial assets at fair value through profit or loss	5	389	4 167	6	–	83	38	(105)	540	5 123	390	5 513
Other income	434	1	–	–	–	41	14	–	9	499	–	499
Receipts arising from reinsurance contracts	–	500	–	–	–	–	–	–	–	500	–	500
Net income	4 300	5 615	12 890	2 025	1 132	477	4 388	1 667	4 292	36 786	241	37 027
Net claims and policyholders' benefits	(62)	(3 619)	(5 938)	(1 073)	–	–	(1 809)	(360)	(286)	(13 147)	–	(13 147)
Claims and policyholders' benefits	(62)	(5 123)	(5 938)	(1 072)	–	–	(2 420)	(899)	(316)	(15 830)	226	(15 604)
Insurance claims recovered from reinsurers	–	1 504	–	(1)	–	–	611	539	30	2 683	(226)	2 457
Acquisition costs	(19)	(798)	(493)	(285)	(29)	–	(427)	(983)	65	(2 969)	86	(2 883)
Marketing and administration expenses												
– depreciation and amortisation	(58)	(4)	(5)	(34)	(7)	(130)	(212)	(29)	(337)	(816)	(105)	(921)
– derecognition of intangible assets and property and equipment	–	–	–	(3)	–	–	–	–	–	(3)	–	(3)
– other expenses	(2 491)	(988)	(487)	(463)	(1 050)	(730)	(1 608)	(765)	(1 203)	(9 785)	(115)	(9 900)
Expected credit losses	–	–	–	–	–	(228)	–	–	–	(228)	–	(228)
Recovery of expenses from reinsurers	–	–	–	–	–	–	404	913	–	1 317	–	1 317
Transfer to/from assets and liabilities under insurance contracts												
– change in assets arising from insurance contracts	–	2 627	–	–	–	–	–	231	39	2 897	(39)	2 858
– change in assets arising from reinsurance contracts	–	35	–	–	–	–	47	5	–	87	–	87
– change in liabilities arising from insurance contracts	–	(111)	(5 227)	(56)	–	–	(169)	(9)	(2 680)	(8 252)	86	(8 166)
– change in liabilities arising from reinsurance contracts	–	(834)	–	–	–	–	–	(343)	–	(1 177)	39	(1 138)
Fair value adjustment to liabilities under investment contracts	–	(1)	(269)	–	–	–	–	–	(88)	(358)	(849)	(1 207)
Share of net profits from equity-accounted investments	–	–	–	(4)	–	–	(1)	–	160	155	–	155
Normalised profit/(loss) from operations	1 670	1 922	471	107	46	(611)	613	327	(38)	4 507	(656)	3 851
Investment income earned on shareholder investments and cash[3]	21	4	17	–	21	–	–	3	11	77	73	150
Intercompany investment income[3]	–	–	–	–	–	–	–	3	325	328	(328)	–
Economic assumption adjustments net of discretionary margins and interest rate derivative	–	(493)	–	–	–	–	–	1	–	(492)	317	(175)
Economic assumption adjustments net of discretionary margins	–	(493)	–	–	–	–	–	318	–	(175)	–	(175)
Fair value gains on VitalityLife interest rate derivatives	–	–	–	–	–	–	–	(317)	–	(317)	317	–
Net fair value gains on financial assets at fair value through profit or loss	–	79	(3)	–	–	–	–	(47)	(211)	(182)	182	–
Restructuring costs	–	–	–	–	–	–	–	(25)	–	(25)	25	–
Expenses related to Prudential Book transfer	–	–	–	–	–	–	–	(96)	–	(96)	96	–
Amortisation of intangibles from business combinations	–	–	–	–	–	–	–	–	(35)	(35)	–	(35)
Market rentals related to Head Office building adjusted for finance costs and depreciation	–	–	–	–	–	–	–	–	(124)	(124)	124	–
Finance costs	(4)	–	–	–	–	–	(1)	(36)	(608)	(649)	(177)	(826)
Intercompany finance costs	(128)	–	–	–	–	–	(3)	(126)	(71)	(328)	328	–
Foreign exchange losses	(14)	–	(28)	–	–	–	–	–	(320)	(362)	–	(362)
Profit/(loss) before tax	1 545	1 512	457	107	67	(611)	609	4	(1 071)	2 619	(16)	2 603
Income tax expense	(436)	(455)	(126)	(31)	(20)	147	(120)	11	286	(744)	16	(728)
Profit/(loss) for the period	1 109	1 057	331	76	47	(464)	489	15	(785)	1 875	–	1 875

1 The banking fee and commission consists of R145 million of revenue which is recognised over time, while interchange revenue of R157 million is recognised at a point in time.

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

3 In line with the current period disclosure, the prior period numbers were restated to separately present intercompany investment income.

4 This segment relates to SA Insure – Personal lines.

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

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

– Unit trusts which the Group controls in terms of IFRS 10 are consolidated into Discovery's results for IFRS purposes. The IFRS reporting adjustments include the effects of consolidating the unit trusts into Discovery's results, effectively being the income and expenses relating to units held by third parties.

– The effects of eliminating intercompany transactions on consolidation and normalised operating profit adjustments.

– The effects of reclassifying items to align to IFRS results.

ADDITIONAL INFORMATION

NORMALISED PROFIT FROM OPERATIONS

The following table shows the main components of the normalised profit from operations, per composite, for the six months ended 31 December 2021:

	South Africa			United Kingdom			Vitality Global			Total		
R million	**DECEMBER 2021**	December 2020	% change	**DECEMBER 2021**	December 2020	% change	**DECEMBER 2021**	December 2020	% change	**DECEMBER 2021**	December 2020	% change
Discovery Health	**1 750**	1 670	5	**–**	–	–	**–**	–	–	**1 750**	1 670	5
Discovery Life	**1 934**	1 922	1	**–**	–	–	**–**	–	–	**1 934**	1 922	1
Discovery Invest	**517**	471	10	**–**	–	–	**–**	–	–	**517**	471	10
Discovery Vitality	**39**	46	(15)	**–**	–	–	**–**	–	–	**39**	46	(15)
VitalityHealth	**–**	–	–	**850**	613	39	**–**	–	–	**850**	613	39
VitalityLife	**–**	–	–	**361**	327	10	**–**	–	–	**361**	327	10
Normalised profit from established businesses	**4 240**	4 109	3	**1 211**	940	29	**–**	–	–	**5 451**	5 049	8
Discovery Insure (Personal lines)	**15**	107	(86)	**–**	–	–	**–**	–	–	**15**	107	(86)
Vitality Group[1]	**–**	–	–	**–**	–	–	**234**	238	(2)	**234**	238	(2)
Ping An Health[1]	**–**	–	–	**–**	–	–	**140**	112	25	**140**	112	25
Normalised profit from emerging businesses[2]	**15**	107	(86)	**–**	–	–	**374**	350	7	**389**	457	(15)
Discovery Bank	**(498)**	(611)	18	**–**	–	–	**–**	–	–	**(498)**	(611)	18
Other new initiatives[1, 3]	**(175)**	(151)	(16)	**(101)**	(89)	(13)	**(194)**	(148)	(31)	**(470)**	(388)	(21)
Normalised loss from new initiatives	**(673)**	(762)	12	**(101)**	(89)	(13)	**(194)**	(148)	(31)	**(968)**	(999)	3
Normalised profit from operations[4]	**3 582**	3 454	4	**1 110**	851	30	**180**	202	(11)	**4 872**	4 507	8

1 *Included in 'All other segments' in the Segmental information.*

2 *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.*

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

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

REVIEW OF GROUP RESULTS *continued*

for the six months ended 31 December 2021

ADDITIONAL INFORMATION *continued*

EARNINGS, HEADLINE EARNINGS AND NORMALISED HEADLINE EARNINGS

Change in presentation of reconciliation of headline earnings and normalised headline earnings

For the six months ended 31 December 2021, the headline earnings and normalised headline earnings reconciliations have been amended to enhance the presentation thereof. The presentation of prior periods have been restated accordingly to enable comparability.

R million	GROUP SIX MONTHS ENDED DECEMBER 2021 UNAUDITED	Group Six months ended December 2020 Unaudited	% change	Group Year ended June 2021 Audited
Earnings per share (cents):				
– basic	**498.8**	280.2	78	480.7
– diluted	**492.5**	277.8	77	475.4
Headline earnings per share (cents):				
– basic	**499.1**	280.3	78	454.7
– diluted	**492.7**	277.9	77	449.7
Normalised headline earnings per share (cents):				
– basic	**437.7**	347.9	26	518.7
– diluted	**432.2**	344.9	25	512.9
Number of shares used in calculation				
Weighted number of shares in issue ('000)	**656 862**	656 668		656 710
Diluted weighted number of shares ('000)	**665 290**	662 422		664 073

Headline earnings reconciliation

Headline earnings per share is disclosed per the JSE Listing Requirements and is calculated in accordance with the circular titled Headline Earnings issued by SAICA, as amended from time to time. Headline earnings per share is based on the net profit after tax attributable to ordinary shareholders adjusted for items of a capital nature and the weighted average number of ordinary shares in issue.

R million	GROUP SIX MONTHS ENDED DECEMBER 2021 UNAUDITED			Group Six months ended December 2020 Unaudited			%	Group Year ended June 2021 Audited
	GROSS	**TAX**	**NET**	Gross	Tax	Net	change	Net
Profit attributable to the ordinary shareholders			**3 277**			1 841	78	3 157
Adjusted for:								
– loss on derecognition of property and equipment	**6**	**(2)**	**4**	3	(1)	2		9
– gain on disposal of property and equipment	**–**	**–**	**–**	(1)	–	(1)		(2)
– impairment of property and equipment	**–**	**–**	**–**	–	–	–		15
– gain on dilution and disposal of equity-accounted investments	**(4)**	**1**	**(3)**	–	–	–		(414)
– impairment of equity-accounted investments	**–**	**–**	**–**	–	–	–		149
– loss on derecognition of intangible assets	**–**	**–**	**–**	–	–	–		31
– impairment of other intangible assets	**–**	**–**	**–**	–	–	–		41
Headline earnings			**3 278**			1 842	78	2 986

REVIEW OF GROUP RESULTS *continued*

for the six months ended 31 December 2021

ADDITIONAL INFORMATION *continued*

Normalised headline earnings reconciliation

Normalised headline earnings is calculated per Discovery's policy as set out in the Accounting Policies at the end of the results announcement.

R million	GROUP SIX MONTHS ENDED DECEMBER 2021 UNAUDITED GROSS	TAX	NET	Group Six months ended December 2020 Unaudited Gross	Tax	Net	% change	Group Year ended June 2021 Audited Net
Headline earnings			**3 278**			1 842	78	2 986
Adjusted for:								
– economic assumption adjustments net of discretionary margins and interest rate derivatives	**(452)**	**131**	**(321)**	492	(138)	354		383
– (gain)/loss on economic assumption adjustments net of discretionary margins	**(522)**	**144**	**(378)**	175	(77)	98		(677)
– loss on fair value changes on VitalityLife interest rate derivatives	**70**	**(13)**	**57**	317	(61)	256		1 060
– other	**(129)**	**48**	**(81)**	314	(226)	88		37
– amortisation of intangible assets arising from business combinations	**30**	**(6)**	**24**	35	(8)	27		53
– recognition of deferred tax assets on assessed losses not recognised in previous periods	**–**	**–**	**–**	–	(146)	(146)		(152)
– (gain)/loss on fair value changes on foreign exchange contracts not designated as hedges	**(99)**	**28**	**(71)**	207	(58)	149		219
– (gain)/loss on fair value changes on swaption contract in VitalityLife	**(60)**	**11**	**(49)**	47	(9)	38		(113)
– restructuring costs	**–**	**–**	**–**	25	(5)	20		27
– transaction costs related to the VitalityLife interest rate derivative	**–**	**–**	**–**	–	–	–		3
– increase in deferred tax balances resulting from use of different tax rates on items that were excluded from normalised headline earnings	**–**	**15**	**15**	–	–	–		–
Normalised headline earnings			**2 876**			2 284	26	3 406

OTHER SIGNIFICANT ITEMS IN THESE RESULTS

PROVISION AND RESERVES FOR EXPECTED COVID-19

At 30 June 2021, Discovery had reserved R3.1 billion, for both future claims and lapses as a result of the COVID-19 pandemic. This estimation reflected management's best estimate of the impact as at 30 June 2021. The COVID-19 provisions comprise of provisions made in Discovery Life and VitalityLife and unearned premium reserves in VitalityHealth. Due to the utilisation of the available discretionary margin, some of these provisions are accounted for against the discretionary margins in accordance with IFRS and Discovery's accounting policy.

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

R million	**GROUP SIX MONTHS ENDED DECEMBER 2021 UNAUDITED**	Group Six months ended December 2020 Unaudited	Group Year ended June 2021 Audited
At beginning of the period	**3 080**	3 442	3 442
– Provisions	**2 800**	2 729	2 729
– Unearned premium reserve	**280**	713	713
Movements:	**(2 211)**	(86)	(362)
Unwinding, utilisation and release of provisions	**(2 238)**	(1 116)	(1 886)
Provisions made/(released) during the period, including in respect of new business	**(5)**	542	2 177
Net movement in unearned premium reserve	**25**	357	(433)
Other	**7**	131	(220)
At end of the period	**869**	3 356	3 080
– Provisions	**564**	2 293	2 800
– Unearned premium reserve	**305**	1 063	280

CLAIMS EXPERIENCE FROM CIVIL UNREST JULY 2021

The claims arising from the July 2021 unrest in both personal lines and business lines of Discovery Insure were fully settled from the SASRIA fund, with no loss to Discovery.

OTHER SIGNIFICANT ITEMS IN THESE RESULTS *continued*

bORROWINGS AT AMORTISED COST

R million	Reference	DECEMBER 2021	June 2021
Borrowings from Banks and listed debt		**15 550**	15 230
– United Kingdom borrowings	i	**3 385**	3 764
– South African borrowings	ii	**12 165**	11 466
Lease liabilities		**4 254**	4 263
– 1 Discovery Place		**3 387**	3 388
– Other lease liabilities		**867**	875
Total borrowings at amortised cost		**19 804**	19 493

i. United Kingdom borrowings

Facility amount GBP million	Variable rate	Capital repayment and maturity date	Carrying value GBP/Rand million DECEMBER 2021 GBP	DECEMBER 2021 R	June 2021 GBP	June 2021 R
80	3-month Libor + 265bps[1]	Instalments – 31 July 2023	**58**	**1 241**	73	1 435
28	3-month Libor + 100bps[1, 2]	At maturity – 18 April 2022	**–**	**–**	26	512
75	3-month Libor + 229bps[1]	At maturity – 31 July 2023	**98**	**2 144**	89	1 817
183			**156**	**3 385**	188	3 764

1 *Interest payable quarterly in arrears.*
2 *This is a revolving facility.*

Total finance cost for the UK borrowings for the six months ended 31 December 2021 was GBP 2.8 million (R57 million) (31 December 2020: GBP 3.2 million (R65 million)).

OTHER SIGNIFICANT ITEMS IN THESE RESULTS *continued*

BORROWINGS AT AMORTISED COST *continued*

ii. South African borrowings

CREDIT RATING

Moody's Investors Service ("Moody's") reaffirmed Discovery Limited's Global scale long term issuer rating at Ba3 on 15 November 2021. In line with the country's outlook, the credit outlook assigned by Moody's remains negative. The national scale long term issuer rating of Discovery was reaffirmed at A1.za.

DISCOVERY LIMITED

Facility amount R million	Variable rate	Interest rate per annum	Capital repayment and maturity date	Carrying value R million DECEMBER 2021	Carrying value R million June 2021
Listed DMTN[4]					
500	3-month Jibar + 161bps	9.71%[1,3]	At maturity – 21 November 2022	**503**	503
500	3-month Jibar + 205bps	6.30%[1,3]	At maturity – 21 August 2023	**503**	503
200	–	10.46%[2]	At maturity – 21 November 2024	**202**	202
800	3-month Jibar + 191bps	10.31%[1,3]	At maturity – 21 November 2024	**804**	804
1 200	3-month Jibar + 191bps	9.21%[1,3]	At maturity – 21 November 2024	**1 218**	1 220
700	3-month Jibar + 180bps	10.29%[1,3]	At maturity – 21 August 2026	**704**	703
300	3-month Jibar + 180bps	9.40%[1,3]	At maturity – 21 August 2026	**302**	302
Unlisted DMTN[4]					
1 100	–	8.92%[3]	At maturity – 10 March 2023	**1 104**	1 103
2 500	–	9.62%[3]	At maturity – 22 February 2025	**2 519**	2 519
Other					
1 000	3-month Jibar + 245bps	10.28%[1,3]	At maturity – 02 March 2023	**1 000**	999
500	3-month Jibar + 86bps	5.85%	At maturity – 30 June 2022	**674**	659
1 400	–	4.93%[3]	At maturity – 12 April 2022	**699**	–
10 700				**10 232**	9 517

1 *The interest rate has been fixed through interest rate swaps.*
2 *Interest is payable semi-annually in arrears.*
3 *Interest payable quarterly in arrears.*
4 *DMTN refers to the R10 billion Discovery Domestic Medium Term Note (DMTN) program registered in 2017.*

OTHER SIGNIFICANT ITEMS IN THESE RESULTS *continued*

bORROWINGS AT AMORTISED COST *continued*

DISCOVERY CENTRAL SERVICES

Facility amount R million	Interest rate per annum	Capital repayment and maturity date	Carrying value R million DECEMBER 2021	Carrying value R million June 2021
1 400	10.60%[1]	At maturity – 20 December 2023	**1 421**	1 423
650	11.56%[2]	Instalments – 29 October 2027	**512**	526
2 050			**1 933**	1 949

1 *Interest payable quarterly in arrears.*

2 *Instalments of interest and capital is monthly.*

Total finance cost for South African borrowings and related hedges for the six months ended 31 December 2021 was R563 million (31 December 2020: R544 million).

CAPITAL MANAGEMENT, FINANCIAL LEVERAGE RATIO AND COVENANTS

The Group's capital is defined as capital and reserves attributable to shareholders as presented on the consolidated statement of financial position. The Group's objectives when managing capital are:

- To comply with the statutory capital requirements required by the regulators of the insurance markets where the Group operates; refer to Capital section below for the statutory capital requirements.
- To maintain a capital buffer in excess of the statutory capital requirements in order to reduce the risk of breaching the statutory requirement in the event of deviations from the main assumptions affecting the Group's insurance businesses.
- To ensure that sufficient capital is available to fund the Group's working capital and strategic capital requirements.
- To achieve an optimal and efficient capital funding profile; and
- To consider capital management needs both in the short term and over a five-year planning horizon.

Discovery has a Finance and Capital Committee that ensures alignment in strategic financial management between the centre and subsidiaries within South Africa, UK and US. The committee is the governance body for all capital allocation activities across the Group.

A range of capital raising options are available to manage the capital structure of the Group, which includes the issue of new shares, debt, reinsurance arrangements and other hybrid instruments.

OTHER SIGNIFICANT ITEMS IN THESE RESULTS *continued*

CAPITAL MANAGEMENT, FINANCIAL LEVERAGE RATIO AND COVENANTS

FINANCIAL LEVERAGE RATIO

As part of the capital management process, the Group monitors its capital structure utilising the Financial Leverage Ratio (FLR). This ratio is calculated as total debt[1] divided by total debt plus total equity. The Group's strategy is to maintain a prudent FLR of below 28% per the Group Risk Appetite statement. However, the 28% is merely a risk appetite indicator, and doesn't necessarily indicate any form of a breach in terms of regulatory or covenant restrictions. The table below summarises the FLR position:

R million	**DECEMBER 2021**	June 2021
– Borrowings at amortised cost[1]	**15 550**	15 230
– Guaranteed deposit facilities	**800**	800
Total debt and guarantees[1]	**16 350**	16 030
Total equity	**52 175**	46 419
Financial Leverage Ratio (%)	**23.9%**	25.7%

1 *Excluding all IFRS 16 lease liabilities of R4 254 million (June 2021: R4 263 million).*

The FLR at 31 December 2021 is in line with Discovery's risk appetite.

OTHER SIGNIFICANT ITEMS IN THESE RESULTS *continued*

CAPITAL MANAGEMENT, FINANCIAL LEVERAGE RATIO AND COVENANTS *continued*

CAPITAL

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

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

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

	DECEMBER 2021		June 2021	
	STATUTORY CAPITAL REQUIREMENTS	**COVER**	Statutory capital requirements	Cover
Discovery Life	**R19 205 million**	**1.8 times**	R17 647 million	1.8 times
Discovery Insure	**R935 million**	**1.8 times**	R1 079 million	1.8 times
Vitality Health	**GBP109.2 million (R2 348 million)**	**1.9 times**	GBP 105.6 million (R2 084 million)	1.6 times
Vitality Life	**GBP257.3 million (R5 533 million)**	**2.2 times**	GBP 225.5 million (R4 451 million)	2.4 times

As communicated in the results for the year ended 30 June 2021, Ping An Health Insurance Company of China Limited (PAH) required additional capital for future growth and in response to new Chinese prudential regulatory requirements. During the period under review, Discovery has advanced R1.5 billion to PAH in proportion to Discovery's 24.99% shareholding. While this was funded in the interim by way of a bridge facility and internal resources, as explained in the previous reporting period, Discovery still anticipates raising a specific quantum of equity capital for this purpose in line with the disciplined framework of the capital plan.

SHAREHOLDER INFORMATION

DIRECTORATE

Changes to the Board of Discovery Limited from 1 July 2021 to the date of this announcement are as follows:

- Ms M Hlahla has been appointed as an independent non-executive director with effect from 15 August 2021. Ms M Hlahla is a member of the Audit Committee, Remuneration Committee, and Social and Ethics Committee. Ms Hlahla's appointment strengthens the independence and business skills on the board and the committees.
- Ms SE De Bruyn, an independent non-executive director, retired, effective 24 November 2021. Ms De Bruyn has served as an independent non-executive director of the Company since 2005 and has served as the chairperson of the Remuneration Committee and as a member of the Audit Committee. Ms De Bruyn has also retired as a non-executive director of Discovery Life Limited, Discovery Health (Pty) Ltd and Discovery Vitality (Pty) Ltd.
- Dr BA Brink, an independent non-executive director, retired, effective 24 November 2021. Dr Brink has served as an independent non-executive director of the Company since 2004 and has served as a member of the Treating Customers Fairly Subcommittee, Social and Ethics Committee as well as the Risk and Compliance Committee. Dr Brink has also retired as a non-executive director of Discovery Health (Pty) Ltd and Discovery Vitality (Pty) Ltd.
- Ms F Khanyile, an independent non-executive director, has been appointed as Chairperson of the Remuneration Committee following the retirement of Ms SE De Bruyn.

DIVIDEND

Final dividends paid in respect of the 2021 financial year

The following final dividends were paid during the current period:

- B preference share dividend of 347.12329 cents per share (277.69863 cents net of dividend withholding tax), paid on Monday 27 September 2021.
- Discovery had not recommended the payment of final ordinary dividends for the year ended 30 June 2021.

REVIEW OF GROUP RESULTS *continued*

for the six months ended 31 December 2021

OTHER SIGNIFICANT ITEMS IN THESE RESULTS *continued*

DEbT COVENANTS

The following are the key debt covenant ratios and their proximity to minimum requirements as per the contractual financial covenants.

Debt covenant and explanation	Minimum requirement	**DECEMBER 2021**	June 2021
Group Debt to EBITDA Ratio: – Group debt is contractually defined and means the aggregate consolidated financial indebtedness of the Group and excludes items such as the 1 Discovery Place ('1 DP') lease and includes guarantees issued to third parties. – EBITDA is contractually defined and specifically includes items such as dividends from associates, rental paid on 1DP and excludes such items deemed extraordinary, such as economic assumption adjustments, and specified FinRe arrangements.	Less than 2.5 times	**2.16**	2.31
Group financial indebtedness to embedded value – Group financial indebtedness is as per Group Debt in the calculation.	Less than 30% of Group Embedded value	**20.8%**	22.6%
Discovery Life Statutory Capital Requirement (SCR) Cover	SCR cover must be more than 1.1	**1.84 times**	1.83 times
Group embedded value	Greater than R30 billion	**ZAR 82 916 million**	ZAR 74 713 million
New business embedded value must not be negative	Positive value of new business for 3 consecutive 6-month periods	**Dec 2021: R937 million** **June 2021: R946 million** **Dec 2020: R945 million**	June 2021: R946 million Dec 2020: R945 million June 2020: R726 million

REVIEW OF GROUP RESULTS *continued*

for the six months ended 31 December 2021

OTHER SIGNIFICANT ITEMS IN THESE RESULTS *continued*

CONSOLIDATION OF UNIT TRUSTS WHICH THE GROUP CONTROLS

Unit Trusts which the Group controls in terms of IFRS 10 are consolidated into Discovery's results for accounting purposes, which results in the recognition of the underlying assets and liabilities of each of the funds.

Assets and liabilities of these Unit Trusts increased by R2 463 million respectively, compared to the prior financial year, with movements in the following line items on the Group's Statement of Financial Position:

Changes in assets

- Investments at fair value through profit or loss increased by R2 475 million.
- Cash and cash equivalents increased by R304 million.
- Insurance receivables, contract receivables and other non-financial receivables decreased by R310 million.
- Other assets decreased by R6 million.

Changes in liabilities

- Investment contracts at fair value through profit or loss increased by R2 783 million.
- Other liabilities decreased by R320 million.

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

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

- Purchase of investments held to back policyholder liabilities includes cash outflows of R30 687 million.
- Proceeds from the disposal of investments held to back policyholder liabilities includes cash inflows of R28 374 million.

MATERIAL TRANSACTIONS WITH RELATED PARTIES

Discovery Long Term-Incentive Plan Trust

At the annual general meeting held on 28 November 2019, the shareholders approved the establishment of the Discovery Long-Term Incentive Plan Trust (Trust) with the purpose, *inter-alia*, to subscribe, purchase and/or otherwise acquire and hold Discovery ordinary shares from time to time for the benefit of the share-based payment plan for employees, in accordance with the requirements of the Trust. During December 2021, 3 194 870 (2020: 7 477 865) new shares were issued by Discovery Limited to the Trust (2020: the allocation represented the allocation of 2019 and 2020) at a value of R443 million (2020: R907 million), with a par value of 0.01 cents per share. While held in the Trust, these shares are treated as treasury shares and not treated as issued.

MAJOR CUSTOMERS AND OTHER DISCOVERY ENTITIES NOT PART OF DISCOVERY GROUP

Discovery Health Medical Scheme (DHMS)

Discovery Health administers DHMS and provides managed care services for which it charges an administration fee and a managed healthcare fee respectively. These fees are determined on an annual basis and approved by the independent trustees of DHMS. The fees totalled R3 271 million for the six months ended 31 December 2021 (2020: R3 140 million). In addition, Discovery offers the members of DHMS access to the Vitality programme.

SHAREHOLDER INFORMATION *continued*

Interim dividend declaration in respect of the 2022 financial year

b PREFERENCE SHARE CASH DIVIDEND DECLARATION:

On 18 February 2022, the directors declared an interim gross cash dividend of 355.75342 cents (284.60274 cents net of dividend withholding tax) per B preference share for the period 1 July 2021 to 31 December 2021, 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, 8 March 2022
Shares commence trading "ex" dividend	Wednesday, 9 March 2022
Record date	Friday, 11 March 2022
Payment date	Monday, 14 March 2022

B Preference share certificates may not be dematerialised or rematerialised between Wednesday, 9 March 2022 and Friday, 11 March 2022.

ORDINARY SHARE CASH DIVIDEND DECLARATION:

Given the remaining uncertainty caused by the COVID-19 pandemic, Discovery will not be recommending the payment of interim ordinary dividends. The reintroduction of dividends will be considered when appropriate.

ACCOUNTING POLICIES

NORMALISED HEADLINE EARNINGS

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

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

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

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

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

bASIS OF PREPARATION

Statement of compliance

Discovery Limited is a company incorporated in South Africa.

The unaudited condensed consolidated interim financial statements for the six months ended 31 December 2021 (interim results) consolidate the results of Discovery and its subsidiaries (together the Group) and equity account the Group's interest in associates and joint ventures.

The interim results comprise the condensed consolidated statement of financial position at 31 December 2021, condensed consolidated income statement, condensed consolidated statement of comprehensive, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months ended 31 December 2021 and selected explanatory notes.

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

Amendments to standards effective from 1 July 2021 do not have a material effect on the Group's interim results. These interim results do not include all the notes typically included in the annual financial statements and should therefore be read in conjunction with the Group audited consolidated financial statements for the year ended 30 June 2021.

External review and comparative information

The interim results for the six months ended 31 December 2021 have not been reviewed or audited by the Group's independent auditors PricewaterhouseCoopers Inc. and KPMG Inc. Comparative information for the six months ended 31 December 2020 was not reviewed by the Group's independent auditors. Comparative information presented at and for the year ended 30 June 2021 within these financial statements has been correctly extracted from the Group's audited consolidated financial statements for the year ended 30 June 2021.

EMBEDDED VALUE STATEMENT

for the six months ended 31 December 2021

The embedded value of Discovery consists of the following components:

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

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

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

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

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

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

The 31 December 2021 embedded value results and disclosures were not subjected to an external review.

EMBEDDED VALUE STATEMENT *continued*

for the six months ended 31 December 2021

TABLE 1: GROUP EMBEDDED VALUE

R million	31 DECEMBER 2021	31 December 2020	% change	30 June 2021
Shareholders' funds	**52 175**	45 135	16	46 419
Adjustment to shareholders' funds from published basis[1]	**(38 378)**	(32 996)		(34 184)
Adjusted net worth[2]	**13 797**	12 139		12 235
Value of in-force covered business before cost of required capital	**74 679**	66 010		67 175
Cost of required capital	**(5 556)**	(5 682)		(4 765)
Discovery Limited embedded value	**82 920**	72 467	14	74 645
Number of shares (millions)	**656.9**	656.8		656.8
Embedded value per share	**R126.23**	R110.33	14	R113.65
Diluted number of shares (millions)	**668.3**	665.1		665.1
Diluted embedded value per share[3]	**R124.08**	R108.96	14	R112.23

1 *A breakdown of the adjustment to shareholders' funds is shown in the table below. Note that where relevant, adjustments have been converted using the closing exchange rate of R21.51/GBP (June 2021: R19.74/GBP; December 2020: R20.10/GBP).*

R million	31 DECEMBER 2021	31 December 2020	30 June 2021
Life net assets under insurance contracts	**(23 033)**	(19 785)	(20 675)
Vitality Life Limited and Discovery funded VitalityLife business on the Prudential licence net assets under insurance contracts	**(8 944)**	(6 427)	(7 703)
VitalityHealth financial reinsurance asset	**(2 855)**	(3 005)	(2 353)
VitalityHealth and Vitality Health Insurance Limited deferred acquisition costs (net of deferred tax)	**(415)**	(439)	(407)
VitalityLife receivable relating to the Unemployment Cover benefit (net of deferred tax)	**(12)**	(16)	(12)
Goodwill relating to the acquisition of Standard Life Healthcare and the Prudential joint venture	**(2 661)**	(2 487)	(2 442)
Intangible assets (net of deferred tax) in covered businesses	**(869)**	(867)	(830)
Net preference share capital	**(779)**	(779)	(779)
Reversal of 1 Discovery Place IAS 17 financial lease accounting	**1 079**	871	975
Equity settled share based payment provision adjustment	**111**	(62)	42
	(38 378)	(32 996)	(34 184)

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

EMBEDDED VALUE STATEMENT *continued*

for the six months ended 31 December 2021

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

R million	31 DECEMBER 2021	31 December 2020	30 June 2021
Shareholders' funds	**52 175**	45 135	46 419
Adjustment to shareholders' funds	**(38 378)**	(32 996)	(34 184)
Adjusted net worth	**13 797**	12 139	12 235
Excess of available capital over adjusted net worth	**34 851**	26 659	30 718
Available capital	**48 648**	38 798	42 953
Required capital	**36 388**	31 951	32 699
Excess available capital	**12 260**	6 847	10 254

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

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

The following table sets out the required capital for each of the covered businesses:

R million	31 DECEMBER 2021	31 December 2020	30 June 2021
Health and Vitality	**961**	960	973
Life and Invest	**24 006**	20 440	22 059
VitalityHealth	**3 171**	2 877	2 847
VitalityLife	**8 250**	7 674	6 820
Total Required Capital	**36 388**	31 951	32 699

- *For Health and Vitality, the required capital was set equal to two times the monthly renewal expense and Vitality benefit cost.*
- *For Life and Invest, the required capital was set equal to 1.25 times the SAM Pillar 1 Solvency Capital Requirement.*
- *For VitalityHealth, the required capital amount was set equal to 1.35 times the Solvency II Pillar 1 Solvency Capital Requirement.*
- *For the VitalityLife business on the Prudential licence, the required capital was set equal to the UK Solvency I long-term insurance capital requirement as per the agreement with Prudential up to the Part VII transfer, thereafter it is set equal to 1.5 times the Solvency II Pillar 1 Solvency Capital Requirement. For the business sold on the Vitality Life Limited licence, the required capital was set equal to 1.4 times the Solvency II Pillar 1 Solvency Capital Requirement up to the Part VII transfer and 1.5 times thereafter.*

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

EMBEDDED VALUE STATEMENT *continued*

for the six months ended 31 December 2021

TABLE 2: VALUE OF IN-FORCE COVERED BUSINESS

R million	VALUE BEFORE COST OF REQUIRED CAPITAL	COST OF REQUIRED CAPITAL	VALUE AFTER COST OF REQUIRED CAPITAL
at 31 December 2021			
Health and Vitality	**23 844**	**(449)**	**23 395**
Life and Invest[1]	**31 342**	**(1 351)**	**29 991**
VitalityHealth[2]	**9 545**	**(514)**	**9 031**
VitalityLife[2]	**9 948**	**(3 242)**	**6 706**
Total	**74 679**	**(5 556)**	**69 123**
at 31 December 2020			
Health and Vitality	22 624	(408)	22 216
Life and Invest[1]	25 612	(1 081)	24 531
VitalityHealth[2]	9 474	(481)	8 993
VitalityLife[2]	8 300	(3 712)	4 588
Total	66 010	(5 682)	60 328
at 30 June 2021			
Health and Vitality	22 503	(422)	22 081
Life and Invest[1]	27 777	(1 183)	26 594
VitalityHealth[2]	8 230	(462)	7 768
VitalityLife[2]	8 665	(2 698)	5 967
Total	67 175	(4 765)	62 410

1 *Included in the Life and Invest value of in-force covered business is R1 834 million (June 2021: R1 675 million; December 2020: R1 543 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 R21.51/GBP (June 2021: R19.74/GBP; December 2020: R20.10/GBP).*

EMBEDDED VALUE STATEMENT *continued*

for the six months ended 31 December 2021

TABLE 3: GROUP EMBEDDED VALUE EARNINGS

R million	Six months ended **31 DECEMBER 2021**	 31 December 2020	30 June 2021
Embedded value at end of period	**82 920**	72 467	74 645
Less: embedded value at beginning of period	**(74 645)**	(70 834)	(70 834)
Increase in embedded value	**8 275**	1 633	3 811
Net change in capital[1]	**(443)**	(909)	(914)
Dividends paid	**28**	34	63
Transfer to hedging reserve	**(116)**	(77)	(260)
Employee share option schemes	**(164)**	(121)	(330)
Increase in treasury shares	**443**	907	907
Embedded value earnings	**8 023**	1 467	3 277
Annualised return on opening embedded value	**22.7%**	4.2%	4.6%

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

EMBEDDED VALUE STATEMENT *continued*

for the six months ended 31 December 2021

TABLE 4: COMPONENTS OF GROUP EMBEDDED VALUE EARNINGS

R million	Six months ended 31 December 2021 Net worth	Cost of required capital	Value of in-force covered business	**EMBEDDED VALUE**	Six months ended 31 December 2020 Embedded value	Year ended 30 June 2021 Embedded value
Total profit from new business (at point of sale)	(2 412)	(126)	3 474	**936**	945	1 891
Profit from existing business						
▪ Expected return	1 824	97	1 297	**3 218**	3 189	6 421
▪ Change in methodology and assumptions[1]	1 689	(366)	(1 076)	**247**	(1 931)	(5 556)
▪ Experience variances	399	(99)	2 232	**2 532**	2 238	4 917
Impairment, amortisation and fair value adjustment[2]	(6)	–	–	**(6)**	(7)	(14)
Increase in goodwill and intangibles	(188)	–	–	**(188)**	(156)	(336)
Other initiative costs[3, 5]	(238)	–	13	**(225)**	(444)	(288)
Non-recurring expenses	(15)	–	–	**(15)**	(12)	(85)
Acquisition costs[4]	(18)	–	(1)	**(19)**	(9)	(40)
Finance costs[5, 6]	(1 146)	–	–	**(1 146)**	(958)	(2 104)
Foreign exchange rate movements[6]	1 040	(298)	1 565	**2 307**	(1 851)	(2 316)
Other[7]	(15)	1	–	**(14)**	–	(8)
Return on shareholders' funds[5, 8]	396	–	–	**396**	463	795
Embedded value earnings	1 310	(791)	7 504	**8 023**	1 467	3 277

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

2 *This item reflects the amortisation of the intangible assets reflecting the banking costs and capital expenditure in VitalityInvest and Discovery Group Europe Limited. The prior period comparatives include the amortisation of the intangible asset raised under the PrimeMed acquisition, which has since been dissolved.*

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

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

5 *This item excludes finance costs relating to intercompany loans between entities within the Group. The corresponding investment return earned on these intercompany loans is therefore also excluded from the return on shareholders' funds line.*

6 *This item includes foreign exchange gains / (losses) emerging through the income statement, in addition to translation impacts on the cost of required capital and value of in-force.*

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

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

EMBEDDED VALUE STATEMENT *continued*

for the six months ended 31 December 2021

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	126	–	6	–	(69)	–	(3)	–	**60**
Other expenses	–	–	–	–	–	–	–	–	**–**
Lapses and surrenders[1]	11	190	(40)	315	–	323	(157)	275	**917**
Mortality and morbidity[2]	–	–	(100)	(20)	528	–	(13)	–	**395**
Policy alterations[1]	–	21	(197)	192	–	–	8	–	**24**
Backdated cancellations	–	–	–	–	–	–	–	–	**–**
Premium and fee income	57	–	(44)	(84)	24	–	9	2	**(36)**
Economic[3]	–	–	17	572	–	–	–	–	**589**
Commission	–	–	–	–	22	–	–	–	**22**
Tax[4]	47	–	(31)	198	(10)	–	(11)	–	**193**
Reinsurance	–	–	–	–	48	–	(35)	12	**25**
Maintain modelling term[5]	–	143	–	54	–	34	–	–	**231**
Vitality benefits	28	–	–	–	–	–	13	–	**41**
Other[6]	(5)	(1)	46	(10)	39	–	85	(83)	**71**
Total	264	353	(343)	1 217	582	357	(104)	206	**2 532**

1 *For Life and Invest, the combined lapse and surrender experience and policy alterations experience is relative to assumptions which include an allowance for a short-term stress previously set in response to deteriorating experience from COVID-19 related impacts. For VitalityLife, large favourable variances from lower lapses were partially offset by higher in-period commission.*

2 *The mortality and morbidity experience for Life and Invest reflects a strain mainly due to non-COVID-19 morbidity experience. All confirmed COVID-19 claims were offset against the provision previously set and have been in line with expectation. For VitalityHealth, while claim incidence was at normal levels, claims severity was lower than assumed for the period under review due predominantly to clinical risk management interventions. There continue to be material uncertainties about future claims severity, with potential increases resulting from delayed treatments or undiagnosed disease during the pandemic.*

3 *The experience for Life and Invest arises largely due to higher than expected linked asset growth for the period under review, as well as a shift to investment in domestic equity from cash within the underlying asset classes.*

4 *The tax variance arises due to the timing difference between the expected tax payments and actual payments.*

5 *For Health and Vitality, Life and Invest and VitalityHealth, the projection term is rebased at each year-end. Therefore, an experience variance arises because the total term of the in-force covered business is effectively increased by six months.*

6 *The key Other experience relates to cash flow timing variances in Life and Invest, profits and losses from companies within the VitalityHealth and VitalityLife segments which are not part of covered business, and movements in the value of the swaption in VitalityLife.*

TABLE 6: METHODOLOGY AND ASSUMPTION CHANGES

	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		
R million	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	**TOTAL**
Modelling changes[1]	–	–	–	(154)	–	–	3	(2)	**(153)**
Administration fees	–	–	–	–	–	–	–	–	**–**
Expenses[2]	–	(323)	(2)	3	–	–	6	(6)	**(322)**
Lapses	–	–	–	–	–	–	–	–	**–**
Mortality and morbidity	–	–	–	–	–	–	–	–	**–**
Benefit changes	–	–	–	–	–	–	–	–	**–**
Vitality	–	–	–	–	–	–	–	–	**–**
Tax	–	–	–	–	–	–	–	–	**–**
Economic assumptions[3]	–	5	(34)	501	–	–	(39)	(339)	**94**
Premium and fee income[4]	–	560	–	–	–	–	–	–	**560**
Reinsurance and financing[5]	–	–	1 754	(1 643)	–	(14)	1	(5)	**93**
Other	–	–	–	(25)	–	–	–	–	**(25)**
Total	–	242	1 718	(1 318)	–	(14)	(29)	(352)	**247**

1 *For Life and Invest, certain corrections were made to modelled lapse rates, premium data and reinsurance recoveries.*

2 *For Health and Vitality, the renewal expenses assumption was updated to reflect the impact of in-period inflation being higher than assumed.*

3 *For Life and Invest and Health and Vitality, the economic assumptions item relates to the impact of updating the assumptions relative to the Johannesburg Stock Exchange ("JSE") nominal and real yield risk-free curves at 31 December 2021. The Basis of Preparation section below describes an adjustment made to the nominal risk-free curve to account for an anomaly in the observed yield curve. For Life and Invest, this item also includes the impact of updating exchange rate assumptions. For VitalityLife the item includes the impact of updating the assumptions relative to the Solvency II yield curves and the IFRS interest rates, offset by the net change in the interest rate hedge.*

4 *For Health and Vitality, the premium and fee income item relates to the impact on administration and managed care fees of in-period inflation being higher than assumed.*

5 *For Life and Invest, the reinsurance and financing item primarily relates to the impact of financing arrangements, where the future expected cash flows arising from part of the negative reserves are monetised to match other positive policy liabilities.*

EMBEDDED VALUE STATEMENT *continued*

for the six months ended 31 December 2021

TABLE 7: EMBEDDED VALUE OF NEW BUSINESS

R million	Six months ended 31 DECEMBER 2021	Six months ended 31 December 2020	% change	Year ended 30 June 2021
Health and Vitality				
Present value of future profits from new business (at point of sale)	**391**	317		789
Cost of required capital	**(13)**	(9)		(24)
Present value of future profits from new business (at point of sale) after cost of required capital	**378**	308	23	765
New business annualised premium income[1]	**1 634**	1 416	15	3 704
Life and Invest				
Present value of future profits from new business (at point of sale)[2]	**465**	468		825
Cost of required capital	**(40)**	(39)		(82)
Present value of future profits from new business (at point of sale) after cost of required capital	**425**	429	(1)	743
New business annualised premium income[3]	**1 538**	1 405	9	2 947
Annualised profit margin[4]	**3.4%**	3.7%		3.0%
Annualised profit margin excluding Invest business	**6.8%**	8.2%		5.7%
VitalityHealth[5]				
Present value of future profits from new business (at point of sale)	**106**	93		143
Cost of required capital	**(32)**	(30)		(61)
Present value of future profits from new business (at point of sale) after cost of required capital	**74**	63	17	82
New business annualised premium income[6]	**752**	598	26	1 263
Annualised profit margin[4]	**1.6%**	1.5%		0.9%
VitalityLife[7]				
Present value of future profits from new business (at point of sale)	**100**	187		396
Cost of required capital	**(41)**	(42)		(95)
Present value of future profits from new business (at point of sale) after cost of required capital	**59**	145	(59)	301
New business annualised premium income	**416**	448	(7)	871
Annualised profit margin[4]	**1.9%**	4.0%		4.1%

EMBEDDED VALUE STATEMENT *continued*

for the six months ended 31 December 2021

1 *Health new business annualised premium income is the gross contribution to the medical schemes. The new business annualised premium income shown above excludes premiums in respect of members who join an existing employer where the member has no choice of medical scheme, as well as premiums in respect of new business written during the period but only activated after 31 December 2021.*

The total Health and Vitality new business annualised premium income written over the period was R3 632 million (June 2021: R6 103 million; December 2020: R2 812 million).

2 *Included in the Life and Invest embedded value of new business is R35 million (June 2021: R53 million; December 2020: R29 million) in respect of investment management services provided on off balance sheet investment business.*

Risk business written prior to the valuation date allows certain Invest business to be written at financially advantageous terms, the impact of which has been recognised in the value of new business.

3 *Life new business is defined as Life policies to which Life became contractually bound during the reporting period, including policies whose first premium is due after the valuation date. Invest new business is defined as business where at least one premium has been received and which has not been refunded after receipt. Invest new business also includes Discovery Retirement Optimiser policies to which Life and Invest became contractually bound during the reporting period, including policies whose first premium is due after the valuation date.*

The new business annualised premium income of R1 538 million (June 2021: R2 947 million; December 2020: R1 405 million) (single premium APE: R746 million (June 2021: R1 490 million; December 2020: R699 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 R903 million (June 2021: R1 414 million; December 2020: R728 million) and servicing increases of R346 million (June 2021: R640 million; December 2020: R345 million), was R2 786 million (June 2021: R5 001 million; December 2020: R2 478 million) (single premium APE: R782 million (June 2021: R1 569 million; December 2020: R744 million)). Single premium business is included at 10% of the value of the single premium.

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

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

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

6 *VitalityHealth new business is defined as individuals and employer groups which incepted during the reporting period. The new business annualised premium income shown above has been adjusted to exclude premiums in respect of members who join an existing employer group after the first month, as well as premiums in respect of new business written during the period but only activated after 31 December 2021.*

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

BASIS OF PREPARATION

TABLE 8: EMBEDDED VALUE ECONOMIC ASSUMPTIONS

		31 DECEMBER 2021	31 December 2020	30 June 2021
Beta coefficient		**0.75**	0.75	0.75
Equity risk premium (%)		**3.5**	3.5	3.5
Risk discount rate (%)				
	– Health and Vitality[1]	**13.375**	13.625	13.125
	– Life and Invest[1]	**13.875**	14.375	13.625
	– VitalityHealth	**3.462**	2.920	3.462
	– VitalityLife	**3.593**	3.206	3.263
Rand / GBP exchange rate				
Closing		**21.51**	20.10	19.74
Average		**20.49**	21.27	20.74
Margin over Expense inflation to derive Medical inflation (%)				
South Africa		**3.00**	3.00	3.00
Expense inflation (%)[2]				
South Africa	– Health and Vitality	**6.69**	6.50	6.14
	– Life and Invest	**6.64**	6.76	6.23
United Kingdom		**2.50**	1.50	2.50
Pre-tax investment return (%)				
South Africa	– Cash[1]	**9.75**	10.25	9.50
	– Life and Invest bonds[3]	**11.25**	11.75	11.00
	– Health and Vitality bonds[3]	**10.75**	11.00	10.50
	– Equity[1]	**14.75**	15.25	14.50
United Kingdom	– VitalityHealth risk-free rate	**0.84**	0.27	0.84
	– VitalityLife risk–free rate	**0.97**	0.58	0.64
	– VitalityLife IFRS interest rate	**1.82**	1.49	1.80
	– VitalityLife investment return	**1.58**	1.59	1.44
Corporation tax rate (%)				
South Africa		**28**	28	28
United Kingdom – long-term		**25**	19	25
VitalityHealth Assumptions				
– Margin (net of tax and cost of capital) (%)		**12.30**	14.10	12.00
– Annuity Factor		**6.18**	6.37	6.18
Projection term				
– Health and Vitality		**20 years**	20 years	20 years
– Discovery Life – VIF		**40 years**	40 years	40 years
– Group Life		**20 years**	10 years	20 years
– VitalityLife		**No cap**	No cap	No cap
– VitalityHealth[4]		**20 years**	20 years	20 years

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

2 *The inflation assumption is derived as the difference between the nominal and real yield curve at each duration. As an indication, the cash flow weighted average inflation is shown in the table. For the United Kingdom, the expense inflation assumption is aligned with the Bank of England inflation target.*

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

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

EMBEDDED VALUE STATEMENT *continued*

for the six months ended 31 December 2021

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

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

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

The VitalityHealth assumptions were derived from internal experience.

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

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

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

From 30 June 2020, the yield curves underlying the embedded value calculations were changed from the Prudential Authority yield curves to the JSE yield curves. The South African investment return assumptions for Life, Invest, Health and Vitality were set relative to the publically available JSE risk-free nominal yield curve. Due to an anomaly in the JSE risk-free nominal yield curve at 31 December 2021, the yield curve used for embedded value purposes was interpolated between month 13 to 60. The real yield assumption was set relative to the publically available JSE risk-free real yield curve, adjusted to remove volatility due to the nature of the index-linked government bond market. Other economic assumptions were set relative to these two yield curves.

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

The risk-free rate assumption for VitalityHealth and VitalityLife was based on the single interest rate derived from the Prudential Regulatory Authority yield curve. The inflation rate is consistent with the Bank of England inflation target.

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

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

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

EMBEDDED VALUE STATEMENT *continued*

for the year ended 30 June 2021

SENSITIVITY TO THE EMbEDDED VALUE ASSUMPTIONS

The risk discount rate uses the CAPM approach with specific reference to the Discovery beta coefficient. As beta values reflect the historic performance of share prices relative to the market they may not allow fully for non-market related and non-financial risk. Investors may want to form their own view on an appropriate allowance for these risks which have not been modelled explicitly. The sensitivity of the embedded value and the embedded value of new business at 31 December 2021 to changes in the risk discount rate is included in the tables below.

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

TABLE 9: EMBEDDED VALUE SENSITIVITY

		Health and Vitality		Life and Invest		VitalityHealth		VitalityLife			
R million	Adjusted net worth[2]	Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	**EMBEDDED VALUE**	% change
Base	13 797	23 844	(449)	31 342	(1 351)	9 545	(514)	9 948	(3 242)	**82 920**	
Impact of:											
Risk discount rate +1%	13 797	22 518	(486)	28 435	(1 427)	9 041	(488)	9 575	(4 195)	**76 770**	(7)
Risk discount rate – 1%	13 797	25 309	(407)	34 784	(1 259)	10 103	(543)	10 365	(1 952)	**90 197**	9
Lapses – 10%	13 493	24 605	(471)	34 105	(1 440)	10 891	(584)	10 780	(3 648)	**87 731**	6
Interest rates – 1%[1]	12 415	23 984	(432)	31 852	(1 316)	10 014	(543)	7 834	(3 377)	**80 431**	(3)
Equity and property market value – 10%	13 804	23 844	(449)	30 721	(1 380)	9 545	(514)	9 948	(3 242)	**82 277**	(1)
Equity and property return +1%	13 797	23 844	(449)	31 776	(1 355)	9 545	(514)	9 948	(3 242)	**83 350**	1
Renewal expenses – 10%	13 869	26 183	(416)	31 940	(1 318)	10 268	(514)	10 135	(3 193)	**86 954**	5
Mortality and morbidity – 5%	14 024	23 844	(449)	33 429	(1 220)	11 065	(514)	10 263	(3 210)	**87 232**	5
Projection term +1 year	13 797	24 133	(454)	31 434	(1 354)	9 614	(518)	9 948	(3 242)	**83 358**	1

1 All economic assumptions were reduced by 1%.

2 The sensitivity impact on the VitalityLife net of tax change in negative reserves is included in the adjusted net worth column.

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

TABLE 10: VALUE OF NEW BUSINESS SENSITIVITY

	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife			
R million	Value of new business	Cost of required capital	Value of new business	Cost of required capital	Value of new business	Cost of required capital	Value of new business	Cost of required capital	**VALUE OF NEW BUSINESS**	% change
Base	391	(13)	465	(40)	106	(32)	100	(41)	**936**	
Impact of:										
Risk discount rate +1%	358	(14)	360	(42)	71	(30)	64	(45)	**722**	(23)
Risk discount rate – 1%	428	(12)	588	(37)	146	(34)	141	(32)	**1 188**	27
Lapses – 10%	414	(14)	586	(42)	180	(35)	166	(38)	**1 217**	30
Interest rates – 1%[1]	397	(13)	469	(39)	140	(34)	3	(44)	**879**	(6)
Equity and property return +1%	391	(13)	480	(40)	106	(32)	100	(41)	**951**	2
Renewal expense – 10%	449	(12)	488	(39)	149	(32)	114	(41)	**1 076**	15
Mortality and morbidity – 5%	391	(13)	509	(36)	196	(32)	115	(41)	**1 089**	16
Projection term +1 year	398	(13)	468	(40)	111	(32)	100	(41)	**951**	2
Acquisition costs – 10%	405	(13)	552	(40)	125	(32)	168	(41)	**1 124**	20

1 All economic assumptions were reduced by 1%.

APPENDIX A

NEW BUSINESS ANNUALISED PREMIUM INCOME

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

Core new business API increased by 6% for the six months ended 31 December 2021 when compared to the same period in the prior year.

R million	DECEMBER 2021	December 2020	% change
Discovery Health[1]	**3 598**	2 788	29
Discovery Life	**1 267**	1 162	9
Discovery Invest	**1 519**	1 316	15
Discovery Insure	**597**	617	(3)
Discovery Vitality	**34**	24	42
VitalityHealth	**708**	638	11
VitalityLife	**554**	561	(1)
Ping An Health (25% interest)[2]	**1 426**	1 805	(21)
Other new businesses[3]	**772**	1 005	(23)
Core new business API of Group[1]	**10 475**	9 916	6
New Closed Schemes[1]	**–**	379	
New business API of Group including new Closed Schemes	**10 475**	10 295	2
Gross revenue Vitality Group[4]	**668**	625	7
Total new business API and other new business[1]	**11 143**	10 920	2

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

2 *New business API for PAH has been presented on a basis consistent with previous disclosures. Given the restructuring of the co-operation with Ping An Life for business written in certain regions in China as part of the overall re-alignment of PAH to focus on growing high- quality own business, going forward the core new business API measure reported for PAH sales will be redefined to reflect this re-alignment.*

3 *Other new businesses include the Umbrella Fund, Discovery Insure commercial and VitalityInvest. New business was impacted by the lumpy nature of Umbrella Fund sales which had strong growth in the prior period.*

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

Calculation of new business API

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

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

- The timing of inclusion of policyholders in the calculation of new business API – in the embedded value, new business is included from the earlier of the date that the first premium has been received or when the policy is on risk, whereas in the table above, new business is included when the policy has been contractually committed.
- Inclusion of automatic premium increases and servicing increases on existing life policies – these are included in the table above but excluded in the embedded value API values disclosed.

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

GROSS INFLOWS UNDER MANAGEMENT

Gross inflows under management measures the total funds collected by Discovery. Gross inflows under management increased by 8% for the six months ended 31 December 2021 when compared to the same period in the prior year.

R million	DECEMBER 2021	December 2020	% change
Discovery Health	**48 200**	45 876	5
Discovery Life	**7 344**	6 710	9
Discovery Invest	**12 888**	11 517	12
Discovery Insure	**2 269**	1 986	14
Discovery Vitality	**1 140**	1 132	1
VitalityHealth	**5 810**	5 256	11
VitalityLife	**3 474**	3 368	3
All other businesses	**4 539**	3 838	18
Gross inflows under management	**85 664**	79 683	8
Less: collected on behalf of third parties	**(47 511)**	(44 747)	6
Discovery Health	**(43 723)**	(41 580)	5
Discovery Invest	**(3 788)**	(3 167)	20
Gross income of Group per the segmental	**38 153**	34 936	9
Gross income is made up as follows:			
– Insurance premium revenue	**29 617**	26 993	10
– Fee income from administration businesses	**6 187**	5 701	9
– Vitality income	**1 739**	1 743	0
– Other income	**610**	499	22
Gross income of Group per the segmental information	**38 153**	34 936	9

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

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JSE share code:	DSBP ISIN: ZAE000158564
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* *Executive.*
1 *Retired effective 24 November 2021.*
2 *Appointed effective 15 August 2021.*

Debt officer DM Viljoen

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

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

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