S1 2016 Earnings Call

Company Participants

- Adrian Gore, Group Chief Executive Officer, Executive Director
- Unidentified Speaker

Other Participants

- Unidentified Participant

Presentation

Unidentified Speaker

Ladies and gentlemen. Good morning. I'm Mike Brown from the Investment Analyst Society we being hosted today by Discovery. This is their interim results for the period ended 31st, December. This is always total force of the presentation Adrian Gore, the chief executive takes us through the results of the Group -- spread across the globe now a days in the outlook for the various different types of businesses and so on.

This is always the presentation with a lot of detail packed into, I won't take up much of the time. And I'm sure Adrian needs. Just on behalf of the Society, there is number of our members here and other people. I'd like to thank Adrian his team must see the executive team some of the Directors are here for doing this presentation, giving us a chance to hear what's the company is going to say. But also to pose questions off to within there. So on behalf of the society, I'd like to thank Adrian and the Discovery forces to this presentation. Over to Adrian.

Thank you very much ladies and gentlemen. Great. As always to present to you. We tried our best to put together an understandable presentation. I think quite of complex year or complex 6 months for us 31 December 2015. It's been a very important period, I'd say very foundational period in many respects. It really has been about -- in one hand, performance of our core businesses on the other hand, driving very hard in our new initiatives. And to the extent it's kind tradeoff between that you'll see that come through.

I mean, firstly, just to frame the period, I think the Group is pushing hard all over. And I think three numbers kind of tell us story new businesses are up very strong 27%. That's why beyond a long term run very substantial at just under -- of new business. We've made investment in new initiatives and I'll take you through that in detail at 64%, which has the effect of new operating profit, up 7% just 3 billion. That is the below our long run. Sorry. I need some help.

Okay. Good morning, ladies and -- so the three numbers are, I think tell the story of the growth in the new business are 27 as you can see on the flip side, on the other side is a very strong growth in spending on initiatives 64% that has affected muting operating profit that's up now 7% to just over 3 billion.

And what I'd like to do is, what I'd like to do is, out of sink, I'm sorry, I'd like to do. What I'd like to do is actually take you through the results in four distinct components. We tried our best to kind of way that makes sense to give you a sense of all the various titles, intentions and dynamics. The first is I will take you through the financial performance. I'd luckily take you through our, about the robustness of the group in terms of the volatile economic environment give a sense of that.

Secondly, I want to take you through the business. Well, I want to restate the case of the Discovery versus corporate white works. What is to us certainly but it's certainly with our customers and that's important and critically is that shared value, as such a quick ability and therefore while we are pursuing the new initiatives that we ought.

The third thing is new initiatives, the gross then we presume. We're doing a lot, there's a lot of irons in the fire, I think in a very disciplined, where I'd like to take you through them, watching that portfolio while their element have a lot to pay out. And then finally, and then I think obviously very important to take you through the core businesses, our existing and emerging businesses are well performed obviously and I'm hoping that in that process our current strategy and the results of the period.

Firstly, to the financial performance take you through the probably seen in a variety of ways those maybe maximum points to them. And new business obviously I say, very strong 27%. I think it is relevant, but if you look across the charges here, I think the growth is strong across most of our businesses. We can see that Discovery had a tremendous period. Discovery fairly stagnant market that partisans not great, but it's strong and our market share is growing and I'll talk about that a bit later.

Business is running very strong in pounds, quick new business growth and of course a tailwind from currency taking the growth of quite substantially about Vitality Life, Vitality Health. Discovery invest annualized growth of 17%, we're very comfortable with that. In the new businesses Discovery should had a great year, partially through very, very pleased to have that business is developing of a very high price reflect, as you can see that's not a great result, but frankly we focused on some of the writing factors in that business and I'll touching little bit later.

You can see in China, a substantial growth 80% year-on-year tremendous section on the individual health insurance market that paying on health is pursuing. So overall it is something a very strong growth in new business and to a extend way ahead of our long-term run rates around 15%. And I think that bodes well for the future. We are very pleased with that.

If I go to the operating profit, what I wanted to illustrate to you is the operating profit is up 7%, you'll see, if you look down the list, the business is performed well. Discovery Health and Discovery are very high basis are up 11% and 13% respectively. I think we're very pleased with that Discovery Vitality illustrating some of the credit card share coming through in that. Your largest Vitality loss very strong performance, I think you will be in tremendous as it has in Discovery Invest. The two issues that really needs the operating profitable loan balance in run rate, one is good and I think one is bad. The first is, good is that's -- considering new initiatives and as I said I'll take you through that that's up 64% as you can see in the bottom there is a considerable amount of different businesses that we're holding I think that's imperative. We are doing that aggressively I think appropriately, the monetize [ph] and mortality help the business itself well and I'll take you through the core measures but extracting out of the system just stayed a lot healthier over the period was messy and slippery and in fact we loss 5 million pounds in that process.

Our systems will (inaudible) to get a higher additional stock, additional systems cost that is not done but that slippage is also had a mutual effect on the earning so, so effectively the 7% is of our long term run rate as a function of two things, one is the biggest thing is investing in new business. The other is the 5 million pounds in Vitality Health, as we see the earnings has kind of going back in this. On account [ph] rate we through that for of course (inaudible) the earnings will be for the period.

I think one of the most notable things about this period is the investments in new initiatives is up 64% I wanted to show geographically to give a sense of exactly how we're -- how we do and we said I think in the past that the same should be expected to this, typically 5% to 10% in your initiative we're kind of been around that level climbing as we've done more and more and in fact now you can see a dramatic -- up 12% or 13% of earnings.

I would argue that the business is organically spending 10% or so on 10% to 20% of profitable on R&D and (inaudible) is appropriate I want to give you a sense of what we do, and why we think that's the case is considerable and absolutely they tend into banking, the on boarding of bank -- in Discovery Health, Discovery sure and came (inaudible) in incubation period while they becoming the businesses that we saw in that sector and we'll be building a global vitality partner network and the global network I think it's greater at any other time and I will you through that so there is a lot in that new business initiatives, we think it's powerful and we think we should be very quickly around it.

So that really I think brings to an extent what we're trying to do. Just a very quick, very broad reconciliation the 7% growth versus our long term and then I'll give you a sense of how that -- that is we showed 7% the 5 million pounds -- in the UK, marked a 4% the difference between what we've been investing in new initiatives and in fact what we've investing us in the delta takes a (inaudible) get you a color the long-term run rate of 15% to 20%, which is where we like to be in that scale.

So just like (inaudible) more graphically of that effect. Just very briefly, I know you can see more of it in the accounts. I'm just reconcile the accountant property -- profits with normalized earnings. We have this difficult situation that our headline earnings flips from massive increases to massively decrease all around this potential put option that's been in place. It was in place as part of the JV. So if you followed us closely on that the potential at the 25% of it, the 25% stake we had a put option on that to put that to us and the (inaudible) that it is a liability now in our accounts where we made the acquisition of the

25% in the previous period. The factor to reduce the liability and say you get this -- of earnings, and in the previous period, you can see there, if you normalize -- 1.7 billion and that really creates -- concern. The main effect of our normalized headline earnings is the tax that affected -- you get at the bottom of table, and the volumes have increased 7% year-on-year. Now you will know that we -- we had a rights issue -- more shares initially.

So if you look at the normalized headline earnings per share, it was flat over the period. From a dividend perspective, we just decided this stage to follow the dividend policy at a 4.5 -- typically increase the dividend. In the end, we paid the dividend exactly in line with the earnings per share. So we're keeping the dividend flat at this stage. I think that will remunerate over the year and over the next few years, but we keeping it flat. But because of the number of shares in issue, the more shares in issue, the total dividend payout will be 10% higher than it was in the previous period.

When you just turn into the embedded value, because I think that's important to see how the business is developing -- I think is progressed very well. Embedded value earnings, the previous six months versus this six months have been a dramatic growth of 42%, a lot of it is, is the rights issue coming through, but in fact, a lot of it is actual core performance of the business, and I think it has performed very well. If you interrogate the embedded volumes, you will see how that's playing out.

-- on the right hand side of the chart, it's very small. I hope you can see it. To give you a sense of the embedded value earnings, what the components are, these are strong performance in value of new business, the unwind of the risk discount rate, et cetera. The -- solution in the embedded value is really impact of the economic environment and to an extent, I mean, that's important to illustrate how robust restructured the group. So as you can see in red, there's been a rising interest rate environment, long term interest rates went up 1.5% of thereabouts.

Our risk discount rate went up. And -- 4% of the embedded value. But at the same time, the currency depreciate in that, appreciated our UK assets and so you get this offsetting effect, in fact, more than offsetting effect. So what you'll find is our embedded value is growing year-on-year by 24%.

A function of the rights issue, a function of good core performance and a Boolean function of this channels that takes place inside the embedded value around the economic volatility. And I think that's very, very important, because I think what I wanted to show you and I hope get this across to you is that, we are pursuing considerable new business initiatives and there has to be central question, that you doing this in the time, that's very difficult, very volatile. We know the -- globally and is a prudence in that approach. I would say -- first we believe very strong, it's in difficult times to grow that businesses.

Just to remind you, both Discovery in 1992 had a very volatile time in our country. We remained convinced that it is far better to -- pulling new initiatives in the difficult times and we do that and that's what we said are doing. But at the other side, we structured the group in a way that is robust. In capital perspective, our structure -- that if you flex it out based on these variables, we perform very well, very solidly. So -- still a stuff which you know I would guess see considerable volatility in stock markets in negative base -- and of course we see -- fluctuating weakening and the rest of these are in our industry would imagine are hugely, hugely problematic issues. But rising and it shows reduces VNB registering embedded value, rising inflation and currency depreciation creates medical inflation across other issues immediately marketing in, sentiments in markets declining -- margin potential on long term savings business. So these are pretty foundation of that earnings solvency embedded value. And we of course need to make sure of -- top of it.

I would say to, and this is critical to the Discovery business well -- the way we structured nice its robust. And the four things also I would mentioning specify diversified more and more by industry and by geography. I think that's important.

The second point is that the products, the nature of the product is that directly premiums all into CPI in the bottom we do. So there's some immediate -- immunization of risk, -- in the long-term inflation rates tend to follow up what you find is that immunizing correcting mechanism inside the business.

The third point is that our market is poor nutrition, the retail excellent base back in all markets we operate both in UK and here. And I think that's important because, that market seems to be less passing and seems to be in difficult times, so less is those kinds of things seem to be less affected by the difficult economic environment.

And then finally, and I think probably to me one of the most important issues is a power of the actual more dynamic pricing. But I think Discovery is doing, little bit Discovery life of Vitality Life more on mortgage, matching pricing and risk on a dynamic basis. And that creates a much more robust model than the traditional model. So it happens renewal kinds of volatility you get less threat of lapsation and people are measuring pricing risk. And you get better performance in lapsation not losing necessarily the better life.

So the combination of those four, I would argue maximum earnings solvency better -- fairly robust in very difficult economic times.

To make the point -- to make the point we have model that part of our -- solvency instituting a lot of these -- lot of stressing of the other business. Our productivity of these scenarios just to give you a sense on how these volatile factors affect earnings indebted value insolvency. What you see is, three scenarios or four base case and then we add interest rate fluctuations of 20% rise in the raising up from 10% in -- 12%.

In addition scenario three is rising interest rates plus and exchange rate devaluation from 15 to 22 and markets something about 20%. And this scenario three is a first two class kind of business short release 5% of the business and that's less, and we see our new business told about 10%.

So it's a pretty severe set of scenarios and what you see is interesting, if you look at early to be insolvency a pretty robust kind of roundabouts. You get into play between the UK and here, you can interplay between certain liability versus assets releasing liabilities. So what you see is obviously this is very confident expenses -- tell you that you robust and then what the second order Dimensions we've done a best to structure the organization in a way that makes it robust to defuse economic times. I think that is always important of course but is particularly in important if you -- in a business where we are aggressively pursuing initiatives mismatch of the capital structure intact manufacture few robust -- I'm pleased with the results.

So let me end of with just explaining the financials in a sense like if your comments as I said a new business operational 27%, we can see down the table has that's made up operating profit up 7% muted by the investment at the bottom of 64% increase in new initiatives and the 43% reduction vitality holds earnings due to 5 billion pounds over and on the system construction. -- I think very strong some comment of the business I think you see Discovery Health is performed remarkably well.

Growth is strong Discovery Health Medical schemes is performance well we do incredibly well in house business, I must point out in new business in discover health excludes the bank may please to impact other new business, the new continues to grow that comes from the second half. And -- our social mandate bank healthy -- that as you know, is that a fundamental issue over time specifically was reluctant to doing good job in that regard.

And then clinically and I'll show you that some of the -- in the focus on digital presentation. Discovery Life has performed well 5% plus is not our best, but I think it's good in this in a fairly stagnant market, the operating profit illustrating the quality of the business. What I'd like to show you later is more the return of capital in the side Discovery Life is very, very positive and makes us actually desirable of doing this much that as we can. Discovery Invest -- 25% this been a strong growth in the assets and the management to extend that gearing factor 17% and 25 reflects the scale of the business that's emerging.

Discovery Insurance narratives operating loss by 17%. We expect it to get to profits in the next year or take you through the performance of the business, the dynamics of the business is excellent. Potential offering has had a tremendous year to see growth in new business growth in profit great -- and then exciting new products will be rolled out to new client -- mid at London yesterday and I'll take you through some of the thinking -- vitality of the core businesses you're doing well that's completely and in the sense other than by the 5 million pounds of spend -- spoke about.

And then I will take you through the new business initiatives. So there is really the financial performance we targets this to cut in a way that makes sense. I want talk the second section on the business model, maybe restate what we are trying to achieve. As I said to that, we built a business model that I think you need has us at its core, the share value, everything its good for us and for our customers. But it also its important and you think about how we extended, how we grow. And that really forms the strategy. I think it's important for me to restate for you. -- that we started out two decks as you go, it's very simple. It was kind of a -- adequate field certainly believe that strongly from the --, actually understood just powerful the financial would be and we haven't to an extent have hardly change their idea of making the house through the evolution of the organization. What is interesting is that it has become part of -- for what insurance globally are trying to do, in a certain financial services trying to -- change the hedging for the better, for the people that we serve. That's a fundamental issue, because the truth of it is that we know that the nature -- changed that's mainly behavioral, with its health, mortality, how you drive, -- for my choices irrationally drive, risks, not pre-existing conditions. I think that's crucial.

The second is our technologies and I believe think in -- to segment to enable quantified self and then finally, I very strong belief is an insurers are the only actors other than government and employs that monetize better house. And therefore we have a social responsibility with that monetization with profit to use that to change behavior. So the -- was health is stronger than ever.

But I want to tell something else to you is that research has shown that great businesses have a very strong why, not just what, that is very important, because most businesses are there now what they do, they sell insurance, they are a bank whatever they maybe, that I certainly don't have a differentiating how often it's commodity business and they do sell into and they have very strong why they do it. And the research shows that we have a stronger profile why, you believe it there is I think which should building in a sense of --.

So think the Discovery mindset of entire 10,000 staff of why we here to make people healthy, drives everything we do. And other years have hasn't diluted, in fact of anything it is intensifying. And how is the share value model that started kind of any -- people through -- attached to health insurance and medical schemes et cetera, what it is more to and I made this point to the previous presentation is a very -- share value model. The idea of incentivizing behavior change, the behavior change leads to better actual outcomes, better surpluses, the surplus is then used to fund incentives and you get this virtual cycle. Good for us, good for our customers and good for society, and therefore it's not -- in this --, if I'd argue, that the one -- it was confidence.

And therefore as a business we've set -- by 2018 to be globally best, we believe it, we think it's doable, because the strategy I think is absolutely appropriate. I've no, absolutely no doubt and I work with our partners and the rest of insurers in the globe, I try to emulate what we do. And so I have no doubt the strategy has the potential to achieve that.

The real question for us is execution, can we do it, do we have the ability, do we have the resources to do it, to an extent I think during this period under view, that's exactly what we pursuing very hard, their ability to drive that 2018 ambition. So as an organization as a Board, we were -- and packing more and more detail what that we need, so we kind of broken what the organization we have to do in the three dimensions, what our business is have to do what our impact has to be and reporting what assets we have to goal underpinning it. Turn to the assets our brand, our people, our values, very critically the sings behind the business model traction that now. Turns of impact engagement levels making people healthy returns on capital. And then of course from a business perspective, I think it's imperative that we apply more and more the idea that to be a Discovery business units, satisfy certain attributes. We've laid out those attributes in five distinct areas.

The first is that our businesses need to be disruptive. And in certainly to market, at market leadership in new business. Secondly, our products must meet the needs the customers that we serve. In ways that they understand with a great customer journey that they need to be sustainable. Thirdly, we need to see significant engagement in behavior change, leading to superior loss ratios, better and better health for the people that we serve. Fourthly, for us higher V&V, without completing (inaudible) that's how the Discovery is always stood by.

And then finally an exceptional service and volumes. The customer journey is simple and you chose in the ecosystem as well. That is the moral that we're trying to achieve and I would argue, if you look through the Discovery businesses, mainly, most of them hope are moving towards that kind of sit and actually to drive towards and that frames to a large extent our ambition.

But I want to talk about the signs of the business model. Because I think this is critical and it really frames, how we are expanding the organization. Because you're marketing the businesses payout all differently, in different ways. The reality is that the DNA is exactly the same about the conflicts; it's a very simple idea. The kind of pending with B Corp pending QX, QX is the actual term for mortality rights, that's for (inaudible).

So through behavior change we're trying to ban [ph] mortality down, trying to make people healthier, ban mobility down, a lot of healthcare costs, ban claims goes down in short term insurance, ban default rates down in banking or credit card business, they're in the wellness curve for corporate, it's exactly the same thing. And over the two decades we're accumulating the data, the ability to understand (inaudible) is correlated to how you've been disclosed, what incentives you used to change behavior and how you clarify this and where that can we transport in repeatable and scalable. Well, that's exactly what you've done.

So while the businesses look very, very different with its Discovery in Vitality lost Discovery Health derivatives. But using the same DNA, kind of reminded of the fact that I think the DNA between a human and previous about 1% different thoughts, but they look very different in the main. But the point is that, this is the DNA, right. It's very simple. But the manifestation, the businesses is different. And actually we have to learn about how this links into because it's not just to clarify and have the data, how this is manifest. And I think in each of the businesses, actually it's different, so in the case of Discovery has done many pricing model has been something would be funny, incredibly compelling it's worth just starting lower flex in premiums that are -- happy to engage. I the case of Discovery insurance about the (inaudible) then in the curve down and the wage of forms using that to funding centers in the case of Discovery Health different -- and of course in the case of financial services Discovery Card and Banking exactly working on that. That's the pretty good issue how then -- is closed and how that manifests and of course that is going to do on the intention to build the bank.

(inaudible) while the business is -- different, levels and exactly the same M&A, but also on the data actually are rich organization is trying to understand its phase how to change this, how to been those course.

The manifestation of the -- this is a very busy slide that if you got interest, maybe some of that the monetization of that is incredible benefits to about us and our customers and that is relationship issue shared value. So if you look at the number proposition in case of Discovery Health, consistently lower and I'll show you later that frame our plan, the unit that benefit into the Discovery opening scheme. Healthcare cause a lower than would be elsewhere. In the case of Discovery Life is about paying lower premiums.

The fact is that dramatic, I mean, I'm a policyholder debt discount for 40 years is a huge amount of money. I get paid that every couple of years based on how I'm engaging my health this year and actual services to our customers and you can see we paid 1.7 billion back --. So this quanta are very substantial. In the case of discounting show (inaudible) back in few reach significantly drive better. So across and we are doing the same thing in Vitality Health and Vitality Life. So for making the share value a profound effect on people's lives in the here and now, not just in terms of different. And we are seeing that coming through with an 8-fold increase in diamond and gold names on the periods.

We had this massive shift integration and I think it's remarkably positive, for us it's pretty clear the business is robust. Now, we'll actually lower loss ratios margins and other thing in mind, our versions of client that despite the difficult times and despite pricing structure. So in fact, I think the I think share value model is working well giving greater confidence so that how we go forward.

So the first thing indicates, I think it's obvious a help underpin laborious (inaudible) because I mean it's obvious. Pursuing this small invalid discipline it is building better organization and giving our customers better value. But it may be the second implication that I want to draw your attention. If you accept the out processes, if you have this specific and hard product you can see that this is not a model it's made for the business growing by acquisition. Multi side hard work, we haven't yet figured that out, yet. May we can, but in reality if we think about what I've just shown you this is about building the business --. New businesses are based on that model.

And therefore it doesn't really lend itself to an acquisitive approach. Medicine organization whose operators to cut expenses in looking for big businesses to buy and our integrated -- in that development yield that's that but this is a real make people healthier. And through that DNA pull the business and if you accept then you have to accept that value where we can really grow its organic growth. Same store growth the business that we have new initiatives across the same DNA. And if I'm giving you the sense of why we feel very strongly about all the new initiatives organically, it's not simple we've seen it takes five years to get you, five years to get you scale, five years to get you profitability typically institutional business in 10 years -- materiality that's a reason the research had a -- eight years and 12 years so.

Moving across the business textile, the value creation is remarkable if you do it what we seen. All of our business that been both from the ground up and therefore we believe very strongly in that -- incurred the losses as you go along -- yeah, but the -- is remarkable. And the second one if I make in that regard. Is that the time is now. We are working around the world around the small I'll tell you ever in sure. We tried to understand behavior, how to President, how to link the offerings to wearable devices against Asia now that is Manulife Asia companies all over the place or try to exactly the stuff and learning from us.

So we have to move now that really is the -- is behind a very strong focus on what you're doing and I guess that really frames the third part of my presentation, which is ready to talk about the investments in making progress when measures we have in place. I have spoken about this in the previous presentation the -- give you a sense of some of the issues related to small example subdued think over the six months it's been a frenetic activity around this particular point.

The first thing to say is that I think that the nature of the expansion is disciplined it's. geographic adjacent, and it's -- we know with that exposing ourselves to capital. So first in South Africa, we have incredible franchise, the business is working remarkably well all the business, I think, were excellent and we can work in an integrated way. So the adjacency of both in publications insurance it is covering -- in a very strongly with both bank and therefore the adjacencies in those two that's important.

In the case of going our show, I had mentioned the UK's biggest those in our existing businesses, but the expansion of choice number one through being insure in the UK, but I think -- that's about carefully using -- other markets. Simply put, we cannot grow insurance entities in the ground. In markets in Asia, North America, take a lot of time of work, a lot time of capital and I think the chance of success is very, very low. So I think about that is how do we partner with some of the -- extract value on ammonia prices. And so during this period under review, we've actually accelerated the focus on -- of the discovery global partner markets that works across many, many different continents we try to accelerated the -- real scale a lot of work is taking cases.

So you bring this all together, it's on a fairly disciplined chassis, but if you look at the portfolio to an extent what the building I think it's significant, this intent in the banking there is the on boarding of the bank, which is not done that's really same-store growth in South Discovery help that required investments 10% [ph]. The step change in the scale of Discovery Health, Discovery shifting a lot in that incubation period so that require investment and the Partner markets is a substantial initiative I'll talk about it later. And then finally, I'll talk about the Vitality nature of the work with (inaudible) I think it is quite important for us, at a foundation level.

So that's really where we are focusing there is a lot of irons in the fire in that we remain really confident and in fact excited about what we'll achieve through that process. Let me just say (inaudible) some of -- much about banking, we've made it clear we are -- I think in inter banking we are building a team, a very quickly with the regulatory process we building the systems, a lot of work is taking place. We will tell you about that as it plays out, but I think we are very clear that's a multi use --, it's probably one of the biggest initiatives we've ever done. And we remain excited about it.

On banking I'll touch in little bit later in the presentations. Now on-boarded put to (inaudible) with special -- we had spend, I think it's -- most of your credits to the Discovery Health team in Africa.

I'd like the give you some insight into the other businesses. And as we go along. So a little about Discovery Insure this business was 45 years old, it needs to get to profitability -- scale. I would say to you that we have not rushed the profits driving this business, we are, we believe that this could be one of our -- most brilliant businesses, the behavior model works well. So, we're focused really on getting quality, value, customer journeys that's appropriate because this is proceeding well.

If you look at the five attributes that are laid down through Discovery business I think this is meeting them kind of hands down. -- leading in insurgency around telematics behavioral aspects in short term insurance. This is not an initial product that's what we do and that's important. Secondly I see -- we see the date in the plot [ph] of meeting the needs of the customers making them behave differently, we've seen another three significantly gauging, their engagements having a tremendous effect but persistency on the latter choice.

Finally, we've seen a bit of margins going up very high and I'll talk about it later and in the first point we're seeing great investment in system services, fantastic service ideas, just to get some time frankly, I think the first two years of the business were quite catchy and they were gets in the structure to that, I think it is rock solid. And I think the team is doing a great job of creating the eco-system that is exceptional for our customers.

But if you look at the growth it's pretty substantial and this is interesting with I just say to you that our new business is flat over the period. But their -- new business is substantial the thing with Discovery Insure -- the main feature about it, it's a cost going out of the gate capturing a big piece of the market share, so what do we see when we look at the revenue is it you've got massive levels of new business, call it low and top of itself, and which is the revenue grew I like at 80% I think the previous period 40% this period we are getting this massive growth in revenues just under 2 billion of premiums.

And if you look at the number of (inaudible) covered it's climbing really strongly to that 150,000. So the growth in the business I think it's being -- has been exceptionally strong. If you look at the new business, you can see it's come up very quickly of a higher base and in fact this year as I said, was flat we will consider the uncertainties in (inaudible) areas in the rating that we felt as problematic, conversion maybe to high I think in the certain elements in the -- segments, we thought the loss ratios is emerging too high. And so we made some changes on the pricing model that had the effect of bringing down slightly new business you can see our -- it's not really -- the bottom of the -- the bottom right hand side of the chart, is that our D2C new business actually -- while our broker business accelerated.

There is a good thing, the broker business tends to be slightly better quality, so that's a good thing. But on balance -- flatting after the new business, I do think really in January, I think we've addressed that and that will grow, but to make the point that the growth of the business continues very strongly.

I've made these comments in a variety of different presentations, but I would like to make them again in a summery way. Just to make it clear the value that -- building for our customers and for us, almost to give break down the value equation across a number of verticals that are mutually exclusive, we gaining great results. Number one, we're attracting -- and I think that's a critical issue, because in most new protection business, the larger to attract often the people are shopping around their -- and that's one of the issue, we're seeing quietly opposite, -- to shows clearly that quality -- are 20% better than the normal --.

Secondly, what's there in, the Chinese behavior. So the slot -- better lives where they come in and actually change behavior and we see in a 12-month period a dramatic increasing levels of engagement.

Thirdly, engagement is -- related to lower loss ratios and that's crucial. Firstly, when I leave, we getting better selection, the people that leave of the worst risk and the people have start the better risks. And then finally duration is on our side, with duration all these factors continue to multiply, putting additional duration we have more pricing power, we have ability to price more accurately over time et cetera.

So the sum of these factors is in fact very, very positive. And while we haven't calculated embedded values in others and we roll over time, but the truth is that the value of the business I think developing, is quite substantial. You can see the loss ratio of period by period came down by 9% which is pretty significant. And I think, we haven't yet disclosed members and -- if and when we go, but you can see that the operating loss is turning around -- this business will move to profitability, I believe in the next year and -- next 8 months on a run rate basis. So the business I think is going to roll more reporting the drop of profit, I think is the drive for long-term value.

When we talk about -- also is a business that's been with us, we have focused very -- on building this together with -- China, I need to say to you that this is a business that isn't driver for short-term, but I think on the fairly clearly driving to build the brilliant health insurance business of scaling of quality, and I think the industry in China is -- quality, not IFRS profits. And I think we've made that point clear.

It hasn't cost us huge amounts to built, but the result I think a very strong, the growth is being absolutely remarkable, certainly in this period. I'm showing you some of the numbers, one of the key issues is getting the distribution channels to sell individual health insurance, we believe the margins really are. So you can see the relative growth, we've seen nothing like that in -- businesses, are we just a loss literally 18 months, you can see the relative growth just from a base of close to zero just an absolute rocketing up to over 300,000 large, you can see the revenue has been tremendous. The total revenues grown by more than 100% to 2.7 billion [ph]. I think it's exciting on the right hand side, very difficult to see. I want to give you a sense of how the distribution channels are in fact playing out.

So across China, we haven't used the typing on network with what labels the product chipping on life and they selling it through branches. I'm not sure it's like 30% or 40% with their distribution channel, but what you can see there is in fact we kind of walk on with these targets, virtually every branch, every region is exceeding target, except one. And the big regions are Beijing, Shanghai, Shenzhen et cetera doing remarkably well.

So we're getting a fantastic sprit of how the product, I think is planning out. And then of course from a quality perspective the loss ratios are very stable and very acceptable and therefore from investment perspective this is our share of the loss, you can see that it's pretty immaterial in the context of Discovery.

And in fact over this period and that's some of the reason why we -- the writing of the investment, it was a substantial increase in investment we took on health together with lifting on, based on the fact that that's huge individual new business transactions come, is a new business strain that accompanies obviously. These are upfront commission products you done immediately to strain. So the faster you grow, initially the short term will more than cost, we think it's (inaudible) worth taking.

So it's not that material, but our intention is to get the business to profitability around 2018. We'd like to say that, I think we remain excited by the business by market despite the slowing China, the middle class precised healthcare and therefore we think that this is a market that's likely to really expand quickly. And we had some market share steps, and I think I miss something, I missed one slide that I shouldn't' showing you. Yes, the market share is looking on health is quite really the biggest specialist health insurer in China.

So I think the job done by the team that has been, I think tremendous. One thing I'd mention this is also a very busy slot. But one thing I would mention to you is that looking on itself is intent on building a huge healthcare capability. So that was a very powerful capability of almost (inaudible) of a healthcare, I think it has really 50 million users and thinking on health is permitting on that. So it's kind of a product, well, I think early health insurers not (inaudible) or in the U.S. whatever, everything is digital. Taking a consultation, consulting a doctor, checking after medication, all this stuff is very sophisticated, very available online, it's online society, and if I think it's been built is quite tremendous.

Let me move to Discovery partly markets and we will know the last few presentations you've spoken at length about AIA, and the partnership with AIA and (inaudible) trying to do a lot more definition I think it's formed over this period. But if you indicate it's not possible for us to insurance entities in every country. But given the privateness of the model, a simple idea was could be partner for the biggest and best Indian market and extract value out of that align down essentially -- in the Discovery last model, to go vital and inject in various businesses. And so -- to be doing is, working with partners in various markets to do that. -- to an extent was the first -- was the first company worked with. It's a very complicated -- multiple markets and in fact in this period, we accelerated that into a number of markets. We are like join hand -- in the US and I think that's going incredibly well.

In terms of -- generally, -- that's in Europe and that's in the process of happening now and then. Recently -- I think recently we just announced an annualized partnership in Canada. So effectively what we've done over this period, it is in a much more distant way. -- that effectively, we can almost play these partners into -- in a markets. It is not a simple annuity

[ph] service, it's not a simple process. First, we need to understand the dynamics in these markets. One of the things it works very carefully is to call the penetration --.

If you look at the Discovery Life, we roll out certain integrating vitality into the last base, but think if you've watched very carefully, what percentage of new policies were linking the premium structure to vitality. And we saw kind of grow very rapidly, today that's 80%. (inaudible) about 60%. So what you can see here is early evidence we have in coming out of Singapore and out of Australia is around 25% to 30% which is not similar to the same duration we had in other markets in the US which -- close to 50% in the markets, in the products of the --.

So the evidence seems to be very good that the market receptivity and ability of penetration is very strong. And that's given us a lot more confidence. The model itself, we need to communicate in more detail. With the model itself is actually quite simple and financial model, extracting kind of the value added to these courses. And how typically where each of these deals is on a very similar chassis. That's slightly different is transactions and this negotiating around that, typically amount of the few components.

The base -- fee that we get, secondly, a profit share that really reflects the experience, the improvement in experience, but base RP fees, typical -- premium (inaudible) and we get that and finally there is a minimum --. And that's essentially how this licensing partnership structure works. To give a sense what's in the pipeline, there is just a huge amount of activity. I would say to you -- that is important is that the way the financial model works, is we are not funding that capital behind the initiatives. So we have built up a capability and effective that is what we've paid over the process.

The actual building of vitality in these markets, the technology, the operational capabilities are funded to be --. So the gearing effect is quite dramatic. So when you look at what's in the pipeline, we have about 200, just under 300 people, technology people around the world building this stuff, operational people, people inside this company. It's a very substantial initiative or what you can see is, just what's in the pipeline and you have vitality rolled into five markets and join (inaudible) in 25 states, the one state that is not yet done is Europe, which -- critical. (inaudible) Europe, you've built capability in Germany in France, Brazil we are busy with in a mannualized process of building that through the Canadian marker. The model itself had a typical disease this side. Health get involved in how that links into the model. And liquidity, the products to text is different in different markets, but we got two clear variance, one is a potential product like the Discovery Life products. The other is where I think a brilliant, brilliant incarnation of a model is unit linked you look at returns so much in South Africa and so very much in markets like the US and Asia.

It's a unit in product respectively the amount that you give out the cash value flexes, well basically how you engaged. It's kind of obvious the more you engage the below your mortality, below your mortality charges also the more gross investment. And actually kind of just plays off in the product, I think the value of proposition to the customers are absolutely. If you engage in the program you get higher return on values. And it's kind of incredibly powerful.

So the attention is in various ways to the product in the part on that (inaudible) focus on growing this. I said what we are trying to achieve so one back (inaudible) is a business in -- space of time were generated between 300 million to 600 million profits. The available capital we believe going forward.

So if we get this right, it's a very complicated process. We get the (inaudible) to offer immediate benefits, but I think will be second order as I mentioned, of opportunities coming up, it was successful with it. Let me turn one last, but I think very important issue around what we're doing globally and that's about vitality network. I'm just showing you is there any building the business market or market bank we have to do that. It's complex it's going to be done, but the truth things, it is as a network power in all of these companies including Discovery, including our business in the UK.

And we are here to do more and more visible capabilities existance that are globally relevant. So the work done, (inaudible) has been about building active roles with -- as a global platform. And that really is kind of in the embryo with the vitality network global partners. Partners are all kind of on the chassis online easy to deploy in the markets in the ability to roll that out become quicker and becomes easier. The (inaudible) I think it's been absolutely tremendous. And was active roles that started off in the UK within -- vitality active powered in the sense by the iWatch, whilst we can use, but you got to the idea behind this is the iWatch itself is the is kind of iWatch is to active role also to cell phone used to kind of drive the chassis using the iWatch.

With the power of this initiatives the product we rolling out across the world is you're kind of get almost for free. You got small activation fee and then the monthly repayment of the iWatch, next is based on how you engaged. And the engagement is weekly rewards. We found that people responds so well to start setting a weekly goal achieving getting a free cup of coffee. It's not massive advance of value to the customer. The requested clarification we've heard Apple watch to get tremendous results, now we're also started in South Africa as a -- test together with Apple, which are now starting in September it became available in December.

The results have been -- segment. So the -- of all the members going with (inaudible) has been the fastest growing benefits we've ever seen, other hand with a 60,000 we see from the chart on the left hand side, just how much utility there has been but I think the most powerful thing is just the incredible effect it has on engaging to this, so we're seeing guys -- grow by 20% quite quickly and critically on the bottom, we've seen that engagement [ph] levels in -- people higher levels with higher BMIs are even more susceptible to behavior change.

So the effect is on people -- people's health and ultimately on our business. It's quite profound. I'm now going to give you some of the data around the Apple's utilization, I can say to the watches have a tremendous impact on that we are running this atom in US next week together with Apple. But just to say that I think the Apple watch itself has been a tremendous success here.

We're kind of -- through the, stocks within the Apple stores likely you can see the growth in these so the Apple wants' (inaudible) few areas -- just to stock out, there has been fantastic social media and around that you'll likely follow the asset Vitality nearly fell over on the service side over the (inaudible) just due to the demand in the service firms.

I think we are back on track on that but they, that really gave us a sense of confidence about the -- of what this can do and we are narrowing it up in the US next week in the UK in a few -- markets in Asia, we will follow. But it's a hard -- to this and you see that in the graph people that are -- rewards have fall lower levels of relaxation in the Middle we see through that a powerful selection affecting the every behaviors a little bit, they exhibit to follow a health claims.

And then the -- products. And I think that bodes well for other aspects of our business. So in the case of South Africa, the way you find the Apple watch is using the Discovery Card. So obviously I'd say the Discovery Card to get the Apple watch, well that's over -- we've seen on the right hand side, is just a massive increase in Discovery Card sales on the back of the accruals of the Apple watch.

So there's a number of kind of business indications for us and I think we are excited by that. So the idea there really is to build a global capabilities -- to access the over time, we've given -- put that into the markets --, the UK and other parts and I think that's very important so, let's sale up a little bit, a bit of -- on this but I wanted to give you a sense of the -- of what we're investing in growth and the scale of it and want to expect coming out of it.

I think on the farmer section I'll just give you a sense of our core businesses how they are performing Discovery Health like (inaudible) in the business in the UK and give you sense of that, Discovery Health I made the point it's performing remarkably well. We've tried our best to get across -- understanding our people to an integrated chassis. Make people healthier we are not (inaudible) healthcare system of -- structures with the algorithms have maximized quality minimized cost, we have a range of clients to the Discovery Health medical scheme and I think are the broadest in market from (inaudible) executive plan and including (inaudible) considerably in the technology and service infrastructure make it simple. And (inaudible) going forward with. The performance been strong, I made this point to continued business at 36% with six-month period. That doesn't have bank -- it doesn't include bank -- other. Now the previous period versus the second six months losses in November in Thailand was 36% is on the back of strong core growth. In addition we did two large schemes of common, we've seen in the middle in the big corporate market the growth year-on-year are nearly 200% and then the operating profit excluding the bank that are up 11%, just on the 1.1 billion.

So the performance of Discovery Health, I think is remarkable. If you look at the Discovery Health's medical scheme it's growth continues, it actually 7 million members. You can see, if you look at the last 15 years, it's kind of grown while the rest to extended to -- this year at nearly 2 million lines in the period. Although the balance will shrunk from 6 million loss. And then scheme solvency the resurgence -- 13 billion that comfortably above the 25% solvency given in Mexico. So I think the performance of the Discovery Health may be big scheme. This is exceptional in getting better.

In terms of our social mandate, I think Discovery Health is doing a good job in bringing down the administration charges to the Discovery Health Medical Scheme year by year almost (inaudible) you consider taking place not close to be the 10% level. And then the critical issue were the cost of order book and -- this point every presentation key thing that we need to make sure per unit that benefit the people utilize that by less expensive that's ultimately instead what we're trying to do.

And we have done here actually show different medical scheme plans low income hospital plans only -- power plant, 10% to 20% less and that's a critical issue. So I would argue that Discovery Health is doing a good job. Highly sensitive to making healthcare that we have to do. An actually every single aspect are enough traction that a bit later. And now on bank it's now on board it's in play. And we give a sense of just a sale of what's been done at the end of the immediate 10% step change to the scale of Discovery Health and (inaudible). It give us sense of what's been done with prices really on a quarter of the million, claims we cover over 200,000 we cover 200,000 people in 74 companies. That's a pretty expensive initiative.

It is now on track and it's on Board it's running well and I think it effective on the Discovery Health will come through in the future period. I wanted to give you some insight into just some of that we will be doing on the digital side. And at many presentations I've tried my best to give a sense of how we're trying to build the healthcare system, I show you health idea a lot to -- get information from that. We are getting remarkable results at the digital and processing just to make ecosystem that you build 200,000 doctors on linked to -- the roughly 40% of our members are seeing doctors utilizing the Health asset gets important.

We have a million consensual on -- on our names. consent because using that, ensuring that would be doctors, and that's a critical thing. And then finally, I think they're reporting nearly 0.5 million of our (inaudible) are actively using the Discovery act. So kind of the digital ecosystem is very rich and very powerful and they have to pervert on that and drive that going forward.

Some of that stuff that we've done during this period, the one step that I think is very, very important is we brought well in this into the doctors practice that's what we're trying to do. So if you recall health (inaudible) was an electronic record about healthcare and health records and all kinds of different issues. What we've done for the first time is found a premium practice of doctors are actually getting an addition to information Vitality information. And they're taking additional fee to almost from South enrollments into prescribed Vitality interventions.

And we're seeing from the (inaudible) chosen fantastic results about this hospital admission is about referrals upper chain through that, was a function of how we go to metric and the data that we sharing. And I think that, that is the future healthcare, businesses it's just focusing just on healthcare we're not focusing runs intervention is kind of you're missing home masterpiece policy of the equation. So that's an important process going forward.

The other aspect that took place during this period under review has been worked on with Human Longevity Incorporated. It's the company in California, Craig Venter, really the Father of sequencing the human genome, reporting with and there has to actually do the sequencing of the genome for our customers given the ability to actually generate information understand those implications, I mean that's a critical issue. One of the big carriers we had to do with was the cost that sequencing the genome.

It's largely unaffordable and work done with HL has to be, need to bring that cost down from and what you can see there is, I think we are offering by a long shot and the lowest cost ability to sequencing genome for $250 per sequence and critically 50% of it is funded by the Discovery Health medical scheme.

So we really embarking on bringing genetics into what we're doing. But I think you'll see and I think that is ultimately where we need to be is the record what doctors see, what our customers have is a complete and total record of someone's healthcare. The health records, the family history, the wellness data, the vitality intervention, critically the genetic information. It's a fantastic launch guided to a whole range of things personalized medicine for example, certainly ability to a vitality process that are based on genetic predisposition of the individual.

And of course over the time we hoping if you have an update, and the ability to add to the science of understanding the correlations between what the genetics is telling us and what illnesses occurring. So this is an important initiative for us. But before turning up, I'd like to show you, just a demo if I can do it is, is how we bringing the digital ecosystem into the actual delivery of medical scheme. In other words, how the plan operates we've seen that in the banking space, online banking -- kind of taken away the physical aspects of banking. We need to do the same in the context of healthcare and medical utilization. So during the period under review will also recover smartly, but really overlays the digital interface on to a very carefully build network that is amenable to this. At last I'll show you this (inaudible) always do this, and it take complete stupidity to do this, because I get it wrong, but I hope I illustrate you what we're trying to do. Like I said, what I wanted to show you is firstly, you can buy this plan almost entirely D2C. And so through advertising you phoning, you signed up and this appears kind of however phone, right. So it's an experience that is very, very virtual.

Once I signed your phone, you know a member of the smart card, I'm just showing you here that now you can see what hospital cover you have, consults what medicine have you have, but effectively it resides on your Discovery, significant Discovery, actually if you remember as you know it, everything is there, you helped your last vitality, your card and just everything is there. But in the whole section results the plan.

Firstly, on the smart plan, if you need the emergency you just touch emergency assistance and quite quickly what it does it tells you, where you are assume that's accurate but one does not wait exactly emergency facilities were all in that area.

But if you want just go for a consultation and you go the small parents [ph] of what you see is that really gives you everything kind of online, signing it provide recoveries ability to appointments, ability to get your medicine, Purification your health, everything resides on this trend. What I'm going to do is, I think go for a consultation that's the idea. It immediately tells me GPs are around this area. (inaudible) those for me as well, which hospitals on the network, pharmacies are so the whole thing is kind of on the phonic and guide you through ever piece that you want.

But assuming I now want to specifically, I can then choose from a home network, I've decided here to choose one of the doctors you can see from the neck is quite close to sitting Dr. Alan Fuller is rated by one of our (inaudible) very much like approach we're getting a feedback loop of how it does. Again if I want to have a virtual consultation, I think I can took a virtual consultation and we do this in the UK almost by our stock you can talk through the phone, but I'm going to see Dr. Fuller. So I book an appointment, like that this is a (inaudible) engine if you're building the ability to book in (inaudible).

So it sets up the appointment formula, it's granted on Friday the 26, which is tomorrow, okay. I'll now confirm the booking, and now it is tomorrow I say. So it actually reminds me that our appointment is for today, at the centre and it gives me directions to get there when I getting the call. And I get there of course a critical thing, it tells me where he is, you know I get there, my membership card is (inaudible) for him and for me. And Dr. Pitcher's you can see practice in the membership card. It also then works by actually giving the doctor advance notice I've been checked in, the details of to health ID is not defined by (inaudible) it tells -- the estimated time of the consultation will have magazines at the bottom if you're going to read. So all of it is online and I think (inaudible) of this city is happening -- all the stuff happens in a term declines of pay, though some is available with paid from what the doctor said, structures created now I can actually go and collect the strip or I can decide to have it delivered, in this case I'm going to deliver -- have the strip delivered, it will tell me the estimated delivery timing and effect in the midst (inaudible) like an issue -- is there. Right through the strong player.

You can if you want you can -- on the mind is about missing you had when you should take them so we're trying our best to work on the compliance aspects as well through SENS. And then I could do what I wanted to -- if you actually look at the time -- what's happened, told you over the last number of months you can see the last thing is being on February 27, claims I can see exactly what happened, Dr. Phil [ph] is referenced on how much it cost, we have just paid et cetera and then importantly I can I think right experienced within like -- I'm going to give in five stars.

(inaudible) well, I look terrified, and it is fair to illustrate to you that that once you have the digital ecosystem right, the ability to get over lay on to that prop up virtual online capabilities, I think it's very -- that's where we are heading, the (inaudible) as you can see from the chart is about 30 -- close to 30% less expensive than other plans are what we see has the take-up as we tremendous operating data on the -- tremendous and affect the demographics or more, one of the biggest challenges we have in Discovery Health and in Discovery Health medical scheme is to shutdown a healthy license.

Well it seems important obviously given this kind of technology, typically the people coming in are three years or four years younger than the average and I think that's crucial instability of the schemes itself.

So it kind of ticks the number of boxes so if we try to make the point that we're on a very, very substantial road about digital online and we kind of the Internet of Things and consist of health care. And we move on, we move on to Discovery Life, just to get some --. (inaudible) nothing to the Board as this is a complicated relating to Discovery Life, and the performance of Discovery Life, I think it's been absolutely tremendously you can see the operating profit at 13%. (inaudible) is up 5% what is interesting is that our new business market share is now far substantial the highest into the climbing.

So the market is not growing there quickly but -- growing into that market. And probably most importantly is how the model is working. Discovery Life really is the blue print for the stuff you are doing in other markets, Vitality Life in the UK what're you doing in other markets, and (inaudible) this is more or less than 15 years old, but that's coming out, it isn't really compelling so to make the point again, this is a share value model right, you start out paying less if you guys in Vitality you pay less over the time if you don't -- and more of the time that really shares value that's the idea. What we see is that firstly our customers are engaging Vitality at a considerable rate, so this (inaudible) increase environment in gold over the period.

Again in consumers to pay back -- actual surplus are gaining consumable savings on the premiums. On the right hand side of the chart, what we're seeing in terms of share values it's bit mortality experience, better persistency and at volume is not a very clear graph but five level charts and that continue to come down substantially below the embedded value on expectations. So the shares are you more likely displaying up remarkably well. But the fundamental question I want to pose it again is the extended capital required and the return on that capital.

And you will know mainly the people in the (inaudible) there is often been a question about Discovery Life is Capital heavy is it worthwhile is a return of capital satisfactory does it -- cash. In reality the Discovery Life is it kind of throws up couple of billion of cash --. Most of this continued business accounted is a deployment of considerable asset capital on ongoing basis. What's happened as we're doing more and more work on the over return understanding exactly how they come up and understanding the risk inherent index.

I share this I think at the last presentation, I will show it again. And what it shows in the right is really had an internal rate of return for a new policy emerges. So we incur acquisition costs upfront that is the investment what you see in the left is kind of five to seven years we get our money back internal rates of --, and the claims about the risk to catch the bond yield curve about eight to nine years and about the risk fee level, sorry risk fee plus 10% at about the 15 to 20 year bond.

So essentially if you think about Discovery Life every policy we serve us making investments in bond, the long-term bonds how does it rate to buying a risk free bond.

And let's see what the chart shows. Now the issue -- plus 10 is a great return. But the question of course is your getting a risk premium of 10% is that justifies, is it a better term --. When we -- one thing that we did is part of our Solvency II work is exposed to an extreme event 1 into 200 that we model in our work for FSB. And returns that if we were to experience a 200 event internal rate of return would still exceed risk free plus 3%. So returns are pretty robust against the 1 into 200 event.

The analysis are -- more interesting is actually looking at the risk premium that we're quite anxious about risk free we are earning and what are the inherent risks in there. As what are this paid for to carry. I said you three main risk. One is mortality risk, mortality is worse we expect; the second is the -- that we a whole piece of the book; the third is interest rates the rate are volatile to be wrapped up and you get a reduction in the value and that indeed increased based on the rate of return. So the question really is that 10% worth. I think very strongly absolute if you look at how this behaves (inaudible) extended and this is a remarkable return on capital.

A few points to make In terms of mortality risk, right. I need to say you to that, that's exactly was the model is intended to do. Well I do on this model is an improving mortality exposure overtime -- to the dynamic prices. The selecting better lives we're pricing them for behavior change while they are with us. We get very selected (inaudible) triggered by within a mortality experience.

I can tell you that the data is very compelling. We now have actually compared to longitudinal study of five years. What integrated policies business line integrated policy. Now we can do this as we cover the health. So we actually understand all the aspects of the Health, and we actually took the lifetime. And you can see on the right side of the chart really is how that risk looks versus those policies (inaudible). What you find is that claim 30 centers in healthcare, the chronic condition incidence or prevalence is nearly 30%; (inaudible) 20% lower and the last lines it experience 50% lower.

So the out processes is the dynamic prices and net price in risk figures, we get together we see coming up in the data. And if -- very strong inside the mortality risk approach is always there. But over time we are hoping that mortality is source of surplus of the risk to the facility. In terms of interest rates, of course, this is a volatile issue. But I wanted to make this point is very interesting. And in terms of interest rate risk more and more on the left hand side, I wanted to show you that more and more our business is being solved linked to CPI.

In other words, the principally pay are linked to price inflation, so that the right hand circle, you can see that 70% because as we're currently stands with the CPI. Now we reflected that is immunized and this -- insurance got an inflation environment goes up, we get more premium right. So you can see on the graph I'm sorry this is have lot to drive actually on the graph what you see is our volatility our VNBs volatility to a 1% change in initial stage has been coming on down dramatically, because that achieve linked.

So a few years ago, 2009 1% change in interest rates would have 12% of our VNB. What you see now is a 1% change in interest rates to start in the VNB. And what is fascinating if you compared to side government bond receive on opposite finalization so concentration, what's that 20% of the value. So on the insurance risk impact is less in this because of the in utilization. And then finally, percentage of --, I think there are a number of holes beginning on the left on the block.

The one issue is if you look at the data our integrated policy is less at a far lower rate the non-integrated (inaudible) healthy food and active roles in Apple watch, are typically --. And we are holding on to them very, very tightly. But the other as always as we both are uniquely strong Asian report. That's getting stronger and stronger and we finding that agency business it's more profitable and less inter rate lower than business. So all -- tend to tell us if you're actually to extend can you just go back a bit.

To an extent getting hold of the --. So really put it best beyond kind of pursuing like business, because it is capital heavy. We believe very strongly that the deployment of capital is a good deployment capital with a high rated industry and you can deploy considerable amounts and that's exactly what we're doing.

So the model I think is two sides to it. I think it's a social side of shared value, but as hardcore financial side that ability for a capital in a considerable rates of return.

Let me touch on Vitality Invest and just make the point, I think the lot you're saying going forward. That you like the point, I think the performance is quite (inaudible) 17% operating profit, some gearing from the administration side, the cost of resignation et cetera, and giving us a gearing effect of profits up 25%. I mean, assets under management up 26%, a 23% to just around 56 billion.

I keep making the point that Discovery investors focused carefully on the retail side of the market, we're not in the asset value, asset management value part of the market. At this stage we're not getting real offense to that extent, these are all opportunities for us. And I'll make the point around as we probably, taken some executive changes in the team in Discovery, social matters now Discovery Laws and Discovery Invest as focused entirely on the UK. Kenny Reckson is here is focused entirely see our Discovery Invest in Hilton College is now the CEO of Discovery Law.

So, we're taking a while, I think is a crucial part of how that Group grows and broken it down into key people, I think it's remarkable ability that you see huge amount of focus going forward. So I hope to tell you quite a bit more and in the next presentation. Let me end the phone at UK and talk about Vitality Life and Vitality Health. I firstly, just say to you that the business is both on the UK. And it's taken us 18 months of very, very hard work to extract ourselves of those JB structural of acquisition with standard of health (inaudible) we're joining, we've taken what we got JV substantial throughout the life insurance business on the crew license using structures.

We have both standard healthcare, but the business set on the systems, it was a pretty complicated set of structures. I think the acquisition of the 25% required us sorting out balance sheet, brand, funding, systems and I continue not to (inaudible) that we are now entirely offset. I'm very pleased to tell you the fertility loss is prompted, since life insurance license that is done in significant step, because lot of work with the Bank of England prior to get that license done. I think, the team the remarkable job.

I think that approval of that license in a fairly short space of time with those dramatic capital injections illustrates, I think the regulations approval and comes it where the business is being run off and get so important. So they are at very strict levels of corporate governance in the entire business. But effectively, the business is a considerable scale and nearly a million people at recovery in the UK. The revenue flows back ZAR12 billion in the U.S. So the business is of considerable scale.

And in the work that are on the balance sheet, the funding, and the licensing all of that I think has gone well. The one (inaudible) that has cost us in Vitality Health, the extraction out of the standalone systems is discussed as far as accounts of this period, I'm confident that we are over that, but of course we have to watch it very, very carefully. Let me talk about the separate businesses, firstly, Vitality Health performance on the new business side has been very strong, up 24%. You can see the profit growth has been pretty reasonable and effected -- cost we have grown by 22%. There is a pretty substantial mark, it is a tremendous gearing effect, as you mentioned somewhat of gearing your margins are 5 billion pounds that is hardly impact on the profitability.

What happened to -- the chart is clear. Is that we had three systems operating together and over time we're bringing it down to one system when you make that extraction during this period, which has become a claims backlog some of the systems around claims management (inaudible) we had some leakage there versus service issues which is (inaudible) existing and that going to the 5 million pounds. But having gone through that, what you can see in the right hand side of the chart is that operating cost down by $0.30 since the last time. Going forward, I expect that surplus to merge from the business.

The rate of new business on a run rate basis. I'm just showing you a quarter-by-quarter versus (inaudible) is very good. And on the right hand side we will move individual businesses with the margins and as the corporate business (inaudible) and so we're focusing a lot on the license, because I'm not saying the kind of the integration. So it is the focus on moving the regaining market shop.

Continues to perform well, despite some of the blocks that extraction are less experience continues to be very good. So the core fundamentals of the business, I think are very strong. I wanted to show you just this reconciliation, because we show the profit of 4.4 million of 5 million pound loss. I mean it's very it's small and it's high in the contest of Discovery, but to give you a sense of where that profit comes from. The existing block is flowing out about 23 million pounds of cash effectively. What in terms of -- is the new business strain reinsurance and the 5 billion pounds. The effect of the new business strain plus 5 million counts has a massive during possibility.

So the -- process to make sure the quality business is right we are mediator to new business strain. And we don't have, any slippage and (inaudible) if you achieve that I think the inherent profitability substantially the profitable is the short-term cash I think it is important in the UK. So we have some confidence of I think it's been a very difficult period. When you change Vitality Life and in -- productivity really have a tremendous performance, new business, up 28%, large 23% the of 350,000 operating profit up 28%, which really is increasing the quality of the business.

I made the point about penetration of the integration process, you can see recorded in the UK the Vitality Optimizer is at 63% net project margin. So, the value of in-force 46% over 2 billion rand. There is a new business from are nearly 47 margins approach. So the quantity of business and the quality of business I think is quite exceptional. Our agenda for this, there is thing innovation that you railing out in the UK, hope I get this across, but just to make the point you did, when you build a life insurance product, I think that the input costs plan into three things; one is the cost of mortality, the health of the people which you cover, obviously. The second is, what you're going to earn on the premiums interest rate environment. And the third is the cost of solvency, and the cost of capital and that's gone up in the solvency to environment.

Now these are the three things, if we have to think about in pricing life insurance. The first piece of it reduction done very well. The whole idea of the integrated what I've just showing you is this dynamic pricing, that kind of -- it's right kind of behavior, that's critical. But the interest rate environment and the cost of capital have become hugely problematic in UK. Solvency II requires more capital, as we call it same in South Africa from a solvency perspective, but the critical issue is long term insurance, I think that the lowest been in the UK for a couple of hundred years, we know that well. That is a tremendous effect who's life insurance is about reinvestment of premiums.

So if your interest rates come down in the long-term, you're going to accurate that's a problem. So we in an environment where (inaudible)probably do we have the rights (inaudible) that's not the issue to new business. Our competitors are probably going to do that, and that does appear to fight against. But I think -- award what the team have was applying the same kind of integration mindset. So if you think about how the Vitality integration works is you start out lower, and if you engage you can say in that this kind of engage deeply that this kind gets deeper, and if you're learning guys the other time that this kind gets narrower.

So the (inaudible) here was to apply the same thing to economic factors right. So to think about optimizing in two dimensions, lifestyle and long term interest rates. In the fast it's kind of not the similar to a floating rate mortgage. So we're saying to people to walk on this locking to low rates of interest for the next 40 years, it doesn't make sense. By the by this more flexible approach that happens you're going to discount and discount will be (inaudible) it's just high 70% that's exactly interest rate swap.

And independently how you engage in vitality of the one I mentioned, with how interest rates play out in the other dimension your premiums will fact all the time. So without matching (inaudible) on health factors, but on economic factors it's same part. The manifestation really is a share value, the value comes out to the share to the customers, exactly the same DNA, right. But the key thing here is giving people the ability to match price and it has been offered for more economic product. We're running it out on the UK the receipt of this tremendous. We are expecting a lot, out of Vitality not going forward.

So let me read out are being very lazy, I hope I made the point, I think the financial form is robust, it really is a -- between profitability and new initiatives. I think the expected new initiatives on profitability passed quickly as we smooth out a bit. But this is one itself, I think it's really appropriate and really defines while we are investing heavily new initiatives. The new initiatives themselves are pretty substantial's with the banking initiative all the way to start that we're doing across the world with (inaudible). And then finally I think the performance of the business is very strong with brands offer in the future.

We are pleased with the quarter, it hasn't mean a simple quarter, a simple half, but. Right. Extremely optimistic that ability to that grow going forward.

Thank you very much for listening. What I'd like to do is, as you see our key executive of here. I ask Ricky Farber, our CFO joining me to answer any questions. Thank you, very much. As usual we own outside likely the questions, with all the you'd like to ask please. Go ahead.

Questions And Answers

Q - Unidentified Participant

Mr. Gore, I direct your attention to the segmental information on pages 14 and 15 over the report. Under the three columns SA Life, UK Health and UK Life, I note that the amounts paid in insurance -- reinsurance premiums is in each case not to fully recovered by claims from reinsurers. SA Life is approximately 80% recovery, UK Health is about 80%; UK Life is under 50%. Why is that such a low recovery?

A - Unidentified Speaker

Yeah, sure. The two effective types of reinsurance that you do, the one is -- reinsurance large claims (inaudible) or something like that. And in those cases, the reinsurer would not normally you to exactly 100% there would be some margin in the first admin cost, the cost of capital expenditure. So you would expect that the premium in the claims they are identical. The second one we have is we have good financial insurance, financial insurance effectively have a funding source for the business. And it's repaid or effectively what you do just (inaudible) piece of the book and reinsurance is particularly repayments of that.

So that the difference between what you pay them and you get back is effectively repayment today. The UK Life one is the most complicated. In UK Life what we've done is, we've done a reinsurance treaty with the launch German reinsurer where we swapped interest rate risk with them, fixed for floating. And depending on the movement in interest rate curves that's driving the reinsurance claims. So that one will move over the --.

Q - Unidentified Participant

Got it. Now I'd like to focus on --

A - Unidentified Speaker

Next point in that -- earlier was why while -- dropping, not just the offset of that risk to that structure differential distribution.

Q - Unidentified Participant

Our focus on the UK Health and the UK Life but from a different aspects, and I'm referring to claims and policyholder benefits and the UK Health that amount is approximately 95% of net income. And if we go a little lower down and the other expenses 1.3 billion that's further approximately 38% of net income. Now question arises, why all claims and policyholder benefits virtually equal to income and other expenses, a one-off item or is it going to be recurring. And to less extend the same questions apply to the column UK Health, sorry, UK Life.

A - Unidentified Speaker

Yeah. Sure. So this in part relates to what items referring to with our claims in the Vitality Health. What happened in this period is that we had issued for the transitions in new platform, which mean that at June there was quite a big backlog in the claims processing, which we have gone through. So what you will see is the actual paid claims those figures reflect is very, very hard. But, further down in the income statement, you will see a -- change in liabilities arising from insurance contract, effectively we've released reserves for the claims we pay, which effectively just get it to the right period.

In the expenses side, a lot of the expenses related to acquisition costs and marketing costs. I mean in the last case, upfront commission and as a given in the presentation we take a strain in the health business upfront get some insurance relief, in the Life business we had a negative reserve and you'll see that in big assets arising from insurance contracts life. So deliberately in wide rolls.

Q - Unidentified Participant

So would it be fair to conclude that, much of this is not going to be repeated from now on? Certainly to the same extent?

A - Unidentified Speaker

In the Life business. It will be pretty normal where claims are -- in Health business you're 100% correct. With an additional title of 5 million pound which we are not expecting to (inaudible).

Q - Unidentified Participant

Okay. And finally, please. And this is a question I'm asking number of times. I'm referring to the table on top of page 18 and also the table top of page 19 respectively, annualized premium income and normalized profit from operations. Now missing from profit from operations or Discovery Reinsure and Ping AN. Let's focus Ping AN the premium income increased to 77%, which of course is huge, but I suspect that much of this may have come from currency movement. And however, we have it is did come from at some stage, I want to see and I'm sure, so do you that ping on features in the table normalized profit. When is that going to happen? No matter how small it might be?

A - Adrian Gore {BIO 3068929 <GO>}

I have seen this. I should show that the, on the growth, and I think Rick, here we're going to achieve (inaudible) Discovery and gently it was clear, as what part of that they make up.

So you will please answer it. You will do it Ricky.

A - Unidentified Speaker

Yeah. And the currency is raising about 19% impact on the numbers, so it's around depreciation. And Adrian did say earlier in the presentation that we are working with the Chinese on a breakeven in 2018.

A - Adrian Gore {BIO 3068929 <GO>}

Sure. With this question should I wrap it up. We have taken a lot of your time. And I think I'll stop, hope you're watching us that another work we have to achieve this. We are extremely right. Thank you for your time. We are around for your questions and we'll take in as they come. Thank you.