Y 2020 Earnings Call

Company Participants

- Adrian Gore, Founder and Group Chief Executive
- Andrew Rayner, Group Chief Risk Officer
- Barry Swartzberg, Chief Executive Officer, Vitality Group
- Deon Viljoen, Financial Director
- Jon Steinlauf, Chief US Advertising Sales Officer

Presentation

Adrian Gore {BIO 3068929 <GO>}

Good morning. Thank you very much for attending our presentation. I'll be presenting Discovery's full-year results for the year ending 30 June, 2020. It has been a very complex time and I hope I get through the messages clearly to you. I'm joined here with me at Discovery by Deon Viljoen, our CFO. Our entire Executive Committee is on the call and will be available for questions afterwards, which we will take. I urge you to post your questions as they come to you. We'll do our best to adjudicate them and take them in the time after the presentation.

So, firstly let me start with the presentation and do as I always do. I think it is slightly different this year. Obviously, the technology and the circumstances are different and I hope this all works as we put it all together.. So, bear with us if you have some issues. Secondly, just apologize. Apparently I was told just prior to the presentation, there was some technical loading issue in some of our financials just in the download. So if you download them again, I think they are entirely correct. There was some I think tabulation issue apparently and so if you do see some tabulations, just download them again. I think they have been corrected.

So, let me begin by firstly saying that it's been a very complex year obviously and profoundly I think not just from our narrow perspective, it's from the Company and the world perspective. We have done our best over the period as I think you know via a number of releases to update you on how the organization is playing out. And if I would assume, a lot of what you see in terms of numbers, you will know there should be no -- there should be nothing there that isn't known and you've seen the numbers that are presented on the screen in terms of core new business, in terms of operating profit, and the effects of COVID on the Group.

Let me start also by just making the point of just thanking our Discovery people. We've got 10,000 people or in fact, sorry, a lot more; about 80% of 15,000 people working from home. They've done a remarkable job and the organization has performed really well. I have to say half of the leadership and the Board just are proud and our gratitude to all of you for what you've done. And then just a call out to our clients of again gratitude for the support and we are all in this very complex time together. So, I thought it's important just to make that point. If I go to the actual results, as I said, the numbers I think are well known. There are five distinct themes that I would like to highlight in this -- in the presentation. I hope that becomes clear. The first is the operating performance was resilient with operating profit up 9%, new business up 5%, and I think the actual dynamics were very, very solid over a very complex period.

The second is that we set out to create a COVID provision at the end of the period. In a sense, create a provision for all future effects of the COVID pandemic and I'll take you through that a bit later. Thirdly, interest rate fluctuations are quite severe both in South Africa and in the UK. Had a dramatic effect on the headline earnings. But because they have absolutely no effect on the operating nature of the organization, cash flow solvency, capital liquidity, et cetera; we normalize them out. The fourth observation or theme is the growth engine of the organization going from new to established -- new to emerging to established businesses where Discovery growth has been I think very, very successful. All of our businesses I think went through the phase and are performing well I believe and you'll see that in the presentation. We invested ZAR2.2 billion in new initiatives, most notably the Bank and I'll take you through I think the traction again just quite substantial. We shall see that coming through.

And then the fifth point that I think particularly important in the face of a pandemic has been a very strong focus on capital strength and on liquidity.

And so, those are the five themes that I think really summarize to an extent what we saw over the period under review. Let me just firstly talk to context. I mean obviously this has been a very, very profound time in terms of the onset of COVID. It hit us in about the eighth or so month of our financial year and I think we -- our purpose of making people healthier, our role of being a health and life insurer makes us extremely relevant at this difficult time. And I'm proud of how I think our people rose to the challenge and I think we focused our response on this diagram you see on the screen. I think a very simple approach of making sure that we protected our people, supported and protected our clients, played a role in supporting the communities and the countries in which we operate, and then critically operating on a financial basis that is resilient, strong, and continues to grow.

And to an extent, I think it's a base of this diagram that we will be demonstrating today. But I want to make a few comments just on the topic as a matter of point. I think our Discovery people have done remarkably well. Fully 80% or 90% of them work from home out of 15,000 people. We worked hard on just using purpose values to keep people entirely engaged in the organization and we've had a number of very popular initiatives to keep them engaged. Webinars every week, experts talking to our people. The most amazing time I think has been had by the Discovery people around just keeping the commonality together. And I would say to that, I think the strength of the organization on values and purpose has come through. Once the physicality has gone, I think the power of purpose and of values becomes quite critical.

In terms of our clients, we focused very hard on making sure that our products are fit for purpose, appropriate to an environment of pandemic that had the right kind of benefits, the right forbearance in them that we can help people stay covered and afford the cover. We restructured vitality bringing it into the home. And then we reached out to people -- high risk people to help them through the pandemic and protect them from harm. And then from a country perspective, some of our key executives and people worked with governmental elements of business to help manage through this pandemic. There are a number of key initiatives that are worth mentioning. One is the COVID Alert, trace and tracking app, that we worked with Apple and Google and the Department of Health that I think is rolling out now. At the end of the presentation, we'd like you to download it. It's a very important, I think, simple piece of powerful technology that assists in the tracking and tracing of the pandemic. And then a joint venture with Vodacom around making sure that every South African has access to online GP consultations for COVID. So there is a lot that we did over this period and hopefully, as we come out of, and I hope we do quite quickly I think the organization is very, very well positioned.

A few comments on the actual pandemic itself. I mean, there's obviously a lot of debate about lockdowns and what's right and what's wrong. And I think, you can't declare victory or proclaim anything until a number of years have passed and the data emerges in a sound way. But I think our perspective is, I think the earlier lockdown of South Africa and the discipline around earlier lockdown was a very courageous and great thing to do.

As you see on the chart, looking at different countries, they were -- clearly early onset of the pandemic that we avoided, there was a second surge that is happening in different ways that hopefully we will avoid, but you can see if you transpose the South African attack rate, in other words, infection rate on to different countries, we had a long time we were kind of protected from the pandemic, we peaked around June, July in the July period and then we've come down quite quickly. And so, I think if you look at the statistics coming out of the -- out of the -- out of what we are seeing, I mean, our view is that the process taken was probably the right thing to do and we are very supportive of it.

You can see on the left-hand side of the chart how the different provinces kind of raising infection peaks and are coming down strongly. But I think the critical thing is, it gave us time to prepare hospitals to -- both our public and private hospital systems to take the potential out of COVID. And then critically, it gave us time to understand the new treatment modalities and how best to treat the illness. And you can see on the slides there that in fact over time length of stays in hospital for those people that are sick came down dramatically, levels of acuity came down dramatically and people in ICU mortality rates went down by like 25%.

So overall, not only do we have the hospital systems ready, our healthcare systems ready to deal with it, but to an extent, I think the ability to treat people better and save lives is much more real given the kind of the delay and onset in South Africa. So no doubt about it, I think, the early and hard lockdown was tough economically and a lot of debate about it, we believe from an epidemiological perspective, it was probably a very, very important step.

If you look at our data, and this is I think well known, the lockdown itself obviously had a dramatic effect on economic activity and on all kinds of things through our tracking you can see. Tracking our bank spend, spend on healthy food, physical activity, driving, you can see the dramatic effect of the first phase of the lockdown Level 5. Things like driving dropping by like 95% as you would expect, bank spending dropping by close to 20% and this sort of starting to recover as we came through Level 4 and Level 3 with effect was quite dramatic. And so, there is no doubt there is a trade-off, it's well known between saving lives and saving livelihoods. And this is a complicated time, but I think from an epidemiological perspective, we do think that the early lockdown was correct. And hopefully, as we go through a vaccine and continue understanding of how to treat, the virus we move out of this pandemic.

It's worthwhile saying that obviously the economy is in a difficult phase and people are concerned rightly so about a whole range of issues about the economy. I guess our position is we are strong believers in positive action.

We've had a supply shock certainly in quarter two and we're going to see the after effects of that. But it's really is in our hands I think to get the economy back to where it needs to be (inaudible) of SME fund around SMEs, which I think have really been hit. They are the drivers of employment growth. Now where the real pain is being felt when you look at the statistics, we have to help SMEs. That means paying them on time as big business, it means buying from them. If you are -- if you can't afford to go out for dinner, we eat takeouts. Support them, support tourism, there are a number of initiatives I think we need to do. I I think we need to focus forward of how best to build the economy, support the economy, get back to where we need to be and I think that's an important -- a very, very important issue. So, let me move on to the results themselves and try and contextualize kind of the Discovery response to this.

If you've followed us, you will know this cube of how we look at our organization, the foundation of our purpose, values people, importantly our business model and how it works with our brand and our capabilities. Flipping into our businesses on the left hand side. On the Vitality behavioral chassis and then flipping on to the far side of the cube into the financial and social impact, what we call kind of the washing machine; businesses growing, generating cash and capital, going around the cycle. And to an extent I would say too it was the robustness of this model I think helped us navigate this very complex time. And I think this chart over the page if I turn to firstly the financial impact and deal with that first and foremost, I'll deal with the foundation second, and I'll deal with the businesses third if you follow me. So, dealing with with the financials. This is a busy slide, but I want to just give you kind of a summary piece of really of all the numbers and I can delve into them.

Firstly, you can see the operating profit, the first column. As you can see it as it runs down, the businesses are cut by the SA, UK, and then other businesses internationally. You can see down the line operating profit up 9% in total. So, robust performance from an operational perspective. But very importantly in the second or third column, you can see the COVID provisions that we set out. So, we've done our best to model the future effects of COVID in the key businesses where the impact will be and we then deducted that from the operating profit. So in the case of Discovery Life, Discovery Invest, importantly Vitality Life and Vitality Health. You can see the sum of those provisions of ZAR3.4 billion at the bottom of the chart. I think it's important just to point out that Vitality Health is quite a unique business in the COVID pandemic. As you may know in the UK, the

National Health Service essentially took over private hospitals for capacity should they need it.

And that meant their clients of PMI or private medical insurance simply did not have access to hospitalization and so to an extent, claims were artificially low and profits were bloated. And so to an extent, the COVID provision about estimating the backlog of those elective kinds of procedures and other things that might come forward going forward. So, I think, to really read Vitality Health accurately, you need to actually look at the operating profit, which is correctly what happened over the period, which I must adapt of the provision. So, I think gives a more accurate reading of the performance of Vitality Health, which (inaudible). So adding up the provision gives you the ZAR3.4 billion.

And then the interest rate effect, rates of interest in the UK and South Africa going up in South Africa on the long and down in the UK. You can see it had quite a dramatic interest rate effect of ZAR4.8 billion. As I said before, we have normalized that acquisition, it has no real effect on the operating performance of the organization. So, hopefully, in a very busy slide let me give you a sense of the operating profit, up 9% to COVID provision of ZAR3.4 billion, interest rate effect of ZAR4.8 billion.

And let me then work through each of these three things. I've got further then into the -- how the growth model has worked and capital and liquidity in that regard. So dealing with the first, the operating performance, just to focus in the same chart again and make a few comments about the businesses. Asset, up 9%. Overall, you can see a number of important issues. Maybe just to call out to some of the issues I think Discovery Health had a very, very good performance. Operating profit up 5%. Quite a bit of money spent on the COVID on a bunch of COVID initiatives, probably about 3% of earnings in that regard, but a very robust performance.

Now within that considerably powerful performance of the Discovery Health medical scheme their credit real complexity for how that plays out going forward. Discovery Life had a remarkable year, up 25% from operating perspective. Strong positive economic -- strong positive operating experience variances and good liquidity and I'll show you that a bit later. Discovery Invest actually grew assets under management through a number of one-off costs and I'll take you through a bit later that reduced the profitability. We've tried to get that business to ZAR1 billion of profit. I think it should get there, but in the period under review, there was slight reduction in profitability.

Discovery Insure, I think, had a tremendously good period. I mean, obviously the threat in the short-term insurance space was about letters that people weren't driving, but there was interplay between using the shared value and the potential lapse threat. And I think the outcome of that was very, very good, strong quality of business across the board. You can think by a long shot with the most most complicated Vitality Health despite a very complex NHS dynamic with private hospitals performed strongly, as I said 104% growth is really a bloated number you should look at that with the provision.

So about 9% level of growth in rand terms, I think, it's about 2% or 1% in pound terms, is probably the right way to look at Vitality Health. We'll see how that provision plays out going forward. And then Vitality by long-short, the most complicated business in the period. You will recall, at the half year we were working hard about restructuring the business, because of the low rates of interest than a pandemic is overlaid on to that, in fact, actually hit in this period under review. So, operating profit dropped by close to 50%, but after the COVID provision insurance effect, you'll see the effects are quite significant. I think, a lot of good work done around the restructuring of that business, and I feel, make it clear in the rest of presentation.

And then the performance of Vitality Group, I think, exceptionally strong, up 91% over ZAR300 million. Ping An Health continues to grow our share about up 72% to ZAR182 million. And the sum of the two, close to ZAR0.5 billion. We've made the point, I think, in the past that we like the sum of the two to be ZAR300 million to ZAR500 million by this stage. So I think they had delivered quite strongly in that regard. And then we spent ZAR2.2 billion as I said on new businesses, quite an increase in spend most notably on the bank, but I'll illustrate giving you the 9% increase in profitability.

In new business itself, trying to illustrate to both in a tabular form over the years you can see, cutting the new business by our new businesses at the bottom, emerging businesses in green and the established business at the top will give you a sense of the growth in new business. I think nothing untoward I think fairly robust performance in a difficult time, obviously the physicality of Transat insurance our distribution channels being in many cases physical made new business quite difficult. But in the main, the performance was fairly robust, minus 5% of the established businesses.

Discovery Health really feeling the effect of the economic -- the economic fit of the lockdown, a lot of that new -- lot of new business comes from existing employees where people are employed, so kind of expanding employer base in existing clients and of course that didn't happen quite the opposite. You can see the Discovery Life had a fairly robust performance, minus 1%, strong ACR, ordinary contribution increases coming through.

I'd also call out I think at the bottom the strong growth of Vitality Group and the very strong growth of Ping An Health in the period under review. So you see the effect of 5% in established businesses reduction to announcing growth in the emerging businesses. I thought it was interesting to illustrate just the effect on new business over the actual pandemic periods. At the bottom of the slide you can see month-by-month from January through to June -- sorry, through to now. We tried to have basically the up-to-date figures to see the effect of it exactly how the business performed versus the previous year. And you can see the effect across the board is during the lockdown. Obviously, new business suffered, but to an extent I think post the lock -- post the hard lockdown coming today starting to recover, and I think we are quite comfortable about that.

Let me turn to the actuarial dynamics. We tried our best in the early announcements to illustrate the actuarial dynamics of the businesses. I think they had been pretty resilient. I think it's really a trade-off between the shared new model and our ability to offer people all kinds of concessions using value built up in their portfolios, but at the same time I think the tussle between affordability during a difficult time and the kind of essential need of the products, I think, had a whole range of dynamics and actually played out in a very resilient way.

So you can see, if you look at lapses and claims across the board, except for Discovery Invest, lapse rates were actually a lot lower than expected. So, the business actually got tighter over the period and is tended to stay that way till today. Discovery Invest had, what we call, a lot of paid-ups and not people necessarily lapsing out, but instead of continuing paying, they've kind of paired up the policies and therefore didn't invest more on that, that is what you see on the chart.

In the case of claims, I think a very, very resilient performance across the board, except for the Vitality Life. Claims were lower than expected. In the case of Vitality Life, I think not unexpected, we paid I think close to GBP4 million of COVID related claims as the pandemic hit the UK quite a bit earlier than it hit South Africa.

But I think in summary, in terms of lapses and claims across our businesses, we felt fairly strong that the kind of actual dynamics were relatively resilient. And so if you look at the overall operating performance of the Group, we are comfortable about that its resilience and I think how -- about how it is positioned going forward. The second theme is the COVID provision and just to give a sense of the provision. As I said, we set up a ZAR3.4 billion provision made up of three major components; Discovery Life, Vitality Life, and Vitality Health. The two life companies made up of trying to estimate the effect of lapses and of course in a pandemic the effects of mortality on claims. And the key issue is trying to in a sense reserve for all future effects of the COVID provision. So if we have got it right, the pandemic is largely taken care of in our financials and growth then should recur in 2021 and thereafter.

I mean it's important to say that our organization did a considerable amount of statistical data analysis and mapping around expectations of what the effects would be. We used an SCIR, which is a fairly standard epidemiological approach, to modeling out the effect. And as you can see on the left hand side of the chart, just the estimation of cumulative debts over the period going forward. Really kind of a good scenario in green, an expected scenario in yellow, and a bad scenario in red; and we model our best estimates based on the expected scenario in yellow. We then kind of cross-calibrated that to the emerging reproduction rates of the virus and the R factor so to speak and set those provisions in June of the year as you would expect at the end of the year. You can see how the R factors actually played out. In the UK it's kind of modeled along slightly below 1, which of course is good. But you can see now this kind of a second surge, it's slightly above 1.

In the case of South Africa, it's done the opposite. It was above 1 when we set the provision, now it's come quite strongly below 1. So at this stage, the epidemic is -- the attack rate is reducing quite significantly. You factor this then on actual versus projected is the third chart, I hope it's easy to read. The green and blue is what we actually saw and really effectively I think the theme of both was that the debts initially accumulative. So, we're tracking what we expected on the medium scenario and then have actually come down quite sharply off that. So going forward on the right hand side is effectively the provision that we set up of claims we'll literally kind of release over the 2021 year. We expect at the moment our claims to be quite significantly below that. So, we've consumed about 13% of the provision to date and expected to date so the expected -- actual versus expected is about 70%. So, we are already falling underneath the provision.

And I think we feel fairly strong if there isn't a very powerful second wave, the provision should be more than adequate. And even if there's a second wave, our projection shows the claims division should be adequate. So, we are feeling fairly confident about that provision. In terms of Vitality Health, as I made the point the provision is of a different nature. It's around people not getting elective care in the UK. Private healthcare systems you can see. The chart on left shows, in fact, what happened to hospital authorization and utilization rates. You can see that came down in cases 80% in other cases 40% or so depending on the healthcare category. We're trying our best to model, what we think that if it will be going forward in this financial year. You can see on the right hand side of the chart, the gray or white line, is it fair to what we expect will happen.

So in other words, people that quite a hip replacement whatever you didn't have it will of course have it done in this year. The other areas of estimation modeling that we did, but you can see from the blue line that we're largely tracking in line with that provision. And so we are feeling comfortable that the provision made in the case of Vitality Health is correct, given the emerging environment. So the provision of ZAR3.4 billion made, we are feeling comfortable given how the pandemic is playing out is adequate for what it needs to do in terms of really providing for all future effects of the pandemic.

The third theme is talking to interest rates. (inaudible) interest rates had a combined effect negative to ZAR4.8 billion pre-tax effect on headline earnings. It is interesting that, for us, in South Africa, long-term interest rate is going up, has a negative effect, in that the value of cash flows, the present value of our assets goes down. In the case of UK, it's quite the opposite. The present value of liabilities goes up and so you have a very different effect in the two markets.

What's notable in the period under review on the chart on the left hand side is real rates of interest are at the highest level in South Africa and some interest rate volatility towards the end of the period, as I think we explained in our announcements and the lowest rate in the UK ever in history. So the UK is not sitting at real rates of minus 2.4%, as you can see from the chart. Importantly, if you project out volatile interest rates on key issues of our performance, our solvency levels, our cash flows, et cetera, solvency cover, you can see in the middle of the chart, it's very, very insensitive in the UK. It wasn't prior to the execution of quite a complex hedge strategy that we did during the period under review, as you know. So both in South Africa and the UK now the effect of interest rate movements has an effect on on the IFRS, on headline earnings, but has no effect on operations of the business on solvency and liquidity, et cetera.

And so, you can see the effect on the right-hand side, ZAR3.6 billion in South Africa, ZAR1.2 billion in the UK, all the effect is interest rate. So sum of the two are ZAR4.8 billion. You will see that that does affect the headline earnings, but we've normalized that illustrate the performance of the Group from one period to another.

Let me turn to the fourth observation, the actual growth engine and how the businesses are kind of performing in new, emerging and established. And I think, to make the point, I think, the performance has been pretty robust, cutting the business by new emerging and established, you'll see the established businesses grew the operating profit by 15%. That is a bloated number, because you've hit the Vitality Health. If you take off the COIVD provision, you see they're down 13%. So, just giving you context of both. I think, if you take out the Vitality Health effect of COVID, you get a fairly robust operating performance. I think it's up about 6% or thereabout year-on-year. So I think we're very comfortable how the established businesses have performed.

The emerging businesses of Discovery Insure, Vitality Group and Ping An Health had a tremendously strong period. You can see operating profit up 74% to nearly ZAR750 million, strong performance across the board, and I'll show you later in the presentation how they have played out. The new businesses, we spent ZAR2.2 billion on the new businesses. These are critical initiatives. We made the point before that in order to build businesses organically, we need to make substantial bets, and of course, I think would be played, if Discovery to be excited about. I'll take you through how that is evolving not simple complex, but I think the progress has been very, very good, but we spent a significant amount of new initiatives.

And you can see on the chart on the left-hand side, you will see that of the ZAR2.2 billion spent, almost 50% was spent on the bank. The balance spent of Vitality1, on Vitality Invest in the UK, our long-term savings business, and umbrella funds in South Africa and Discovery business insurance in South Africa. You can see from the charts, I think, in the period under review, there has been considerable good traction. It's not a great period, of course, to be rolling out new businesses during the pandemic, but despite that, I think the progress has been very, very good.

Of course, I'll touch on the bank later, but you can see Vitality Invest is tracking about GBP15 million to GBP20 million of new business per month. The umbrella fund business, I think, the value proposition is really powerful. We're getting the distribution channels much more mature, much more focused, the amount of assets committed is close to ZAR6 billion with a long pipeline. And Discovery Business Insurance is doubling its business year-on-year. I think we expect that to continue as we go forward.

Vitality1 is rolling out quite significantly. That's rolled out, I think, in 11 markets to-date. We have 12 markets lined up for the next 21 months in the pipeline. So a lot is going on across the new business chassis. The bank, of course, as you can see from the pie chart, makes up 53% of the spend, that is obviously important. I will take you through in detail, but later in the presentation. To make the point to spend on the other businesses, Vitality Invest, Umbrella Funds and new guys likely decline. We expect to reduce quite significantly during 2021 and thereafter. So the bank will remain, of course, the lion's share of the focus on new initiatives and its importance cannot be overstated.

Let me focus on the fifth observation, the issue of capital strength and liquidity. We don't have the time here, but I think in past presentations hopefully you're aware of how we capitalized the Group in terms of going through the phases, generation of cash, making sure our capital is appropriate, also not only for our established businesses, but making sure it's sufficient as we go around to fund the new initiatives as they play out. I think, the performance in the period has been strong. We focused on cash generation, liquidity and capital strength.

You can see in terms of cash generation, the Group generated about ZAR15.4 billion of cash, used about ZAR11.6 billion and had a net cash position of ZAR3.8 billion. The cash coming from the generation of cash from debt sources and continue to spend on the right-hand side of the chart. We spent fully ZAR8 billion on new business. So, new business growth inside the existing businesses. We spent a further ZAR2.6 billion of cash on the new initiatives. When you bring them all together, you're left with ZAR3.8 billion of net cash in the Group. But I think probably most importantly, I mean our view certainly was going into the pandemic and I think it is -- it's pretty clear I think from a financial services group -- from any financial services group going through a pandemic requires a focus on strong capital, a focus on debt being under control, a focus on strong liquidity, and making sure you can continue to grow.

And I hope you see across the board, I think the performance has been very good. The capital position of all of our businesses has in fact increased over the period. So, very strong solvency position of our operating companies so the Group is well capitalized. Debt has been fairly stable over the period slightly up as we did a few transactions around liquidity, but we see that continue on its decline from 28% down to 25% and we see it tailing off quite significantly going forward. We're very focused on creating liquidity within the Group and if you look at the amount of cash or near cash sitting in the Group over and above solvency requirements, you can see how that has climbed to about ZAR9 billion by the end of the reporting period. So we're very, very careful to make sure that the Group is highly liquid. We were not sure how the pandemic would play out and wanted to make sure that liquidity was very, very high.

And then in the center in terms of cash buffer that we can actually manage our new initiatives and kind of have a float as things play out. We said we should be at ZAR1 billion to ZAR2 billion. You can see at the end of 2020, the buffer at the center was fairly strong at about ZAR1.5 billion as you can see or close to ZAR2 billion. So across the Group, I think the focus on being well capitalized and the focus on liquidity I think is paying off and positions us well for the way forward. Turning to the embedded value, I think this plays a fairly -- in a fairly straightforward way. The opening embedded value was ZAR71.2 billion. The operating EV closed at ZAR76.3 billion. You can see how that kind of climbed via the value of new business, the unwind of the discount rate. Importantly, the Group in total had positive experience variances and then the COVID provision coming off as you can see bringing the EV to ZAR76.3 billion.

The economic effect obviously had a significant effect on the EV with ForEx gains as the pound appreciated. The effect of all those brought EV down to ZAR70.8 billion. So, you can see the combined effect of the COVID provision and the economic effects had a significant effect on the embedded value was fairly level about a 2% return on the embedded value when you take the kind of the provisions or the aspects that came out of the organization. Just for completeness, just to reconcile what I've said to the accounts and Deon, our CFO can obviously talk to that later if you so wish. But the operating profit up 9%. As you work down the face of the income statement, you can see the various things that I hope I've alluded to. The reserve for the COVID provision of ZAR3.4 billion is ZAR2.3 billion net of discretionary margins gives you a profit from operations down 22%. If you go one step down, the economic assumption changes for the insured effect to ZAR4.8 billion.

That's the most notable issue bringing profit before tax down 94%. Tax itself is a fairly high number given the scale of the profit. There is some inefficient debt in this and it doesn't get tax relief and at this level of profitability, it has quite a significant gear effect taking profit to ordinary shareholders down 99%. You can see then just moving down to the headline earnings down 94% and then normalizing it back bringing back the economic assumption net of tax et cetera giving you the normalized headline earnings of down 26%. So, I hopefully just make it clear that we're reconciling the various things I've told you with the face of the income statement. Deon can do that later in the presentation. To make the point as per our sales announcement, we made a decision not to pay a final dividend and we'll be watching the environment very, very carefully about how we'll resume our dividend policy going forward.

Obviously the macro environment has considerable risk. We want to make sure we can continue to grow and focus on our new initiatives. So, this is a policy we'll be reviewing from time to time as the environment rolls out. Let me move to the second part of the presentation and we thought it's important just to talk about the strategy and the foundation of Discovery. The importance of this is just the world in many ways has changed around COVID and the post-COVID environment is going to have a number of fundamentally different issues in it. I think the strength of Discovery has been a very strong focus on a simple but powerful core purpose to make people healthier. Our values are centered around that. We have attracted I think exceptional people to do that. But the business model and capabilities that have come out of it have focused into a very, very disciplined shared value insurance model.

And it has to be said that if you look at the actual emerging environment, it's quite remarkable how things are playing out. We've been talking about the relevance of the model because of the kind of confluence of three very, very big trends; that the nature of insurance risk is changing, that the nature of this journey is changing from a pre-existing mindset to understanding that risk is very much behavioral and in those behavioral choices people make this considerable bias. That's one complexity. The other is the power of technology -- the enabling power of technology. And the third is the issue of social responsibility and corporate purpose. I think it's quite remarkable to say that during the COVID environment, the just rapid acceleration of these trends has been quite remarkable. We know in terms of the nature of risk just how quickly we are starting to understand the importance of wellness and resilience and behavior in that context.

But to an extent one by one the industries are starting to see that risk and understanding from a dynamic behavioral perspective is critical. Harvard Business Review made the point recently in a paper that bank profits need to be used in some way to incentivize customers to be financially healthy.

Tesla, Elon Musk, in a recent earnings announcement just a few weeks back made the point that they're trying to reconstruct the auto insurance business that backs up Tesla into one that uses actuarial science and behavioral science to understand how people drive and to change that behavior for the better. So, very much in line with what we are doing. A point to make, I just jumped a slide, I hope I can go back. But just what's emerged out of the nature of risk what we've seen in our model is that the Discovery model actually revolves around the idea of non-communicable disease. The strong belief that if you get people to change behavior, the traditional disease of diabetes, cancer et cetera will be retarded. What remarkable about the COVID pandemic is, it has taught us that resilience in infectious diseases is also behavioral. So the data coming out and we have a considerable amount of data to share, and we will share that in initiatives, but just one data point that we chose for the presentation.

Looks at a person aged 45 on the left-hand side assumes once they are infected, the chance of death is say one. So kind of just standardizing that. And then comparing that mortality rate, with a 65-year-old male, who either doesn't exercise or who does exercise. And what you see is that the 65-year-old male who does exercise, actually brings the potential of mortality dramatically down, and in fact, lower than the 45-year-old just through exercise even if they have comorbidities like hypertension and diabetes. So you can see that without exercise, the rate of mortality is 2 times that of a 45-year-old, but with the exercise it comes down to almost the same.

So the effective behavior on with this non-communicable disease or communicable disease is quite fundamental. And so, the nature of risk is going to accelerate understanding that quite significantly. The power of technology also had called out here, just how that is accelerated. We know the power of technology and its importance in the COVID environment, but I would say to you in our lane in things like healthcare, things are rushing online very, very quickly. We're debating showing you the presentation just the ecosystem of Discovery Health and how we're taking that forward. It's entirely digital. And all the kind of regulatory and societal issues about online consultations, that's been blown apart across the world. Things are moving online quickly and healthcare is going to be at the front of their lines. So kind of a digital future, a customer engaged future is here to stay for sure post-COVID.

And then finally, and I think very, very importantly, the issue of corporate purpose has accelerated dramatically. We've -- this issue of kind of a referendum of capitalism has been in place since the global financial crisis of 2008. This is now accelerated and we see intersecting trends of Black Lives Matter or Me Too movement or Climate Change of working from home because purpose becomes much more important and physicality is disappeared in the context of how an organization works and purpose becomes fundamental.

And so, companies need to stand for something. They really do. I think, in the world evolving, the ability to succeed, I think, is retarded. So simply put, I would say to that if you look at these three trends and how COVID has really accelerated it, I mean, our sense of it is that unless you understand risking who manage it dynamically, you're at a disadvantage. Unless you're really digitally engaged with the customer, you're at a disadvantage. And critically, unless you stand for something, your purpose is authentic real and has value, I think your real ability to attract the best people, the ability to mean selling to your clients is retarded.

And so, our sense of it is that our model really is at the center of this, the simple purpose of making people healthier, why we are here. The how we are here is the shared -- how we do it is a shared value model. The simple observation that we are completely aligned to our customers. If they are healthier, if they behave in a safer way, we are more profitable. And so, we should be incentivizing them to make those changes, getting over the behavioral. And the architecture of how we've done this of kind of bolting insurance companies or financial services companies on to the Vitality chassis is that how we do it.

And at the bottom of the slide in the middle I wanted to just make the point, hope that's clear to you that it really is a different form of capitalism. We're going through phases of capitalism from philanthropy to kind of corporate social responsibility to ESG, the shared value approach is really one we're through being more profitable, more competitive, making people healthier. We can do good for society. And so that's what we're trying to do. And we're applying that as you can see on the right-hand side, work we do across the board.

I think in the actual period we continue the process of considerable investment in the capability in the chassis. We develop considerable technology in the chassis. If you want, I shall take you later is multi-tenanted, multi-language, can be deployed globally, but we have four layers of the ability to do this, apprising now that really takes all the data, net of price into insurance and banking products, the ability to use the data in a way that's anonymous, appropriate in different environments, 45 million years of life data -- 45 million life years of mortality morbidity data, 12 billion kilometers of driving data that we can use in different ways.

The ability to actually have a behavioral understand what kind of behaviors trying to change and then incentive lower working with grocers with tech companies like Apple and others across the board. So it's four layers at work together in the chassis that I think, give us a very, very powerful competitive advantage.

To say that the architecture no is standardized, I think that is something we believe very strongly in. The very simple concept no matter what industry you're in, the inverter T works exactly the same way with life insurance, health insurance, long-term savings, auto insurance or banking, it's exactly the same. The value proposition is about making you healthier, making you manage your money better, making you make the right choice -- decisions about long-term savings and really integrating this into the various offerings. It is very interesting that it works across the value chain differently in the different industries, but you can see the correlations. Correlations of claims coming down by mortality status or lapses coming down by mortality status.

I'll show you later defaults coming down is all consistent across the board. So, we are accelerating our focus on this. And I think very importantly in markets around the world we are pushing very strongly that shared value insurance is not a product, it's not a kind of a proprietary Discovery product, it's not category. And I think you'll see a -- hope I'll make the point a bit later that this is a category that's been used by our partners like AIA, like John Hancock, et cetera. And we are really in pursuit of building a new form of financial services. And I think, if anything, the COVID pandemic in the post-COVID world is so appropriate for this message.

It's a good segue I guess into the third part of the presentation and the four strategic strengths -- sorry, I'm having both coffee and water here as I'm trying to make these points. I hope they are clear. But dealing the four strengths, the business is really break down into four key distinct areas, the South African composite, the UK composite, Ping An Health in China focusing on the leading health insurer in China. And then importantly, the Vitality Group -- the focus is on making Vitality the largest platform underpinning insurance globally around the world and that's what we set out to do. I think the progress has been good across the board. I'm going to go through each of them and try and give you insight into them. Starting with South Africa and maybe just to make the point and it's pointed out to you many times. The idea of the composite is an important one. We're building in each case leading financial services companies in each single industry, life or health or motor. These new -- these companies are built to be best-in-class and lead and that's what we set out to do, but they conspire on the behavioral platform into composite.

And I think the strategic advantage is vast. It's a composite in the eyes of our client and engages our clients. Importantly, as one distribution channel says in efficient distribution, there's a commonality of risk characteristics so people who behave well in one silo, behave well in other silos and so you get this kind of correlation of risk. And then finally, functioning on the same or focusing on the same kind of incentives and rewards gives you ability to target these and always into one set of rules. One of the powerful things I think we're doing is the Discovery Miles coming out of Discovery Bank that becomes a single point of value for our clients and more of that will be done, I think the data is quite remarkable. If you look at the top of the slide just looking at the lapse rates of our clients. The lapse rates of our clients that have more than one product with us as you go across from left to right or the actual size of average premiums as you go from left to right on the right hand side of the chart.

The composite is incredibly powerful. For people that have more than one product, the lapse rate has really dropped down, they stay with us. It's sticky and they spend more with us. And then while I think we've done a great job of integration, there's a vast number of clients that have only Discovery Life or only Discovery Insure. Over 80% of our corporate clients, over 80% of our regional clients only have one of our products. So the ability to grow these businesses like insure, life, or bank into the Discovery community is remarkably strong. And so there's a very strong focus on the idea of a composite. If I deal with Discovery Bank because I think Discovery Bank being kind of the new business on the block, it has a fundamentally powerful role to play in the context of the composite. It's a payment system that has the ability to bring it all together in a way and so we're focusing very hard on the bank in and of itself of making sure that it plays its role in the composite.

I'm going to make a few comments about the Bank. I mean just you can see across the board the, from a pure numbers perspective, number of accounts has grown to about 490,000 of 276,000 clients. Retail deposits has hit ZAR3.7 billion. Interestingly, the advances book has hit ZAR3.7 billion as well as of today -- I think was as of yesterday. And credit facilities granted in total just under ZAR10 billion. There's been I think a strong and I think very careful growth rate across different aspects of the Bank. The Bank itself is -- it's an important year. It's the first operational year of Discovery Bank. We've learned a lot in the year. Obviously a very, very difficult year to rollout a bank in the face of a pandemic, but I the job done by the team has been quite remarkable. A lot of learnings in the process. A point to make is that we're very, very careful about the funding and the cost of the bank.

Banks are notorious in terms of building and then they forget to draw and they cost a huge amount way above budget. You can see across the board from IFRS result this year versus budget to the total cost. The total spend on the bank, we spent ZAR4.5 billion, almost exactly in line with the business plan. If you look at the right-hand side of the chart, in the financial year, we almost spot on in terms of the infrastructure, of the bowl, and then of the ultimate kind of running the IFRS effect of always coming together. So I think the team has been very, very disciplined in a very complex time.

The focus in the year -- the three focus areas were three distinct things; get the migration done, the Discovery Card inside the (inaudible) FNB had to come out. A complex process. We focus on moving it successfully and seamlessly and I think that was well done.

The second was a careful growth focus. We focused on the positive approach concerned about the pandemic concerned about just granting credits, and we focus very much on a careful growth deposit-led strategy, making sure both the deposit book and the credit book were great quality, and importantly the funding in the bank was stronger. Real focus on liquidity in a time of pandemic.

And the third issue just trying to rapidly learn the actual value proposition of the bank. The UX all the behavioral aspects, are they working, are they getting traction. Frankly, there's a lot to learn there. They were clunky elements of certain parts of the journey. We are working hard to make sure that those were excellent and the bank really flows out well. It is a different new form of Bank of a shared value behavioral approach to banking.

A few comments on each of them. Just the migration has gone seamlessly. It's been done over a fairly quick time from April through to July this year, as you can see from the left-hand side of the chart. We've migrated 223,000 accounts. On the right-hand side of the chart you can see the growth of the bank. I made the point about 490,000 accounts. You can see from the growth of the -- from the chart, it shows you the different areas of how the bank has grown. Call by card, in other words, those people deciding to actually physically move themselves new to bank people coming to bank entirely new, people coming across in the Bern and upgrades from the Bern, people in the migration and then buying through the bank.

And you can see, I think we are quite pleased that I think close to 100,000 of the clients have actually made the move -- of the accounts have made the move into the bank will still have a fair part of the bonds that have to be moved across as you can see. So that moves across have to make the migration and that's done one by one. But across the board a fairly solid performance in terms of what we set out to do by a way of the migration.

In terms of the growth, we've been very, very concerned and careful about actually just growing from a credit perspective. So, the focus was a deposit-led growth strategy. There was an existential kind of strategic problem with Discovery Bank in the sense that from a start-up phase you start gathering deposits from zero upwards. But given the Discovery Card out there in the migration, you've got essentially in advances book of ZAR3.5 billion to ZAR4 billion to fund. So from the get-go, there has been a focus very much on how you gather deposits and at the same time bring across the credit book and make sure that you partly fund it.

What is amazing is how quickly the deposit book is growing. You can see on the left-hand side of the chart, I think, in the white, just how quickly the deposits grew. And the blue line really is the advances book inside the belly of Discovery Bank. Obviously they declined as the migration came across. A huge amount of advances just came across with it as you can see. We were very focused on making sure the bank was fully funded, but amazingly by year-end and by now, the actual -- the advances book is fully funded by retail deposits.

The second chart on the slide just illustrates a lot of modeling we did. We kind of focused during the pandemic very much on how credit utilization could flex, how deposit levels could flex and making sure that we are properly funded. So, the total finding inside the bank was over ZAR6 billion. So possibly overly conservative, as you can see, the advances book is about ZAR3.6 billion, so it's about ZAR2.8 billion of additional funding inside the bank to an extent is quite a carry cost of that, but our view is that, just given early phase of the bank, early rollout, the complexity of the environment that was probably an appropriate thing to do. So the bank, I think the deposit gathering has been very good. This may be over conservative funding in the bank. We'll see how that plays out over time.

On the right-hand side of the chart we wanted to make the point about the quality of the deposit book. Most of it is or 64% of it is coming from Diamond Vitality members. So the dynamic interest rates are really working well. And on the bottom, you can see that the kind of size of deposits is spread across a very large number of clients. So there is no one small group of deposit is consuming the deposit book.

On the advances side, we've been very, very careful about advancing credit. You can see the quality of the book on the left-hand side, the credit quality is quite exceptional. Average credit scores of our client base -- reflecting the client base and reflecting I think the credit scoring is very, very high. If you look at the actual financial efforts compared to the rest of the market, 60% of our client base is in the first group, very different to the rest of the market. And then the credit distribution, like the deposit book is spread out quite wide. So we don't have any massive large exposures at all in the context of the bank. And then finally the arrears obviously was risen through the pandemic, but it's still fairly low, quite a lot below the market about 60% lower than the average of the rest of the market. So we've been very, very careful in terms of the bank.

The Vitality Money journey, the learnings from it has been, I think, very strong, just showing you arrears, deposit level, spend levels, all of them are correlated to Vitality Money status. So the actual segmentation is working well. Those people that are managing the money well, the arrears rate is low, they're spending more, they deposit more as you can see and we are doing a whole lot of allocation of Discovery Miles for those kinds of behaviors. We intensify that over the period of the pandemic.

I don't have time here to dwell on this, but we've made a lot of architectural change to the entire UX of the bank. We're back to roll it out in the March period, but in fact, given the pandemic, we slowed that down. We are rolling out the new UX in two weeks' time. There's been a considerable rethink about exactly how easy it is to understand, you get a Vitality Money status, it affects your interest rates, you can see it on the face of the bank and then you earned Discovery Miles based on how you spend, how you manage your status, et cetera. And it should be very, very easy to understand.

We've settled on this very powerful dealer structure that people can actually see in these things exactly what is happening. So on the left hand side of the chart, you can see on the face of your bank exactly Vitality Money categories. You can drill down to each thing just by going through it. Your dynamic interest rates are there that you can see how they play out. And then for every single category, you can just see from (inaudible) exactly what's making up their behavior change. So on the extreme right hand side of the chart, take Woolworths, one of our partners. You get discounts in Woolworths and the great thing here is you control next month's discounts. In this particular example, betting to see the screen, but I think there's a 55% discount for healthy food. But for next month it's 58% so far in terms of how you manage things. And based on certain factors of what you do, you drive that discount up.

And one of the powerful things we bring into the bank that I think is strategically very different is bringing in healthy behaviors. We learned this during the pandemic. So when you're physically active, those points for physical activity become Discovery Miles. If you drive well, those points become Discovery Miles. And so second from the right, it tells you what percentage of those points will convert. And I think the really powerful core thing we're trying to do is when you go for a run of being physically active, you get the sense that miles are building up in your account. And so we're trying to monetize not only traditional things like discounts and partner spend, but in fact healthy behaviors. And so we are quite excited about the positive work the bank can do as we roll it out. So in two weeks' time, this capability will be live in the various -- on the various digital platforms and our clients and intermediaries will see how this plays out.

If you turn to Discovery Health and hopefully move a bit quicker. Discovery Health performance I think was really strong over the period, pretty resilient. New business was down 9% and I'll touch on exactly why. Lapses were actually down, which is a good thing, down to 4.5% so in effect it really became tighter. You can see the membership up just over 3.48 billion in total for both Discover Health Medical Scheme and open schemes. The total membership has kind of -- has reached a level that's come slightly down during this period and I'll touch on it a bit later. Normalized operating profit, I think a very strong focus on digital capabilities on service and resilience up 5%. It was 8%, but we spent about 3% on COVID initiatives. In terms of growth, I think the most important thing to see on the left hand side, the growth of the Discovery Health Medical Scheme. There are two different kinds of growth. One is Type 1, which is really new business coming.

You can see that actually grew quite strongly in the period under review. It's the Type 2, the actual growth inside existing employees. I made the point that in fact employees are not hiring or shrinking. You can see the effect of that on the Type 2 business in the period under review. We continue to grow in the closed scheme environment not much in this period under review, but some large stuff in the pipeline we expect coming through now. And then we've been very active and I think the team has done a good job in kind of the non-scheme business, primary care gap cover. You can see over the last two years that's grown to about 200,000 -- close to 200,000 lives. We expect a lot can out of that. From a revenue perspective, fairly small compared to traditional medical scheme business. But from a profitability perspective, not insignificant going forward. The Discovery Health Medical Scheme has had a remarkable run.

The numbers that I think we've continued to show just the size of the scheme. Its market share has grown to 57% -- close to 57% of the open scheme market. Very stable, lapses have tightened out to 4.5%. At the bottom of the chart in the pie, you can see the stability of the scheme so fully 96% or so, 95% of the scheme hasn't moved up or down and you got us kind of upgrades and downgrades of equal. But I think the critical thing to look at is the actual surplus built up in the Discovery Health medical scheme. What happened over the pandemic period is we've -- the scheme has been really well-capitalized, sitting on about ZAR19 billion of surplus, which is cash or near cash and I think very, very tightly managed. You can see that has grown over the years. But during the pandemic in just five months as you can see on the right-hand side of the chart, that went up to about ZAR26 billion. So the solvency of the scheme here from 25% to 32.7%. That's really a function of just the demand for healthcare just falling through the floor during the pandemic.

So while you expect COVID claims to come through and the effect of COVID claims, that were fairly small relative to the drop in the demand for healthcare. And you can see that playing out in this chart. This chart looks at the hospital utilization rates or hospital admission index over the COVID period and looks at out of hospital claims GP consultation script, et cetera over the period. You can see the drop has been significant. In the case of of hospitalization, the drop is up 40% to 50%. It's starting to recover, but not quite anywhere close to where it was prior to the pandemic and you see in the case of out of hospital things like GP consultation is dipping by like 80% over the hard lockdown and still fairly muted compared to where it was prior to the pandemic.

So the utilization of healthcare has dropped quite significantly. I mean, obviously there was a legitimate fear about hospitals being overrun around the COVID pandemic. You can see from our data this didn't happen. On the left-hand chart it illustrates COVID admissions as a percentage of total admissions, I mean, at the peak of about 15% of the admissions. The middle of the chart, it shows you in the white line, what, if you kind of look for admissions in the prior year versus admissions this year, you can see over the cycle of the pandemic from March, April, May onwards. The admission levels were far, far low even if you look at the COVID pieces in the Red Hat.

And then the analysis on the right-hand side looks at all of our hospitals that we deal with across the country, the usage in 2019 versus usage in 2020. And if the -- above the 45-degree red line it means there is high usage in 2020 than 2019 across the board, the utilization was lower. So we did not see capacity problems at all in the private hospital system despite COVID. Long way that lost that the pandemic goes away second surge I will guess poses some threat, although our analysis is that, just given treatment modalities and the same or about the condition, we can manage that better going forward, I think, as a combined system.

So the effect of COVID, I think, was muted on capacity, but the effect on actual hospital utilization is quite significant healthcare utilization in total. We had some very, very good success in reaching out to clients who highlighted about close to 41,000 very high-risk members. We reached out to them, worked with them and try to do as best we can to protect them from the disease. We worked closely with 7,500 people of high risk. We deployed pulse oximeters to help them through the process, that was dramatic about hospital utilization and on debt. So you can see the mortality rates were dramatically lower.

So illustrating I think the power of data I think power intervention, I think Discovery Health really has played a good role in terms of how it's played through the pandemic. I guess the obvious question to ask is how we make healthcare affordable going forward. Not a simple thing to do. As you can see, the medical scheme has built up a considerable amount of surplus through the period about ZAR6 billion. It needs to be very, very careful about how it deploys that. There is all kinds of debate in the industry and there's requirements of the regulator that rate increases going into the next year have to be acceptable at 3.9%. We are focusing on how best to do this.

I mean just to make the point and that's the point I think our team wanted to make. On the left hand side of the chart just shows you the rate increases from year-to-year Discovery Health Medical Scheme versus the industry average., We've been around CPI plus 2% or CPI plus 6%. If you look at the red line in the middle of the chart, that's the cost of healthcare. So, our tariffs have gone up at typically CPR or thereabout as utilization effects on the demand side and the supply side that drive the cost of healthcare up are more like CPI plus 4% or CPI plus 5%. But probably in a community rated environment where you do one rate increase for the year is that if your rates ever are below the cost of healthcare and using surplus to subsidize that, you're going to have a problem at some point where you've run out of surplus and you're now going to jump the rates up to make up for that gap. And as soon as you jack up rates really dramatically in a community rate environment, you get an adverse selection effect, kind of instability.

So we have to be very careful how we make rates affordable going into 2021, but make sure we never really drop below the cost of healthcare. So, I think the trustees of the Discovery Health Medical Scheme, Discovery Health itself, is working very carefully into how we're going to do that going into 2021. In a week or two's time, we'll be rolling out the whole rate increase strategy into the market. We think the strategy going forward is a combination of affordability but by the end of 2021, we'll achieve equilibrium. In other words the surplus position will be restored in some way and again through 2022, rates will remain affordable. So, there's a lot of work going down to make that workable. Let me turn to Discovery LIfe. Performance I think is very, very robust. Despite a very difficult environment, new business down 1%. You can see the normalized operating profit after the COVID provision down 8%. Profit before that was up 25%.

Strong positive experience variances of about ZAR260 million as you can see. Cash flow strong. Solvency coverage 182% and a very strong focus on liquidity just to make sure that the business is highly liquid in the phase of -- in the time of a COVID pandemic. Just a few shout outs from our side. You can see on the left hand side just comparing operating experience variances in 2019 to 2020. The only negative experience variance in 2020 was policy alterations. Obviously that's a function of forbearance and a number of things that we did in the period to make the product more affordable. Mortality was quite remarkable. You'll recall that in the 2019 year we had kind of a claims blip. You can see that in the 115% of expected. That has come down to 98% even including the COVID effects during the year under review. In fact the second half was even better as you can see 93% versus expected.

There was no discernible pattern. In the previous period we had really large significant life claims. In this period, there were 80% of expecting across the board you can see in the middle chart the second last chart you can see, if you look at by cause of death, we were concerned about suicides in the period because very hard lockdown all of it was lower than previous period. So nothing easy to see the trends and then you can see the policy alterations.

We're actually quite controlled there always a complicated thing to manage carefully, but we actually use the shared value model to allow people to suspend cover to buy down certain premiums, use that payback benefits to do so. So about two-thirds of that policy alterations were explicit COVID initiatives and we're hoping that going forward we can recover those policy odds I'm going forward.

A few points about the provision. I've made clear that we think the provision is adequate. I'm going to just make the point to the provision in total is about ZAR2 billion for Discovery Life, half of the claims, half of the lapses. Interestingly, you can see what we're seeing in the middle of the data in the middle of the chart. I thought, looking at the actual deaths by Vitality status from COVID makes the same point about the power of behavior. You can see that Diamond and Gold members, which make up I think about 35% of the base in the case of Discovery Life, the mortality was very, very low. So we have sick people in that group of managing the healthcare, all (inaudible) managing the healthcare, mortality rates were remarkably low.

Where mortality was high as blue, all the ages, as you can see on the right-hand side of the chart, and then just to make a point in the case of Discovery Life, we've used up about 16% of the provision, the actual death is now dropping quite below the kind of rollout of the claims provisions. So I think, we are comfortable that what the level of provision is a few points about cash emergence on left-hand side just illustrating ZAR14.8 billion of premium, after claims and after operating costs of a net ZAR6 billion of cash generated, we invested more in new business trying to grow the business and after FinRe, the net cash coming out of the business of ZAR2.5 billion.

You can see from the chart, the solvency climbing for about 170% to 180% the period under review. And then a very strong focus on liquidity, over ZAR4 billion liquidity. We execute additional reinsurance ZAR500 million of FinRe to make sure that we're really for a very hard pandemic. Bear in mind, this is at June or prior to June just make sure we're ready for pandemic. So I think the Company's liquid strongly reinsured and ready for a pandemic and hope all the provisions are more than adequate.

One important point to notice is new business we own these half of what it was in the previous period. I think this is probably understandable. Let's call new business went with the expense levels per policy were higher. Hopefully that's sort of a temporary nature. The assumption changes making is profitable and if only the COVID assumptions making this profitable. So you can see the VNB in margin is about half of other volume was quite similar.

The effective VNB rent is about 54% down on the previous period (inaudible). You can see on the chart to play the kind of development of the embedded, ZAR32.9 billion opening become operational point of ZAR35.4 billion even after the COVID. The COVID allowances is pretty strong. It's a reflection of VNB plus the unwind. But I think importantly positive operation experience variances. When you take out the economic effect of the interest rates, you see the VNB comes -- the EV comes down to ZAR31.8 billion. I hope that's fairly clear.

Let me turn to Discovery Invest and just make a few points. I think the business was pretty robust over the period. New business grew by 2%. Assets under management grew by 8%. The reduction in profit was a number of one-off issues. We invested quite a bit in the chassis, number one. There was a tax change, secondly. And thirdly, we did a lot of guaranteed capital bond business, it's a fantastic product for people during this period of low rates of -- low short-term rates of interest. That is a great business for us as well. It's powerful in terms of liquidity. It's an exceptionally good product for us as well. In the period, just the volatility of insurance cost some money in that process. And so, we do hope it would be a good period of getting close to ZAR1 billion in profit. You can see the profitability reduced by 14%. We hope that's of a once-off nature. I think the value proposition around this idea of changing behavior is critical.

We did a lot of work and invested considerably in the global capability of Goldman Sachs and BlackRock and the initial offering I think is quite remarkable. So, the shared value offering of Discovery Invest is very, very compelling. If you're buying local, you have access to all of the asset management you may want. But the powerful idea that if you're behaving correctly, you get these boosts and these boosts can be up to 35% or 36% of the fund. In the case of the global offering, you get asset management done by Goldman Sachs and BlackRock. But critically here, the shared values in terms of exchange is giving people a dramatically better exchange rate than the current prevailing rate offering considerable value. You can see from the chart that our assets under management have grown faster than the market. And I think most powerfully the shared value process is working well. You can see that there's 11% lower drawdowns than what we expect.

80% of the funds -- close to 80% of the funds are going to our preferred funds with margins on where we can offer real shared value. So, our deep conviction as an asset management is a complex business under margin compression. Our focus is about the shared value platform adding value around behavior, around demographics, around trying to educate people about the importance of the their retirement choices. And so we think the business is well positioned. Discovery Insure, very briefly I think a very strong period. I guess the most important strategic issue is if people couldn't drive, will they start dropping their insurance, will they buy that, etcetera. We in fact don't see that. You can see gross written premium grew by 14%. New business up 5% despite the very difficult time. Profitability up 59% and you can see the combined ratio dropping by 1%. I think this slide may tell the story. It looks at new business lapses and claims.

So, you can see new business actually dropped quite significantly during the heart of the lockdown, but has recovered very, very strongly and the growth over the previous year is very strong. So, new business has really reverted to where it needs to be. Lapses and claims kind of had and interplay. So while claims were quite a lot lower, we used the shared value model to actually share value with people to keep them in the pool. So, the interplay between the two I think is quite important and has kept the business very, very stable. In previous presentations I think we've worked hard to illustrate the dynamics of the business and what can be achieved. I think the business is really well structured around durational factors and a whole lot of work around the data and the shared value emerging and we think will play out well going forward.

Let me turn to the UK. Sorry, these are complex and long presentations, but it's important to give you the information. Let me turn to the UK, and I think a very complex part of the business under review, they fit to the pandemic from the NHS interest rates is highly, highly complex. Just looking at a composite level, new business down 12% lives, covered up 7%, earned premiums up 9% to just under GBP800 million. You can see the operating profit down 61% with quite a significant COVID provision in both Vitality Health and and Vitality Life.

I mean, it's important to make the point that we've been focusing very much on this idea of a composite of savings of life and of health very much in South African way we rolled out this concept of Vitality1 literally just a few weeks before the pandemic hit. But I think it place us in a very strong position. The entire business in now structured under our One Vitality banner. We're offering the experience -- the digital experiences with one channel in effect and critically we refocused the Vitality benefits on COVID relative things, the things people can do in the home.

So the UK really led the way on this issue, focusing on bringing things like (inaudible) for movies, focusing on healthy foods with weight loss, et cetera, and the usage has been tremendous. You can see from the chart I think 1.2 million movies were watched over that period. So really good work done on getting exercise into the home and the entire Vitality the entire base in South Africa and with our partners is focused on taking exercise into the home while gym's became largely unavailable. So a lot of learnings in that regard.

Vitality Health itself I think had a tremendously strong period. New business obviously was difficult in the period and the kind of necessity for PLR people can claim was the existential problem during this period. You can see despite that earned premiums up 8%, lives covered up by 6%, normalized operating profit after the COVID region, up by 6%. So a pretty strong performance. A lot of work was done in Vitality to offer value for people that couldn't get a hospital.

So there was value in the system that stayed with the policies. So for people with really critical care we maintain that service obviously, but the focus again on devices and other things to make sure that there was real value for people that are healthy. One of the critical developments I think very important is offering a hospital cash benefit that if you're hospitalized in NHS, you still get cash out of the system. So real value-add even if you like using private hospitalization. And then a very strong focus on digital strategy. You can see from the chart, GP consultations, making available and member had if we can help people navigate the healthcare system through the NHS, et cetera and that's had a incredibly powerful effect.

You can see the lapse rate have stayed very, very low. I think, that's a very, very notable issue in a time that we are really concerned about high levels of lapsation from affordability and the fact people couldn't use their policies, you can see in the middle of the chart, the actual, lapse rate first expected was dramatically lower and then you can see that the kind of cash generation of the business, the backlog throughout about GBP120 million after writing new business, and investing in new initiatives. There is fully GBP60 million or so of cash in the business that could accommodate the COVID provision in addition to giving us considerable liquidity. So, a great performance in the case of of Vitality Health.

Vitality Life was by a long shot the most complex for us to manage in the period under review. At the half year we were at the point that lower rates of interest made the business incredibly complex. We embarked on a complete restructure of the business and made these points clear at the half year point. Obviously with the overlap of pandemic on top of that had it even more complex, but I think the work done by the team has been good. A few points to make. You can see on the face of the slide just the key dynamics. New business down 10%. Earned premiums and lives covered continued to climb, which is a good thing. You can see the normalized operating profit went from about ZAR33 million operating profit to about ZAR15 million, I'll show that now, and after the COVID provision coming down to minus ZAR13 million. We set up a provision of GBP29 million as I'll show you. The key issue is the strong focus on kind of one Vitality and a complete restructure of the business.

At the interim stage, we spoke about the restructure of the business and we're kind of in midstream of a lot of it. Virtually all of it has been implemented I think very successfully and it's pretty significant. We've got rid of all high lapse brokers. We've completely restructured the franchise channel; halved it in size, got rid of any inefficiency. We've consolidated a lot of the operations and service models into a much more efficient structure. Invested considerably in conservation. We've strengthened actuarial basis. We've changed lapsed operating process to make sure we deal with lapses quicker, write them off quicker. We implemented a hedge strategy complex I think towards the end of 2019 calendar year. We deferred the Part VII transfer from the Prudential given rates of interest for three years. We changed the legal structure, complete and stacked the business Life and Health together.

We completely changed a lot of the actuarial methodology to be more conservative. And then we had liquidity in the business during the period under review. So, all of that was I think successfully implemented. If you look at the actual play out of the business, I think we had a similar view that we had at the half year. The performance is really very, very tough as you can see. We expected to be GBP24 million of operating profit and we're actually at GBP15 million. The difference between the two is two main things. One is about GBP4 million of COVID claims that came through. The other is a change in the operational lapses means that we're much more aggressive on writing off lapses in the period. You can see the COVID provision of GBP29 million, as I said before, bringing down operating profit -- the normalized operating profit to minus GBP13 million. The interest rate effect was about a GBP61 million change as you can see from the chart.

We had expected a GBP40 million change from rates of interest and their effect. The hedge I think worked remarkably well. There was some conviction in the hedge that created a higher effect than we expected. And then there were certain second round effects of interest rates that discounting different aspects and assumptions of low rate of interest created that additional effect. As we said before, due to the hedged effect of this interest effect, there's no effect on operating profit of the business on solvency and capital and so to a large extent we watch it very, very carefully. But from a normalized operating perspective, we have normalized it out. We remain of the view, as you can see from the chart, that operating profit will revert in 2021. So, the hard work has been done. There is still considerable risk in the environment. So we are cautiously optimistic about what we can do. A lot of these changes have a once-off of it you capitalize the effect of these rates of interest. And so the effect going into 2021 should be muted. So we remain of the view that the business should be operating profit in the year ahead.

And I think on the right-hand side of the chart just giving the view bear in mind we've labored under very low rates of interest. We're ready to go up. You can see how the kind of the -- how that manifest in the strength of the balance sheet. So you can see it of the 100 basis points after the hedge color, kind of plays out, you can see for every basis point that ready to go up, you can get million pounds effects on the value of the balance sheet inside Vitality Life. So remainder of the view, they've got operating profit at write new business at the right rate. The business that not require capital going into it until a positive and takes place. Critically it has considerable capability to really appreciate as interest rates hopefully over time normalize.

Let me turn to the last two businesses. I'm going very quickly and I hope you're following, but I'm trying to give you insight into the dynamics. Let me do the two important businesses, Ping An Health and then our Vitality Group. And maybe doing Vitality Group first, I think the performance has been really, really strong. You can see that the premium income that the business done by our partners grew by 30%. So really much more integration into our partners. You can see revenue by 23% of Vitality Group to over ZAR1 billion.

Operating result up 91% to ZAR308 million, as you can see. And total membership base that we cover is just under 2 million, as you can see. So I think a very, very strong growth in the business. I think, it's important as I said at the earlier part of the presentation, we invested quite considerably in the platform in making sure it can be deployed through Vitality running all the layers of the platform. And then to an extent, I think the four phases to an extent of Vitality Group is what you call the national champions that focus on AIA, John Hancock, Manulife, Sumitomo, et cetera, Generali and that is the most mature part of the business. We bought in a very successful franchise model to smaller countries and smaller companies, it's rolling out very quickly.

We are working with partners like Apple on specific initiatives and we expect that to grow. And then recently we formed what we call Vitality Health International, taking key people capacitating a business and really taking all the assets of the Group and deploying it into health insurance in the shared value, where our strong belief is at health insurance and wellness and the integration of them across the world is one of the major, major growth industries. And into that capability, Ping An Health, AIA Health, and all of our health businesses outside of South Africa except for the UK. So very strong focus on four pillars of the business.

The point you make I think that I hope comes across is that the -- it's hard to demonstrate just the incredible importance of this model to our partners. And one of the key things I think we are starting to see in work we are doing with our partners is trying to see shared value insurance as a category, not as a proprietary product linked to Vitality. The concept, as I hope this chart makes clear on the left-hand side that life insurance contract that there's a flat rate that you get underwritten at a point in time and a flat rate is basically fragile. The approach we've taken of codifying mortality curves and then having this dynamic pricing as you can see on the chart creates a very different effect. Better selection, better behavior, better selection and (inaudible) healthier people and real shared value. If people pay less for insurance on average, they're healthier, they get benefits for doing it. For us high VND and stickier clients just a better business.

And this chart, this work was done with one of our major partners, trying to illustrate again about proprietary products. What kind of the real inherent benefits of what you see happening that we lower cost of insurance, that health engagement is higher, that VNB margin goes up significantly, that health outcomes are higher, and critically that we're more ready for IFRS 17 because what the model does is segments contracts much more accurately. So in the of IFRS 17, it has a whole range of knock-on benefits. And to an extent we are trying to argue the point globally that this is a category that lowers the price of insurance, makes people healthier, and I think we're getting considerable traction in that regard. And our partners are working with us in making this kind of a global category of what we're trying to do. It's always difficult to talk about Vitality Group, our partners we understand don't want to share their internal data.

But we thought just to show you the Vitality effect, this is proper analysis done on one of the EV VNB analysis of one of our major markets really. Just illustrates kind of the Vitality better. Excuse the fact that there's not much data on the slide. It is accurately predictable. It illustrates the effect of this model on our partners. You get an increase in sales, you get an increase in repurchases, you get better assumptions over time mortality, lapse rates, et cetera, and then you get to shared value dynamic. You pay a premium as a client, but you get benefits in lower insurance, the cost of doing it or whatever. And therefore we see on the right hand side of the chart, the incremental increase in the embedded value of 40% or thereabout. So really what we're doing is a pretty hard, how can I say, deployment of capability where the effect of it is real power to the customer and to our partner and so I think our ability to grow this going forward is significant.

Every single presentation, we've tried our best to show you almost use cases of our partners. They are growing at a consistent rate as you can see with AIA, Sumitomo Vitality, Jon Hancock. So, the growth is very, very strong and their commitment to this is getting stronger. So what we're seeing is kind of more or less it's a function of the environment. The focus on wellness and resilience is becoming central narrative and dogma in the space. Many of them are changing their core purposes to longer better healthier life and those kind of initiatives and then this idea of all-in making every single product attached to the shared value Vitality platform. So, we're seeing really considerable transformational approach to what we are doing. The Vitality 1 is I think it has reached a point of maturity. We're deploying it quite sufficiently. It's become quick, easy, and efficient to deploy. You can see some of the statistics on the right hand side that illustrate just how it's been deployed in a very powerful way.

As I said, it was multi -- it's globally deployed, multi-tenant, multi-language. It raises -- it deals with all kinds of issues of the shared value platform as you can see on the right hand side and a considerable number of markets is lined up for the next 18 months. So we are hopeful that this technology will make us more efficient going forward. And last to deploy the incidence the instances of new product developing one significant goal.

The other point I think to make is, as we got forward we are working with all kinds of technology with I think some of best companies in the world to make this chassis more powerful. In the case of John Hancock, we are working with Amazon on the new device called Halo. You might have followed this, that it's actually being deployed with John Hancock. We're working with Aspire and Google and Verily on diabetes part of the platform and we will continue to work with Apple, Aetna. The Apple partnership, I think, is very, very strong and we have, there's a lot we can do with them going forward. So it is a business in its embryonic phase. It's a number of years old it's achieving what we set out to achieve. But I think it's potentially is very, very high and you'll have to let us see how we get the blue sky out of that business as we go forward.

Let me end with Ping An and hopefully give you a sense of Ping An Health's growth. I think it was a very, very strong period, as you can see. New business grew by 42% to just over ZAR14 billion. Total premium grew by nearly 70% to just under ZAR30 billion. So you can see the scale of the business really growing quickly in the last number of years.

The operating result of Ping An Health itself was up nearly 100% to just under ZAR2 billion. I share of it after expense and after tax up 72% to ZAR182 million as you saw in the chart. It's important to state that we are focusing very much on investing in the capability of Ping An Health. The shareholders in Ping An particular are very focused on scale. So this is not a business that achieved losses, but there is a strong focus on operational excellence on technology and the ability to grow.

So there is not a focus at the stage of trying to drive margin, and I think that will take time. What you can see is the manifestation of that, I think, the persistency levels, the core service levels, the operation -- the combined operating ratio all under control and solid. And in the right-hand side of the chart just illustrating just the focus on technology, fully 60% of the head office staff are technology people. So Ping An is focused on FinTech on making sure this business is rather the cutting edge is very, very critical.

Make a point as well that I think the Chinese health insurance market is vast. It has considerable opportunity, but considerable challenge at the same time. You can see from this chart of the five major health insurance markets, the Chinese market is expected to grow at multiples of what other markets are going to grow. On the left-hand side of the chart, you can see, compared to the US, Germany or the UK, the amount of out-of-pocket exposure that people currently have is close to 40%. So the case for insurance is still remarkably high.

What we're seeing in the market is quite a cleaner, the emergence of kind of local players in different forms. You can see on the bottom of the chart that Ping An Health is well positioned. It's growing strong, it's the largest in this particular category, but there is a number of things going on, the kind of the power of the platforms like Alipay, ByteDance, WeChat and Tencent and then working with carriers like PRC. So there's different strategies going on.

The Ping An Health strategy is multi-distribution strategy, working with platforms, but we continue to work with the Ping An Life distribution force with our own distribution force, with our own app. So we're really focusing on a number of different areas of growth. This chart simply just shows the number of branches and extending the branch network. In terms of the Ping An Health app, it's been pretty successful as you can see the growth has been really, really strong. So just over two year period there are about in that 30 million users and over 13% of the revenue of Ping An Health is coming from the app, in effect. We are in the process now this month of rolling out, I think, a very exciting product (inaudible) it's a high deductible health insurance coverage, the kind of architecture.

The product has become very much the standard in the Chinese health insurance market and how we're competing on the margins around how to make this product better. One of the powerful things we're rolling out is a 20-year renewable term product that's kind of annually viewable, but it has the Vitality chassis for the first on the concept of managing your health pricing that dynamically into the products made very, very carefully and we think the combination of all these will give Ping An Health a very, very powerful competitive advantage.

We've learnt a lot about Vitality in the Chinese market, I have to tell you. When we saw that out there number of years ago, we just couldn't get the kind of traction we needed and to a large extent we retarded from it. A few years back, we rolled out Ping An Run with Ping An Life as an attachment to the life policies. So Ping An Health, to an extent, grant Vitality for the life company, you can see the data in the chart I think is very compelling, it's get our biggest vitality market, 6 million members of since over four years you sales have increased from that lower surrenders lower claims as a segment. It's the same kind of correlation. So the learnings of this we're trying to bring into the health insurance space where Ping An Health is. And I think that's important.

And then a final comment is just the ecosystem around Ping An. Ping An Health has now been positioned in the Ping An Health ecosystem. You can see on the left-hand side of the chart, healthcare services are expected to grow to $1 trillion by 2022. The Ping An Group is very well positioned in this regard. So there has been a focus on good doctor on Ping An technology and making sure the ability to actually drive a technology into this Ping

An Health Konnect, a very significant business as building around the ability to understand data from SHI. And for the first time that Ping An Health is in this ecosystem. So it's moved out of the traditional line it was in into this ecosystem of the Ping An Group.

I think that provides opportunity for distribution, provides opportunity to services of the ecosystem and we'll see how that plays going forward. Nothing simple and there's all kinds of complexities, complexities about growth. So, so we remain cautiously optimistic, but I think the period under review has been a very, very strong one.

So I've taken a lot of your time, probably 20 minutes too long. And I hope I haven't spoken too quickly, but just to maybe summarize then I think the operating performance of the performance over the period under review is framed by five distinct themes, operating resilience, COVID provision, interest rate movements that we've normalized out of the operating profit, I think the growth engine being intact, a strong focus on our new initiatives, and then a focus on capital strength and liquidity.

The point I tried to make in the middle is that I think the COVID world is making a dramatic change of financial services companies. I think, we're remarkably well positioned that's playing out in our businesses. The four strengths are very much intact. The composite in the business in South Africa well positioned. The bank going forward has high expectation outside. The UK, very difficult time in Vitality Life particularly, but really good work done on the restructure, optimistic about how that will play out going forward.

Ping An Health I think had a remarkable year, a lot to do there, cautiously optimistic. And then importantly, Vitality heavier. The transformation effect on some of our partners. There's a lot to do there to capture some of the value and we're excited about their potential. So all in all, I think a very complex year, but I think from our side a positive year. Really appreciate you listening. We have have all of our exec on the call. Have our CFO, Deon Viljoen, with me here in our boardroom. We're all at your disposal.

Questions And Answers

A - Adrian Gore {BIO 3068929 <GO>}

We are going to take questions. I can read them out. So, we have been asking for questions over the time. I think I should just be reading these out and hopefully we'll pass them to the right people. So, if I go from the top. From Talia Ginsberg, (inaudible). Do you feel a behavioral bank will compete with the big four banks in South Africa and what exactly is the model's value-add? While you have proven to be able to service well a segment of the population, do you think Discovery Bank would service the lower income segment or the unbankable in the future in South Africa?

I mean I think I will answer that to say that I think the big four banks are competitive and incredibly strong and remarkably good in what they do. I think the value proposition of Discovery Bank is different. It really is about kind of a mobile led bank with we hope better technology and value proposition around behavior that the others are not doing. And I think the synthesis of hopefully the latest technology of the behavioral model offers a unique opportunity to add unique value to our clients. I think just our clients in the mass affluent space within the value of Discovery are enough to create a significant bank. We are early in this phase and we think we really can compete with the big four banks. The ability to bring that down to the unbankable I think is a much bigger challenge. If we can figure out how to get that model of Vitality money to actually help people even in the unbankable space, I think the potential may be quite significant. It's important maybe to draw a parallel to Discovery Health. I mean we started out kind of at the top of the market. But bear in mind today, TK is the biggest provider of private health insurance and private medical care in the entire country. Maybe we can do the same in banking. But I think our initial focus has to be to make the bank successful in its space. I don't know, Barry, If you want to say anything?

A - Barry Swartzberg {BIO 3296824 <GO>}

Yes. I think in governance, I would just add that as smartphone penetration carries on getting (inaudible) in the marketplace and across Africa, we have had international financing entities come and speak to us. So, I think there is a deep interest in seeing how it could make this work and I think you put it right. In the beginning, we got to make sure it's working in the segments we've started it. And as you put in the earlier part of the presentation, we are learning a lot as we go along and we sort of have to learn if we are ready to expend.

A - Adrian Gore {BIO 3068929 <GO>}

Thanks, Barry. I like to answer questions of that to kind of physical interact, but we will try our best to do this. Francois du Toit, Renaissance Capital. I think, Jon Steinlauf [ph] answer this. Does the ZAR3.8 billion net shareholder cash generation include this is a SA Life 3.3 contributions from reduced long-term claim provisions from the matching assumption change and from financial reinsurance?

A - Jon Steinlauf {BIO 16593949 <GO>}

Yeah. Thanks for the question, Francois. If I can just say, I think, it's Slide 56, which shows the cash flow profile of Discovery Life quite clearly. It shows a net cash flow generation of Discovery Life of ZAR2.5 billion. And you'll see there is ZAR1.8 billion gain from cash flow optimization for asset liability matching optimization disclosed as part of the ZAR2.5 billion. And you'll also see separately we show the impact of net financing reinsurance. That would include new financing reinsurance, as well as repayments on existing finance reinsurance. So I think the short answer is, yes, it includes all cash flow related item, which made a difference in cash flow.

A - Adrian Gore {BIO 3068929 <GO>}

Jon, thank you. Sorry, it's just a question answered, not much we can do. Question number three Warren Riley of Bateleur Capital. How should we think about new business spend over the next few years from the 26% of normalized profits this year. Secondly, there is significant value being created by the Vitality1 platform and Ping An relation, which is not yet reflected in earnings. How do you think about this value emerging? Could these businesses ever warranted separate listing to unlock that value?

Let me do the first. We expect that spend in new businesses to come dramatically down over the next three years. So, the bank is kind of at its peak investment I think it might stay where it is for years. I would expect it to come down. The other three areas of -- other four areas of new business we showed Vitality Invest, Umbrella Funds, Discovery business units Vitality1 should come down quite significantly in the year ahead. So we expect the 50% not bank to come down quite significantly in year ahead. And the bank to stay, I think, kind of where it is. I mean, that's what I think we do.

I'll try the second one and maybe Barry Swartzberg just help me on this. I mean, I think we're starting to see some value from Vitality Group and Ping An. I think, the Blue Sky and the group does it. We are cautiously optimistic. There is real potential there. I think it is in the earnings in some way, but I think the potential we have is a lot greater. I mean, it really is embryonic.

And then, Barry, your view in a separate listing to unlock value. I'm not sure we would speculate. Barry, some thoughts?

A - Barry Swartzberg {BIO 3296824 <GO>}

Adrian, thanks for that. Yes, I mean, our objective is at the very early stages in our evolution. I mean, we're only couple of years out the starting blocks. I think we've had a lot of initial success in this. I think the growth opportunities are enormous. I mean it seems like the composite model is like growing business as usual, the opportunities of that. So, we see a lot of opportunities. I mean in health insurance going out to other markets, some with the VHR initiative. So, I think we are at very early stages in our evolution and I think there's significant opportunities. And in terms of a separate listing, who knows what the future holds. But I mean I think it's a very, very exciting part of our business and a lot of growth opportunities.

A - Adrian Gore {BIO 3068929 <GO>}

Well, I hope that's clear. If I go to the next question. I cant see it. Just help me out -- sorry, technology here. Roger Williams, Centaur Asset Management. The debt in the business increased ZAR5.2 billion. Considering the strong cash flow generated from most business units, why did this occur and will it have to raise -- will we have to raise equity capital I assume is the question? Deon, want to deal with that?

A - Deon Viljoen {BIO 15316870 <GO>}

Thanks, Adrian. There's also included in that debt increase there's obviously some translation difference coming through there on exchange and then also the adoption of IFRS 16 during the current year, which now requires all your long-term leases to be treated in the same way as under the old standard where you capitalize a finance lease. So, that brings the present value of your future lease liabilities on to the balance sheet and also raises an asset for the right of use in respect of that. So, that adds to the borrowings number. And then you may recall that in H1 we raised a further ZAR1.5 billion of domestic medium-term note program funding that largely goes towards the funding of the new initiatives.

A - Adrian Gore {BIO 3068929 <GO>}

So, I hope that's covered. Sorry Roger, it's hard to tell whether we cover these or not. So, we'll do our best just to keep going. Sorry, can you just raise that a bit because I can't... Finally, a very good question. It says well done and a great set of results in a tough environment. We'll take that and we appreciate that with thanks. From (inaudible) from Excelsior Capital. A question on what would a successful bank look like in your view and are there any market share targets, number one? When are you planning to start paying the dividends again, number two? Number three, some of the businesses are not included in the EV. When will you do this so we have a better indication of value?

Maybe I'll talk to some of this. Deon, you can add any issue, I think a successful bank and our business plan is I think 500,000 to 700,000 customers. We've got work to do to get there. We haven't looked at market share, but our sense of it is we'll get to a 5% to 10% market share. The bank is very, very successful. So there is a lot to do. I think we have a very careful business, we need to make sure we achieve it.

The second is dividends. We've made the point we are not paying dividends. We will consider that again as the environment plays out. So there is no fixed plan to pay dividends. We'll evaluate that at every period based on how the environment plays out. We're trying to make sure that we continuously build our new initiatives despite the complexity of the environment. So we'll communicate that, I think, from period to period.

The third one, the third question about business not in embedded value, we consider this very carefully. Discovery Insure has reached a point of stability, where you can create a value for it. We continue to debate in the various committees and Andy Rayner, Chief Risk Officer, can talk to that. There are, as Barry said, value building up in Ping An Health, value building up in Vitality Group, we haven't applied an EV model to that. It's kind of too unknown to do that. So, Andy, maybe some thoughts on that. Andy Rayner?

A - Andrew Rayner {BIO 15120002 <GO>}

Thanks, Adrian. No, I think you've actually covered it there really. Some of the other businesses probably don't lend themselves to EV methodology. And I think the analysts are quite capable of valuing those in normal market techniques and ensure we track it internally we use it as an internal measure of the profitability of the products and the growth of the business, but again would probably not at the point to disclose that at this stage.

A - Adrian Gore {BIO 3068929 <GO>}

Okay. Thank you. Thank you. I'm just trying to focus -- covered all of them. I think we've got more here. Let me just go back to Francois Du Toit. The Bank reporting a loss of ZAR1.2 billion. What is the risk (inaudible) tangibles that need to be impaired? Can you please confirm the Bank net asset value including intangibles including the Discovery embedded value? Deon?

A - Deon Viljoen {BIO 15316870 <GO>}

Yeah. The loss that the Bank reported is very much in line with the original business plan of the Bank as we take the Bank through the period of getting to scale. So those are anticipated and planned for in our long-term capital plans. And we previously made it clear that the Bank obviously needs to double its client base more or less to get to breakeven over a four to five year period. And very much still in line with the business plan. In fact, you would have seen from some of those slides that the Bank actually slightly ahead in terms of its retail deposit raising, et cetera. So all bodes well for that. We do extensive tests at each reporting period to make sure that intangible assets are intact and don't require any impairment, which we've again done at the end of this year. So no reason to believe that there is an impairment currently on any of the intangible assets.

And then also on the embedded value, the Bank's net asset value will be included as part of the net asset value component of embedded value, but that's at the IFRS carrying value. So, we don't do multiple evaluation in that EV inclusion of the bank.

A - Adrian Gore {BIO 3068929 <GO>}

Deon, thanks for that. Francois, thanks for the question. Sergey Ambartsumov of AllianceBernstein. Could you quantify total impact of one-offs you experienced in this period that will not be repeated in the new fiscal year? Deon, hopefully can you answer that?

A - Deon Viljoen {BIO 15316870 <GO>}

Yes. I think we highlighted the most significant one source, which relates to the COVID provisions in our results as well as the impact from the interest rates, economic assumption changes, and we've highlighted those as some of the main features in our results. We've normalized for the economic assumption changes and clearly that will be dependent on the interest rates mainly in the UK and SA, how that plays out over the next while. And clearly if our provisions for the COVID impacts, both claims and lapses, if that's accurate, you won't expect that to to reoccur. Those are the main impacts. There are some -- as I mentioned earlier, some impacts from exchange gains because of the weakening of the rand and that causes some volatility coming through the P&L. There are two components. The actual financial instruments that we carry on the balance sheet that's foreign currency denominated, that will reflect a significant gain in the current year. And then the translation of our subsidiaries that are foreign currency based, that actually doesn't come through the P&L. That goes through other comprehensive income. So, it's only the first mentioned that will cause volatility going forward. I hope that covers all of that question, Adrian.

A - Adrian Gore {BIO 3068929 <GO>}

It's a complex question. I think the last question I think from Imtiaz Sooliman from Centaur. Can you please give us an update on the IFRS 17 project and its potential impact on capital levels? I guess Deon, can you deal with it?

A - Deon Viljoen {BIO 15316870 <GO>}

Yes, happy to. Thanks Adrian. So the IFRS 17 project is going according to plan. We're making good progress in terms of the work to get ready for IFRS 17. Just to make the point that IFRS 17 is an earnings recognition standard. It wouldn't have any direct impact on capital. So, it's purely from an accounting and earnings point of view. Hopefully that answers it.

A - Adrian Gore {BIO 3068929 <GO>}

It may also be worth mentioning that a number of the components within IFRS 17 actually deals in a far better way with items such as economic assumption changes where IFRS 17 actually allows you to recognize that through other comprehensive income and actually removes that volatility from the income statement that I just mentioned that are resulting from movements in interest rates, et cetera. So, much more elegant way to treat those. Okay. Can I can wrap it up? I didn't do a good job. I think, we had a QR code for -- is that to -- it will come up. There's a QR code will come up on the screen. Please use it. It's access to the track and tracing app that is really, really powerful and important. So please do that. Thank you very much for listening. It's hard to (inaudible) way, but hopefully we did. We are always available for you anytime. So just access to -- I think the Zoom and stuff maybe access is even better. So, from all of us, appreciate the time. To our people, our discovery people, thank you very much for just a remarkable work you've done. Thank you for listening.