Discovery Limited
(Incorporated in the Republic of South Africa)
(Registration number 1999/007789/06)
Legal Entity Identifier: 378900245A26169C8132
JSE share code: DSY ISIN: ZAE000022331
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JSE bond code: DSYI
("Discovery" or "the Group")

Short-form announcement: Audited results for the year ended 30 June 2020

Discovery achieved the following results for the year ended 30 June 2020:
- Net asset value increased by R1 470 million
- Total new business API increased 5% to R20 307 million
- Normalised profit from operations decreased 22% to R6 069 million
- Profit for the year decreased 97% to R176 million
- Gross income of the Group increased 14% to R66 871 million
- Normalised headline earnings per share decreased by 26% to 507.7 cents per share
- Headline earnings per share decreased 94% to 45 cents per share
- Earnings per share decreased 99% to 14.8 cents per share
- Embedded value per share decreased by 1% to R107.88 per share
- Due to the uncertain and potentially volatile economic environment caused by the COVID-19 pandemic, Discovery has not declared a final ordinary share dividend (2019: final ordinary share dividend of 114 cents per share). The reintroduction of dividends will be considered when appropriate.

The information has been extracted from the Audited results for the year ended 30 June 2020.

Resilient operating performance during the pandemic; financial strength and strategic relevance going forward

The full-year period to 30 June 2020 was uniquely complex, with the COVID-19 pandemic creating considerable economic uncertainty, market volatility and societal need, against an already challenging economic backdrop. Discovery's response was focused on three areas: protecting its people, protecting and supporting its clients, and supporting country efforts in South Africa - underpinned by a disciplined strategy to maintain Group financial strength and resilience.

Financial Performance

Performance over the period was framed by the following key issues:

Operating performance was resilient

For the full year ended 30 June 2020, core new business was up 5% to R19 173 million, normalised operating profit was up 9% to R8 409 million (before providing for future COVID-19-related impacts, decreasing by 22% after the provision to R6 069 million) and normalised headline earnings decreased by 26% to R3 747 million. Normalised headline earnings per share (diluted) decreased by 27% to 566.7 cents and headline earnings per share (diluted) decreased by 94% to 44.7 cents.
The following table summarises the position:

Metrics	% change over prior year
Group normalised profit from operations (before allowing for COVID-19 provision)	9%
Group normalised profit from operations (after allowing for COVID-19 provision)	(22%)
Group normalised headline earnings	(26%)
Headline earnings (after economic assumption changes due to long-term interest rates)	(94%)

Per-business performance was also resilient as outlined below:

Business	Operating profit before reserving for future COVID-19 impacts	New business	Strategic observation
Discovery Health	+5%	(9%)	Showed continued operational excellence and provided significant support to members and society
Discovery Life	+25% (-8% after COVID-19 provision)	(1%)	Rebounded after a challenging FY19 with positive operational experience variances and cash generation
Discovery Invest	(14%)	+2%	Continued strong asset gathering amid a weak market
Discovery Insure	+59%	+5%	Continued scaling while demonstrating high quality of business
Discovery Bank	+296% operating loss increase		Successfully completed client migrations, fully deposit funded; rapid learnings to improve user experience and value proposition
VitalityHealth	+104% (+9% after COVID-19 reserve)	(8%)	Operational excellence with a continued focus on quality of business and relevance resulting in excellent retention
VitalityLife	-49% (-147% after COVID-19 provision)	(3%)	Executed on its turnaround plan; set up for future recovery
Vitality Group	+91%	+23%	Resilient revenue and strong operational leverage driving growth; increasing relevance with partners adopting Shared-Value model
Ping An Health	+72%	+42%	Exceptional growth; continuing to invest for long-term opportunity

Actuarial dynamics also performed well and demonstrated particular resilience during the final quarter of the year. Over the period, South Africa (SA) and the United Kingdom (UK) experienced severe lockdowns, however lapse experience was contained within Discovery's actuarial assumptions for all businesses, except Discovery Invest. Claims experience was also better than assumption for all operations, except VitalityLife, where the effects of the pandemic emerged sooner. New business was curtailed during the various lockdown periods, but the impact was mitigated by increased digital enablement. This was particularly evident in Ping An Health, which delivered significant growth through its digital channel during China's lockdown period.

A reserve of R3.4 billion was created to cater for all future COVID-19 impacts

The Group provided R3.4 billion for future COVID-19-related impacts on claims and lapses, so the expected effects to December 2021 are fully recognised and reserved for in the 2020 reporting year. This resulted in a R2.3 billion profit impact, net of discretionary margins. Discovery's own data and insights have been overlaid onto global and local data to build sophisticated models to consider three scenarios, with the provisions established in the medium scenario, as a prudent best estimate.

Interest rate movements had a R4.8 billion pre-tax effect on headline earnings

In terms of long-term interest rates, the significant movements in positive real rates of return in SA and negative real rates of return in the UK has a significant effect on policy values and headline earnings, but none on cash flows, solvency or capital in SA; and since the implementation of the hedge strategy - little impact in the UK. The impact in the period was R3.6 billion for Discovery Life and £60.5 million net of the valuation of the hedge for Vitality Life, with no bearing on operating performance. These have been normalised out of the Group's financial result.

The growth model performed well, with substantial, planned investment of R2.2 billion into new businesses

In terms of the growth model, the businesses delivered a resilient operating performance. Established businesses saw an increase in operating profit of 15% before the COVID-19 provisioning at R9.9 billion (reducing to -13% after), with pleasing new business growth. The emerging businesses saw remarkable growth, delivering a combined profit of R736 million - 74% higher than the prior period. Investment in new businesses was at 26% of normalised operating earnings (before the COVID-19 reserve), compared with 17% in the previous financial year, with these initiatives demonstrating compelling progress. Discovery Bank completed all migrations onto its platform and was able to fully fund its credit book with deposits; Vitality Invest doubled total funds under management over the recent six-month period; Umbrella Funds has a strong pipeline of committed funds; and the V1 platform continued to expand into new markets.

The Group focused on capital strength and liquidity

Regarding capital and cash management, the capital metrics remained above target for all businesses, with internal liquidity bolstered for key businesses. The Group's Financial Leverage Ratio was at 25.1%(1) and the South African liquidity(2) of R1.9 billion remains above target. These metrics remain resilient into future periods under the low/stressed COVID-19 scenario.

1 Excludes capitalised lease liabilities under the newly adopted IFRS16 and bank borrowings related to normal course lending and borrowing activities of Discovery Bank
2 South African cash and undrawn committed facilities

The return on embedded value was 2% for the year (5% excluding economic impacts and forex gains), also affected by the COVID-19 provision and other non-economic methodology and assumption changes predominantly in Discovery Life and VitalityLife.

Heightened relevance of the Vitality Shared-Value business model; continued investment in Discovery's strategic foundation
Discovery is well positioned to respond to the pandemic, given its Shared-Value business model is premised on, and responsive to, three trends being accelerated as a result of COVID-19. This includes firstly, the behavioural nature of risk, given the emerging importance of healthy living in determining not only non-communicable disease risk but communicable disease risk as well. Secondly, technology is emerging as a key enabler, given the rush to an online world. Thirdly, there is heightened demand for purpose-based business models, given the need to find profitable solutions to society's challenges.

The above resulted in continued investment in the model, strengthened by its ongoing recognition and adoption, and by the data supporting its efficacy across industries. This manifested in developments across the business model's value chain (attraction, conversion, pricing, behaviour change, retention) including the following: development of a Resilience Index, linking Vitality engagement to the risk of COVID-19 complications; the continued roll-out of Discovery's integrated capabilities to the global market, courtesy of its V1 platform; the evolution of Discovery Health's leading digital healthcare platform; and AI Quote, an artificial intelligence quoting tool offering personalised advice to prospective clients.

By leveraging established structures for sharing value combined with sophisticated data tracking and analytics capabilities, the Group was able to rapidly respond to client needs and provide concessions. Over R750 million was offered to individuals and employers enabling them to continue receiving cover; and a total of R12 billion was generated in the form of shared value for clients in FY20, spanning premium discounts, cash backs, boosts and value added by managing care.
Business-specific performance

Discovery's Ambition 2023 remains the strategic focus for the medium term, with the goal of being a leading financial services organisation globally, positively influencing 100 million lives - with 10 million directly insured - and being a powerful force for social good.
Key to achieving this is Discovery's execution of market-specific strategies, namely:

- South Africa: a disruptive composite model, with market-leading businesses and a successful entry into banking
- United Kingdom: a differentiated offering through a composite Vitality Shared-Value business model
- Ping An Health: the leading health insurer in China with over 50 million clients
- Vitality Group: a sophisticated global behaviour-change platform linked to financial services

South Africa

The SA business demonstrated resilience amid the difficult economic and operating environment. Excluding new initiatives, combined new business reduced by 4% to R12 278 million and operating profit increased by 11% to R8 302 million before the COVID-19 provision (reducing by 3% after). Cash generation across the established SA businesses was also strong at R5.4 billion and all entities have shown increases in their capital positions.

Discovery Health

Financial resilience

Discovery Health (DH) delivered a strong financial performance despite the challenging period. Normalised operating profit increased by 5% to R3 190 million and total revenue grew 8% to R8 373 million, with non-scheme revenue showing accelerated growth of 23%. Total new business API decreased by 9% to R6 101 million, affected by the difficult economic environment and contraction in employment, which translated into a marked year-on-year decline of new business from newly recruited employees joining existing employee groups. The business continued to tightly control management expenses, resulting in a 1.4% decrease in operational expenses on a per-member basis (excl. non-recurring COVID-19-related costs). DH made progress in growing non-scheme retail products through Discovery Primary Care, Gap Cover and Healthy Company, which now account for c.184 000 lives under DH administration and contribute 3% to overall DH revenue.

Discovery Health Medical Scheme (DHMS) continued to perform excellently, growing open medical scheme market share to 56.8% in a declining market. The operating result and solvency were higher than expected as a result of the reduction in health system utilisation during lockdown, which included a 27.5% reduction in hospital admissions at the end of August 2020. Notwithstanding this higher-than-anticipated surplus, the contribution increase for 2021 must be sufficient to sustain a small operating surplus and keep up with the utilisation catch-up, in order to mitigate the risk of a high contribution increase for 2022, by which time utilisation is expected to have recovered fully from the depressed levels due to COVID-19. The surplus built up is thus projected to reverse in 2021 following catch-up of normal non-COVID-19 healthcare utilisation, deferred hospital admissions, a likely muted annual contribution increase and the full year's impact of COVID-19 costs.

Discovery Life

Financial Resilience

Discovery Life (DL) delivered a strong operating performance despite the challenging environment. Claims experience improved significantly compared to FY19, supporting a 25% increase in normalised operational earnings, pre-COVID-19 provisioning, to R4 029 million (down 8% to R2 971 million after the provision). New business decreased by 1% to R2 286 million, with strong Automatic Contribution Increases (+10%) and the total in-force premium up by 7%. DL delivered positive operational experience variances overall and on all key metrics other than policy alterations, given the allowance and take-up of COVID-19 premium relief options and other buy downs during the lockdown period. The business's financial position remains robust with strong cash flow generation of R2.4 billion, increasing the tangible free assets to R4.1 billion (both including Discovery Invest) to provide high levels of liquidity. The solvency cover ratio also increased to 182% from 159% at FY19.

Discovery Invest

Financial Resilience

Discovery Invest's performance reflected the challenges of COVID-19 and volatile financial markets. Total Assets under Administration increased by 8% to R99 billion. Assets under Management increased by 2% to R62.8 billion, with linked funds placed in Discovery funds remaining impressive at 78.3%, down slightly on the prior year following more conservative investor allocations. Operating profit fell by 14% to R830 million on the back of tax changes, investment in the Invest International launch and significant sales of Guaranteed Plans during a high period of volatility on the yield curve. Net inflows amounted to R7.6 billion over the period, a decrease of 9.6%, while new business remained resilient, growing by 2% to R2 667 million.

Discovery Insure

Financial Resilience

Performance was robust over the period, achieving R246 million operating profit (including the share of profit from CMT) - up 59% on the prior year. The Shared-Value model proposition was evident during this period: enhanced profitability, through reduced claims during lockdown and favourable lapse experience due to better-than-market client credit profiles, was shared with clients in the form of boosted rewards, to the value of R70 million. New business recovered by year-end to record levels. Gross Premium Income grew by 14% to R3.7 billion with 6% market share, while gross new business API grew by 5% to R1.1 billion, estimated at between 10% and 15% market share.

Discovery Bank

Financial Resilience and Operational Progress

Discovery Bank's performance was pleasing, with over 370 000 accounts at end June (489 000 at 13 September) and deposits of R2.4 billion (R3.7 billion at 13 September). Total credit limits granted were R5.5 billion of which R2.0 billion was utilised (R9.6 billion at 13 September with R3.7 billion utilised). The year under review represented the first year of the Bank's operation. Given the onset of COVID-19, the Bank implemented three strategies, namely; ensuring the successful migration of over 220 000 Discovery Card accounts from First National Bank to Discovery Bank; pursuing a deposit-led growth strategy, while ensuring the quality of the loan book and maintaining the quantum spent on the Bank's build within budget; and ensuring rapid learnings from the Shared-Value model to constantly improve the Bank's user experience and value proposition.

All three strategies were successfully deployed with a system uptime of 99.9%. By the reporting date, the migration was successfully completed and retail deposits exceeded the loan book, resulting in the Bank having significant surplus liquidity of R3.8 billion and capital strength. The quality of deposits was strong with 65% of deposits from clients with a Diamond Vitality Money status. The loan book was excellent with arrears 60% lower than market arrears. The Bank's value proposition has been significantly enhanced via a more accessible Vitality Money experience, more powerful Discovery Miles, and a more intuitive user experience. These enhancements will be announced at the end of September 2020.

United Kingdom

Financial Resilience

The UK business was affected by the difficult economic and operating environment driven by COVID-19 and persistent low interest rates, among other elements. Over the period, in respect of the established businesses, combined new business reduced by 12% to £126.3 million (R2 495 million), operating profit increased by 28% to £93.1 million (R1 840 million) (prior to the COVID-19 reserve, reducing by 61% to £28.2 million (R558 million) after), while total covered lives exceeded 1.3 million, an increase of 7%.

VitalityHealth

Financial Resilience

VH continued to deliver robust results despite the impact of COVID-19. Operating profit grew 2% to £42.0 million (up 9% to R830 million), which includes the addition of a significant unearned premium reserve (UPR) set up to better match the earning of premiums with the expected delay in the submission of policyholder claims to FY21. Operating profit grew 89% to £78.1 million (up 104% to R1 543 million) before setting up this UPR adjustment. New business declined by 15% to £62.7 million (-8% to R1 238 million) in a challenging sales environment. Despite this, strong retention meant that total lives reached 682 000, up 6%, while earned premiums grew 8% to £496.8 million (up 16% to R9 813 million), before the additional UPR. The back book was strongly cash flow positive, generating £76.3 million in cash. After new business acquisition costs and investment in developing the business, VH generated a £57.6 million cash surplus (including the additional UPR).

VitalityLife (VL)

Financial Resilience

VL's normalised operating profit before the COVID-19 provision was 52% lower at £15 million (49% lower at R297 million). After the COVID-19 provision, the normalised operating loss totalled £13.8 million (R272 million). New business API reduced by 10% to £63.6 million (down 3% to R1 257 million), while earned premiums grew strongly by 11% to £288.8 million (R5 705 million). Lives covered and in-force policies both grew by 8%, exceeding 621 000 and 470 000 respectively.

Prior to the pandemic, VL faced challenges due to the difficult environment including Brexit uncertainty and persistent low interest rates in combination with challenges relating to its lapse experience. In response, VL initiated a plan to right-size the business, implemented a hedge for the low and volatile interest rate environment, and introduced key actions to mitigate lapse risk. COVID-19 introduced additional complexity, which saw VL establish a provision in light of the uncertainty around the potential impact on claims and lapses over the next 18 months.

Ping An Health (PAH)

Financial Resilience

PAH delivered a solid performance. Total revenue(3) grew by 56% to RMB13.4 billion and new business premium by 33% to RMB6.5 billion. This growth was mainly driven by strong channel support for its flagship eShengBao product and continued persistency improvements. Sales of this product, which lends itself to online purchase, did well during the relatively limited COVID-19 lockdown period in China. Profit from operations, represented by the Group's share of after-tax operating profit less the costs to support the business, grew by 72% to R182 million supported by positive investment returns.

3 Revenue includes policies written on Ping An Health's own insurance license, as well as policies written on Ping An Life's license and directly reinsured to PAH based on the reinsurance treaty terms

Vitality Group

Financial Resilience

Vitality Group (VG) delivered excellent results in a difficult period. Profit of $19.6 million (R308 million) was up 73% from the prior year. Sales showed good progress, with fee income growing 11% to $72.3 million (R1.1 billion(4)) and insurance partners' integrated premiums reaching $1 billion (R15.8 billion) - an endorsement of the resilient business model upon which the business is built. Vitality now has a global presence across 24 markets (including the primary markets SA and the UK). Total Vitality membership grew to 4.1 million, of which 1.5 million are administered on Vitality1, the globally unified systems architecture platform. Membership from insurance partners' integrated products grew to 1.8 million, an increase of 29% from the prior year.

4 Excludes services related to system implementation and other cost recoveries and rewards

Vitality USA

Vitality USA delivered a pleasing set of results, growing profits 19% from the prior year and membership by 35%. The performance can be attributed in part to a strategic partnership with Trustmark (an employee benefits company headquartered in Illinois) that drove new business, and changes implemented to optimise the sales and distribution structures. These strategies are also expected to ensure that the strong performance is sustained going forward and mitigate some of the challenges expected as a result of COVID-19.

Prospects for growth

Discovery's Shared-Value business model positions it well to deliver continued operational resilience despite the challenging macro environment. Discovery has also provided for the expected future financial impacts of COVID-19 on claims and lapses to December 2021 during the 2020 financial year. The effect of continued interest rate volatility is expected to remain a feature of the reported results in the case of Discovery Life, however the hedge in the UK is expected to remove the volatility for VitalityLife . Solvency, cash and capital are not expected to be negatively impacted by these interest rate movements in SA; and normalised earnings will not be impacted.

Discovery's Ambition 2023 remains the strategic focus for the medium-term. The Group is well positioned for growth over its planning horizon to 2023, with the capital plan able to fund its new initiatives. The businesses within the South African composite have created significant insurgency and the composite is well positioned to continue the SA growth trajectory. The UK composite is embryonic, however the actions taken over the period were key to ensure sustainability in the current environment and have positioned the business to capitalise in a normalised environment. Vitality Group through capabilities and partnerships is well-placed to leverage the growing acceptance of the Shared- Value business model. Ping An Health remains committed to investing for longer-term growth, rather than looking to extract profit or cash in the short to medium-term. Despite the Group's strong capital position, due to the uncertain and potentially volatile economic environment caused by the COVID-19 pandemic, the Discovery Board has decided not to declare an ordinary dividend for the year ended 30 June 2020.

Dividend and capital

Interim dividends paid in respect of the 2020 financial year

The following interim dividends were paid during the current period:

- B preference share dividend of 505.41097 cents per share (404.32878 cents net of dividend withholding tax), paid on 16 March 2020.
- Ordinary share dividend of 101 cents per share (80.8 cents net of dividend withholding tax), paid on 23 March 2020.

Final dividend declaration in respect of the 2020 financial year

B preference share cash dividend declaration:

On 7 September 2020 the directors declared a final gross cash dividend of 433.21918 cents (346.57534 cents net of dividend withholding tax) per B preference share for the period 1 January 2020 to 30 June 2020, payable from the income reserves of the Company. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

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

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Monday, 21 September 2020
Shares commence trading "ex" dividend	Tuesday, 22 September 2020
Record date	Friday, 25 September 2020
Payment date	Monday, 28 September 2020

B preference share certificates may not be dematerialised or rematerialised between Tuesday, 22 September 2020 and Friday, 25 September 2020, both days inclusive.
Ordinary share cash dividend declaration:

Due to the uncertain and potentially volatile economic environment caused by the COVID-19 pandemic, Discovery will not be recommending the payment of ordinary dividends. The reintroduction of dividends will be considered when appropriate.

Full announcement

The contents of this short form announcement are the responsibility of the Board of Directors of the Company (Board).
Shareholders and/or investors are advised that this short form announcement represents a summary of the information contained in the full announcement, published on the Stock Exchange News Service (SENS) (https://senspdf.jse.co.za/documents/2020/JSE/ISSE/DSY/FY2020.pdf) and on Discovery's website (www.discovery.co.za/corporate/investor-relations).

PricewaterhouseCoopers Inc., the Group's independent auditor, has audited the consolidated and separate Annual Financial Statements from which this announcement has been derived, and has expressed an unmodified audit opinion on these financial statements. The auditor's report, with Key Audit Matters, issued on the consolidated and separate Annual Financial Statements and the accompanying financial statements can be accessed at www.discovery.co.za/corporate/investor-relations.

Any investment decisions by investors and/or shareholders should be based on a consideration of the full announcement as a whole and shareholders and/or investors are encouraged to review the full announcement, which is available for viewing on JSE's website and on the Company's website set out above.

The full announcement is also available for inspection, at no charge, at the registered office of the Company (1 Discovery Place, Sandton) and at the offices of Discovery's sponsors, Rand Merchant Bank (a division of FirstRand Bank Limited) (1 Merchant Place, Corner Fredman Drive and Rivonia Road, Sandton) from 09:00 to 16:00 weekdays. Investors and/or shareholders may request copies of the full announcement from the Company Secretary.

Transfer secretaries

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

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* Executive.
1 Appointed effective 3 February 2020.
2 Redesignated as a non-executive director effective 28 November 2019.
3 Retired effective 14 February 2020.

Notes to analysts:

- Any forecast financial information contained in this announcement has not been reviewed or reported on by the company's external auditors.
- Discovery has published supplemental unaudited information on the website. For this and other results information, go to https://www.discovery.co.za/corporate/investor-relations and page down to Financial results and reports, Annual Results 2020.

SENS release date: 16 September 2020