DISCOVERY LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 1999/007789/06)
Legal Entity Identifier: 378900245A26169C8132
JSE share code: DSY, DSYBP
DSY ISIN: ZAE000022331
DSBP ISIN: ZAE000158564
JSE company code: DSYI
("Discovery" or "Company" or "Group")

VOLUNTARY TRADING STATEMENT IN RESPECT OF THE SIX MONTH PERIOD ENDED 31 DECEMBER 2020

Discovery presents the following voluntary trading statement ahead of the release of its interim financial results for the six months ended 31 December 2020 (reporting period or current period or period under review), which are expected to be released on the Stock Exchange News Service on 25 February 2021.

The period under review was complex, dominated by the COVID-19 pandemic with corresponding economic uncertainty, market volatility and societal need. The pandemic has made Discovery's Core Purpose and responsibility clear - having experienced the tragic COVID-related deaths of almost 5,000 members and staff to date, the Group is acutely aware of the crucial role it must fulfill.

Despite a complex and volatile environment, Discovery's operations demonstrated remarkable strength. The financial performance of Discovery for the six months ended 31 December 2020 can be summarised by:

- Operating performance was excellent, with normalised profit from operations[1] expected to rise between 17% and 21% compared to the six months ended 31 December 2019 (prior period), with robust contributions from all businesses, demonstrating the strength of the Group's business model and growth model;
- COVID-19 provisions set up at the end of the prior period proved to be conservative and resilient – given the intensity of the South African second wave of infection, mortality provisions within Discovery Life were strengthened by c. R150 million. This, combined with the effect of new business on provisions, resulted in total provisions at the end of the period remaining at R3.4 billion; and
- Higher average interest rates in South Africa (SA) and a strong recovery in the Rand had a material impact on headline earnings (expected to decline by between 8% and 12% compared to the prior period), with normalised headline earnings[1] (expected to change between -3% and +1% compared to the prior period) impacted by foreign currency translation differences. The effect of interest rates in SA has no material impact on cash, capital or solvency, with the effect of currency movements being a natural consequence of managing offshore exposures.

[1] ***H1 20 restatement*** The results for the six months ended 31 December 2019 have been restated in line with the amendment of the Normalised Headline Earnings Per Share ("NHEPS") policy for the financial year ended 30 June 2020 to specifically adjust for the impact resulting from changes in economic assumptions recognised in profit or loss, net of any gains or losses on hedge derivatives to offset such changes in economic assumptions. As this was a net loss in the previous period (-R241m (before taxation)), this restatement therefore reduces the reported growth rate in respect of all normalised measures for the six months compared to the previously reported normalised comparatives.

Operating performance of the Group

The operating performance of Discovery for the six months ended 31 December 2020 can be summarized by the expected growth in normalised profit from operations set out in the table below:

	Expected % change over prior period
Discovery Health	4% to 8%
Discovery Life	1% to 5%
Discovery Invest	-5% to -1%
Discovery Insure	41% to 45%
VitalityHealth	22% to 26%
VitalityLife[1]	>200%
VitalityGroup	>100%
PingAn Health	63% to 67%
Change in investment in New businesses	-2% to +2%
Normalised profit from operations	**17% to 21%**

COVID-19 provisions and reserves have been resilient and remain prudent

Discovery established COVID-19 provisions of R3.4 billion at the end of the prior period for the future effects of claims and lapses across its SA and United Kingdom (UK) operations. The utilisation of these previously established provisions has been relatively low to the end of the reporting period. In SA, it became clear that the second wave of infections was having a more significant impact on Discovery's target market compared to the first wave and, to ensure prudency, Discovery Life has provided an additional c. R150 million mortality provision, which has been offset by discretionary margins. Discovery Life's lapse experience has been robust through the reporting period. In the UK, VitalityLife's lapse and claims experience have been resilient while VitalityHealth's unearned premium reserve (UPR) continued to increase to allow for the potential effect of delayed treatment following the second wave of infections.

Overall, as at 31 December 2020, Discovery's provisions and reserves were sustained at R3.4 billion. In SA, provisions were c. R2 billion (c. R2.1 billion as at 30 June 2020) and, in the UK, provisions and reserves were c. R1.4 billion (c. R1.3 billion as at 30 June 2020). The elevated claims in January 2021 consumed c. R600m of Discovery Life's provision.

Headline and normalised headline earnings impacted by market volatility

i) Average effective interest rates increased further in SA

Average effective interest rates used to value assets under insurance contracts in SA increased significantly during the last six months of Discovery's previous full financial year and the impact was reported in Discovery's results for the year ended 30 June 2020. For the six-month period under review, average effective rates have elevated further, notably real rates, and the impact of this continued, reducing the value of assets under insurance contracts by c. R490m (before taxation), net of discretionary margins. This had a marked effect on headline earnings growth, as the comparative six-month period preceded this rise in interest rates. Since this has no material impact on cash flows, solvency or capital, as previously, it was excluded when presenting normalised measures.

ii) Rand strength toward the end of the period

Discovery manages its international expansion by ensuring future offshore capital commitments are derisked by either holding matched foreign currency assets or through appropriate currency hedges. While this approach ensures predictability and prudence in the Group's capital planning, it can result in intra-period volatility should the Rand fluctuate against other currencies. With the strengthening of the Rand, the impact over the period under review was:

- foreign currency losses of c. R360 million (before taxation) on the translation of foreign currency assets which are not adjusted in the presentation of normalised earnings; and

- fair value loss of c. R210 million (before taxation) on the currency hedge to ensure earmarked capital for the UK Part VII transfer from the Prudential to Vitality Life planned for 2023 is derisked. This continues to be adjusted in the presentation of normalised measures.

As a result, headline earnings is expected to decline by between 8% and 12%. Normalised headline earnings[1] is expected to experience a change of between -3% and +1% compared to the prior period.

Given the above, shareholders and noteholders are advised that:

- Earnings per share (basic) for the six months ended 31 December 2020 is expected to decrease in the range of 5% to 15%, to between 294.8 cents and 263.8 cents (2019: 310.3 cents) over the prior period;
- Headline earnings per share (basic) is expected to decrease in the range of 5% to 15%, to between 296.1 cents and 264.9 cents over the prior period (2019: 311.7 cents); and
- Normalised headline earnings[1] per share (basic) is expected to be in the range of -5% to 5% between 334.5 cents and 369.7 cents over the prior period (2019: 352.1 cents).

The financial information on which this trading statement is based has not been reviewed and reported on by the Company's external auditors.

Sandton
23 February 2021
Sponsor and debt sponsor
RAND MERCHANT BANK (A division of FirstRand Bank Limited)

[1]Refer to note 1 on page 1