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

Unaudited interim results and trading statement for the six months ended 31 December 2020

Discovery achieved the following results for the six months ended 31 December 2020:

Net asset value increased by R582 million
Total new business API increased 8% to R10 920 million
Normalised profit from operations increased 19% to R4 507 million
Profit for the period decreased 10% to R1 875 million
Gross income of the Group increased 9% to R34 936 million
Headline earnings per share decreased 10% to 280.3 cents per share
Earnings per share decreased 10% to 280.2 cents per share
Diluted Embedded value per share decreased 2% to R108.96 per share
Due to the uncertain and potentially volatile economic environment caused by the COVID-19 pandemic, Discovery has not declared an interim ordinary share dividend (2019: interim ordinary dividend of 101 cents per share). The reintroduction of dividends will be considered when appropriate.

The information has been extracted from the unaudited results for the six months ended 31 December 2020.

Discovery delivered a robust operating performance while maintaining prudent COVID-19 provisions. The business model has proven to be highly relevant and is well positioned to grow on the back of trends emerging from the pandemic

The period under review was complex, dominated by the COVID-19 pandemic with corresponding economic uncertainty, market volatility and societal need. Against this backdrop, the period for the Group was characterised by a continued excellent operating performance, and resilient COVID-19 provisions and reserves. However, ongoing market volatility impacted the Group's normalised and headline earnings.

Operating strength during COVID-19

For the six months ended 31 December 2020, normalised operating profit increased by 19% to R4 507 million, normalised headline earnings decreased by 1% to R2 284 million and total new business was up 8% to R10 920 million. Investment in new initiatives was at 22% of earnings, compared with 26% in the previous period. Headline earnings per share (HEPS) (basic) decreased by 10% to 280.3 cents and normalised headline earnings per share (NHEPS) (basic) decreased by 1% to 347.9 cents.

The following table highlights key items in the Group's normalised profit from operations:

	Current period, in ZAR million	% change (Current period vs prior period)	Strategic observation
Discovery Health	1 670	6%	Continued operational excellence with significant support to medical scheme members and society
Discovery Life	1 922	3%	Excellent operating performance and positive variances delivering growth on optimised capital base
Discovery Invest	471	-3%	High-quality earnings driven by positive flows and market growth albeit in difficult market conditions
VitalityHealth	613	24%	Excellent performance driven by continued retention and proven relevance of the business model
VitalityLife(1)	327	206%	Robust recovery with positive lapse experience and resilience to interest-rate volatility
Profit from established businesses(2)	5 049	11%	
Discovery Insure	107	43%	Strong new business and retention dynamics driving growth with consistently expanding margins and proven efficacy of the model
Vitality Group	238	116%	Global relevance gaining significant traction with excellent operating performance
Ping An Health	112	65%	Continuation of remarkable revenue, new business and profit growth
Emerging businesses	457	81%	
Discovery Bank and other development segments	(999)	0%	Prudent Bank rollout pivoting towards growth, with other segments gaining further traction
Normalised profit from operations	4 507	19%	

(1) Note on VitalityLife H1 20 restatement: The six months ended 31 December 2019 has been restated in line with the amendment of the NHEPS policy for the financial period 30 June 2020 to specifically adjust for changes in economic assumptions recognised in profit or loss, net of any gains or losses on derivatives to offset such changes in economic assumptions.
(2) Includes SA Vitality, R46 million (prior: R5 million)

Growth engine remains robust with Emerging and New businesses contributing strongly to growth

Discovery has continued to organically invest to capture the growth potential that emerges as new market and global opportunities arise, both through developing the assets within its businesses as well as through investing in Emerging and New businesses. Discovery's operations demonstrated remarkable strength during the period, delivering excellent growth in normalised operating profits, up 19%, as the organic growth model continues to manifest through our Established, Emerging and New businesses. Established businesses delivered a solid 11% profit growth, while Emerging businesses continued their exceptional growth rates, up 81%, with the same level of investment in New initiatives, of which more than 60% goes into Discovery Bank.

The challenging sales environment curtailed core new business levels in Established businesses; however, total new business API and other new business grew 8%, as contributions by Emerging and New businesses provided further evidence of the efficacy of the Group's organic growth model. New business margins also recovered strongly compared with the second half of the 2020 financial year through diligent cost management and improvements in product mix. The resilience of the business model was further demonstrated through sustained momentum in gross income as particularly strong retention dynamics across the Group mitigated the slower new business growth rate. The return on embedded value was 4.2% for the period and 11.7%, excluding forex and economic changes, supported by the strong retention and other positive non-economic experience variances.

COVID-19 provisions and reserves have been resilient and remain prudent at R3.4 billion

Discovery established COVID-19 provisions of R3.4 billion at the end of the prior reporting period for the future effects of claims and lapses across its operations in South Africa (SA) and the United Kingdom (UK). The utilisation of these previously established provisions has been relatively low by the end of this 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 R153 million claims provision. In the UK, VitalityHealth's unearned premium reserve (UPR) continued to increase to allow for the potential effect of delayed elective healthcare treatment following the second wave of COVID-19 infections. Overall, as at 31 December 2020, Discovery's COVID-19 provisions and reserves were sustained at R3.4 billion.

Headline and normalised headline earnings impacted by market volatility

Average effective interest rates increased further in SA

Changes in average effective interest rates impact the value of assets under insurance contracts in SA. The continued increase in rates from the prior reporting period, notably in the case of real rates, reduced the value of assets under insurance contracts by R493 million (before taxation), net of discretionary margins over this period. This has no material impact on cash flows, solvency or capital, as explained previously, and has been excluded from the normalised measures.

The UK interest rate hedge structure implemented in the previous financial year provided an effective hedge against movements in long-term interest rates in the UK and no material net impact was reported in the period for VitalityLife (loss in prior period of R241 million (before taxation)).

Rand strength towards 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 to ensure predictability and prudence in capital planning. This can result in intra-period volatility should the rand fluctuate against other currencies. The strengthening of the rand at the end of the period resulted in foreign currency losses of R362 million (before taxation) on the translation of foreign currency assets. A fair value loss of R207 million (before taxation) was incurred on the currency hedge to ensure earmarked capital for the UK Part VII transfer from Prudential to VitalityLife planned for 2023 is derisked.

The Group continued to focus on capital strength and liquidity

Financial prudence remains a key focus, ensuring the Group's resilience in the current environment. The capital metrics remained above target for all businesses, with excess liquidity held at the centre of R1.7 billion in South Africa sufficient to withstand additional waves and economic risks from the pandemic, and the Group's Financial Leverage Ratio stabilised at 25.7%(1).

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 unique foundation - its core purpose, values, people and brand, as well as the continued execution of market-specific strategies:

i. South Africa: a disruptive composite model, with market-leading businesses and pivoting Discovery Bank to growth
ii. United Kingdom: a differentiated offering through a composite Vitality Shared-value model
iii. Ping An Health: the leading health insurer in China with over 50 million clients
iv. Vitality Group: a sophisticated global behaviour-change platform linked to financial services

Due to the uncertain and potentially volatile economic environment caused by the COVID-19 pandemic, Discovery has not declared an interim ordinary share dividend (2019: interim ordinary dividend of 101 cents per share). The reintroduction of dividends will be considered when appropriate.

South Africa

Discovery Health

Financial performance

Discovery Health (DH) delivered a resilient financial performance, as normalised operating profit increased by 6% to R1 670 million, with total revenue up 5% to R4 249 million, demonstrating continued operational efficiency gains. Total new business API decreased 5% to R3 167 million (core new business API decreased 17%) relative to the prior period, impacted by a contraction in employment in the constrained economic climate. Notably, over the period, Discovery Health acquired 100% ownership of Liberty Health Administration (Pty) Ltd with effect from 1 October 2020, which administers Libcare Medical Scheme (c.13 000 lives and c.R379 million in API). Non-medical scheme retail products (Discovery Primary Care, Gap Cover and Healthy Company) grew strongly, and now account for c.186 000 lives under DH administration.

Discovery Health Medical Scheme (DHMS) continued to perform strongly, growing its market share of the open medical scheme market to more than 57%. The Scheme continued to demonstrate stability with low withdrawals and limited plan downgrades as 94% of members chose to remain on the same plan. DHMS did not increase its member contributions for the period January to June 2021, following lower-than-expected claims in 2020, recognising the economic pressure on employer groups and members. DHMS will apply a contribution increase from 1 July 2021, resulting in a weighted average increase of no more than 2.9% for the full year, positioning the average DHMS contributions at 17.4% lower than the weighted average for the top eight competitor medical schemes. The Scheme is in a strong financial position with unaudited operating surplus and solvency of R7 451 million and 36.8%, respectively, at the end of 2020. This reflects the reduction in non-COVID-19-related health system utilisation which included a year-on-year reduction of 27% in the total pre-authorised hospital admissions. It is important to view this operating surplus in the context of the ongoing COVID-19 claims including anticipated vaccine costs as well as the likely utilisation catch-up of deferred procedures, which DHMS will fund in 2021. Finality on the medical schemes industry's final cost of the vaccination programme is awaited, considering that the COVID-19 vaccination has been gazetted as a Prescribed Minimum Benefit for all medical scheme members, mandating all medical schemes to pay it in full from risk funds.

Discovery Life

Financial performance

Discovery Life delivered a robust operating performance for the period, with strong positive experience. Normalised earnings of R1.9 billion were up 3% relative to the prior year despite the material impact of the capital release from Discovery Life in the prior period and elevated Group Life claims. Negative economic assumption changes of R493 million emerged in this period, net of released margin, as a result of a lower discounted value of future cash flows due to higher long-term real interest rates, together with the strengthening rand. New business decreased by 6% to R1.2 billion, with lower core new business sales and lower Automatic Contribution Increases in line with lower CPI, while margins saw a robust recovery compared with June 2020 increasing to 8.2% aided by tight expense management and an improved business mix. Discovery Life's financial position remains robust with positive cash flow of R231 million, solvency ratio of 182% and tangible free assets of R4.1 billion, providing high levels of liquidity.

Discovery Invest

Financial performance

Discovery Invest's total Assets under Administration increased by 11% to R107 billion and Assets under Management grew 6%, with linked funds placed in Discovery funds remaining impressive at 78.3%. Operating profit was 3% lower than the prior period at R471 million, as a result of a once-off fee recovery on a significant tranche of structured notes that matured in the prior period as well as product changes made following the new tax regime for life insurers. Net inflows amounted to R2.8 billion, a decrease of 5% while new business reduced slightly by 3% to R1 316 million.

Discovery Insure

Financial performance

Discovery Insure (DI) has demonstrated resilience with operating profit of R107 million for the personal lines business, 43% higher than the prior year. Loss ratios were lower than the prior year due to the impact of reduced driving activity during the period and as result of a continued improvement in both policy duration and applying efficiencies in claims management. Gross new business API for the personal lines business was up 12% to R617 million compared with the prior period; while gross premium income increased by 16% to R2 121 million, achieving an estimated 7% market share.

Discovery Bank

Financial performance

Discovery Bank made pleasing progress over the period, growing to over 287 000 clients with more than 540 000 accounts, with weekly average new-to-bank clients continuing to grow. Retail deposits grew strongly and reached R5.7 billion, as at 31 December 2020, with advances more stable at R3.8 billion reflecting the conservative lending strategy, resulting in a 69% lower arrears rate compared with the market. The migration of the FNB JV loan book was successfully completed and migrated clients continue to be highly engaged, with 53% upgrading to Discovery Bank. The IT systems are managing the growing customer and transactional volumes well and proved very stable over the 2020 year-end period, maintaining a systems uptime of >99.9%. Subsequent to the JV book migration, and through new digital banking features and ongoing innovation across key client journeys, service levels have been continuously improving with an average service score of 4.7 out of 5 and a >99% service level being recorded by the end of the period.

United Kingdom

Financial performance

The UK business, with its adapted structure and functions consolidated at a UK Group level, delivered a strong performance for the period, as normalised operating profit for VitalityHealth and VitalityLife increased by 36% year-on-year to £44.2 million (R940 million, up 56%). Earned premiums increased by 6% year-on-year to £409.4 million (R8 707 million, up 21%), excluding the unearned premium reserve (UPR) adjustment. In a challenging sales environment, combined new business for VitalityHealth and VitalityLife reduced by 17% year-on-year to £56.4 million (R1 199 million, down 5%), while total lives covered exceeded 1.3 million.

VitalityHealth

Financial performance

VitalityHealth's (VH) operating profit grew by 8% year-on-year to £28.8 million (up 24% to R613 million). While claims had initially started to return toward normal levels, the second wave again led to postponement of some elective health treatments, and hence lower claims. In light of this, an additional UPR was set up at the end of the period to match earning of premiums with the postponement of claims and anticipated higher costs of treatment. This approach ensures that VH's reported profit numbers are not being influenced by the impact of lower claims during the COVID-19 period as it is expected that a claims catch-up may still occur. Earned premiums grew by 4% to £256.5 million (R5 455 million), excluding the UPR adjustment, while total lives reached 693 000. New business declined by 9% year-on-year to £30 million (increased 4% to R638 million).

VitalityLife

Financial performance

VitalityLife's (VL) normalised operating profit grew 166% to £15.4 million (R327 million), while it continues to hold significant provisions considering the uncertainty around the potential impact of COVID-19 over the remainder of the financial year. In a difficult sales environment, with lockdown periods impacting on face-to-face distribution, and in combination with a strict focus on writing quality new business, VL new business API reduced by 24% year-on-year to £26.4 million (13% to R561 million). Given exceptional retention performance, earned premiums grew strongly by 8% year-on-year to £152.9 million (R3 251 million), while lives covered and in-force policies both grew by 7% year-on-year, exceeding 648 000 and 491 000, respectively.

Ping An Health (PAH)

Financial performance

PAH had a strong performance: total revenue(2) grew by 62% to R18.1 billion (RMB7.5 billion) and new business premium by 31% to R7.2 billion(3) (RMB3 billion). Revenue growth was driven by continued demand for its flagship eShengBao product, due to increased awareness of the need for health insurance, as well as continued improvements in persistency. Profit from operations, represented by the Group's share of after-tax operating profit less the costs to support the business, grew by 65% to R112 million.

(1) Excludes capitalised lease liabilities under the newly adopted IFRS16 and bank borrowings related to normal course lending and borrowing activities
(2) 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
(3) 100% of PAH, not Discovery's 25% share

Vitality Group

Financial performance

Vitality Group (VG) achieved a profit of $14.6 million (R238 million), up 95% from the prior year. The global challenges wrought by COVID-19 affected the distribution channels of insurance partners. Despite these challenges, fee income grew 10% to $38.4 million (R625 million(4)) and insurance partners' integrated premiums reached $537 million (R8.7 billion). Vitality has a global presence across 27 markets (including primary markets of SA and the UK) through partnerships with some of the world's leading insurers and continues to expand and evolve. Total Vitality membership declined to 4.1 million, of which 1.3 million are administered on Vitality1, the behaviour-change platform. The overall membership decline relates to a decrease in AIA Korea members who are offered Vitality on a trial basis as part of a leads generation strategy. Membership from insurance partners' integrated products grew to 2.1 million, an increase of 17% from the prior year.

Growth prospects, dividend and trading statement

Discovery's business model has proven to be highly relevant during the COVID-19 pandemic and the trends that are are likely to accentuate this relevance in a post COVID world. The Group is confident in its ability to capitalise on these emerging opportunities.

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 interim dividend for the period ended 31 December 2020.

For the year ended 30 June 2020, the Group provided for future COVID-19-related impacts on claims and lapses, so the expected effects are recognised and reserved for in that reporting year. In addition, substantial movements in long-term rates of interest both in South Africa and the UK had a significant effect on earnings. Given the combined effect on prior year earnings, Discovery's earnings per share (basic) and headline earnings per share (basic), for the period ending 30 June 2021, are expected to be at least 20% higher (17.8 cents and 54.0 cents, respectively) than that reported for the year ended 30 June 2020 (14.8 cents and 45.0 cents, respectively).

Shareholders are advised that the Group does not currently have reasonable certainty to provide guidance as to either the specific percentage and numbers, or the range and numbers, to describe the difference in the financial results in such periods. Once the Group obtains reasonable certainty in this regard, it will issue a further trading statement. Any forecast or estimate financial information on which this trading statement has been based has not been reviewed and reported on by the Group's external auditors. The Company expects to release its annual financial results for the year ending 30 June 2021 on SENS during or about September 2021.

(4) Excluding revenue related to cost recoveries and rewards

Dividend

Final dividends paid in respect of the 2020 financial year

The following final dividends were paid during the current period:

- B preference share dividend of 433.21918 cents per share (346.57534 cents net of dividend withholding tax), paid on Monday 28 September 2020.
- No final ordinary share dividend was recommended in light of the COVID-19 pandemic.

Interim dividend declaration in respect of the 2021 financial year

B preference share cash dividend declaration:

On 19 February 2021 the directors declared an interim gross cash dividend of 354.52055 cents (283.61644 cents net of dividend withholding tax) per B preference share for the period 1 July 2020 to 31 December 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	Tuesday, 9 March 2021
Shares commence trading "ex" dividend	Wednesday, 10 March 2021
Record date	Friday, 12 March 2021
Payment date	Monday, 15 March 2021

B preference share certificates may not be dematerialised or rematerialised between Wednesday, 10 March 2021 and Friday, 12 March 2021, 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 interim 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 https://senspdf.jse.co.za/documents/2021/JSE/ISSE/DSY/H12021.pdf and on Discovery's website (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

Computershare Investor Services Pty Limited (Registration number 2004/003647/07) Rosebank Towers, 15 Biermann Avenue, Rosebank 2196, PO Box 61051, Marshalltown 2107

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

Secretary and registered office NN Mbongo, Discovery Limited (Incorporated in the Republic of South Africa) (Registration number: 1999/007789/06)

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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, Interim results 2021.

SENS release date: 25 February 2021