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 bond company code: DSYI
("Discovery" or the "Group" or the "Company")

Short-form announcement: Audited results for the year ended 30 June 2021

Discovery achieved the following results for the year ended 30 June 2021:

Net asset value increased by R1 866 million
Profit for the year increased by 1 730% to R3 220 million
Normalised profit from operations increased by 7% to R6 494 million
Headline earnings per share increased 910% to 454.7 cents per share
Normalised headline earnings per share decreased by 9% to 518.7 cents per share
Earnings per share increased 3 148% to 480.7 cents per share
Embedded value per share increased 5% to R113.65 per share
Diluted embedded value per share increased 4% to R112.23
Due to the uncertain and potentially volatile economic environment caused by the COVID-19 pandemic, Discovery has not declared a final ordinary share dividend (2020: no final ordinary share dividend declared). The reintroduction of dividends will be considered when appropriate.

The information has been extracted from the Audited results for the year ended 30 June 2021.

Strong operating performance during the pandemic and continued evolution of the Shared-value Insurance model

The year ended 30 June 2021 was characterised by a multifaceted focus on the impact of and response to the COVID-19 pandemic, with a notable material impact on the Group's financial results due to elevated mortality in South Africa (SA). The Group nonetheless delivered a robust operational performance with strong actuarial experience and growth. The growing relevance of its Vitality Shared-value Insurance model, given the increasing importance of health, wellness and resilience, positions the Group for growth in local and global markets.

Resilient operating performance during COVID-19

Normalised profit from operations increased 7% to R6 494 million, notwithstanding a R2.4 billion COVID-19-related impact for Discovery Life (R1.1 billion in prior year). New business annualised premium income (API) increased 11% to R21 325 million (core API 9%), while retention levels across the Group were strong. Normalised headline earnings (NHE) decreased by 9% to R3 406 million. This growth was impacted by R389 million pre-tax mark-to-market foreign currency losses (R578 million pre-tax gains in prior year) arising from a recovery of the rand during the year under review. NHE before these exchange rate effects increased 12% to R3 711 million. Headline earnings grew more than nine-fold to R2 986 million as the long-term interest rates stabilised in SA and the United Kingdom (UK), which resulted in materially lower economic basis changes than the prior period.

The following table demonstrates the contribution of key businesses to the growth in normalised profit from operations.

	Current period in ZAR million	% change (Current period vs prior period)	Strategic observation
Discovery Health	3 423	7%	Continued operational excellence, growth in lives and providing significant support to members and society
Discovery Life	1 341	(55%)	Significant negative COVID-19-related mortality impact but delivering positive actuarial experience and maintaining financial strength
Discovery Invest	1 084	31%	Strong earnings growth, retention and solid investment returns for clients. New business growth impacted by lower guaranteed plan sales
VitalityHealth(1)	953	15%	Robust operating performance driven by continued good retention. Careful management of delay of elective healthcare in the COVID-19 environment
VitalityLife	644	337%	Strong recovery and a strengthening of underlying actuarial basis - a successful execution of the management plan. New business slowed with lockdowns and the focus on quality business
Profit from established businesses(2)	7 488	-1%	Robust growth across all established businesses, except for Discovery Life
Discovery Insure	250	2%	Strong new business growth and robust underwriting performance, with earnings impacted by lower investment yields
Vitality Group	417	35%	Stronger growth due to increasing integration and traction with existing partners and accelerating roll-out to new markets and adjacencies
Ping An Health Insurance (PAH)	411	126%	Focus on profit quality and scale through distribution channels and product diversification. Capital injection to support long-term growth
Emerging businesses	1 078	46%	Emerging business delivered particularly strong growth
New initiatives (Excluding Discovery Bank)	(978)	Lower by 7%	Lower spend combined with strong growth in new business API, up 156%
Discovery Bank	(1 094)	Lower by 7%	Strong high-quality client and deposit growth while deliberately pursuing a prudent, quality-focused credit strategy
Normalised profit from operations	6 494	7%	

(1) VitalityHealth accelerated the repayment terms of its existing reinsurance programme reducing the net premiums received in the year under review, with a net in-period impact of £39.7 million, which results in better matching of the underlying claims experience expected from the catch-up in claims in future years.
(2) Includes SA Vitality, R43 million (prior: R7 million)

Responding to COVID-19 as Discovery Life's earnings impacted by R2.4 billion for the reporting year

The impact of COVID-19 has been significantly worse than expected in SA and we estimate that the SA epidemic has turned out to be five times more severe, on a risk-adjusted basis, than in the UK. At the end of the previous year, Discovery Life established a R2 billion provision (R1.1 billion impact net of discretionary margins) for retail claims and lapses which proved adequate for the retail business' in-period claims, as the strong lapse experience mitigated the elevated mortality. Given the expected mortality claims from the run-off of the third COVID-19 wave beyond the reporting year and expected claims from an anticipated fourth wave, an additional provision for the retail business was set up at the end of the year under review.

Due to the accounting treatment applicable to the short-term contract boundary policies of group life business, Discovery Life could not establish a provision for future group life claims at the end of the previous year. As a result, the high in-period group life COVID-19-related claims caused further strain in the reporting year. At the end of the year under review, group life provisions have been made up to the next policy renewal date to the extent that existing contracts are deemed to be onerous.

The combined impact on Discovery Life's overall operating profit from these factors was R2.4 billion for the reporting year.

Given that global and local data strongly support the safety and efficacy of vaccination, Discovery continues to play a leadership role in driving up national vaccination rates, through its own employees, through its products, and working closely with the National Department of Health on the country's vaccination roll out. To this end, Discovery has established nine vaccination sites nationally, requiring approximately 1 000 employees and spent R42 million in the year under review, with an anticipated spend of R200 million in the 2022 financial year. For its employees, Discovery intends to move to a mandatory vaccination policy effective 1 January 2022 given the clear moral and social obligation, as informed by our core purpose to make people healthier and to enhance and protect their lives; and by our values, particularly, acting as a force for social good; and supported by a legal obligation to protect and safeguard all employees from all potential risks.

Headline earnings boosted by stabilisation of interest rates and basic earnings gained further from CMT transaction

The strong growth in headline earnings, of 909%, was largely due to the materially lower negative pre-tax impact of economic assumption changes (of R519 million) in the reporting year, versus R4 830 million in the prior year, which are excluded from the normalised measures. In SA, the key driver of the improvement in the reporting period was the stabilisation of longer-term interest rates compared with the increase experienced in the prior period. In the UK, the interest rate hedge proved effective in a year with volatile interest rate markets, with increased costs a function of more regular rebalancing of the hedge and higher convexity.

Basic earnings of R3 157 million (prior period R97 million) benefitted further from a material pre-tax unrealised gain of R537 million from the transaction in which Cambridge Mobile Telematics (CMT) acquired TrueMotion. This acquisition was effected through an issuance of shares, as announced by CMT on 16 June 2021, and Discovery's gain was for an effective dilution of 1.69% of the equity on a fully-diluted basis. Discovery still owns 7.89% (on a fully-diluted basis) of the equity of the combined organisation.

Capital strength and liquidity

A disciplined long-term capital plan remains a key focus as Discovery continues to follow a highly structured approach to navigating the impact of COVID-19 while ensuring that the Group remains resilient and able to continue to fund its growth initiatives. Each of the Group's businesses are strongly capitalised with capital metrics above set targets, and across the Group there is an excess of liquid assets above minimum regulatory capital requirements of R13.4 billion, held predominantly within the businesses, with excess liquidity held at the centre in SA of R2 billion. The Group's Financial Leverage Ratio stabilised at 25.7%(3) and is comfortably within the internally set guidance level of 28% and expected to trend down over time.

During the period under review, the Group became aware that due to the combined effect of the future growth prospects of Ping An Health Insurance (PAH) and its expanding product mix, with the evolving prudential regulatory requirements in China, PAH requires additional capital of RMB2.6 billion (approximately R6 billion). Discovery's contribution, amounting to approximately R1.5 billion, will be required in the near future. Discovery is committed to its investment in PAH and its intention is to follow its rights in this regard, aligned with previous capital contributions it has made, and is evaluating the optimal funding mechanism in the context of COVID-19 aligned with the discipline of the capital plan. Discovery has previously responded to fund such growth opportunities through equity rather than debt. If it were to raise equity capital, Discovery would expect to follow a similar strategy it did in the case of the final buy-out of the FNB credit card book in 2018, for which it raised a specific quantum, ringfenced for those purposes, to ensure that the discipline of capital allocation within the capital plan remains intact. The prospects for private healthcare and private health insurance in China provide an excellent long-term opportunity, supported by recent government policies emphasising the development of healthcare and private health insurance.

Discovery is demonstrating growth across multiple dimensions as relevance continues to grow

COVID-19 has accelerated the link between health, wellness, resilience and mortality through the underlying behavioural drivers of risk. As these have coalesced with the rising trends of technology adoption and purpose-led models, Discovery has been evolving its model to offer multi-dimensional growth prospects; these being (1) Organic growth, (2) Geographic growth and (3) Platform-led growth through the Vitality global insuretech platform and the Group's institutional businesses that sit on it.

Discovery continues to drive the execution of existing market-specific strategies through its composite model, with the following strategic vision established for each:

i. South Africa: To be the perfect composite model, number 1 in every industry, and the Bank pivoting to growth as the composite-maker within SA
ii. United Kingdom: To have best-in-breed products across businesses and operating as a fully integrated composite business with a seamless One Vitality client journey and to have a successful entry into motor insurance
iii. Ping An Health Insurance: To be the leading health insurer in China with over 50 million clients
iv. Vitality Group: To be the world's largest and most sophisticated behavioural platform linked to financial services

South African composite

Discovery Bank

Financial performance

Discovery Bank's operating loss for the financial year was R1 094 million, 7% lower than the prior period. The Bank continued to gain traction with 362 000 clients (versus 274 000 clients in July 2020(4) and 649 000 accounts (versus 505 000 accounts in July 2020(4), expanding its existing Discovery and non-Discovery client base and achieving 500 average daily new-to-Bank sales, in line with the medium-term forecast. There was a steady improvement in product mix over the year with transaction accounts and credit cards making up over 80% of new business. Retail deposits grew by 167% to R8.18 billion. A deliberate decision to pursue a prudent credit strategy resulted in moderate advances growth of 5%(4) to R3.83 billion at 30 June 2021. The quality-focused credit strategy was evidenced by the low credit loss ratio of 4.6%, which includes a COVID-19 overlay, and high average client non-interest revenue (NIR) levels.

Discovery Health

Financial performance

Discovery Health's (DH) total revenue increased by 5% to R8 802 million for the financial year, while normalised operating profit increased by 7% to R3 423 million demonstrating continued operational efficiency gains. Total new business API increased by 6% to R6 453 million (core new business API was flat at R6 079 million), despite the challenging economic climate. Non-medical scheme retail products (Discovery Primary Care, Gap Cover and Healthy Company) grew strongly by 29%, and now account for c.193 000 lives under DH's administration. Total non-scheme revenue exceeded R 1 billion and now represents 13% of total DH revenue.

Discovery Health Medical Scheme (DHMS) continued to demonstrate excellence: new business levels showed signs of recovery with net growth exceeding 20 000 lives for the second half of the financial year while lapse rates declined by 7% compared with the prior period. DHMS continued to create value for its members and implemented a delayed contribution increase strategy for the 2021 calendar year, resulting in the average contribution differential between DHMS and the next eight largest open schemes increasing to 17.3% while maintaining its strong financial position with an unaudited solvency of 36.9%.

(3) Excludes capitalised lease liabilities under the newly adopted IFRS16 and bank borrowings related to normal course lending and borrowing activities
(4) Post FNB JV loan book migration

Discovery Life

Financial performance

Discovery Life's normalised profit of R1.3 billion declined 55% for the financial year due to the material impact of higher retail and group life mortality. New business decreased by 1% to R2.3 billion, with slightly higher core new business sales and lower Automatic Contribution Increases in line with lower CPI. The embedded value (including Invest) increased by 10% over the period, with positive experience variances due to exceptional retention. Discovery Life's financial position remains robust with solvency coverage of 183% and strong liquidity remaining under all modelled COVID-19 scenarios.

Discovery Invest

Financial performance

Discovery Invest grew operating profit 31% to R1 084 million, with 15% of this increase a result of once-off items, mainly the release of COVID-19 lapse provisions and guaranteed plan matching profits. Total Assets under Administration increased by 18% to R117 billion. Assets under Management increased by 21% to R76 billion, with linked funds placed in Discovery funds increasing to 79.6%, from 78.3% in the prior year. Net inflows amounting to R5.65 billion declined 26%, largely due to higher outflows from anticipated guaranteed plan maturities. New business increased 3% to R2 737 million, dampened by new guaranteed plan sales declining 24%, in line with weaker yields being on offer and the significant reduction of the tax asset utilised over the last decade.

Discovery Insure

Financial performance

Discovery Insure (DI) continued its growth trajectory, with gross new business API increasing by 18% over the year to R1 287 million. Gross premium income amounted to R4 205 million, equating to 15% growth and an estimated 7% personal lines market share. Operating profit increased to R250 million, 2% growth from the prior year, impacted by lower interest rates as well as Dynamic distance cash back of R58 million, which have been shared with clients given lower than normal driving behaviour.

United Kingdom

Financial performance

The UK composite's normalised operating profit increased by £61.6 million year-on-year to £68.5 million (R1 421 million, up 945%). Earned premiums increased by 5% year-on-year to £827.4 million (R17 160 million, up 10%), while total lives covered increased 8% to 1.4 million.

VitalityHealth

Financial performance

VitalityHealth's (VH) operating profit grew by 9% year-on-year to £46.0 million (up 15% to R953 million). The assumed claims catch-up did not emerge as originally anticipated, having only begun at the end of the financial year. In light of this, the unearned premium reserve (UPR) adjustment recognised at 30 June 2021 was £14.2 million. The expected catch-up in claims has been modelled into future periods and most anticipated claims are expected to transpire over a much longer period providing an opportunity to accelerate the repayment terms of its existing reinsurance programme. This reduced the net premiums received for the period, with a net in-period impact of £39.7 million, which results in better matching of the underlying claims experience expected from the catch-up in claims in future years. New business was resilient despite market pressures, increasing 5% year-on-year to £65.9 million (increased 10% to R1 367 million). Earned premiums grew by 4% to £515.6 million (R10 694 million), excluding the UPR adjustment and the total number of lives grew above 720 000.

VitalityLife

Financial performance

VitalityLife (VL) generated £31.0 million (R644 million) in normalised operating profit, reversing the prior period loss. Following the simplification launch in September 2020, there was an increase in advisers writing a VL policy for the first time, however extended COVID-19 lockdown periods and a strict focus on writing quality new business resulted in new business reducing by 14% to £55.0 million (-9% to R1 141 million). Exceptional retention performance delivered strong earned premiums, up 8% to £311.8 million (up 13% to R6 466 million), while lives covered grew by 10% year-on-year, exceeding 680 000. VL maintained a £5.4m (R107 million) COVID-19 provision at 30 June 2021 considering some remaining uncertainty in the UK.

Ping An Health Insurance (PAH)

Financial performance

PAH's profit from operations, represented by the Group's share of after-tax operating profit less the costs to support the business, grew by 126% to R411 million, supported by positive investment returns. Total written premium grew by 36% to R40.6 billion (RMB17.5 billion) and new business premium by 10% to R15.8 billion (RMB6.8 billion). New business came off a significant surge in demand for health insurance in the prior period due to COVID-19, and was also affected by the continued consolidation of the Ping An Life (PAL) distribution force; good strides have been made in alternative distribution channels.

Vitality Group

Financial performance

Vitality Group's (VG) profit increased by 38% to US$27.1 million (R417 million). Revenue growth remained resilient, with fee income growing 14% to US$82.4 million (R1.3 billion) and insurance partners' Vitality-integrated premiums growing by 26% to US$1.3 billion (R20 billion). The period also saw Vitality expand to 30 markets (including SA and the UK). Vitality membership from insurance partners grew 33% to 2.4 million, bringing total Vitality membership to 4.4 million.

Growth prospects and dividend

Discovery's business model has proven to be highly relevant during the COVID-19 pandemic and the trends that are consolidating are likely to accentuate this relevance going forward. The Group is confident in its ability to capitalise on these emerging opportunities and Discovery's Shared-value Insurance model positions it well to deliver continued growth and operational resilience despite the challenging macro environment.

Discovery Life has provided for the expected future mortality impacts of COVID-19 given the expected retail claims. Group life provisions have been made up to the next policy renewal date to the extent that existing contracts are deemed to be onerous. The effect of continued interest rate and currency volatility in SA is expected to remain a feature of the reported results.

The Group is considering an additional capital contribution for PAH and Discovery intends to follow its rights in this regard, given the excellent long-term prospects for private healthcare and private health insurance in China.

Despite the Group's robust capital position, due to the continued uncertainty and potentially volatile economic environment caused by the COVID-19 pandemic, the Discovery Board has decided to retain its prior stated position during the pandemic and has decided not to declare an ordinary final dividend for the period ended 30 June 2021. The reintroduction of an ordinary dividend will be considered on an ongoing basis.

Dividend

Interim dividends paid in respect of the 2021 financial year

The following interim dividends were paid during the current period:

- B preference share dividend of 354.52055 cents per share (283.61644 cents net of dividend withholding tax), paid on 15 March 2021.
- No ordinary share dividends were declared.

Final dividend declaration in respect of the 2021 financial year

B preference share cash dividend declaration:

On 26 August 2021 the directors declared a final gross cash dividend of 347.12329 cents (277.69863 cents net of dividend withholding tax) per B preference share for the period 1 January 2021 to 30 June 2021, 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, 20 September 2021
Shares commence trading "ex" dividend	Tuesday, 21 September 2021
Record date	Thursday, 23 September 2021
Payment date	Monday, 27 September 2021

B preference share certificates may not be dematerialised or rematerialised between Tuesday, 21 September 2021 and Thursday, 23 September 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 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) and is available for viewing at https://senspdf.jse.co.za/documents/2021/JSE/ISSE/DSY/FY2021.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 shareholders and/or investors 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 the JSE's website and on the Company's website as 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 Sponsor, 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. Shareholders and/or investors may request copies of the full announcement from the Company Secretary at nobuhlem2@discovery.co.za .

Transfer secretaries

Computershare Investor Services Pty Limited (Registration number 2004/003647/07) Rosebank Towers, 15 Biermann Avenue, Rosebank 2196, PO Box X9000, Saxonwold, 2132

Sponsor and Debt Sponsor 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)

Company tax reference number: 9652/003/71/7
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LEI: 378900245A26169C8132

1 Discovery Place, Sandton 2146 PO Box 786722, Sandton 2146 Tel: (011) 529 2888 Fax: (011) 539 8003

Directors ME Tucker (UK) (Chairperson), A Gore* (Chief Executive Officer), HL Bosman, Dr BA Brink, SE de Bruyn, R Farber, M Hlahla(1), HD Kallner*, F Khanyile, NS Koopowitz*, D Macready, Dr TV Maphai, HP Mayers(2), Dr A Ntsaluba*, A Pollard*, B Swartzberg*, M Schreuder(3), DM Viljoen* (Financial Director), SV Zilwa
* Executive.
(1) Appointed effective 15 August 2021.
(2) Retired effective 26 November 2020.
(3) Appointed effective 19 February 2021.

Debt officer DM Viljoen

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 2021.

SENS release date: 2 September 2021