

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: ZAE00022331
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JSE bond company code: DSYI
("Discovery" or "the Group")

Trading statement for the six months ended 31 December 2021

1. Strong operational performance highlights the financial strength and relevance of the model

Discovery's performance for the six months ended 31 December 2021 (reporting period) was robust and reflected a dual focus of navigating the COVID-19 pandemic, while also pursuing a pivot to growth strategy, given the increasing relevance of its business model.

- Normalised Profit from operations is expected to increase by between 5% and 10% for the reporting period compared to the six months ended 31 December 2020 (prior period).
- Normalised Headline Earnings (NHE) are expected to increase by between 20% and 30% compared to the prior period.
- Headline Earnings (HE) are expected to increase by between 70% and 80%.
- Core New Business API (Annualised Premium Income) increased by 6% compared to the prior period.

Table 1: Change in key metrics over prior period

Business	Normalised profit from operations % change 6 months ended 31 December 2021 vs 6 months ended 31 December 2020	Core New business API % change 6 months ended 31 December 2021 vs 6 months ended 31 December 2020
Discovery Health	3% to 8%	29%
Discovery Life	0% to 3%	9%
Discovery Invest	7% to 12%	15%
VitalityHealth	37% to 42%	11%
VitalityLife	7% to 12%	-1%
Discovery Insure	Lower by 84% to 89%	-3%
Vitality Group	-4% to 0%	NA
Ping An Health Insurance (PAH)	23% to 28%	-21%
Discovery Bank	Spend reduced by 16% to 21%	NA
New initiatives (Excluding Bank) (all other businesses)	Spend increased by 18% to 23%	-23% [#]
Normalised Profit from operations	5% to 10%	
Normalised Headline Earnings	20% to 30%	
Headline Earnings	70% to 80%	
Core new business API		6%

* Vitality Group and Discovery Bank are not included in the calculation of core new business API

[#] New business in this category was impacted by the lumpy nature of Umbrella funds sales, which had strong growth in the prior period.

The reporting period included the end of the Delta third wave of the COVID-19 pandemic in South Africa (SA), in the latter part of September 2021, and the start of the highly infectious Omicron variant resulting in a fourth wave commencing towards the end of November 2021. Discovery continued to support SA in its vaccination roll-out across its vaccination sites. During the period, the third wave led to a significant number of deaths in SA while the fourth wave has been characterised by a considerable number of new infections but with less severe clinical outcomes compared to the other waves.

There was careful management of the Group during this period. While R3.4 billion COVID-19 claims, gross of reinsurance, were paid in the reporting period (the highest throughout the pandemic), the earnings impact was limited as previously raised provisions were adequate. Liquidity and solvency remained strong across the Group. New business trends in SA and the United Kingdom improved over the period and persistency has continued to exceed expectations.

2. Business specific observations:

- **Discovery Bank's** performance exceeded expectation, with excellent performance across all metrics. In particular, client acquisition, revenue per client and the performance of the advances book exceeded expectations, resulting

in the Bank's operating loss reducing faster than plan. The spend on Discovery Bank amounted to 9% of Group operating profit, compared with 11% in the prior period.

- **Discovery Health** performed robustly across all metrics with strong new business growth.
- **Discovery Life** performed robustly with strong positive experience variances, particularly lapse experience, while capital and liquidity positions remain robust. The earnings growth must be seen in the context of Discovery Life having paid out cumulatively more than R6 billion COVID-19 claims, gross of reinsurance, over the prior and the current reporting periods, with returns on the reduced asset base impacting earnings. Provisions were sufficient for claims paid in the reporting period and the Group believes that remaining provisions are sufficient to withstand a potential fifth wave. This is supported by high levels of vaccination amongst its clients and high levels of natural immunity in SA, borne out by the significant reduction in case fatality rates in the fourth Omicron wave.
- **Discovery Invest** delivered a robust performance with strong increase in new business growth and assets under management.
- **VitalityHealth** delivered exceptional performance reflecting the cumulative effect of sustained membership growth driven by strong new business and continued low lapse rates, rigorous expense controls and excellent care management. The incidence of claims has returned to pre-COVID-19 levels although the severity and cost of claims was still less than expected.
- **VitalityLife** performed robustly, as result of management actions taken over previous reporting periods, particularly in respect of persistency management.
- **Discovery Insure** had a difficult period, characterised by an increased loss ratio driven by adverse weather events combined with motor parts inflation dramatically exceeding CPI.
- **Vitality Group** delivered strong underlying growth, with growth in profit from operations impacted by foreign exchange gains in the prior period not being repeated.
- **PAH** delivered robust profit growth, with increased scale, improved lapse experience and tight expense management. New business written premium reduced by 21% primarily due to a rebasing of the co-operation with Ping An Life for business written in certain regions in China. This was part of overall re-alignment of PAH given its increased scale to focus on high quality own business. This is not expected to impact on growth in profitability going forward.
- Discovery spent 8% of Group operating profit on **new initiatives (excluding the bank)**, compared with 7% in the prior period. Half of this spend relates to Vitality Group with a notable increase in spend on globalising Discovery's Vitality and Health capabilities via the Vitality Group. Amplify Health, a health insurtech JV with AIA in Asia, announced on 15 February 2022, was an important manifestation of this.

3. Normalised Headline and Headline Earnings

- NHE are expected to increase by 20% to 30%, positively impacted by mark-to-market foreign currency gains arising from a weakening of the Rand during the reporting period compared to losses in the previous period, partly offset by a substantial investment in the national vaccination campaign in SA, for which Discovery incurred costs of R137 million.
- HE are expected to increase by 70% to 80% as a significant reduction in real interest rates in SA resulted in positive economic basis changes recognised in the income statement, compared to negative economic basis changes in the prior period. In addition, the Rand depreciation, as explained above, had a further positive impact on reported growth in HE.

4. Trading statement

In accordance with paragraph 3.4(b) of the JSE Listings Requirements, issuers must publish a trading statement as soon as they have a reasonable degree of certainty that earnings per share (EPS) and / or headline earnings per share (HEPS) for the next reporting period will differ by at least 20% from that of the previous corresponding period. Shareholders and noteholders are advised that:

- EPS (basic) is expected to be between 70% and 80% higher (to between 476.3 cents and 504.4 cents compared to the reported EPS (basic) of 280.2 cents for the prior period).
- HEPS (basic) is expected to be between 70% and 80% higher (to between 476.5 cents and 504.5 cents compared to the reported HEPS (basic) of 280.3 cents for the prior period).
- NHEPS (basic) is expected to be between 20% and 30% higher (to between 417.5 cents and 452.3 cents compared to the reported NHEPS (basic) of 347.9 cents for the prior period).

Discovery intends to report its half year 2022 results on 24 February 2022. The information contained in this announcement, including any forecast financial information on which this trading statement is based, is the responsibility of the board of directors of Discovery and has not been reviewed and reported on by Discovery's external auditors.

Sandton
18 February 2022

Sponsor and Debt Sponsor
RAND MERCHANT BANK (A division of FirstRand Bank Limited)