

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  
("Discovery" or the "Group" or the "Company")

Short-form announcement: Unaudited interim results for the six months ended 31 December 2021

Discovery achieved the following results for the six months ended 31 December 2021:

Net asset value increased by R5 756 million  
Profit for the period increased by 76% to R3 305 million  
Normalised profit from operations increased by 8% to R4 872 million  
Earnings per share increased by 78% to 498.8 cents per share  
Headline earnings per share increased by 78% to 499.1 cents per share  
Normalised headline earnings per share increased by 26% to 437.7 cents per share  
Embedded value per share increased by 14% to R126.23 per share  
Diluted Embedded value per share increased by 14% to R124.08 per share

The information has been extracted from the unaudited results for the six months ended 31 December 2021.

Strong operating performance and resilience during the pandemic and a drive for growth manifesting in this period through strong performance by Discovery Bank and the establishment of Amplify Health

The complexity in the operating environment continued over the six months ended 31 December 2021, which included the COVID-19 Delta and Omicron variants, as well as significant market volatility due to movements in exchange rates and interest rates in South Africa ("SA") and the United Kingdom ("UK").

Against this backdrop, the strategic focus of the Group over the period remained three-pronged: 1) Navigating the significant impact of the COVID-19 pandemic to maintain robust financial performance; 2) Building on the relevance of the business model by driving for growth, with excellent traction in Discovery Bank and the conclusion of the Amplify Health transaction with AIA Group Limited ("AIA"), announced on 15 February 2022; and 3) Ensuring financial resilience through disciplined cash and capital management.

#### Resilient operating performance

For the six months ended 31 December 2021 ("the reporting period, current period or this period"), normalised operating profit increased by 8% to R4 872 million and normalised headline earnings increased by 26% to R2 876 million. Core new business annualised premium income (API) was up 6% to R10 475 million, as new business trends in SA and the UK improved over the period while persistency has continued to exceed expectations. Investment in new initiatives impacting normalised operating profit was at 17%1 of earnings for the six months ended 31 December 2021, compared with 18% (in the previous period), with Discovery Bank constituting half of the investment.

Normalised headline earnings per share (basic) increased by 26% to 437.7 cents and headline earnings per share (basic) increased by 78% to 499.1 cents. Normalised headline earnings were positively impacted by mark-to-market foreign currency gains arising from a weakening of the rand during the reporting period compared with losses due to the rand strengthening in the previous period. This gain was partly offset by substantial support provided to the national mass vaccination campaign in SA, for which Discovery spent R137 million over the reporting period.

Headline earnings further improved as a significant reduction in real interest rates in SA resulted in positive economic basis changes recognised in the income statement, compared with 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 headline earnings.

Discovery generated a strong return on opening embedded value (RoEV) of 22.7% annualised, or 14% excluding the impact of COVID-19, forex, and economic changes. Strong lapse experience remains a key feature across all operations.

The following table highlights key items:

	Normalised profit from operations, current period, in ZAR million	% change (Current period vs prior period)	Core new business API, current period, in ZAR million	% change (Current period vs prior period)
Discovery Health	1 750	5	3 598	29
Discovery Life	1 934	1	1 267	9
Discovery Invest	517	10	1 519	15
VitalityHealth	850	39	708	11
VitalityLife	361	10	554	(1)
Discovery Insure	15	(86)	597	(3)
Vitality Group	234	(2)		
Ping An Health Insurance (25% interest)	140	25	1 426	(21)
Discovery Bank	(498)	(reduction in spend)		
Other new initiatives (Excluding Bank)(1)	(470)	(increase in spend)	772	(23)
Core new business API(2)			10 475	6
Normalised profit from operations(2)	4 872	8		
Normalised headline earnings	2 876	26		
Headline earnings	3 278	78		

(1) Refer to normalised profit from operations regional disclosure for regional composition of new initiative spend; Core API for other new initiatives includes Umbrella Fund, Discovery Insure commercial and VitalityInvest - new business was impacted by the lumpy nature of Umbrella Fund sales which had strong growth in the prior period.

(2) Includes SA Vitality: normalised profit from operations includes R39 million (prior period: R46 million); core new business API includes R34 million (prior period: R24 million)

## Ongoing response and resilience to the COVID-19 pandemic: provisions adequate

The Group has navigated the COVID-19 pandemic across its global operations, with mortality risk in SA having the largest impact financially. The reporting period included the end of the Delta variant third wave of the COVID-19 pandemic in SA, in the latter part of September 2021, and the start of the highly infectious Omicron variant resulting in a fourth wave in SA commencing towards the end of November 2021. During the current period, the third wave led to a significant number of deaths in SA while the fourth wave has seen a considerable increase in the number of new infections, but with less severe clinical outcomes compared with the other waves of infections. Discovery continued to support SA in its mass vaccination roll-out across its vaccination sites.

There was careful financial management of the Group during this period. While R3.4 billion in COVID-19 claims, gross of reinsurance, were paid by Discovery Life (DL) in the reporting period (the highest throughout the pandemic), the earnings impact was limited given its strong reinsurance arrangements and previously raised provisions proving adequate. The Group believes the remaining provisions are sufficient to withstand a potential fifth wave. This is supported by high levels of vaccination among its clients and high levels of immunity in SA, borne out by the significant reduction in case fatality rates from Omicron in the fourth wave. Liquidity and solvency remained strong across the Group and the financial leverage ratio improved to 23.9%<sup>2</sup>, well below the internally set guidance threshold of 28%.

In all markets, the Group has looked to add value to its customers and to the communities in which it operates. In SA, aside from playing an active role in driving vaccination take-up as mentioned, Discovery Health (DH) contributed to the global research agenda with its COVID-19 analysis and research, releasing an at-scale, real-world analysis of the Omicron outbreak in December 2021 to analyse vaccine effectiveness.

## Drive for growth, with excellent traction in Discovery Bank and conclusion of Amplify Health

The Group continued to see the relevance and impact of its business model given the acceleration and deepening of global trends. These include ongoing opportunities to incentivise consumers due to the behavioural nature of risk; the acceleration of digital transformation and rise of personalisation as new standards for success; as well as the Environmental, Social and Governance imperative as business shifts to provide value for all stakeholders. The uniqueness and sophistication of the Vitality Shared-value Insurance model has led to a powerful platform of integrated assets and capabilities, well-positioned to respond to this macro context.

The model has proven its relevance in each business and organically, the Group has developed significant scale and foundations for growth in each market. In this period, the relevance of the business model was demonstrated in two specific areas and opportunities: Discovery Bank's performance exceeded expectation, with excellent performance across all metrics and advanced its strategic objective of forming the basis of the SA composite. In addition, Discovery is injecting its Vitality and Health capabilities into a new health InsurTech Joint Venture with the AIA Group in Asia, called Amplify Health - a powerful endorsement of the platform that has been built and opportunity for further expansion and growth. Amplify Health is an important manifestation of globalising Discovery's wellness and health capabilities, extending the very successful partnership between Discovery and AIA. This positions the Group for growth across fast-expanding Asian healthcare markets, covering China through Ping An Health Insurance and the remaining Pan-Asian markets through Amplify Health.

The period also saw further progress made in the market-specific strategies and strategic objectives of the Group:

- 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. Vitality Global (incorporating Vitality Group and Ping An Health Insurance): To be the leading wellness and healthcare platform that provides preeminent life and health insurers globally with our Vitality Shared Value and health management capabilities to assist them in making their customers healthier, while ensuring their products are more competitive with better margins

This resulted in strong operating profit in these respective strands and significant investment in offshore expansion.

## Business-specific performance

### South Africa

#### Financial performance

The SA composite's normalised operating profit increased by 4% to R3 582 million. Discovery Bank constitutes the largest investment into new initiatives, with Discovery Business Insurance (DBI) and Umbrella Funds (UF) being much less material, given the progress made.

### Discovery Bank

Discovery Bank's normalised operating loss for the period under review was better than planned at R498 million, 18% lower than the prior period. The Bank continued to gain traction with 385 200 clients (versus 287 182 clients in December 2020) and 793 215 accounts (versus 540 252 accounts in December 2020), expanding its existing Discovery and non-Discovery client base and achieving more than 750 average daily new-to-Bank sales in January, higher than the current plan. Retail deposits grew by 69% to R9.5 billion and advances grew at 10% to R4.1 billion at 31 December 2021. Customer quality remains excellent with high average levels of non-interest revenue per client and the quality focused credit strategy was evidenced by the low credit loss ratio of 0.96%. The benefits of the business model continue to manifest in improving operating leverage, with overall costs remaining constant in real terms, notwithstanding the significant customer growth and product innovations.

### Discovery Health

DH delivered a resilient financial performance, supported by continued operational efficiency and new business over the period. Normalised operating profit increased by 5% to R1 750 million, while gross income increased by 4% to R4 477 million for H1 FY22. Total new business API increased by 14% to R3 598 million (core new business API, which excludes the new closed scheme added in the prior period, increased by 29%). In addition to the Discovery Health Medical Scheme (DHMS), DH administers 18 closed medical schemes, all of which showed excellent performance across the board, with contribution increases materially lower than medical inflation, and the majority demonstrating improving solvency levels. DH has continued to grow non-medical scheme products (FlexiCare, Gap Cover and Healthy Company), showing 28% growth in this period with c.238 000 non-medical scheme lives now under DH's administration. Total non-medical scheme revenue exceeded R550 million and now represents 13% of the total DH revenue.

DHMS has continued to perform strongly: new business levels showed signs of post-COVID-19 recovery and the Scheme showed net growth of 17 835 lives for the six months, while lapse rates remained below pre-COVID-19 levels. Consequently, DHMS's share of the open medical scheme market has grown to 57.5% by the end of Q3 2021. DHMS provided financial relief for its members through the deferred implementation of both the 2021 and 2022 DHMS contribution increases. This deferral has protected DHMS members in real terms, cumulatively saving members approximately R2 billion during 2021, while concurrently ensuring that DHMS is correctly priced for forecast medical inflation. DHMS capital reserves have increased to an unaudited solvency level of 38%, pursuant to the reduction in non-COVID-19 healthcare utilisation, assuring members of robust financial strength.

## Discovery Life

DL's normalised operating profit increased 1% to R1 934 million, driven by the positive overall experience and strong lapse experience in particular. The COVID-19 claims experience was consistent with provision modelling. The earnings growth must be seen in the context of Discovery Life having paid out cumulatively R6.4 billion in COVID-19 claims, gross of reinsurance, since the start of the pandemic (R3.4 billion in the current period), with returns on the reduced asset base impacting earnings by c.13%. DL also benefitted from a R498 million positive economic impact due to economic assumptions, although this is excluded from normalised operating profit. New business increased by 9% to R1 267 million, driven by strong Automatic Contribution Increases with the DL new business margin increasing to 6.8%, which contributed to a 15% RoEV (including Discovery Invest), before the inclusion of gains from the economic assumptions impact. DL's financial position remains robust with a solvency ratio of 184% and strong liquidity buffers remaining intact under all modelled COVID-19 scenarios. Provisions within the individual life book were sufficient for the claims incurred in the reporting period and the Group believes that remaining provisions of R502 million (including Discovery Invest), net of reinsurance, are sufficient to withstand a potential fifth wave. This is supported by high levels of vaccination among its clients and high levels of immunity due to previous infections in SA, borne out by the significant reduction in case fatality rates in the fourth wave.

## Discovery Invest

Discovery Invest grew normalised operating profit by 10% to R517 million, while fee income grew by 24% (to R1 388 million). Normalised operating profit growth was impacted by a once-off guaranteed inflation linked matching portfolio profit in the prior period of R44 million. New business increased 15% to R1 519 million, despite a 14% drop in sales of guaranteed plans as a result of lower guaranteed rates following the depletion of the tax asset. Total Assets under Administration grew by 19% to R128 billion, with Assets under Management increasing by 23% to R84.7 billion. Linked funds placed in Discovery funds remains high at 79.8%. Net inflows amounted to R3.1 billion, an 11% increase from the prior year.

## Discovery Insure

Discovery Insure had a difficult period, with normalised operating profit falling 86% to R15 million. The increased loss ratio was driven by adverse weather events combined with motor parts inflation dramatically exceeding CPI as well as elevated power surge and fire claims. New business API declined 3%, with the prior period delivering a particularly strong result, however gross written premium remained resilient, increasing by 13% to R2 318 million for the personal lines business, with Discovery Insure maintaining an estimated 7% of the personal lines market share.

## United Kingdom

The UK composite's normalised operating profit increased by 36% to £54.2 million (R1 110 million, up 30%). Earned premiums increased by 7% year-on-year to £438.0 million (R8 965 million, up 3%), excluding the Unearned Premium Reserve adjustment. The UK has invested 8% of profits into new initiatives, predominantly VitalityInvest (VI), which at 31 December 2021 had almost doubled its total funds under management compared with 12 months prior to £659.6 million (R14.1 billion).

## VitalityHealth

VitalityHealth's (VH) normalised operating profit grew by 44% year-on-year to £41.5 million (up 39% to R850 million). The incidence of claims has returned to pre-COVID-19 levels, although the severity and cost of claims were still less than expected. As uncertainty around claims persists, the Unearned Premium Reserve (UPR) adjustment at 31 December 2021 remains largely in line with June levels. There was a strong sales performance over the period with new business API increasing 15% year-on-year to £34.5 million (up 11% to R708 million), through good progress in the direct channels. Excellent retention was maintained and earned premiums grew by 7% to £274.0 million (R5 606 million, up 3%), excluding the UPR adjustment, and total lives grew 10% to c.764 000. Cash generation was robust over the period, with the back book generating £67.8 million (R1 389 million) in cash. After new business acquisition costs and investment in developing the business, VH generated a £30.7 million (R629 million) cash surplus.

## VitalityLife (VL)

VitalityLife's (VL) normalised operating profit grew by 15% to £17.6 million (R361 million, up 10%), driven by strong operating variances over the period. Despite a challenging sales environment, new business API increased by 3% to £27.1 million (down 1% to R554 million). The hedge structure continues to negate the impact of interest rate movements; regular rebalancing was required given high levels of interest rate volatility in the period, resulting in rebalancing costs of £2.2 million incurred over the period. The continued strong retention performance delivered 7% higher earned premiums, to £164 million (up 3% to R3 359 million), while lives covered grew by 6% year-on-year, to c.686 000. VL maintained a £2.87m (R62 million) COVID-19 provision at 31 December 2021 because of remaining uncertainty.

Prudential and Discovery have made significant progress in agreeing the terms of a long-term deferral of the Part VII transfer of the VitalityLife book currently written on the Prudential balance sheet to Vitality Life Limited, such that a Part VII transfer would not be required by May 2023 as per the current agreement. The new agreement is currently expected to be completed by 30 June 2022 and would be reflected in the Discovery embedded value and Group funding plan at that point.

## Ping An Health Insurance

Ping An Health's (PAH) profit from operations, represented by the Group's share of after-tax operating profit less the costs to support the business, grew by 25% to R140 million. Total written premium grew by 13% to R20.4 billion (RMB8.7 billion), achieving a c.8.5% market share. New business API reduced 21% to R5.7 billion (RMB2.4 billion), primarily due to a restructuring of the cooperation with Ping An Life for business written in certain regions in China. This is part of the overall re-alignment of PAH to focus on growing high quality own license business, given its increased scale and maturing business model. These changes are not expected to impact growth in profitability going forward. PAH is ranked as the 16th most profitable among all life and health insurers in China<sup>3</sup> and profit growth continued to outperform the market, through improved lapse experience, prudent expense management and investments in underwriting and claims management.

## Vitality Group

Vitality Group's (VG) profit increased by 7% to US\$15.5 million as a consequence of foreign exchange realised gains in the prior period not being repeated. In rand value, the profit decreased by 2% to R234 million due to the strengthening of the average exchange rates over the period. VG has increased its investment into Vitality Health International (VHI), leading to an expanding global reach with large upside potential - the period included the announcement of the Amplify Health transaction. Revenue growth remained resilient, with fee income growing 16% to US\$44.5 million (R668 million) and insurance partners' Vitality-integrated premiums growing by 37% to US\$766 million (R11.5 billion). Sales growth in AIA markets is still being adversely impacted by COVID-19 but has recovered somewhat, while Sumitomo Life Vitality is close to reaching a milestone of 1 million Vitality-linked policies sold since launching in 2018. Generali Vitality Czech Republic is expected to launch in March 2022 and Generali Vitality Poland in May 2022. The period also saw Vitality expand to 36 markets (including SA and the UK). Vitality membership from insurance partners grew 33% to 2.7 million.

## Growth prospects and dividend

Discovery's business model has proven to be highly relevant during the COVID-19 pandemic, with robust underlying growth trends developing in most parts of the business. The Group is capitalising on its growth opportunities while ensuring operational resilience despite the challenging macro environment. The effect of continued interest rate and currency volatility in SA is expected to remain a feature of the reported results.

During the period under review, Discovery made a capital contribution to PAH of R1.5 billion as highlighted in the previous reporting period. While this was funded in the interim by way of a bridge facility and internal resources, as explained at the time, Discovery still anticipates raising a specific quantum of equity capital for this purpose in line with the disciplined framework of its capital plan.

Despite the Group's robust capital position, due to the continued uncertainty caused by COVID-19 on the demographic and economic environment in SA, the Discovery Board has decided to retain its prior stated position during the pandemic and has decided not to declare an ordinary interim dividend for the period ended 31 December 2021. The reintroduction of an ordinary dividend will be considered on an ongoing basis.

- (1) As a percentage of established and emerging normalised profit from operations.
- (2) Excludes capitalised lease liabilities under IFRS16 Leases and bank borrowings related to normal course lending and borrowing activities.
- (3) Chinese Life Insurers Ranking Q3 2021.

## Dividend

Final dividends paid in respect of the 2021 financial year

The following final dividends were paid during the current period:

- B preference share dividend of 347.12329 cents per share (277.69863 cents net of dividend withholding tax), paid on Monday 27 September 2021.
- No final ordinary share dividends were declared.

Interim dividend declaration in respect of the 2022 financial year

B preference share cash dividend declaration:

On 18 February 2022 the directors declared an interim gross cash dividend of 355.75342 cents (284.60274 cents net of dividend withholding tax) per B preference share for the period 1 July 2021 to 31 December 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	Tuesday, 8 March 2022
Shares commence trading "ex" dividend	Wednesday, 9 March 2022
Record date	Friday, 11 March 2022
Payment date	Monday, 14 March 2022

B preference share certificates may not be dematerialised or rematerialised between Wednesday, 9 March 2022 and Friday, 11 March 2022, both days inclusive.

Ordinary share cash dividend declaration:

Given the remaining uncertainty 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 the Stock Exchange News Service of the JSE ("SENS") and is available for viewing at <https://senspdf.jse.co.za/documents/2022/JSE/ISSE/DSY/H12022.pdf> and on Discovery's website ([www.discovery.co.za/corporate/investor-relations](http://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 [company\\_secretarial@discovery.co.za](mailto:company_secretarial@discovery.co.za).

Transfer secretaries

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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)

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\* Executive. 1 Retired effective 24 November 2021. 2 Appointed effective 15 August 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, Interim Results 2022.

SENS release date: 24 February 2022