

Discovery Limited
(Incorporated in the Republic of South Africa)
(Registration number 1999/007789/06)
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JSE company code: DSYI
("Discovery" or "the Company" or "the Group")

Short-form announcement: Audited results for the year ended 30 June 2022

Discovery achieved the following results for the year ended 30 June 2022:

- Net asset value increased by R7 136 million
- Core new business API increased 6% to R21 710 million
- Normalised profit from operations increased by 45% to R9 384 million
- Profit for the year increased by 70% to R5 479 million
- Gross income of the Group increased by 5% to R77 070 million
- Normalised headline earnings per share increased by 71% to 885.5 cents per share
- Headline earnings per share increased by 74% to 792.4 cents per share
- Earnings per share increased by 72% to 825.5 cents per share
- Embedded value per share increased by 16% to R131.29 per share

The information has been extracted from the Audited results for the year ended 30 June 2022.

The Group delivered a strong operating performance from the established operations and remained resilient in a challenging macro-economic environment. The organisation's drive for growth manifested through Discovery Bank and in the ongoing evolution of its global healthcare model, notably with the establishment of Amplify Health. In addition, the Vitality Shared-value business model continued to demonstrate its relevance and ability to deliver value to clients and Discovery across all aspects of the value chain as well as to broader society. This supports continued investment in the model.

The operating environment for the full year ended 30 June 2022 was characterised by two significant factors: Firstly, the evolution of COVID-19, as the emergency phase of the pandemic has passed, with conditions in most markets normalising, except for Asia which was affected by severe lockdowns and restrictions. Secondly, considerable geo-political polarisation and macro-economic volatility, caused by a combination of the COVID-19 pandemic, Ukraine conflict, and supply-side constraints. This resulted in higher inflation, increased interest rates as well as currency and market volatility.

In light of this, the Group focused on a pivot to growth based on three strategies:

- (1) Achieving robust performance and strong competitive positioning of businesses within the South Africa ("SA") Composite, United Kingdom ("UK") Composite and Vitality Global, by successfully navigating the latter stages of the COVID-19 period; continuing to invest in the Vitality Shared-value business model; and ensuring excellent execution and operational delivery.
- (2) Driving new business initiatives to scale, led by Discovery Bank and initiatives within Vitality Group, notably Amplify Health, and streamlining some initiatives so the Group is well positioned for strong growth, and ensuring spend on new initiatives reverts to the Group's long-term guidance of 10% of operating profit.
- (3) Ensuring capital and business strength and discipline with high levels of liquidity and solvency and a commensurate reduction in the Group's financial leverage ratio.

Strong operational performance highlights the resilience and relevance of the model in a complex environment

For the year ended 30 June 2022, normalised operating profit increased by 45% to R9 384 million and normalised headline earnings increased by 71% to R5 816 million. Core new business annualised premium income (API) increased by 6% to R21 710 million, with particularly strong growth from the SA and UK Composites, and persistency that continued to exceed expectations in all businesses. Continued strong progress in Discovery Bank saw the investment in new initiatives at 18%(1) of normalised operating profit, compared with 24% in the previous period.

Normalised headline earnings per share (basic) increased by 71% to 885.5 cents and headline earnings per share (basic) increased by 74% to 792.4 cents, both positively impacted by mark-to-market foreign currency gains. Within headline earnings, the negative effect of higher long-term interest rates in SA was partly offset by the benefit of higher long-term interest rates in the UK. A portion of the full benefit in the UK, after hedge effects, was recognised as an increase in discretionary margins.

The Group continued to navigate the COVID-19 pandemic across its global operations in the reporting period, with mortality risk in SA having had the largest impact on the prior year profit. The reporting period included the end of the Delta variant third wave of the COVID-19 pandemic in SA and the highly infectious, but less virulent Omicron variant, for which the previously raised COVID-19 provisions for the Group's life insurance operations were adequate. As the emergency phase of the pandemic has passed, the focus has shifted to incorporating the longer-term implications of COVID-19 and future mortality progression, resulting in significant overall strengthening of the mortality and morbidity bases in the life insurance operations in the June 2022 actuarial review by R2.6 billion.

In this context, the SA and UK Composites delivered strong growth in normalised operating profit and new business, while the operating performance of Vitality Global reflected the specific dynamics of the impact of COVID-19 on the Asian markets. The following table provides a summary of the performance:

	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	3 600	5	7 292	20
Discovery Life	4 028	200	2 543	12
Discovery Invest	1 204	11	2 920	7
Discovery Insure	(162)	(165)	1 246	(3)
SA Composite (excluding new initiatives)(2)	8 679	41	14 257	15
VitalityHealth	1 328	39	1 738	27
VitalityLife	671	4	1 256	10
UK Composite (excluding new initiatives)	1 999	25	2 994	19
Vitality Group (Insurance and Vitality Health International (VHI))	473	13	1 398*	10*
Ping An Health Insurance (25% interest)	338	(18)	2 883	(15)
Vitality Global (excluding new initiatives)	811	(2)	4 281*	(8)*
Discovery Bank	(990)	(reduction in spend)		
		10		
		14		
Other new initiatives (Excluding Bank)(1)	(1 115)	(increase in spend)	1 576	(25)
Normalised profit from operations(2)	(2 105)	2	1 576	(25)(1)
Core new business API(2)	9 384	45		
Core new business API(2)			21 710	6

* Core new business API excludes Discovery Health (DH) take-on of new closed schemes and gross revenue for Vitality Group.

1. Refer to normalised profit from operations regional disclosure for regional composition of new initiative spend; Core API for other new initiatives includes Umbrella Funds, Discovery Insure commercial and VitalityInvest - new business was impacted by the lumpy nature of Umbrella Fund sales which grew strongly in the prior period.
2. Includes SA Vitality: normalised profit from operations includes R9 million (prior period: R43 million); core new business API includes R256 million (prior period: R24 million).

Driving new business initiatives to scale and streamlining some interests, so new initiatives spend reverts to the Group's long-term guidance of 10% of operating profit

The Group is emerging from a cycle of intense organic investment into new initiatives, dominated by the investment in Discovery Bank, which has seen excellent high-quality growth over the period. The period saw increased investment in Vitality Health International, particularly for the establishment of Amplify Health, as announced on 15 February 2022, and the build-out over the year. There has also been continued investment in the other large-scale new initiatives, such as V1, the platform to scale the globalisation of the Vitality Shared-value model.

Additionally, the Group streamlined some new initiatives with a focus on those businesses expected to generate significant value. In addition to reviewing its stake in AIA Health in Australia, the Group decided to exit the UK investment market given the structural change in market conditions, mainly driven by significant margin compression. Despite VitalityInvest making good progress over the period, the decision was taken based on the time and resources needed to accumulate the necessary assets under management (AUM) for the business to turn to profitability and the AUM needed to generate material long-term value for the Group.

Capital and business strength and discipline with robust liquidity and solvency

Discovery generated a strong return on opening embedded value (RoEV) of 14.8%, benefiting from particularly favourable lapse experience and the impact of a significant strengthening of the future mortality and morbidity basis. Liquidity and solvency remained robust across the Group, despite paying R3.7 billion in COVID-19 claims in the reporting period in SA, gross of reinsurance. The financial leverage ratio improved to 23.8%, well below the internally set guidance threshold of 28%.

The overall resilience ensured continued focus on and progress in the market-specific strategies and objectives of the Group, which are:

1. South Africa: To be the perfect composite model, number 1 in our chosen segments in every industry, and Discovery Bank pivoting to growth as the composite-maker within SA.
2. 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.
3. Vitality Global (incorporating Vitality Group and Ping An Health Insurance): To be the foremost provider of health and wellness intellectual property, powered by the right combination of technology and analytics - accelerating the growth of global insurers by attracting and engaging clients.

Business-specific performance

South Africa

The SA Composite's normalised operating profit increased by 41% to R8 679 million and new business by 15% to R14 257 million, excluding new initiatives. The results were driven by a strong recovery from Discovery Life, and robust performances from Discovery Health and Discovery Invest, while Discovery Insure was negatively impacted by claims related to severe weather, combined with considerable supply-side inflation related to the cost of repairing motor vehicles. Discovery Bank constitutes the largest investment into new initiatives and invested further in product innovations and digital capabilities, as the Bank evolves into a composite-maker in the retail Discovery ecosystem.

Discovery Bank

Discovery Bank's operating loss for the financial year was R990 million, 10% lower than the previous financial year. The Bank continues to expand its current client base, with 470 220 clients (331 000 in the prior period) and 1 023 790 accounts (versus 649 000 in June 2021), which represents a significant milestone for the Bank. Retail deposits grew by 30% to R10.6 billion and advances grew 14% to R4.3 billion. New business volumes continued to be strong, achieving more than 800 average daily new-to-Bank sales (vs 500 in June 2021), showing significant progress toward a medium-term target of 1 000 sales per day and 1 000 000 clients by 2026. The Bank has also continued to attract high-quality clients, resulting in high levels of average non-interest revenue (NIR) and a low credit loss ratio of 1.56%.

Discovery Health

Discovery Health's (DH) normalised operating profit increased by 5% to R3 600 million and core new business API increased by 20% to R7 292 million. Non-medical scheme retail products (FlexiCare, Gap Cover and Healthy Company) also continued to demonstrate strong growth, with total lives increasing by 37% to c.263 000 lives and revenue increasing by 7% to R1 224 million.

Discovery Health Medical Scheme (DHMS) delivered an excellent performance: the high new business levels seen in the first half of the financial year continued, with DHMS showing net growth of more than 24 000 lives over the full financial year, growing DHMS market share to 57.6% of open medical scheme beneficiaries. DHMS's new joiner profile has been healthier, with both a lower average age and a lower chronic condition ratio than the rest of the open industry, boding favourably for existing members and scheme sustainability. DHMS remains in a strong financial position, with an unaudited solvency of 36% as at June 2022. DHMS's pricing strategy continues to protect its members by balancing short-term affordability with long-term sustainability. Considering the deferred contribution increase strategy, DHMS members paid lower contributions than the rest of the industry in both 2021 and 2022; with contribution levels matched to expected future medical inflation.

Discovery Life

Discovery Life's (DL) results recovered strongly from the prior period, with normalised earnings of R4 028 million up 200%. This was driven by positive overall experience, COVID-19 experience consistent with provision modelling, and prudent expense management. New business increased by 12% to R2.5 billion, driven by strong Automatic Contribution Increases (ACIs) with the DL new business margin at 5.3%. The embedded value (including Discovery Invest) increased by 10.5%, further highlighting the strong positive operational experience, in particular good persistency offsetting a worse-than-expected morbidity claims experience. Discovery Life paid R3.7 billion in COVID-19 claims, gross of reinsurance, in the reporting period, with all identified individual life insurance COVID-19 claims sufficiently covered by the associated provision. The business has strengthened the mortality and morbidity basis for future longer-term effects of COVID-19. The financial position remains robust with a solvency ratio of 174% and strong internal liquidity buffers.

Discovery Invest

Discovery Invest's normalised operating profit increased by 11% to R1 204 million and new business increased 7% to R2 920 million. Total assets under administration (AuA) grew by 4% to R122 billion, assets under management (AUM) increased by 7% to R81.1 billion, and linked funds in Discovery funds remained high at 80%. Net flows increased by 2% to R5.75 billion, with growth constrained by higher than anticipated guaranteed plan maturities and lower market levels over the second half of the reporting period, resulting in a 4.6% reduction in AuA from December 2021 to June 2022. Discovery Invest recently launched Cogence, SA's first Shared-value Discretionary Fund Manager to drive better retirement outcomes. The partnership with BlackRock leverages its Aladdin Wealth™ Technology to manage the investment risk with Vitality managing the demographic risk.

Discovery Insure

Discovery Insure (DI) made an operating loss of R162 million, a 165% decrease from the prior year operating profit. The operating loss was driven predominantly by adverse weather events including the April 2022 KwaZulu-Natal floods, which led to a R66 million net impact, combined with motor parts inflation dramatically exceeding CPI. The result was further impacted by an increase in power surge-related claims during the period. Gross written premium grew by 13% to R4 762 million, despite lower new business levels, as DI was quick to implement strategic actions to manage the impact of the business experience, while also improving the overall client risk profile.

United Kingdom

The UK Composite's normalised operating profit increased by 28% to £98.7 million (R1 999 million, up 25%) and new business by 22% to £148 million (R2 994 million, up 19%), excluding new initiatives. Earned premiums increased by 8% to £893 million (R18 094 million, up 5%), while total lives covered increased by 12% to 1.56 million. The Group decided to exit the UK investment market through VitalityInvest, despite its progress over the period, mainly driven by significant margin compression in the industry.

VitalityHealth

VitalityHealth's (VH) normalised operating profit grew by 43% to £66 million (up 39% to R1 328 million). While claims increased during the period, these remained below pre-COVID-19 levels and their severity and cost were less than expected. The result also benefited from the acceleration of financial reinsurance repayments in the prior period. The sales performance over the period was excellent, with new business increasing by 30% to £86 million (up 27% to R1 738 million). Standout areas included the D2B strategy, with the channel delivering 61% growth in total, and the direct channel, which continued to perform strongly with 15% growth. Earned premiums grew by 9% to £560 million (R11 344 million, up 6%) driven by strong retention levels, and total lives grew by 15% to 839 000. After new business acquisition costs and investment in developing the business, VH generated £32 million (R648 million) cash. VH continues to transform the way that healthcare is delivered, as seen by the increase in the use of primary care services, and the growth in scale and utilisation of digitised services.

VitalityLife

VitalityLife's (VL) normalised operating profit grew by 7% to £33.1 million (R671 million, up 4%). New business increased by 13% to £62 million (R1 256 million, up 10%), with VL improving its position to fifth in market share for new business for Q1 2022. The continued strong retention performance, following strategic interventions in prior years, was key in delivering 7% higher earned premiums, to £333 million (up 4% to R6 750 million), while lives covered grew by 9% to 722 000.

A significant milestone in the period was reaching agreement with Prudential on the Part VII transfer of the VitalityLife book, currently written on the Prudential balance sheet. The agreement effects an indefinite delay period to complete the Part VII transfer and results in reduced liquidity, matching and capital risk, as well as lower operational complexity with improved overall commercial terms.

Vitality Global

Ping An Health Insurance

Ping An Health Insurance's (PAH) profit from operations, represented by the Group's share of after-tax operating profit less Discovery's costs to support the business, was down by 18% to R338 million. PAH's pre-tax operating profit, excluding investment income and gains, increased by 30%, highlighting the strong operating performance over the period, curtailed by the decline in the China equity market. Total new business premiums reduced by 15% to R11.5 billion, given the restructured co-operation with Ping An Life, as described in the Group's interim reporting. However, new business premiums on PAH's own insurance licence increased by 6% to R8.9 billion, following increased development of PAH's own sales channels. PAH is delivering faster premium growth than the overall industry and the business has reached considerable scale and continues to be one of the most profitable and fastest growing insurers in the country, insuring over 28 million lives, with a comprehensive solvency ratio at 277.1%.

Vitality Group

Vitality Group's (VG) profit increased by 15% to US\$31 million (R473 million, up 13%). Earnings growth was impacted as the prior period benefited from a forex hedge gain, which was not repeated, offset in this period by income related to the delivery of an initial component of Vitality intellectual property, related to the Amplify Health transaction. Earnings were also impacted by weaker Vitality-integrated sales in some key Asian markets, adversely impacted by COVID-19 lockdowns in the current period. Revenue growth remained resilient, with fee income growing 22% to US\$100.4 million (R1.5 billion) and insurance partners' Vitality-integrated premiums growing by 10% to US\$1.4 billion (R21.7 billion). The period also saw Vitality expand to 35 markets by the end of the reporting period, with Vitality membership from insurance partners increasing 25% to 3 million. Sumitomo Life Vitality in Japan reached a milestone of 1 million Vitality-linked policies sold since launching in 2018.

There has been significant investment within new initiatives in Vitality Health International, with a focus on expanding the Group's global health solutions business and maintaining global leadership in behaviourally led solutions. The largest investment over the period was into the Amplify Health joint venture with AIA, offering digital health solutions across Asia-Pacific. Additionally, the business launched shared-value health insurance products, which incorporate Vitality, to employer groups operating in multiple African countries beyond South Africa.

Prospects

Discovery's business model has proven to be highly relevant during the COVID-19 pandemic, with robust underlying growth trends continuing 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 rising inflation and interest rates globally, together with continued currency volatility, is expected to remain a feature of the reported results.

During the period, Discovery made a capital contribution to PAH of R1.5 billion. While this was initially funded by way of a bridge facility and internal resources, as previously reported, Discovery still anticipates raising a specific quantum of equity capital for this purpose in line with the disciplined framework of its capital plan.

Dividend

Interim dividends paid in respect of the 2022 financial year

The following interim dividends were paid during the current period:

- B preference share dividend of 355.75342 cents per share (284.60274 cents net of dividend withholding tax), paid on 14 March 2022.
- No ordinary share dividends were declared.

Final dividend declaration in respect of the 2022 financial year

B preference share cash dividend declaration:

On 1 September 2022 the directors declared a final gross cash dividend of 382.26027 cents (305.80822 cents net of dividend withholding tax) per B preference share for the period 1 January 2022 to 30 June 2022, 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, 20 September 2022
Shares commence trading "ex" dividend	Wednesday, 21 September 2022
Record date	Friday, 23 September 2022
Payment date	Monday, 26 September 2022

B preference share certificates may not be dematerialised or rematerialised between Wednesday, 21 September 2022 and Friday, 23 September 2022, both days inclusive.

Ordinary share cash dividend declaration:

While the Group's capital position remains robust, in light of the uncertain future impact of COVID-19 and the volatile global macro-economic environment, the Discovery Board has decided to retain its prior stated position and has decided not to declare an ordinary final dividend for the year ended 30 June 2022. The reintroduction of an ordinary dividend will be considered on an ongoing basis.

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) (<https://senspdf.jse.co.za/documents/2022/JSE/ISSE/DSY/FY2022.pdf>) and on Discovery's website (www.discovery.co.za/corporate/investor-relations)

PricewaterhouseCoopers Inc. and KPMG Inc., the Group's independent auditors, have audited the consolidated and separate Annual Financial Statements from which this announcement has been derived, and have expressed an unmodified audit opinion on these financial statements. The full audit opinion, 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 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 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 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 at company_secretarial@discovery.co.za

Company information

Transfer secretaries

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

Equity 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)

Company tax reference number: 9652/003/71/7

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Directors

ME Tucker (UK) (Chairperson), A Gore* (Chief Executive Officer), HL Bosman, Dr BA Brink (1), SE de Bruyn (1), R Farber, WM Hlahla (2), HD Kallner*, F Khanyile, NS Koopowitz*, D Macready, Dr TV Maphai, T Mboweni (3), Dr A Ntsaluba*, A Pollard*, M Schreuder, B Swartzberg*, B van Kralingen (4), DM Viljoen* (Financial Director), SV Zilwa

* Executive.

1 Retired effective 24 November 2021

2 Appointed effective 15 August 2021

3 Appointed effective 5 May 2022

4 Appointed effective 7 April 2022

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 and annual reports, 2022.

SENS release date: 7 September 2022