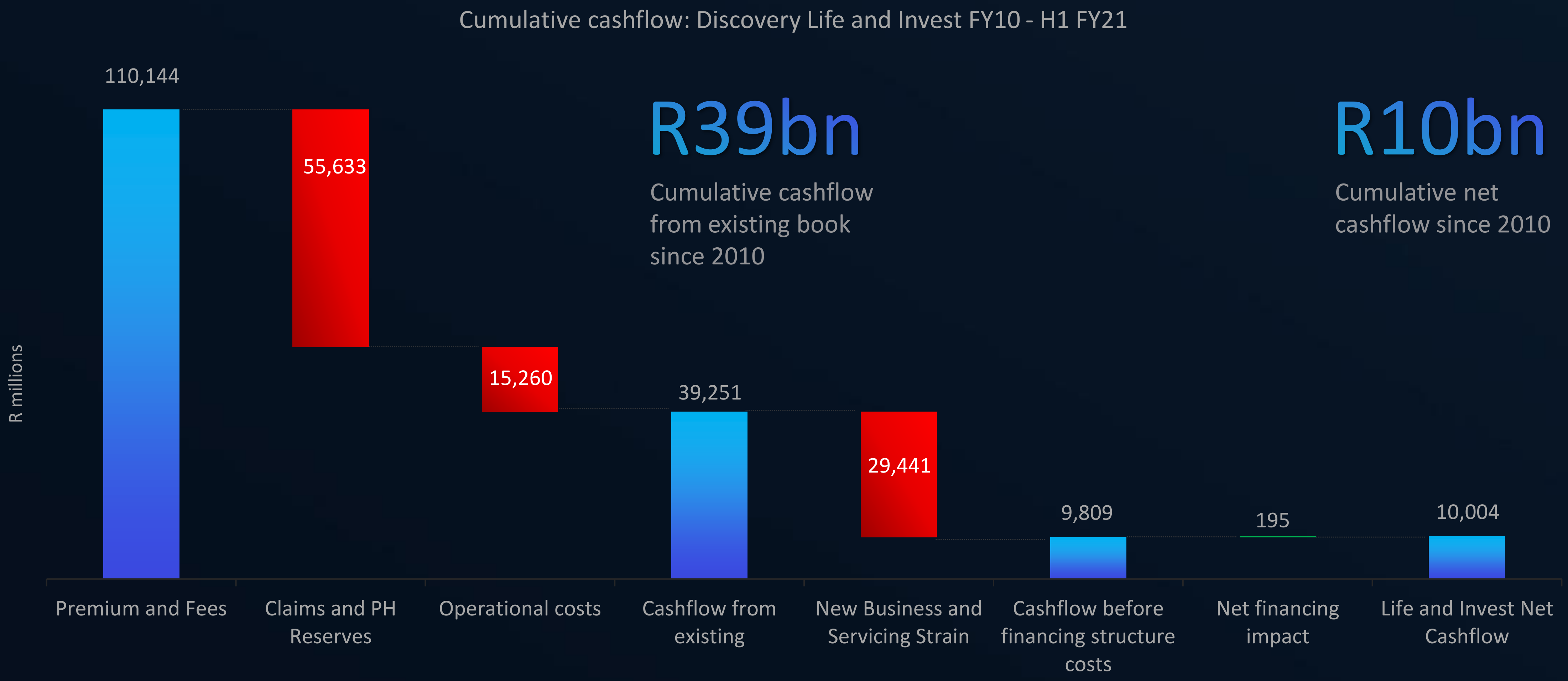
Discovery Life

Technical update on in-force cashflow components

February 2021

This document has been prepared to aid discussion and provide further supplementary information only and has not been subject to an external review or audit

Discovery Life and Invest have generated strong positive cashflow since 2010



R39bn

Cumulative cashflow from existing book since 2010

R10bn

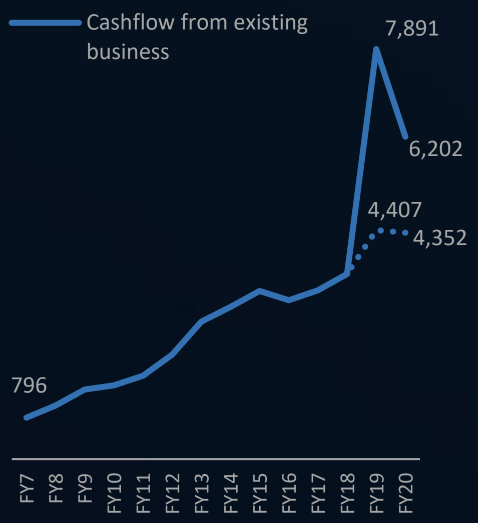
Cumulative net cashflow since 2010

Discovery Life has generated strong positive cashflow on its existing book, funding investment into new business and repayment of financing structure costs

1 – 2 = 3

3 + 4 = 5

1 Strong historic cashflow from existing business (Rm)



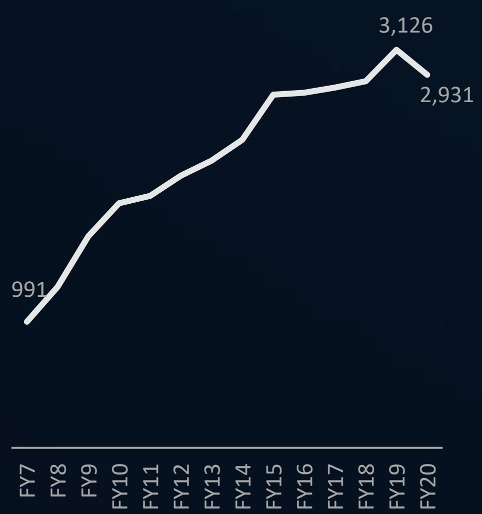
Premiums

(Claims)

(Expenses)

= Cashflow from existing business[1]

2 Significant investment into new business and servicing (Rm)



Up to FY2012, all cashflow from existing business was invested into new business.

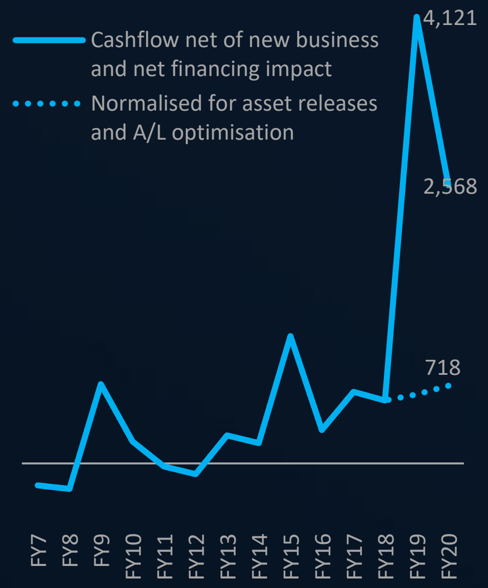
As the book grew and generated more cash, net retained cashflow started to increase

3 Cashflow net of new business costs

4 Utilisation of financing structures to fund new business

Cumulatively repaid c.R1.1bn in the last 5 years

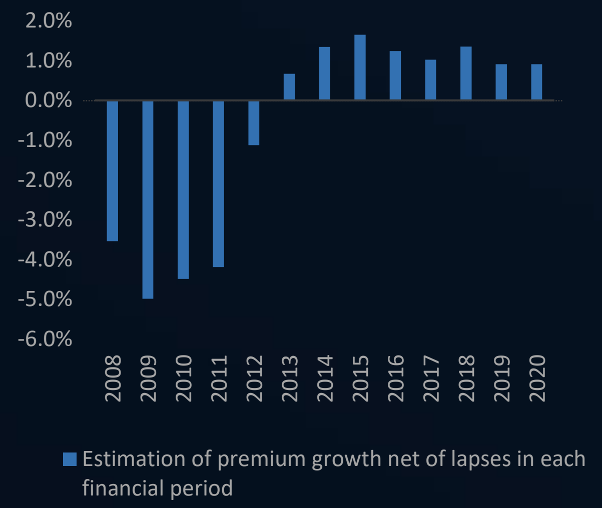
5 Net operational cashflow has been in line with expectations



1 Net of risk reinsurance

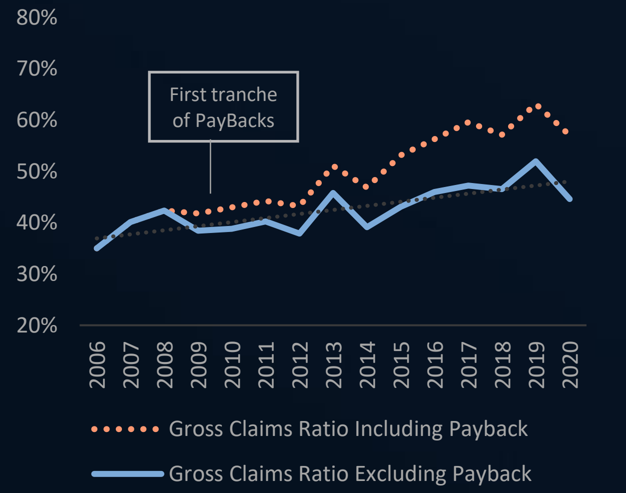
Robust historic performance of cashflow components for Individual Life

In-force premium growth has exceeded lapses as the book matures, in line with expectation



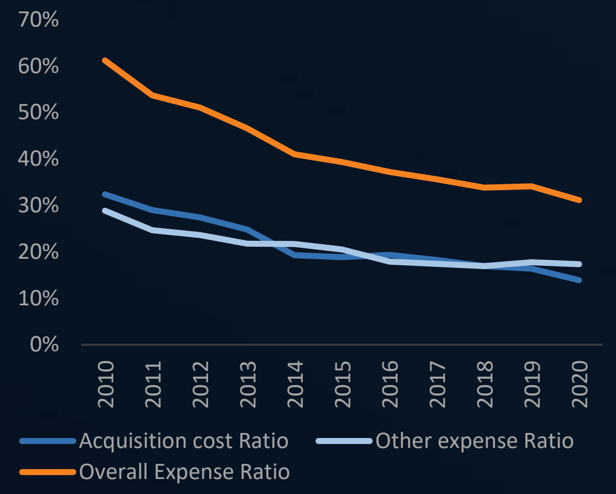
- Premium increases typically increase by age and lapses typically reduce by age
- Product initiatives have impacted emergence of premium growth profile over time
- At FY19, Premium annuity factor was c.15.8 years → long and valuable premium stream

Claims experience over time has developed largely in line with expectation



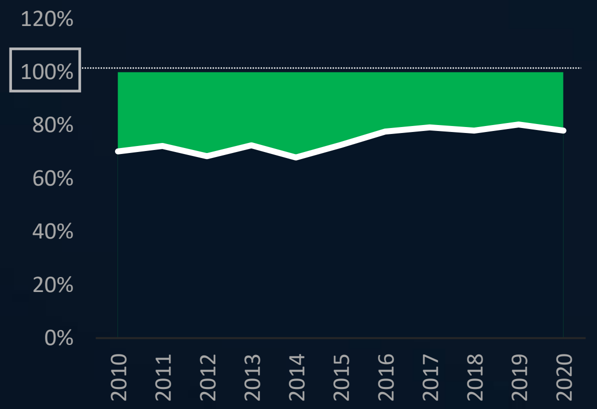
- Introduction of PayBacks caused an expected increase in the reported claims line. Trajectory is predictable, given product design, and does not follow mortality curve
- Mortality expectations increase by age as per actuarial tables
- Average y-o-y change relative to premiums 2009-2020:
  - PayBacks (incl Cash Conversion): c.+1%,
  - Death and Disability claims c.+0.2%
- Aggregate claims ratio benefits from Premiums increasing at a higher average rate than benefits

Expense ratios have reduced over time, as expected



- Maturing book and tight expense controls would suggest that the expense ratio trend would be reducing over time
- Premium increase > Expense inflation
- Acquisition costs shown above are based on the disclosed income statement category of expenses. This excludes some initial costs which are reflected in the "Other" expense line above.

The total in-force book (excluding acquisition & non-contractual servicing costs) has generated positive cashflow with a combined ratio averaging c.74% over the past 11 years

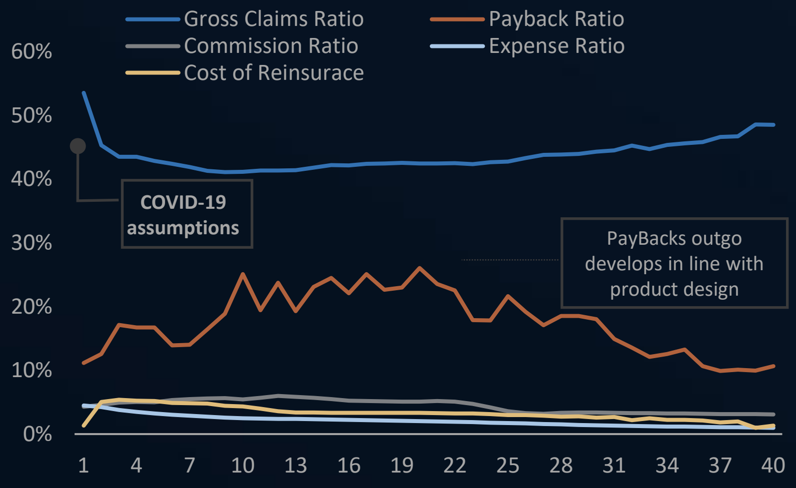


- Combined ratio = (Gross claims ratio (incl PB) + renewal expenses + contractual ACI comm + cost of risk reinsurance +FinRE) / Gross Premium
- Combined ratio < 100% → Positive cashflow generation
- Discovery Life existing book has been cashflow generative
- Trend suggests a stable combined ratio, driven by the PayBack percentage of premium reducing somewhat at longer durations

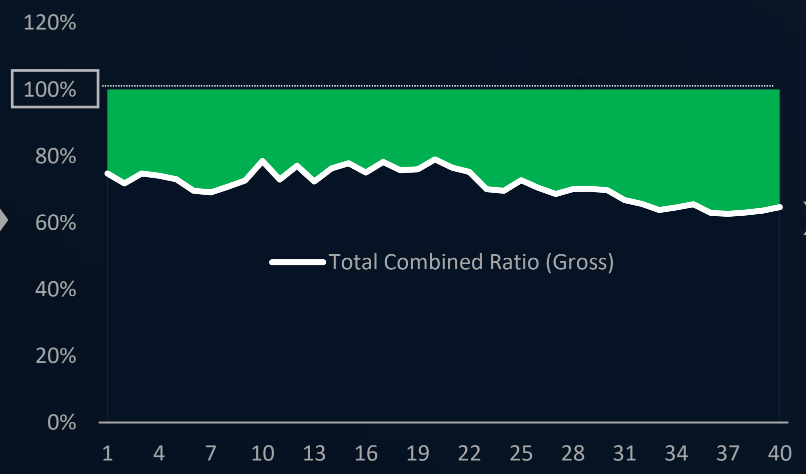
~Ratio of claims and expenses to Individual Life premium income as per segmental income statement
~Adjustment has been made for group life premiums and group life expenses

Looking ahead: Individual Life's projected in-force cashflows remains robust

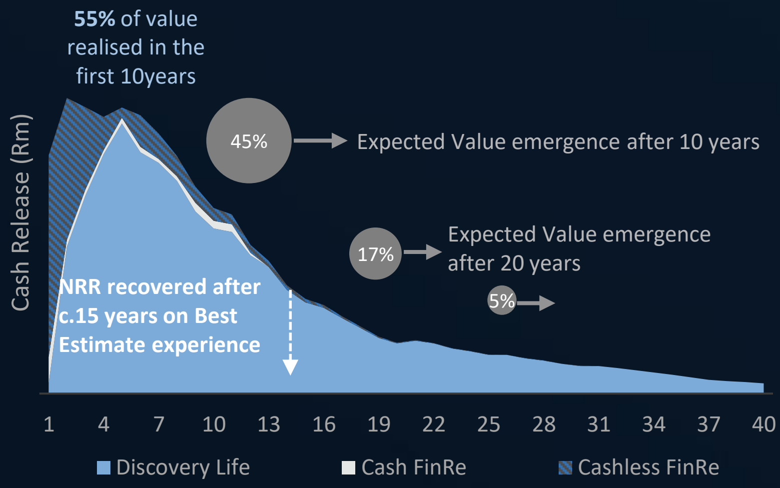
Illustrative: Existing Business Projected Cashflows



Projected combined ratio expected to continue to be <100%, implying positive cashflow generation



Present value of expected cash emergence on a best estimate basis implying recovery of NRR in c.15 years



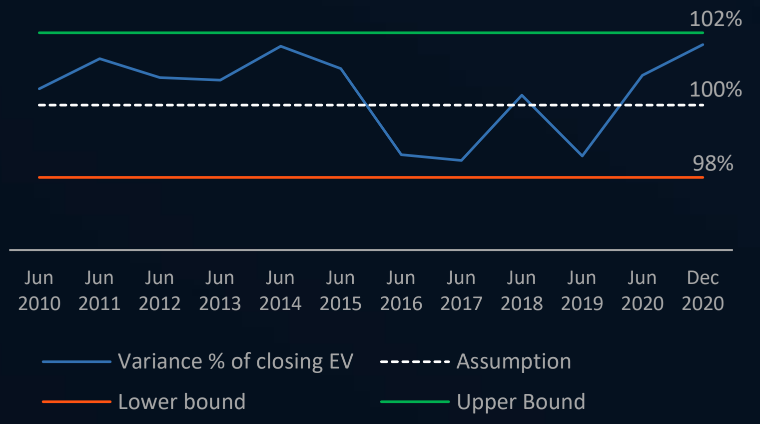
- Initial projected claims ratio is a result of COVID-19 claims provision run-down
- **Claims**: Aggregate risk claims ratio is expected to remain stable over time, assisted by the premium vs. benefit increase differential, whilst claims trajectory is dependent on actuarial mortality tables, impact of Vitality engagement is also significant
- **PayBacks**: Ratio increases initially due to its annual, 5 & 10-year payout structures of the benefit. It also include payments on the Cash Conversion benefit (a benefit paid between ages 65 and 73 where applicable) which contributes to the initial increase and tapering off in the ratio over time due to aging of the book. These benefits serve as an incentive for better engagement and persistency on the book. Payback benefits are dependent on integration across Vitality and Discovery Health and are inversely correlated to claims experience.
- **Expenses**: Ratios reduce over time due to efficiencies from scale and as premium increases > inflation

- Significant value emergence within the first 20 years at c.83%, implying that the in-force value emergence is less weighted towards cashflows in the later durations
- NRR realization is not materially dependent on tail-end cashflows

Long history of experience variances support assumptions

Variances as % of EV over time

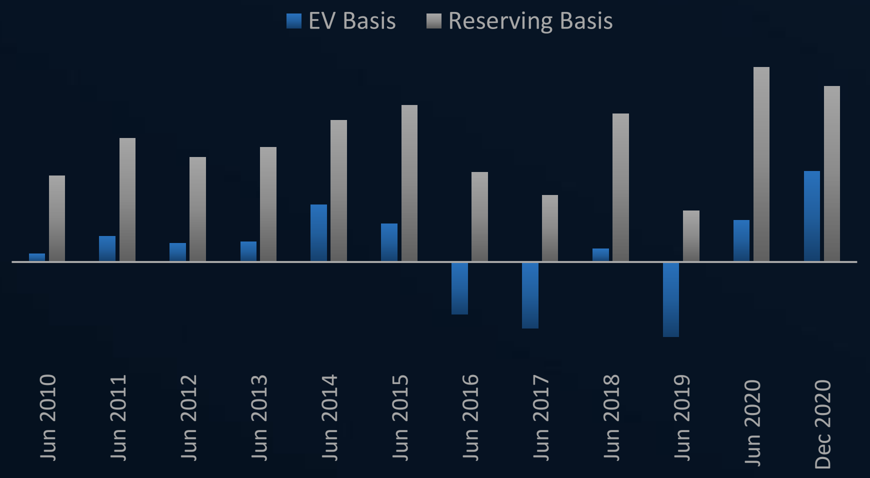
includes DSY Life and Invest (excluding COVID-19)



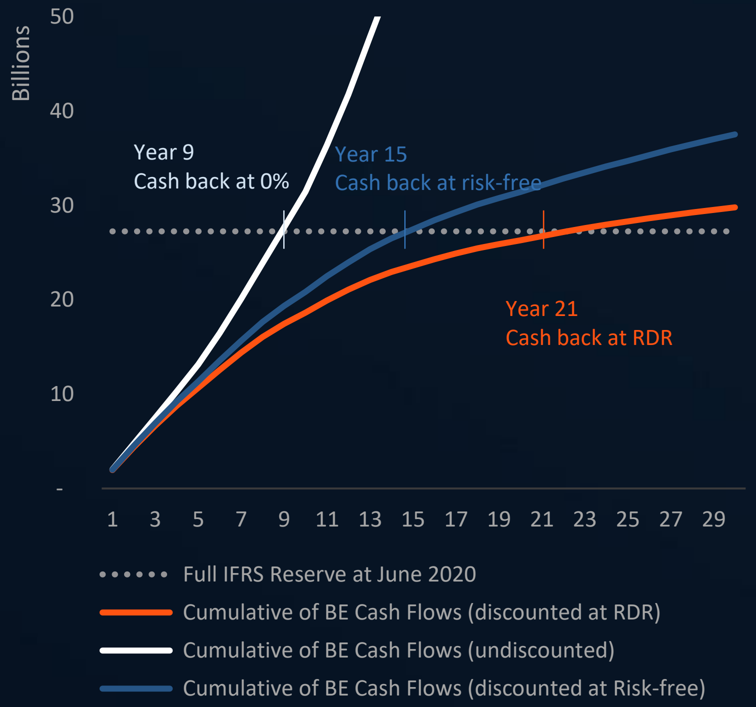
- Variances are comfortably within a 2% corridor of total Embedded Value over time
- Key drivers of negative experience variances have been addressed through product and operational interventions over time

Historic non-economic experience variances: EV vs. IFRS reserving basis

R million, includes DSY Life and Invest



Expected to realise the IFRS Negative Rand Reserve (NRR) in cash in the first 15 years on a best estimate basis



- IFRS reserve assumptions include significant margins vs best estimate assumptions. Prescribed margin of: 7.5% Mortality, 10% Morbidity, 25% lapse assumption
- Discovery Life has never experienced negative variances relative to the IFRS reserving basis
- >R9bn IFRS gross of tax margin delivered over last decade