

DISCOVERY LIMITED | DOMESTIC MEDIUM TERM NOTE PROGRAMME “NON-DEAL” ROADSHOW

March 2021



Team introduction

- 01 | Deon Viljoen: Group Chief Financial Officer
- 02 | Andrew Rayner: Group Chief Risk Officer
- 03 | Fareed Chothia: Group Corporate Finance
- 04 | Peter Bolink: Group Risk and Actuarial
- 05 | David Danilowitz: Group Investor Relations

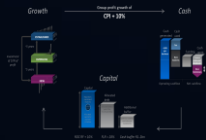


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Business Model and Financial Performance

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Operating Model

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Debt Overview

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Discussion Points

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DMTN Issuance



1

Business Model and Financial Performance





Financial results overview | 6 months to 31 December 2020

<p>Core new business¹</p> <p>+3% to R9 916m</p>	<p>Normalised operating profit</p> <p>+19% to R4 507m</p>	<p>Normalised headline earnings</p> <p>-1% to R2 284m</p>	<p>Net cash flow²</p> <p>R372m</p> <p>Operating cash flow</p> <p>R1 813m</p>
<p>Return on Embedded Value²</p> <p>+4.2% closing EV R72 467m</p>	<p>Earnings investment in new initiatives</p> <p>22%</p>	<p>Interest cover³</p> <p>1.7x</p>	<p>Bank & DMTN Debt⁴</p> <p>R15 640m</p>

¹ Applied to core new business. +8% including DH take-on of new closed schemes and gross revenue for Vitality Group.

² Movement in free shareholder cash

³ Annualised return and excluding forex and economic changes

⁴ Interest Cover = EBIT / Finance Costs; EBIT and finance cost excludes IFRS16 adjustments relating to 1DP

⁵ Excludes non-guaranteed deposit facilities and finance leases



Operating profit
R4.5bn
+19%

New business
R10.9bn
+8%

Rm

Region	Business	Operating Profit (Rm)	Operating Profit Change (%)	New Business (Rm)	New Business Change (%)	Notes
SA Composite	Discovery Health	1 670	+6%	3 167 ¹	-5%	Continued operational excellence with significant support to members and society
	Discovery Life	1 922	+3%	1 162	-6%	Excellent operating performance and positive variances delivering growth on an optimised capital base
	Discovery Invest	471	-3%	1 316	-3%	High-quality earnings driven by positive flows and market growth albeit in difficult market conditions
	Discovery Insure	107	+43%	617	+12%	Strong new business and retention dynamics driving growth with consistently expanding margins and proven efficacy of the model
	SA Composite²	4 170	+5%	6 262	-4%	
UK Composite	Vitality Health insurance	613	+24%	638	+4%	Excellent performance driven by continued retention and proven relevance of the model
	Vitality Life insurance	327	+206%	561	-13%	Robust recovery with positive lapse experience and resilience to interest rate volatility
	UK Composite²	940	+56%	1 199	-5%	
Partner Composite	Vitality GROUP	238	+116%	625	+21%	Global relevance gaining significant traction with excellent operating performance and considerable effect on our partners
	平安健康保险 PING AN HEALTH INSURANCE	112	+65%	1 805	+31%	Continuation of remarkable revenue, new business and profit growth
	New businesses	(999)	+0%	1 005	+169%	Prudent Bank rollout pivoting towards growth, with other segments gaining further traction



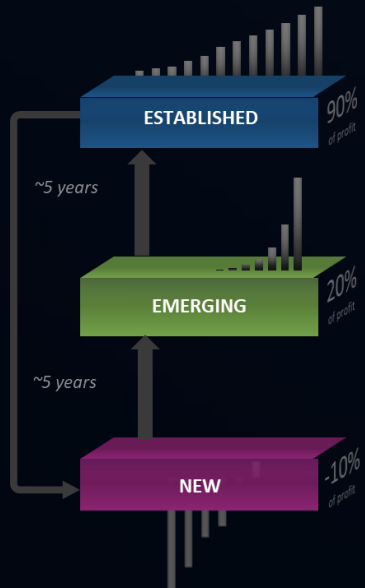
Excludes SA Vitality
1 Including new closed schemes
2 Excluding New initiatives



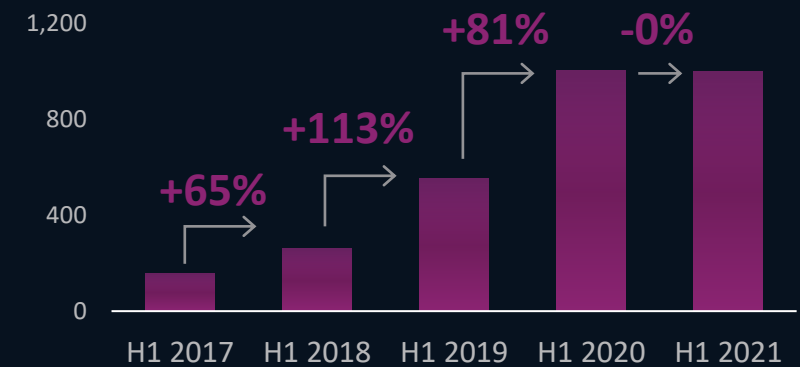
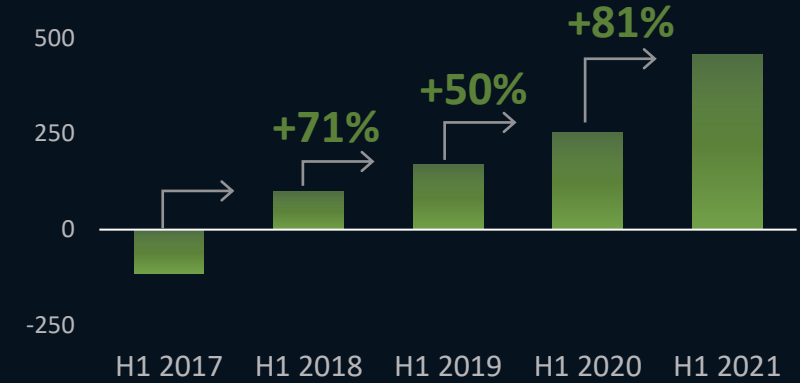
Operating profit
R4.5bn
+19%

Rm

ESTABLISHED BUSINESSES	Discovery Health	1 670	+6%
	Discovery Life	1 922	+3%
	Discovery Invest	471	-3%
	Vitality Health insurance	613	+24%
	Vitality Life insurance	327	+206%
	Established	5 003	+10%
EMERGING BUSINESS	Discovery Insure	107	+43%
	Vitality GROUP	238	+116%
	平安健康保险 PING AN HEALTH INSURANCE	112	+65%
	Emerging	457	+81%
NEW	(999)	+0%	



Strong growth from Emerging and slowing investment in New

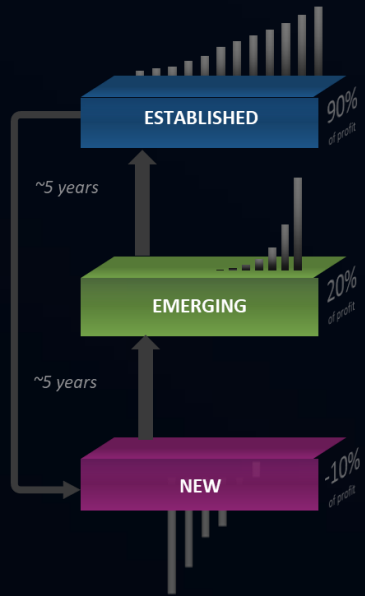




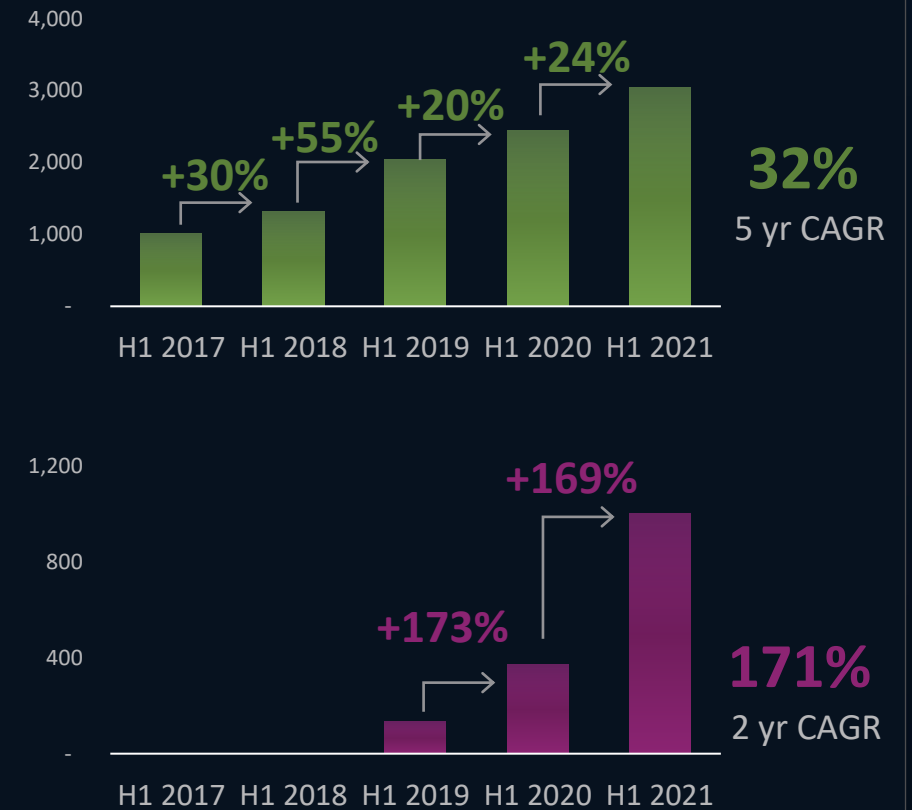
New business
R10.9bn
+8%

Rm

ESTABLISHED BUSINESSES	Discovery Health	3 167 ¹	-5%
	Discovery Life	1 162	-6%
	Discovery Invest	1 316	-3%
	Vitality Health insurance	638	+4%
	Vitality Life insurance	561	-13%
	Established	6 844	-5%
EMERGING BUSINESS	Discovery Insure	617	+12%
	Vitality GROUP	625	+21%
	平安健康保险 PING AN HEALTH INSURANCE	1 805	+31%
	Emerging	3 047	+24%
New	1 005	+169%	



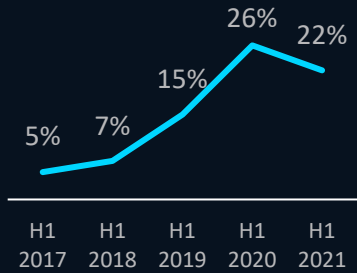
Emerging and New contributed to strong total new business API



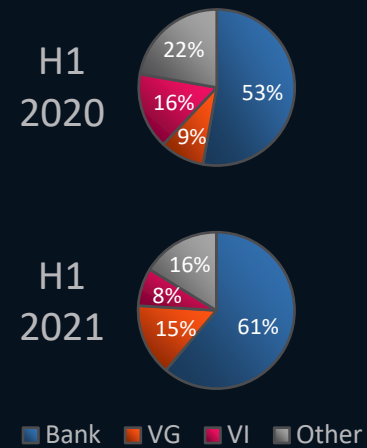


New businesses continue to see considerable traction

% in New decreasing

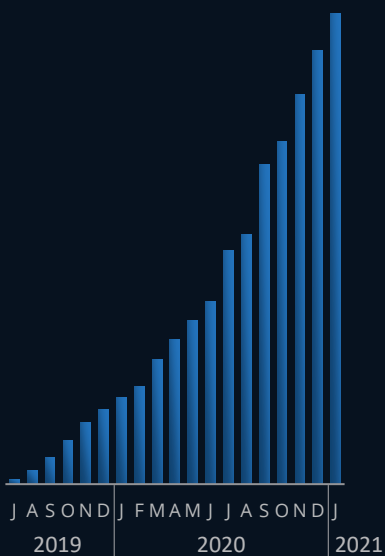


Majority in Bank



Bank

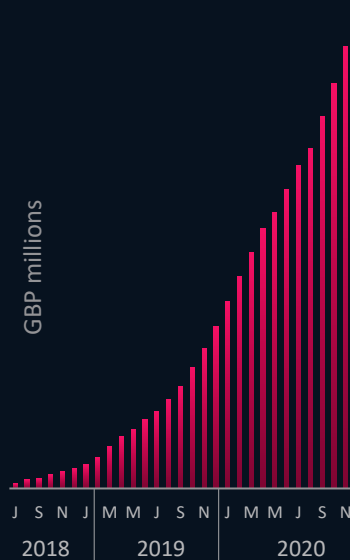
R6.1bn
Retail deposits



VitalityInvest

New business
+95% to £151.2m
+123% ZAR

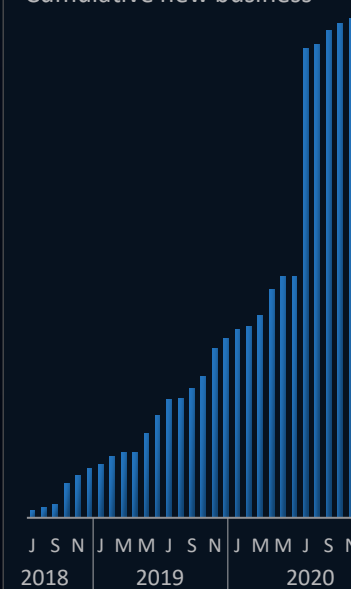
Cumulative new business



Umbrella Funds

New business APE
+247% to R592m

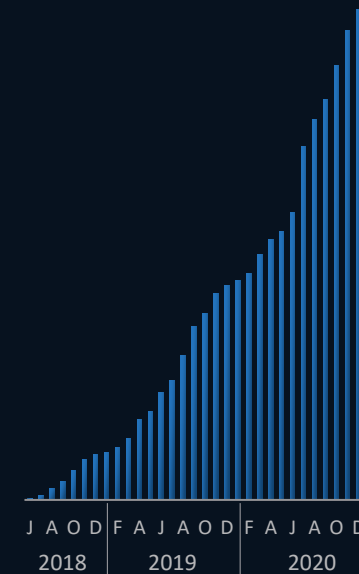
Cumulative new business



DBI

New business
+77% to R124m

Cumulative new business



Vitality1

8

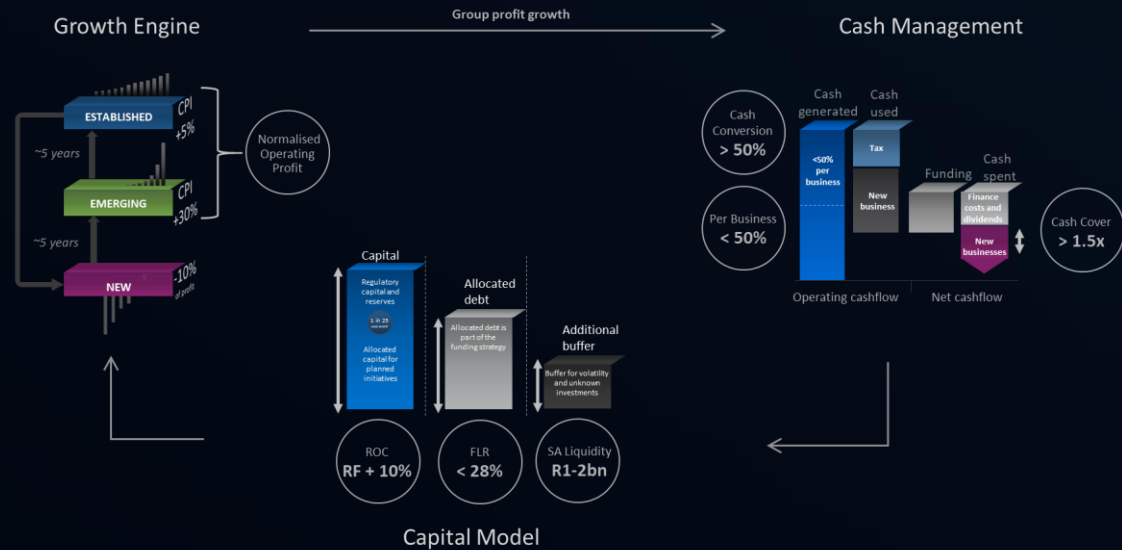
New market launches over next 18 months

- SPAIN
- ITALY
- POLAND
- CZECH REPUBLIC
- ISRAEL
- MEXICO
- VIETNAM
- BRAZIL

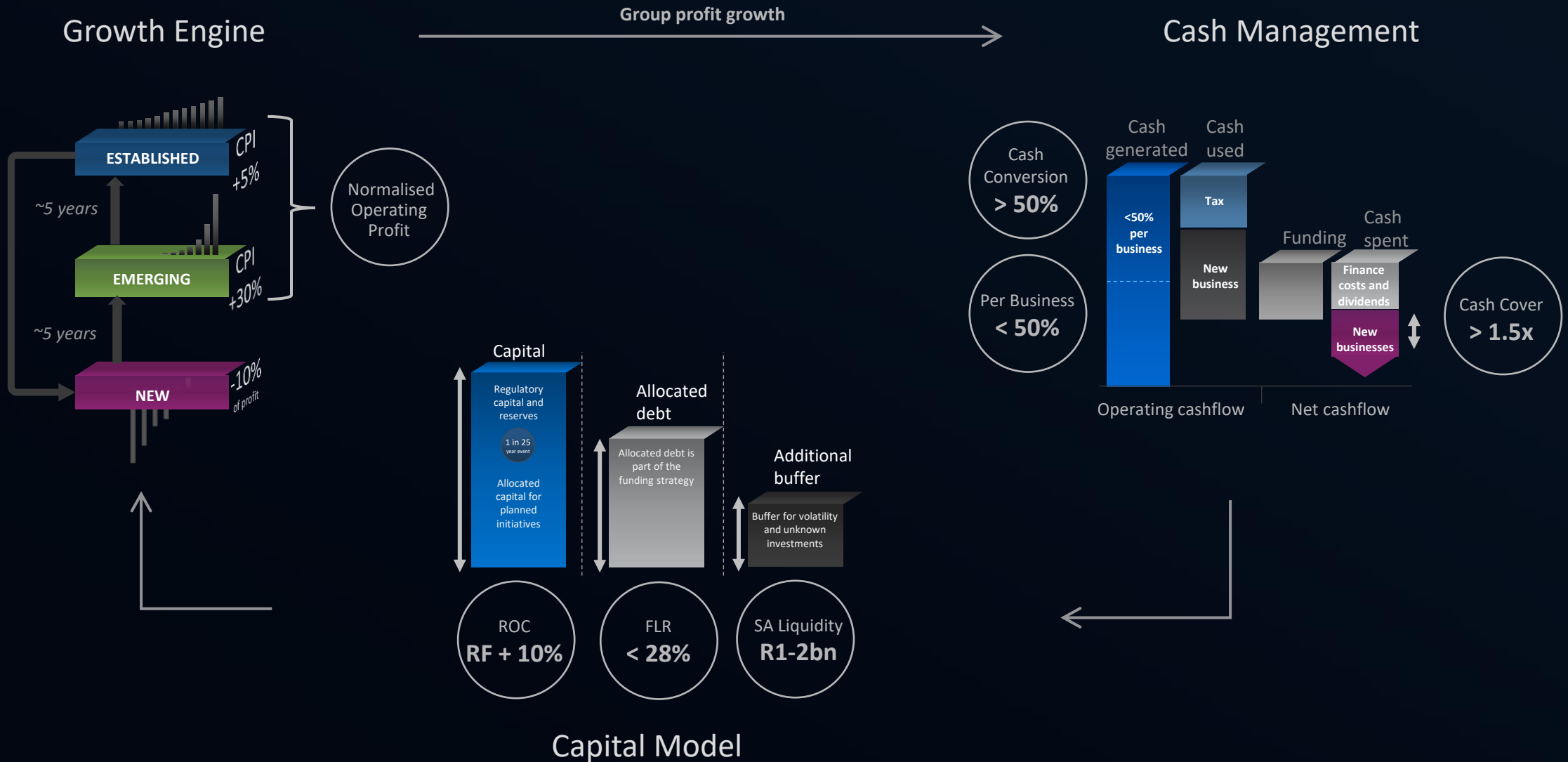


2

Operating Model

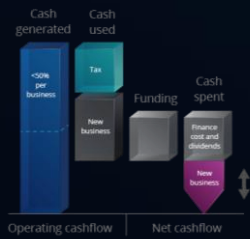


Group operating model





Cash management supports the growth methodology



R5.8bn

Cash generated from in-force

(R5.4bn)

Cash used net of funding

R0.4bn

Net cash flow

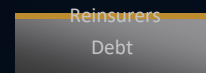
Net cash generated from in-force business
R5.8bn

Cash generated

Funding

Cash used

R0.9bn



Tax and finance costs

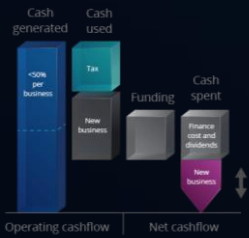
R1.5bn

New business
R3.9bn

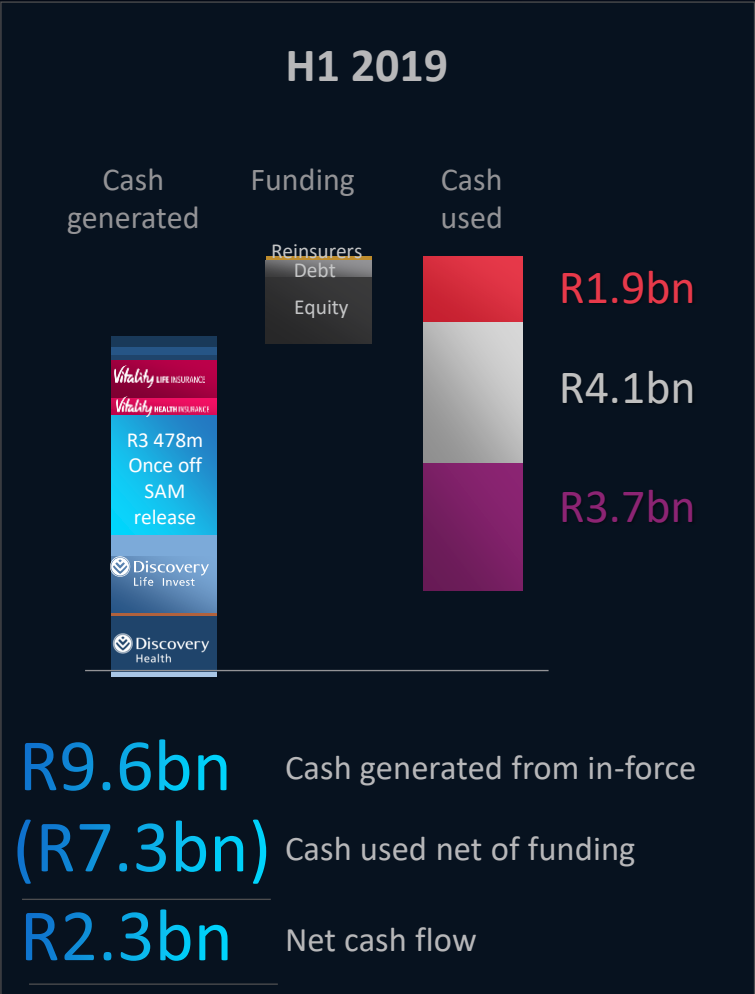
New businesses
R0.9bn

Net cash flow¹
R0.4bn

1 Movement in shareholder free cash



History of net cash flow emergence





Operating to net cash flow

R 372m

Cash from Operations

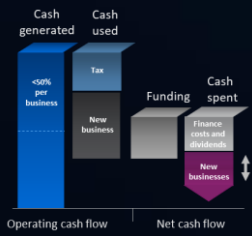


Funding and investment decisions

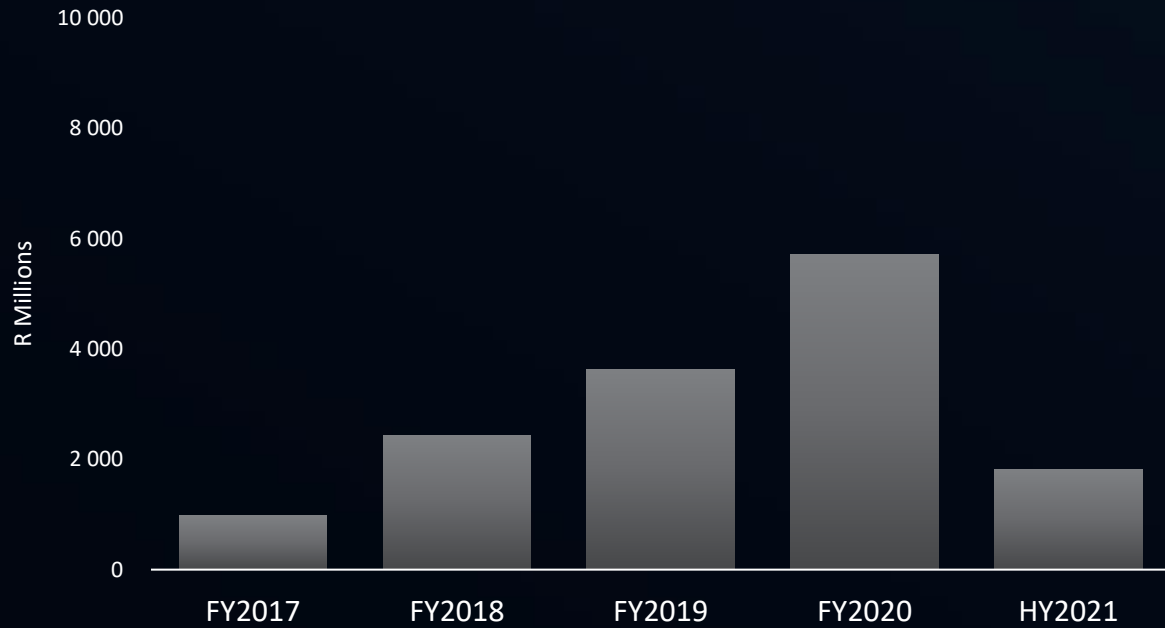




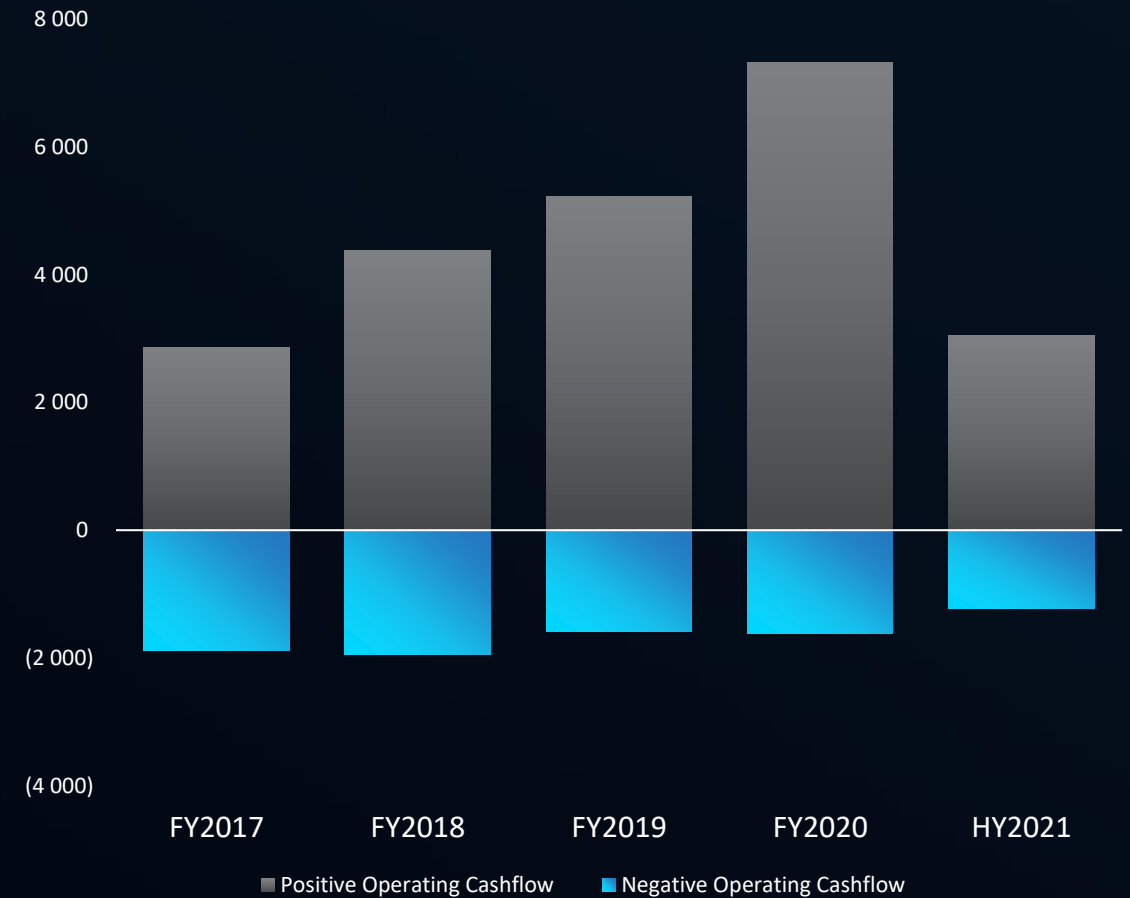
Group's positive cash generating businesses is growing



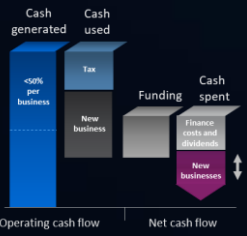
Net operating cash flow (Rm)¹



Relative increase in cash contributing business



¹ Normalised for R3.5bn once-off in FY2019 relating to Discovery Life tangible asset release on transition to SAM and R1.8bn once-off gain from asset-liability optimization in Discovery Life in FY2020

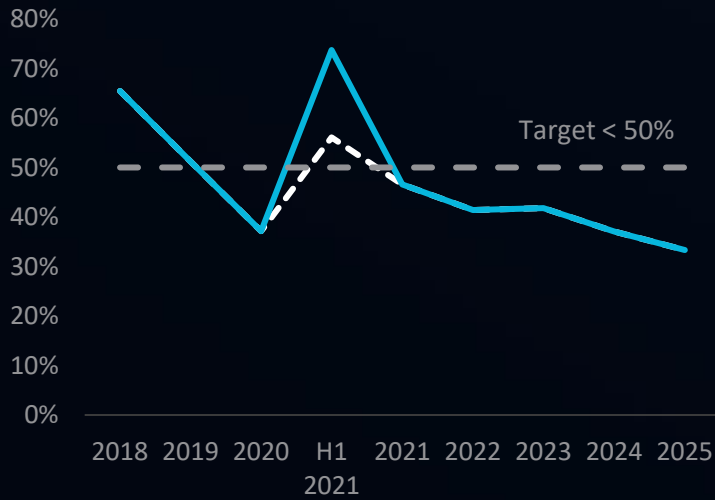


Improving cash generation

Diversification of cash flow improving

Cash from any one business should not contribute more than 50% of the total operating cash

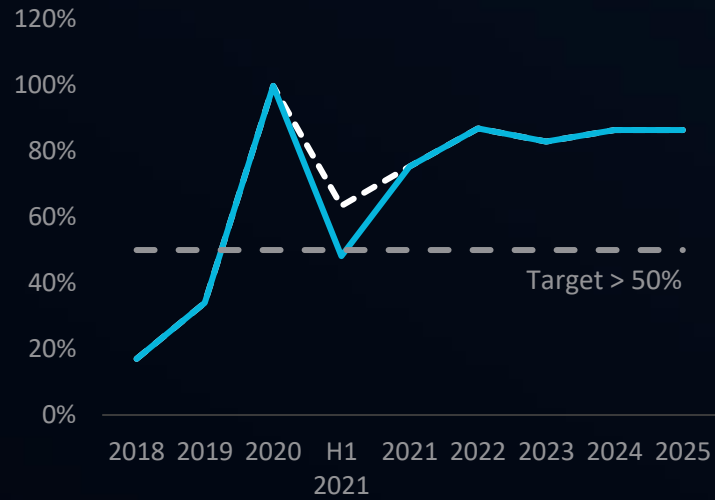
$$\max\left(\frac{\text{Cash flow from Business}_i}{\sum_i \text{Cash flow from Business}_i}\right) < 50\%$$



Cash conversion above target

More than 50% of operating profit must be cash earnings

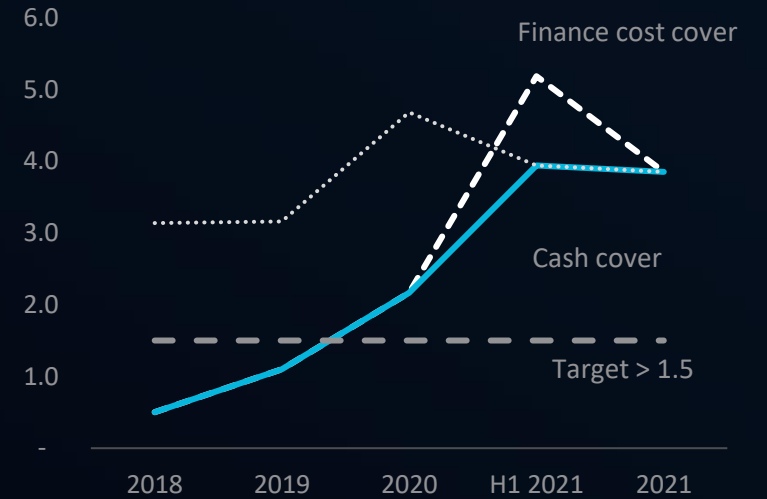
$$\frac{\text{Operating cash flow}}{\text{Operating profit}} > 50\%$$



Cash cover on target

Operating cashflow should be enough to at least cover dividends and finance costs 1.5x

$$\frac{\text{Operating cash flow}}{\text{Dividends} + \text{finance costs}} > 1.5x$$



----- Adjusted for COVID claims

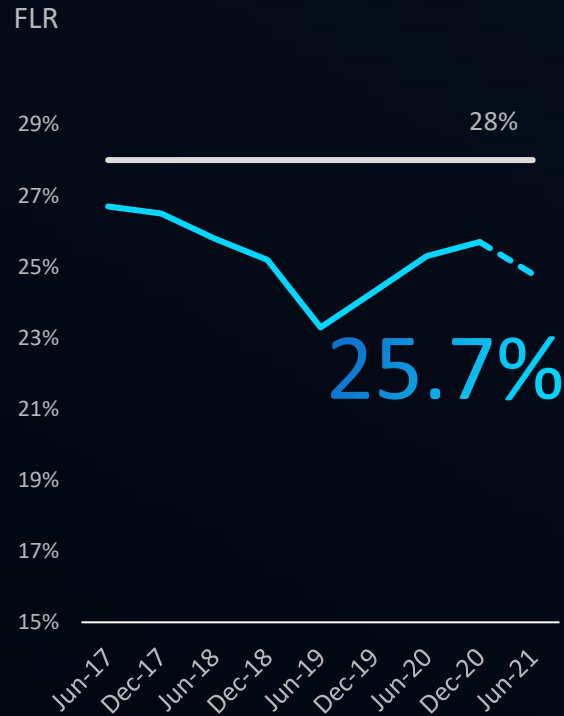


Group is well capitalised and highly liquid

Strongly capitalised

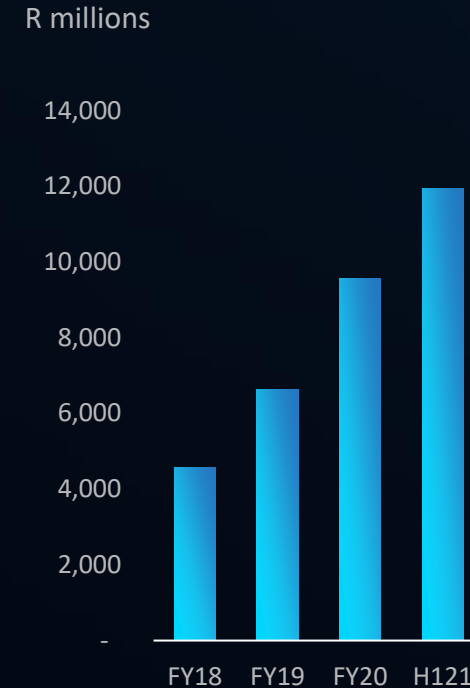
Rm	Dec 19 Cover	Dec 20 Cover
Discovery Life	1.7x	1.8x
Discovery Insure	1.7x	1.8x
Vitality HEALTH INSURANCE	1.4x	2.0x
Vitality LIFE INSURANCE	1.7x	2.0x
Discovery Bank ¹	2.2x	1.3x
DHMS solvency (unaudited)		36.8%

FLR is within target

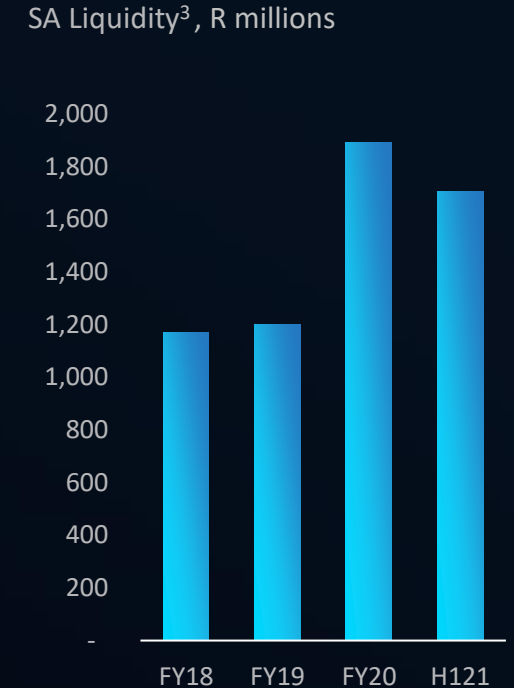


Highly liquid across the Group²

Liquid excess assets above regulatory capital requirements



Sufficient liquidity at the centre



¹ Capital Adequacy Ratio

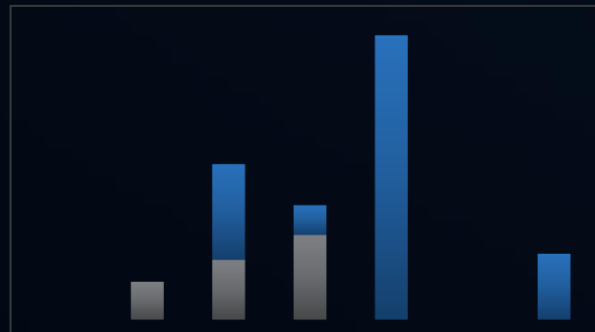
² Considers SA Liquidity and liquid excess assets for Discovery Life, Discovery Insure, VitalityHealth, VitalityLife and Discovery Bank

³ SA cash + undrawn committed facilities



3

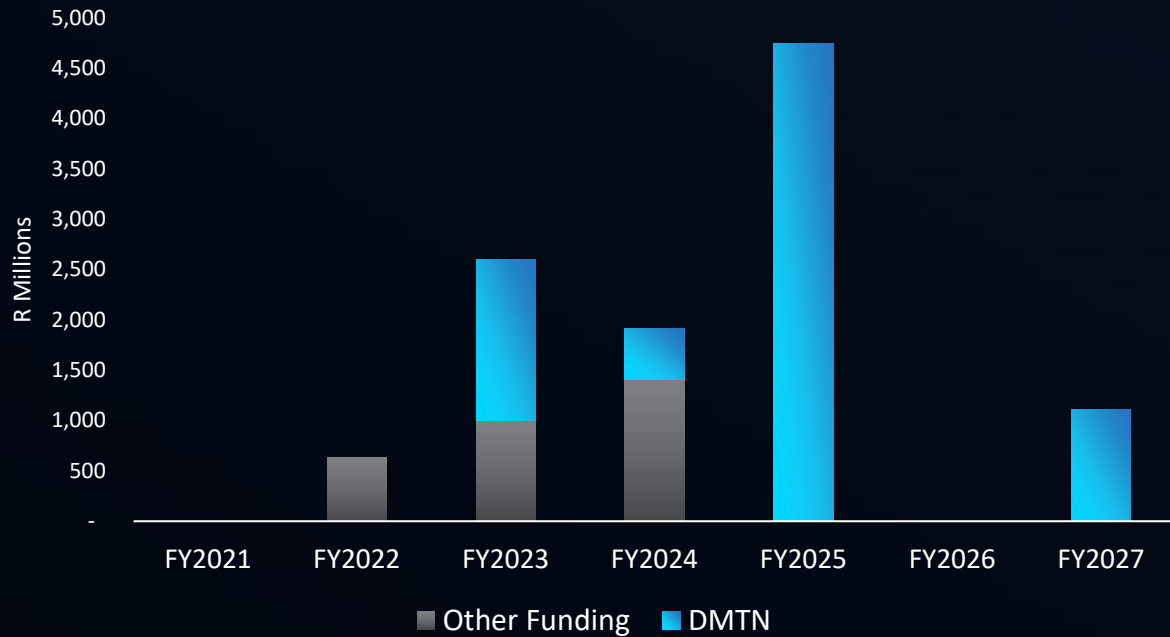
Debt overview





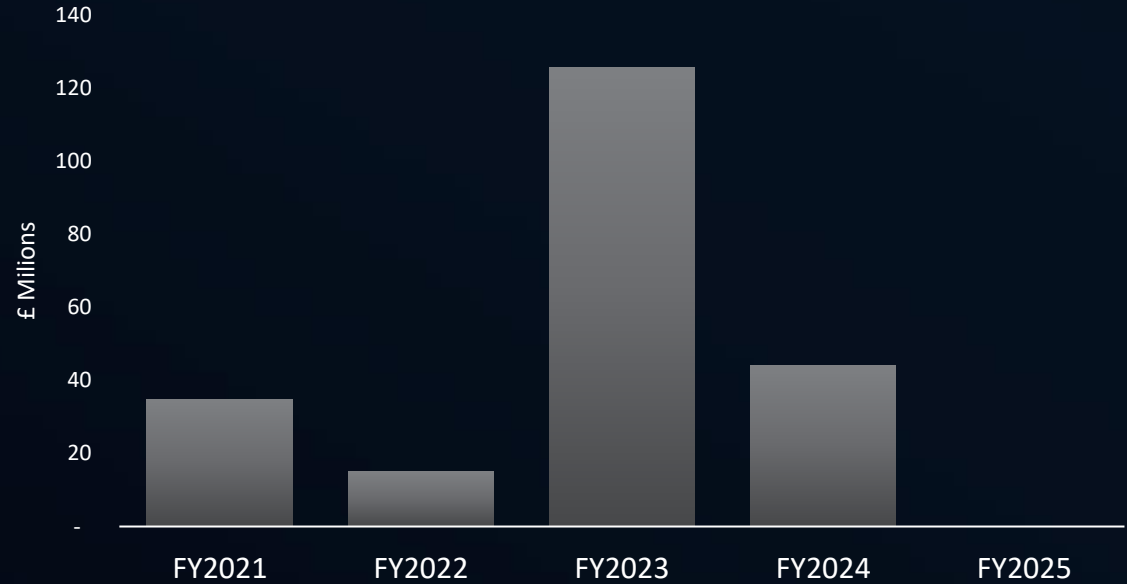
Existing debt maturity profile

South African debt maturity profile



- Bank Funding of R0.6bn on 5-year basis raised in FY2017
- Bank loan of R1bn on 5-year basis issued in FY2018
- DMTN funding of
 - R2.7bn on 3-year, 5-year and 7-year basis in FY2018
 - R1.0bn on 8-year basis in H1 FY2019
 - R3.6bn on a 3-year and 5-year basis in FY2020
 - R0.5bn on a 3-year basis in FY2021
- Syndicated loan of R1.4bn 5-year bullet refinanced in H1 FY2019

UK debt maturity profile



- Four UK bank loans:
 - £80m 4-year amortising loan
 - £55m 3-year amortising loan
 - £45m 3-year bullet loan
 - £9m 3-year bullet loan
- £28m hedge collateral deposit



Existing bank debt covenants

Covenant	Minimum Requirement	31-Dec-20	30-Jun-20
Group Debt to EBITDA ratio ¹	Less than 2.5X	1.94	1.96
Group financial Indebtedness to EV	Less than 30% of Group EV	22.9%	22.5%
Group EV	Greater than R30 billion	ZAR 72,467	ZAR 70,834
Discovery Life SCR Cover	SCR Cover > 1.1	1.83x	1.82x
New Business EV not negative	Positive VNB for 3 consecutive 6-month period	Dec 2020: R945	June 2020: R726
		June 2020: R726	Dec 2019: R1,196
		Dec 2019 : R1,196	June 2019: R1,322

¹ EBITDA adjusted for the treatment of the losses arising as a result of the changes in the economic assumptions relating to the movement in interest rates, deemed extraordinary items



Key drivers of known funding requirements

1-3 years

- Transfer of Vitality Life business from Prudential balance sheet to Vitality Life Limited (Part VII)
- Vitality Life new business funding
- Bank regulatory capital & J-curve funding
- Refinance maturing South African and UK bank debt arrangements
- New initiatives
- General corporate purposes

3-5 years

- Refinance maturing South African and UK bank debt arrangements
- New initiatives
- Continue supporting DSY Bank as it scales
- General corporate purposes

All included in 5-year financial projections

Discovery Bank Funding programme:

- Regulatory capital funding: included in the Discovery Group Capital Plan
- Lending activities:
 - Substantial progress in building retail deposit base to manage internal liquidity requirements
 - Short-term revolving credit facility of R1bn entered into in 2019 has been repaid following successful migration of the card book
 - Additional funding raised directly by DSY Bank in the form of NCD's totaling R800m with limited parental guarantees



Discovery's credit rating

Moody's Insurance Financial Strength Rating (IFSR)

- Ba1
 - 1 above the Sovereign (Ba2, negative)
- Supported by **diverse business mix, significant fee income** and **limited exposure to SA invested assets**

Moody's long-term issuer (LT Issuer) rating

- Ba3 (global) / A1.za (national)

Rating outlook

- Negative outlook reflects outlook on South African sovereign, and the linkage between Discovery and South Africa

Credit strengths

1. Very **strong franchise in South Africa** and a growing global footprint
2. A **meaningful, and growing, portion of profits generated outside of South Africa**
3. **Significant, stable, fee income** that places limited strain on capital and provides a **buffer against the risk of asset price shocks**
4. **Good capitalisation** on both **regulatory and economic basis**, along with **good access to capital markets**

Strength offsets

1. Substantial **business exposure** to South Africa's challenging operating environment
2. **Complexity** inherent in **shared-value insurance model**
3. **Ambitious expansion** initiatives



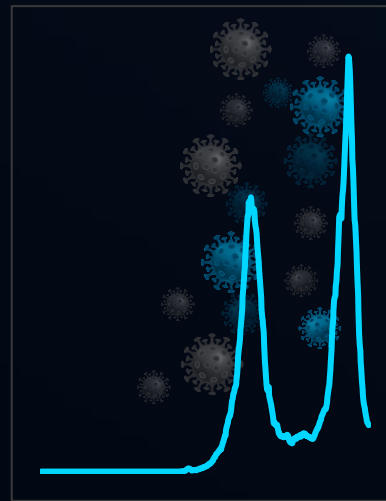
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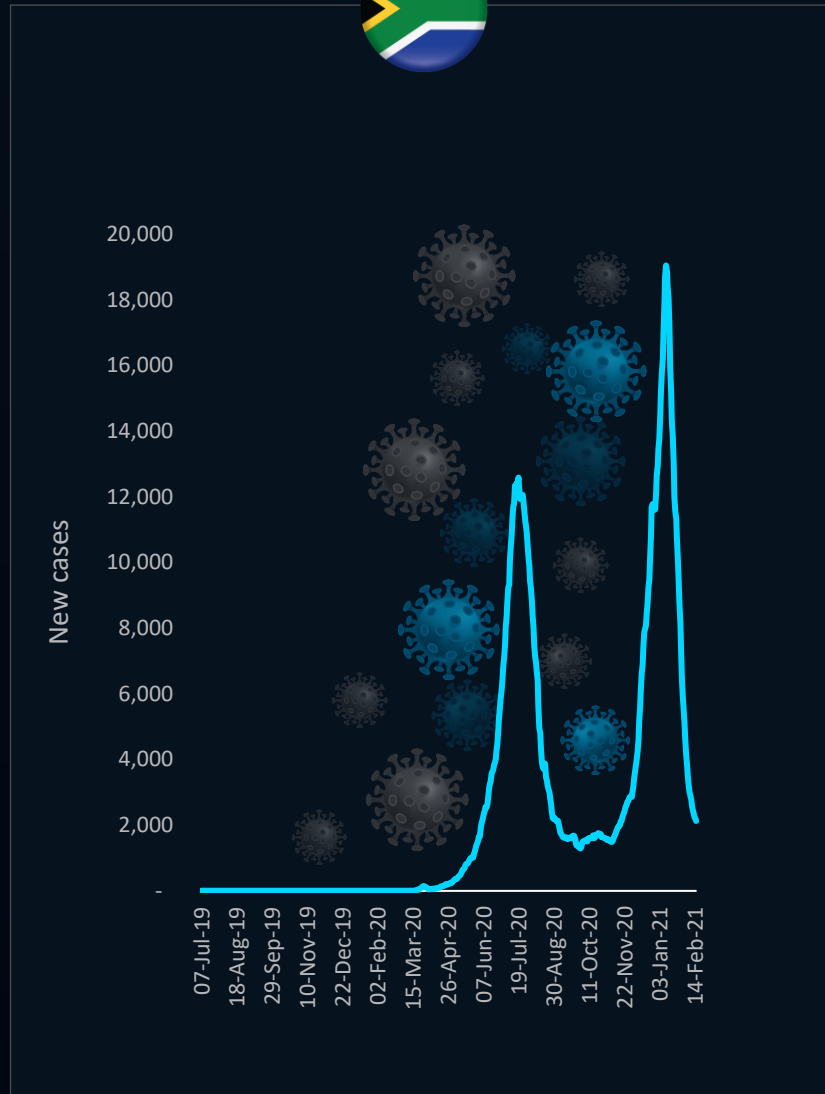
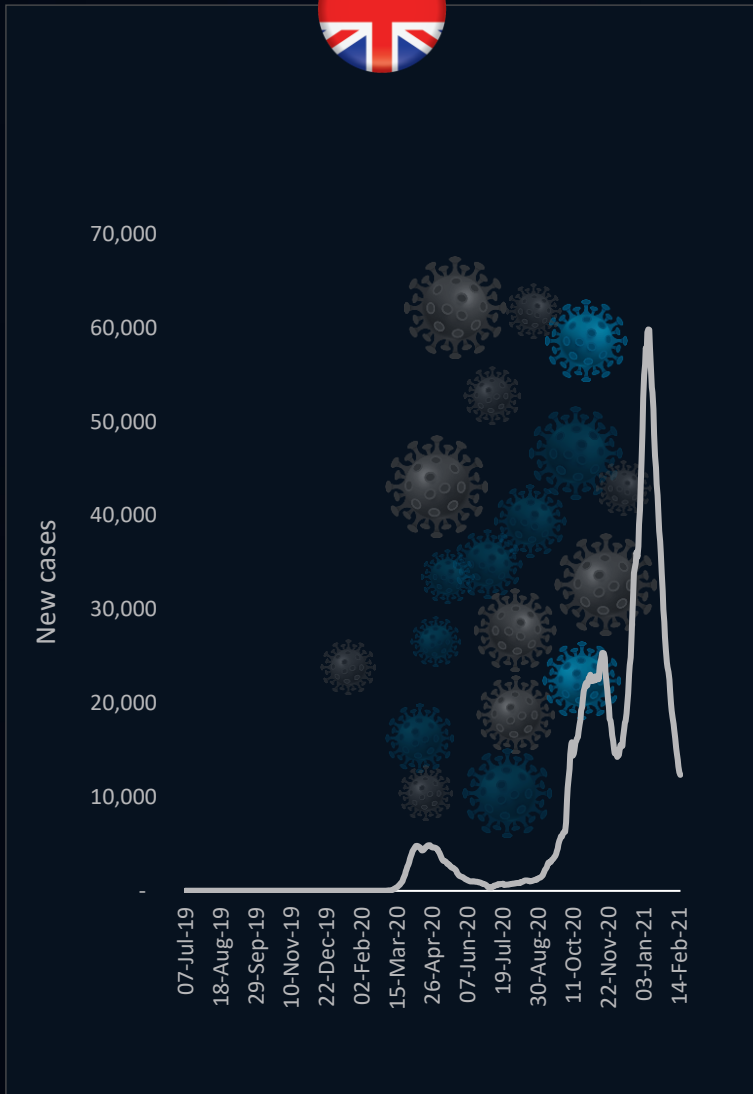
Discussion Points



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Discussion Points: COVID-19





Discovery data to date

5 711 Deaths across DH, DL and VL

1.1m Tests conducted

188k Confirmed positive cases

36k Members admitted

12 Staff deaths

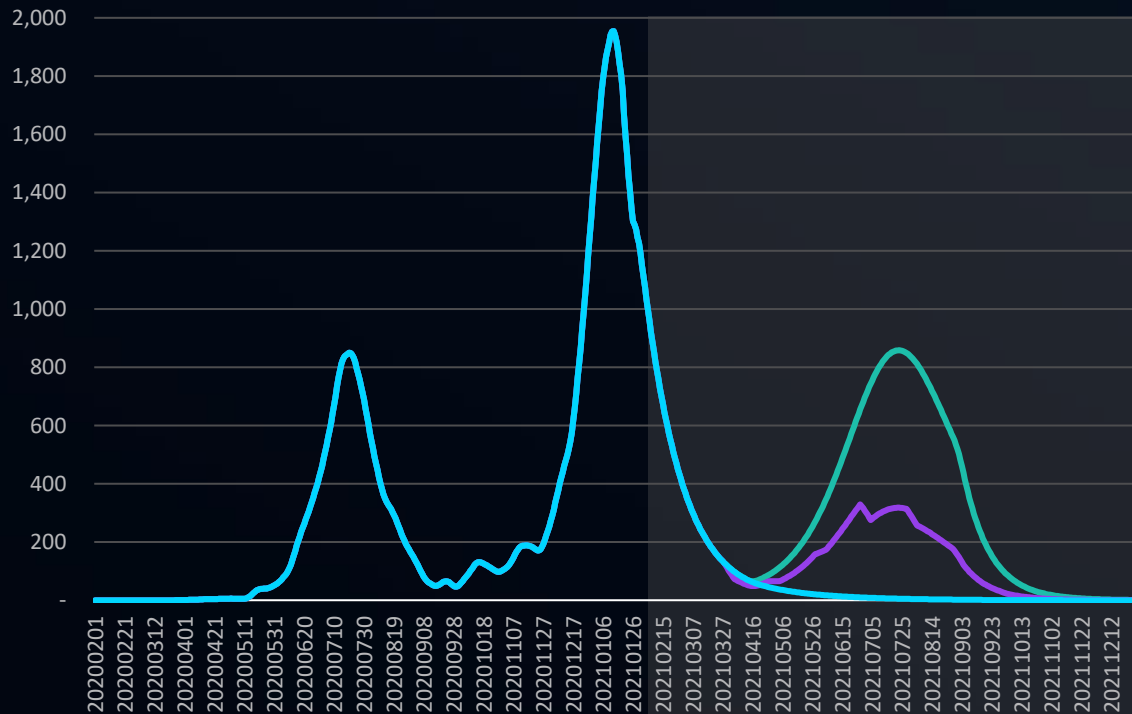
R4.3bn Claims paid*



The likelihood of a third wave

Incremental deaths under the medium scenario

Scenarios assume IFR = 0.39% and 1/3 reinfection



	Projected deaths vs second wave deaths		Total expected deaths
	Feb-Jun	Jul-Dec	
Second wave run-off	0.2x	0x	16.6k
Super spreader at Easter, with reinfections	0.4x	0.6x	92.5k
Super spreader at Easter, with reinfections, but with vaccine rollout	0.3x	0.2x	44.4k

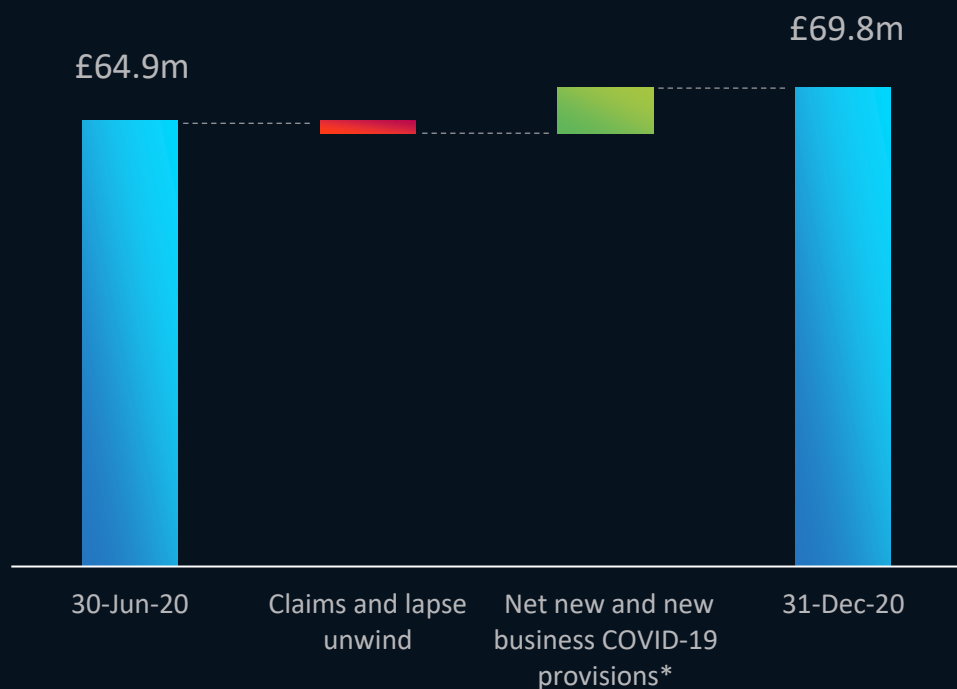
Critical to avoid gatherings during Easter holidays
 Critical to vaccinate high-risk groups by winter

COVID-19 provisions back to R3.4bn in December 2020



Vitality Life insurance

Vitality Health insurance

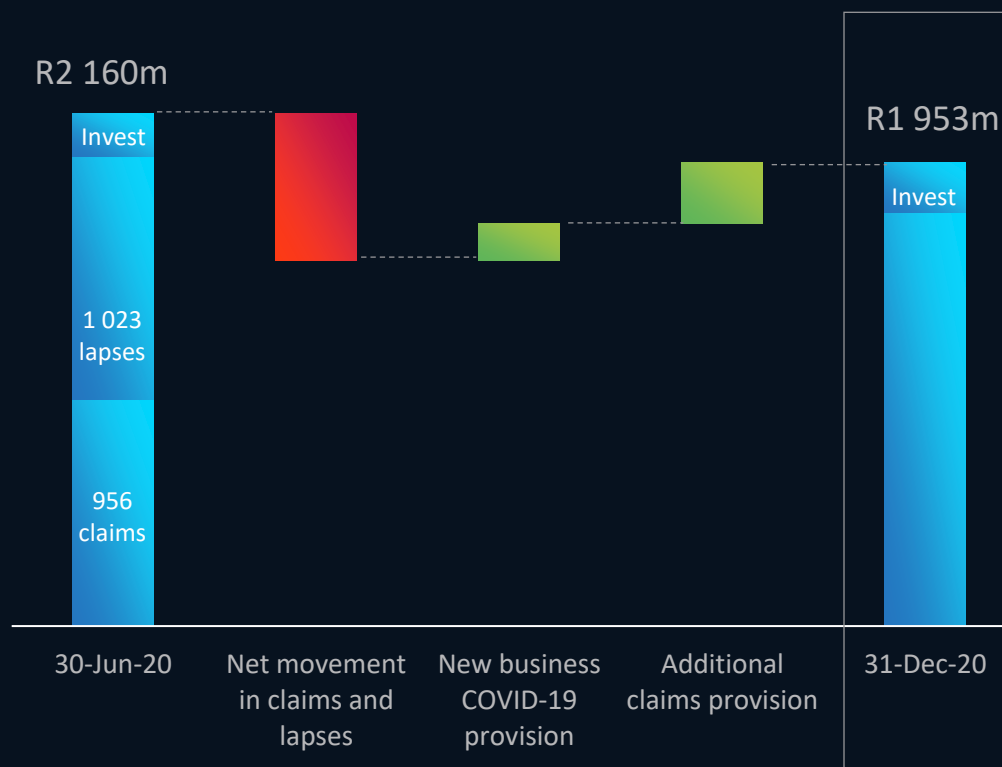


*GBP11.7m released from COVID provision used to strengthen long-term lapse assumptions and net movements in UPR



Discovery Life

Discovery Invest

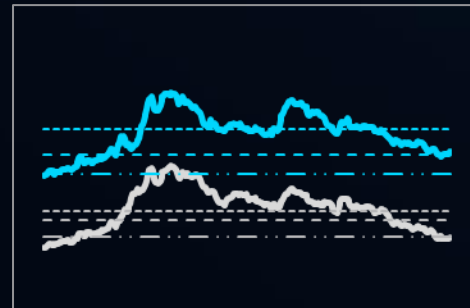


DL claims reserve at the end of January can **cover a 3rd wave**
 ~ equal to the 1st wave, plus the lapse provision



4

Discussion Points: Currency & Interest Rate Volatility





Currency and interest rates volatile over the period

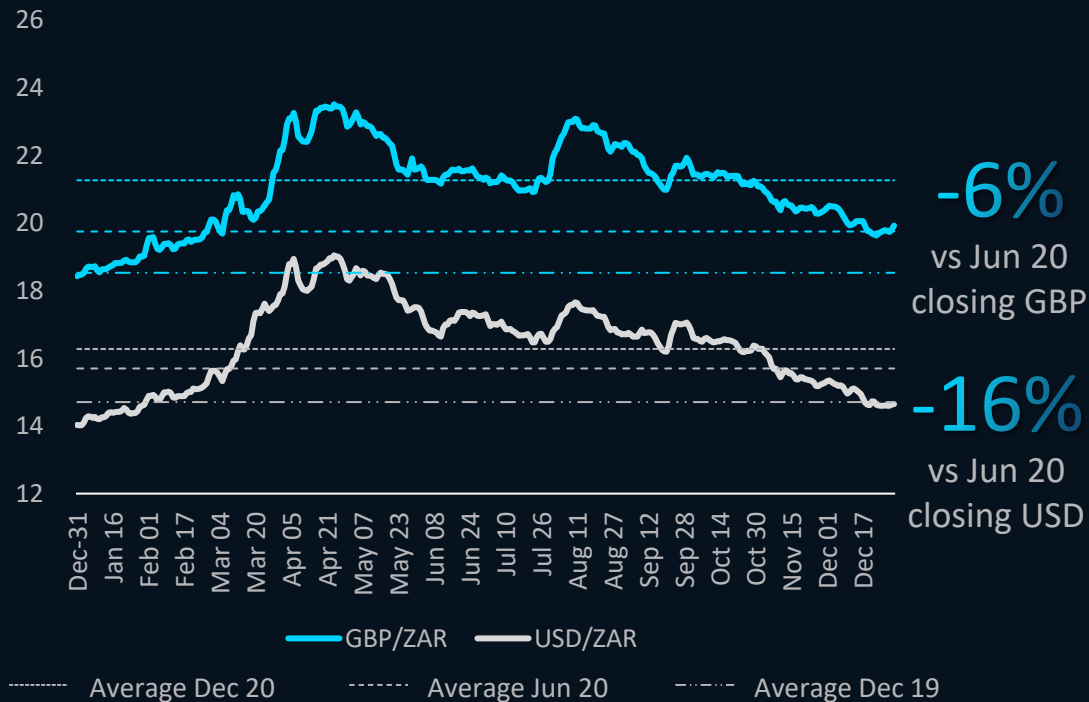
Rapid strengthening of the rand

+11%

in USD average
vs Dec 19

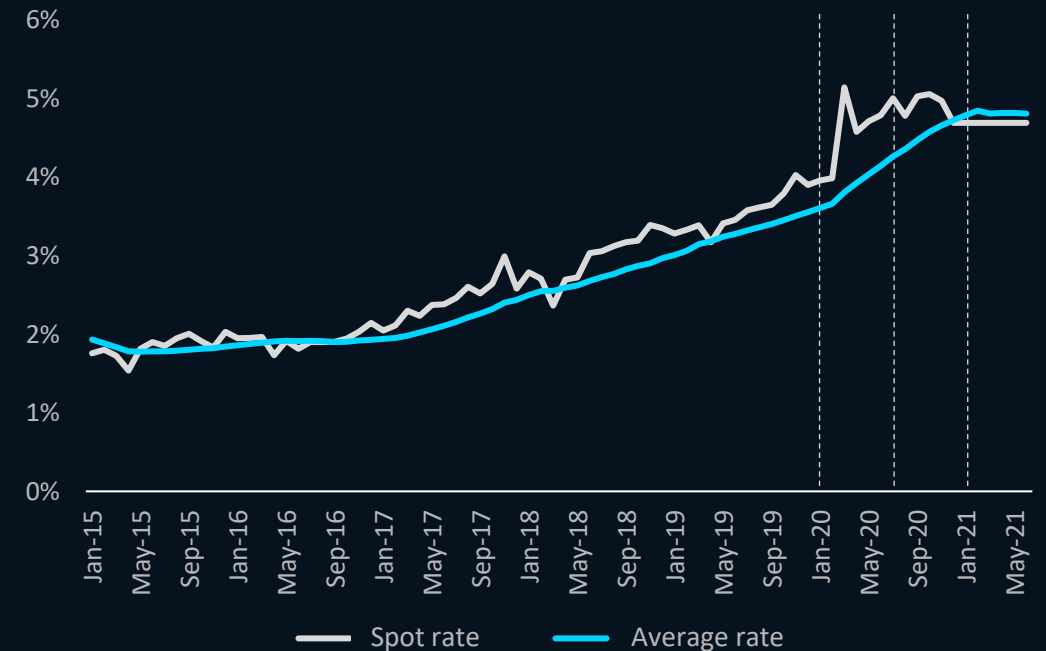
+15%

in GBP average
vs Dec 19



Sustained elevated long-term interest rates in SA

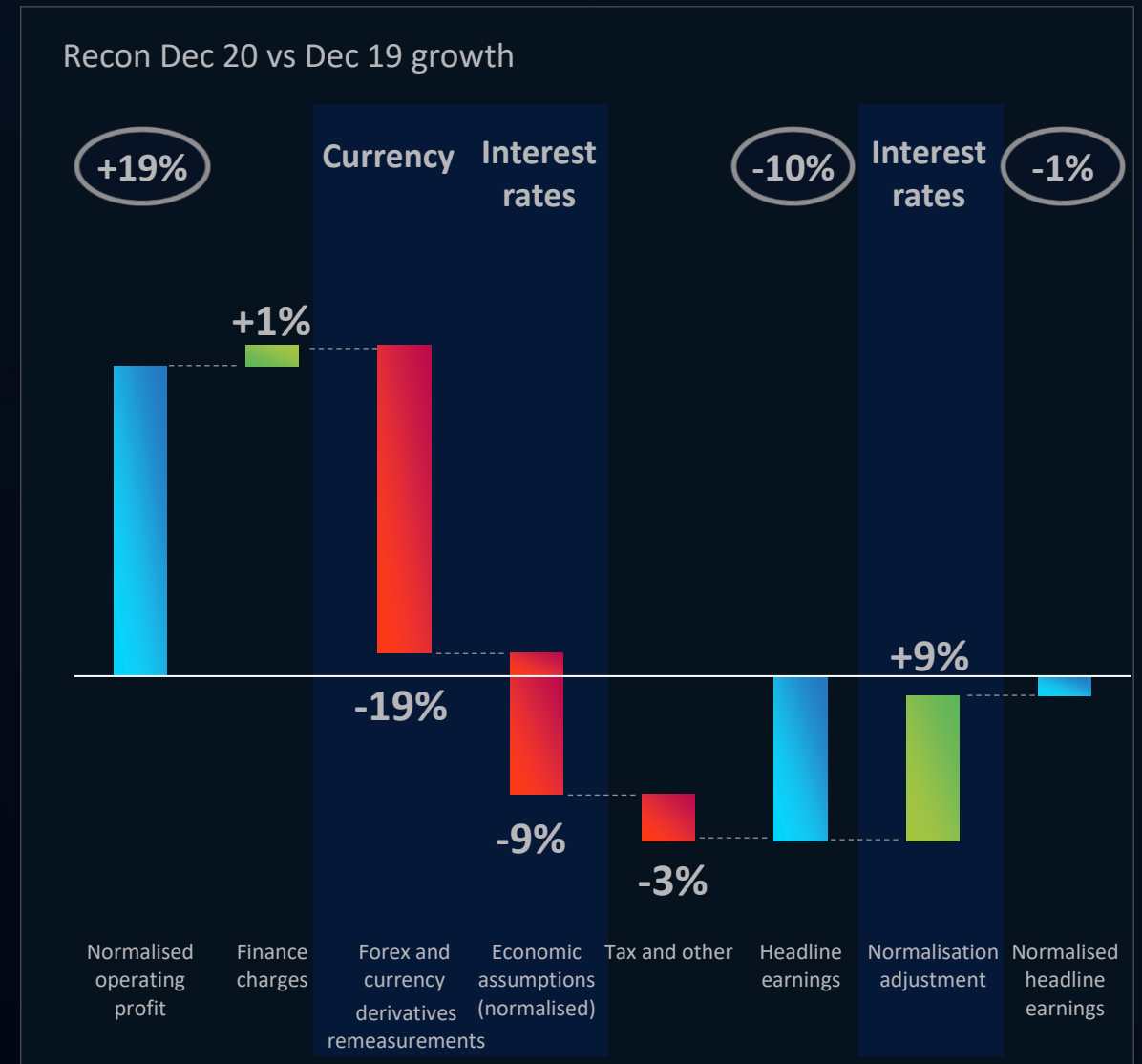
Spot vs Average real rates: 20-year point





Reported profit for period affected by currency and interest rates

Rm	6 months ended Dec 2020	6 months ended Dec 2019	%
Normalised profit from operations before economic assumptions adjustments	4,507	3,792	19%
Economic assumptions adjustment DL*	(493)	-	
Economic assumptions adjustment VL*	1	(230)	
Normalised profit from operations after economic assumptions adjustments	4,015	3,562	13%
Finance charges excl. 1DP finance lease	-649	-581	
Forex and remeasurement of currency derivatives	-569	33	
Deferral fees related to Prudential Book transfer	-96	0	
Investment income and fair value remeasurements	149	196	
Other	-231	-235	
Profit before tax	2,619	2,975	-12%
Tax	(744)	(897)	
Profit attributable to preference shareholders	(34)	(41)	
Profit attributable to equity holders	1,841	2,037	-10%
Other	1	10	
Headline earnings	1,842	2,047	-10%
Economic assumptions adjustment (DL and VL)*	354	186	
Remeasurement of currency derivatives	149	8	
Other	-61	71	
Normalised headline earnings	2,284	2,312	-1%



*Net of discretionary margins and net of gains/(losses) on derivatives to offset such changes in economic assumptions



4

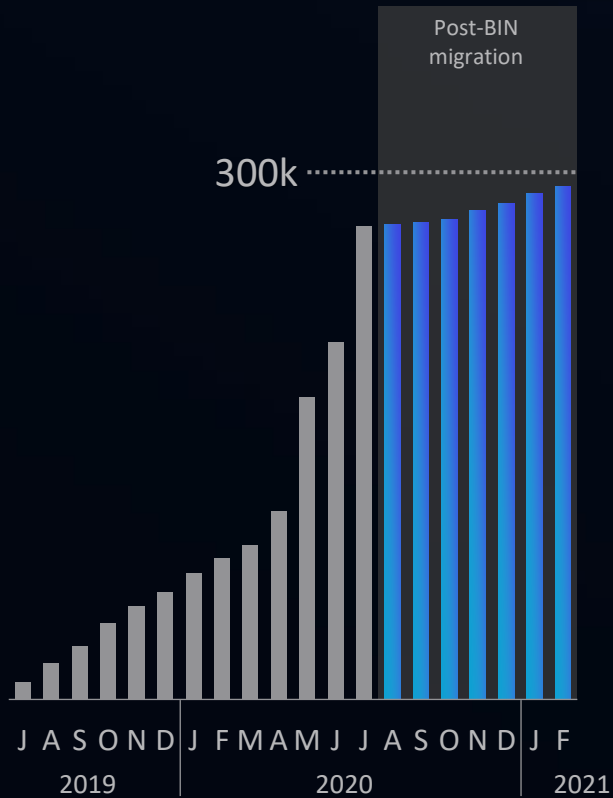
Discussion Points: Growth in Discovery Bank





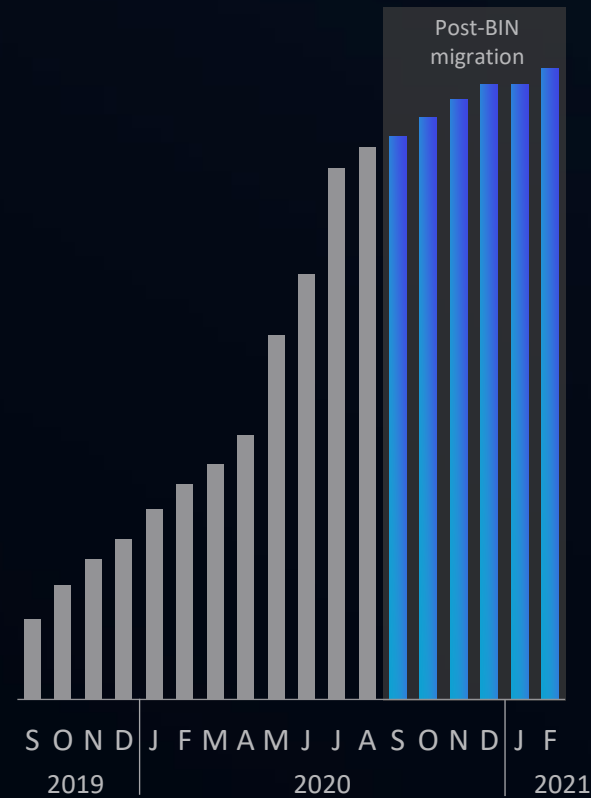
Clients

298k



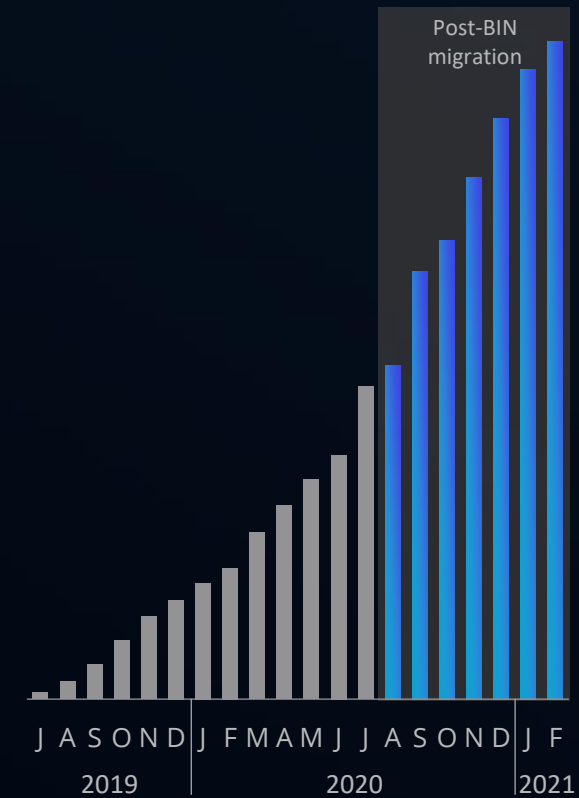
Accounts

556k



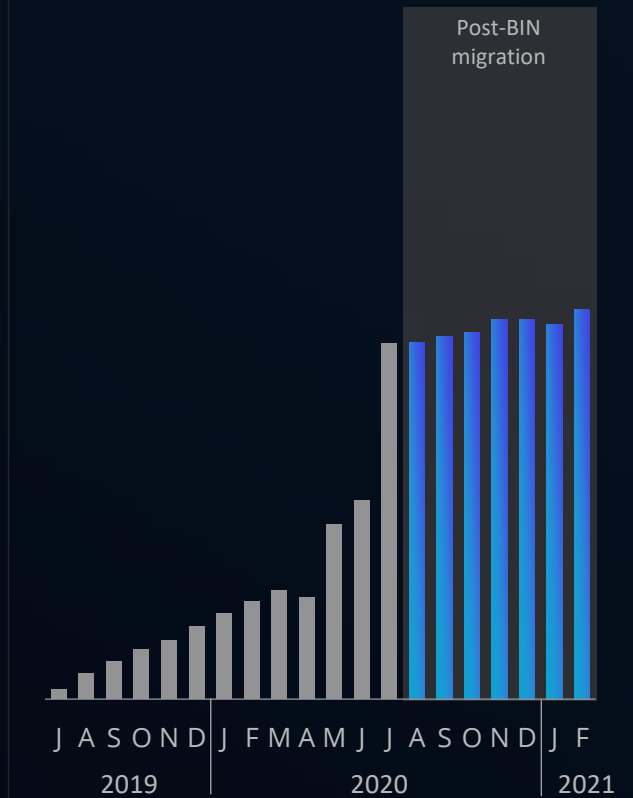
Retail deposits

R6.3bn



Advances

R3.9bn

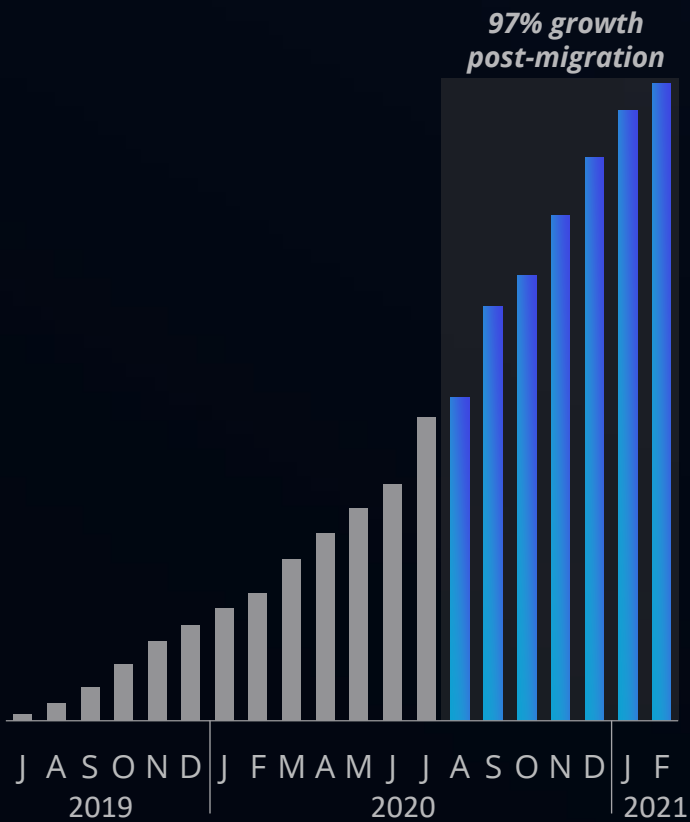


Deposits have grown strongly, in line with the strategy to build a retail deposits-led bank



Retail deposits

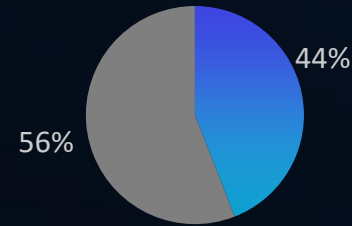
R6.3bn ↑



Deposits are sticky and diverse

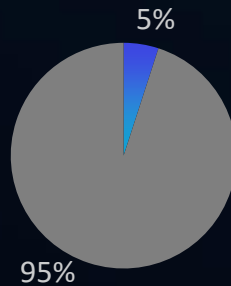
Retail deposits tenure

- > 3 months
- < 3 months

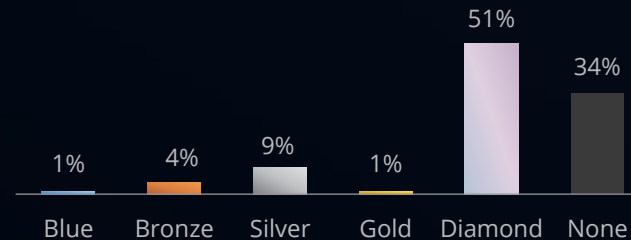


Concentration risk

- Top 10 deposits as a % of total
- Other as a % of total



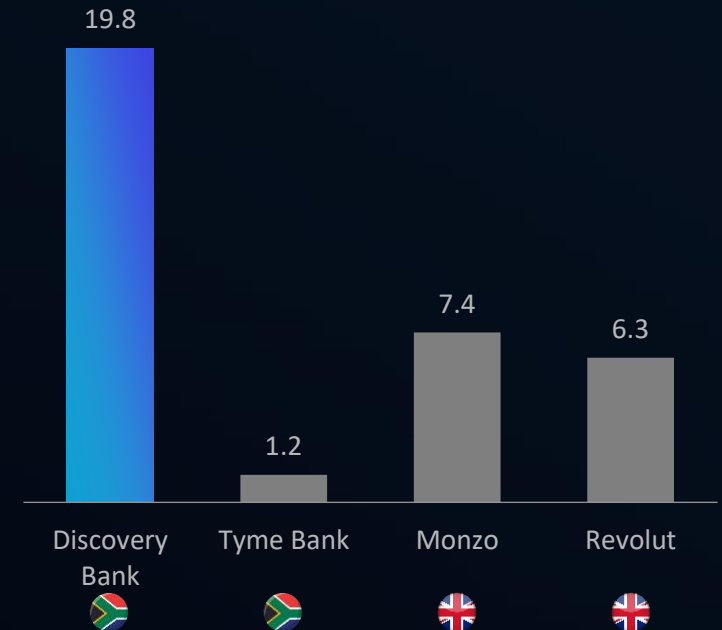
By Vitality Money status



International comparison

Discovery Bank deposit growth is best in class after 14 months of operation

Deposits per customer (R '000)

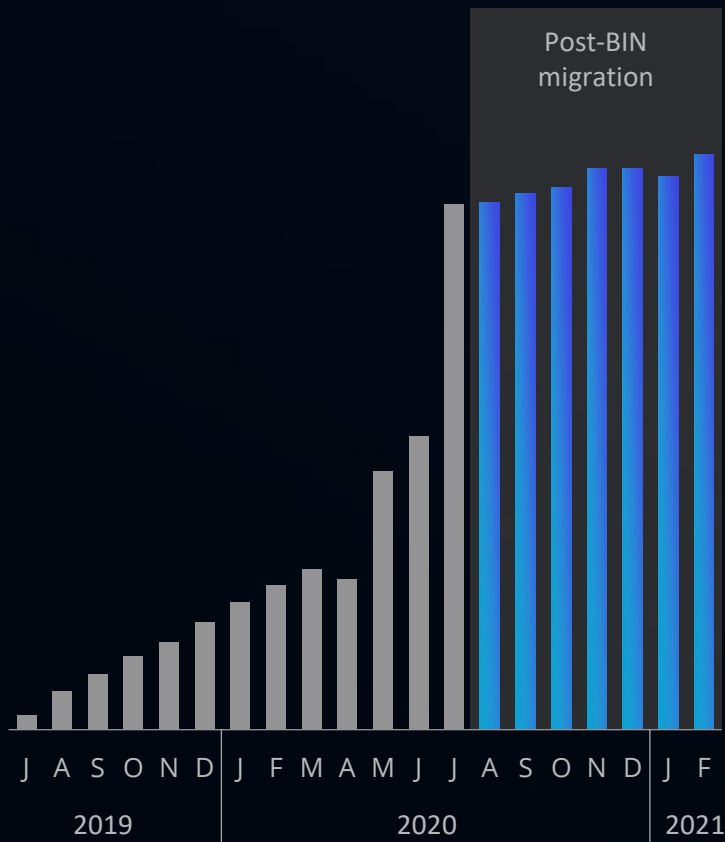


Advances remained flat reflecting the decrease in consumer spending and prudent lending approach

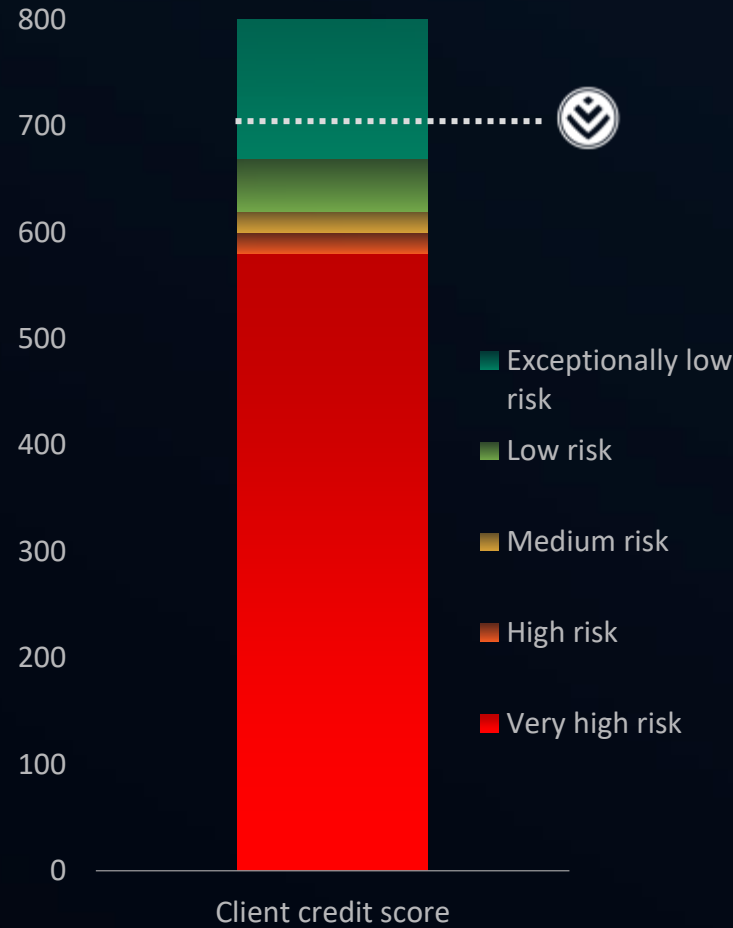


Advances

R3.9bn



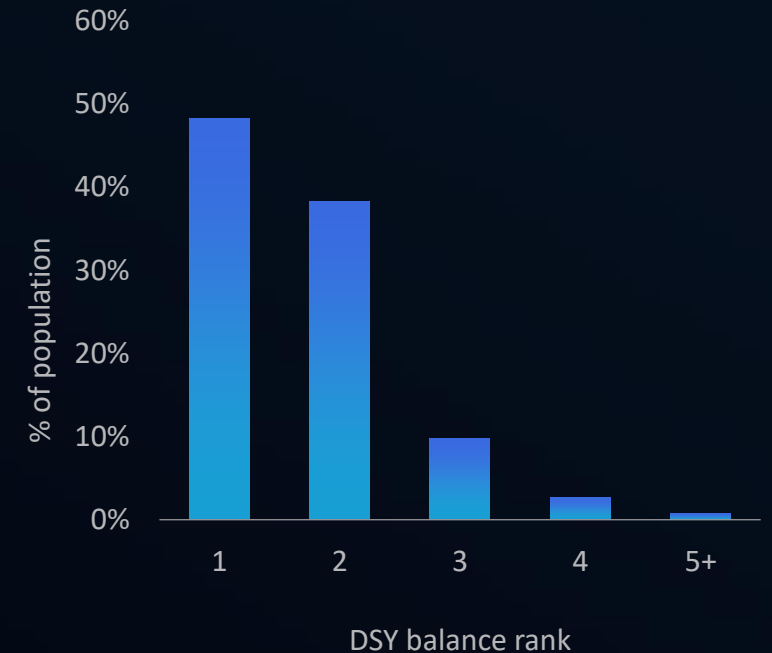
Credit quality



Market share

48% of clients have their largest credit card balances with Discovery Bank

Discovery Bank balance rank



Value drivers are trending in the right direction and the Bank is well-positioned for growth



Value drivers

Strategic focus areas



1

Accelerating growth



Large and highly productive tied adviser base
Open to >5,000 advisers (tied and IFAs)



Expanding distribution channels and leads sources
Thought leadership and brand awareness

2

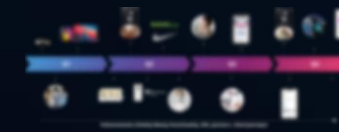
Leveraging the composite model



Pre-scoring Vitality members for credit
Targeting of engaged Vitality clients
Real-time upselling

3

Differentiated, market-leading products



Numerous features and propositions in the pipeline

4

Unparalleled service and operational excellence



Zoom co-browsing
Enhanced onboarding
Streamlined credit application process
Accelerated issue resolution



5

DMTN Issuance

ISSUER	Discovery Limited
SIZE (NOMINAL AMOUNT)	R10 billion of which 8 issuances made totalling R7.8 billion
GUARANTORS	Discovery Health and Discovery Vitality (as per current SA Bank Loans)
LISTING	The Interest Rate Market of the JSE Limited
TYPES OF NOTES	Notes that can be issued under the Programme may comprise: <ul style="list-style-type: none">• Senior notes (the "Senior Notes");• Subordinated notes which are subordinated to the Senior Notes (the "Subordinated Notes"); and/or• Capital subordinated notes with terms capable of qualifying the proceeds of such Notes as Regulatory Capital. Regulatory Capital Notes will require FSB approval at the time of Issuance.
CROSS DEFAULT	The cross default will be triggered by a default by Discovery Limited and/or its Guarantors in relation to the greater of R50m or 1% of EBITDA
MATERIAL SUBSIDIARY	A material subsidiary is defined as: <ul style="list-style-type: none">• any Guarantor; and• any Subsidiary<ul style="list-style-type: none">• of which the Issuer owns more than 50% (fifty percent) of the ordinary shares and• which has EBITDA (calculated on an unconsolidated basis), representing 10% (ten percent) or more of the EBITDA of the Discovery Group (calculated on a consolidated basis), according to the methodology used in the latest audited financial statements of the Issuer, consistently applied, but excluding any Subsidiary
OPTIONAL REDEMPTION EVENTS	Investors will have the option to redeem their Notes should the following events occur: <ul style="list-style-type: none">• Issuer is no longer listed on a Financial Exchange• The Notes are no longer listed on a financial Exchange• There is no rating assigned to the Notes
EVENTS OF DEFAULT	Standard events of default including but not limited to non-payment, breach of the negative pledge, liquidation or winding up, judicial proceedings, cross default, inability to continue to operate the whole or substantial part of the business



Key features of the DMTN programme

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DMTN issuances to date

Stock code	DSY01	DSY02	DSY03	DSY04	DSY05	DSY10U ¹ & DSY11U ¹	DSY12U ¹
Nominal Value (Rm)	500	2,000	200	1,000	500	2,500	1,100
Tenor (years)	5	7	7	8	3	5	3
Date Issued	21-Nov-17	21-Nov-17	21-Nov-17	29-Aug-18	28-July-20	21-Feb-20	10-Mar-20
Maturity Date	21-Nov-22	21-Nov-24	21-Nov-24	29-Aug-26	21-Aug-23	25-Feb-25	10-Mar-23
Type of Notes	Floating Rate	Floating Rate	Fixed Rate	Floating Rate	Floating Rate	Fixed	Fixed
Pricing Benchmark	3m Jibar	3m Jibar	10.46%	3m Jibar	3m Jibar	9.615%	8.915%
Clearing spread (bps)	161	191		180	205		
Interest Payments	Quarterly	Quarterly	Semi-annual	Quarterly	Quarterly	Quarterly	Quarterly

¹ Unlisted notes underwritten by a Bank which are structured as flexible short-term notes



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March 2021