



Discovery

# AUDITED RESULTS

For the year ending 30 June 2023



# Performance overview



Normalised operating profit  
**+24%**  
to R11 661m

Core new business  
**+12%**  
to R22 788m

Headline earnings  
**+5%**  
to R5 490m

Normalised headline earnings  
**+32%**  
to R7 678m

Excluding discontinued products like VitalityInvest and Ping An Health reinsurance business

# Focal areas



**1** Growing quality earnings with a robust balance sheet

**+12%**  
New business

**+24%**  
Operating profit

**64%**  
Cash conversion

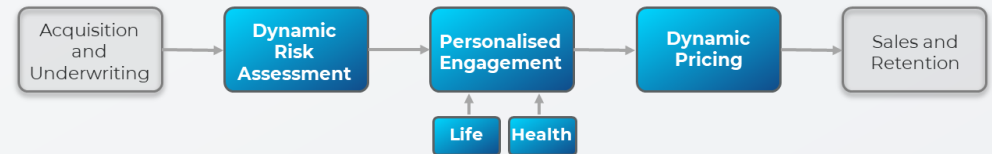
**20%**  
FLR

**2** A clear strategy per composite, intensifying focus on key initiatives and ceasing those with marginal benefits

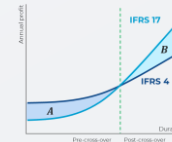
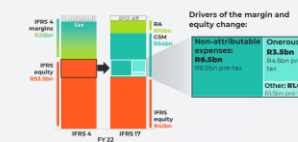


**10.6%**  
Investment in New  
excl discontinued UK

**3** Evolving the Vitality Shared-Value Insurance Model



**4** Transitioning to IFRS 17

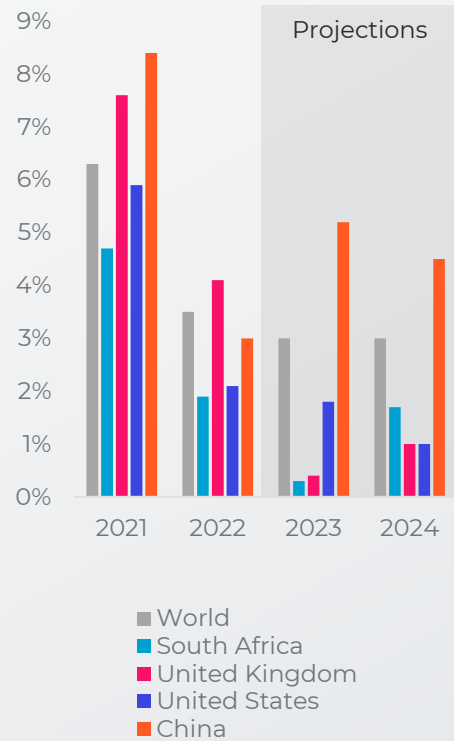


# Slowing global economic growth but businesses robust



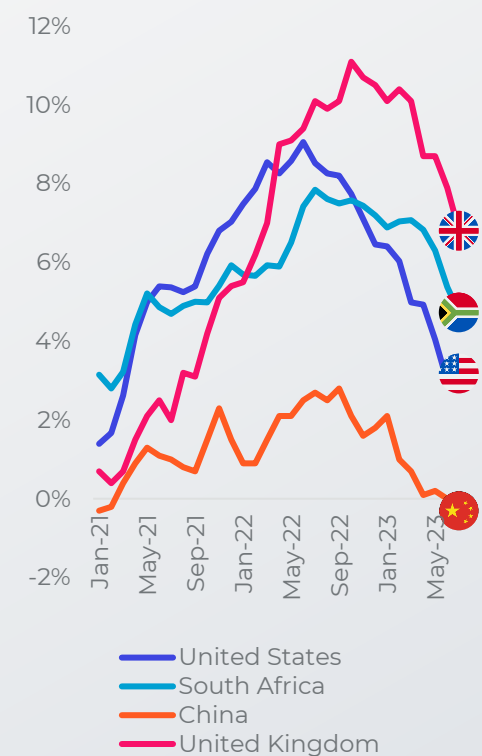
## Global growth under pressure

Real GDP growth<sup>1</sup>



## Central bankers remaining cautious despite inflation cooling globally

CPI inflation rates<sup>2</sup>



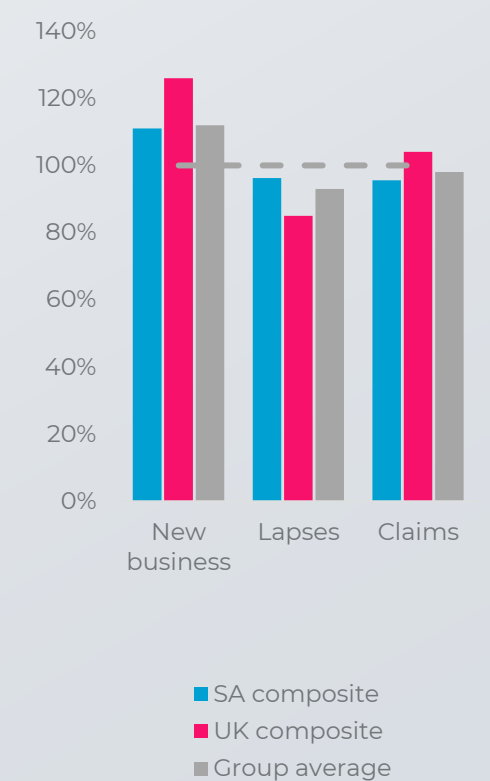
## Volatile exchange rates

USD/ZAR and GBP/ZAR exchange rates



## Actuarial dynamics remain robust




New business (YoY), claims and lapses AVE



<sup>1</sup> Source: International Monetary Fund, World Economic Outlook, July 2023 Update  
<sup>2</sup> Sources: US Bureau of Labour statistics, StatsSA, Statista, Office for National Statistics  
<sup>3</sup> Source: Bank for International Settlements

# Strong operating performance



|   |   | <b>R11 661m</b>         |              | <b>R22 788m</b>                 |                          | <b>R4 940m</b>              |             |
|---|---|-------------------------|--------------|---------------------------------|--------------------------|-----------------------------|-------------|
|   |   | <b>+24%</b>             |              | <b>+12%</b>                     |                          | <b>+44%</b>                 |             |
| ZARm  |   | <b>Operating profit</b> |              | <b>New business<sup>1</sup></b> |                          | <b>Non-insurance income</b> |             |
|    | Health  | 3 854                   | +7%          | 8 678                           | +19%                     | 1 201                       | +10%        |
|   | Life  | 4 807                   | +19%         | 2 838                           | +12%                     |                             |             |
|   | Invest  | 1 560                   | +30%         | 3 050                           | +4%                      |                             |             |
|   | Insure  | 62                      | +138%        | 1 249                           | +0%                      |                             |             |
|   | Bank  | -767                    | -23%         |                                 |                          | 1 517                       | +60%        |
|   | Other SA initiatives                              | -312                    | +28%         | 631                             | -25%                     |                             |             |
|   | Central costs                                     | -124                    | n/a          |                                 |                          |                             |             |
|   | <b>SA</b>   | <b>9 096</b>            | <b>+22%</b>  | <b>16 818</b>                   | <b>+11%</b>              | <b>2 718</b>                | <b>+33%</b> |
|    | VitalityHealth                                    | 1 283                   | -3%          | 2 064                           | +19%                     |                             |             |
|   | VitalityLife                                      | 1 039                   | +55%         | 1 721                           | +37%                     |                             |             |
|   | Closure costs of Vitality Invest and Vitality Car | -455                    | -0%          |                                 |                          |                             |             |
|   | Other initiatives and central costs               | -79                     | +32%         |                                 |                          |                             |             |
| <b>UK</b>   | <b>1 788</b>                                      | <b>+21%</b>             | <b>3 785</b> | <b>+26%</b>                     |                          |                             |             |
|  | Vitality Network                                  | 411                     | +26%         |                                 |                          | 2 222 <sup>3</sup>          | +59%        |
|   | VHI - Other                                       | -195                    | +1%          |                                 |                          |                             |             |
|   | VHI - Ping An Health Insurance                    | 596                     | +76%         | 2 185 <sup>2</sup>              | -1%                      |                             |             |
|   | Other initiatives and central costs               | -35                     | +46%         |                                 |                          |                             |             |
| <b>Vitality Global</b>  | <b>777</b>  | <b>+74%</b>             | <b>2 185</b> | <b>-1%</b>                      | <b>2 222<sup>3</sup></b> | <b>+59%</b>                 |             |

<sup>1</sup> Excl products in run down

<sup>2</sup> PAHI own licence

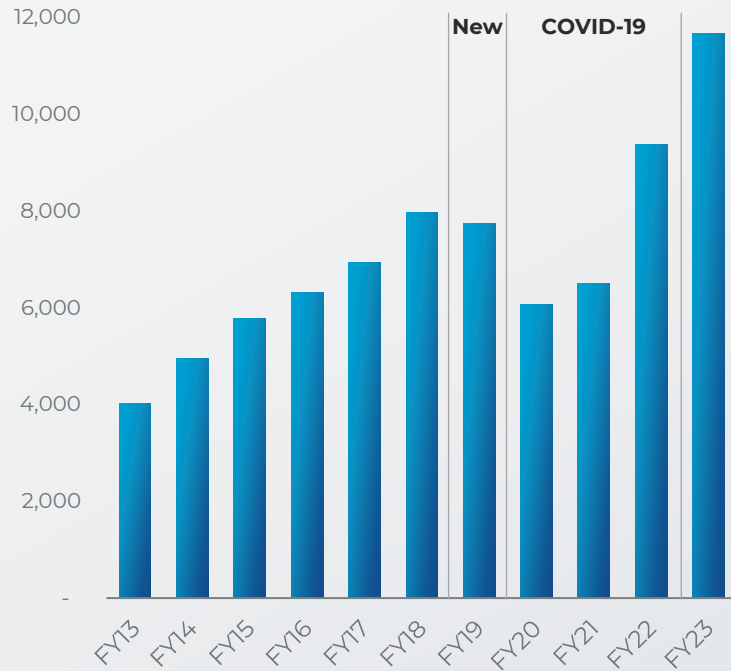
<sup>3</sup> VG income excludes cost recoveries and rewards

# Strong operating performance



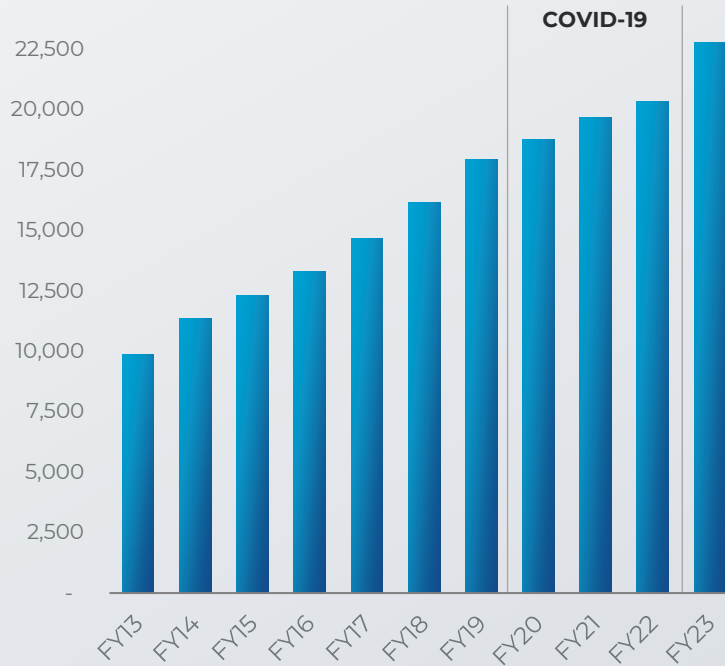
## Operating profit

**R11 661m**



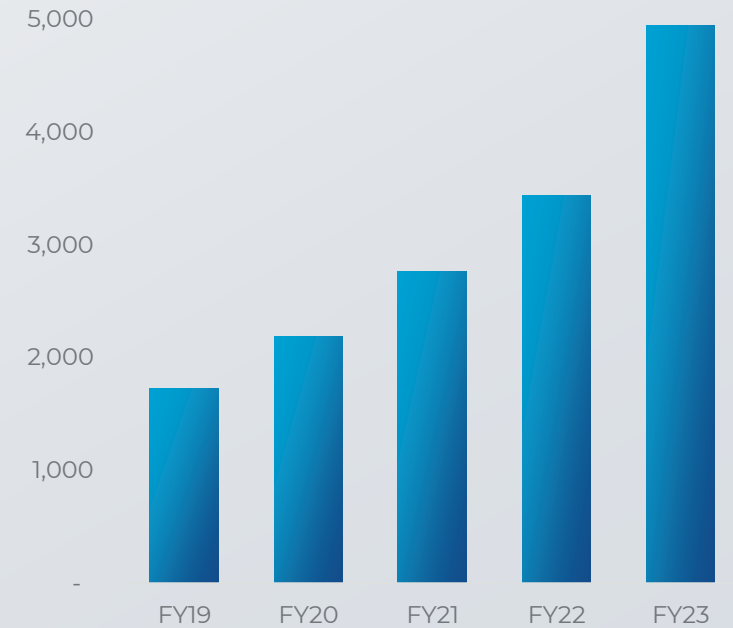
## Core new business API

**R22 788m**



## Total income from non-insurance business lines

**R4 940m**



# Focus on key differentiating initiatives

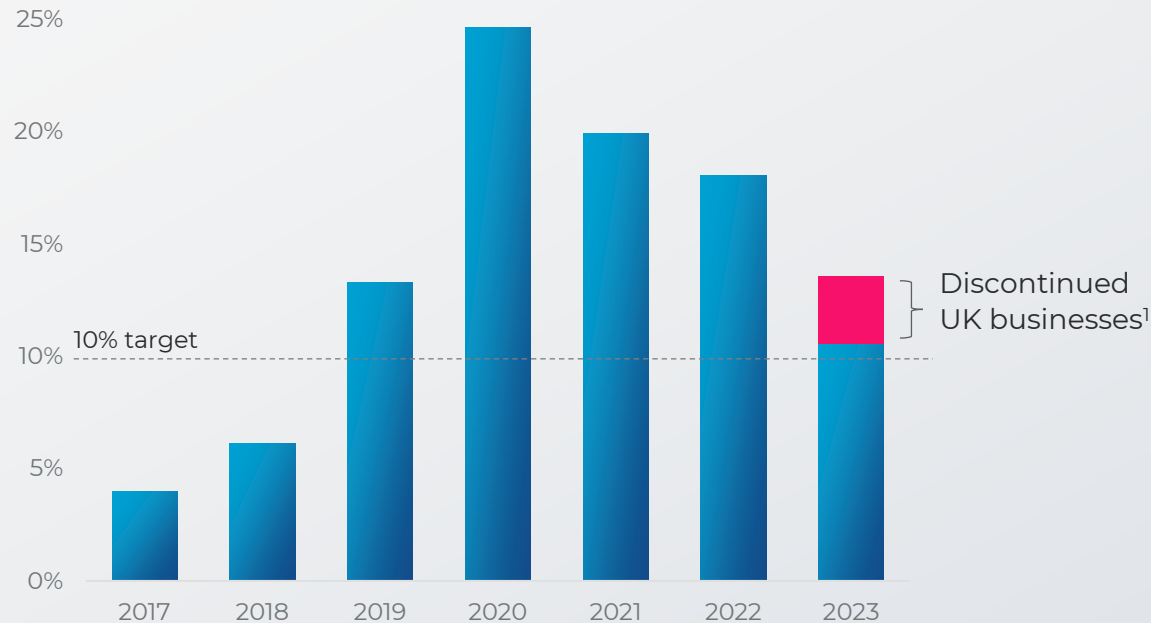


## Decreased investment in New Initiatives

Investment in New Initiatives (%)

# 10.6%

13.6% incl. discontinued UK initiatives



## Going forward

- **Discovery Bank** due to reach operational break-even in FY24
- **Africa Health** merged into Discovery Health to provide focused health expertise to multinational clients in Africa
- **Umbrella Funds** to be absorbed into a focused Corporate and Employee Benefits business unit
- **Vitality1** to be folded into Vitality Global
- **Vitality Invest** to be closed by end of CY23
- **Vitality Health International** a key expansion strategy for Vitality Global

<sup>1</sup> VitalityInvest and VitalityCar write-down

# Strong growth in Group Embedded Value

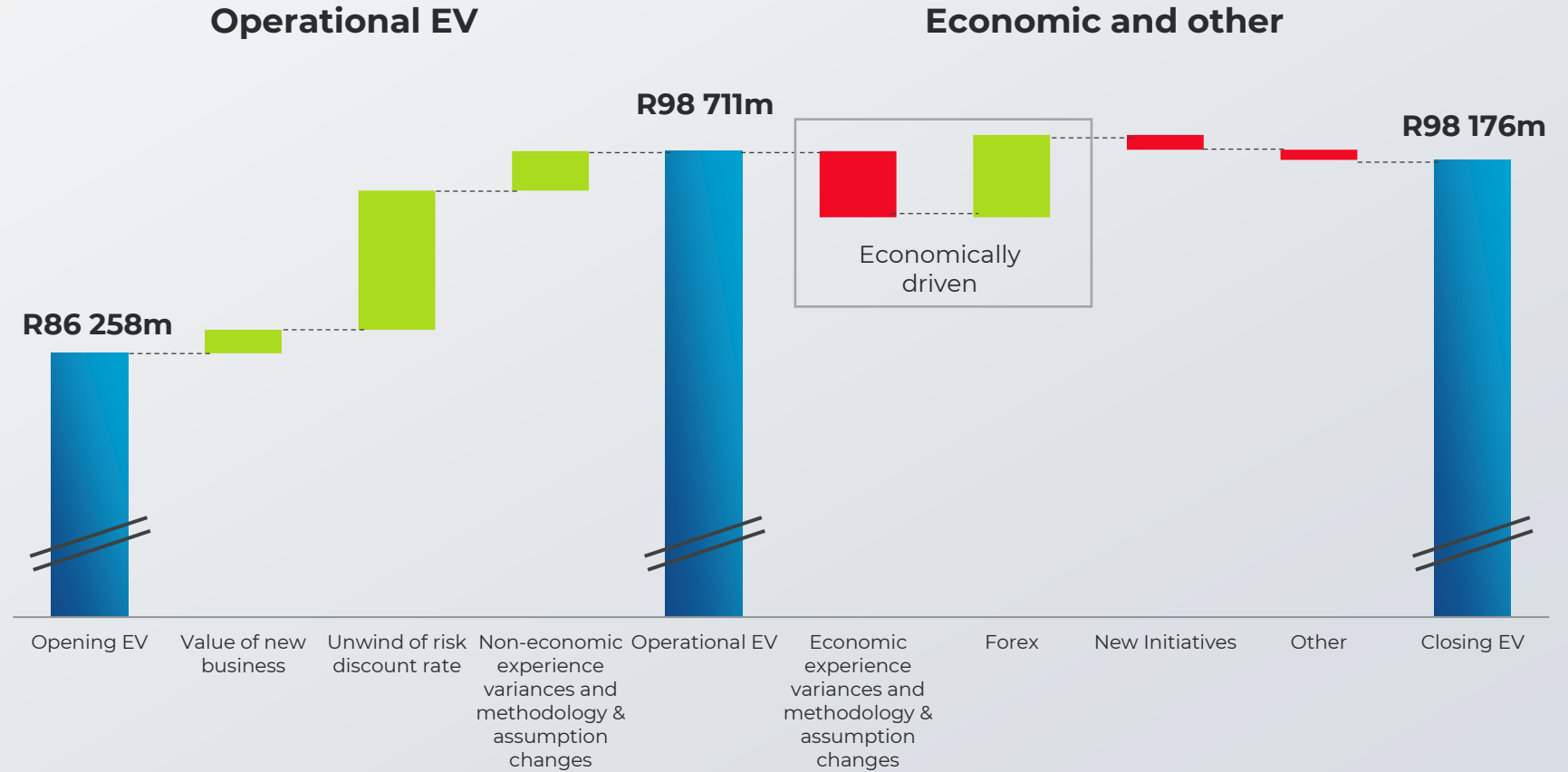


## Positive variances

**13.2% RoEV**

Positive non-economic experience variances (Rm)

|                     |              |
|---------------------|--------------|
| Health <sup>1</sup> | <b>703</b>   |
| Life                | <b>521</b>   |
| VitalityHealth      | <b>555</b>   |
| VitalityLife        | <b>819</b>   |
| <b>Total</b>        | <b>2 598</b> |



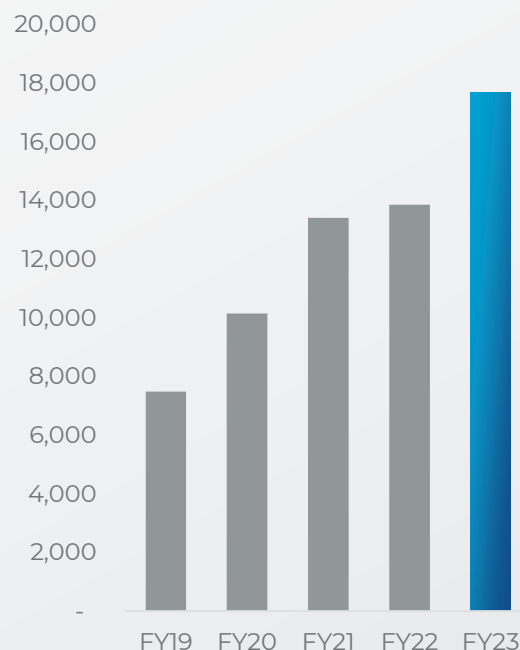


# Group well capitalised and robust cash generation



## Highly liquid across the Group

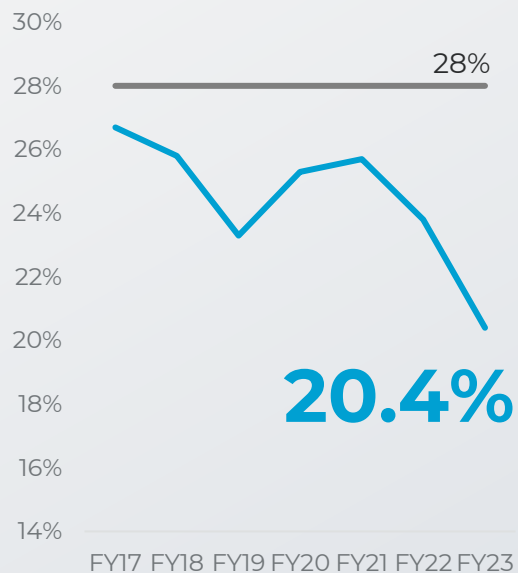
Liquid assets across the Group<sup>1</sup>, R millions



**64%** Cash conversion

## FLR within target

FLR

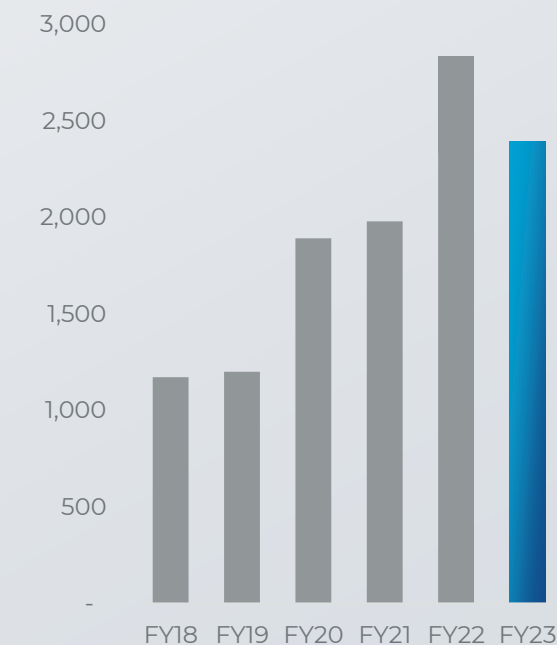


## Strongly capitalised

|                           | Jun 22 Cover | Jun 23 Cover |
|---------------------------|--------------|--------------|
| Life                      | 1.7x         | <b>1.9x</b>  |
| Insure                    | 1.2x         | <b>1.6x</b>  |
| VH                        | 1.5x         | <b>1.4x</b>  |
| VL                        | 2.1x         | <b>2.1x</b>  |
| Bank <sup>2</sup>         | 1.3x         | <b>1.3x</b>  |
| PAHI <sup>3</sup>         | 2.8x         | <b>2.7x</b>  |
| DHMS solvency (unaudited) |              | 30.2%        |

## Sufficient liquidity

Centre liquidity<sup>4</sup>, R millions



<sup>1</sup> Considers cash at centre, Discovery Life, Discovery Insure, VitalityHealth, VitalityLife and Discovery Bank  
<sup>2</sup> Capital Adequacy Ratio  
<sup>3</sup> Comprehensive Solvency Ratio, definition set by China Banking and Insurance Regulatory Commission  
<sup>4</sup> Centre cash + undrawn committed facilities

# Reported profit affected by interest rates



| Rm   | 12 months ended<br>Jun 2022 | 12 months ended<br>Jun 2023 | %           |
|--|-----------------------------|-----------------------------|-------------|
| <b>Normalised profit from operations before economic assumptions adjustments</b> | <b>9 384</b>                | <b>11 661</b>               | <b>+24%</b> |
| 1 Economic assumptions adjustment DL   | -651                        | -2 811                      |             |
| Economic assumptions adjustment VL   | 567                         | 147                         |             |
| Time value of swaption   | -454                        | -204                        |             |
| Investment income and fair value gains on financial instruments                  | 219                         | 538                         |             |
| Finance charges excl. 1DP finance lease  | -1 385                      | -1 664                      |             |
| Vaccination costs  | -157                        | -                           |             |
| Other (including IFRS reporting adjustments)                                     | -254                        | -277                        |             |
| <b>Profit before tax</b>   | <b>7 269</b>                | <b>7 390</b>                | <b>+2%</b>  |
| 2 Tax  | -1 790                      | -2 070                      |             |
| Profit not attributable to ordinary shareholders                                 | -57                         | -152                        |             |
| Loss on impairment and derecognition   | 44                          | 302                         |             |
| Other headline earnings adjustments  | -262                        | 20                          |             |
| <b>Headline earnings</b>   | <b>5 204</b>                | <b>5 490</b>                | <b>+5%</b>  |
| Economic assumptions adjustment (DL and VL) after tax and hedging                | 10                          | 1 936                       |             |
| Other  | 602                         | 252                         |             |
| <b>Normalised headline earnings</b>  | <b>5 816</b>                | <b>7 678</b>                | <b>+32%</b> |

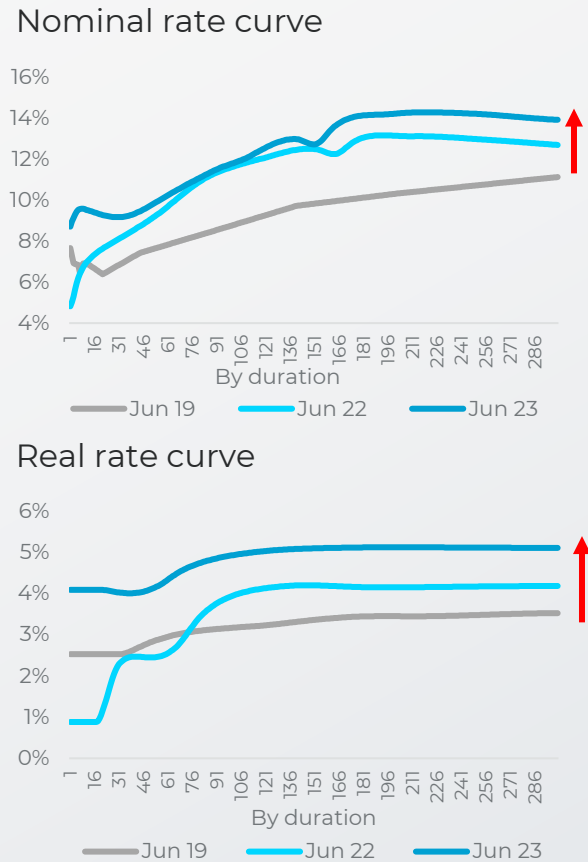
1 The sharp rise in both nominal and real interest rates in SA resulted in Discovery Life economic assumptions adjustments of R2 811 million

2 Lower effective tax rate in prior year with a significant driver being the DTA adjustment arising from a decrease in SA corporate tax rate to 27%

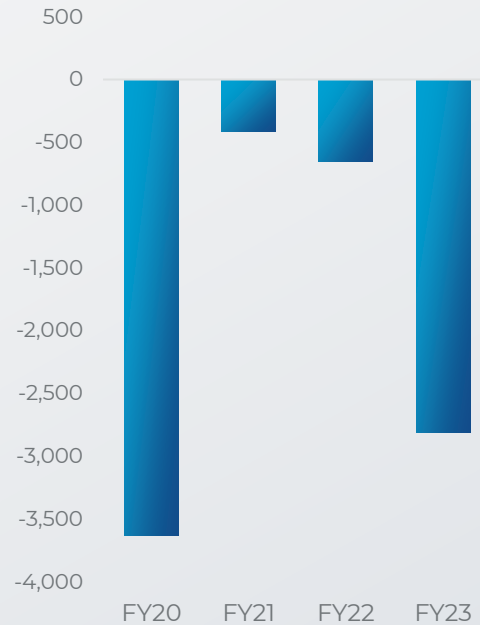
# Increase and shift in interest rates affected DL earnings



## Significant movements in SA yield curves impacted Discovery Life earnings



## Economic assumptions adjustments (Rm)<sup>1</sup>

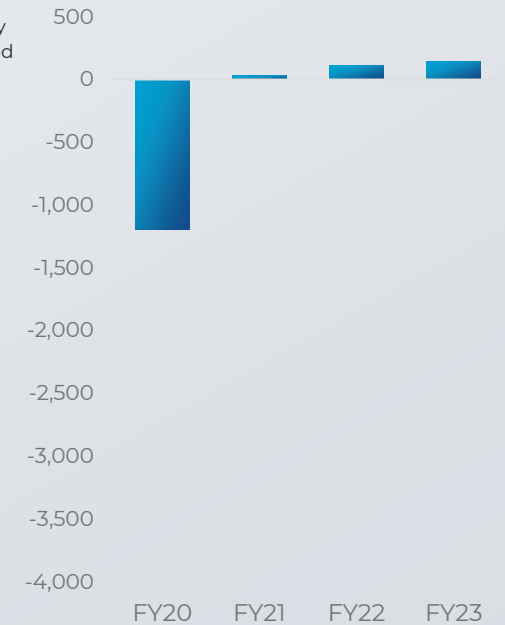


## UK hedging strategy led to lower IFRS 4 earnings volatility in VitalityLife

## UK 25-year SONIA rate



## Economic assumptions adjustments (Rm)<sup>1</sup>



**Under IFRS 17, OCI will reduce the volatility of IFRS earnings and effectively amortise changes over time**

<sup>1</sup> Economic assumptions adjustments before tax, net of VL hedging impacts

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**Dividend declaration of 110cps in respect of H2 FY23. In future, interim ordinary dividends are expected to be paid in the range of 30%-40% of the expected total annual ordinary dividend, in line with market practice, with the remainder of the dividend to be paid as a final dividend**

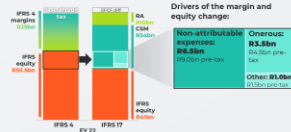


# IFRS 17 key messages



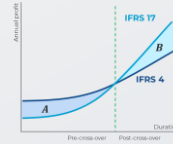
1

Value is largely unchanged



2

IFRS 17 margins increase by cR15bn with a concomitant cR12.5bn reduction in shareholder equity



3

Discovery's earnings are approaching cross-over



4

Volatility of future earnings buffered by CSM and the use of OCI

# Most significant impact is on the long-term insurance lines







1

No change in underlying value nor underlying economics

- No direct change to cash flows, underlying risk and reward of contracts. Tax cash flow impact expected to be immaterial
- No impact on regulatory or economic solvency, capital position or capital management
- Immaterial impact on Embedded Value
- Ability to pay dividend unaffected as cash flows and solvency remain unchanged

2

Accounting standard change that effects the timing of profit recognition, therefore affects transitional balance sheet

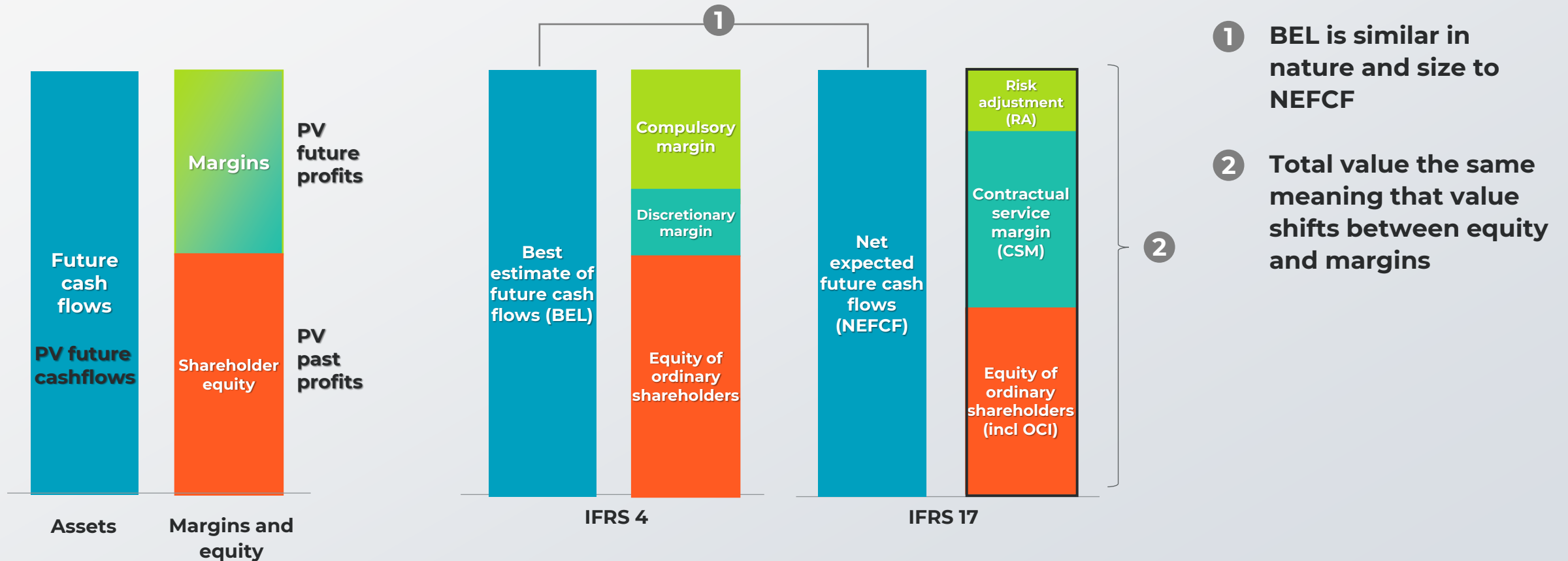
| Main businesses  | Impact resulting from IFRS 17 |  |
|--|-------------------------------|--|
|  Health                           | N/A                           | Not applicable   |
| Life (Individual)  | ⚑                             | <b>Significant</b>                                       |
| Life (Group)   | ≈                             | Minimal  |
|  Invest                           | ⚑                             | <b>Significant</b>                                       |
| Insure   | ≈                             | Minimal  |
| Bank   | N/A                           | Not applicable   |
|  VitalityHealth                   | ≈                             | Minimal<br>(but some impact regarding acquisition costs) |
| VitalityLife   | ⚑                             | <b>Significant</b>                                       |
|  VHI - Ping An Health Insurance | ≈                             | Minimal<br>(but some impact regarding acquisition costs) |
| Vitality Network   | N/A                           | Not applicable   |
| Vitality Health International  | N/A                           | Not applicable   |

# Value unchanged but reallocated



## Three conceptual value drivers

## Total value the same but reallocated



# Reason for impact on our long-term insurance lines



## Concentrated in long-term whole of life business with large upfront acquisition costs

|                                       | Vitality Life | Discovery Life     |   |
|---------------------------------------|---------------|--------------------|---|
| Launch                                | 2016          | 2000               | Relatively young life insurance companies |
| ACI increases                         | 4-9%          | 11.5% <sup>1</sup> | Rapidly growing                           |
| Proportion of life insurance business | 100%          | 80%                | Mono-line                                 |
| Average contract boundary             | 35 years      | 50 years           | Long-term contracts                       |
| Commission as % of first year premium | 210%          | 85%                | High upfront acquisition costs            |

<sup>1</sup> Average over the past 5 years

## Change in expense recognition and recognising onerous contracts

1

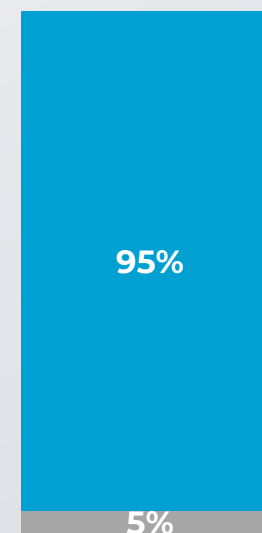
### IFRS 4

Under Discovery's application of IFRS 4 all acquisition expenses were included when ensuring a zero profit on initial recognition

### IFRS 17

IFRS 17 is much more specific on what is non-directly attributable and so are not offset by margins; hence margins are preserved under IFRS 17 and released as profits later

#### Discovery expenses



#### Directly attributable under IFRS 17

- Policy administration and maintenance costs
- Commission payments
- Underwriting costs
- Claim assessment and other claim-related costs
- Directly attributable allocated fixed and variable overheads

#### Non-directly attributable under IFRS 17

- Marketing and sponsorships
- Group executive and Group functions
- Research and development activities of new products
- Corporate initiatives

2

Under IFRS 17 onerous contracts immediately expensed, thereby preserving margins on profitable contracts



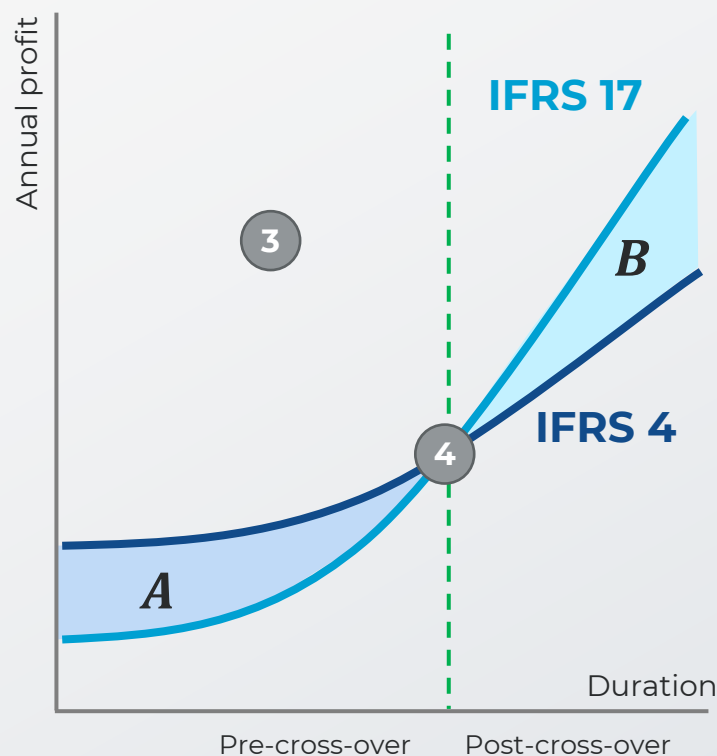
# Discovery's dynamics between margins and equity



## Simplified illustration

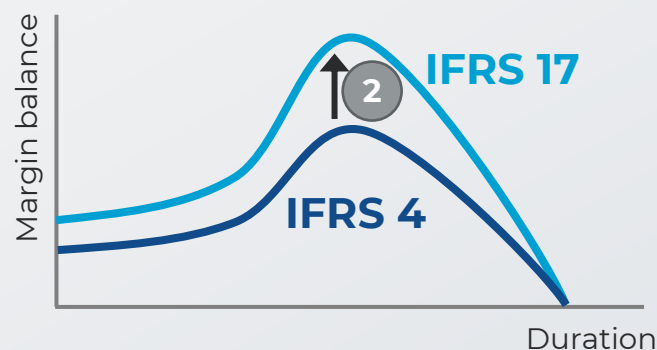
Layering on new business

### Earnings

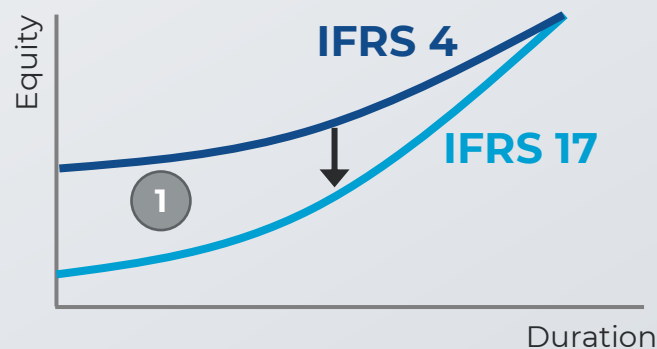


Run-off of an individual cohort

### Margin



### Shareholder equity



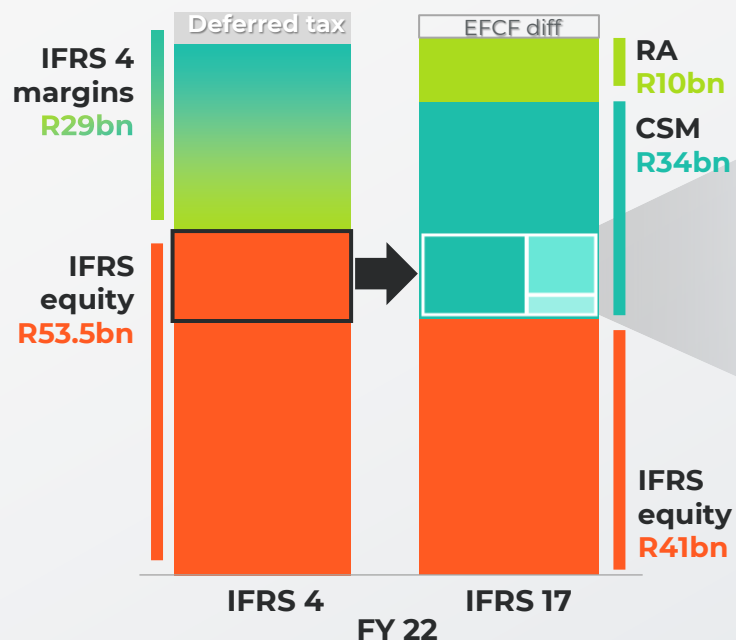
### Discovery's life businesses on transition from IFRS 4 to IFRS 17:

- 1 Shareholder equity always decreases
- 2 Margins always increase
- 3 Annual earnings depend on where in time the cross-over is
- 4 The cross-over point is the most optimal because earnings would be the same, margins would increase and the impact on equity is at a maximum

# Full retrospective approach over 20 years



## Drivers of the margin and equity change



|   |   |
|---|---|
| <b>Non-attributable expenses:</b><br>R6.5bn<br>R9.0bn pre-tax | <b>Onerous:</b><br>R3.5bn<br>R4.5bn pre-tax |
|   | <b>Other: R1.0bn</b><br>R1.5bn pre-tax      |

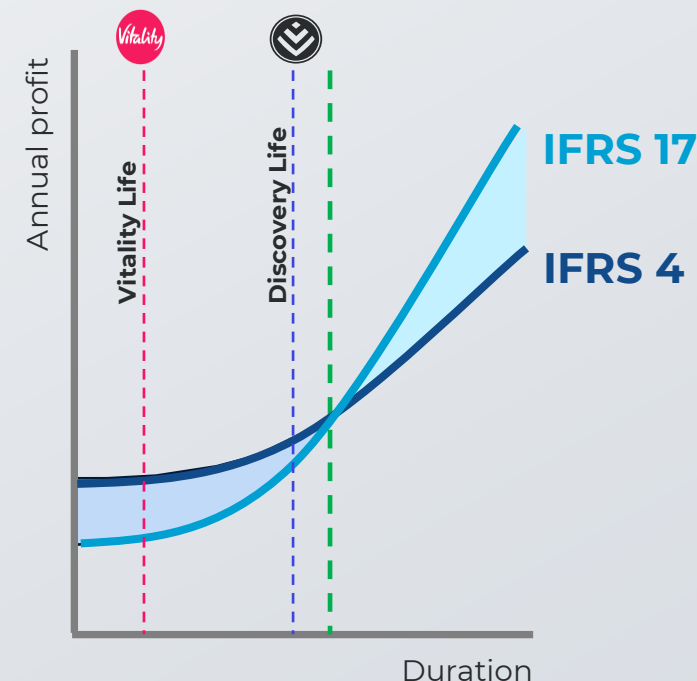
Total value largely unchanged

Total margins strengthened by cR15bn as at 1 July 2022

Strengthening of margins mirrored by a reduction of equity in range of R12bn to R13bn  
(R12.5bn used in the illustration)

- 1** Non-directly attributable expenses under IFRS 17  
c5% of total expenses<sup>1</sup>
- 2** Cohorting and onerous contracts: immediate expensing of loss making (onerous) contracts under IFRS 17  
c9% onerous<sup>2</sup>
- 3** Other: impacts incl. different treatment of basis changes and discount rates through the margin under IFRS 17

## Group is approaching cross-over

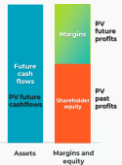


Discovery Group's cross-over will lag Discovery Life's, and its earnings as a whole under IFRS 17 are not expected to be significantly different to the IFRS 4 normalised operating profit in the interim, as the other businesses are largely unaffected

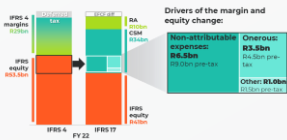
<sup>1</sup> Proportion of FY22 non-directly attributable expenses to the total Discovery marketing and administration and acquisition costs for insurance business lines

<sup>2</sup> Proportion of FY22 portfolio that is onerous

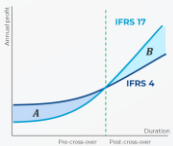
## On transition to IFRS 17:



The value stays largely the same



IFRS 17 margins will increase by cR15bn (gross of tax) and shareholder equity will reduce by a concomitant cR12.5bn (net of tax)



Overall, on transition to IFRS 17, Discovery is approaching the cross-over point, at which point earnings will be at the same level as under IFRS 4, and from there should continue to grow more strongly with the release of the additional margin over time



Future earnings should be less volatile due to additional CSM - buffering against basis changes for non-economic variances and a more stable release of profits. The use of OCI also buffers against basis changes for economic variances and reclassifies to profit or loss on systematic variances

# Driving our purpose as a force for good in a complex ESG space



## Focus areas and FY23 outcomes

**1** Making people healthier | **503m (+15%)** Healthy activities recorded<sup>1</sup> | **>3m (>2m)** Life years saved<sup>2</sup> | **R13.7bn (+20%)** Shared-value dividend<sup>3</sup> | **41m (+2%)** Lives impacted

**2** Restoring the climate and environment | **Lowest** Carbon emitter<sup>4,5</sup> | **18.5%** Lower carbon emissions<sup>5</sup> | **Discovery Green** Renewable energy platform launched

**3** Strengthening healthcare system and nation building | **~190,000 (+57%)** Potholes filled through Pothole Patrol<sup>6</sup> | **R33m Fund contribution** Essential healthcare services in rural communities | **R12m research grants** Predominantly black medical public sector specialists

**4** Ensuring diverse and inclusive workforce, leadership and board<sup>7</sup> |

|                      | Female           | Black            |
|----------------------|------------------|------------------|
| Staff                | <b>+3% (65%)</b> | <b>+5% (88%)</b> |
| Leadership           | <b>+0% (52%)</b> | <b>+2% (63%)</b> |
| Group Exec Committee | <b>+2% (19%)</b> | <b>+5% (26%)</b> |

**Board targets achieved**  
38% Black directors  
38% Female directors

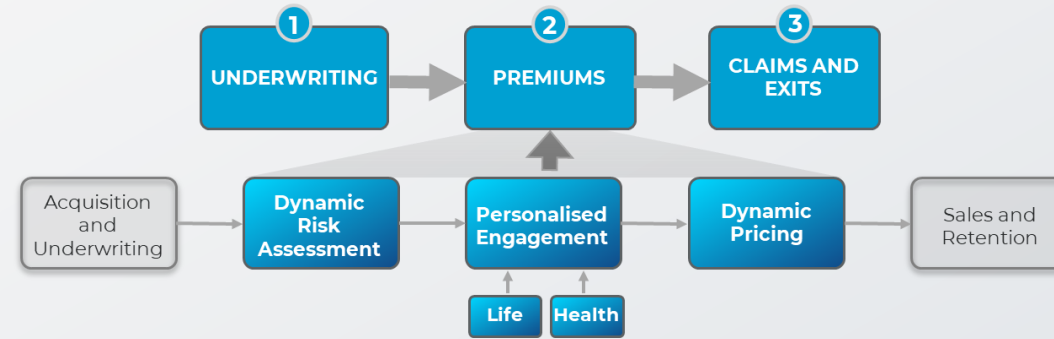
**5** Ensuring fair and responsible pay | **2<sup>nd</sup> of 19** Lowest income disparity ratio<sup>8</sup> | **Gender pay Gap** Has been closed to ~0% for same-role size | **Minimum pay** R180,000 threshold more than 3x prescribed min pay in SA

### ESG Ratings

**Highest** Peer rating<sup>4</sup> | **19.4** 2023 | **81%** 2023 | **#1** 2023 | **B-BEE 1** level 2023

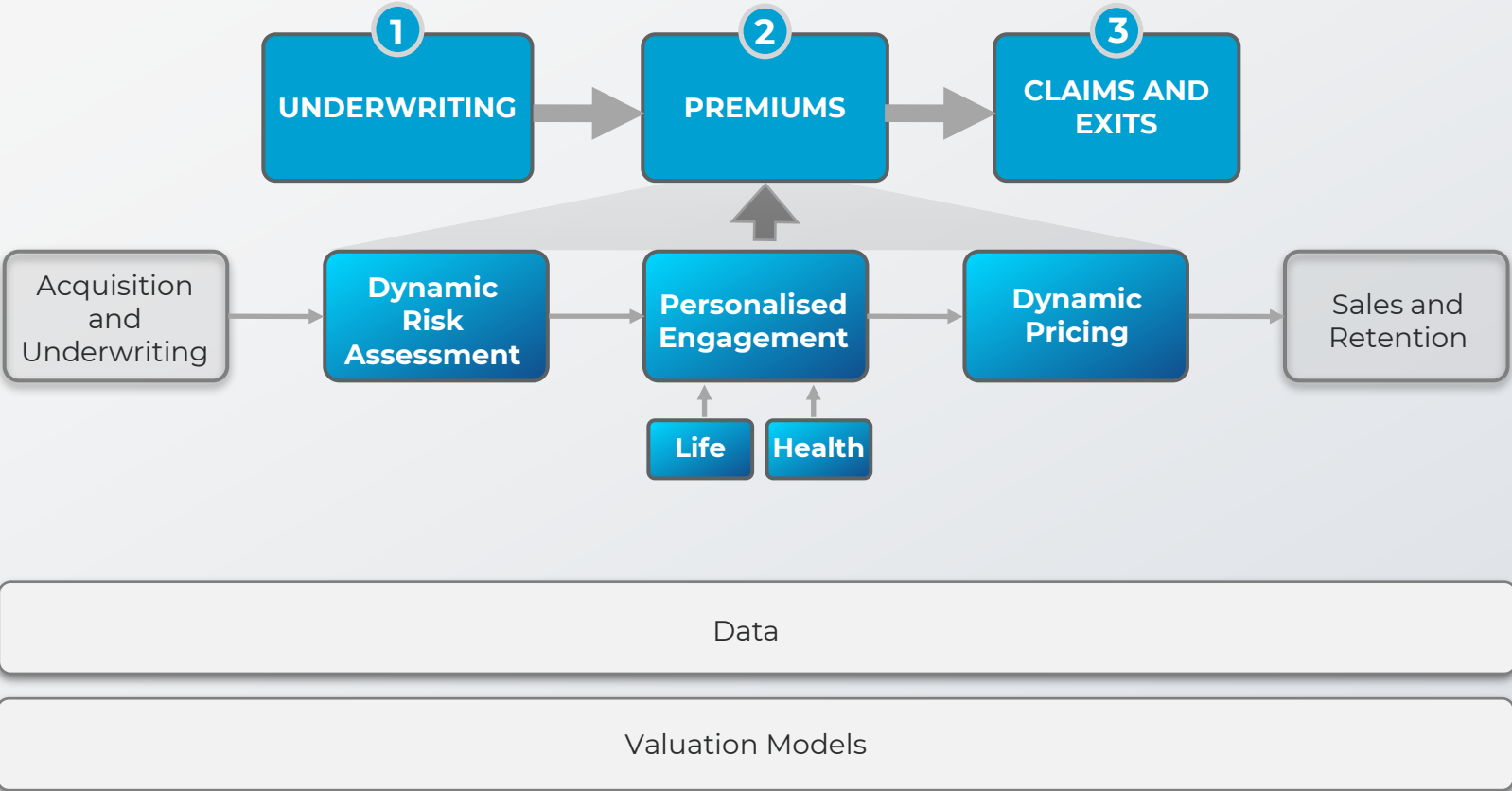
<sup>1</sup> Healthy activities include relevant physical activity events recorded and HealthyFood purchases; the prior year was restated to 438m to allow for duplications ; <sup>2</sup> Life years saved is calculated from healthy activities recorded, using the methodology in the informed by the Habit Index; <sup>3</sup> Includes R6.25bn and R6.33bn Shared-value and rewards returned to customers respectively and R1.15bn DHMS dividend from Vitality; <sup>4</sup> Relative to domestic life insurance peer group; <sup>5</sup> Relative to 2019 base, measured by Scope 1 + Scope 2 emissions, before verification ; <sup>6</sup> Potholes filled to date, with growth rate measured at June 2023; <sup>7</sup> 'Leadership' and 'staff' is for SA, with Black including AC and I; <sup>8</sup> Relative to SA financial services group;





# Advancing the shared value model

# Advancing the Shared-Value Model



Provides opportunity to impact the following key variables:

Product competitiveness and the rate of **sales**

$q_x$  The rate of **mortality**

$S_x$  The cost of **morbidity**

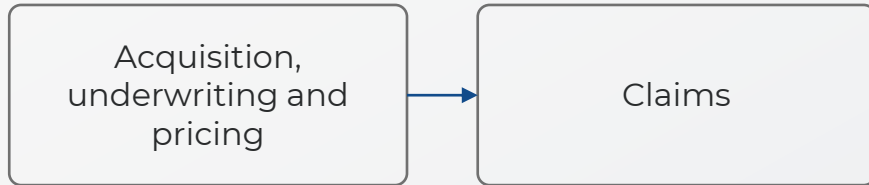
$l_x$  The rate of **lapse**

The rate of **upsell**

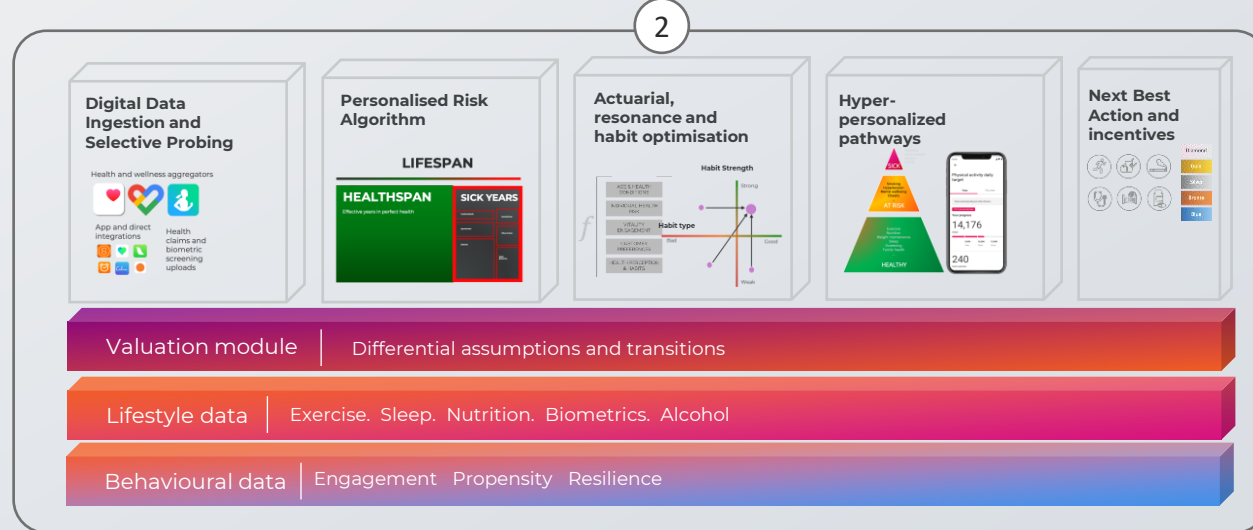
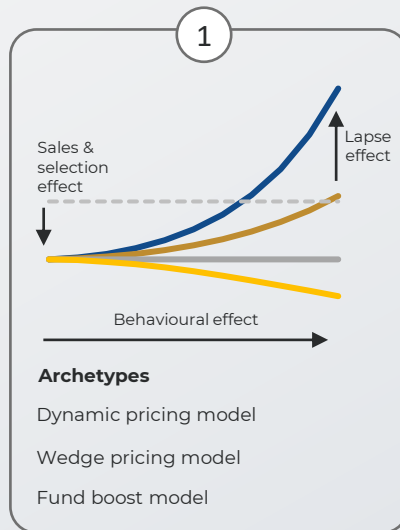
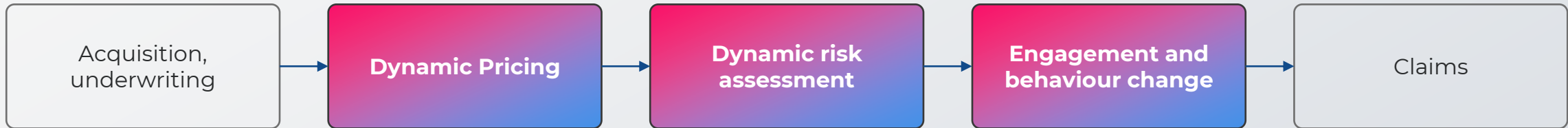
# The value chain is different | added modules



## Traditional life insurance models



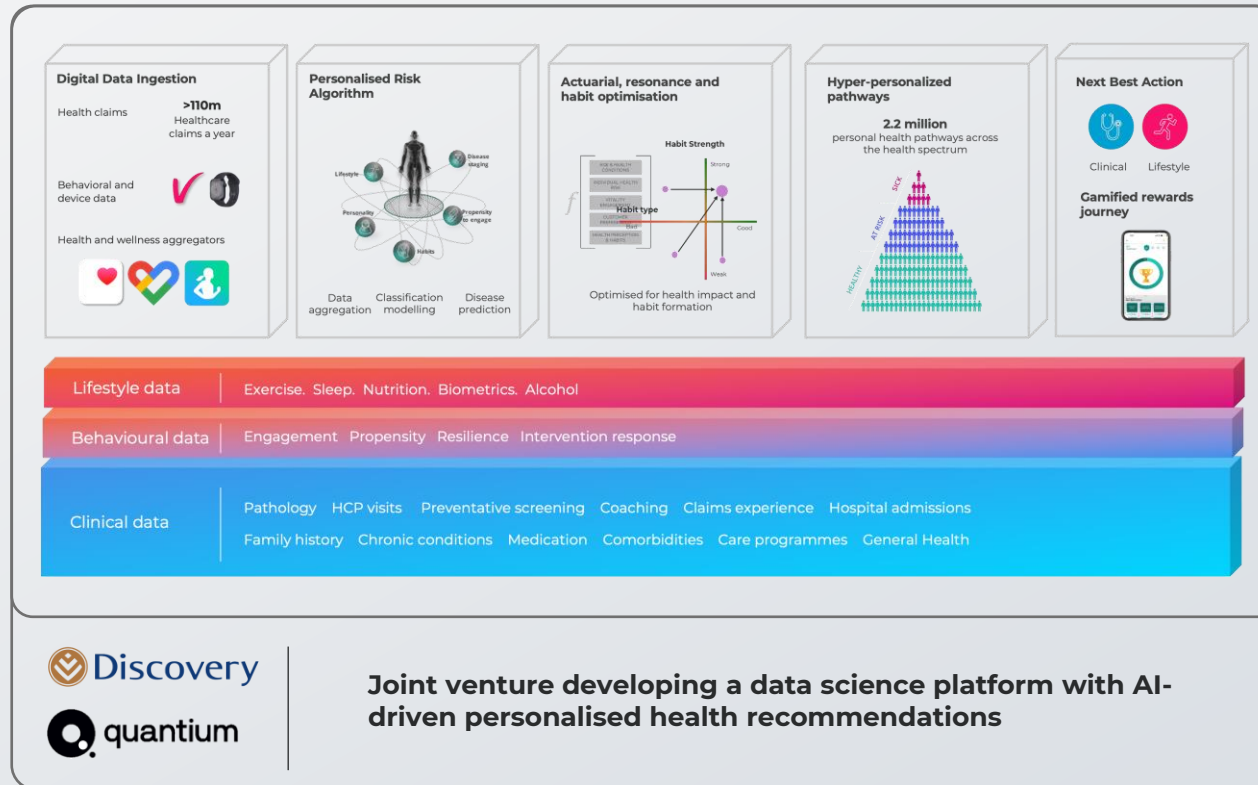
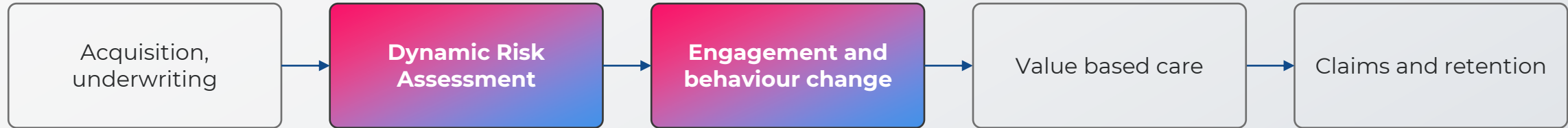
## Shared-value life insurance models



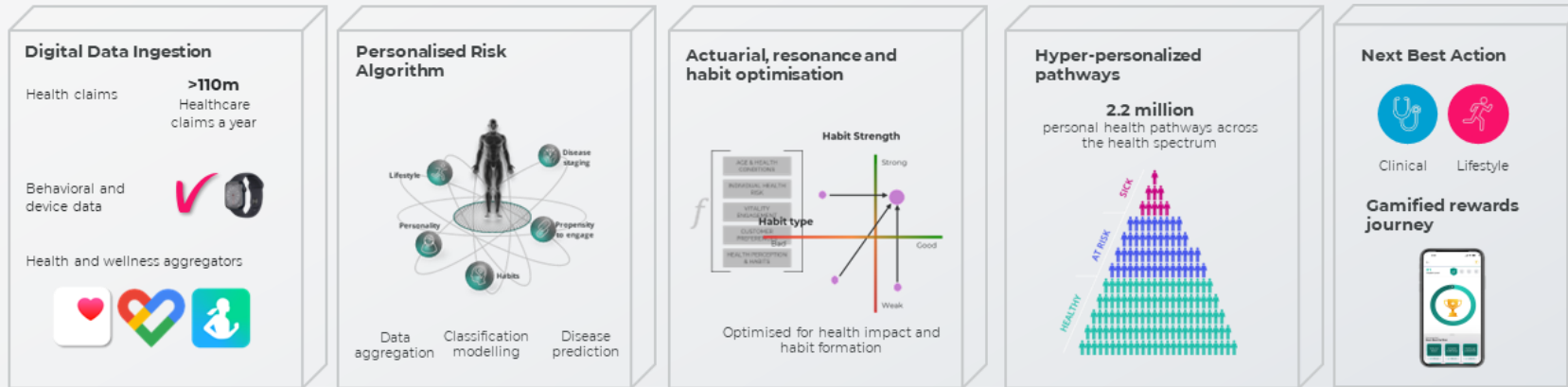
# Pathway module for health is even more sophisticated



## Shared-value model in health



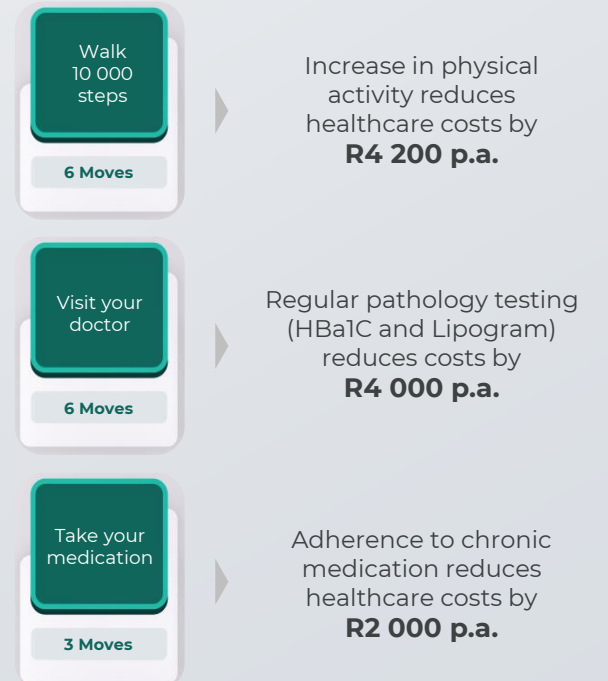
# Simplification of a complex health ecosystem into a single personal health pathway



## Diabetes Pathway\*

Newly diagnosed Type 2 diabetic, female, age 50, no other co-morbidities

Up to 40 actions for this member



**R500m**

savings per annum if all diabetics exercise >3 times per week

\*Interim results and pathways, subject to change





# The three market-specific strategies

# Focus by composite



**Perfect composite model, #1 in our chosen segments in every industry, and the Bank pivoting to growth as the composite-maker within SA**

- Scaling the Bank to profit and positioning it as the face of the composite
- Ensuring each business is market leader in terms of market share, margin, product and customer value



**A new generation life and health insurance composite, with integration at both a product and operational level and a seamless One Vitality client journey**

- Growing VitalityHealth on the back of a complex NHS environment
- Using the Shared-Value Model to get superior ROC and growth in VitalityLife
- Integration of Life and Health



**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**

- Scaling Ping An Health Insurance in a complex Chinese market
- Monetising and scaling IP in Vitality Network with key partners
- Globalising unique health assets



# Discovery Bank



**Total clients**

**Total accounts**

**Net income**

**Retail deposits**

**Advances**

**Operating result**

**+49%**  
to >700k

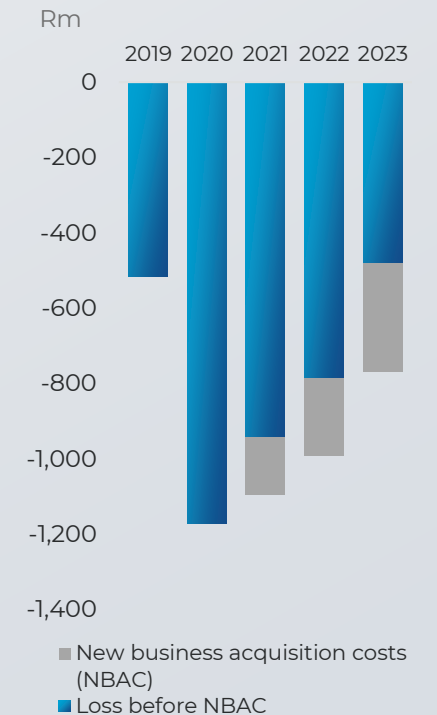
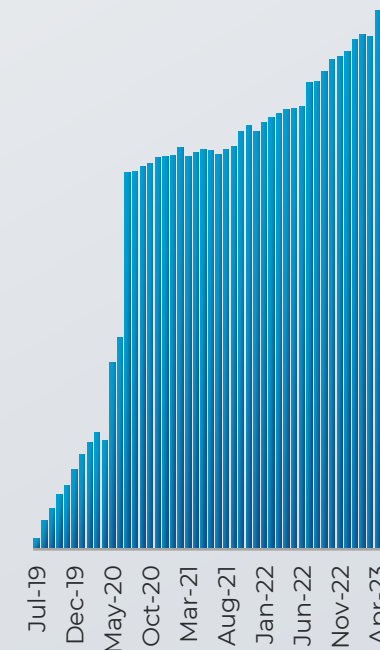
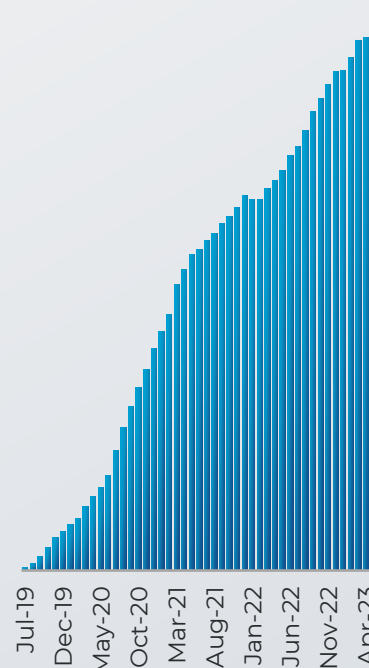
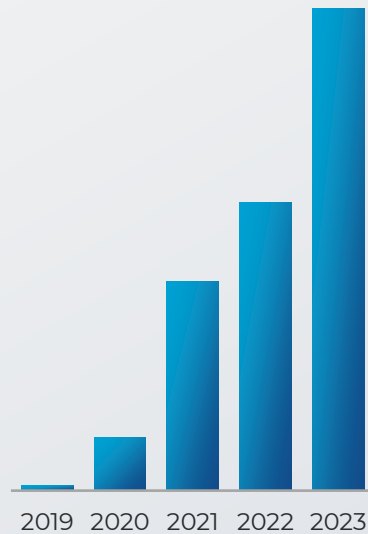
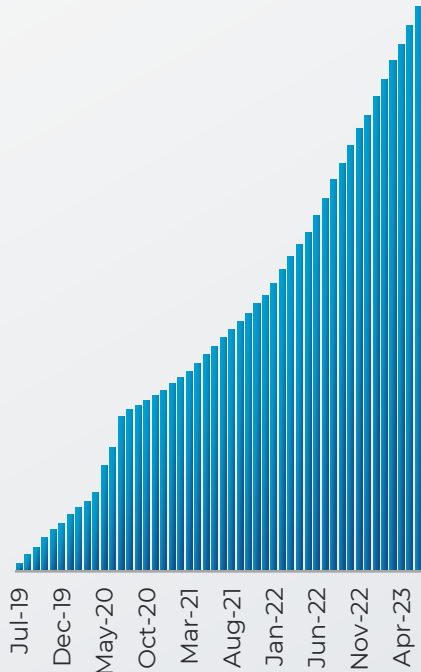
**+59%**  
to 1.6m

**+67%**  
to R1.2bn

**+36%**  
to R14.3bn

**+22%**  
to R5.2bn

**-R767m**

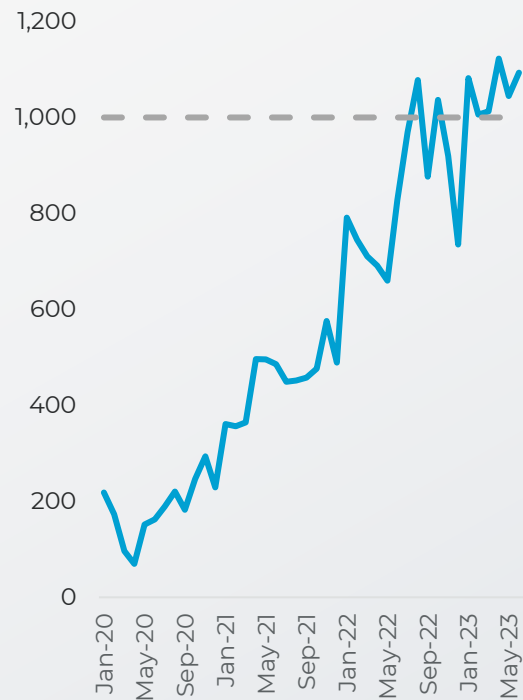


# Revenue growth driven by increasing velocity



## Accelerating growth in client base

Average sales per work day



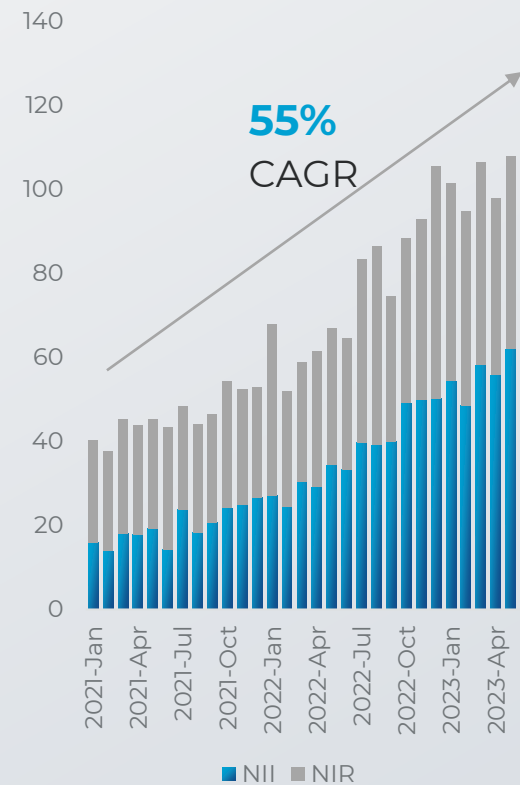
## Increasing engagement over time

NIR by duration



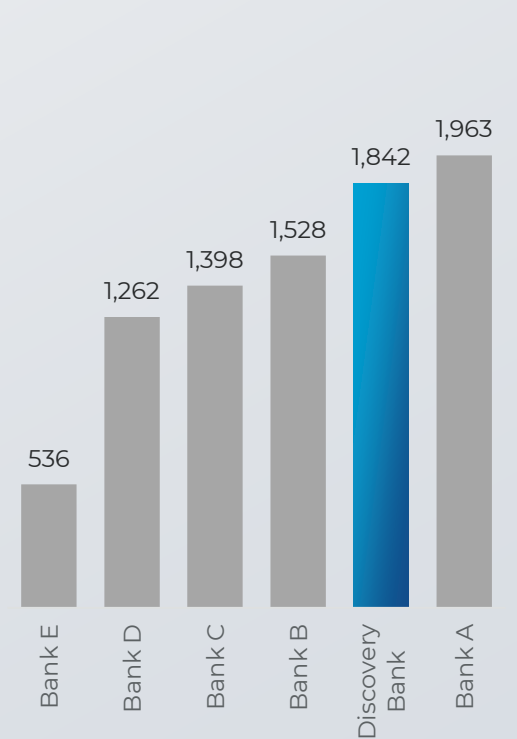
## Rapid growth in revenue

NII and NIR per month



## High NIR compared to the market

NIR per customer





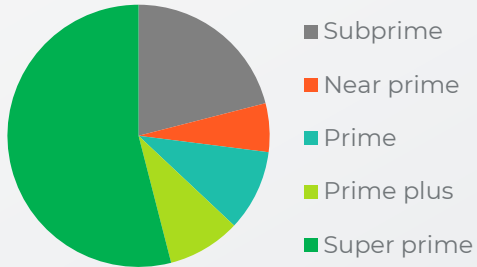
# Superior client and credit quality



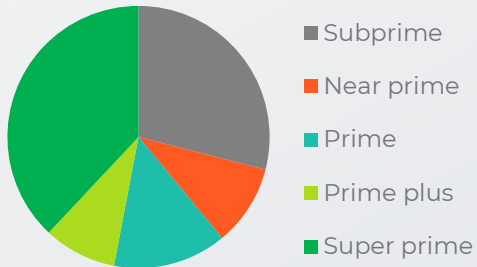
## Superior credit quality

Volume distribution of existing accounts<sup>1</sup>

### Discovery Bank

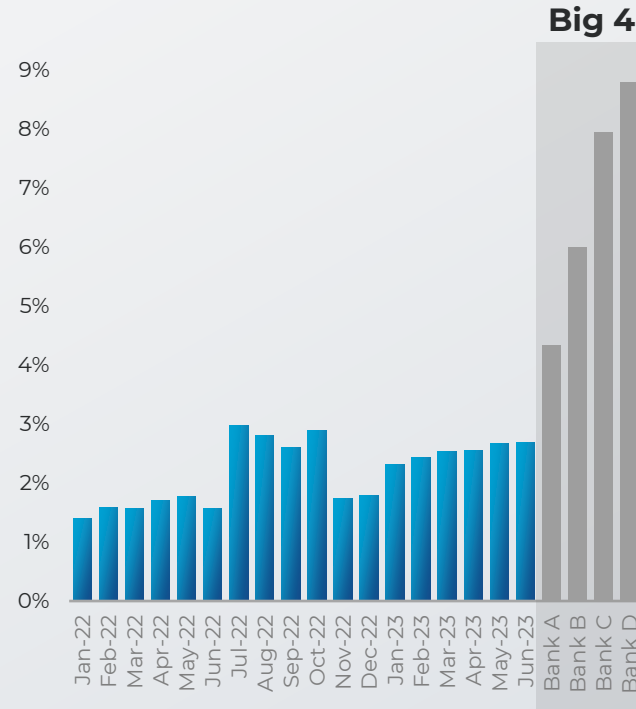


### Market



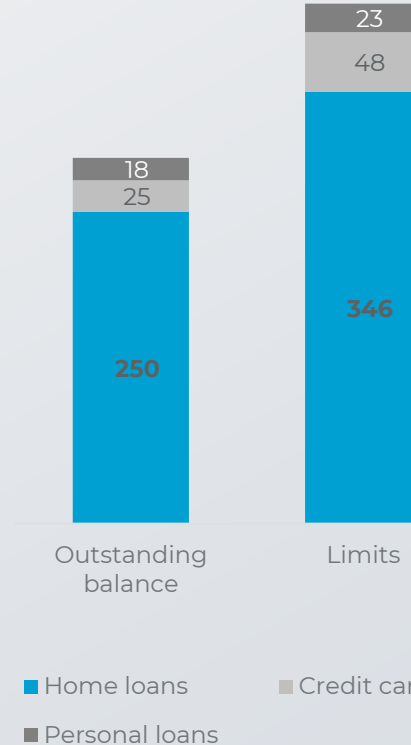
## Stable credit losses despite rate hikes

Credit loss ratio<sup>2</sup>



## R250bn in home loan balances

Discovery Bank clients' advances as at Aug 23 (Rbn)



## Expanding credit offerings



<sup>1</sup> Source: BA900, Transunion report  
<sup>2</sup> Including overlays and IFRS adjustments

# Operational efficiencies driving earlier breakeven



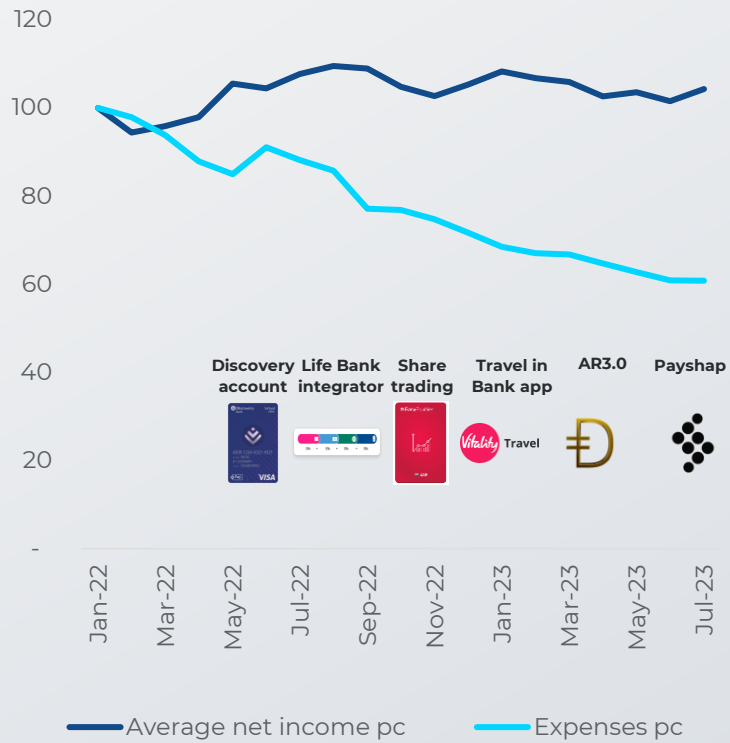
## Expense efficiencies realised as the Bank continues to scale

Fixed and variable costs over time



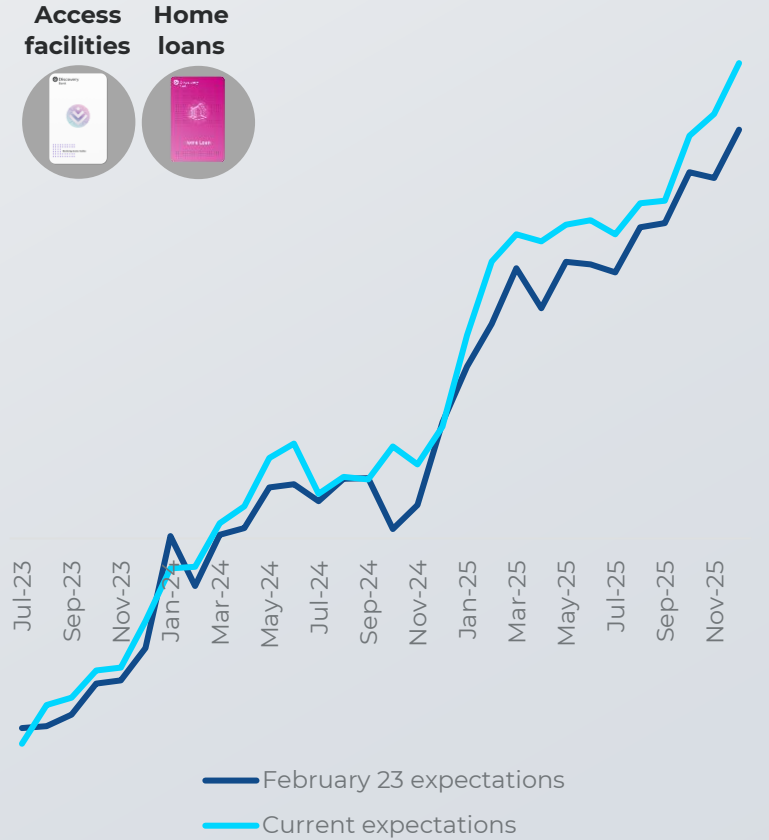
## Operating leverage as more products are added

Expenses and income per customer

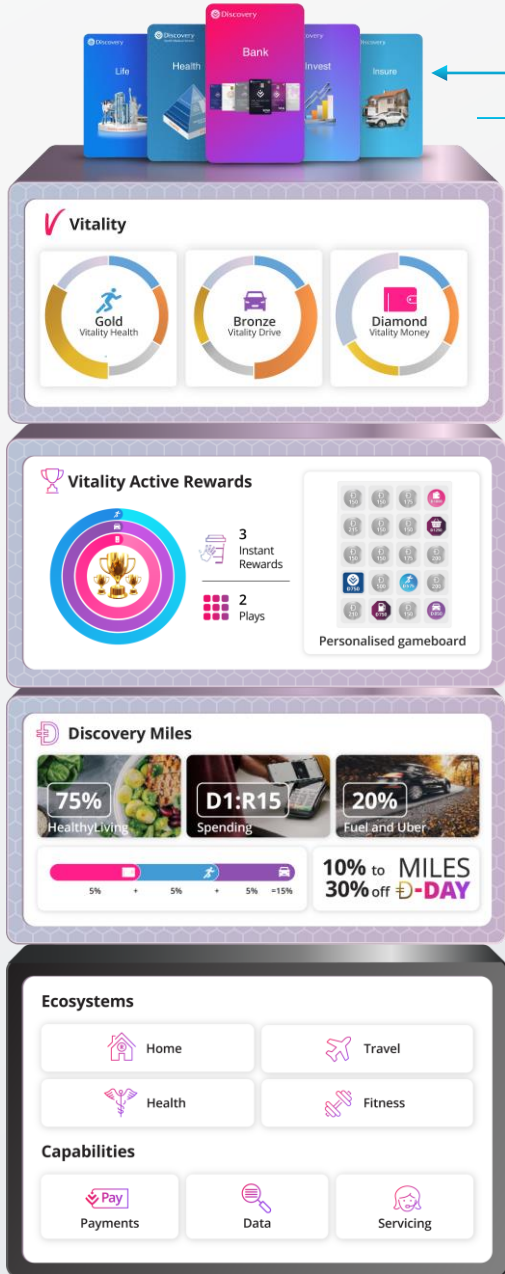


## Reaching breakeven earlier than expected

Profit before new business acquisition costs



# Dimensions of competitive advantage



**Banking portfolio**      **Discovery Portfolio**      **New lending products**

Discovery portfolio is linked directly to Vitality Health, Vitality Drive and Vitality Money behavioural platforms

Rewards monetised in Discovery Miles Shared Value currency

Integrated ecosystems enabled by Discovery Bank operating system and third-party partnerships



Banking portfolio underpinned by digital payments capabilities





## Operating profit

## New business

## Membership

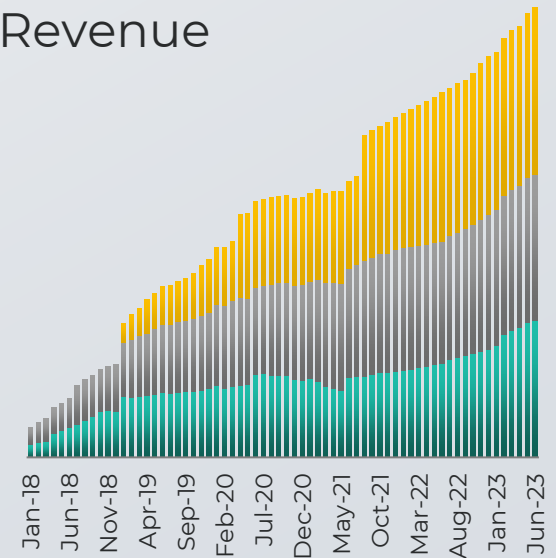
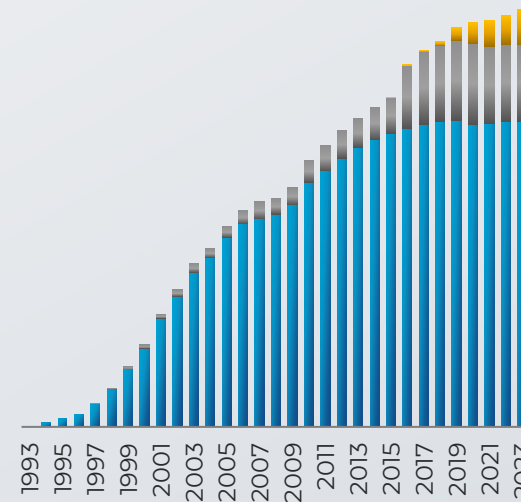
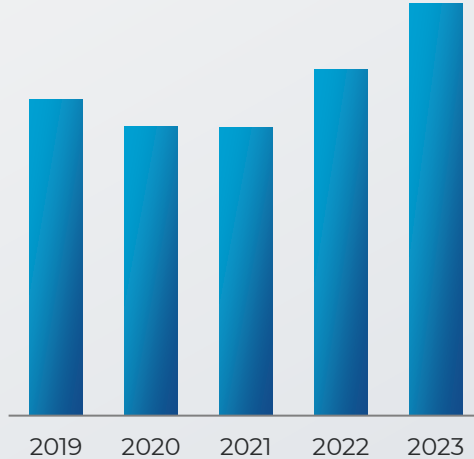
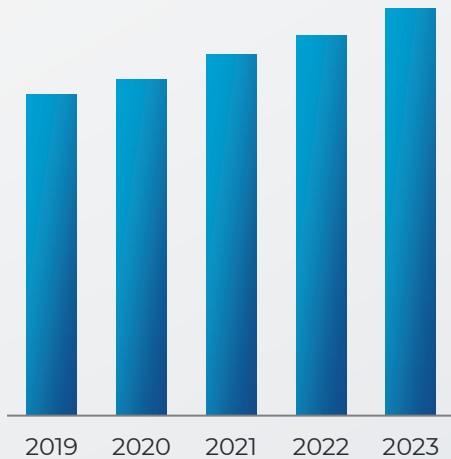
## Non-scheme growth

**+7%**  
to R3 854m

**+19%**  
to R8 678m

**>3.8m**  
Lives under  
administration

**>321k**  
Lives  
**R1.5bn**  
Revenue



- Non Scheme Products
- Restricted Schemes
- DHMS

- Healthy Company
- Cap Cover
- Flexicare

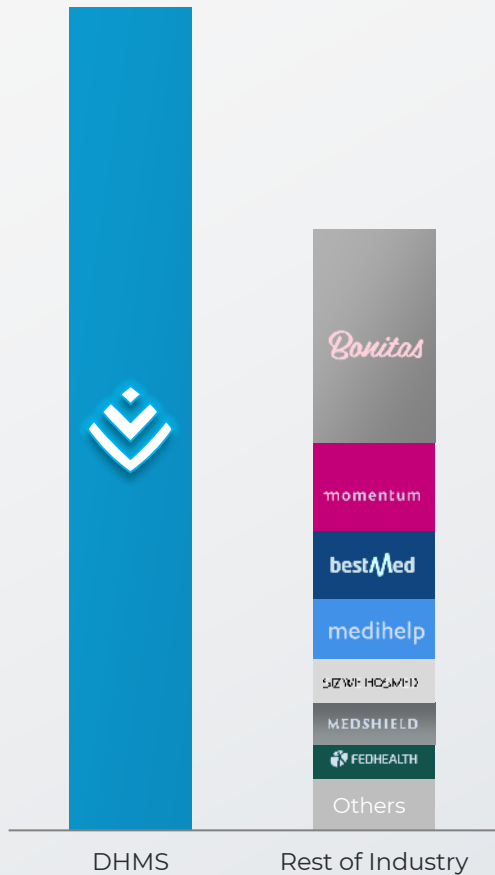


# Discovery Health Medical Scheme: robust performance in a challenging environment



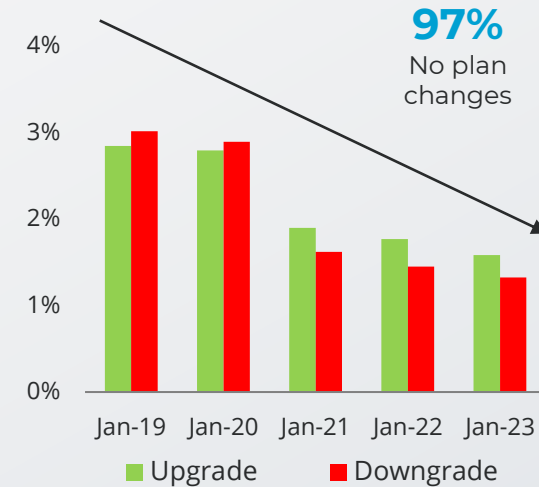
## Membership

**57.8%** market share

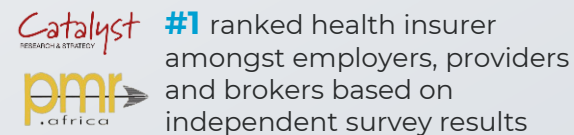
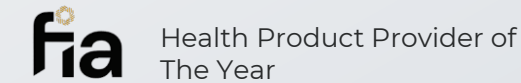


## Customer satisfaction

Less members are changing their plans:

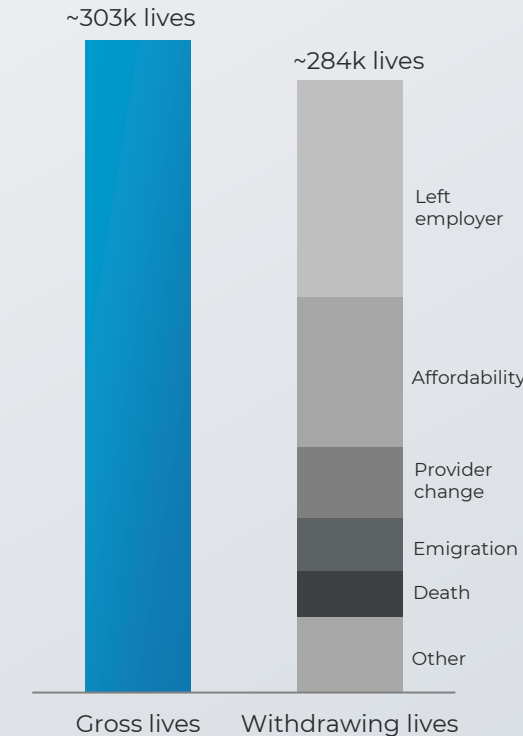


Awards recognising exceptional service:



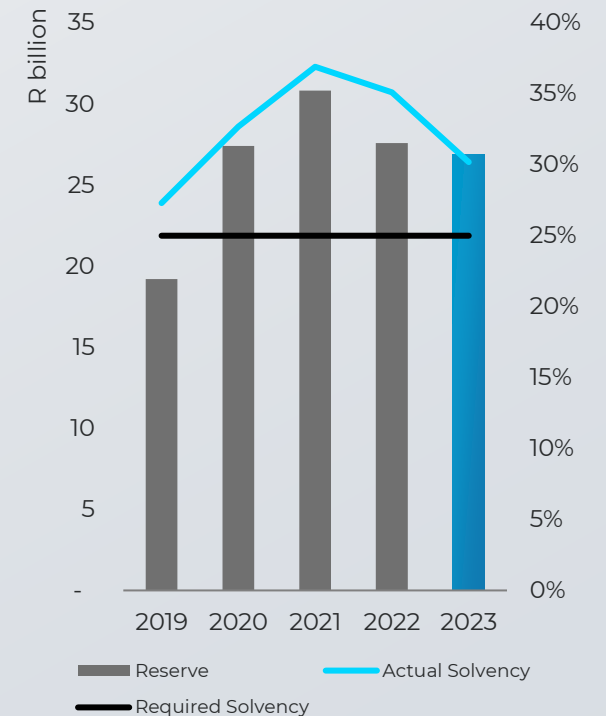
## Lapses

Gross activations vs withdrawing lives over the last 24 months, with lapses remaining stable:



## Solvency

**R26.9bn** unaudited reserves  
**30.2%** unaudited solvency  
**AAA** credit rating





REPUBLIC OF SOUTH AFRICA

**NATIONAL HEALTH  
INSURANCE BILL**

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(MINISTER OF HEALTH)

[B 11—2019]

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Status quo is unsustainable, universal healthcare is crucial and NHI a remedy

## **Discovery's position: NHI is not workable without private sector collaboration**

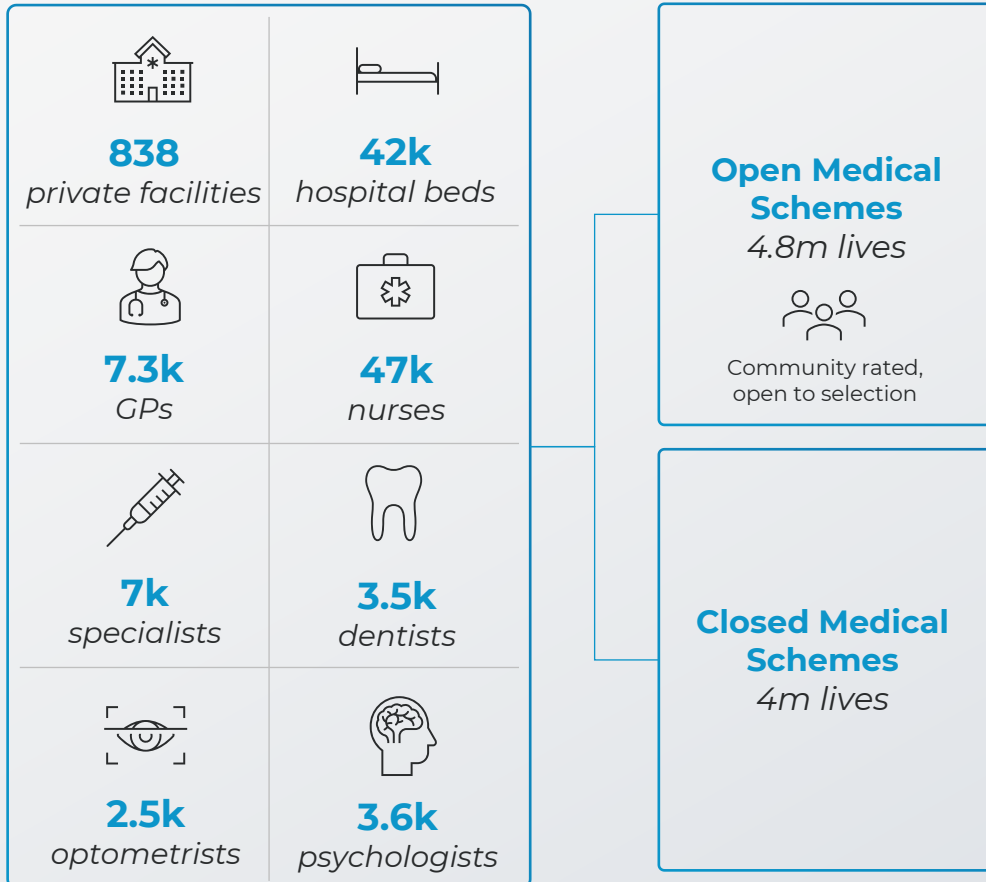
### **A change to Section 33 is required to enable private sector collaboration**

*"33. Once National Health Insurance has been fully implemented as determined by the Minister through regulations in the Gazette, medical schemes may only offer complementary cover to services not reimbursable by the Fund"*

# The private healthcare sector is a strong asset – medical scheme members have access to world-class care



## The private sector has significant scale



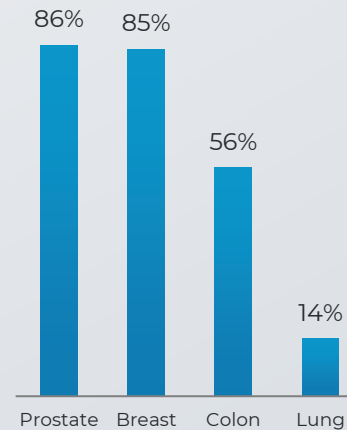
## And is delivering exceptional value for members

Outstanding comprehensive cover, with excellent outcomes

**>96%**

cancer coverage for medical scheme patients, as per CMS research, including cover for innovative, high-cost drugs

High cancer survival rates observed in the medical aid population, in line best health systems



Meeting the highest international standards

Readmission rates for over 65s

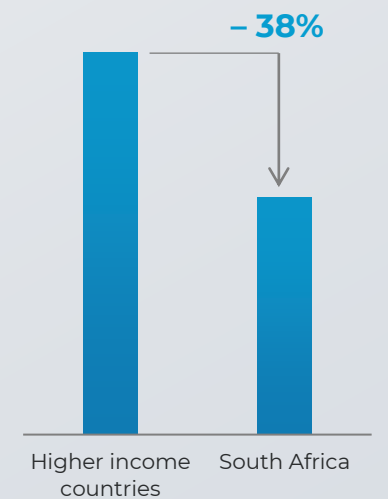


**83%**




HbA1C testing rate for diabetes patients – in line with US benchmarks

While remaining cost effective in a challenging environment

Cost of cover (PPP adjusted)



Achieved in a highly regulated sector:

-  Guaranteed access to cover
-  Comprehensive prescribed minimum benefits
-  Non-mandatory membership

# Universal coverage is necessary to ensure all South Africans have access to acceptable levels of healthcare



However, funding the additional required spend through tax increases on a small base is not sustainable

**R200bn**

Additional funding required per annum, as indicated by the National Department of Health

**31%** increase in personal income tax or;

**6.5%** increase in VAT (from 15% to 21.5%) or;

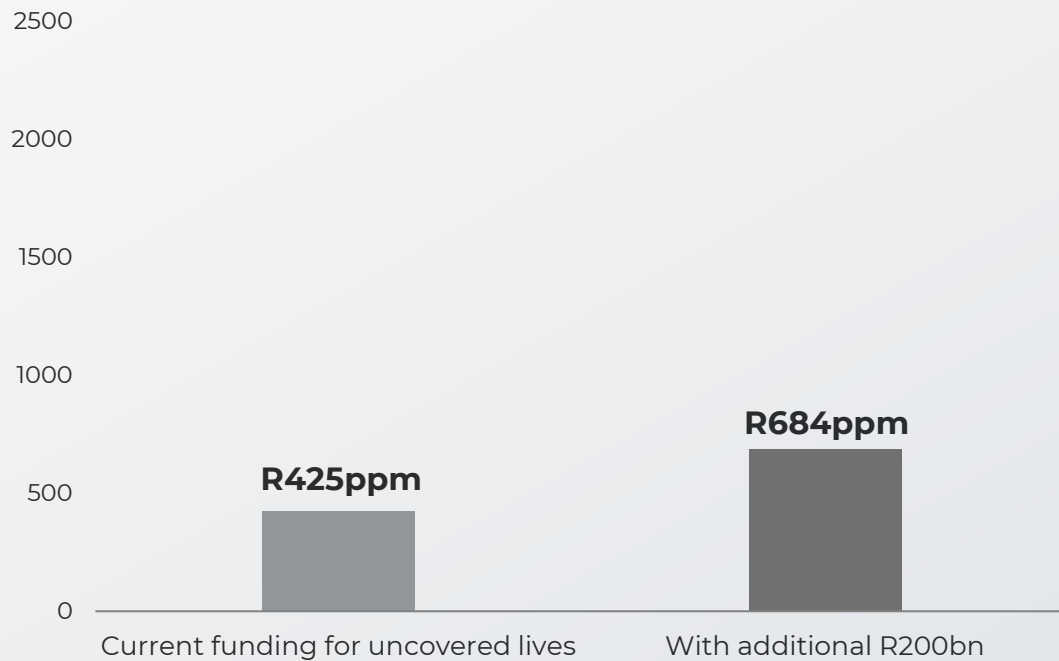
**10x** increase in payroll tax (current UIF contributions).

# Even if the R200bn is funded from taxes, total healthcare funding is still insufficient on a per capita basis



## For the population using the public sector

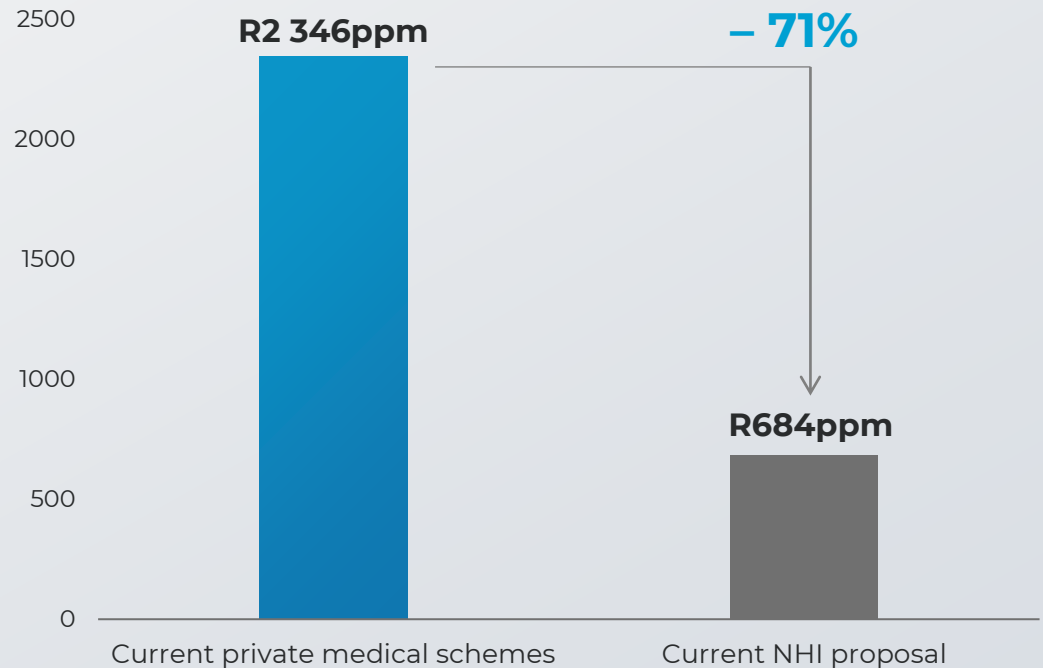
Healthcare funding available per person remains insubstantial:



While the rise in spend for South Africans using the public sector is significant, the **overall population's healthcare remains insubstantial** at R684ppm

## For the medical scheme population

Significant reduction in healthcare funding:



The medical scheme population will pay **31% more tax and get 71% less healthcare**, including a significant portion of pensioners with the highest healthcare needs



# No other country has implemented a regulatory limitation on the scope of private healthcare cover



## Countries with a private healthcare insurance market

## Countries without a private healthcare insurance market

### 169 countries

|                      |                          |               |                  |                                  |                             |
|----------------------|--------------------------|---------------|------------------|----------------------------------|-----------------------------|
| Algeria              | Central African Republic | Gambia        | Lebanon          | Oman                             | South Sudan                 |
| Andorra              | Chad                     | Georgia       | Liberia          | Pakistan                         | Spain                       |
| Angola               | Chile                    | Germany       | Lithuania        | Palau                            | Sri Lanka                   |
| Antigua and Barbuda  | China                    | Ghana         | Luxembourg       | Panama                           | Sudan                       |
| Argentina            | Colombia                 | Greece        | Madagascar       | Paraguay                         | Suriname                    |
| Armenia              | Comoros                  | Grenada       | Malawi           | Peru                             | Sweden                      |
| Australia            | Congo                    | Guatemala     | Malaysia         | Philippines                      | Switzerland                 |
| Austria              | Costa Rica               | Guinea        | Maldives         | Poland                           | Tajikistan                  |
| Bahamas              | Côte d'Ivoire            | Guinea-Bissau | Mali             | Portugal                         | Thailand                    |
| Bahrain              | Croatia                  | Guyana        | Marshall Islands | Qatar                            | Togo                        |
| Bangladesh           | Cyprus                   | Haiti         | Mauritania       | Republic of Korea                | Tonga                       |
| Barbados             | Czechia                  | Honduras      | Mauritius        | Republic of Moldova              | Trinidad & Tobago           |
| Belarus              | DRC                      | Hungary       | Mexico           | Romania                          | Tunisia                     |
| Belgium              | Denmark                  | India         | Micronesia       | Russian Federation               | Türkiye                     |
| Belize               | Djibouti                 | Indonesia     | Monaco           | Rwanda                           | Turkmenistan                |
| Benin                | Dominica                 | Iran          | Mongolia         | Saint Kitts and Nevis            | Tuvalu                      |
| Bhutan               | Dominican Republic       | Ireland       | Montenegro       | Saint Lucia                      | Uganda                      |
| Bolivia              | Ecuador                  | Israel        | Morocco          | Saint Vincent and the Grenadines | Ukraine                     |
| Bosnia & Herzegovina | Egypt                    | Italy         | Mozambique       | Samoa                            | United Arab Emirates        |
| Botswana             | El Salvador              | Jamaica       | Myanmar          | San Marino                       | United Kingdom              |
| Brazil               | Equatorial Guinea        | Japan         | Namibia          | Sao Tome and Principe            | United Republic of Tanzania |
| Bulgaria             | Estonia                  | Jordan        | Nepal            | Senegal                          | United States of America    |
| Burkina Faso         | Eswatini                 | Kazakhstan    | Netherlands      | Serbia                           | Uruguay                     |
| Burundi              | Ethiopia                 | Kenya         | New Zealand      | Seychelles                       | Uzbekistan                  |
| Cabo Verde           | Fiji                     | Kuwait        | Nicaragua        | Sierra Leone                     | Vanuatu                     |
| Cambodia             | Finland                  | Kyrgyzstan    | Niger            | Singapore                        | Venezuela                   |
| Cameroon             | France                   | Lao           | Nigeria          | Slovakia                         | Vietnam                     |
| Canada               | Gabon                    | Latvia        | North Macedonia  | Slovenia                         | Zambia                      |
|                      |                          |               |                  |                                  | Zimbabwe                    |

### 17 countries

|                   |
|-------------------|
| Afghanistan       |
| Azerbaijan        |
| Brunei Darussalam |
| Cook Islands      |
| Cuba              |
| Eritrea           |
| Iceland           |
| Iraq              |
| Kiribati          |
| Lesotho           |
| Malta             |
| Nauru             |
| Niue              |
| Norway            |
| Papua New Guinea  |
| Solomon Islands   |
| Timor-Leste       |

In all countries listed, the absence of private health insurance is **attributable to market dynamics, not a legislative ban**



REPUBLIC OF SOUTH AFRICA

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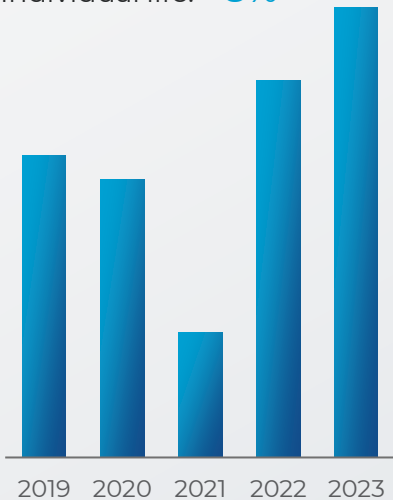




## Normalised operating profit

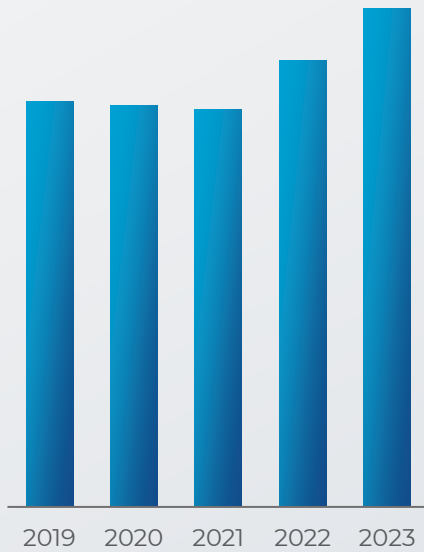
**+19%**  
to R4 807m

Group life returned to profitability  
Individual life: **+8%**



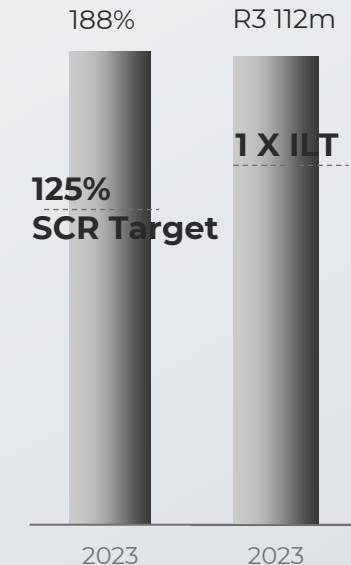
## New business

**+12%**  
to R2 838m



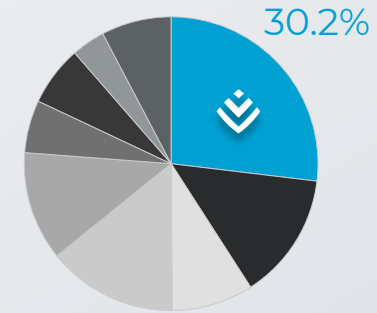
## Strong capital and liquidity

SCR coverage      Liquidity coverage

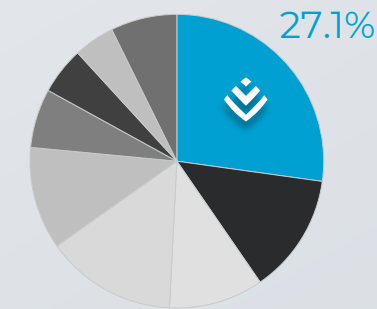


## Maintained leading market share position

Quarter ending June 2023



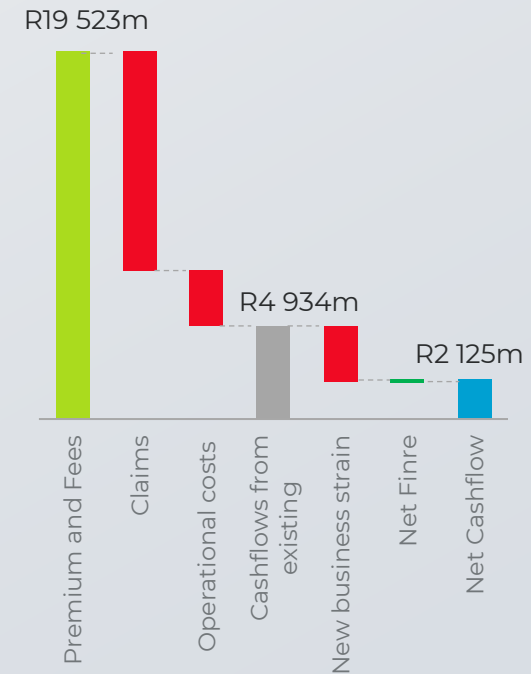
12 months to June 2023



NMG Market Share survey Q2 2023

## Strong cashflow generation

Life and Invest cash flow **> 30%** of net of tax normalised earnings

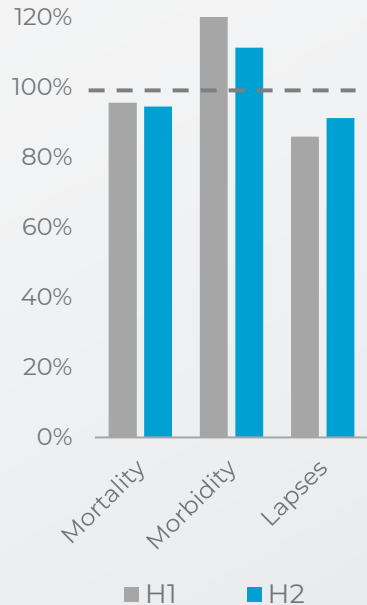


# Strong EV growth with positive experience variances

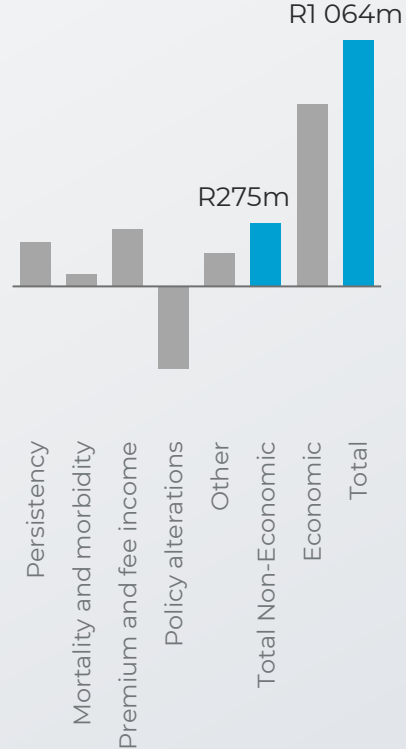


## Positive operating variances

Improvements in mortality & morbidity experience vs H1

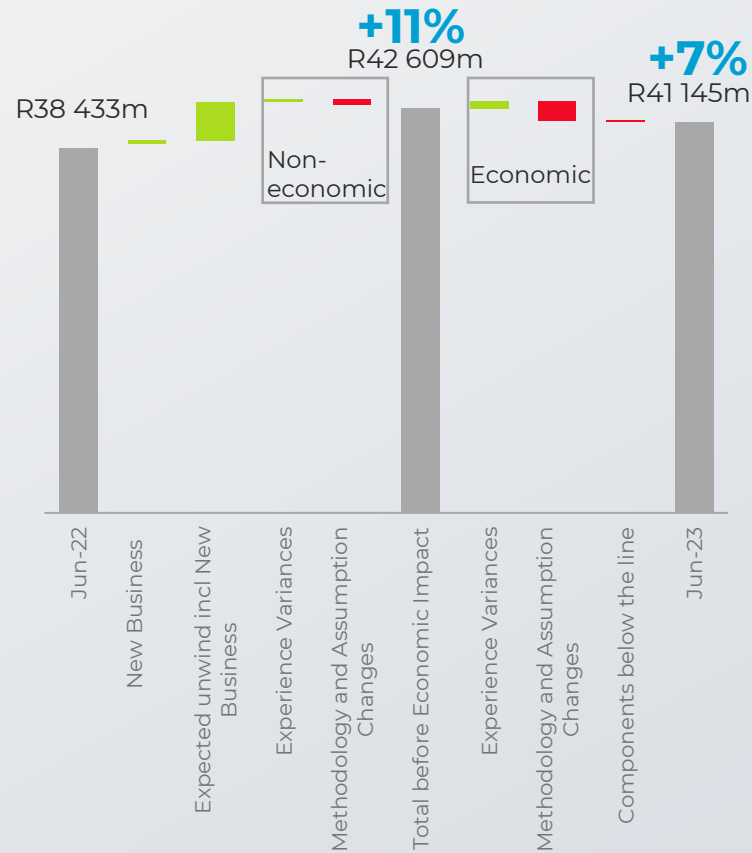


Discovery Life Ltd variances (Rm)



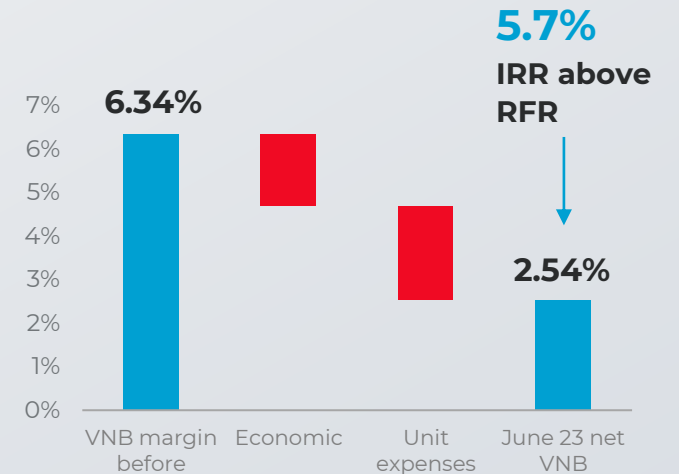
## Strong EV growth

**+8.1%** RoEV



## VNB margin impacted by yield movements

VNB margin (%)



- Unit expense pressure, driven by affluent protection market lagging pre-COVID levels
- Initiatives to improve margins include expense efficiency drive, driving growth through product innovation and adjacencies and growing the distribution footprint

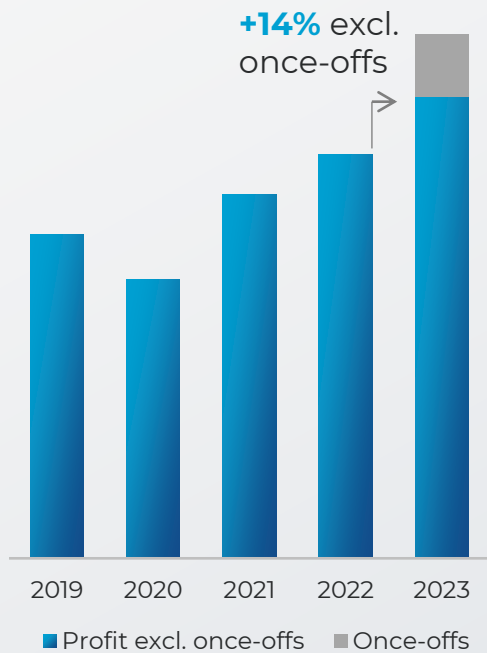






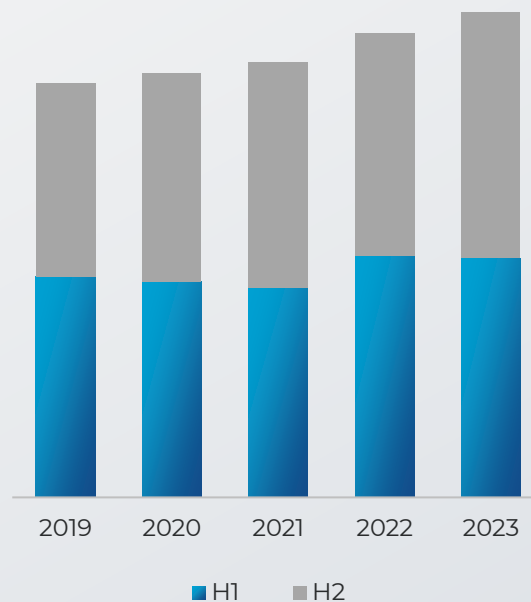
## Normalised operating profit

**+30%**  
to R1 560m



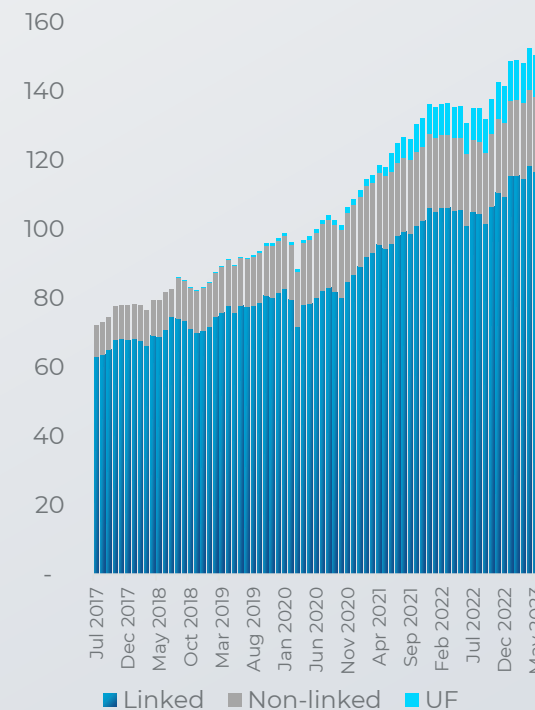
## New business

**+4%**  
to R3 050m



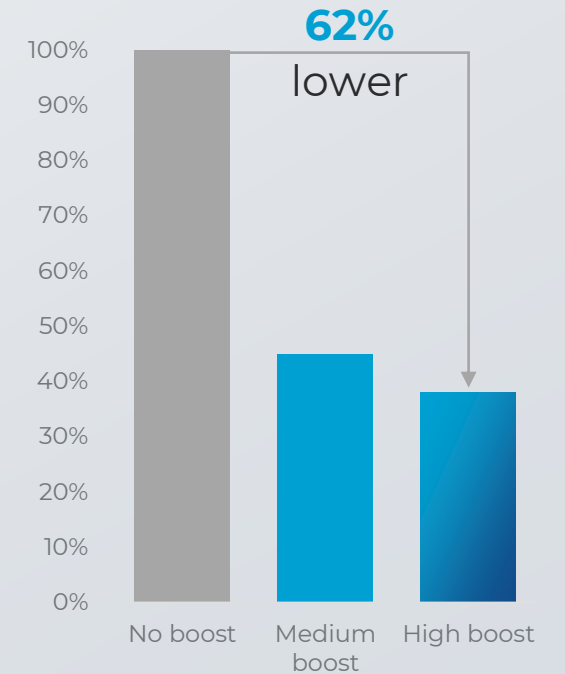
## Assets under administration

**+15%**  
to R140bn  
(R153bn including Umbrella Funds)



## Positive dynamics from Shared-value model

Withdrawal rates by boost  
(relative to no boost)<sup>1</sup>

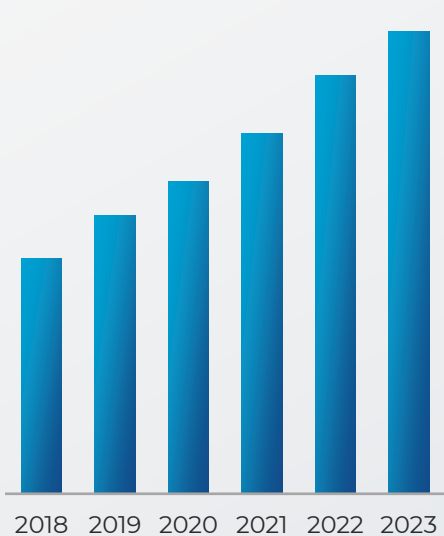






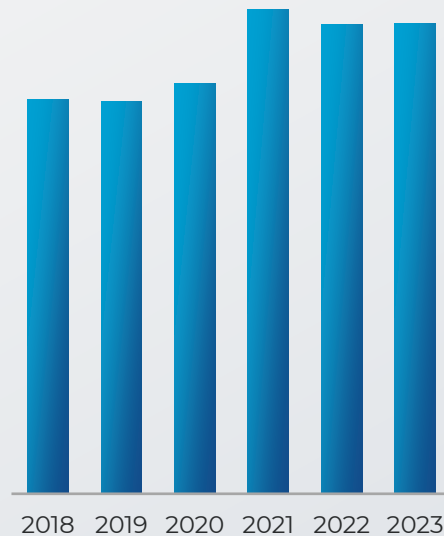
## Gross written premium

**+10%**  
to R5.3bn



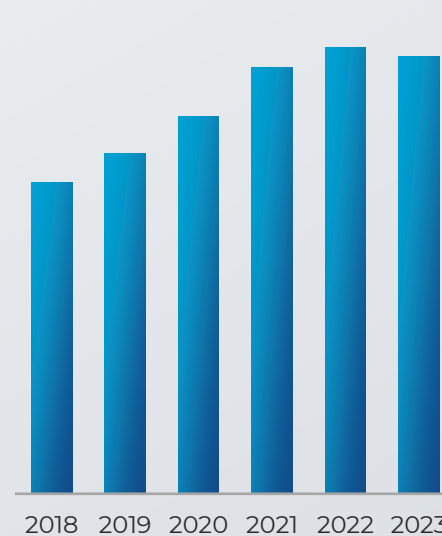
## Gross new business

**+0%**  
to R1 249m



## Vehicles insured

**-2%**  
to 289 963



## Normalised operating profit

**+138%**  
to R62m

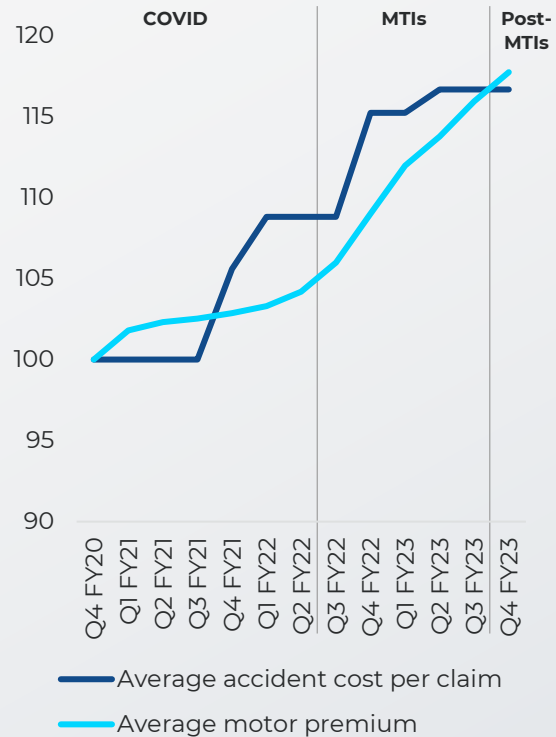


# Repricing actions yielding positive results



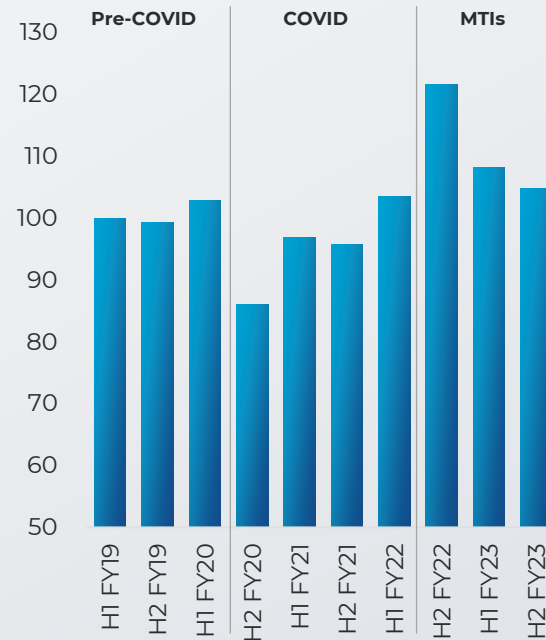
## Recovered from COVID under-pricing

Average cost vs premium (rebased)



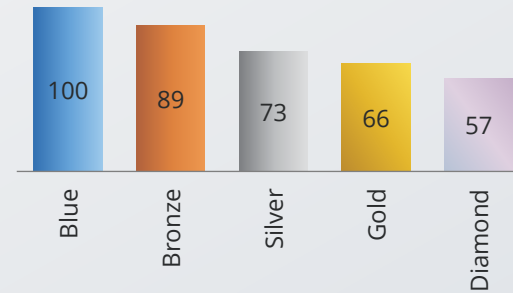
## Improvement in loss ratio

Total loss ratio (rebased)

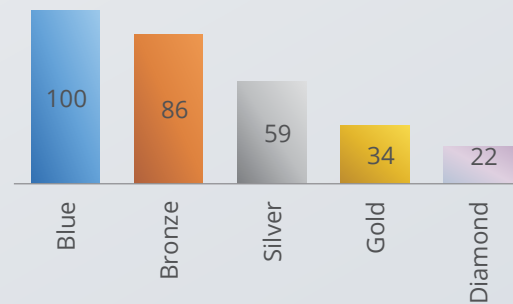


## Model leading to positive dynamics

Loss ratio by status (relative to blue)

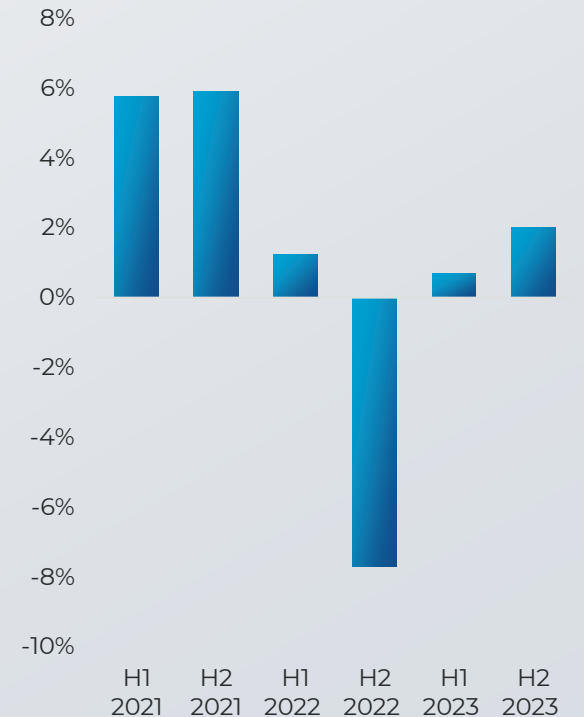


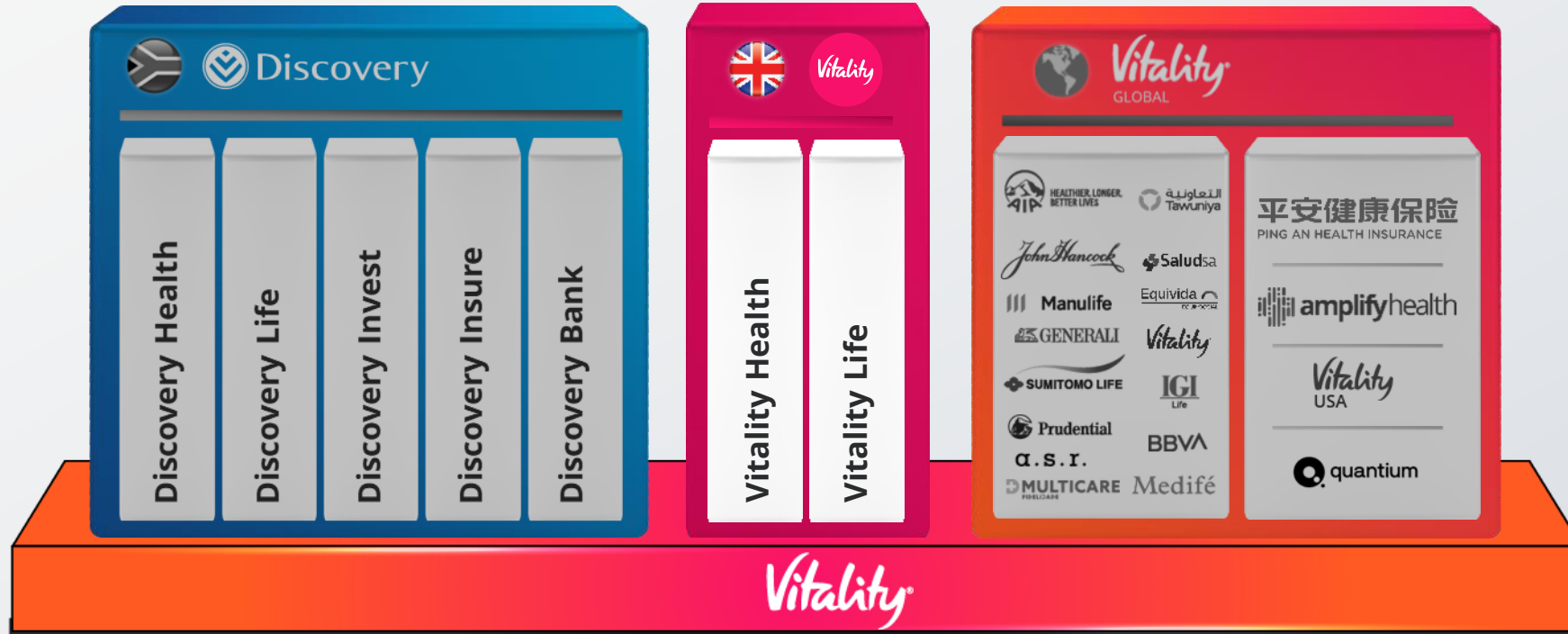
Lapses by status (relative to blue)



## Margin continues to recover

Operating profit margin



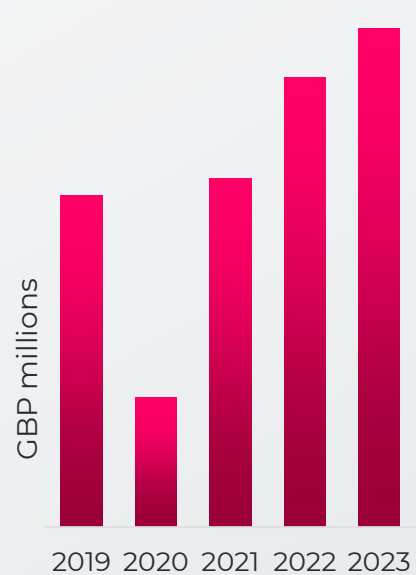


# UK Composite



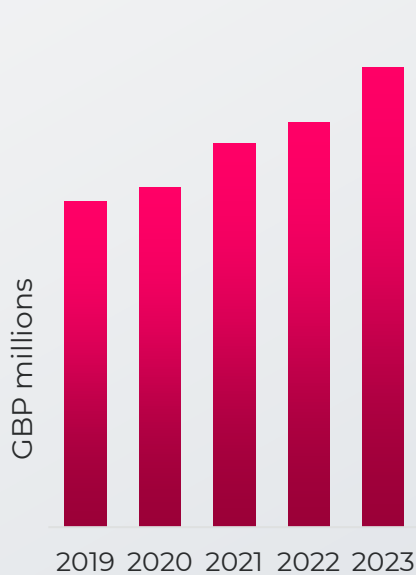
## Normalised operating profit

**+14%**  
to £83.4m



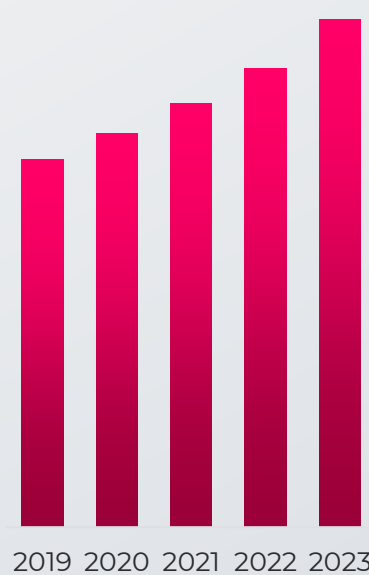
## Earned premiums

**+11%**  
to £989.2m



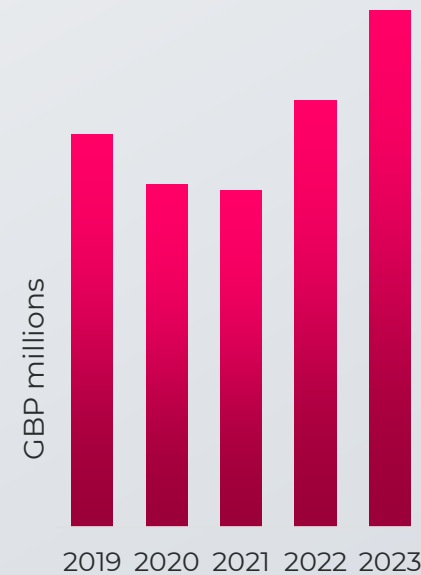
## Lives covered

**+11%**  
to 1.72m lives



## New business

**+19%**  
to £176m



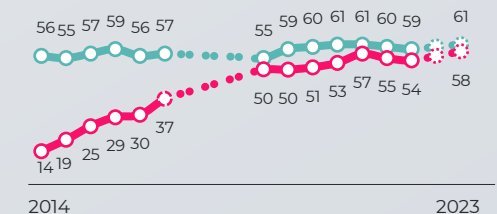
## Financial strength and brand

**Insurer Financial Strength Rating of 'A'**  
Fitch ratings

UK financially self sufficient, no further funding needed from Discovery

## Highest-ever brand awareness since inception

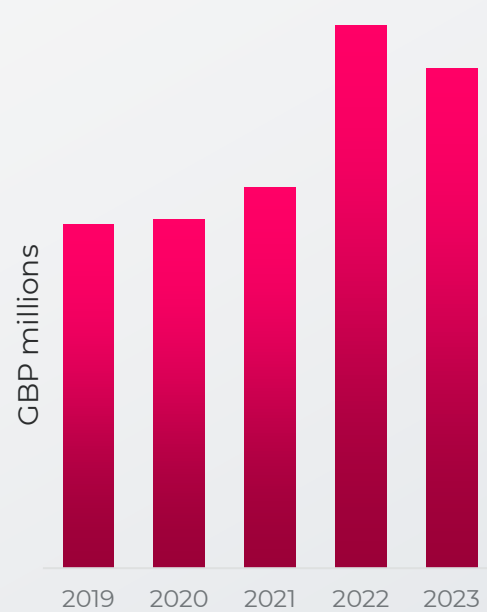
Promoted brand awareness  
Competitor average vs Vitality





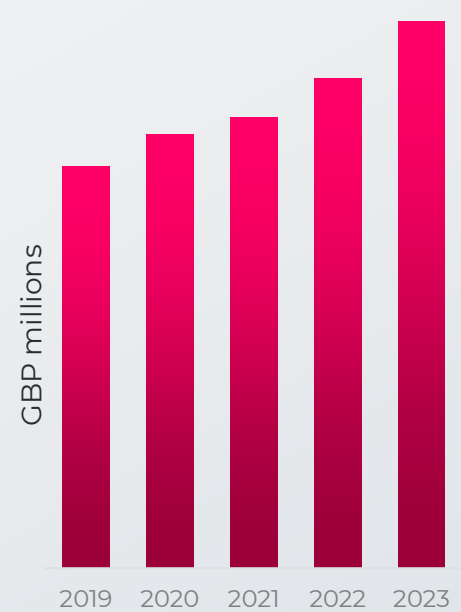
## Normalised operating profit

**-9%**  
to £59.9m



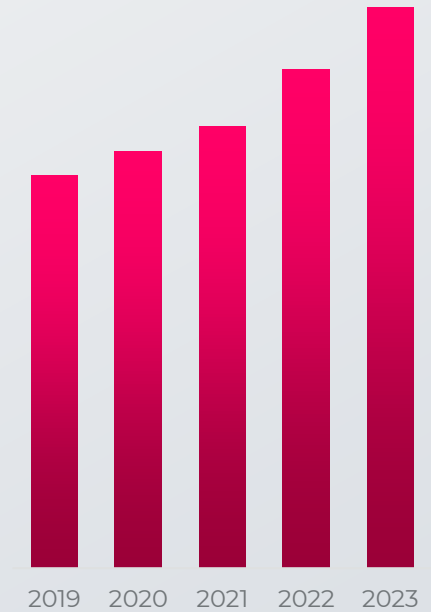
## Earned premiums

**+11%**  
to £623.6m



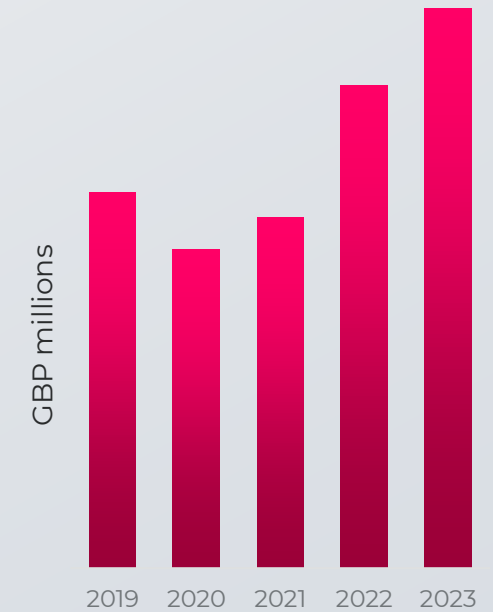
## Lives covered

**+13%**  
to 959k lives



## New business

**+12%**  
to £96.3m



# A changing healthcare landscape



## Pressures in the NHS<sup>1</sup>

### Lack of capital investment

The UK's long-standing minimal capital spend on health care relative to other countries, where the maintenance backlog has increased to £10.75bn

### Bed occupancy

Delayed discharges leave around 10% of the total number of beds – equivalent to 20 hospitals – occupied with patients who have no medical need to be there but, usually, remain there due to a lack of available care outside the hospital system

### Staff shortages

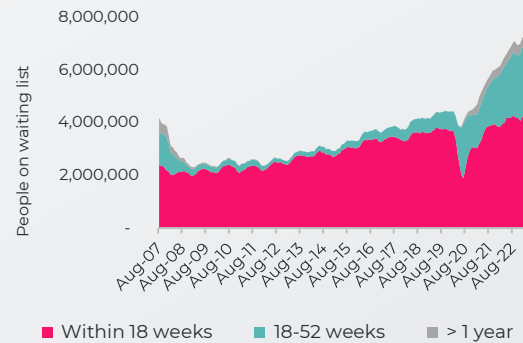
The NHS is operating with more than 150,000 fewer full-time staff than it needs

### Experienced staff attrition

The leaver rate is at a record high of 12.5%

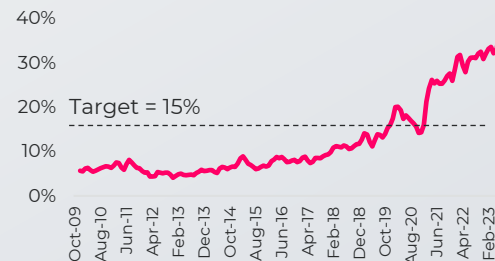
## Challenges in accessing care and treatment

NHS waiting lists at their highest levels since pre-2007<sup>2</sup>



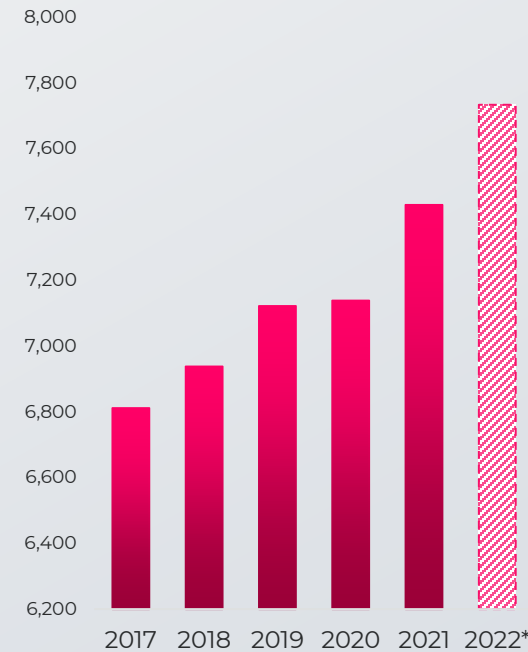
Cancer waiting time target only met once in 9 years<sup>3</sup>

Patients waiting over 2 months for first cancer treatment following referral



## Increased demand for health insurance

People covered by health insurance<sup>4</sup> (000)

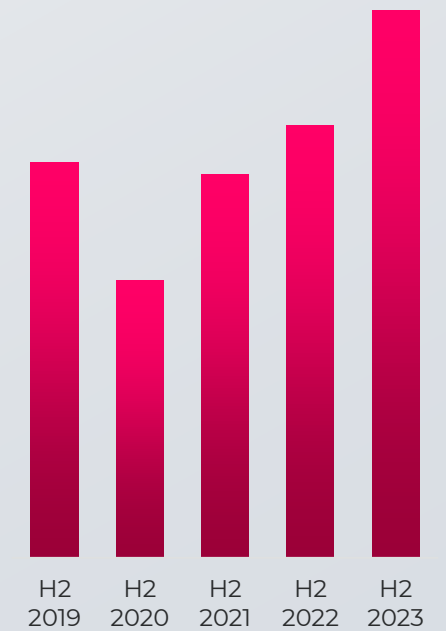


\*Estimate based on 2021 growth.

## Increased utilisation post-COVID

27% increase in authorisations<sup>5</sup>

Authorisations per 1 000 lives



# Vitality is transforming the role of health insurance

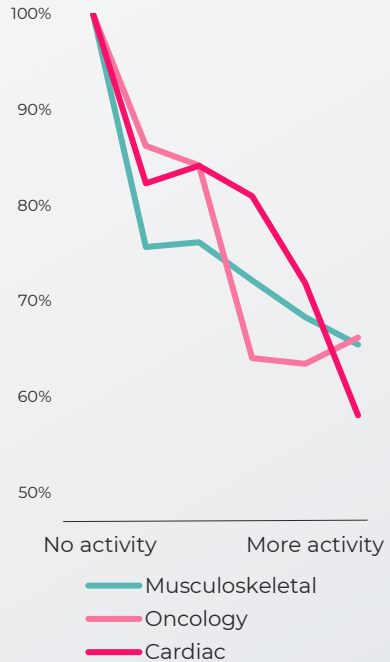


## Moving from a supplementary product to holistic cover

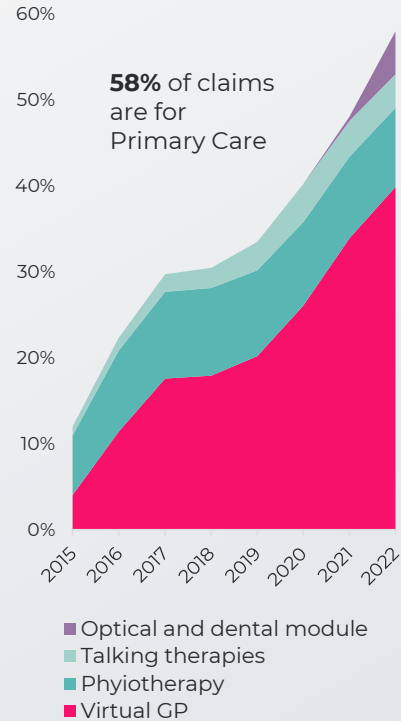
## Driving significant growth

### Prioritising prevention through the Vitality programme

In-hospital claims costs and physical activity



### Expansive Primary Care and the first insurer to introduce Virtual GP

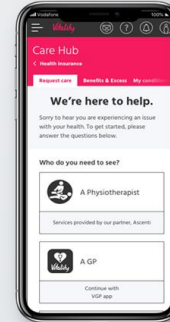


### Proven track record of delivering superior patient outcomes

Premier Consultants performance 2022



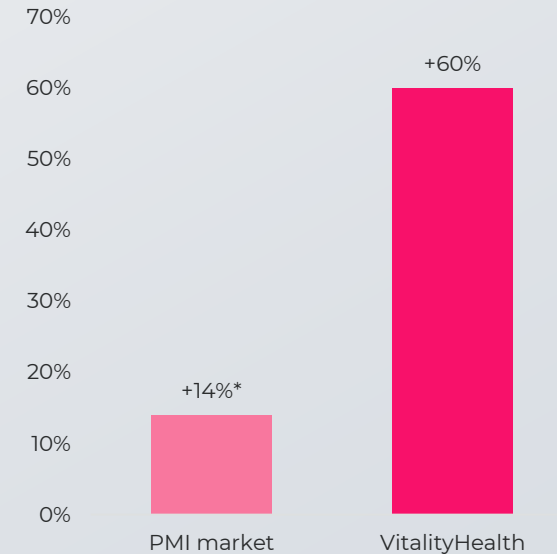
### The first insurer to offer an end-to-end health insurance claims journey



**56,000+** monthly visits to Care Hub  
**40%** authorisations complete online  
**83%** online mental health bookings  
**71%** online physio bookings

### Vitality has grown at a 4x faster rate than the market

VitalityHealth and Market growth (lives) 2017-2022



VitalityHealth is now the **3<sup>rd</sup> largest** health insurer by earned premium<sup>1</sup>

1. LaingBuisson Health Cover report 18 Edition. Based on insured premiums only (excluding Trust)  
 \* Estimated market growth based on LaingBuisson 2021 data

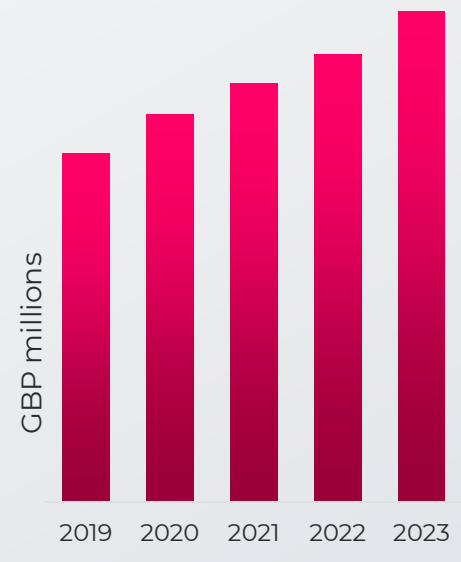
## Normalised operating profit

**+47%**  
to £48.5m



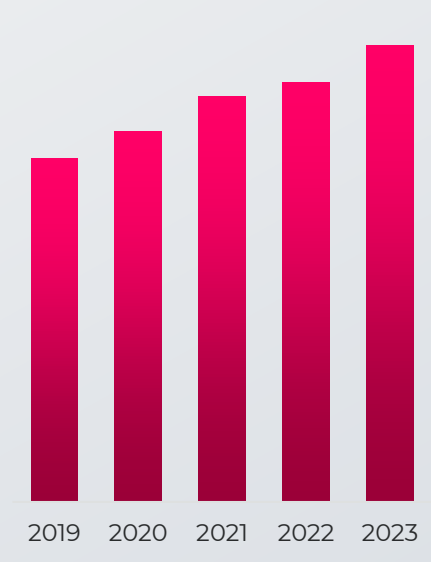
## Earned premiums

**+10%**  
to £365.6m



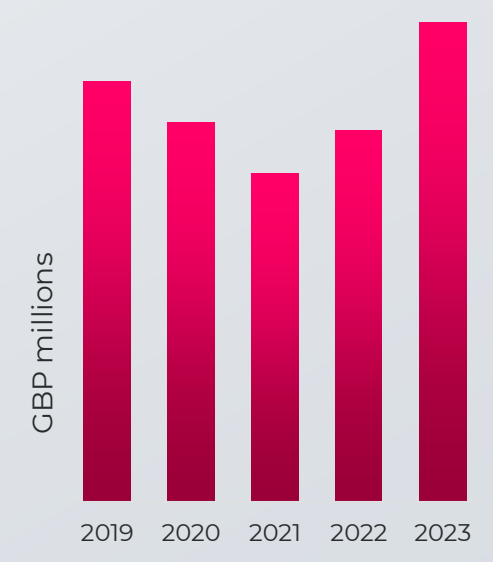
## Lives covered

**+9%**  
to 765k lives



## New business

**+30%**  
to £80.3m



# Outstanding new business growth supported by positive experience variances

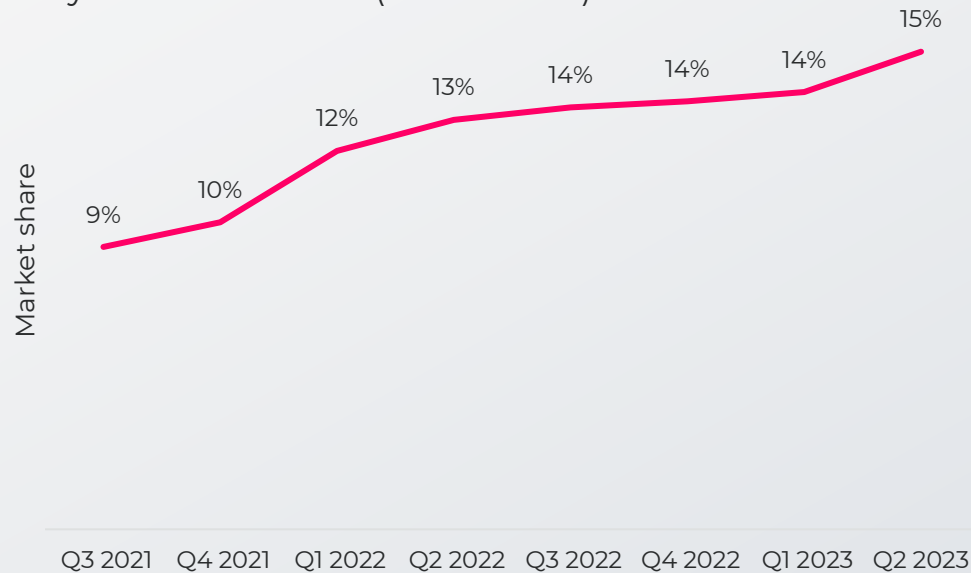


## Outstanding growth in challenging market conditions

Annual sales growth (all channels)

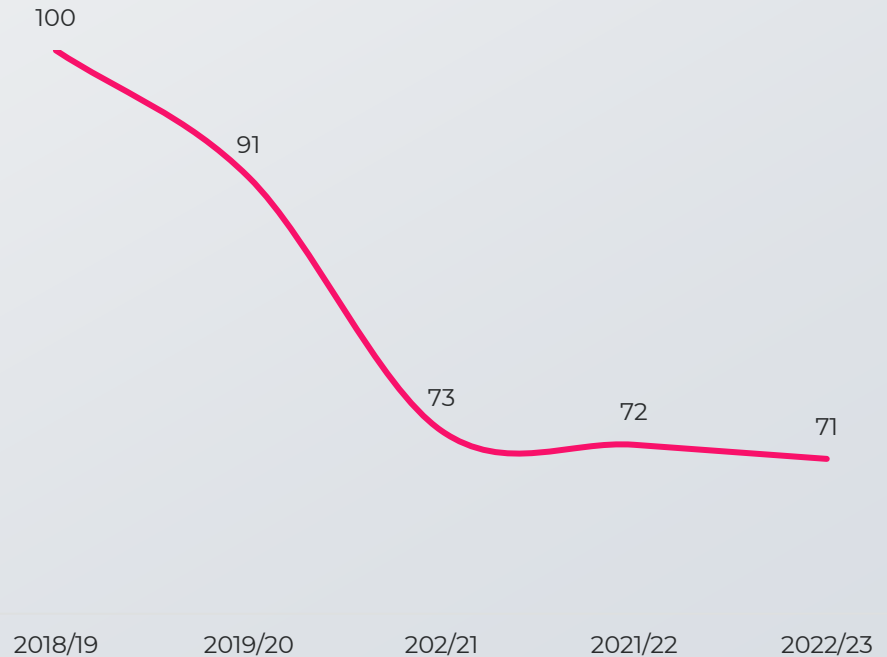
**VitalityLife** ↑ **32%**  
**Market (excl. VL)** ↑ **5%**

VitalityLife Market Share (IFA Channel)



## Positive lapse experience amid cost-of-living crisis

Annualised lapse rate

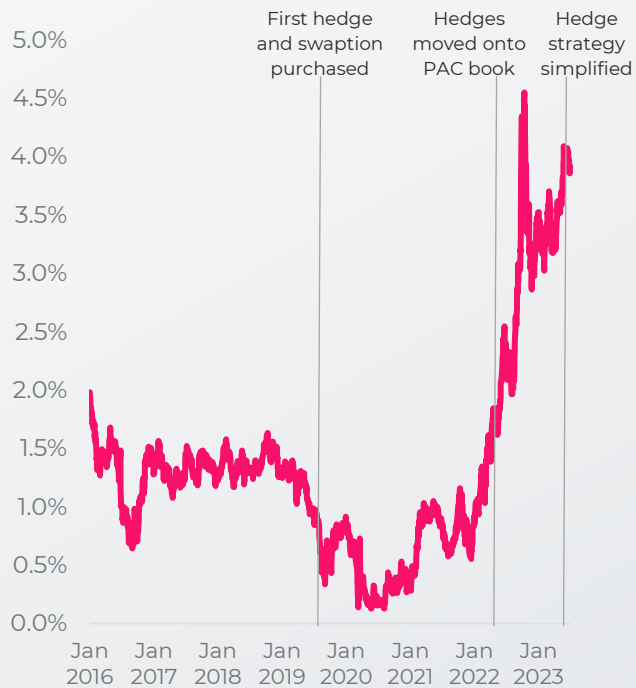


# Offsetting impacts from rise in interest rates



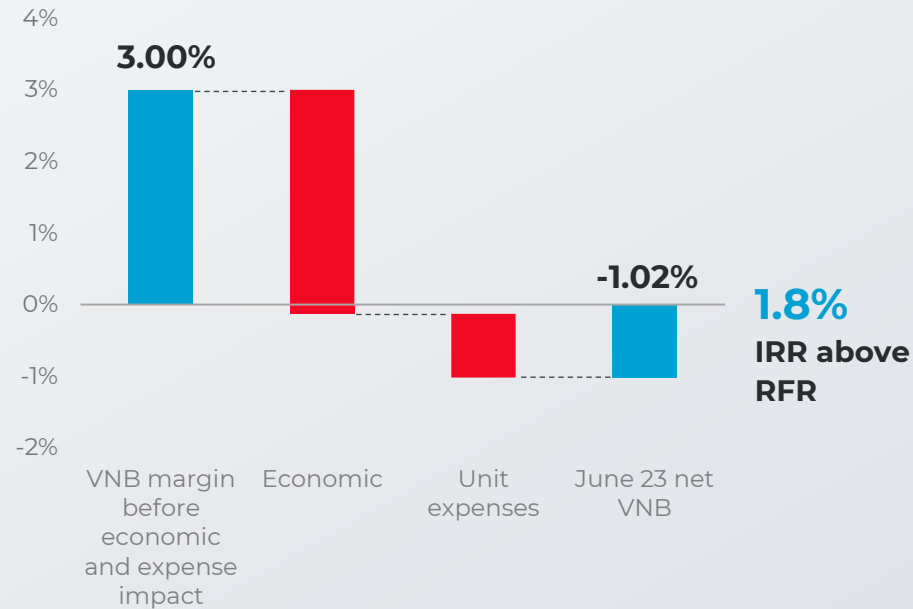
## Interest rates have increased

UK 25-year SONIA rate



## VNB margin materially impacted by interest rates

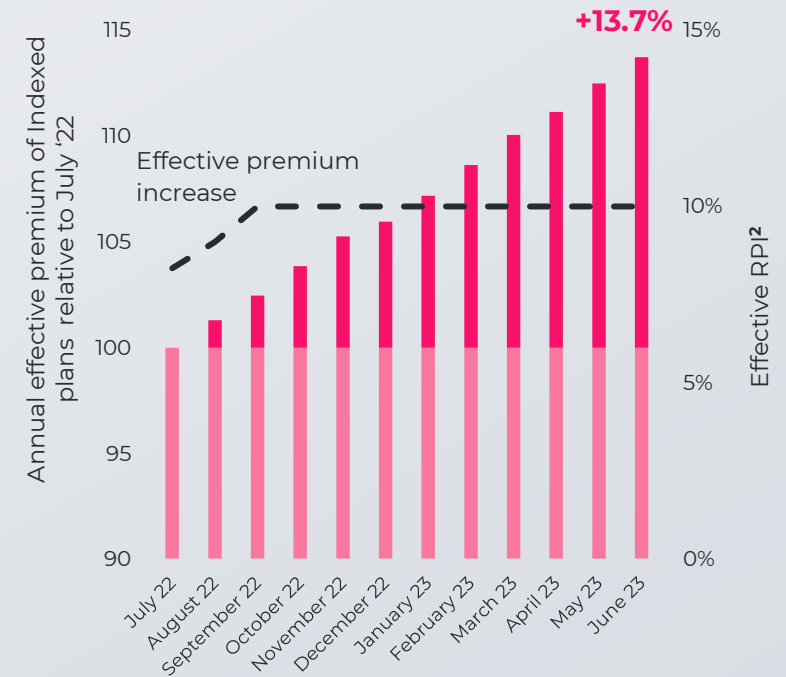
VNB margin (%)



- Economic impact was the biggest driver for the reduction, both in terms of interest rate changes and inflationary affect on unit costs
- However this was offset against higher premium indexation on the in-force book, contributing to profit growth

## High inflation driving in-force premium increases

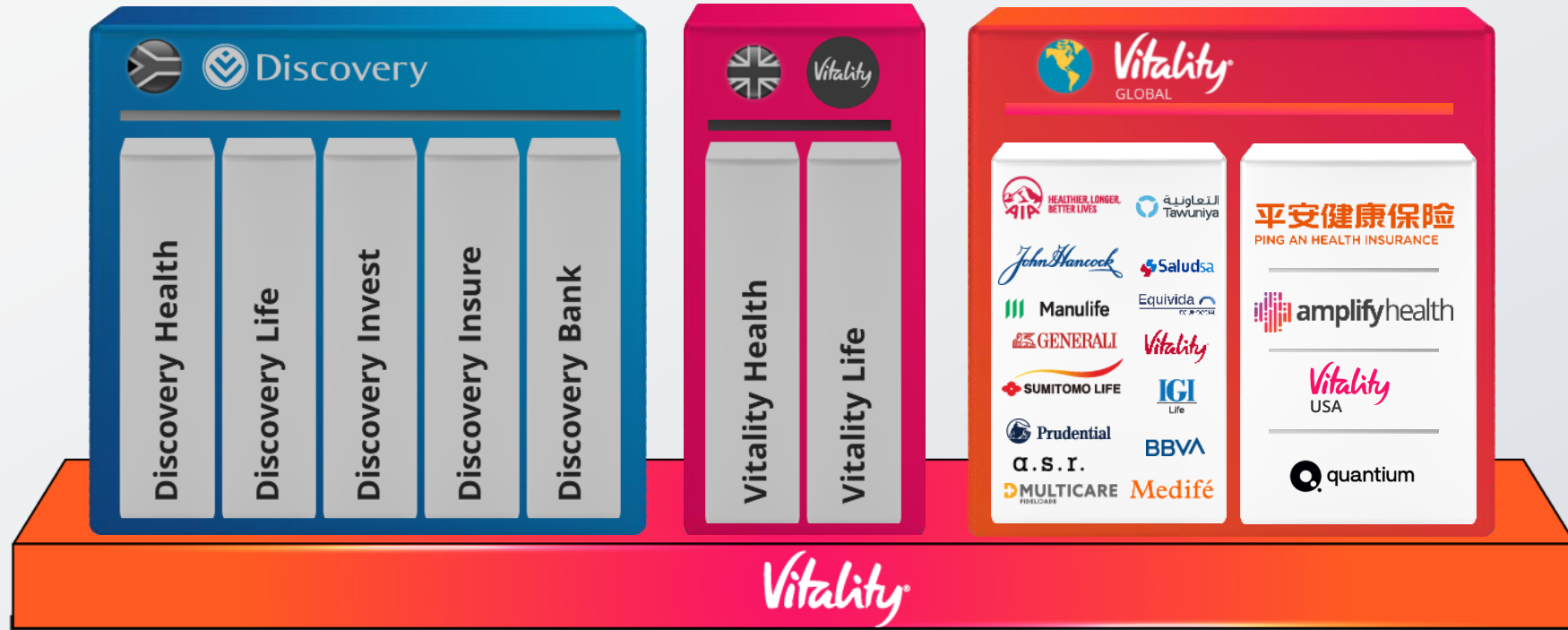
Total in-force index-linked premiums



**£18m positive operating profit impact**

- In-force Indexed premium at July '22
- Indexation premium increases





## Vitality Global



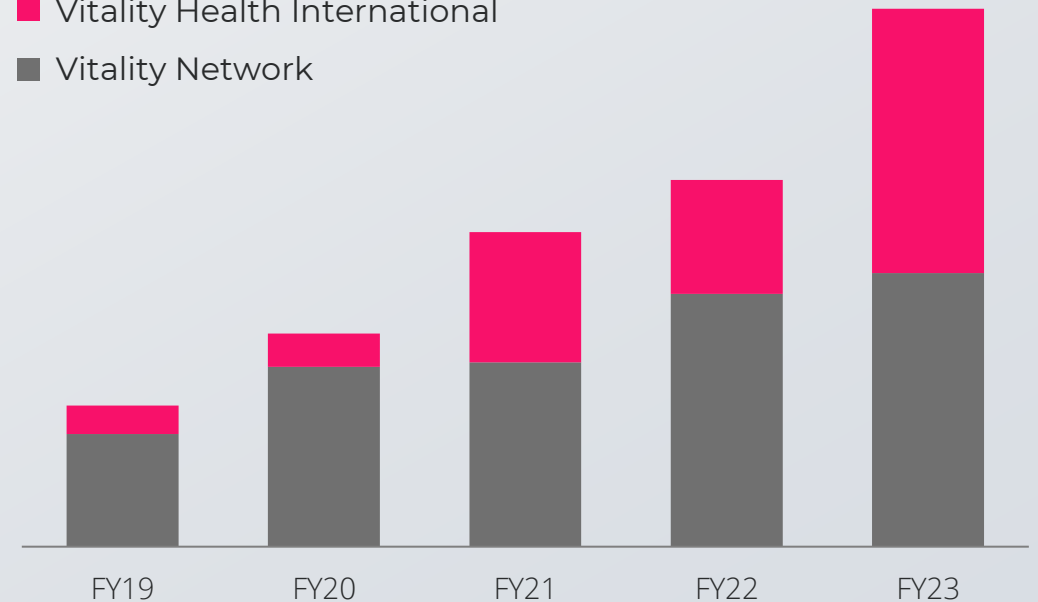
Strong underlying growth, driven by deepened partner relationships, broadening the reach of Vitality assets and capabilities

## Operating result

**+49%**  
to \$44m

**+74%**  
to R777m

■ Vitality Health International  
■ Vitality Network



# Vitality Network



## Integrated API by insurance partners

## Revenue

## Operating profit

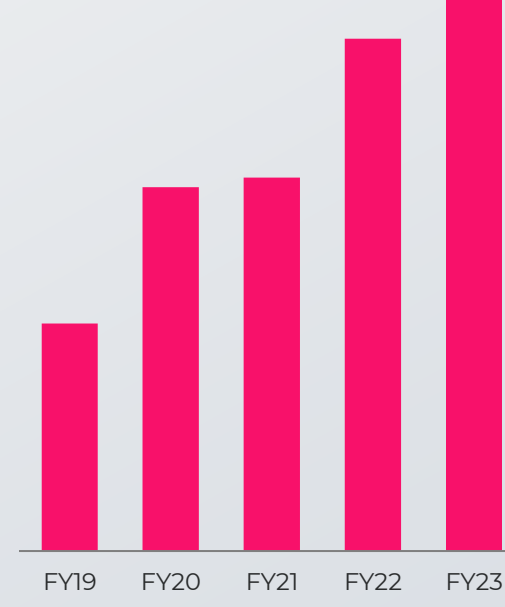
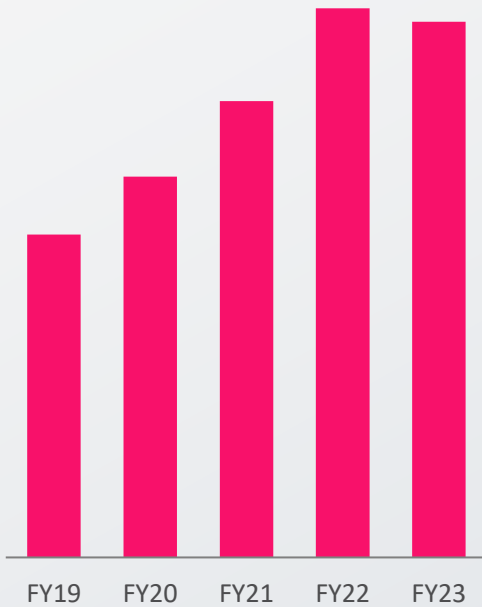
## Insurance partners membership

**-1%** to \$1.4bn\*  
**+16%** to R25.2bn

**+3%** to \$69.5m  
**+20%** to R1.2bn

**+8%** to \$23.1m  
**+26%** to R411m

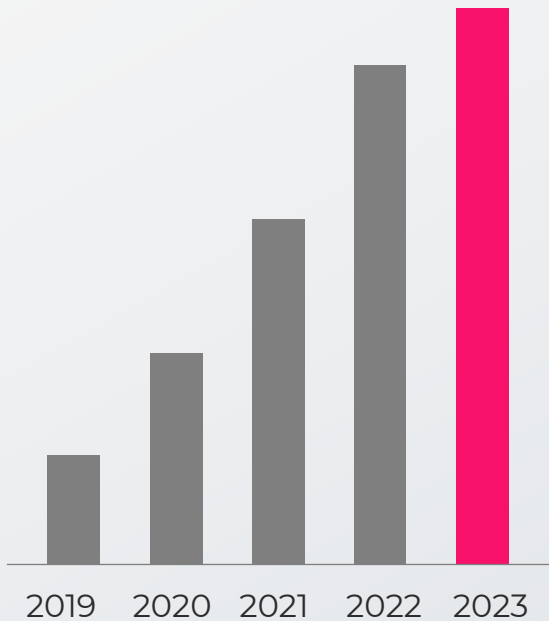
**+23%** to 3.7m



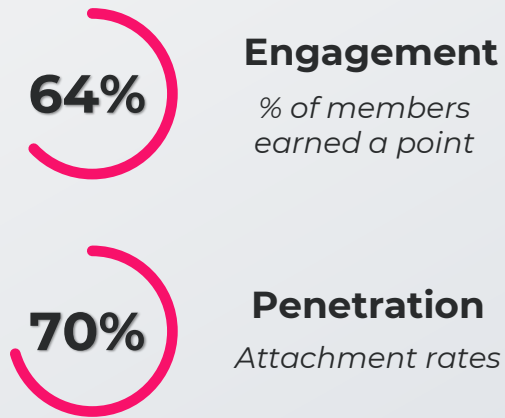
**Strong book growth driven by increasing distribution force**

**\$1.3bn** Vitality ANP  
**1.5m** Policies sold

Vitality ANP

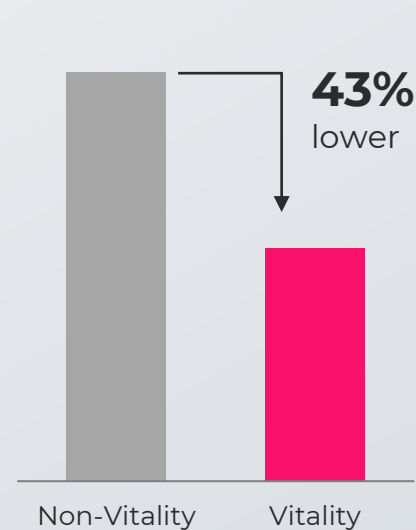


**High level of sustained engagement**

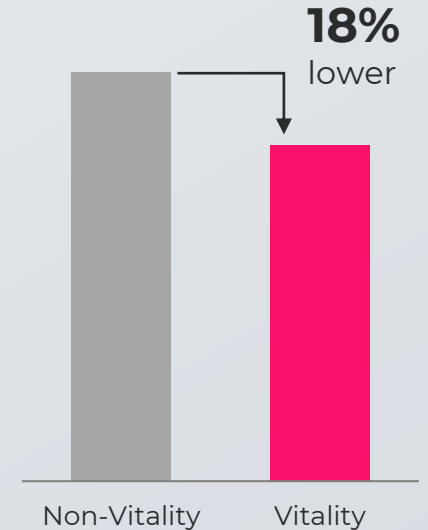


**Positive actuarial dynamics driven by Shared Value model**

Relative mortality rates

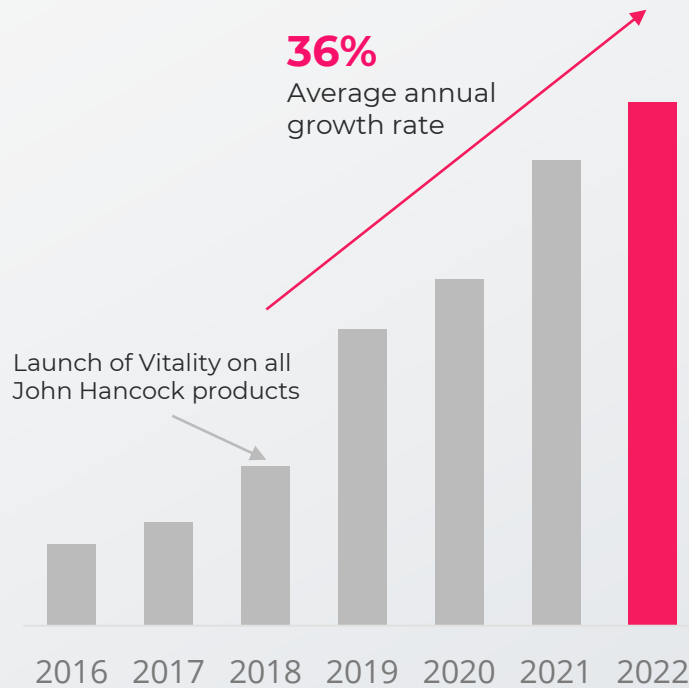


Relative hospitalisation rates



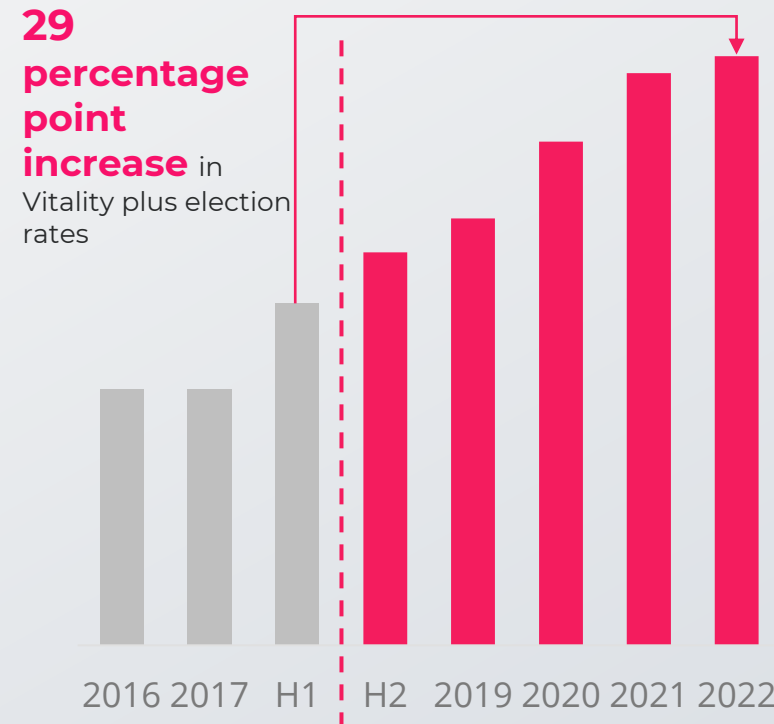
## Sales uplift

Annual Vitality Plus Sales



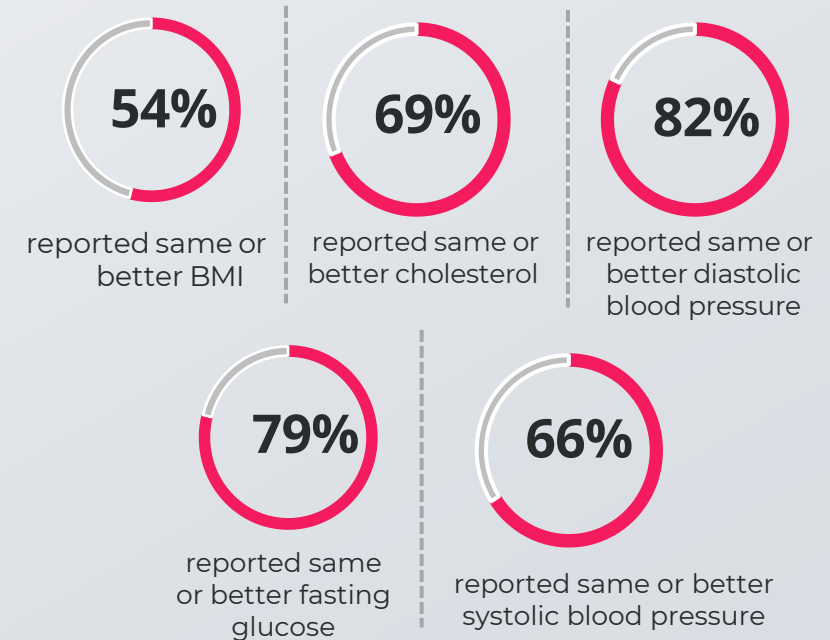
## Election rate

Improved Vitality PLUS election rates



## Healthy Outcomes

Compared to the prior year, members reported the following on their Vitality Health Check:



Source: Distribution of Vitality PLUS and Vitality PLUS not elected within the 'Super Preferred' underwriting category for policies sold from 2017-2020. JH Vitality subset of members which had successive data, 2019

# Key strategic focus areas



- 1 Revenue growth through deepening of existing insurance partnerships and starting to participate in emerging profits
- 2 Targeted pursuit of new insurance partnerships, with a focus on expanding in the US
- 3 Unlock geared profits through operational efficiency and fixed investment largely based in South Africa



# VHI leverages the success of the mature PAHI to invest into high potential health markets



## Vitality Health International

## Revenue

## Operating result

VHI excluding PAHI

Including PAHI equity earnings

**+64%**

**+137%**

**+177%**

to \$55.5m

to \$22.6m

to R402m

Year of launch or investment by VG

**2009**

*\*section follows on slide*

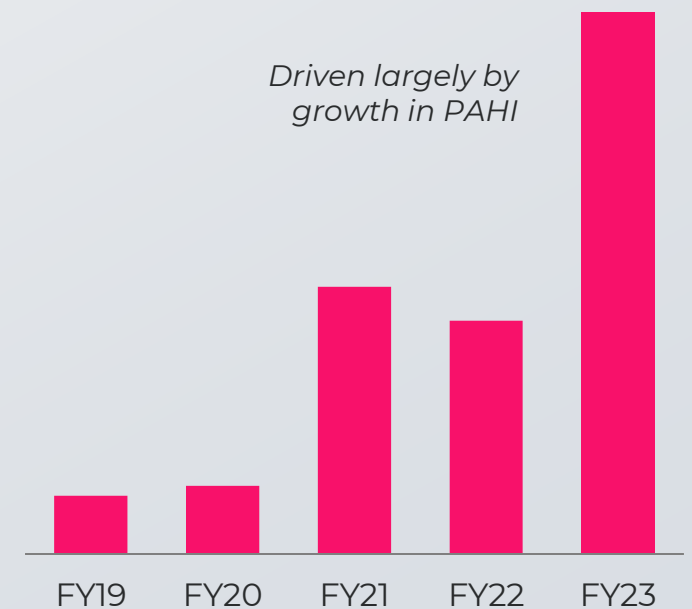
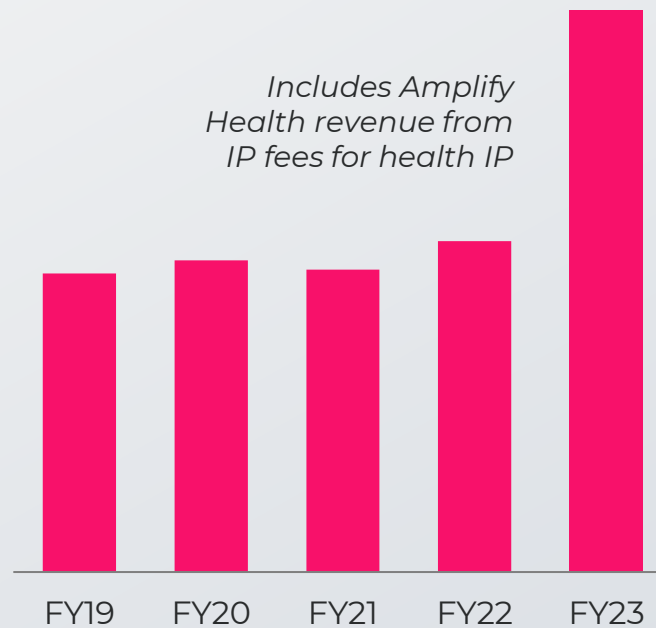
**2022**

**2008**

**2020**

*Includes Amplify Health revenue from IP fees for health IP*

*Driven largely by growth in PAHI*



# VHI | Growth in high potential healthtech & insurance ventures



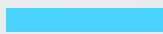
PAHI remains resilient and is supported by strong business fundamentals including a strong balance sheet with a comprehensive solvency ratio of 267%

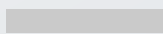
**28m** lives and **45%** growth in operating profit

Digital health solutions have been established within Amplify Health, accelerated by the acquisition of AiDA Technologies. Substantial progress has been made in the design, specification and initial technology builds of 3 priority products

VUS continues to accelerate its development of the new personal pathways product with a robust pipeline of sales prospects and strong market interest for the health solution

While revenue has declined due to the conclusion of COVID government contracts recovery will be driven by new international contracts. One such opportunity is implementing a data science platform with AI-driven personalised health recommendations for Vitality UK

 Health insurance

 HealthTech

**5 major products**

**Broad footprint**

**Chronic disease management (CDM)**  
 Validates health risks and diagnosis, supports self-management, and incentivises behaviour modification

**Validity**  
 Validity identifies individuals' health risks and motivates and incentivises them to modify relevant lifestyle behaviours to improve their overall health and wellbeing

**Provider management**  
 Analytic tools for provider performance profiles, alternative reimbursement models and network modeling

**Claims administration**  
 End-to-end solution that automates claims, improves cost control and enables better insights from claims data

**Fraud, waste, and abuse**  
 AI based outlier detection and flagging suspicious cases for assessors to review

**Committed:**

- Private Medical Insurance (PMI) product builder
- Provider management consulting

**Committed:**

- Value, diagnostics, insights
- Optical character recognition (OCR)
- Fraud, Waste, & Abuse (FWA) + Pre-Auth

**Committed:**

- Health wallet
- AI Claims
- OCR

**Pipeline:**

- PMI product builder

**Pipeline:**

- FWA
- OCR
- Provider Management

**Committed:**

- Value, diagnostics, insights

**Committed:**

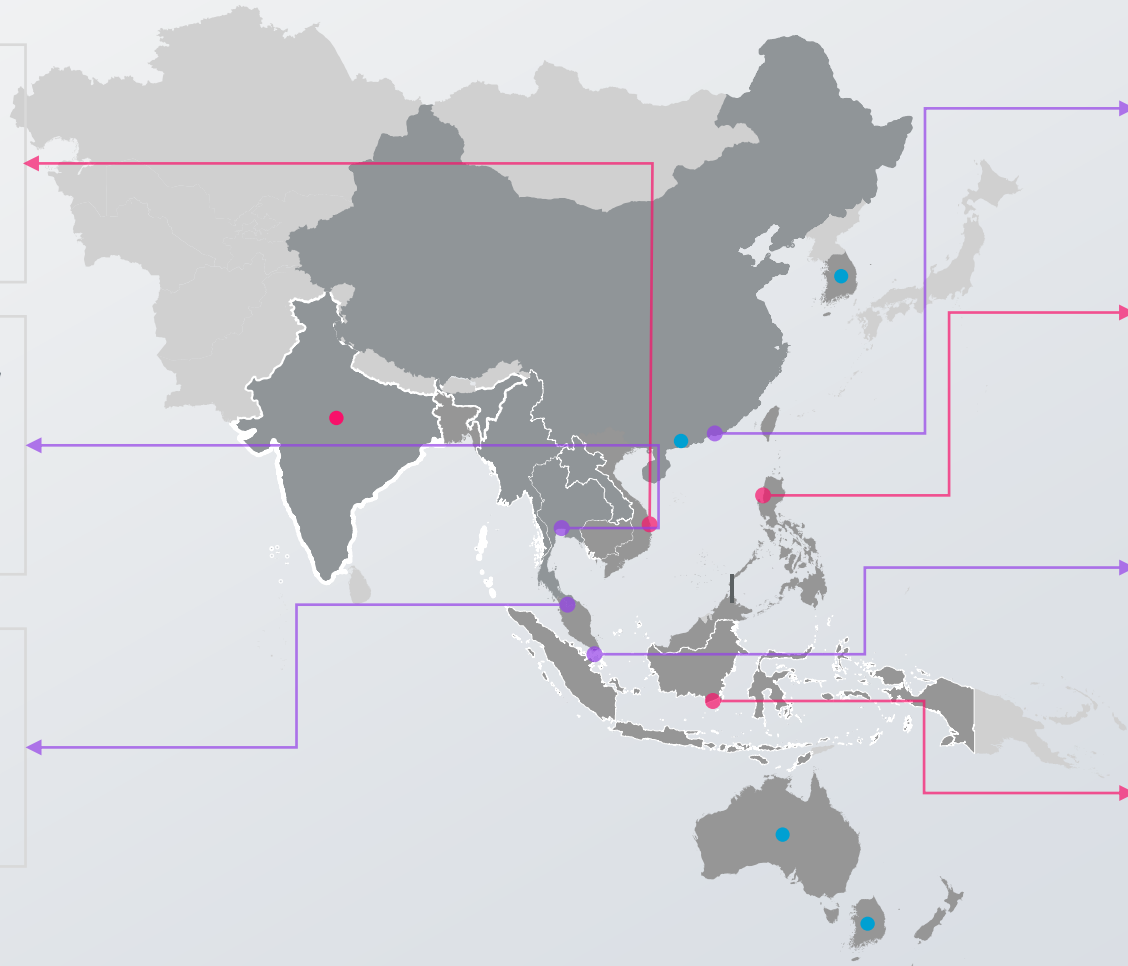
- Data diagnostics
- OCR
- FWA

**Pipeline:**

- Chronic Disease Management (CDM)

**Committed:**

- Value insights



# Ping An Health Insurance



## PAHI's operating results pre-tax

**+31%** to RMB1.3bn (RMB328m DSY's share)  
**+39%** to R3.4bn (R849m DSY's share)

## Discovery's operating result after tax

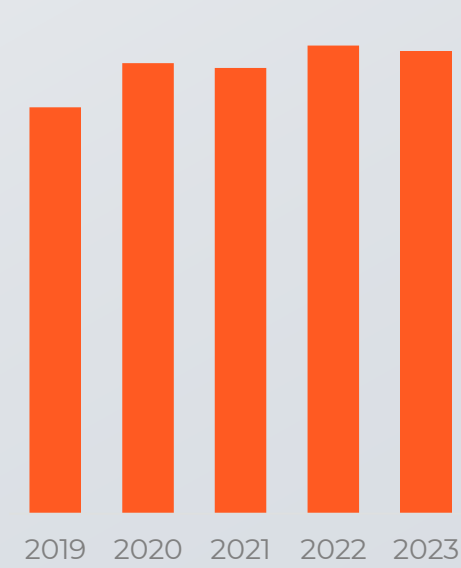
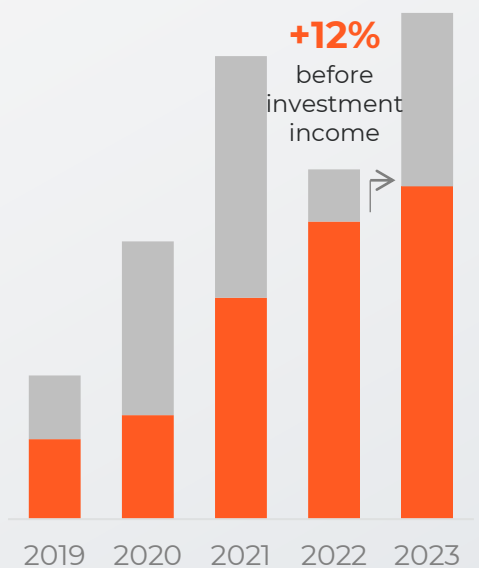
**+63%** to RMB234m  
**+76%** to R596m

## Written premium<sup>1</sup>

**+2%** to RMB19.6bn  
**+11%** to R50.1bn

## PAHI licence New business<sup>1</sup>

**-9%** to RMB3.4bn  
**-1%** to R8.7bn



■ Investment income and gains  
 ■ Profit before investment income and gains

■ PAHI licence ■ Reinsurance

# Pivot to health and wellness driving superior performance



**Successful pivot to a health & wellness model**

**Robust core capabilities positively impacting performance**

**Superior profit margins**

**Growth in net asset value**

**Assessments, reports, and actionable recommendations**



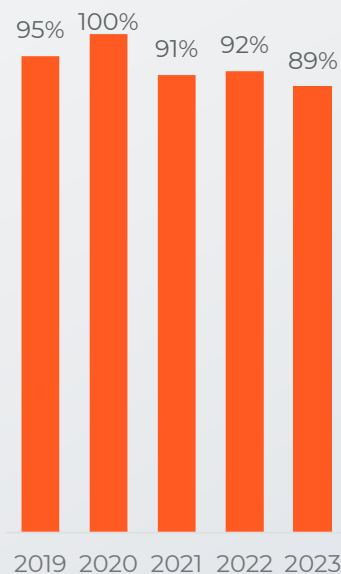
**Effective incentivised wellness management programmes**



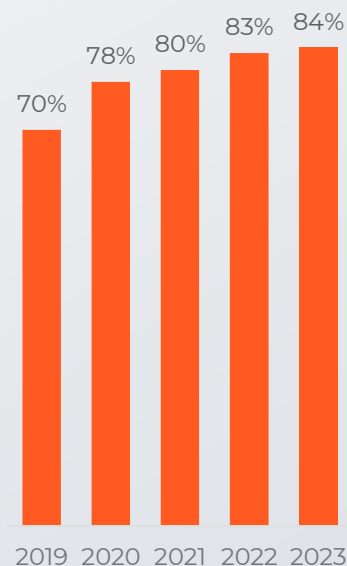
**Products and services to support positive health outcomes**



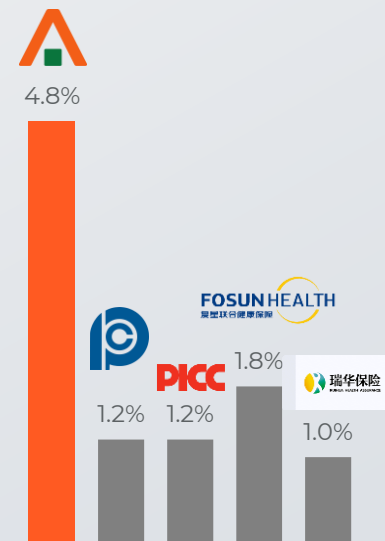
Combined ratio<sup>1</sup>



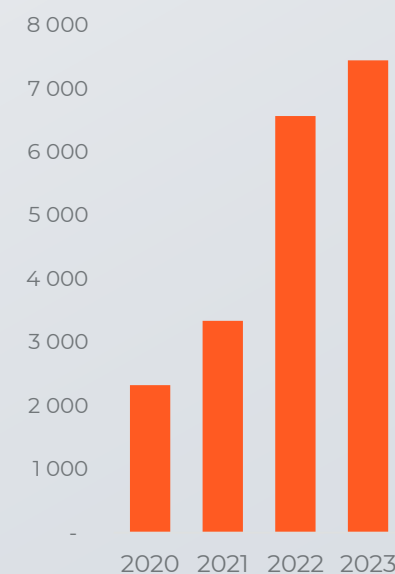
Persistency<sup>1</sup>



2022 profit margin<sup>2</sup>



Net asset value (RMBm)<sup>3</sup>



<sup>1</sup> Figures are for January to June for each financial year

<sup>2</sup> Margins as reported by the different insurer's in their Annual Financial Statements

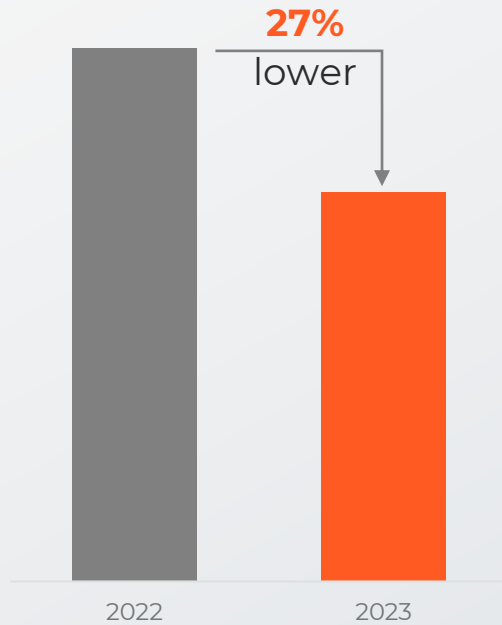
<sup>3</sup> 100% of PAHI

# Took swift action to offset new business headwinds

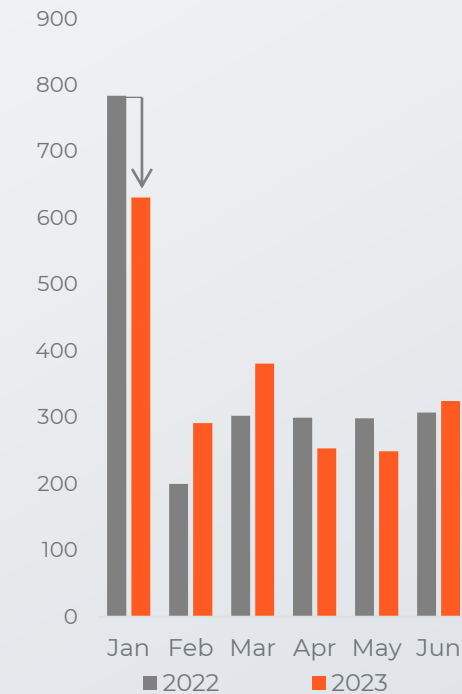


## Low economic growth, decrease in PAL agents, and COVID-19 impacted new business in last 2 years

Significant decrease in number of PAL agents  
Number of existing PAL agents



Red door sales impacted by COVID-19 in 2023  
PAHI licence business (RMBm)

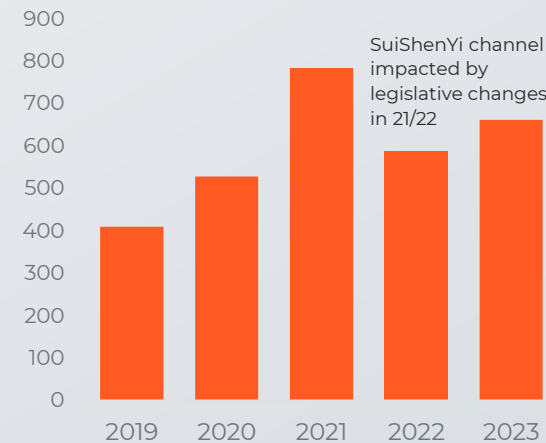


## New products and growing channels

New products launched

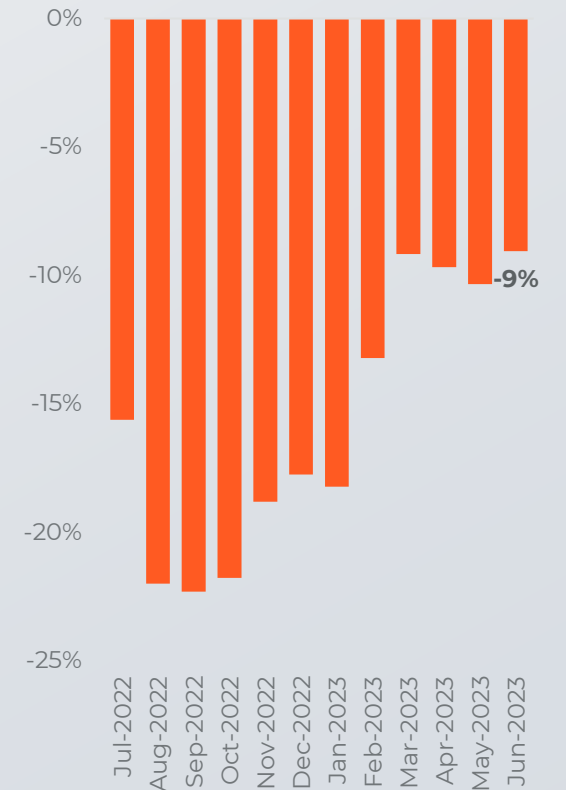


Growing alternative channels  
Non-PAL new business (RMBm)



## Initial new business slump recovered

YTD cumulative new business change over FY 2023 (PAHI licence)



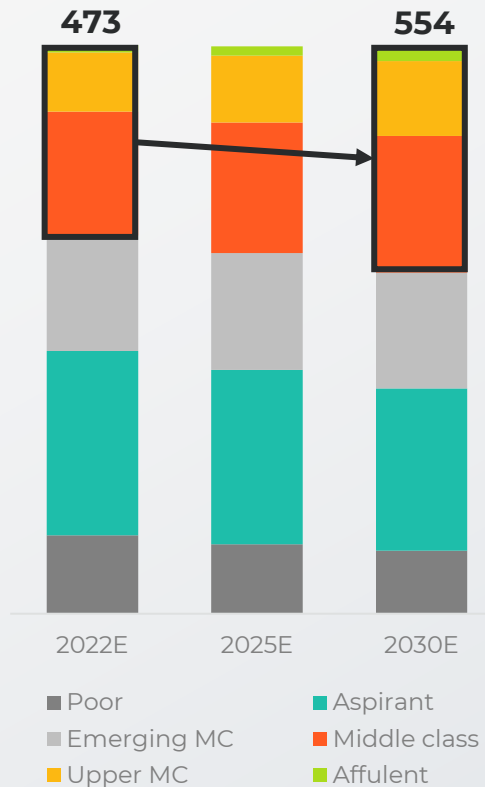


# Middle class continues to grow with growing healthcare demand



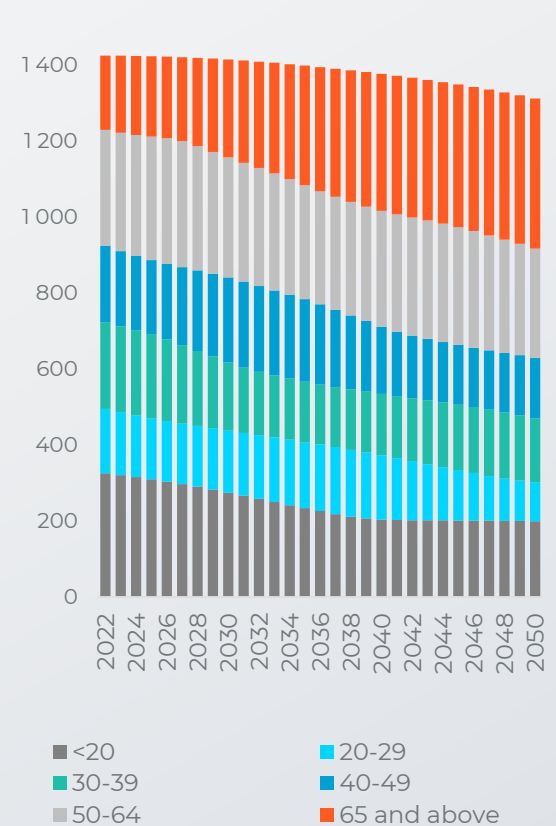
## Middle class & affluent to increase 80m by 2030

Population by income bracket<sup>1</sup> (m)



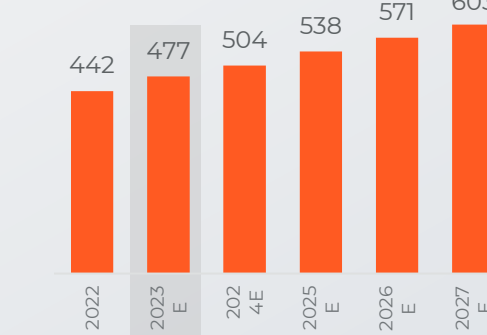
## Percentage older than 65 to double by 2050

Population by age band<sup>2</sup> (m)

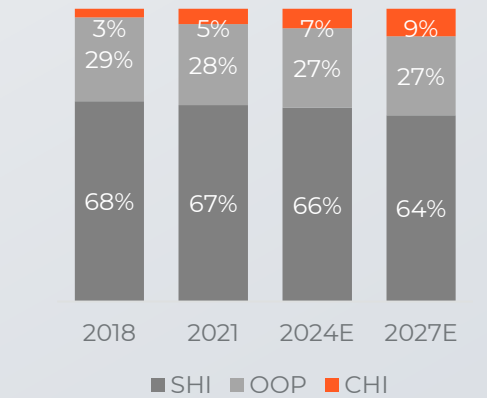


## Healthcare insurance increasingly important

Healthcare expenditure (USD bn)<sup>3</sup>



## SHI, CHI, and OOP<sup>4</sup>



## Strong policy support

### Policy commitment to public provision of healthcare and Social Health Insurance funding

National Healthcare Security Administration (NHS) recently reinforced **commitment to expanding the Social Health Insurance (SHI)** provider network, enhancing and standardising service agreements, and improving reimbursement processes<sup>5</sup>

### Policy commitment to private provision and private funding, to complement what is available in the public provider sector and SHI

National Development and Reform Commission's 14th Five-Year Plan for National Health emphasises promoting the supply of private health insurance. **A joint announcement by 13 state departments contemplates Commercial Health Insurance (CHI) as a vital component of the healthcare system<sup>6</sup>**

### A progressive approach to ensuring that the public and private sectors work together, and do not bifurcate

The National Financial Regulatory Administration and the NHS are **jointly working towards information-sharing between CHI and SHI information platforms**. In June 2023, a draft information-sharing protocol was released to provincial Health Securities Administrations for review and comment<sup>7</sup>



# Focus by composite



**Perfect composite model, #1 in our chosen segments in every industry, and the Bank pivoting to growth as the composite-maker within SA**

- Scaling the Bank to profit and positioning it as the face of the composite
- Ensuring each business is market leader in terms of market share, margin, product and customer value



**A new generation life and health insurance composite, with integration at both a product and operational level and a seamless One Vitality client journey**

- Growing VitalityHealth on the back of a complex NHS environment
- Using the Shared-Value Model to get superior ROC and growth in VitalityLife
- Integration of Life and Health



**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**

- Scaling Ping An Health Insurance in a complex Chinese market
- Monetising and scaling IP in Vitality Network with key partners
- Globalising unique health assets

# Focal areas



**1** Growing quality earnings with a robust balance sheet

**+12%**  
New business

**+24%**  
Operating profit

**64%**  
Cash conversion

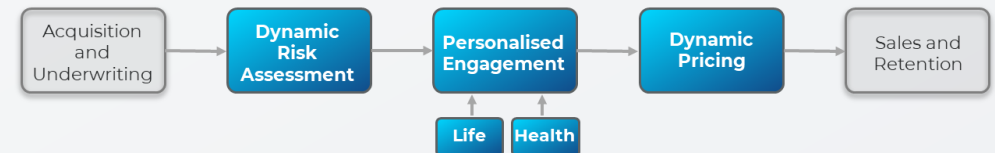
**20%**  
FLR

**2** A clear strategy per composite, intensifying focus on key initiatives and ceasing those with marginal benefits

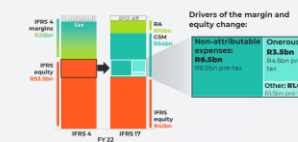


**10.6%**  
Investment in New  
excl discontinued UK

**3** Evolving the Vitality Shared-Value Insurance Model



**4** Transitioning to IFRS 17





# THANK YOU

Discovery Group

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