

Results and cash dividend declaration

for the year ended 30 June 2018





Normalised operating profit

+17%

to R8 266m

Core new business

+10%

to R16 137m

Headline earnings

+32%

to R5 803m

Normalised headline earnings

+16%

to R5 401m

+6% to R16 878m incl. DH take-on of new closed schemes and gross revenue for the Vitality Group



1

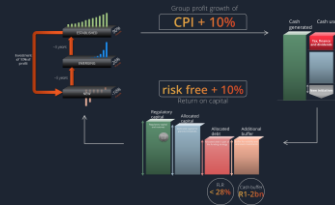
2018 Ambition



Discovery's core purpose has manifested in a globally relevant Shared-Value Insurance model. Our confidence in the efficacy and impact of the model led to the 2018 Ambition and consequent operating framework.

2

Financial performance



This framed the financial results, with excellent earnings growth, strong cash generation of R10.6 billion from the in-force businesses, and considerable investment in new business - with favourable returns. The capital plan remains robust with the FLR decreasing to 25.8% and a cash buffer of R1.7 billion.

3

Discovery Bank



The bank build is on track and within budget. Regulatory approval of the banking licence was conditional on FirstRand Bank (FRB) reducing its shareholding from 25.01%. An agreement has been reached by Discovery and FRB to accelerate this, with the proposed transaction seeing Discovery acquiring FRB's shares.

4

Businesses



The established businesses performed remarkably well, growing operating profit by 14% and a pleasing return on capital. Emerging businesses turned to profitability with significant latent potential. Three substantial new businesses were launched.



Operating profit	New business ¹	Net cash flow ⁵	RoE	Experience variances ²
+17%	+10%			
R8.3bn	R16bn	R522m	rf+9.6%	R678m

Established businesses

Emerging businesses

Discovery Health	+11%	+8% ³	R2,828m	>rf+10%	R214m	Excellent performance. Mandate is to continue to provide its members access to quality, affordable healthcare on a sustainable basis, assisting in enhancing the healthcare system for all South Africans
Discovery Life	+7%	+1%	R434m	rf+7.5%	R82m	Focus on quality, prudence and efficacy of the SVI model. NB growing in a contracting market, manifesting in market share exceeding 30%. Profitability, experience variance and VoNB reflected the focus on quality
Discovery Invest	+19%	-2%	R105m	rf+7.5%		Focus of Invest is to utilise the SVI model in the context of long-term savings. The combination of this and efficient asset management structures yielded excellent results for customers while maintaining margins
Vitality HEALTH INSURANCE	+108%	+14%	R475m	rf+11%	R486m	Stand-out performance - the additive effects of the model and the various interventions resulted in better selection and excellent Vitality engagement and strong positive selective lapsation
Vitality LIFE INSURANCE	+6%	+10%	(R393m)	rf+6.7%	(R105m)	Robust performance. The business completely re-engineered itself for the low interest rate environment with all new business repriced and the business mix changed
Discovery Insure	>200%	+17%	R2m	5%	n/a	Seminal period with a strong shift to profitability. Focus of the business was the execution of its business model in the personal lines market while launching a powerful interpretation of its SVI model for the SME target market
Vitality GROUP	+129%	+40% ⁴	(R111m)	5%	n/a	Group now present in 17 countries. Significant investment in the Vitality One platform which enables the pace of expansion
中国平安 PING AN	>200%	+84%	(R40m)	7%	n/a	Business fundamentals strong, playing an important strategic role within the broader Ping An Group. The Ping An Health App attracted over 4.3 million users
New initiatives	7%	of earnings	(R1 675m) ⁶			Discovery Bank build in progress. Vitality/Invest, umbrella funds and commercial insurance launched over the period

1 Excludes DH take-on of new closed schemes and gross revenue for the Vitality Group

2 Experience variances excluding economic variances

3 Excludes new scheme take-ons

4 Vitality Group fee income from insurance partners in constant currency terms and includes new business from MyOwn

5 Movement in shareholder free cash

6 Excludes new initiative spend included in emerging businesses

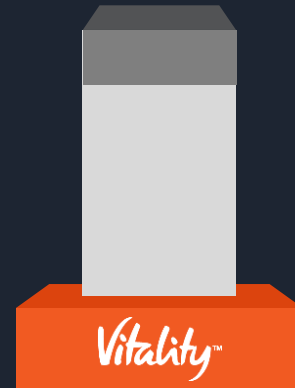


WHY

Make people healthier and enhance and protect their lives



HOW



WHAT

Life insurance

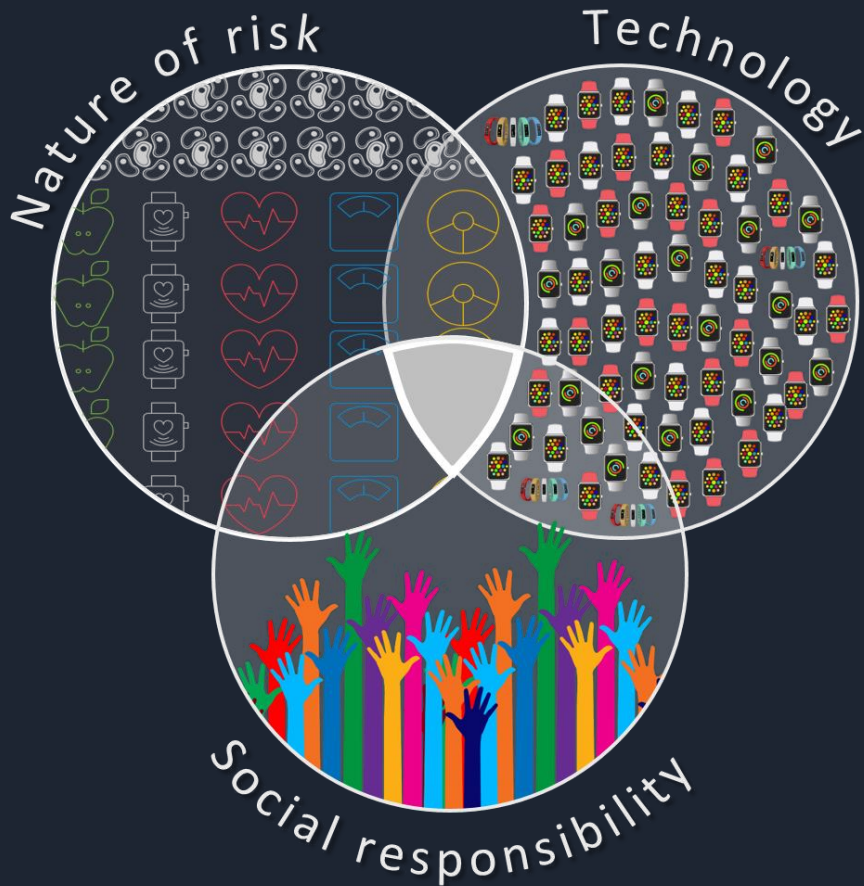
Health insurance

Short-term insurance

Long-term savings

Banking

Trends underpinning the Shared-Value model remain relevant



Societies require companies to fulfil a socially progressive core purpose



Consumers live in a technology-dominated world and seek solutions instead of services



The nature of risk is behavioural and solutions are becoming increasingly personalised

Controllable behaviours that led to Shared-Value model



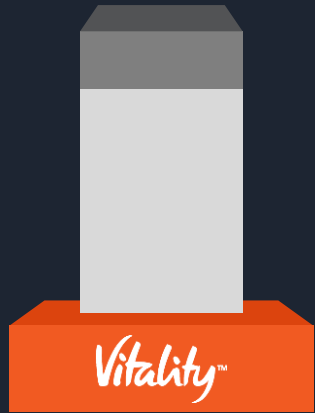
Life insurance	Health insurance	Motor insurance	Long-term savings	Banking
4 > 4 > 60	4 > 4 > 60	5 > 3 > 60	3 > 3 > 90	4 > 80
Lifestyle behaviours Chronic conditions Deaths worldwide	Lifestyle behaviours Chronic conditions Deaths worldwide	Driving behaviours Driving conditions Fatal accidents	Controllable behaviours Conditions Inadequate retirement funding	Controllable behaviours Credit defaults and retirement shortfalls
<i>World Health Organisation and Global Burden of Disease</i>	<i>World Health Organisation and Global Burden of Disease</i>	<i>Road Traffic Management Corporation and U.S. Department of Transportation</i>	<i>National Treasury</i>	<i>Journal of Economics and Finance and other sources</i>



Dynamics of the model manifest across all industries



Sales x **Selection** x **Behaviour** x **Lapses** → **Shared value**



Industry	Sales	Selection	Behaviour	Lapses	Shared value
Life insurance 	20%-30% ↑ increase in market share	20%+ better claims experience compared to non-Vitality	>50% lower mortality on highly engaged	15%+ lower lapse rates Stayers have 50% mortality of leavers	>2x Higher VNB
Health insurance 	44% ↑ increase in market share ¹	Initial engagers have: 28% lower hospital costs 10% lower chronic conditions	Members who run at least 2 times per week save 15% on healthcare costs	>3.6x lower lapse rates	4% Lower loss ratio
Motor insurance 	6x ↑ increase in market share ²	10% better driving score compared to population	15% improvement in driving behaviour	60% lower lapse rates Stayers have 24.7% lower absolute loss ratios than leavers	17% Lower loss ratio
Long-term savings 	70%-200% ↑ increase in market share ³	85%+ invested into preferred funds	60% lower income drawdowns	3x more ad hoc additions 25%-50% lower withdrawals	>1.5x Higher VNB



¹ from 2007 to 2016

² from 2013 to 2018

³ RA and linked annuities, from 2015 to 2018



BUSINESSES

- 1 Insurgent ●
- 2 Significant engagement ●
- 3 Superior actuarial dynamics ●
- 4 Meeting complex consumer needs ●
- 5 Exceptional service ●



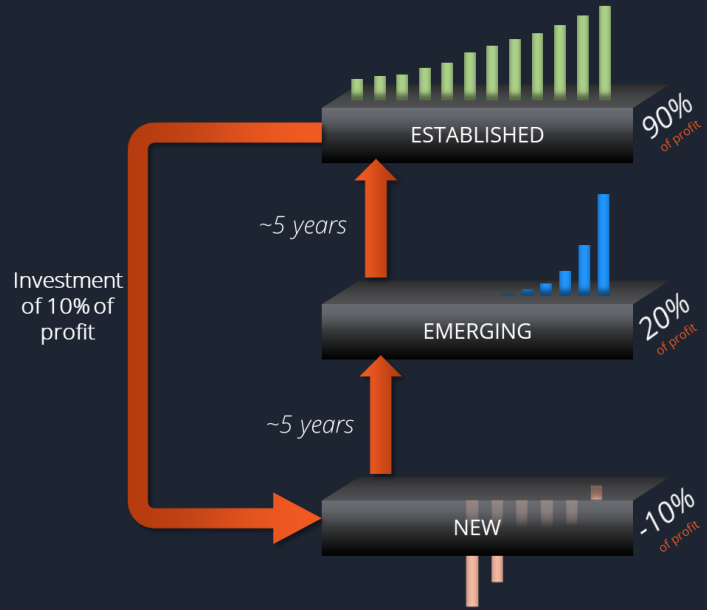
FINANCIAL AND SOCIAL IMPACT

- 1 R10bn in pre-tax earnings ●
- 2 CPI + 10% profit growth ●
- 3 Risk free + 10% return on capital ●
- 4 10m Vitality members ●

FOUNDATION

- 1 Global platform, science and data ●
- 2 Powerful brand ●
- 3 Employer of choice for critical skills ●
- 4 Values-based culture ●

Operating model

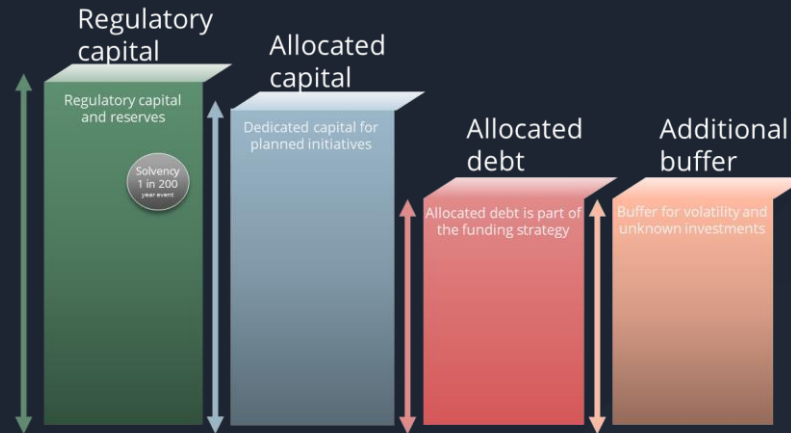
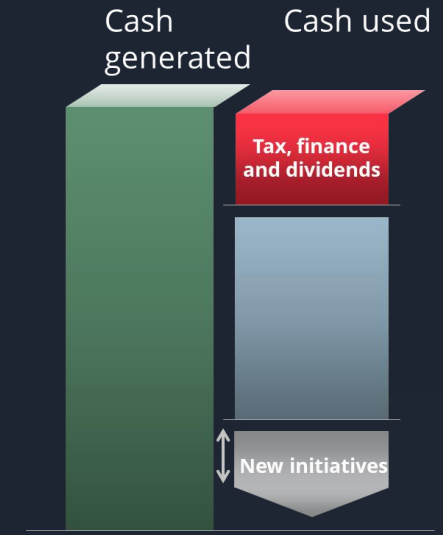


Group profit growth of

CPI + 10%

risk free + 10%

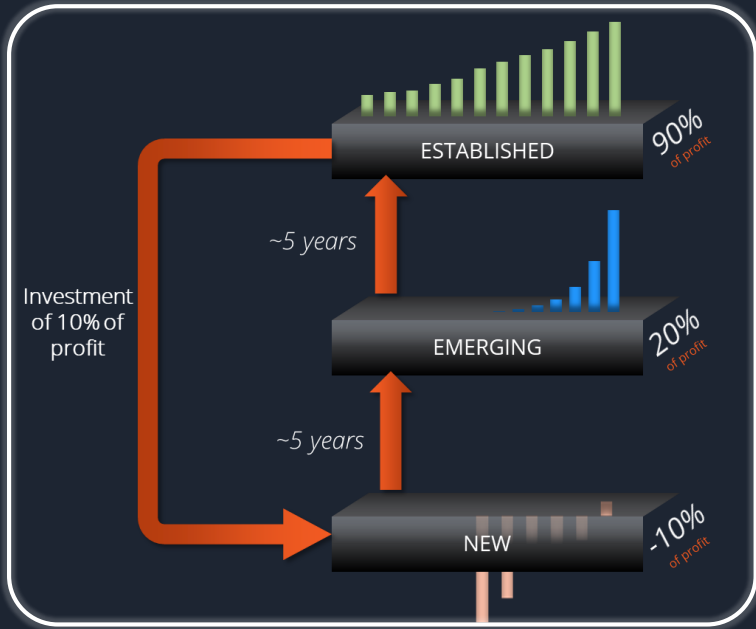
Return on capital



FLR
< 28%

Cash buffer
R1-2bn

Organic growth engine

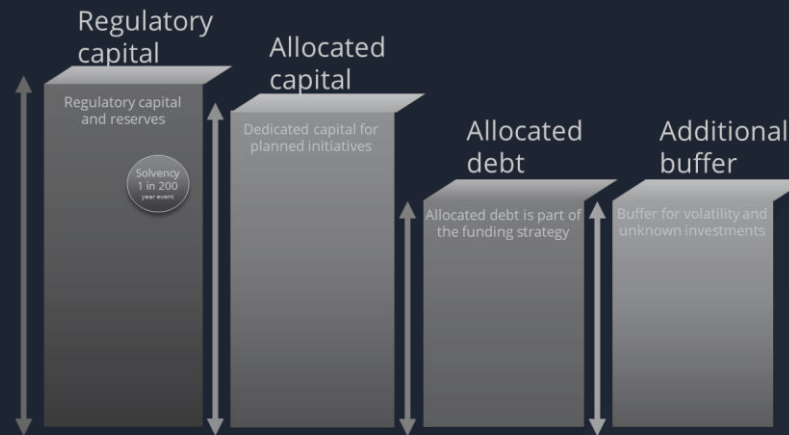
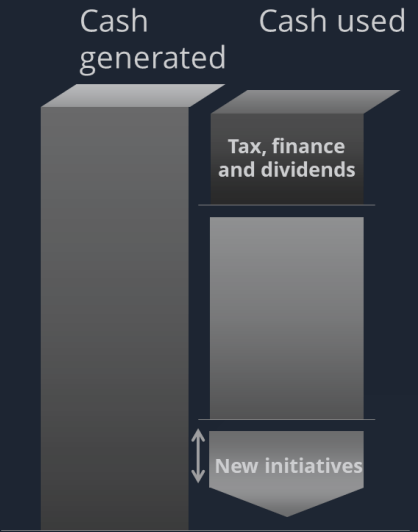


Group profit growth of

CPI + 10%

risk free + 10%

Return on capital



FLR < 28%

Cash buffer R1-2bn

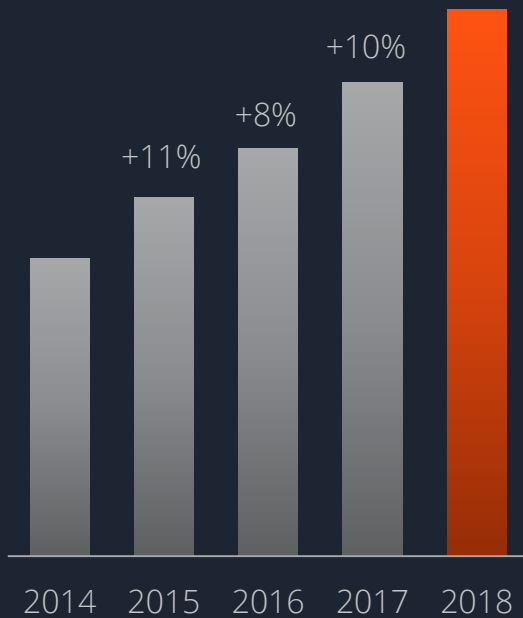
Core new business



+10%

to R16 137m

+6% to R16 878m incl. DH take-on of new closed schemes and gross revenue for the Vitality Group



	Rm	12 months to 30 Jun 2018	12 months to 30 Jun 2017	% change
Established	Discovery Health	6 573	6 109	+8%
	Discovery Life	2 188	2 175	+1%
	Discovery Invest	2 454	2 496	-2%
	Vitality HEALTH INSURANCE	1 107	972	+14%
	Vitality LIFE INSURANCE	1 172	1 068	+10%
Emerging	Discovery Insure	1 047	895	+17%
	Vitality GROUP	645	634	+2%
	中国平安 PING AN HEALTH	1 434 ¹	778 ¹	+84%

Continued growth off a high base

Individual life new business **+3%**
Invest net flows up **10%**

Strong growth from the UK businesses

Fee income from insurance partners up **40%**

Total Ping An Health new business ~ **4X** Discovery Health core new business

Consistent long-term growth

Continuing excellent growth from emerging businesses

¹ Represents 25% of Ping An Health new business API

Impacting a significant number of members globally

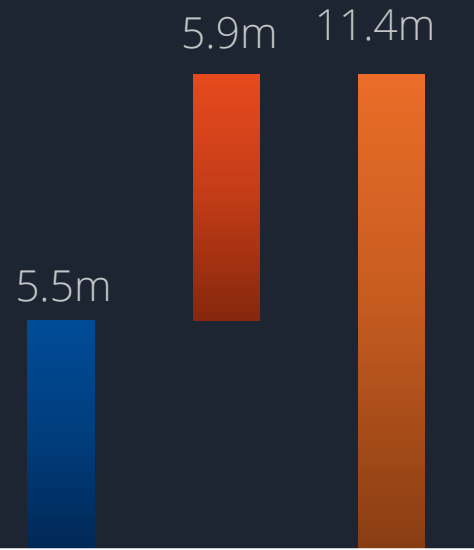


17.8m

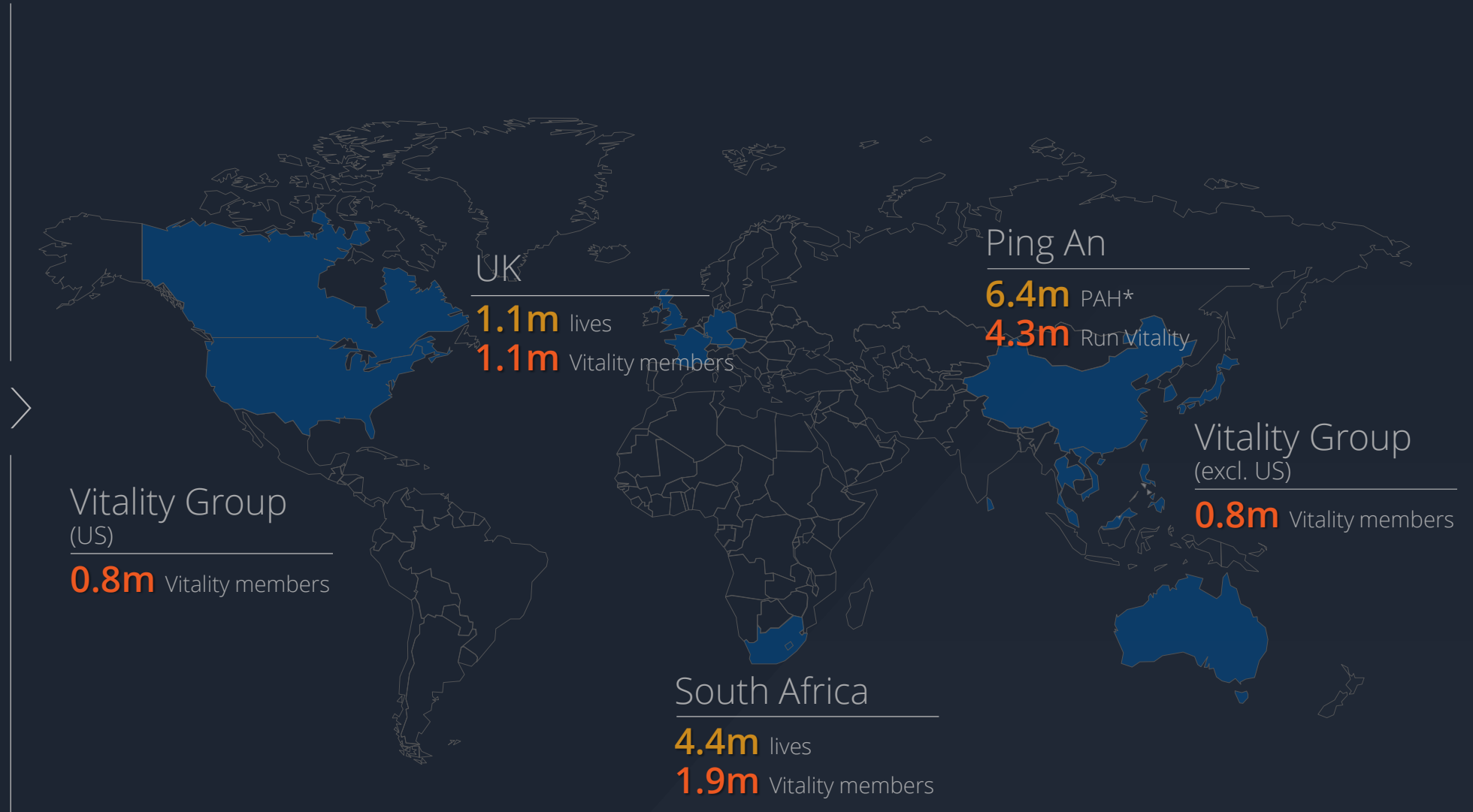
Lives

11.4m

Vitality lives



Insurance linked to Vitality
Vitality stand alone
Total Vitality



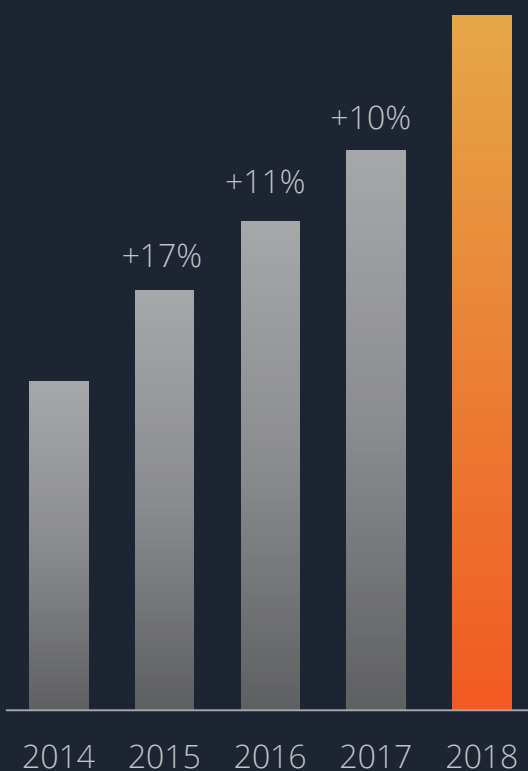
*Group 'other' lives excluded due to duplication on policies.

Operating profit



+17%

to R8 266m



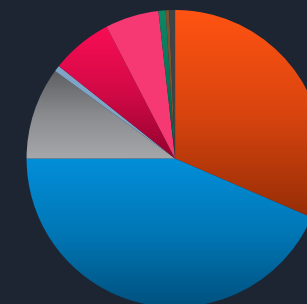
Accelerated long-term growth

	Rm	12 months to 30 Jun 2018	12 months to 30 Jun 2017	% change
Established	Discovery Health	2 777	2 505	+11%
	Discovery Life	3 837	3 588	+7%
	Discovery Invest	885	744	+19%
	Discovery Vitality	58	25	+132%
	Vitality HEALTH INSURANCE	589	283	+108%
	Vitality LIFE INSURANCE	515	485	+6%
Established businesses		8 661	7 630	+14%
Emerging	Discovery Insure	68	(21)	>200%
	Vitality GROUP	34	(116)	+129%
	中国平安 PINGAN HEALTH	56	(33)	>200%
Emerging businesses		158	(170)	+193%
New	Bank, Vitality Invest, commercial insurance, umbrella funds and the GVN	(553)	(412)	
Group		8 266	7 048	+17%

Emerging businesses all profitable

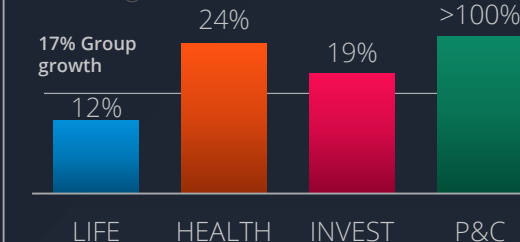
By business

- DISCOVERY HEALTH
- DISCOVERY LIFE
- DISCOVERY INVEST
- VITALITY
- VITALITYHEALTH
- VITALITYLIFE
- DISCOVERY INSURE
- VG
- PAH



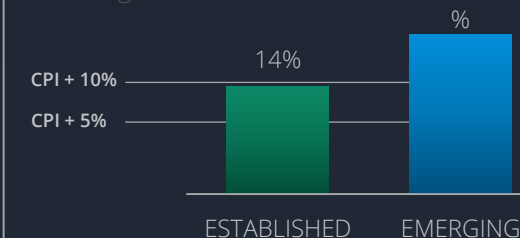
By industry

Relative growth



By growth model

Relative growth



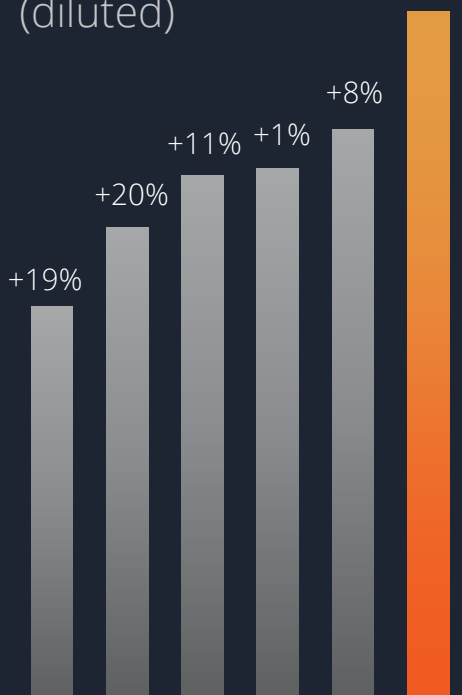
Normalised headline earnings



+16%

to R5 401m

Normalised headline earnings per share (diluted)



2013 2014 2015 2016 2017 2018

Rm	12 months ended June 2018	12 months ended June 2017	% change
Profit from operations	8 266	7 048	17
Finance costs	(959)	(478)	
Other	105	(798)	
Profit before tax	7 412	5 772	28
Taxation	(1 677)	(1 278)	
Other adjustments	68	(90)	
Headline earnings	5 803	4 404	32
Deferred tax assets recognised	(352)	-	
Other	(50)	252	
Normalised headline earnings	5 401	4 656	16

Higher finance costs

Higher taxation

Recognition of the deferred tax asset

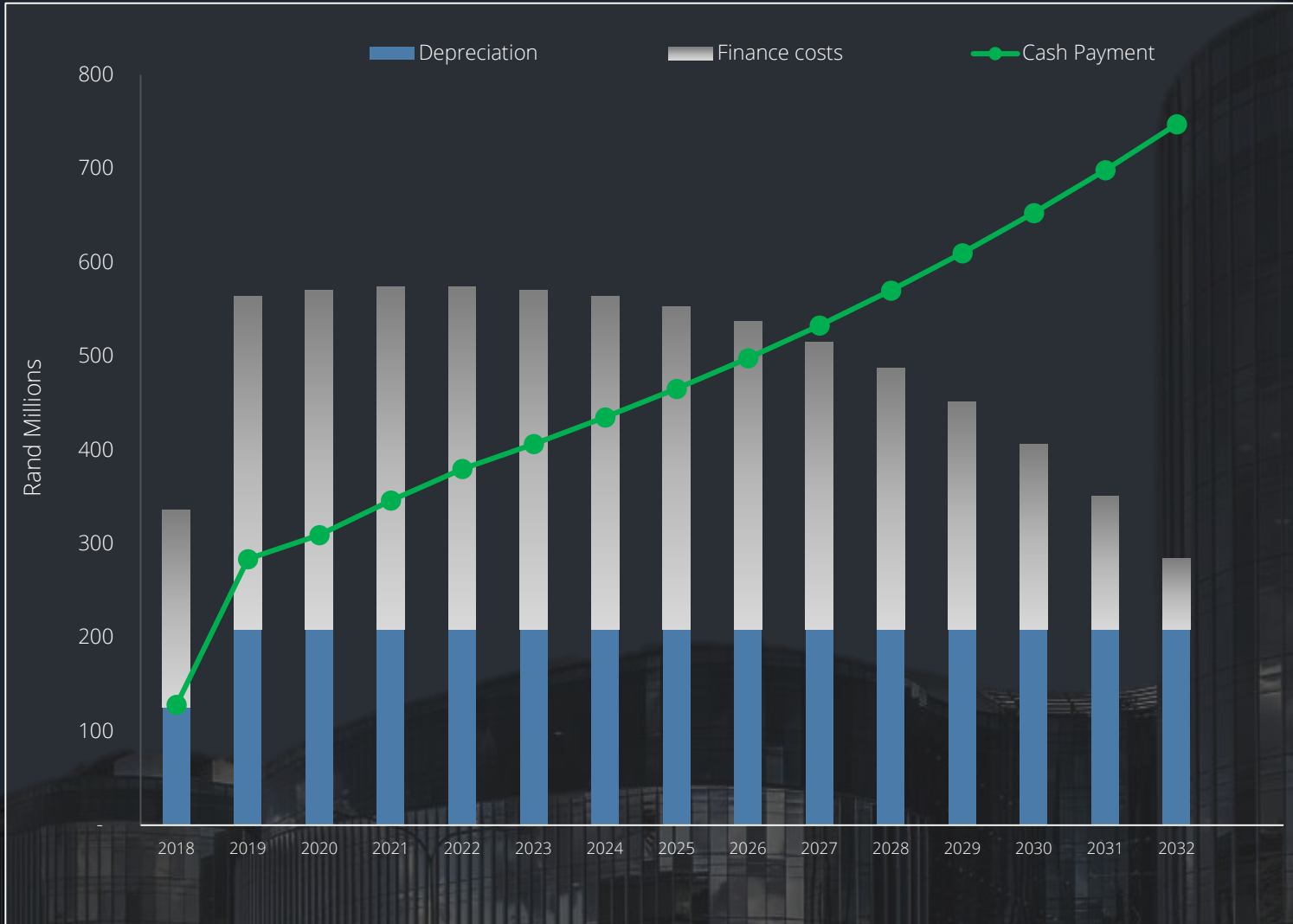
Normalised headline earnings per share (diluted): **836.9c (+16%)**

Dividend declaration of: **114cps (+16%)**

Impact of finance lease accounting



1 Discovery Place (Phase 1 and 2)



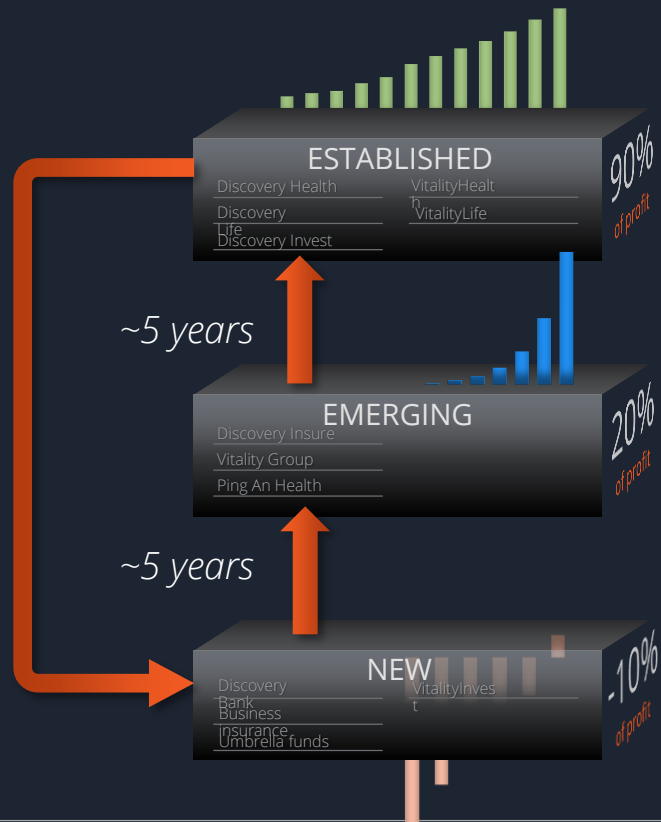
Rm	12 months ended June 2018	% change
Headline earnings	5 803	32
Finance lease accounting	208	
Finance costs	210	
Depreciation	126	
Market-related rental	(128)	
Other	(402)	
Headline earnings adjusted for the lease impact	5 609	20
Adjusted for finance lease accounting	(208)	
Reported normalised headline earnings	5401	16

Performance largely in line with growth engine



+17%

to R8 266m

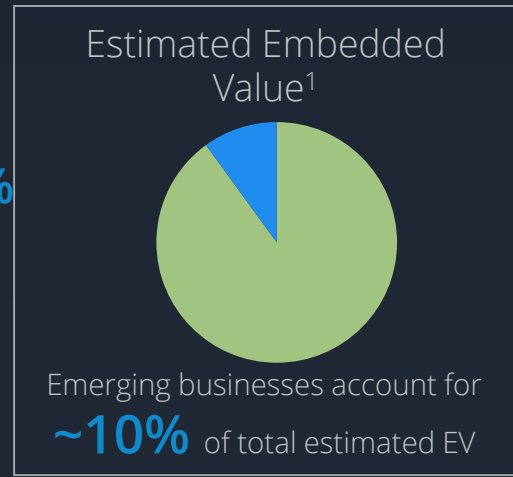


Rm		12 months to 30 Jun 2018	12 months to 30 Jun 2017	% change
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Emerging businesses		158	(170)	+193%
New	Bank, Vitality Invest, commercial insurance, umbrella funds and the GVN	(553)	(412)	
Group		8 266	7 048	+17%

CPI+9%

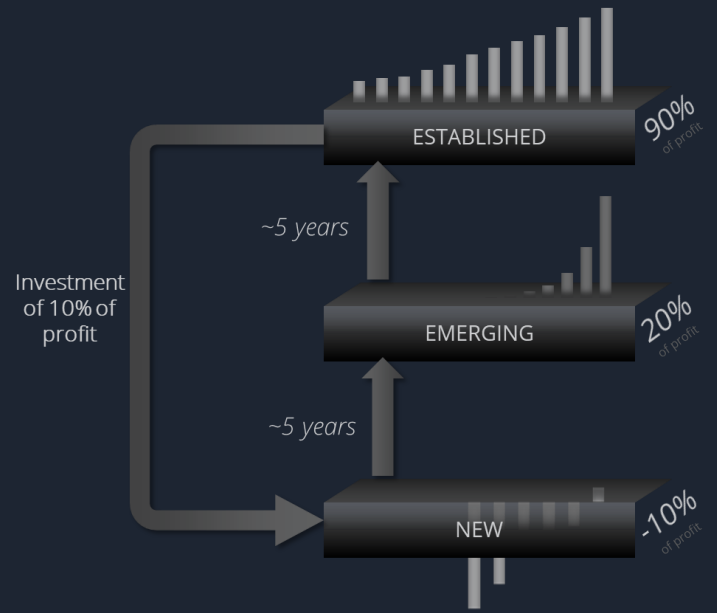
CPI+188%

7% of earnings



¹ Estimated Embedded value includes total reported embedded value and estimated embedded value of emerging businesses Using a CPI rate of 4.6%.

Cash management framework

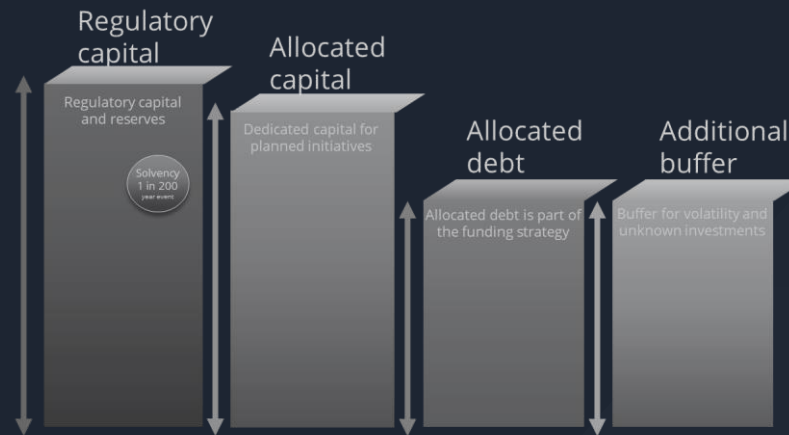
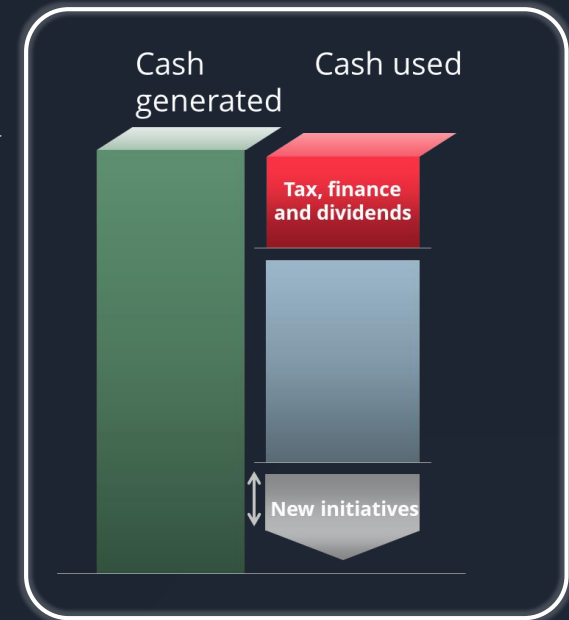


Group profit growth of

CPI + 10%

risk free + 10%

Return on capital



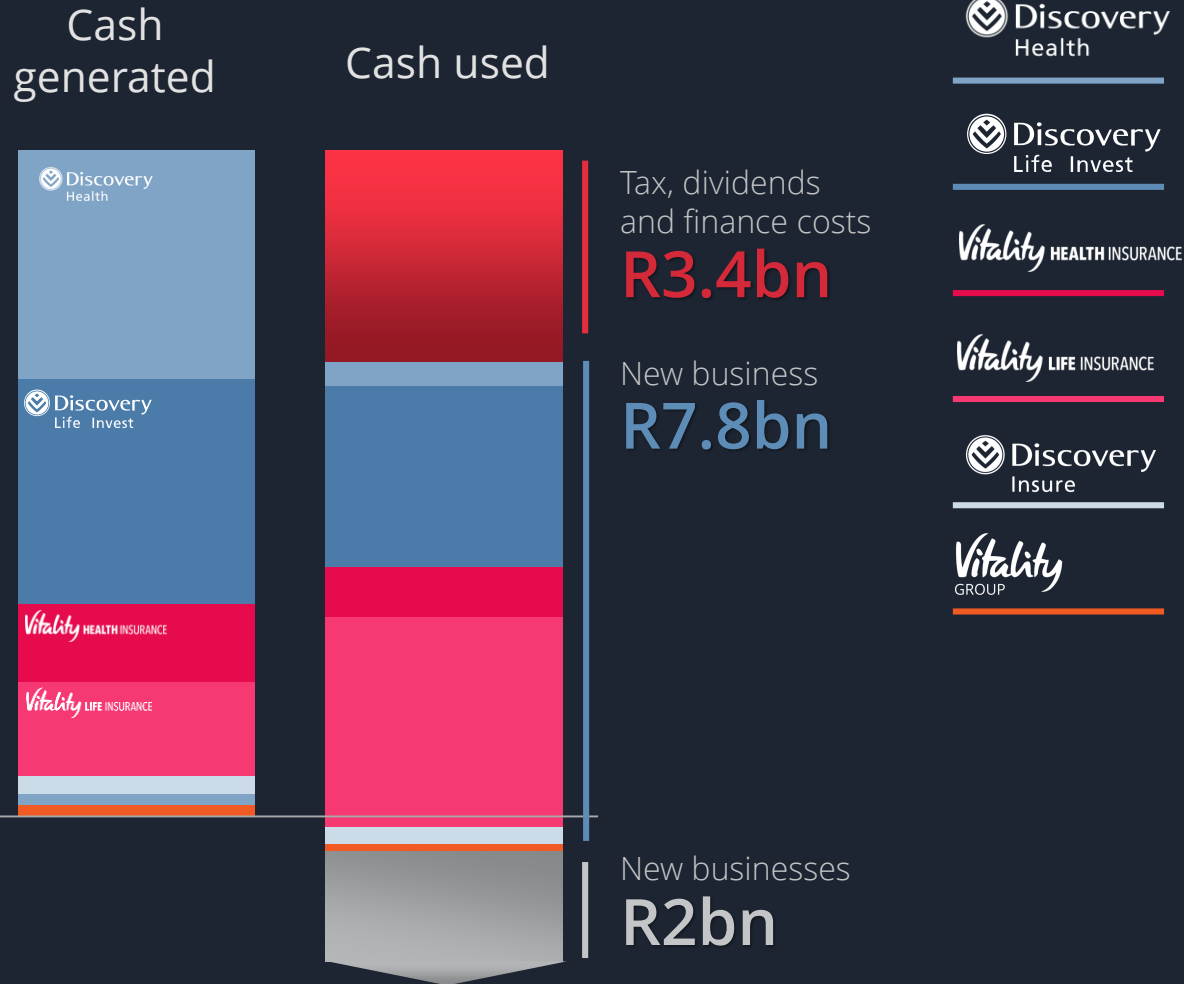
FLR < 28%

Cash buffer R1-2bn

Cash generated from in-force business



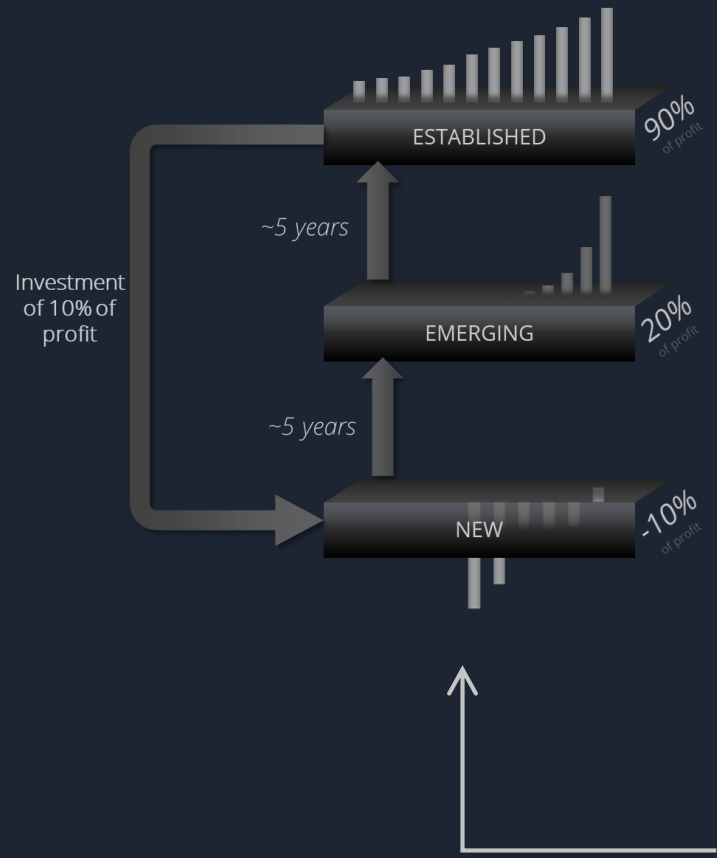
R10.6bn



Rm	Net cash flow ¹	New business IRR
	2,828	> RF+10%
	539	RF+10%
	475	RF+9%
	-393	RF+7%
	2	RF+17%
	-151	

1. Movement in shareholder free cash

Capital management philosophy



Group profit growth of

CPI + 10%

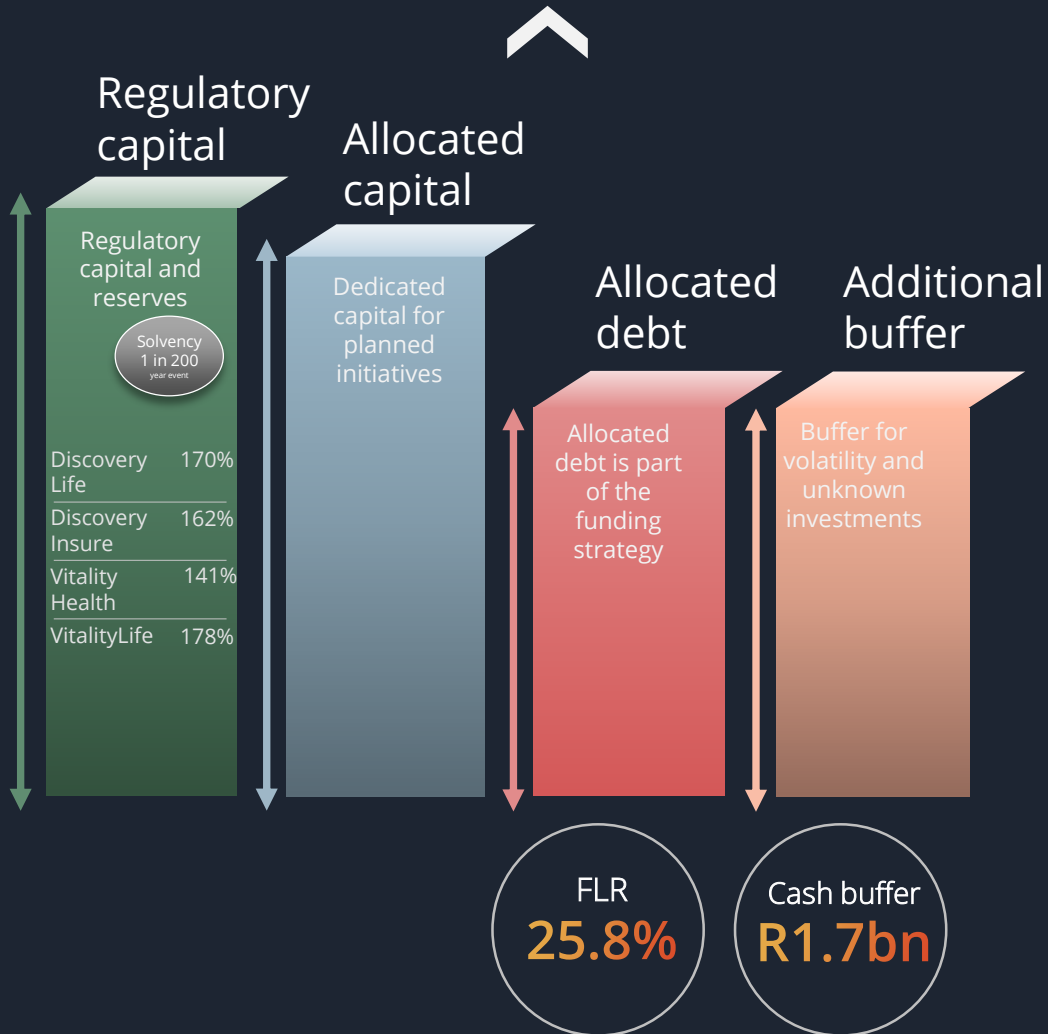


Performance against capital and cash management philosophy

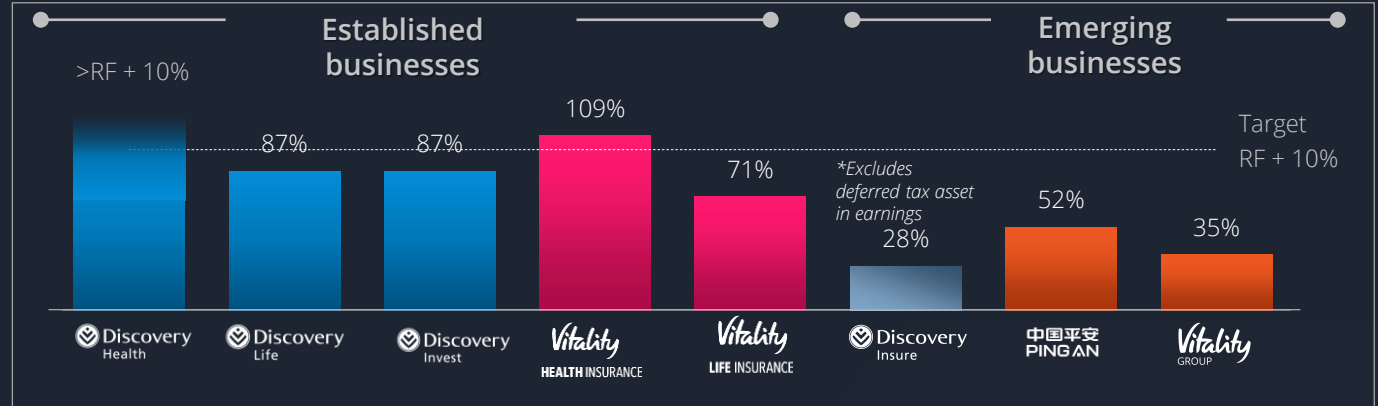


risk free + 9.6%

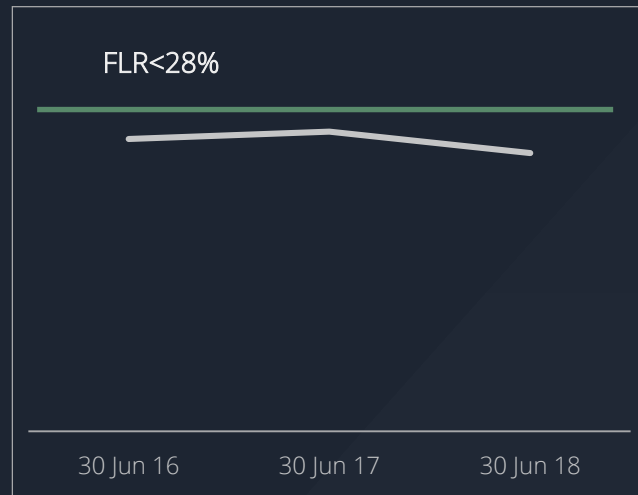
Return on capital



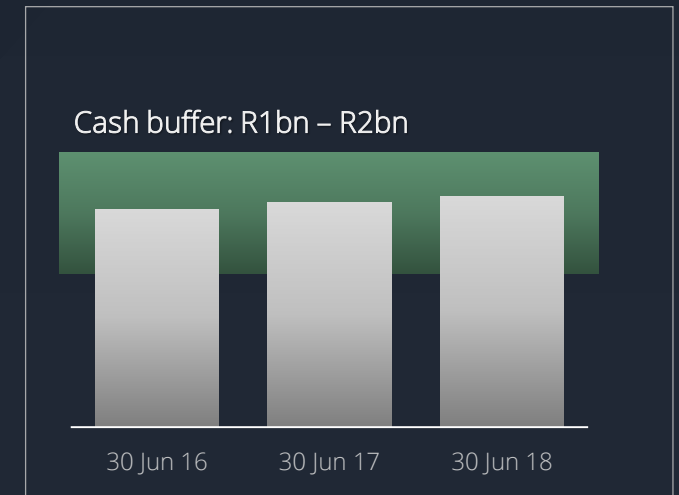
Return on equity



FLR



Cash buffer



Return on Embedded Value (EV)

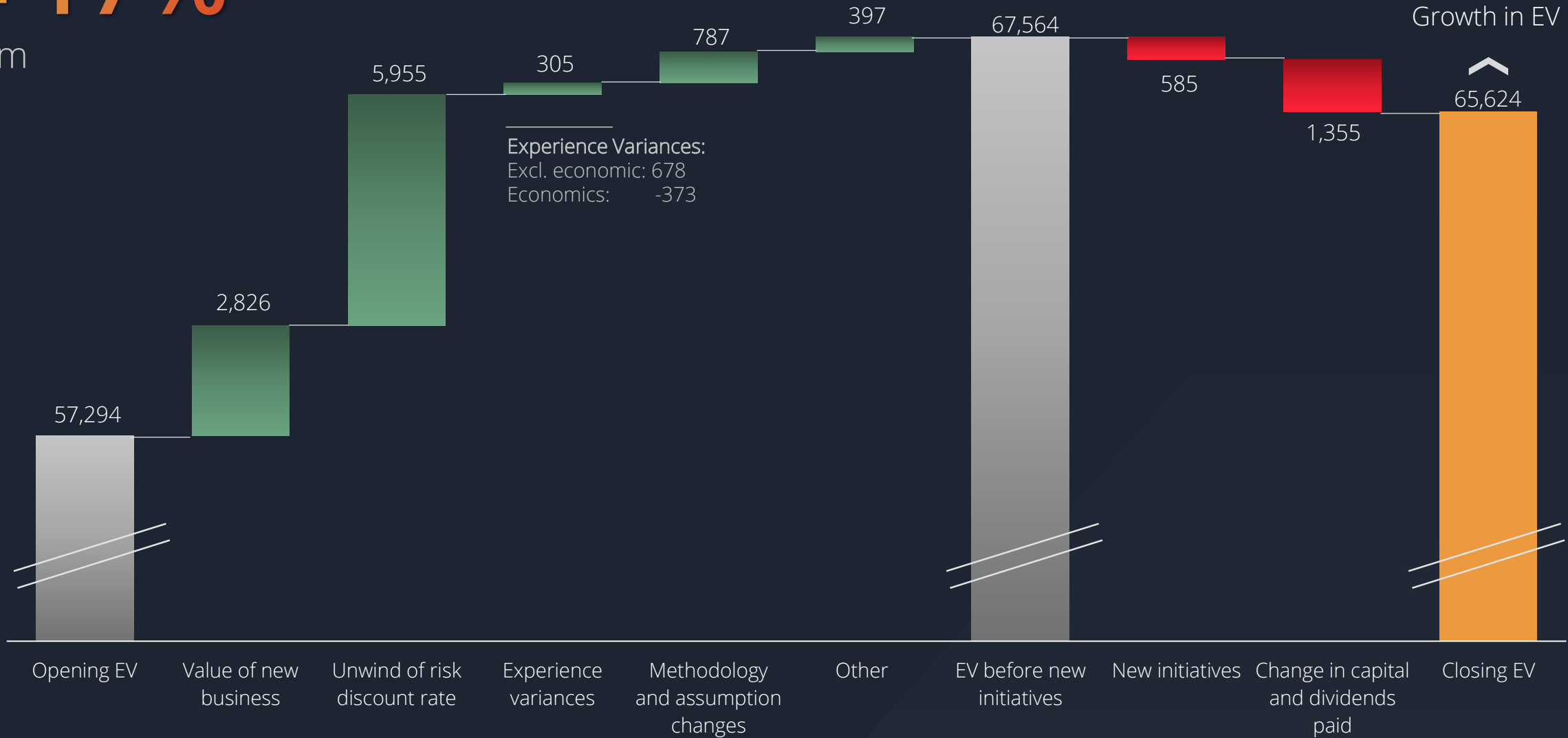


+17%

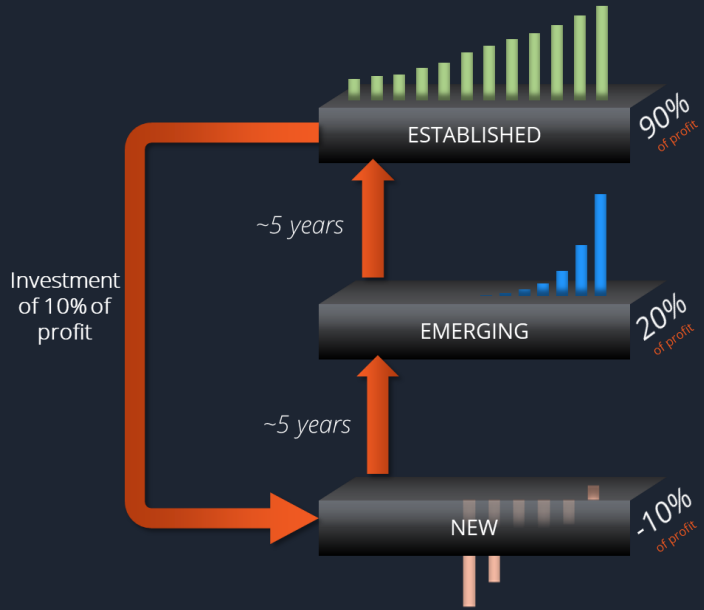
Rm

+15%

Growth in EV



Operating model

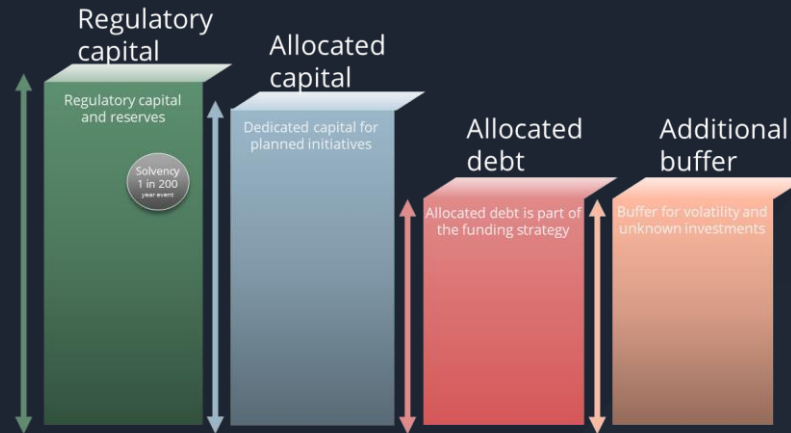
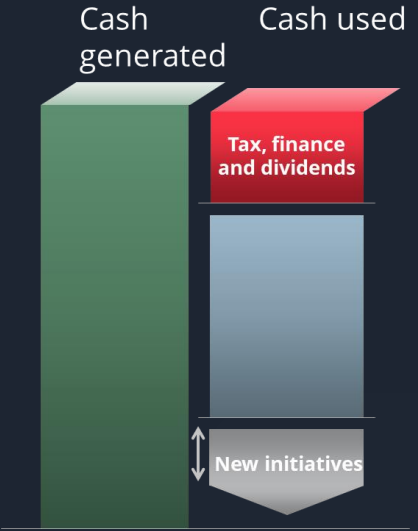


Group profit growth of

CPI + 12%

risk free + 9.6%

Return on capital



FLR
25.8%

Cash buffer
R1.7bn

Established businesses have significant scale and continue to grow



Operating profit (Rm)

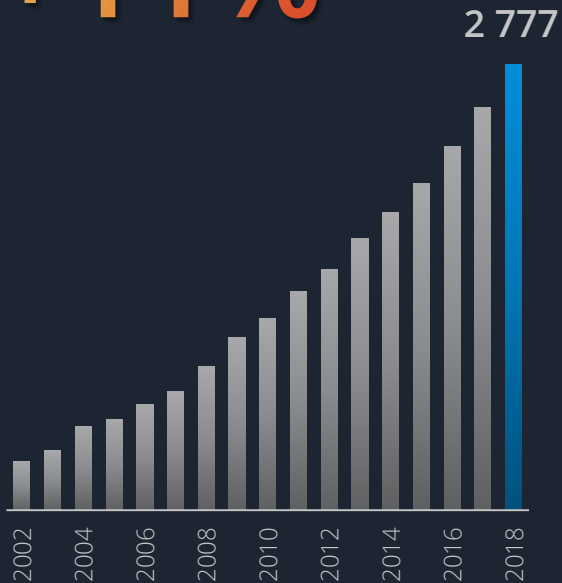
 **Discovery Health**

 **Discovery Life**

 **Discovery Invest**

Vitality
HEALTH AND LIFE INSURANCE

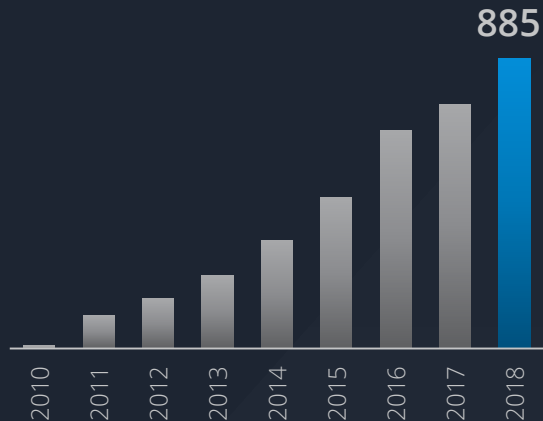
+11%



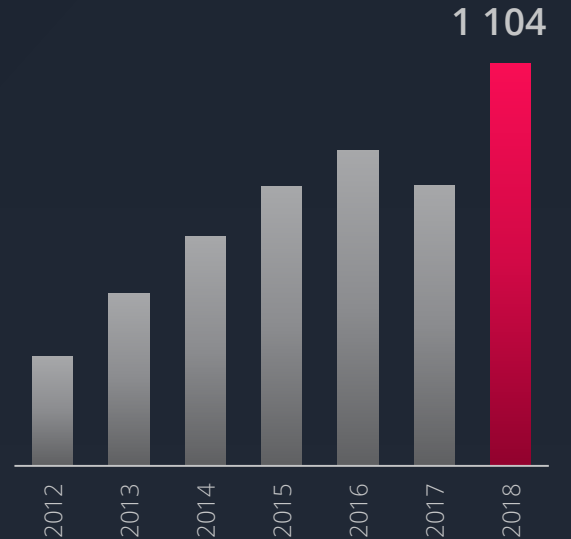
+7%



+19%



+44%



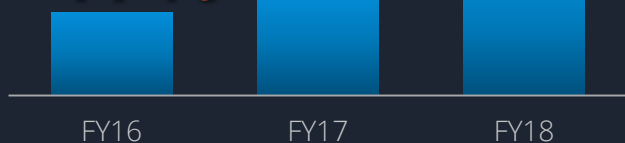
R8bn →  **CPI + 8.6%**
of earnings

Emerging businesses have significant potential



Fastest growing short-term insurer in SA

+17%



Shared-Value Insurance Model



Durational impact

R324m Cash generated from in-force



11.2% Inforce margin

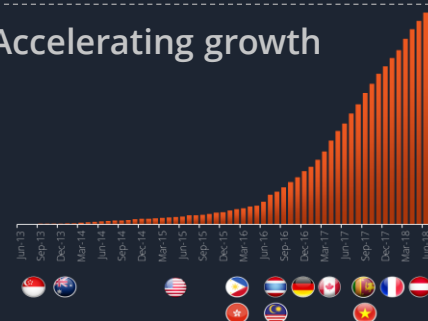


Global platform with leading insurance partners

+40%



Accelerating growth



Significant latent potential

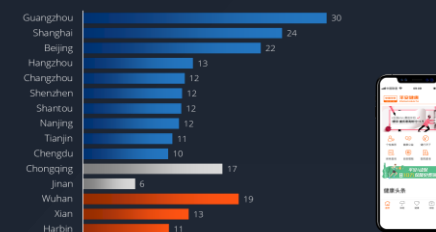


Top specialist health insurer in China

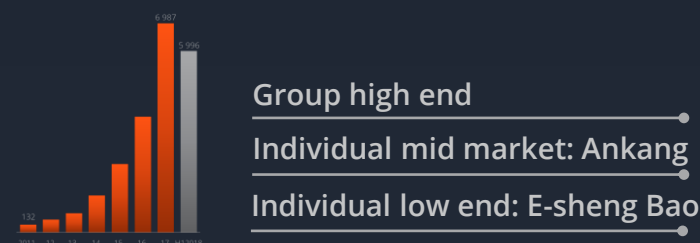
+95%



Distribution channels



Product strategy



Blue-sky potential

Substantial new businesses and initiatives in the pipeline



Discovery For Business

Risk solutions and employee benefits for businesses

Launch:
Q2 2018

Business insurance



Umbrella funds



Funding requirement:
<R800m

Funding requirement:
<R200m

VitalityInvest

Long-term savings products in the UK

Launch:
Q2 2018



Funding requirement:
<£65m

Discovery Bank

Building a fully-fledged retail bank

Launch:
2018



Funding requirement:
<R1 750m¹

Funding requirements from inception to FY2023

¹ Excludes purchase price of 25.01% of DiscoveryCard JV and shareholding in Discovery Bank



SA COMPOSITE MODEL



UK COMPOSITE MODEL



PARTNER COMPOSITE MODEL



WORLD'S LARGEST BEHAVIOURAL PLATFORM LINKED TO FINANCIAL SERVICES



01 Shared-Value model has been rolled out globally

02 Business is well-positioned for growth:

- Established businesses are robust and growing strongly
- Emerging businesses are all profitable and have significant potential
- New initiatives are substantial and fully funded within the plan

03 The capital plan is robust, and is projected to strengthen further with a decreasing financial leverage ratio



SA COMPOSITE MODEL



UK COMPOSITE MODEL



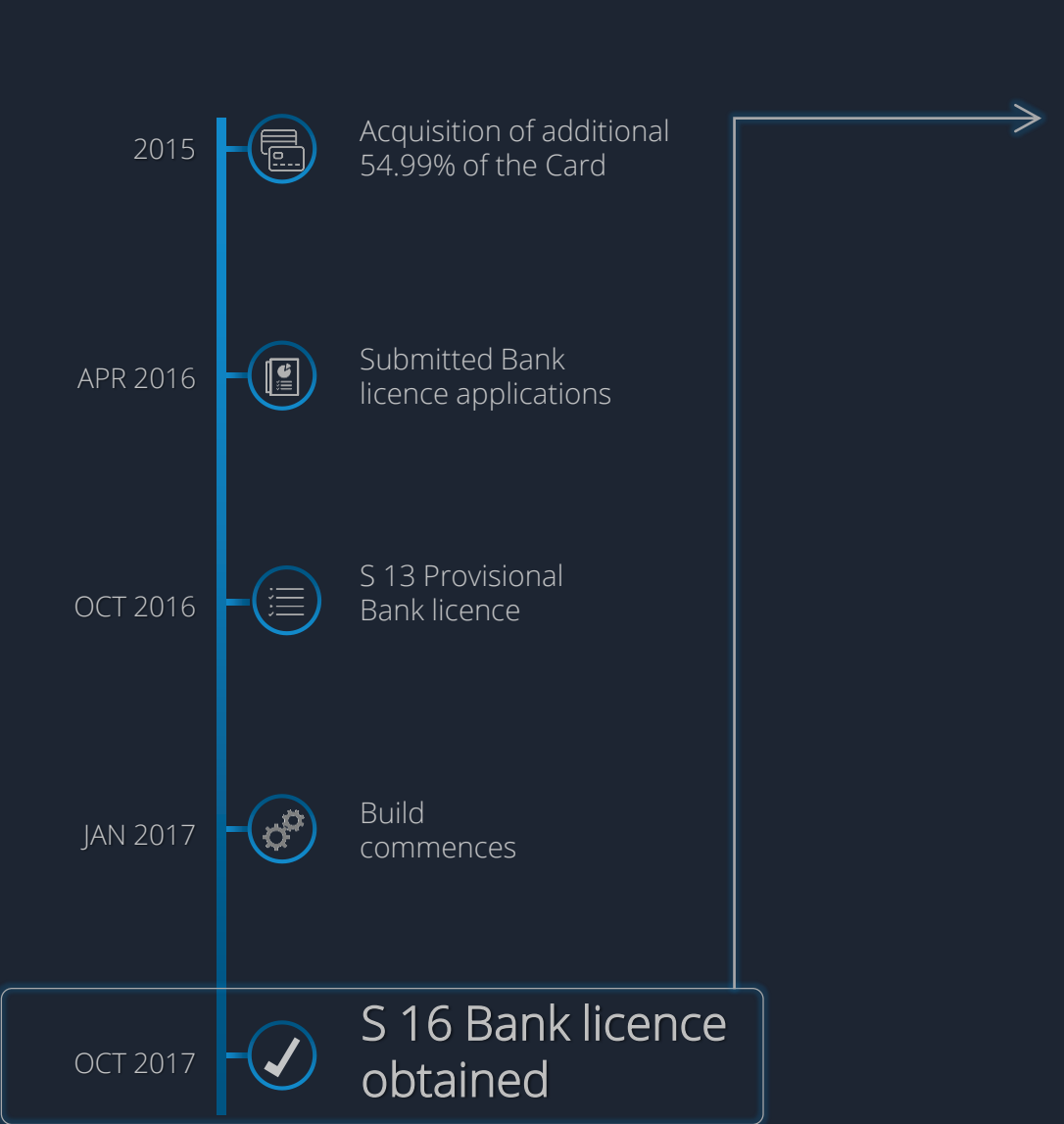
PARTNER COMPOSITE MODEL



WORLD'S LARGEST BEHAVIOURAL PLATFORM LINKED TO FINANCIAL SERVICES



Considerable progress in building Discovery Bank



Approval subject to certain conditions

FirstRand Bank Limited to divest its entire 25.01% shareholding interest in Discovery Bank over 5 years

Opportunity to own 100% of the Bank and Discovery Card

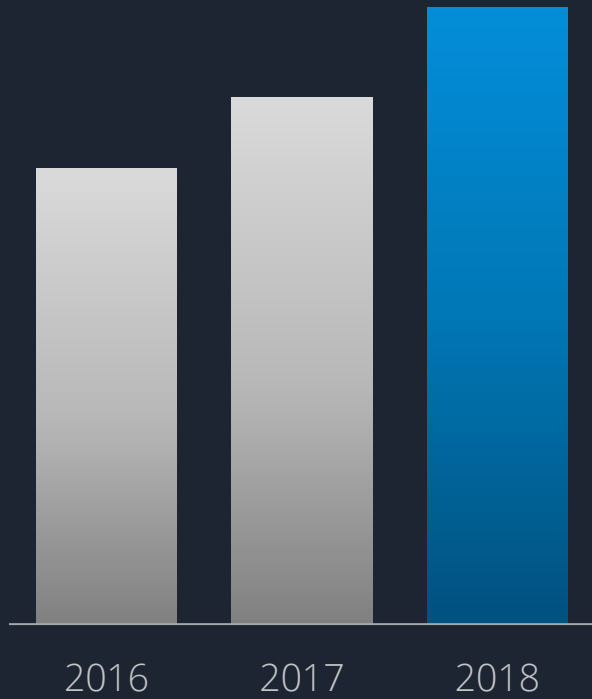
Purchase price	R1.8bn
25.01% of the Discovery Card joint venture	R0.7bn
<i>Rights to Discovery Card book and related assets will be transferred to Discovery Bank</i>	+
25.01% shareholding in Discovery Bank	R1.1bn
<i>Which FirstRand would have retained</i>	

Excellent performance of Discovery Card



Operating profit (Rm)

+17%
to R 414m



P/E ratio ~ 9.8x

Credit loss ratio to advances



1.6%

Advances



R4.3bn (+3.5%)

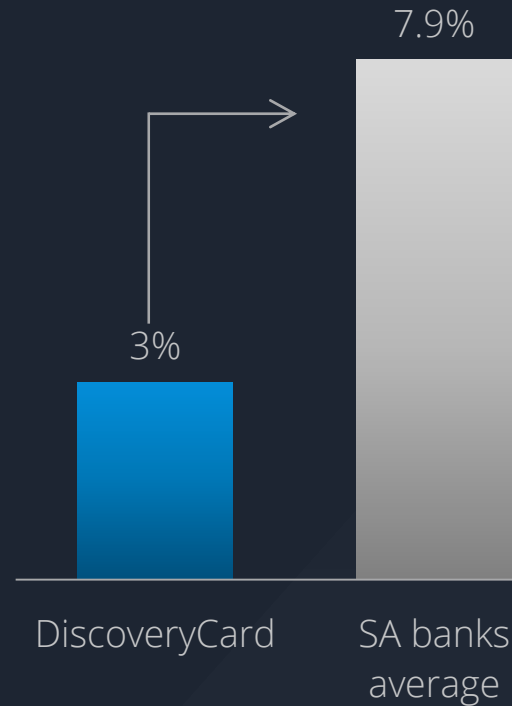
Turnover spend



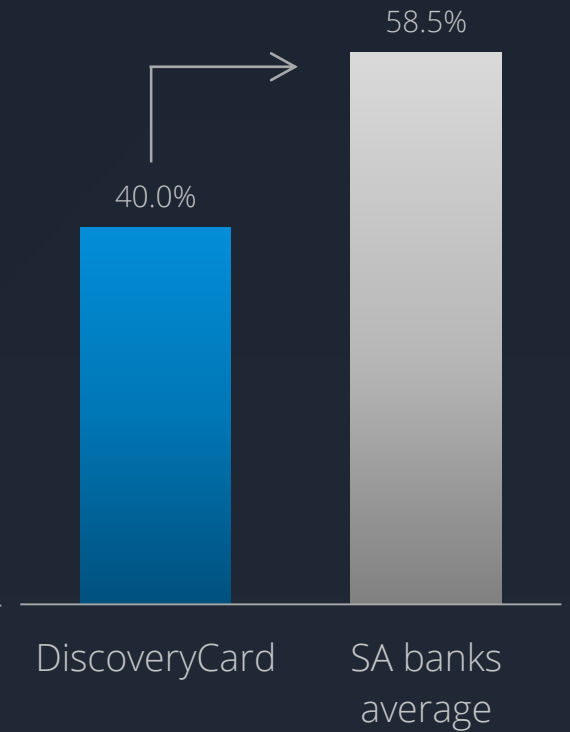
R25.3bn (+5%)

Financial metrics ahead of peers

Non-performing loans (%)



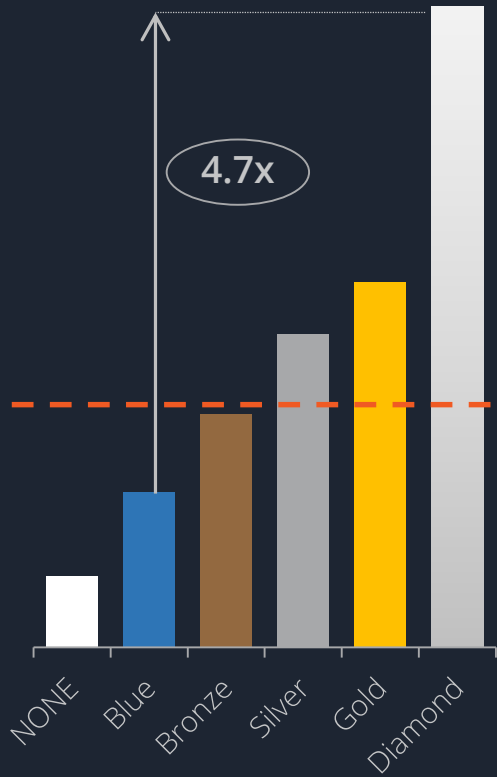
Cost to income (%)



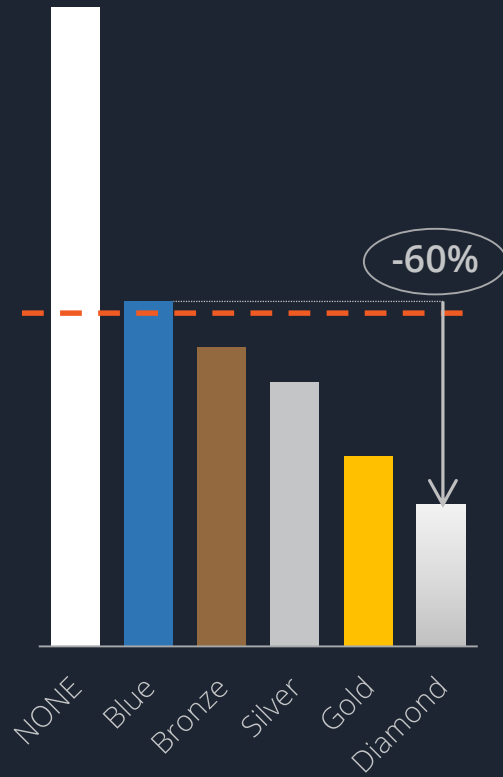
Demonstrable link between financial behaviour and wellness engagement



Average monthly spend

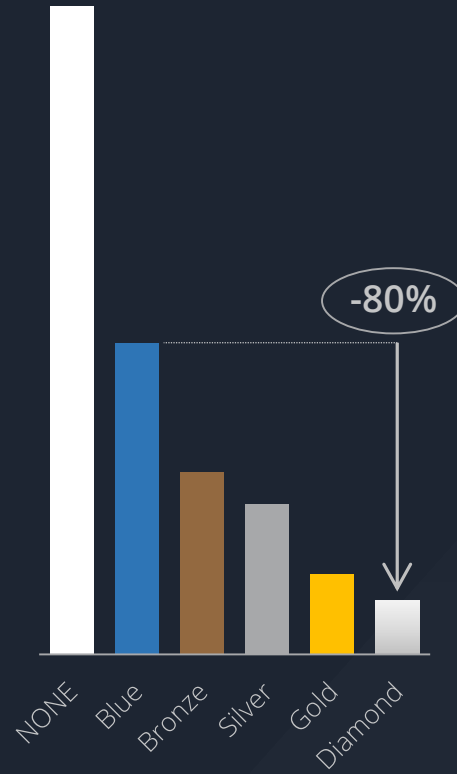


Annual closure rate

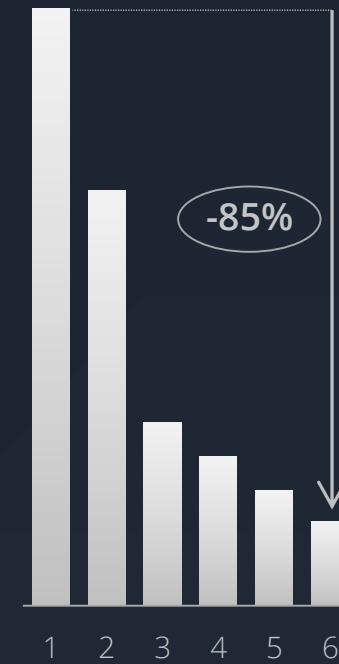


Percentage clients going into arrears

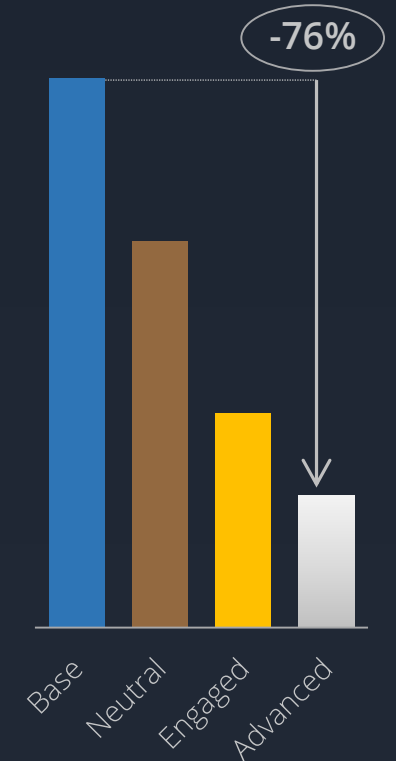
Vitality status



Discovery product count



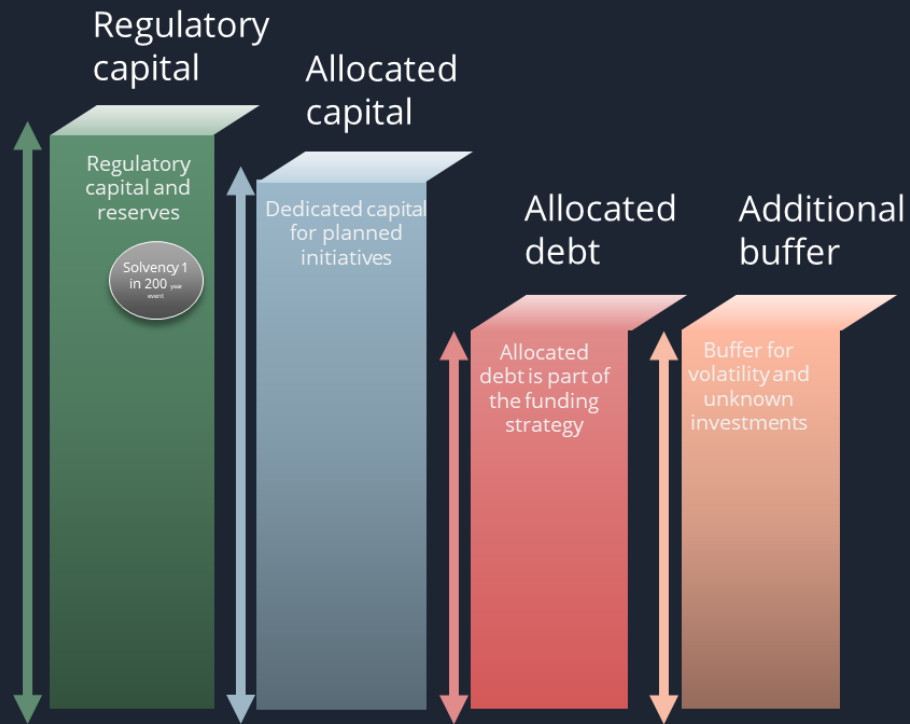
Driving behaviour



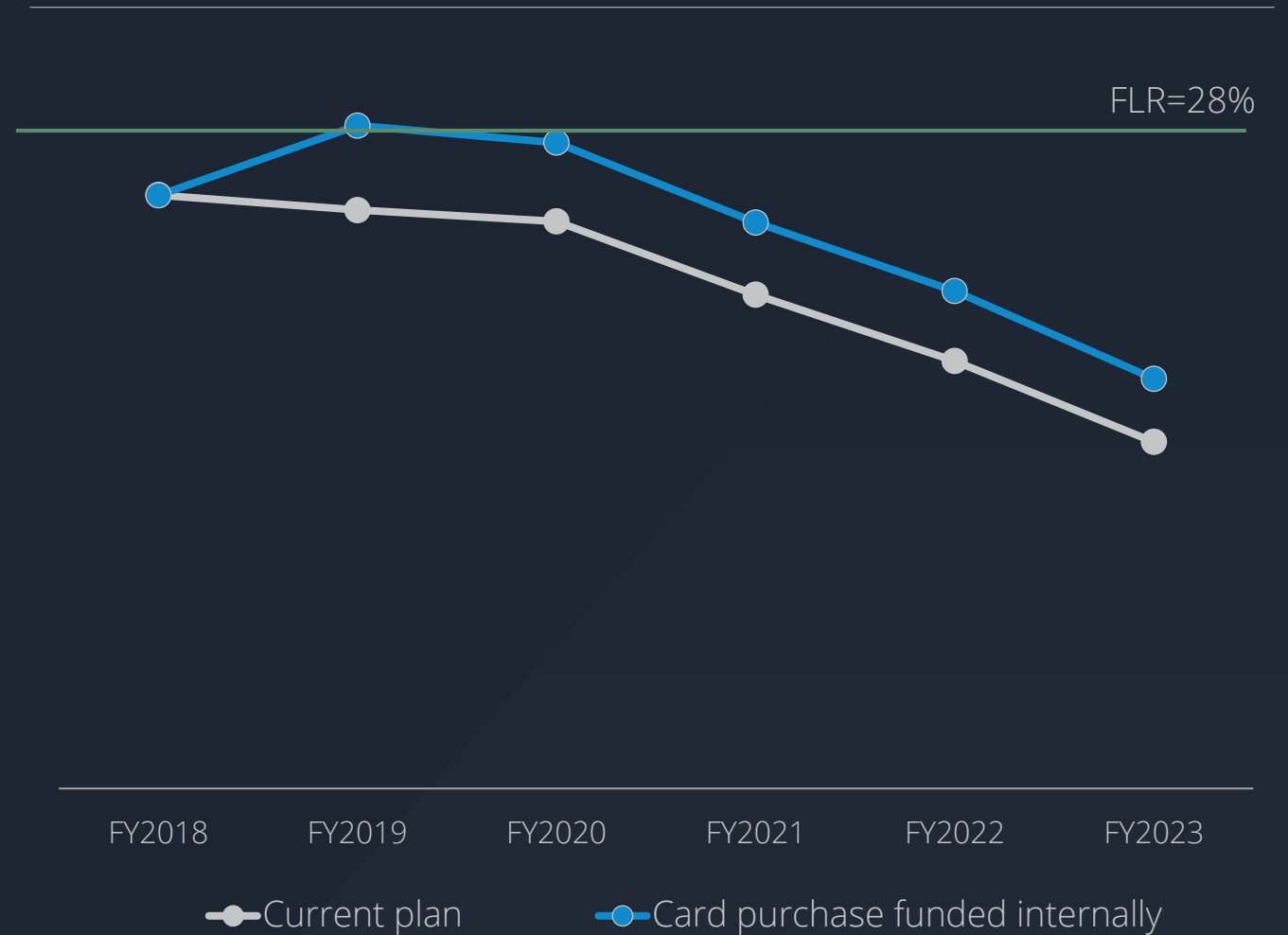
--- Average monthly spend

--- Average closure rate

Group Funding Plan would be stretched, if purchase funded internally



Adjusted FLR (%)





SA COMPOSITE MODEL

Discovery Health
Discovery Life
Discovery Invest
Discovery Insure
Discovery Bank



UK COMPOSITE MODEL

Vitality HEALTH INSURANCE
Vitality LIFE INSURANCE
Vitality INVEST



PARTNER COMPOSITE MODEL

中国平安 PINGAN
AIA myOwn health insurance
GENERALI
John Hancock
Manulife
SUMITOMO LIFE
IGI Life Salud S.A.
Equivida



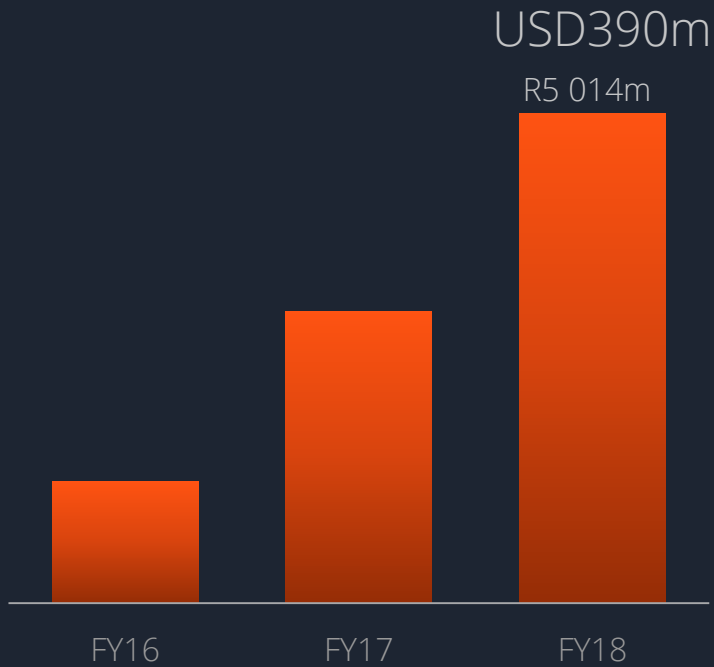
WORLD'S LARGEST BEHAVIOURAL PLATFORM LINKED TO FINANCIAL SERVICES





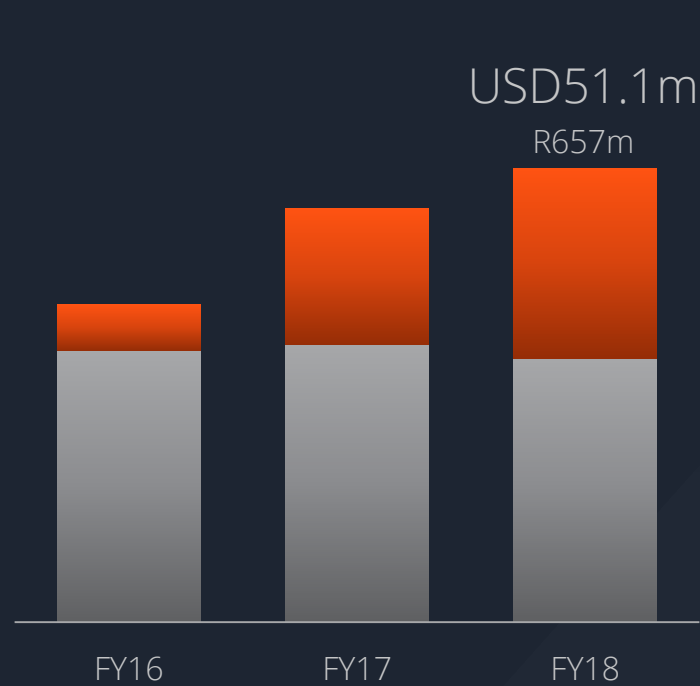
Vitality-integrated API

+78%*



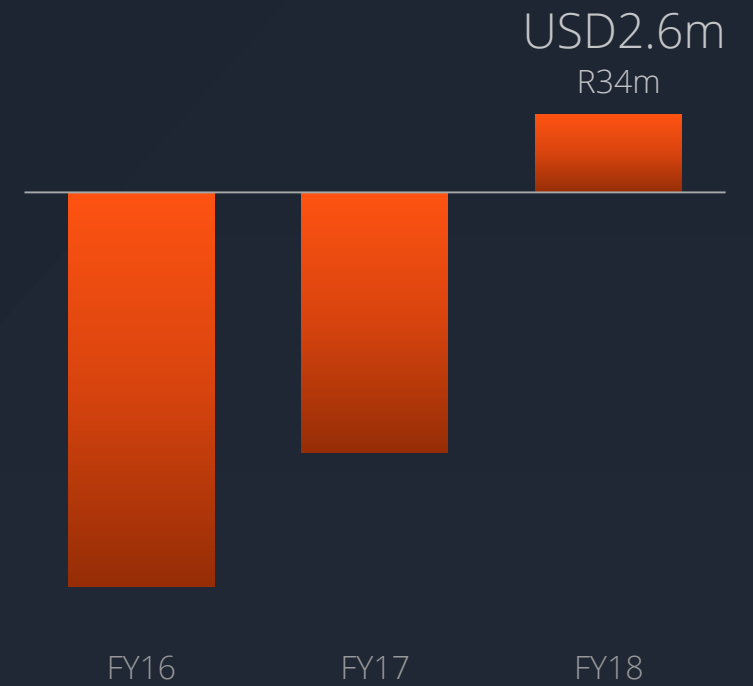
Revenue

+40%*



Operating result

+131%



Vitality USA
 Insurance partners

*From insurance partners

Accelerated membership growth with significant latent potential

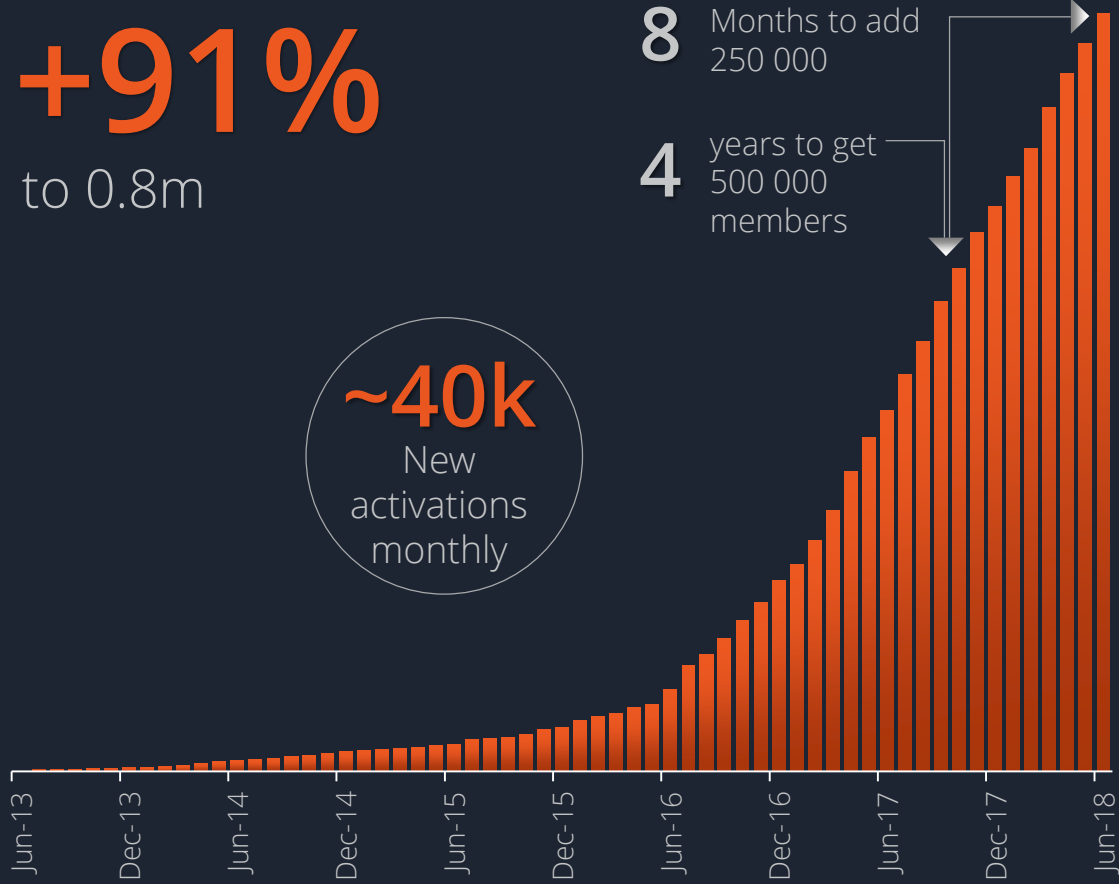


Insurance Partner Membership

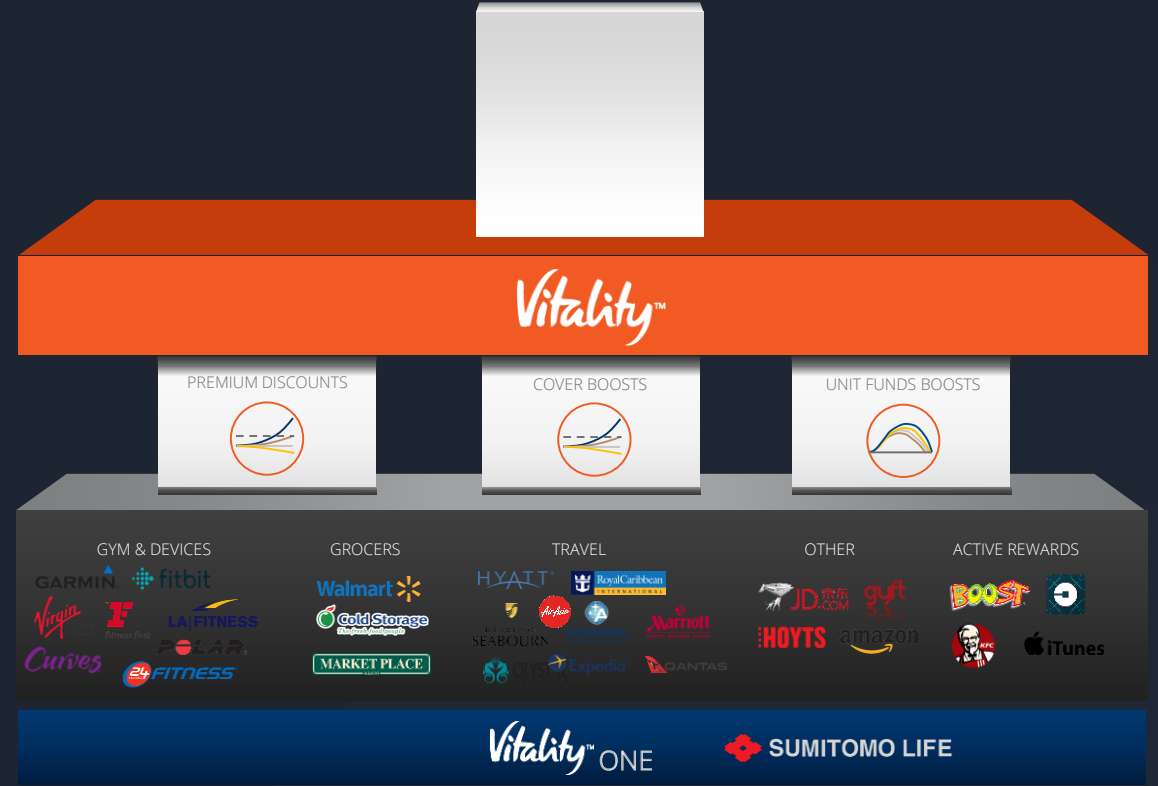
+91%
to 0.8m

8 Months to add 250 000
4 years to get 500 000 members

~40k
New activations monthly



VG has learnt what works and is taking less time to make markets successful

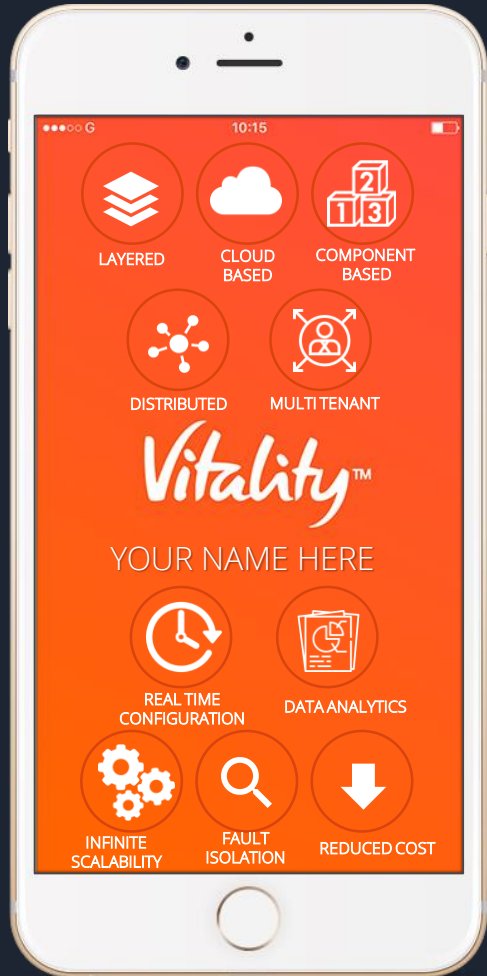


- Compelling and repeatable integrated products
- Optimal partner mix and localisation
- Reusable technology platform
- Buy-in from distribution force
- Investment in strategic marketing

Single technology platform to deliver Vitality's product roadmap



Vitality ONE



\$35m

Invested

3-6 month

Deployment per partner

105

Developers

>1,000

Screen designs



ENHANCED DIGITAL USER EXPERIENCE

Superior customer experience
Significant configurability



CLOUD-BASED

Scalable
Multi-tenancy
Multi-currency
Multi-language
Multi-time zones
Multi-language



PARTNER LAYER

Global partners available immediately
Quick deployment of new partners globally
Open architecture allows for rapid integration with third-party partners



QUICKER TO MARKET

Quicker to implement
More cost effective to implement and run

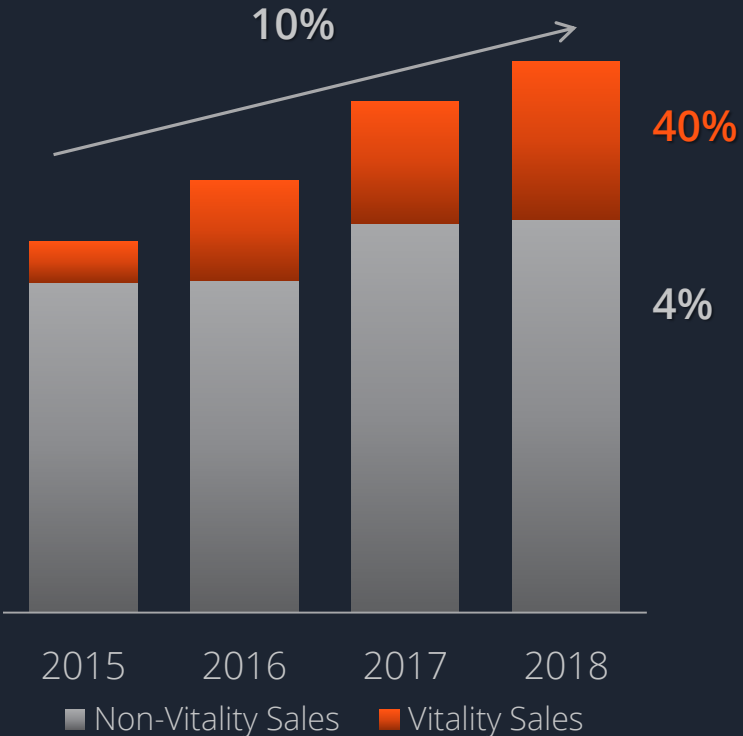
Vitality works across multiple contexts



Case one: Flat growth in a large life insurance market

10% Compounded annual sales growth* compared to the **industry's 2%** CAGR

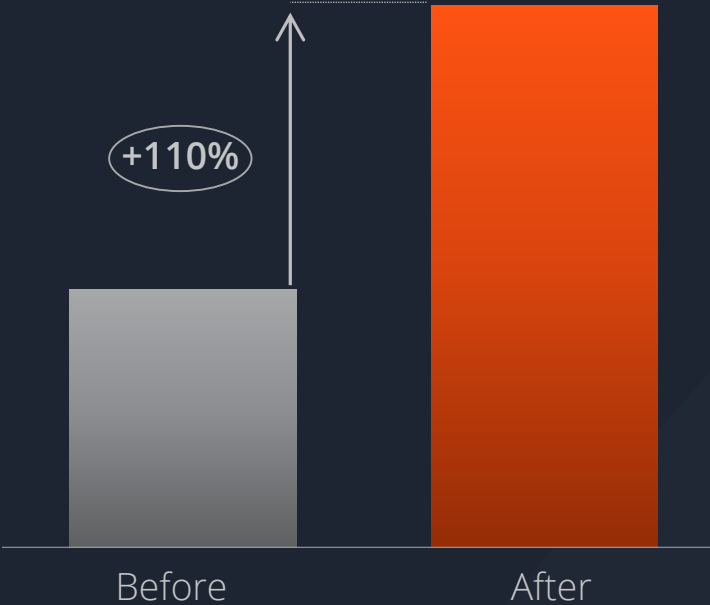
5x Industry growth rate



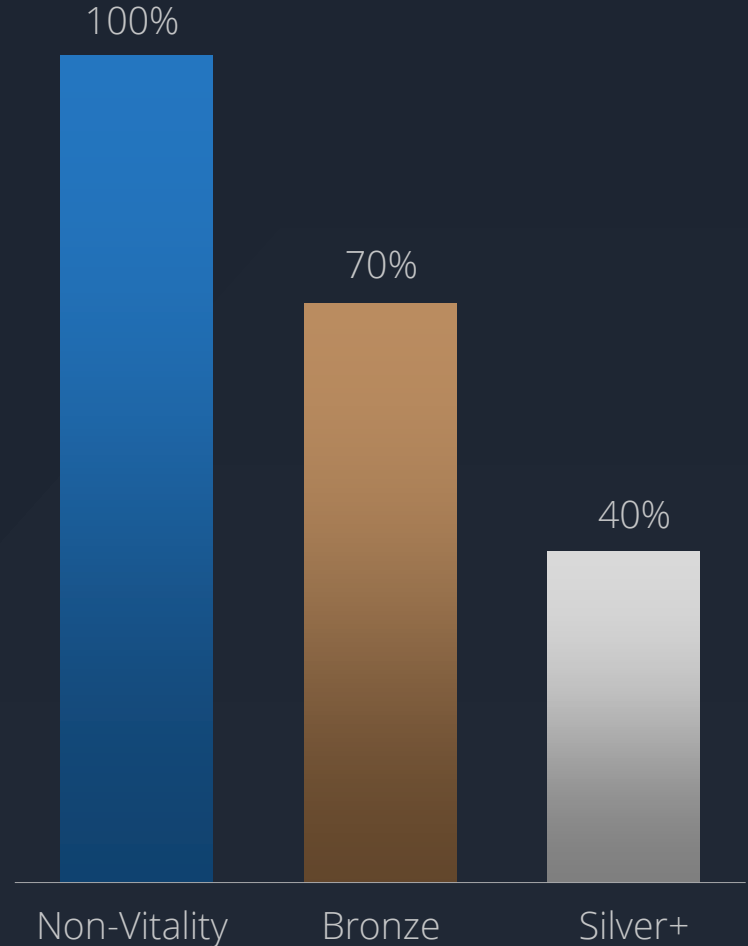
*2015-2018

Case two: Large market with infrequent customer interaction

Change in exercise days after taking up Active Rewards with Apple Watch



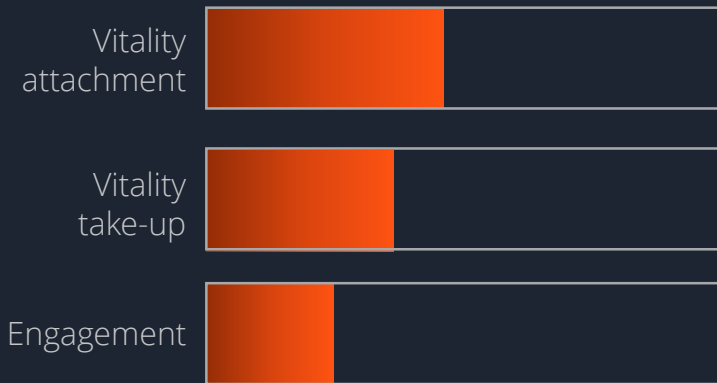
Case three: Annually renewable premiums with >15% lapse rates p.a.





01

Exploit latent potential



02

New insurance partners



03

Adjacencies





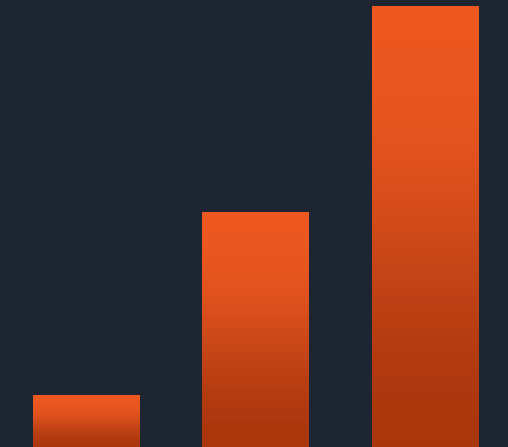


New business

95%

to USD443.6m

R5 738m



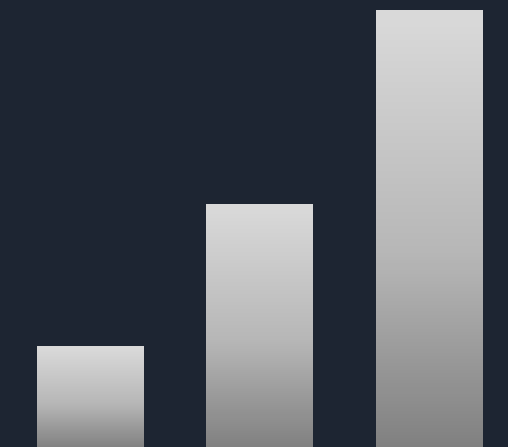
FY16 FY17 FY18

Written premium

+87%

to USD753.9m

R9 695m



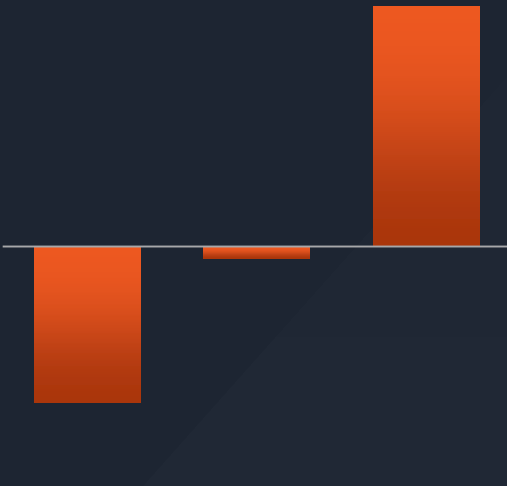
FY16 FY17 FY18

Ping An Health operating profit

20x

to USD29.9m

R385m

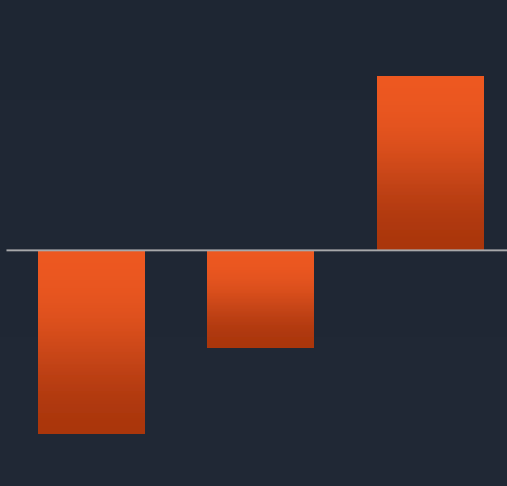


FY16 FY17 FY18

Discovery's operating profit

to USD4.4m

R56m



FY16 FY17 FY18

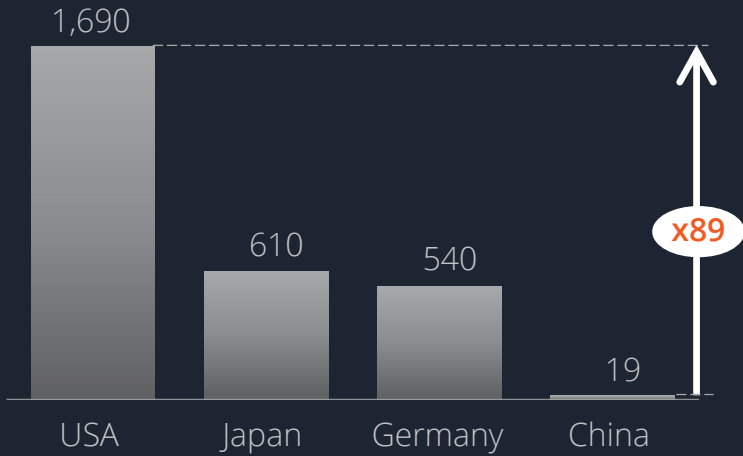
After Discovery's costs

Massive opportunity in China

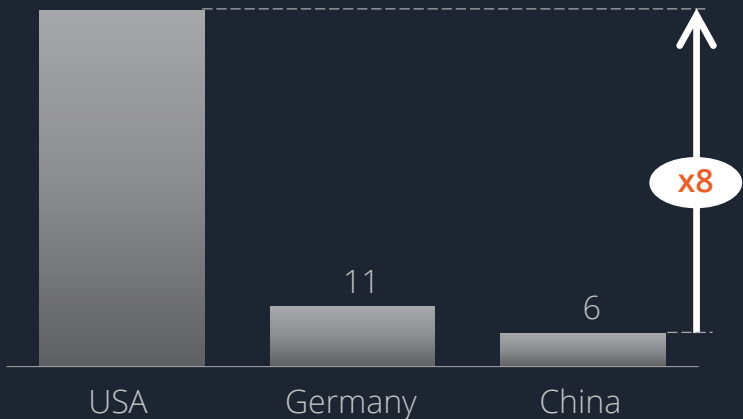


Market in its infancy

Private health insurance premiums per capita

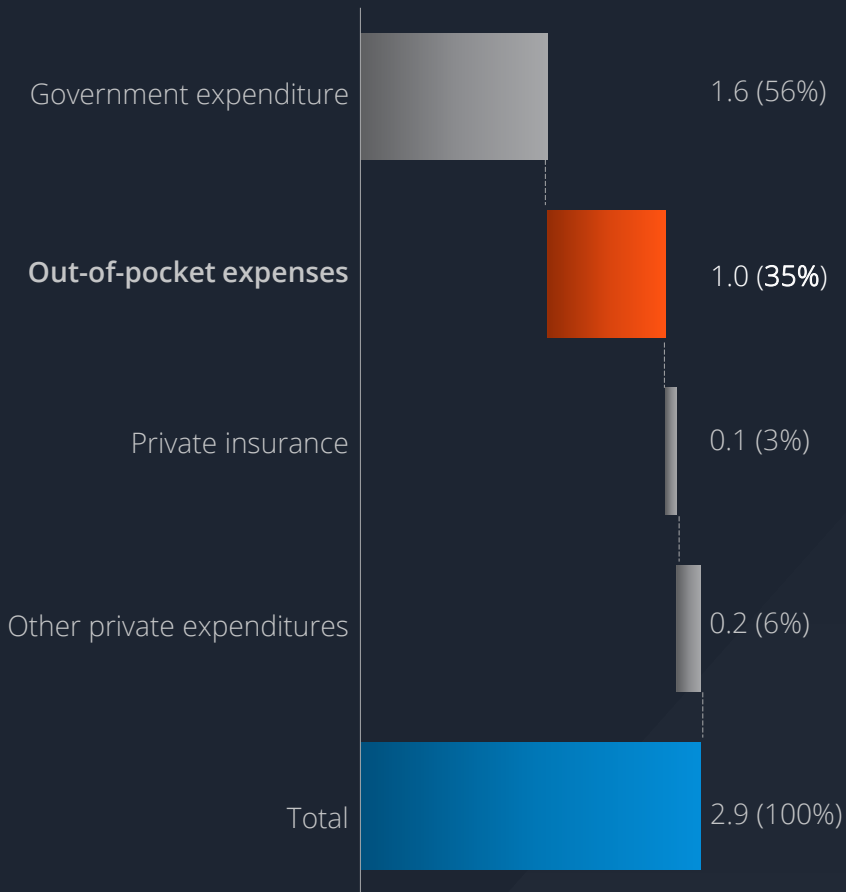


Private health insurance coverage of population

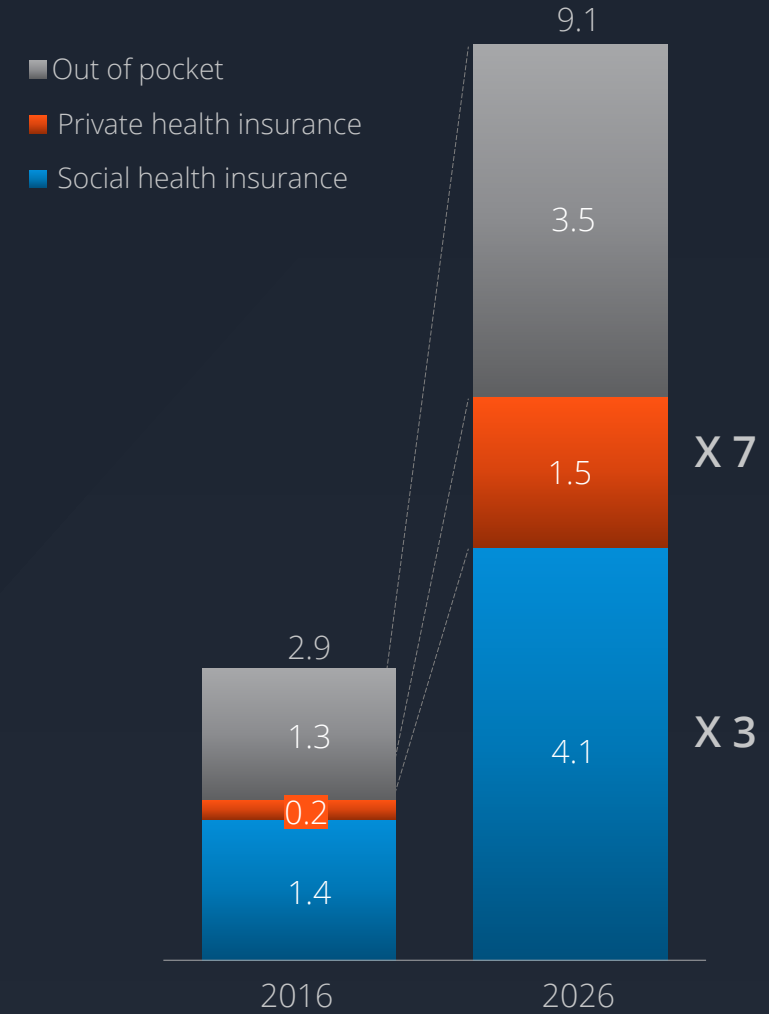


Significant out-of-pocket expenses

Healthcare spending in China
CNY, trillion; % of total healthcare expenditure



PHI expected to grow faster than SHI



SOURCE: China Health Statistics, Ministry of Health

SOURCE: Ping An Group

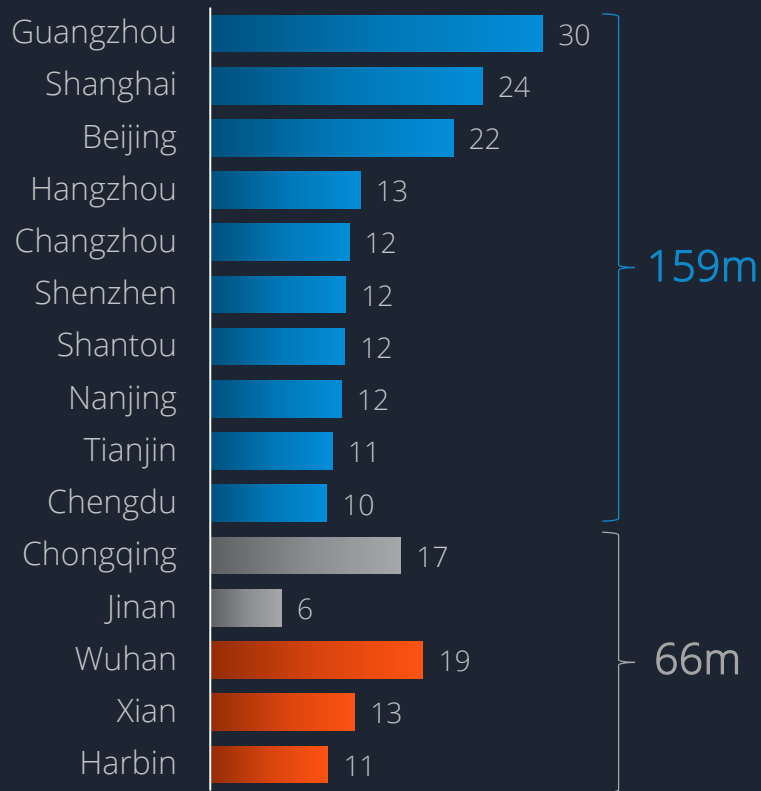
Potential to extract even more value from distribution



Ping An Health's branch network covers most of the biggest cities in China

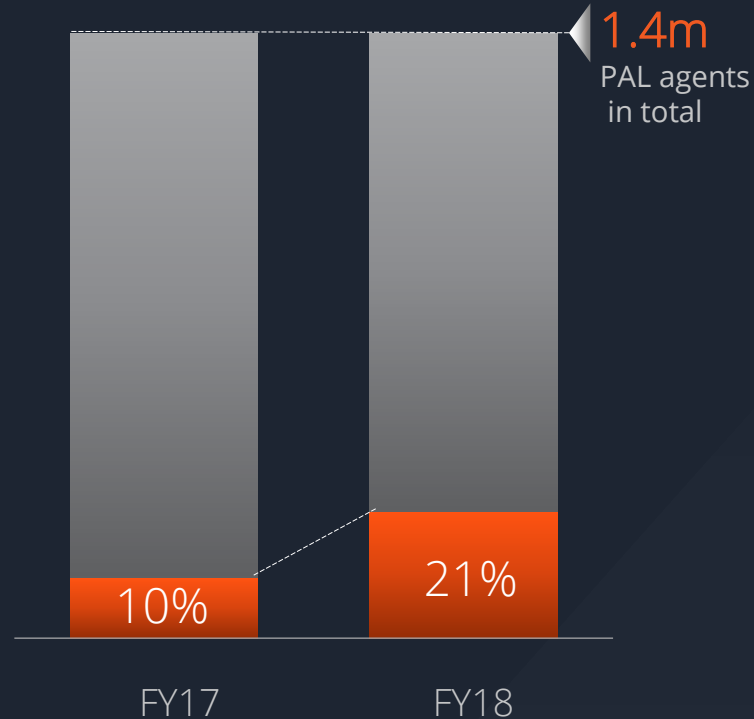
Population

Millions



Ping An Health's use of Ping An Life agents is increasing

The number of PAL agents selling PAH products doubled



There are two types of digital insurance platforms and Ping An Health uses both

Proprietary platforms

Traditional insurers with online platforms (Life; Health; P&C; Annuity)

Taikang Group
保险 资管 医养

Tai Kang Online

PICC
中国人民保险集团股份有限公司

PICC

平安健康
PING AN

Ping An Health

China Life eBao

Ping An Jinguanjia

Sui Shenyi

Third party platforms

Sell products from multiple insurers, have a distribution license but no insurance license

Sunflower Insurance

Bao Xianshi

Elephant insurance

Alipay

Existing Planned for 2018 Not covered

Ping An Health's own digital distribution channel achieved significant traction in two years



Registered users

4.26m



New users registered daily

10k



Premium revenue

>RMB100m



Number of service interactions

>20.66m



Monthly active users

670k



Rank out of >100k

No. 137

Ping An Health adapts product strategy to market realities



Group high end

- CNY 8,000 average premium
- Comprehensive cover
- Independent brokers
- Sold to employers, typically multinationals



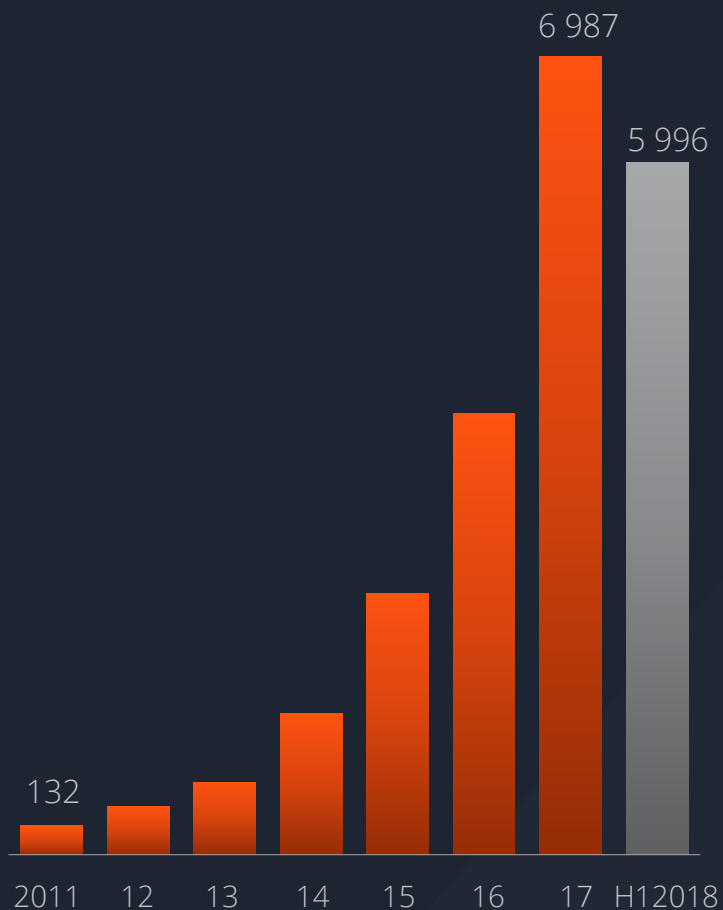
Individual mid market: Ankang

- CNY 2,200 premium
- In-patient cover, 20% co-pay
- Ping An Life agents

Individual low end: E-sheng Bao

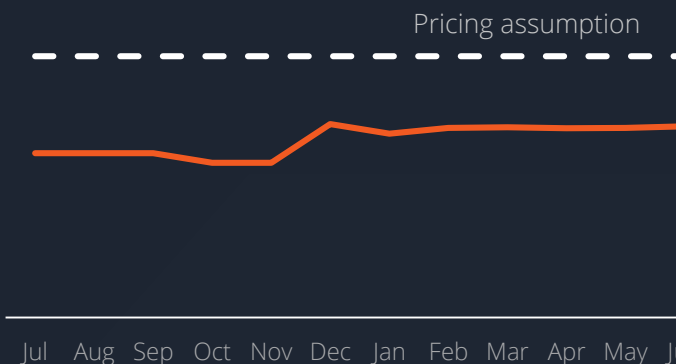
- CNY 600 premium
- In-patient, 10 000 deductible
- Internet sales

Revenue
ZAR million



The quality of the business is strong and stable

Loss ratio



Lapse rates



Access to affordable cancer drugs is a major social issue in China



3m people die of cancer in China each year

4m people diagnosed with cancer each year



DYING TO SURVIVE

Highlights the issue of restrictions to foreign manufactured cancer drugs

R5 728m

box office sales in two weeks

Ping An Health launched two cancer protection products in August 2018



CNY 1 200
average premium

Provides cover for:

- Consultation fees
- Examinations and lab test fees
- In- and out-patient medical expenses

CNY 1.5m
average daily premium since launch

Ping An Health is investing in scaling operations







Policy applications capacity per minute

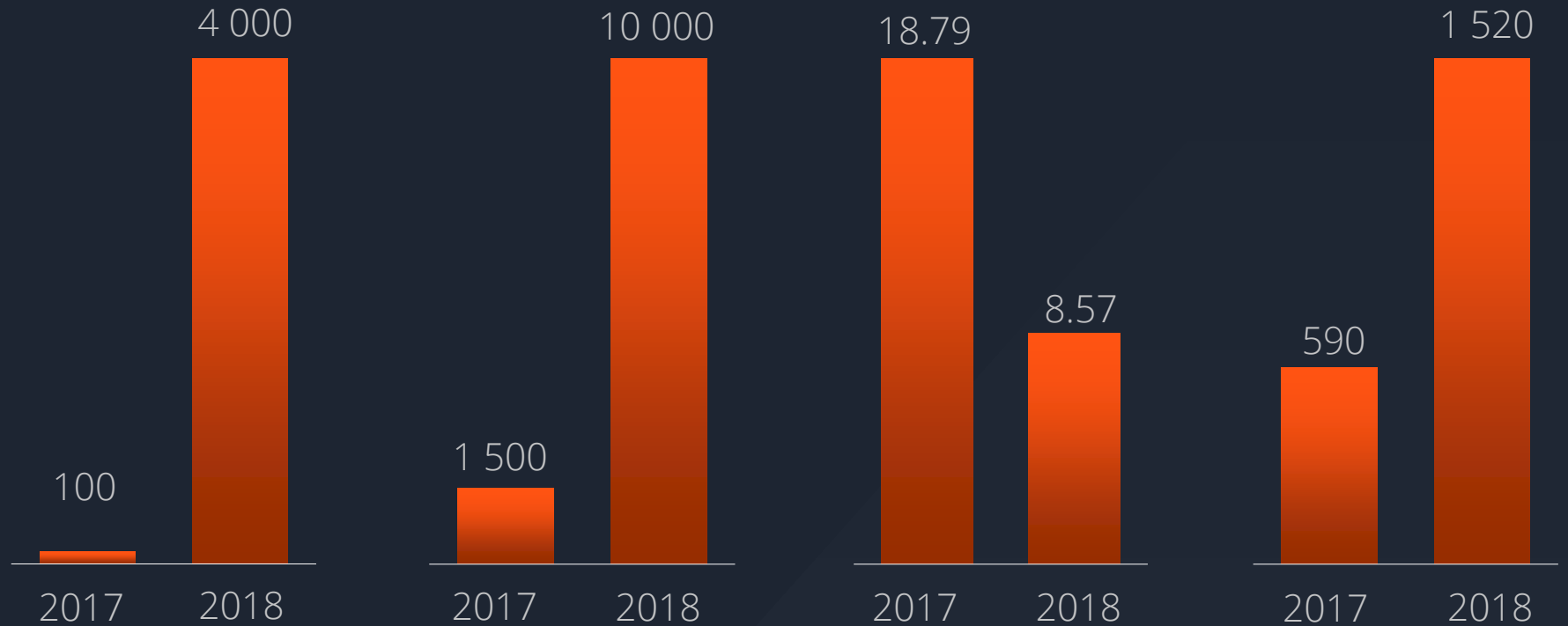
Cases* processed per day

Operational cost of processing claim (CNY)

Number of providers

Ping An Health has invested in digitalisation and operational efficiency:

-  Automated underwriting
-  Claims auto-adjudication functions
-  App-based claims submissions
-  Automation of key policy administration functions

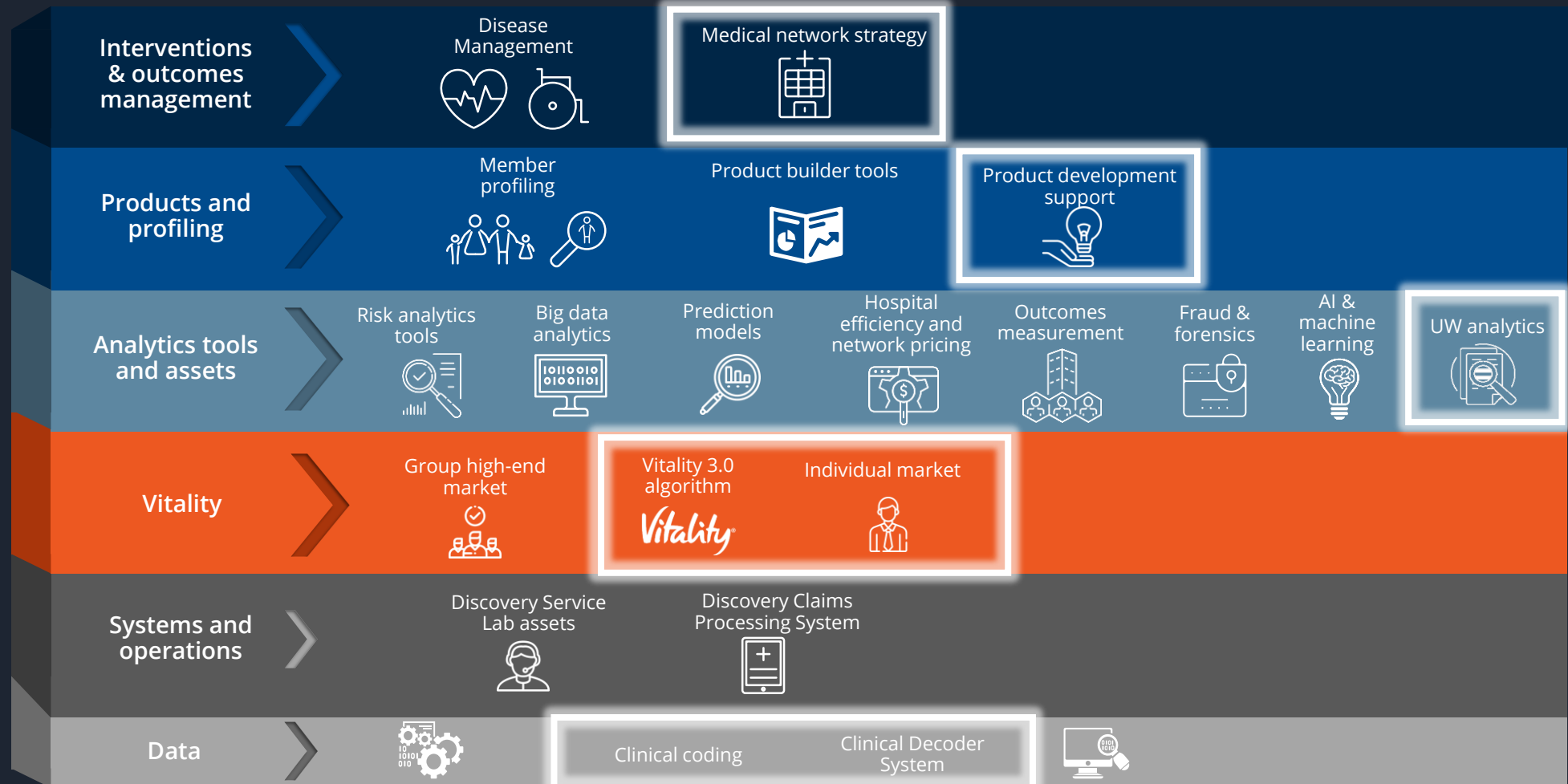


* Cases include claims, new business applications, pre-authorisations and calls

Discovery working closely with PAH to ensure profitability and sustainability



In development



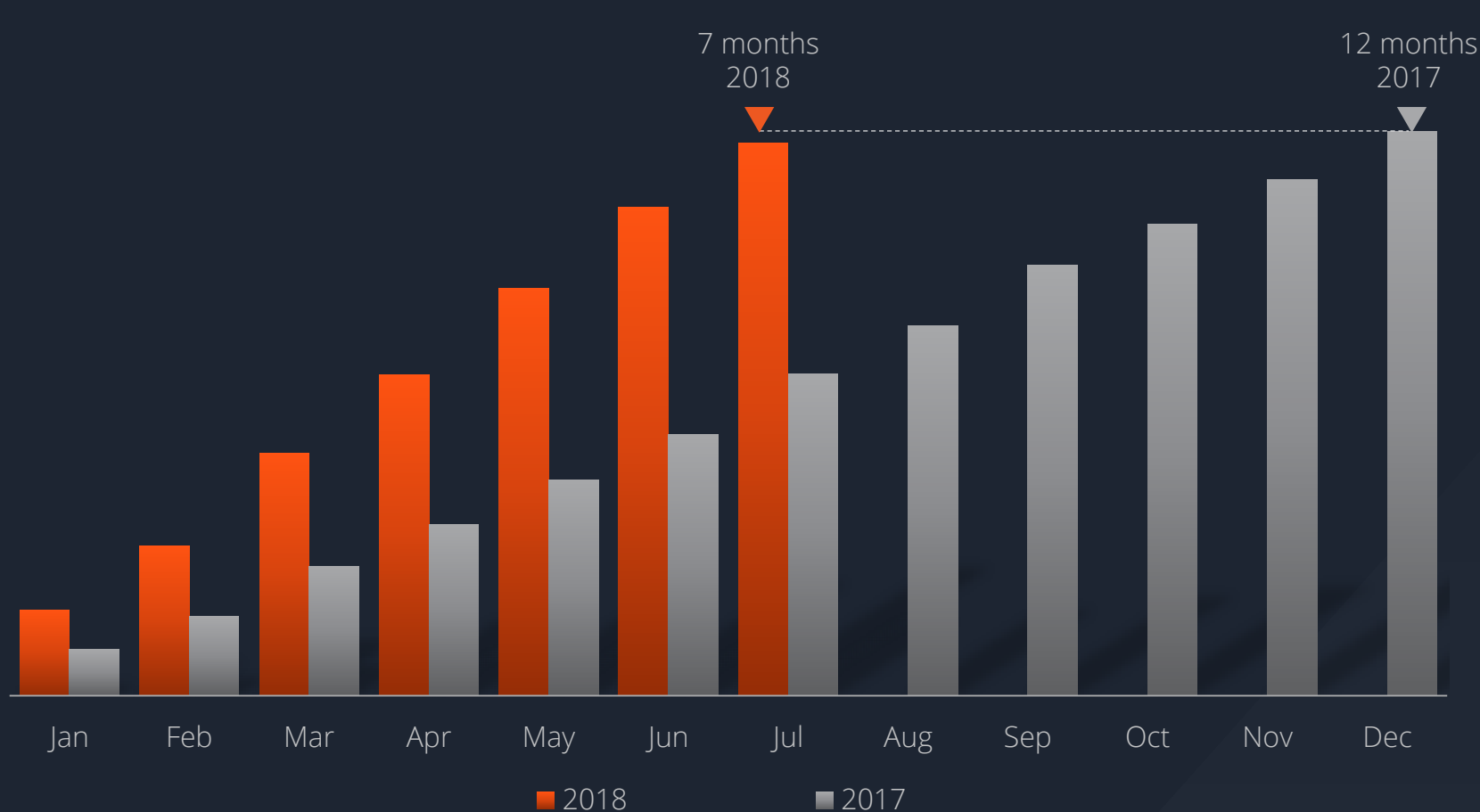
Ping An Health's growth is expected to continue



Exceptional growth in 2018

Revenue for seven months to July 2018 same as full 2017

Cumulative premium revenue by month



China's health insurance market is expected to keep growing



Potential to extract even more value from distribution



Proven ability to adapt product strategy to market realities



Continuous investment in scaling operations



Discovery working closely to ensure sustainability



SA COMPOSITE MODEL

Discovery Health
Discovery Life
Discovery Invest
Discovery Insure
Discovery Bank



UK COMPOSITE MODEL

Vitality HEALTH INSURANCE
Vitality LIFE INSURANCE
Vitality INVEST



PARTNER COMPOSITE MODEL

中国平安 PINGAN
AIA myOwn Health Insurance
GENERALI
John Hancock
Manulife
SUMITOMO LIFE
IGI Life Salud SA
Equivida



WORLD'S LARGEST BEHAVIOURAL PLATFORM LINKED TO FINANCIAL SERVICES



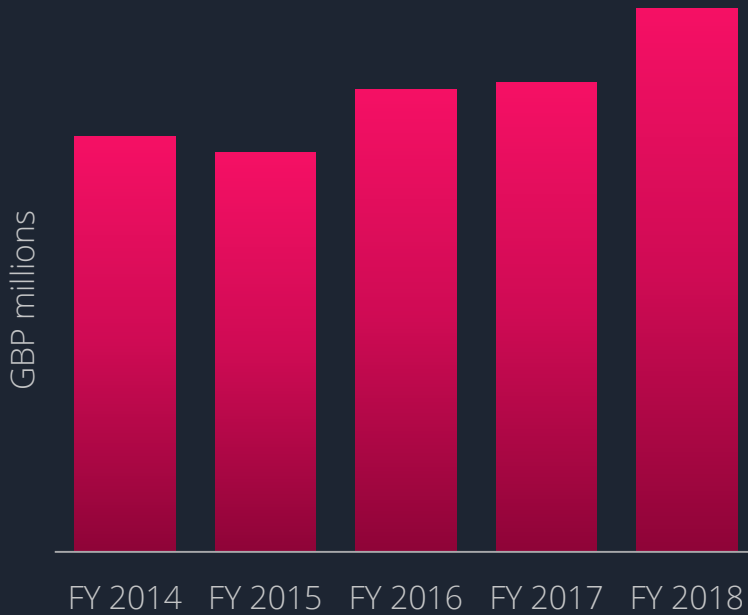


HEALTH AND LIFE INSURANCE

New business

+12%

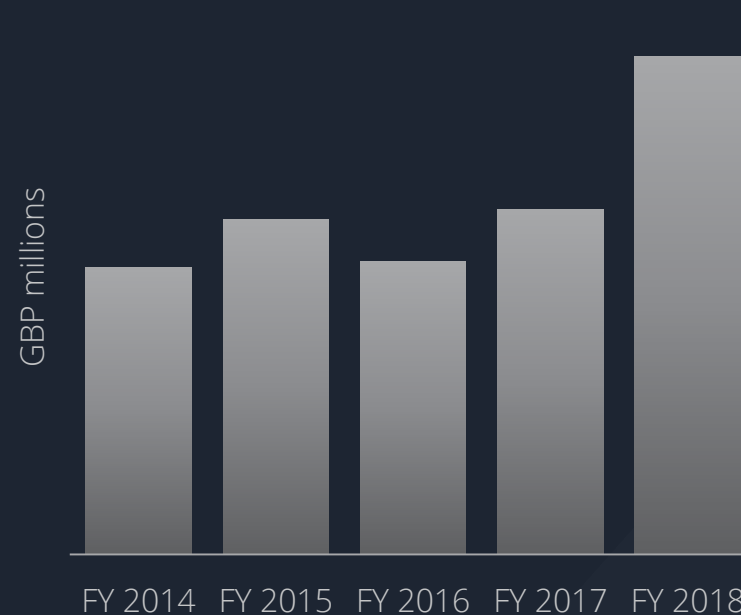
to R2 279m



Operating profit*

+44%

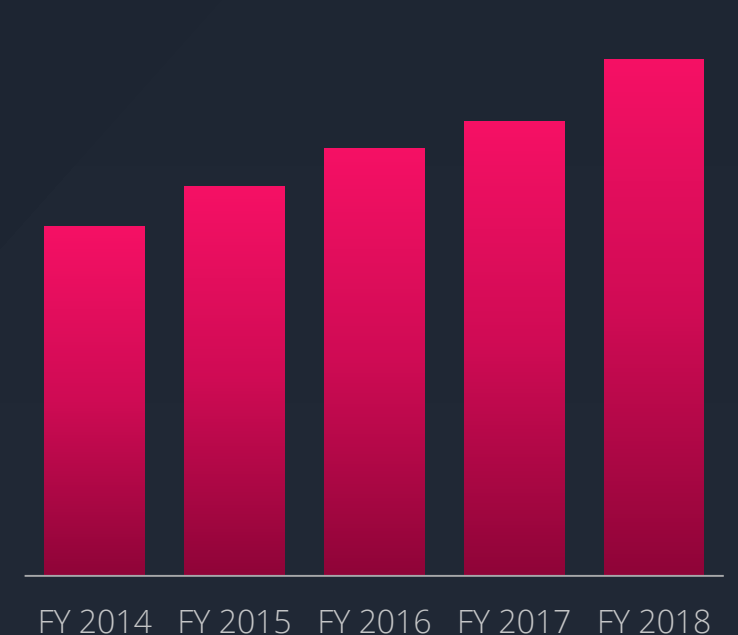
to R1 104m



Lives covered

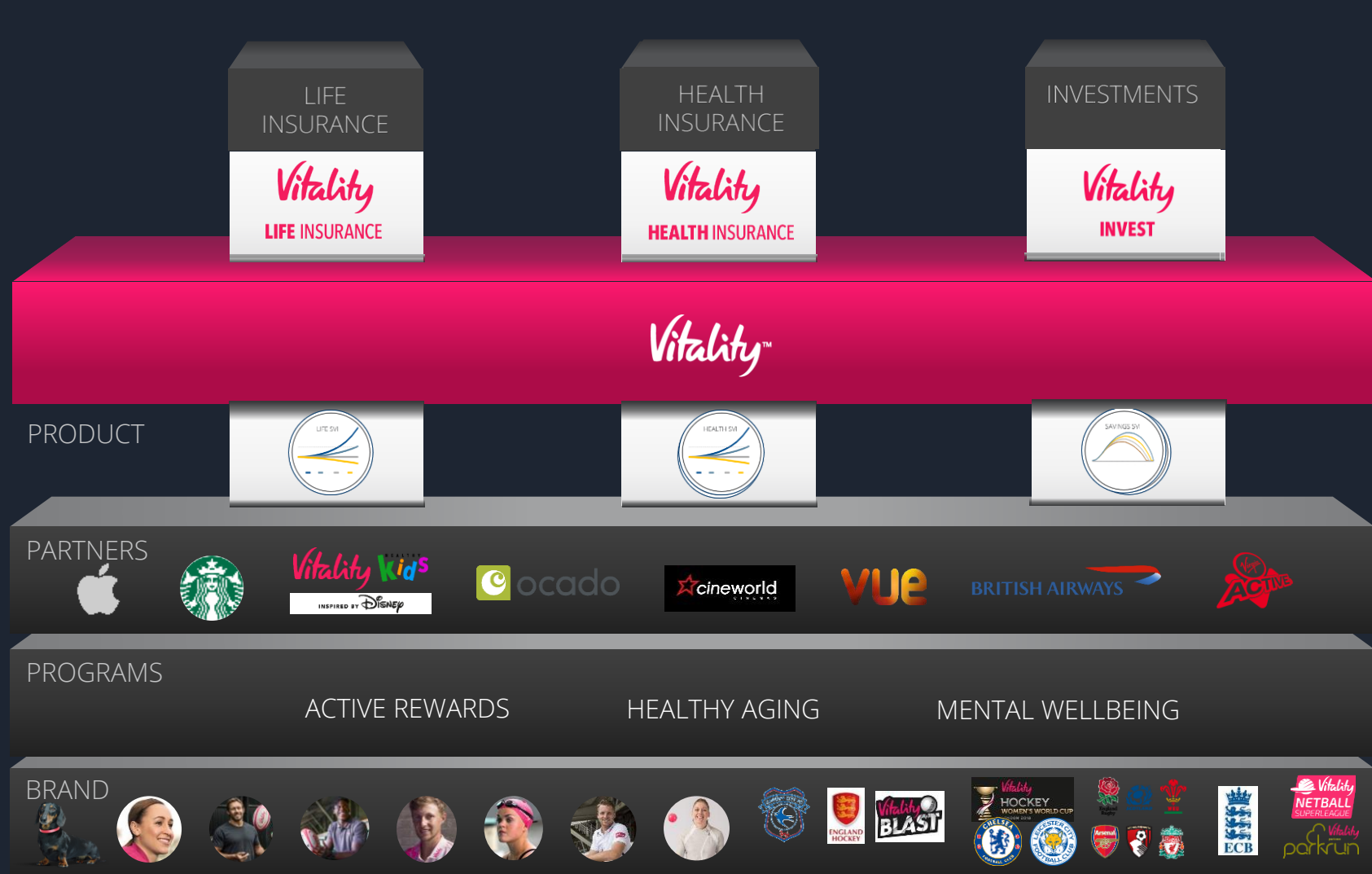
+11%

to 1.084m lives



*VH + VL + TP Margin

Building a single UK Vitality platform



65k

Apple watches



330k

Monthly Starbucks



160k

Monthly cinema tickets



400k

Ocado deliveries to date



250k

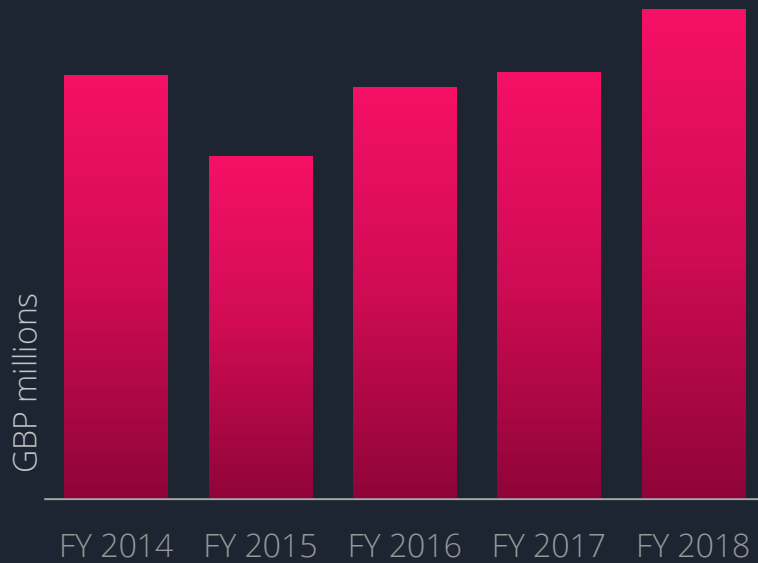
Page views on Disney Kids Hub to date



New business

+14%

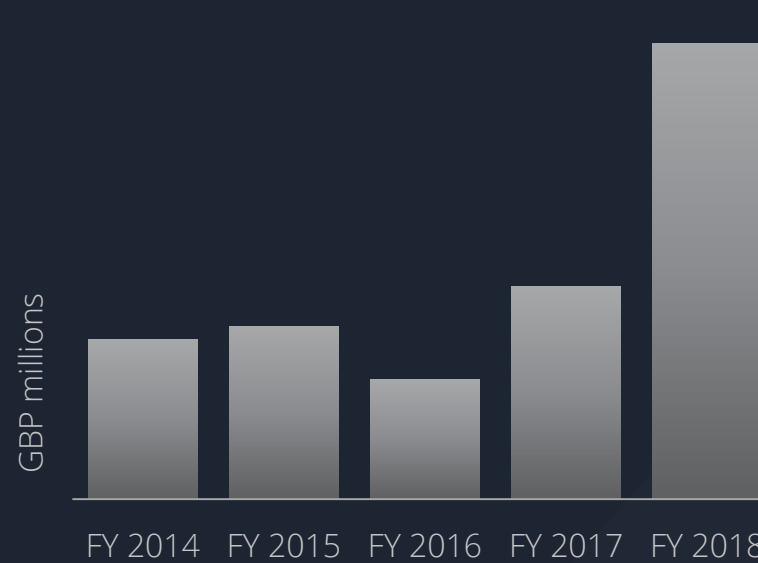
to R1 107m



Operating profit

+108%

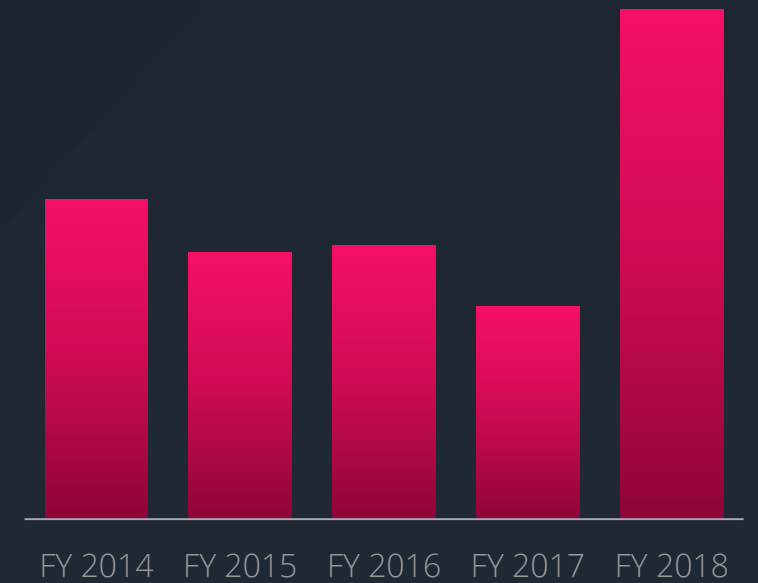
to R589m



Lives covered

+7%

to 577k lives



Operating result driven by Shared-Value model



Selection

X



Behaviour

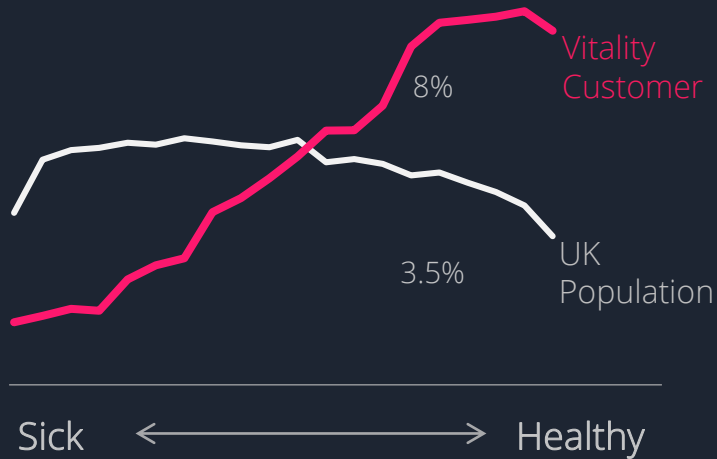
X



Lapses

Vitality selects healthier customers

Vitality customers against UK census data



>2x Healthy prevalence

Change in behaviour directly correlated with claims

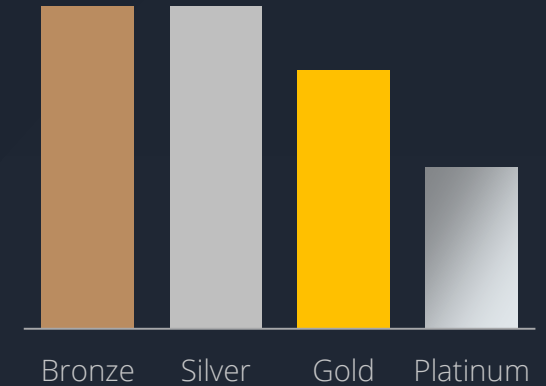
Claims relativity by engagement

Starting point ↑ Inactive ↓ Highly active	Inactive	1.25	1.14	1.04	0.97	0.92	0.89
		1.09	1.00	0.92	0.85	0.81	0.78
		1.04	0.96	0.88	0.81	0.77	0.75
		1.00	0.92	0.84	0.78	0.74	0.72
		0.99	0.91	0.83	0.77	0.73	0.71
	Highly active	0.98	0.90	0.82	0.77	0.73	0.70
		Decreased physical activity ← Rate of change → Increased physical activity					

44% Lower claims cost if exercise 5 days a week compared to 1

Engaged members have lower lapses

Lapse rate by status



50% Lower lapses

Additional value from pricing sophistication and claims management



Premium

x



Claims management

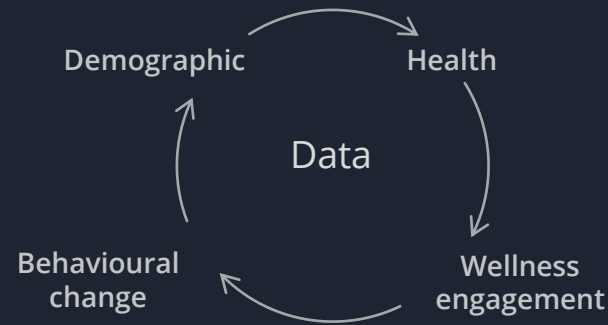
Use rich data and AI that leads to sophisticated pricing

> **100m** possible combinations of risk factors

> **100** behavioural and geospatial indices

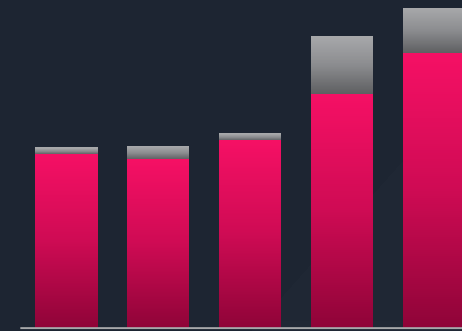
> **5 TB** of data

Sophisticated **machine learning** algorithms such as **deep learning neural nets** that combine complex interactions for accurate predictions



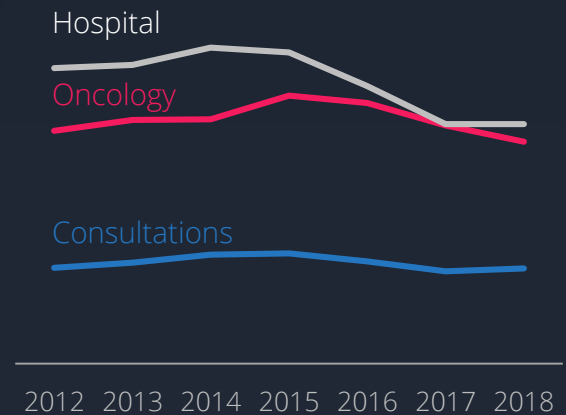
Tariff and care pathways have led to increased claims savings

Tariff and care teams claims savings per member per month



Legend: ■ Tariff savings ■ Other interventions

Claims management initiatives have kept PLPM costs stable over time



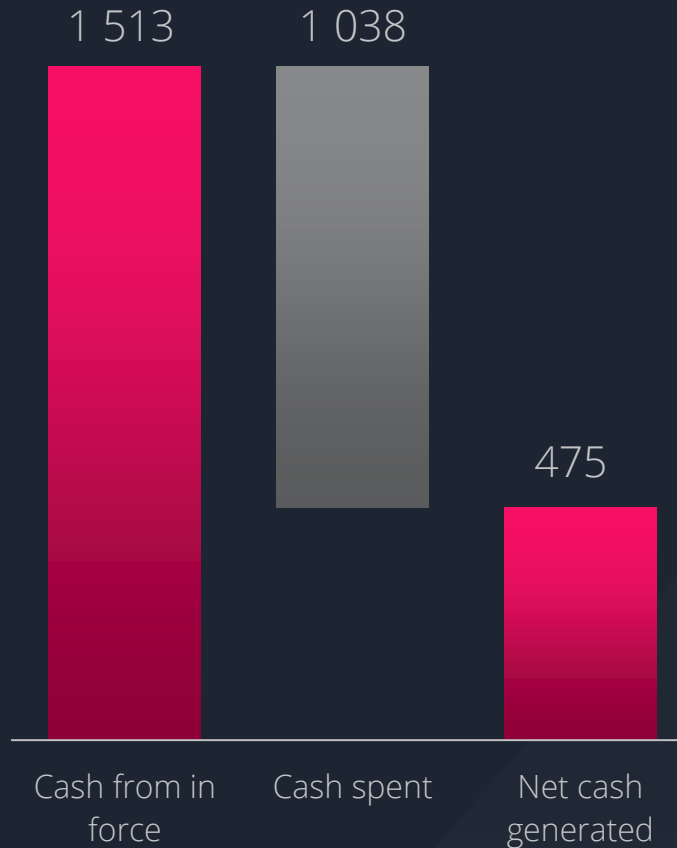
Lower loss ratio, strong cash generation and increasing return



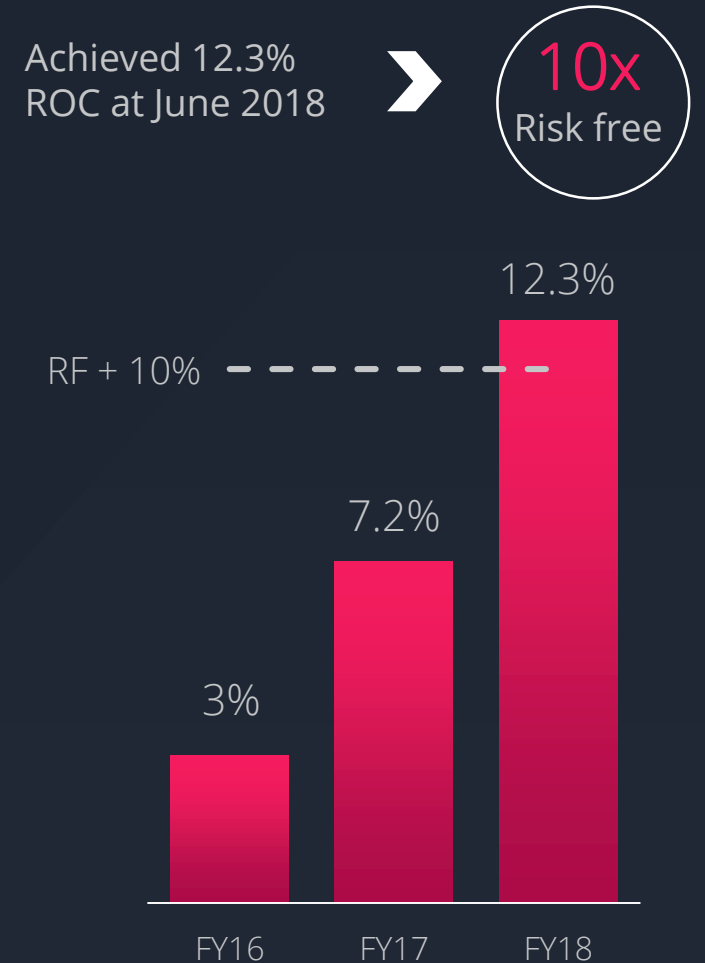
Decreasing loss ratio over time



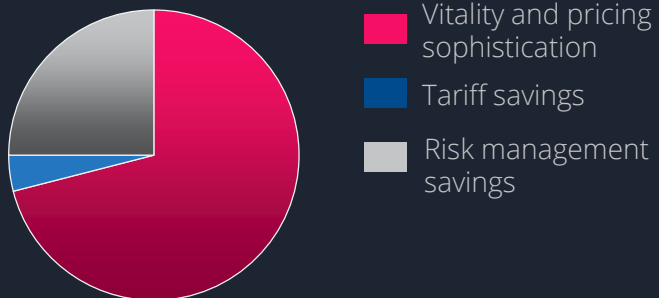
Strong cash generation (Rm)



Greater return on capital



Decreasing loss ratio driven by

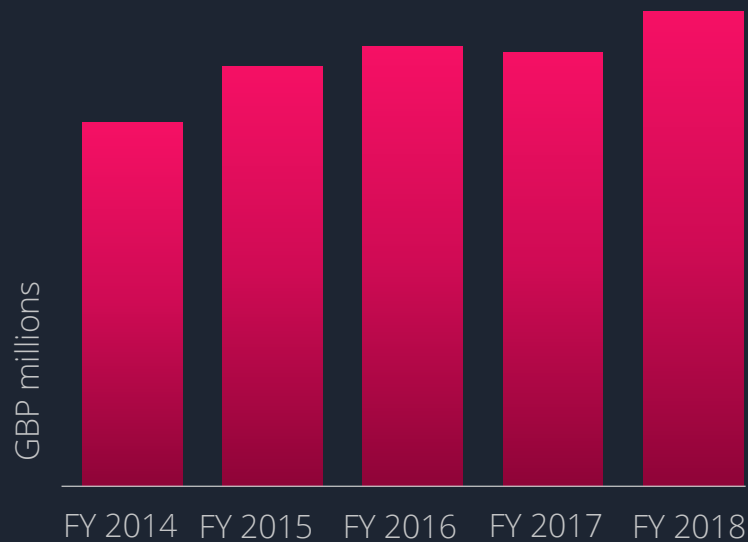




New business

+10%

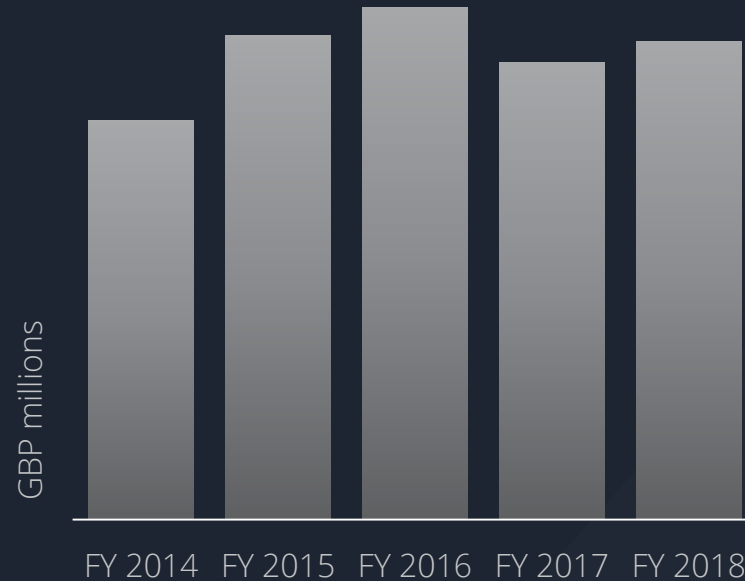
to R1 172m



Operating profit*

+6%

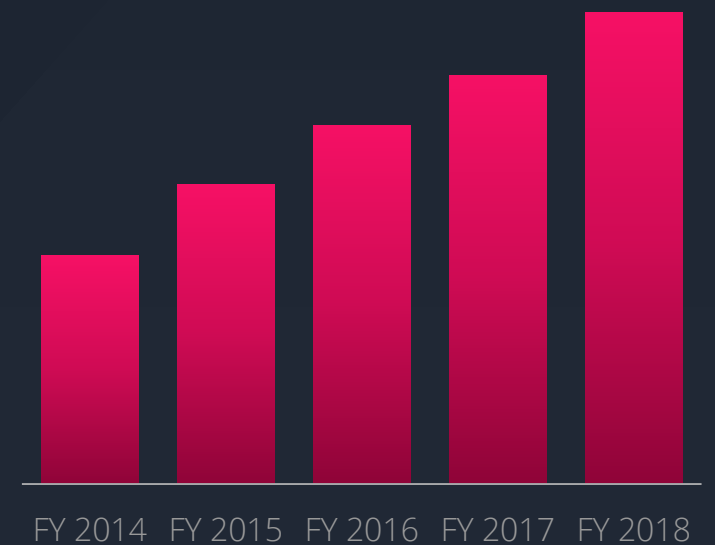
to R515m



Lives covered

+15%

to 507k lives



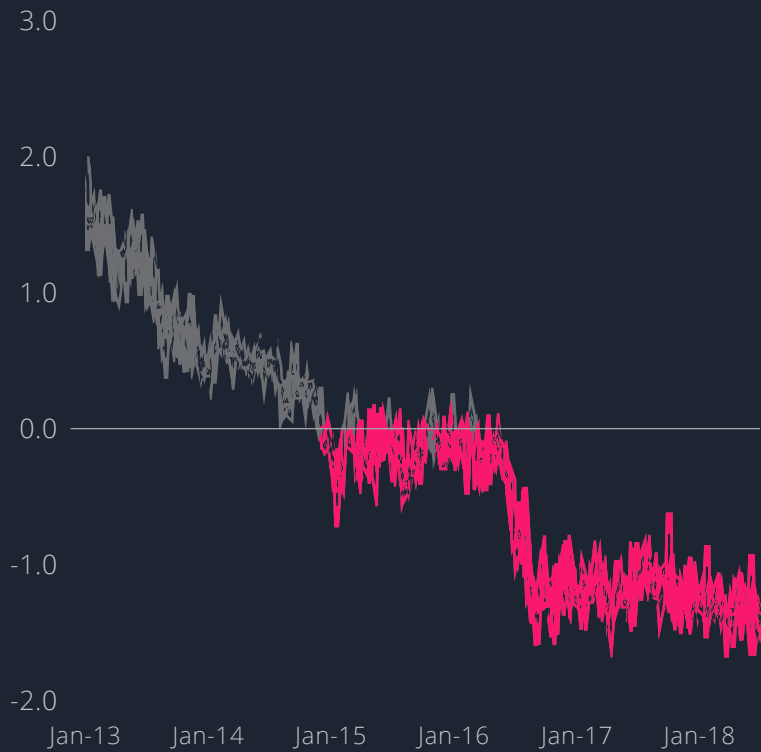
*includes Transfer Price Margin

Interest rate change introduced to ensure stability going forward

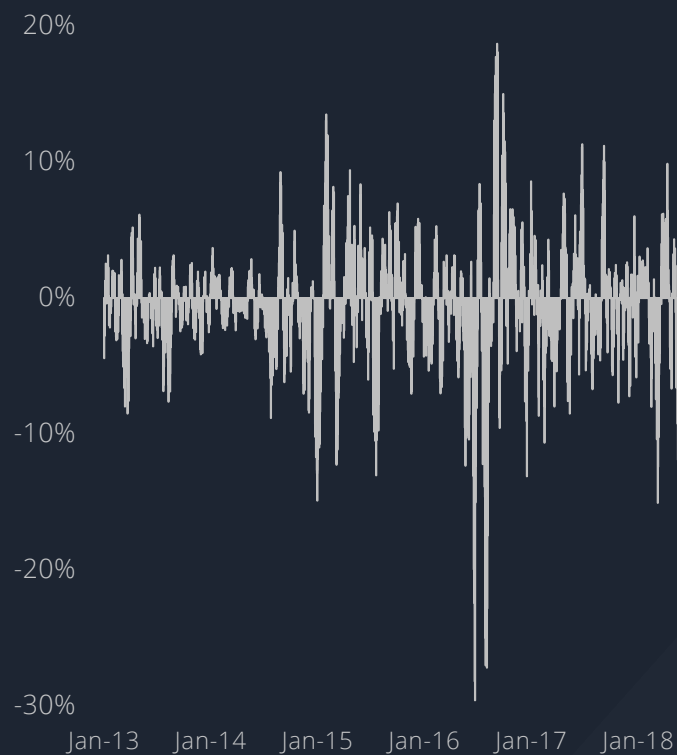


Continued negative implied real yields and interest rate volatility

UK Forward Real Gilt Yield
single derived rate

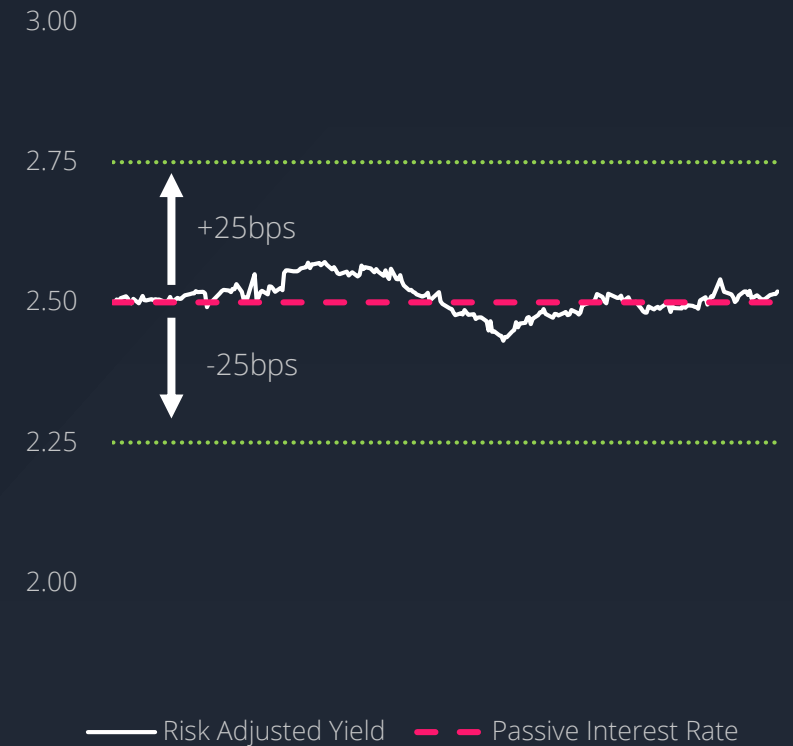


UK Forward Nominal Gilt Yield Volatility
% change in 10-day rolling difference



Review assumptions to a long-term view

VictoryLife risk adjusted yield vs passive interest rate



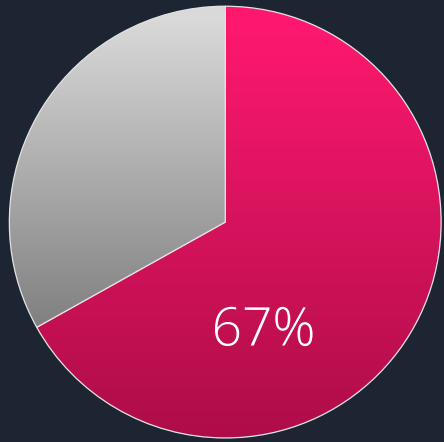
Investment rate assumption set in line with the risk-adjusted yield expected from a basket of fixed interest securities based on observed average over the prior 12 months

Business has been reconfigured for a low interest rate environment

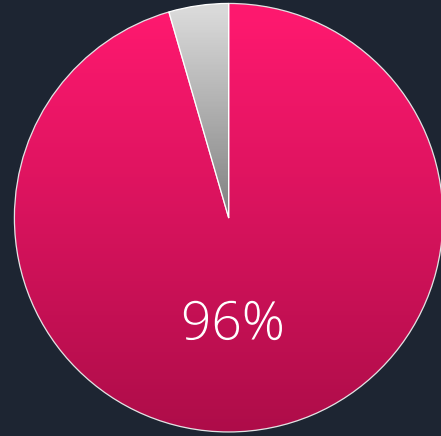


Term assurance new business mix

■ Term
■ Whole of life



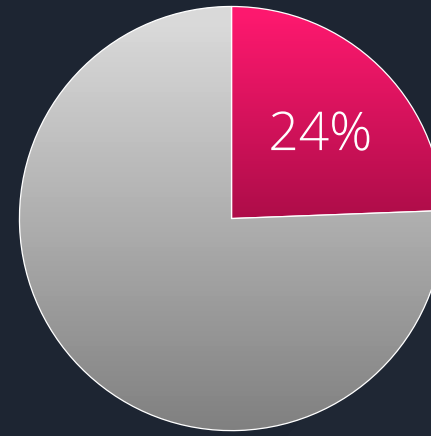
2014



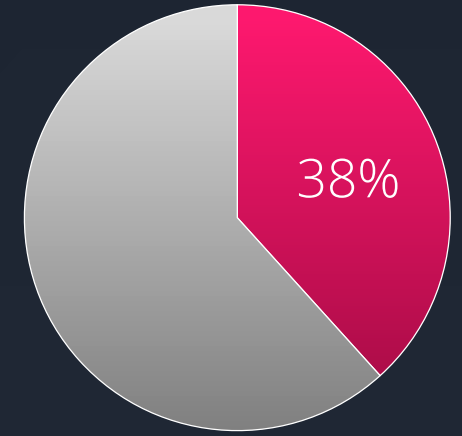
2018

Indexed premium new business mix

■ Indexed
■ Level



2014

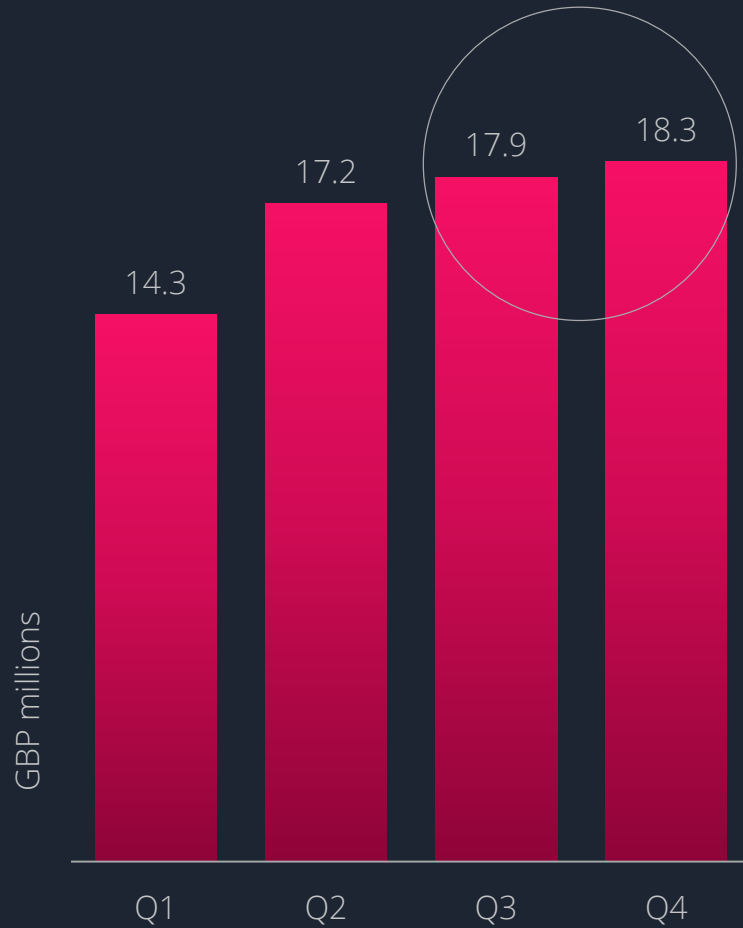


2018

New business acceleration while maintaining margin

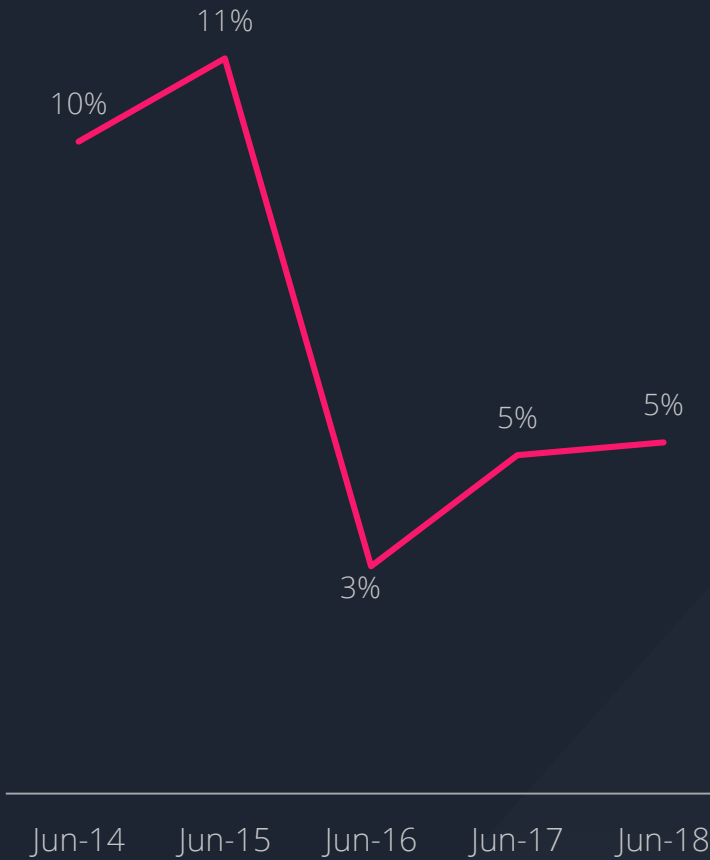


Strong new business in second half of the year



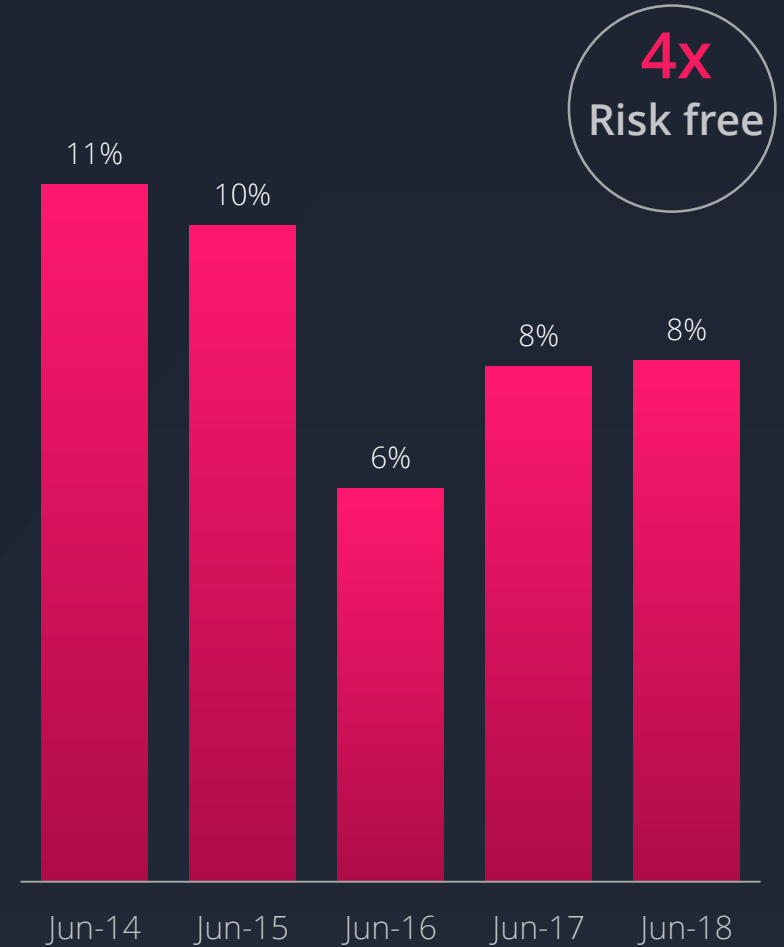
Maintained VNB margin

VNB margin



New business IRR 4x higher than risk free

New Business IRR



Extending the Vitality platform to investments



The rationale for VitalityInvest



Key trends in asset management

Market size and target opportunity

Increased choice

Increased sophistication

Reduced costs

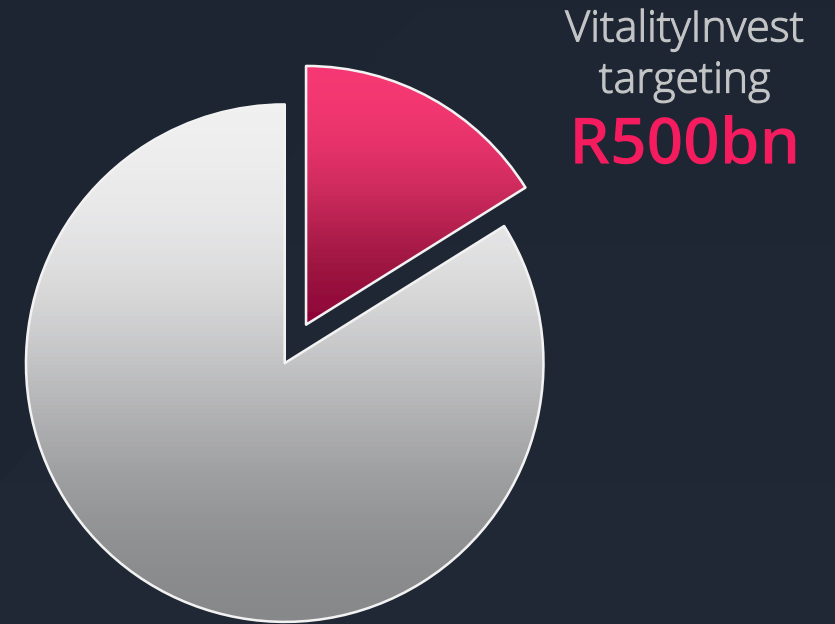
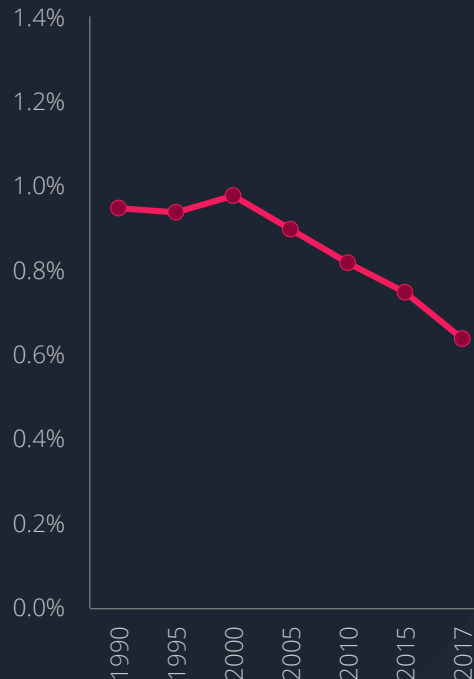
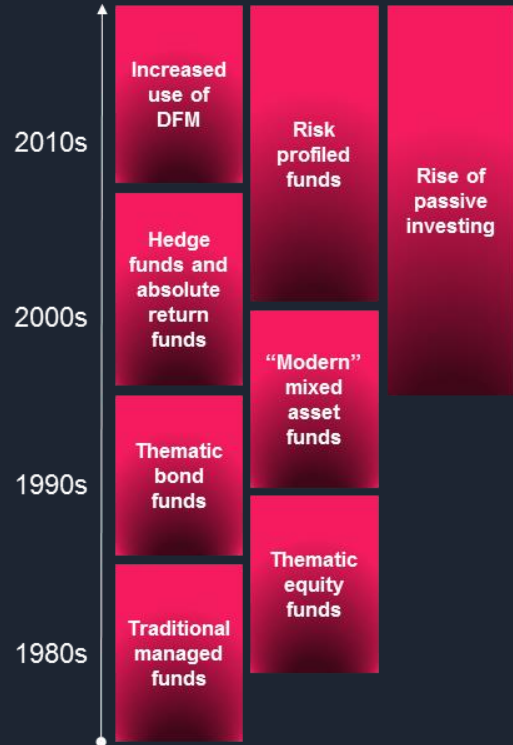
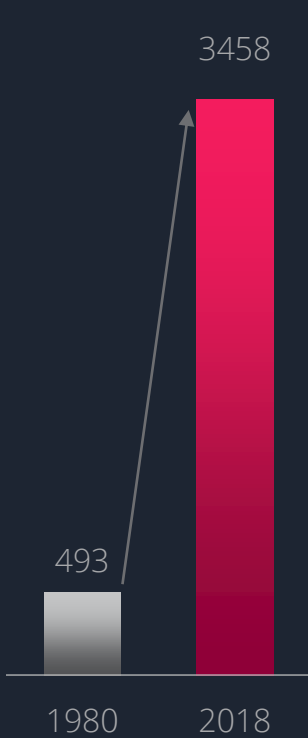
Annual new business flows

Authorised funds

Fund innovation

Asset weighted expense ratio

Total investment market of R3 119bn



Sophisticated product offering and expanded reach



VitalityInvest product



Vitality INVEST			
BEHAVIOURAL WELLNESS PLATFORM	Save sooner, more and for longer	Stay healthy	Manage health and wealth in retirement
PRODUCTS	Stocks and shares ISA	Junior ISA	Retirement Plan Accumulation and drawdown
TECHNOLOGY PLATFORM	Personalised Life Expectancy	Personalised Savings Roadmap	Adviser Hub
ASSET MANAGEMENT	Vitality Funds 	Third Party Funds 	

Increased distribution footprint

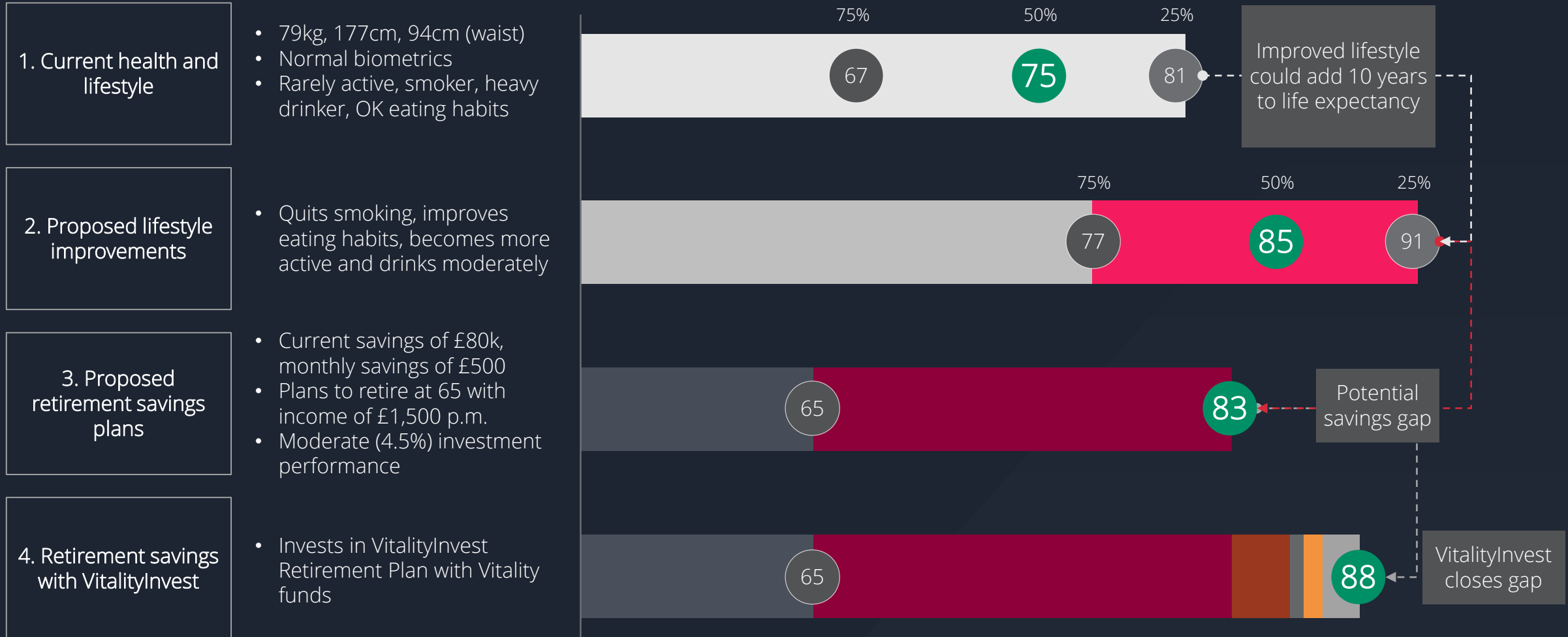


Sales Distribution Team:
 BCs - Business Consultants
 KAMs - Key Account Managers
 NAMs - National Account Managers
 BCO - Business Consultants Online
 D2C - Direct to Consumer Advisers



Market-first financial planning tools that incorporate personalised life expectancy algorithm, developed in collaboration with University of Cambridge and RAND Europe

Case study: 35-year old male



Positively different investments.

Vitality



INVEST

When your clients invest for the long run, we invest up to 15% in them.

Our **Investment Booster** incentivises your clients to invest sooner and for longer. With boosts paid every five years – on top of any growth – it could add an extra 15% to their savings over 25 years.

See how our positively different VitalityInvest Retirement Plan, ISA and Junior ISA can help your clients live longer, healthier, more financially secure lives at adviser.vitality.co.uk/invest

Positively different investments. adviser.vitality.co.uk/invest

When your clients stay in shape, we trim up to 100% off their fees.

With our **Healthy Living Discount**, by investing in our funds and taking steps to be healthy, your clients could pay no product charge at all.

See how our positively different VitalityInvest Retirement Plan, ISA and Junior ISA can help your clients live longer, healthier, more financially secure lives at adviser.vitality.co.uk/invest

Positively different investments. adviser.vitality.co.uk/invest

FINANCIAL TIMES

Keep on running: Isa investors with Fitbits to pay lower charges

Latest product range from Vitality brings new meaning to concept of 'performance fees'

Customers who exercise more, as measured with a fitness device such as a Fitbit, qualify for discounts on product charges for loss and retirement plans © Alamy

Oliver Ralph, Insurance Correspondent 9 HOURS AGO

BETWEEN THE LINES

Vitality's reward scheme looks a good fit for the next generation of savers

Vitality has been commending it's clients on the health they're making since introducing their...
The company is looking to make it easier for...
As you would expect, this approach has...
More measures there are...
There is also something...
But it also makes a lot of sense when you...

"COUNTING STEPS? I JUST STRAPPED IT TO MY DOG."

Get your clients fit for their future and it could last years longer.

COVER

Vitality enters long-term savings market

VitalityInvest designed to cater for people living longer but not saving enough

Insurance

Vitality offers lower charges to savers who follow fitness regime

FT ADVISER

Vitality enters investment market

INVESTMENT WEEK

Investec and Vanguard join forces with insurer to launch health-related investments

Investec Asset Management and Vanguard have joined forces with health and life insurer Vitality to launch two fund ranges for UK advisers, marking Vitality's entrance to the long-term savings market.

New Model Adviser

Top-up your pension at the gym: Vitality targets IFAs with new funds

money marketing

Vitality launches in-house funds in health investment push

By Justin Cash | 11th June 2018 1:05 pm

Get your clients fit for their future and it could last years longer.

WM WEALTH MANAGER

Vitality partners with Investec and Vanguard for new funds business

FT ADVISER

Investec's Aird has 'multi-decade' plans for Vitality deal

Professional Adviser

Vitality launches long-term saving range rewarding healthy behaviour

Up and running 25 June

"By changing behaviour, we produce economic and health benefits that are good for our members, good for advisers, good for us and good for society" - Vitality, Life and VitalityInvest CEO Hartschel Mayers

Health and life insurer Vitality has entered the long-term savings market with a proposition that sets out to reward healthy lifestyle choices and long-term investing.



SA COMPOSITE MODEL

- Discovery Health
- Discovery Life
- Discovery Invest
- Discovery Insure
- Discovery Bank



UK COMPOSITE MODEL

- Vitality HEALTH INSURANCE
- Vitality LIFE INSURANCE
- Vitality INVEST



PARTNER COMPOSITE MODEL

- 中国平安 PINGAN
- AIA myOwn Health Insurance
- GENERALI
- John Hancock
- Manulife
- SUMITOMO LIFE
- IGI Life
- Salud SA
- Equivida



WORLD'S LARGEST BEHAVIOURAL PLATFORM LINKED TO FINANCIAL SERVICES

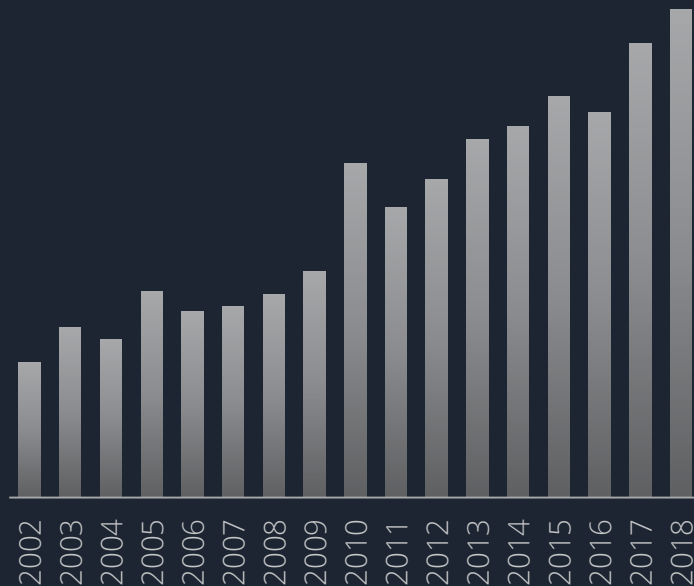


New business

+8%

to R6 573m

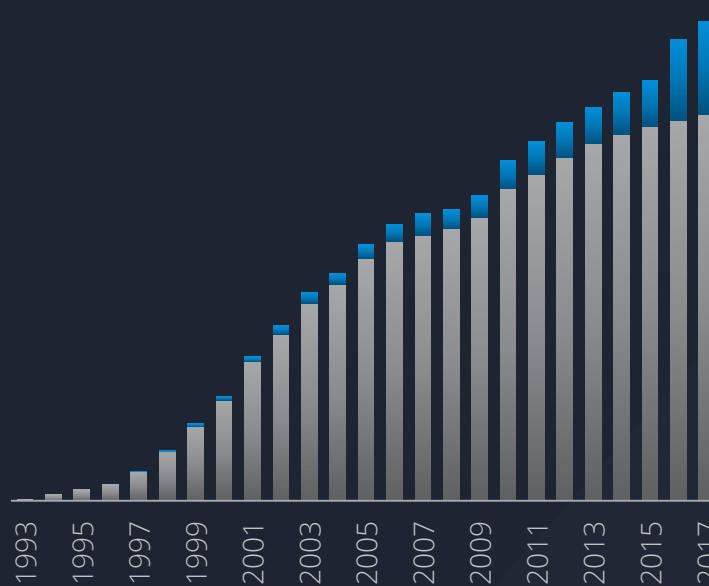
excl. take-on of new closed schemes



Membership

>3.5m

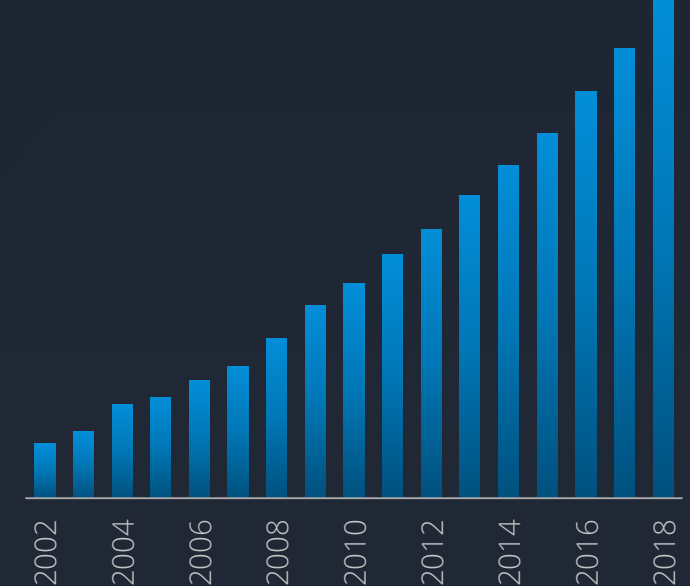
under administration



Operating profit

+11%

to R2 777m



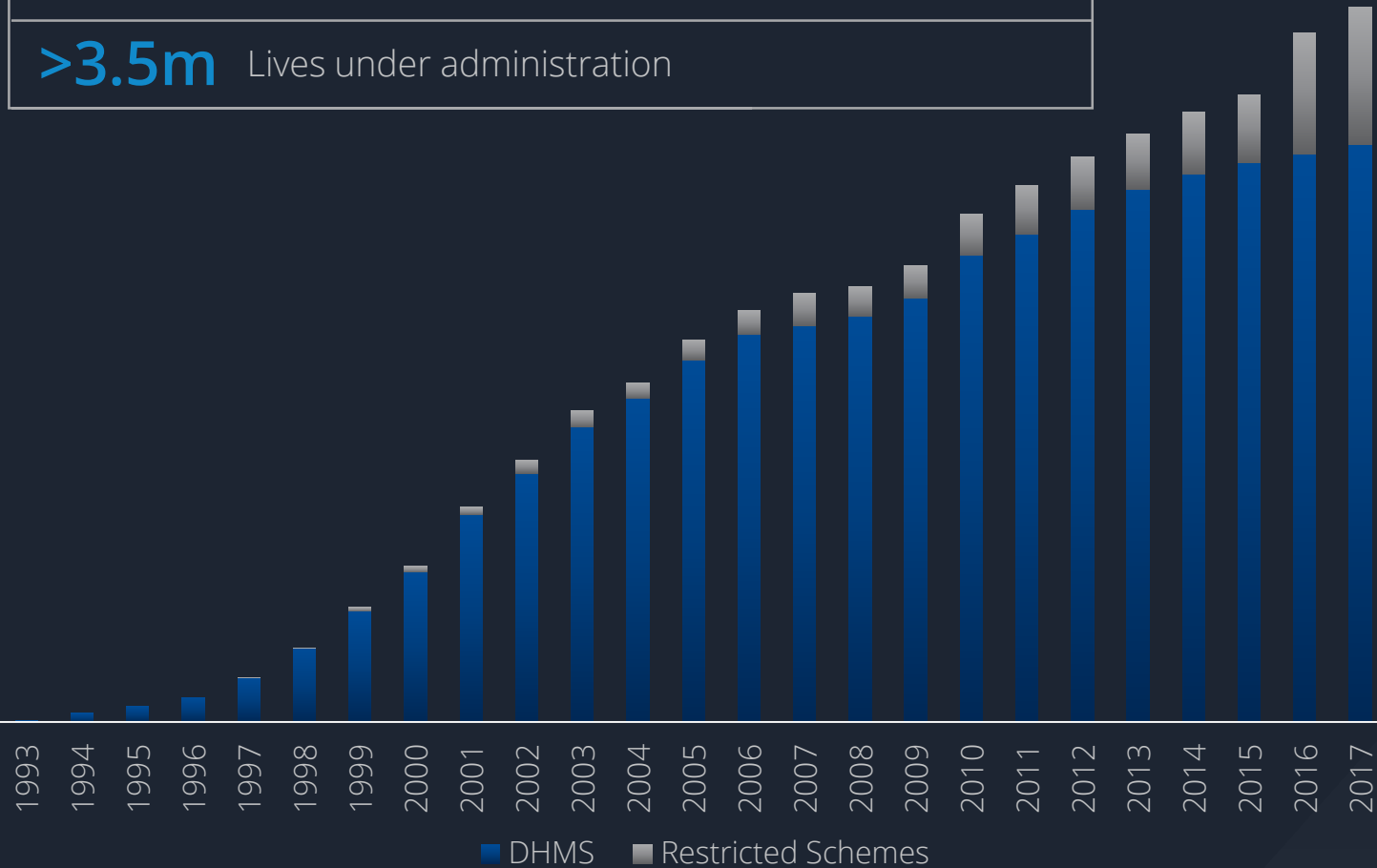
Scale of Discovery Health



16/17 Restricted schemes won over the previous 10 years

40% Total market share

>3.5m Lives under administration



18 Restricted schemes



17%
Restricted scheme market share

>670 000
Lives

1 Open scheme



56.0%
Open scheme market share

>2.8m
Lives

Competitive advantage

-16.4% Lowest premiums in the scheme market
(2017: -15.1%)

10.1% DHMS admin and managed care fees in bottom quartile

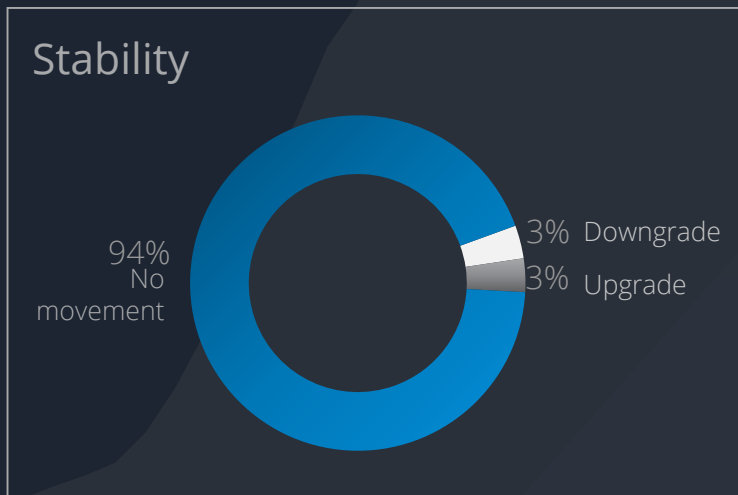
R2.10 Value generated for every R1 paid to Discovery Health

Growth and stability

56% Market share

+2.08% Membership growth

4.8% Annualised lapse rate



Security

27.44% Solvency

R16.4bn Reserves

R2.45bn Net surplus

AAA GCR credit rating

Discovery Health is actively supporting the development of the NHI and remains committed to growing shared value in South Africa's healthcare system

National Health Insurance Bill



1. Slow and phased-in process
2. Focus on vulnerable groups
3. Medical schemes to co-exist with NHI
4. Voluntary contracting for private sector entities
5. No clarity on funding

Pragmatic and workable

Medical Schemes Amendment Bill



1. Most recommendations are pragmatic
2. Some concerns regarding scheme rules and governance

More clarity required

Health Market Inquiry



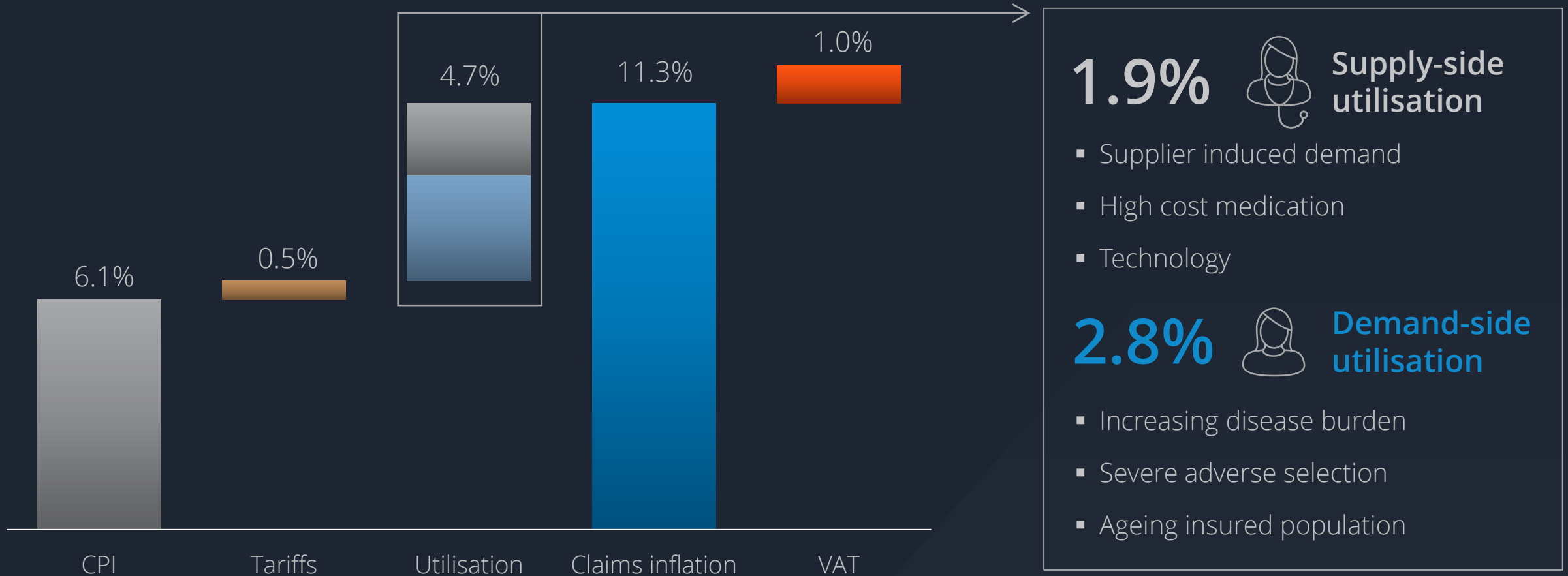
1. Majority of findings and recommendations are sound and workable
2. Critical supply side recommendations will have significant positive impact if implemented as proposed

Comprehensive and insightful

Discovery Health's social mandate is to bring down the cost of healthcare for members



Discovery Health average annualised inflation rates (2008 – 2017)



Supply-side utilisation – supplier induced demand



Supplier induced demand

High cost medication
Technology

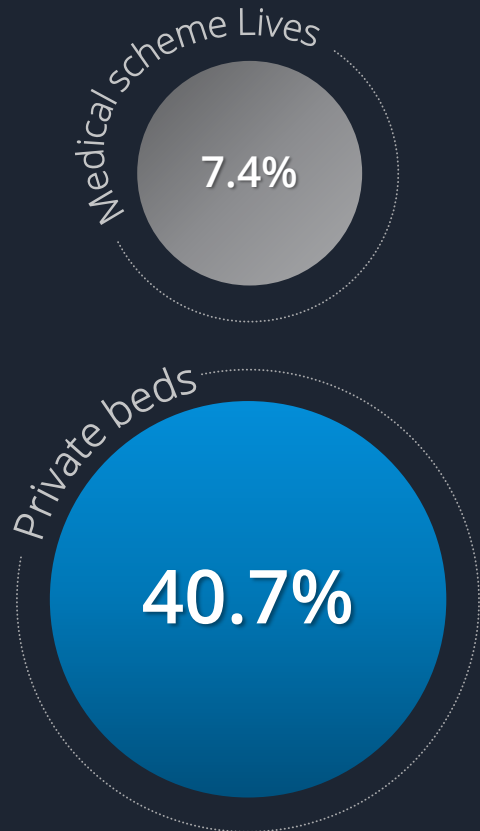
New hospitals are substantial drivers of utilisation

January 2016 to March 2018

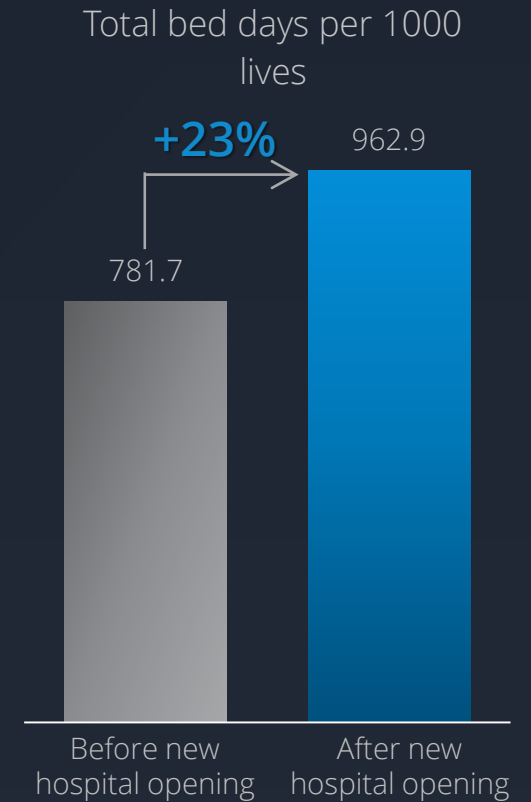
Case study: Pietermaritzburg

Life Hilton hospital opened September 2015

Growth between 2010 and 2016



	Facilities	Beds	Total spend since inception of new hospitals
Private hospital	13	1,222	R397m
Day clinic	19	325	R294m
Psychiatric hospital	10	452	R114m
Sub acute hospital	10	280	R50m
Total	52	2279	R855m

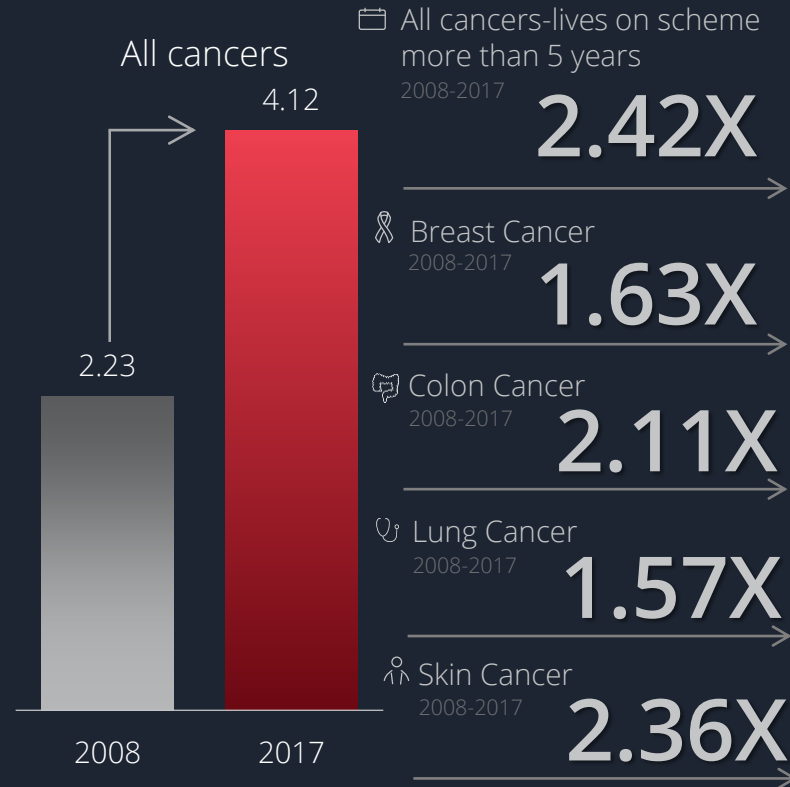


Demand-side utilisation – increasing cancer incidence rates



Increasing disease burden

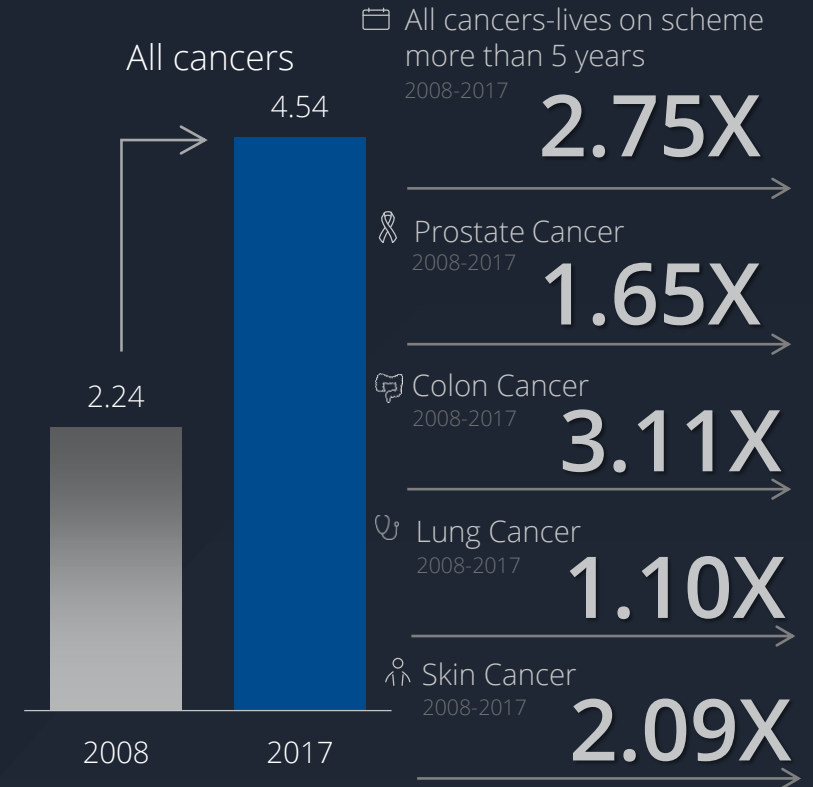
Severe adverse selection
Ageing insured population



Female

Risk-adjusted incidence rates per 1 000 lives

1.85X Growth in cancer incidence for female lives



Male

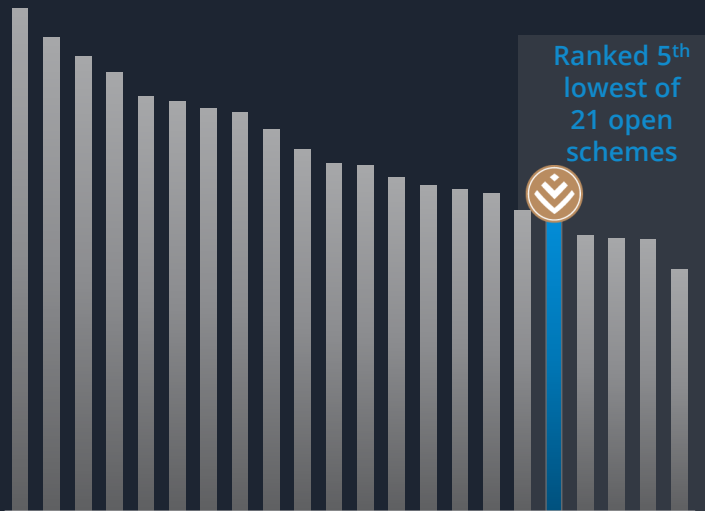
Risk-adjusted incidence rates per 1 000 lives

2.02X Growth in cancer incidence for male lives

Becoming the lowest cost administrator

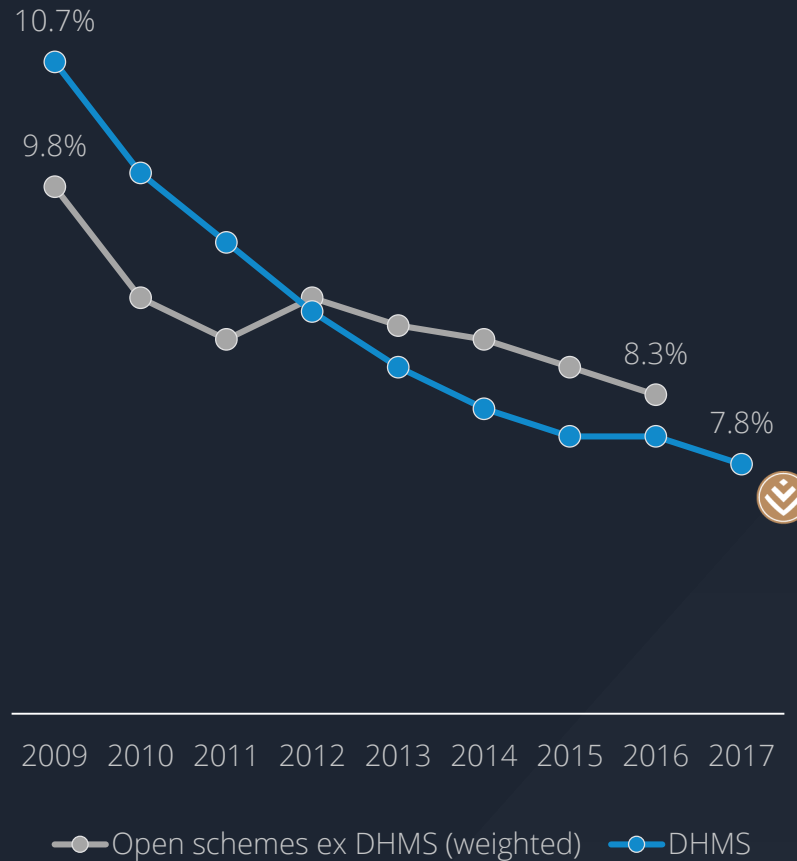
Lowest quartile admin fees

10.1% DH total fees as a % of GCI



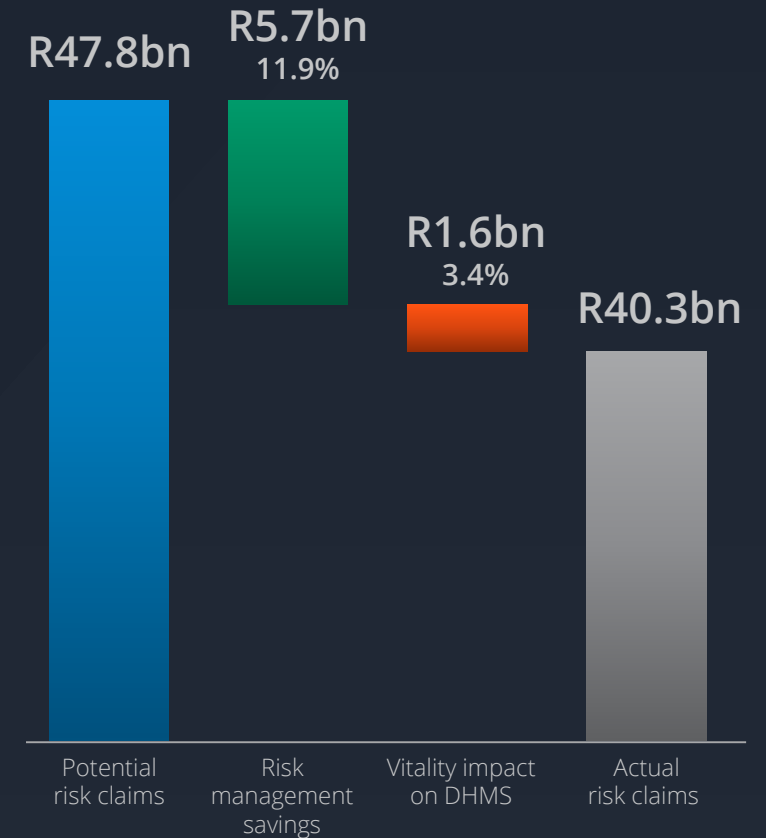
Decreasing real admin fee increases

Administration expenditure as % of GCI over time

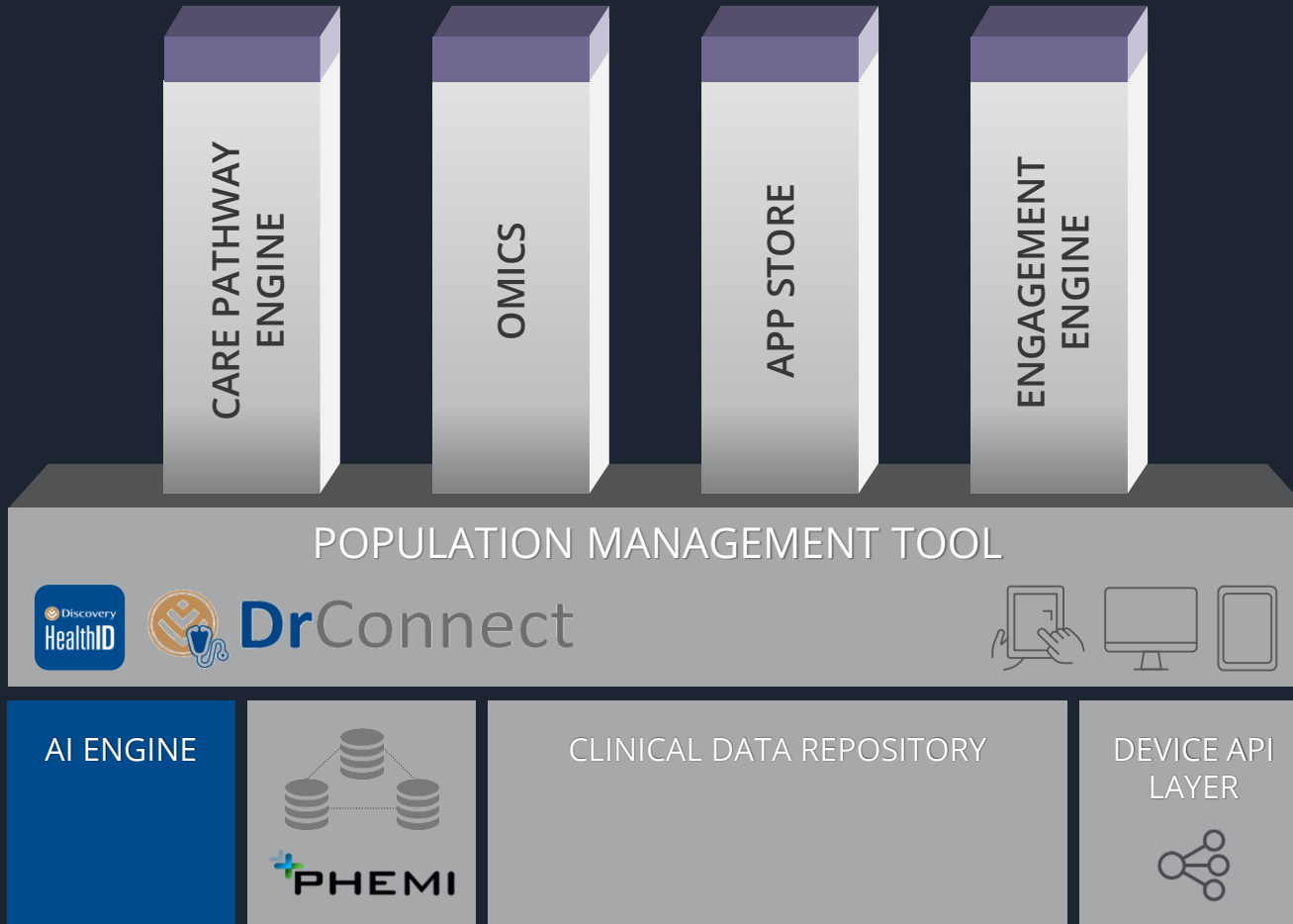


Effective interventions to manage claims costs

Impact of Discovery Health and Vitality on DHMS risk claims in 2017



Significant progress in building a fully integrated digital platform to enrich interactions and drive engagement



HealthID



Over **1 993** doctors
Over **1.7 m** member consents

DrConnect

329 543 members and **2 700+** doctors enrolled onto DrConnect since launch in August 2017



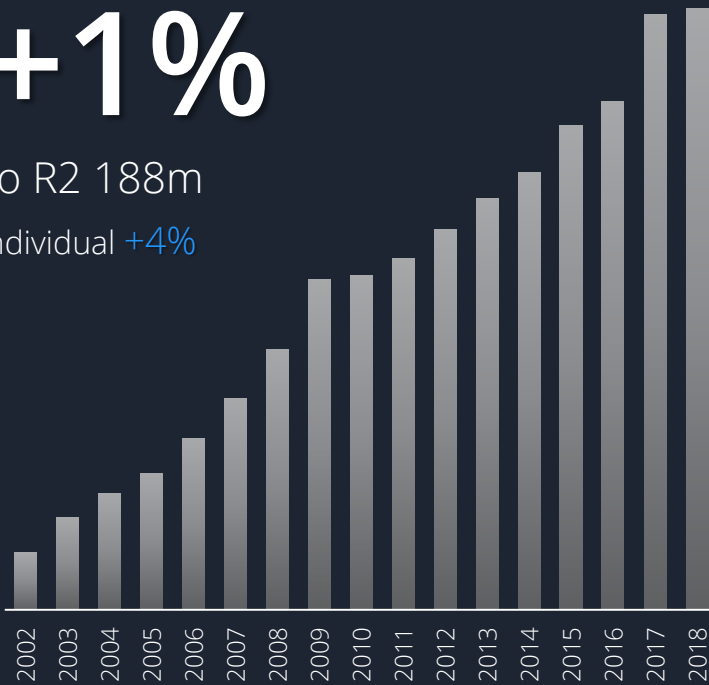
Discovery Life



New business

+1%

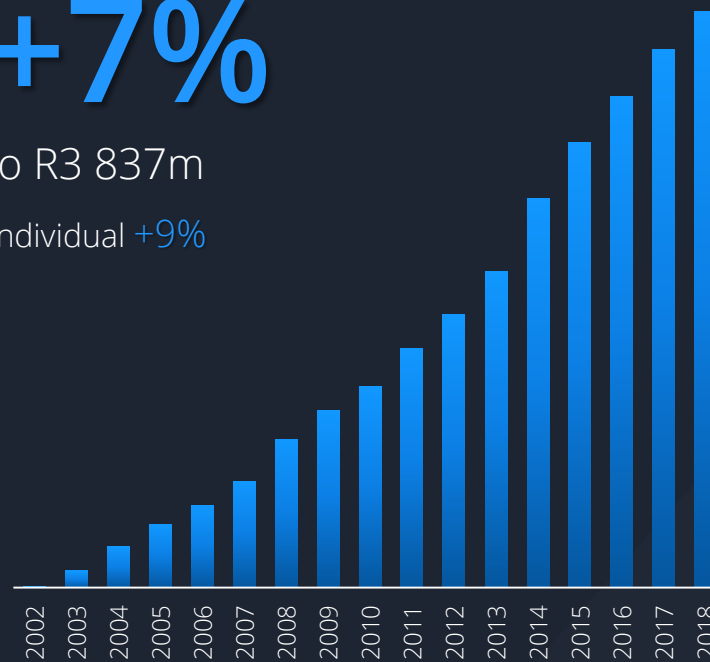
to R2 188m
Individual +4%



Operating profit

+7%

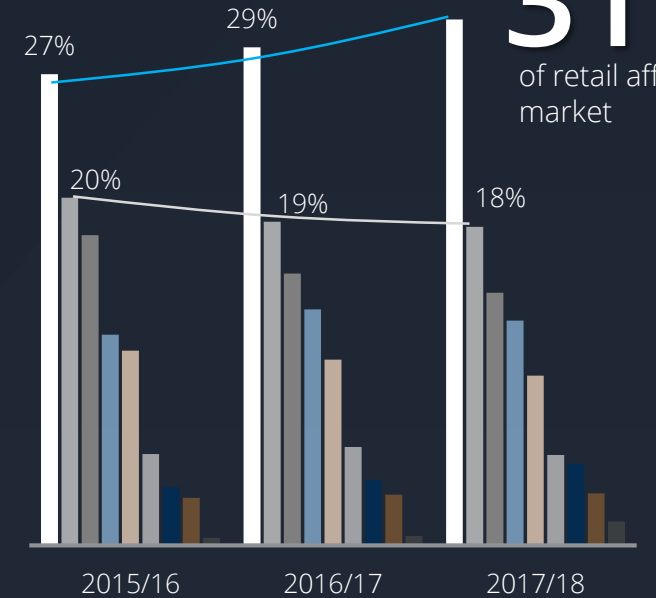
to R3 837m
Individual +9%



Market share

31%

of retail affluent market



Source: NMG Consulting market research

Discovery Life realisation of Shared Value



Selection

x



Mortality

x

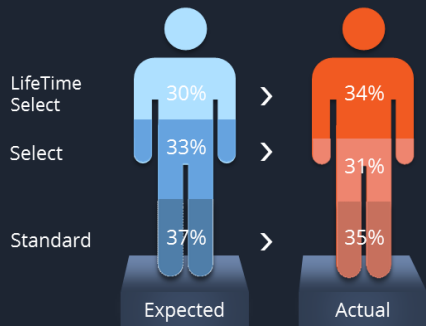


Lapses

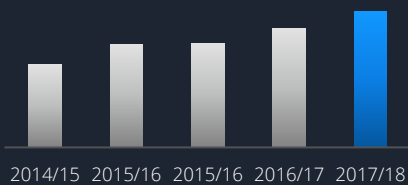


Shared Value

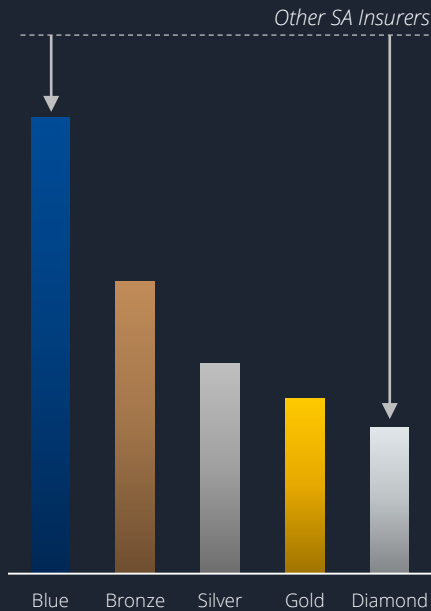
Proportion of healthy lives at underwriting (Vitality Rating)



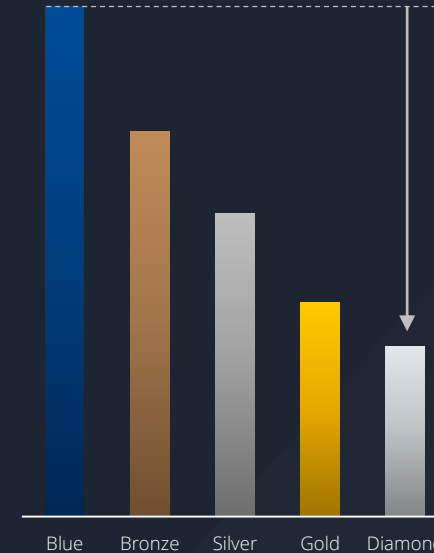
Growth in policyholders



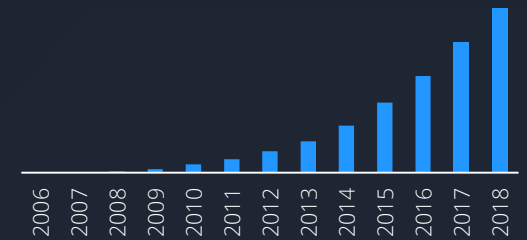
Actual = Expected (Standard life), risk adjusted



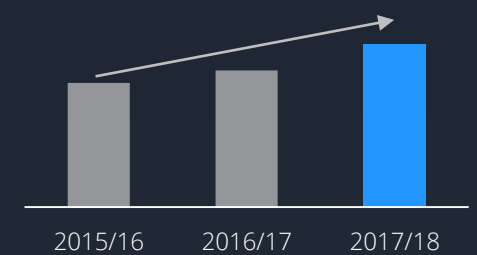
Study by global reinsurer



Discovery Life Paybacks



Value of new business



c20% lower mortality

Positive selective lapses

+8.3% VoNB¹
R973m Paybacks

1. Individual Life

Continued product innovation



PROACTIVE CLAIMS



Value of proactive claims paid

R72m

GLOBAL EDUCATION PROTECTOR



Up to 100% of a 3-year tertiary degree covered through shared-value

of GEP policies sold

+135%

PURPLE LIFE PLAN



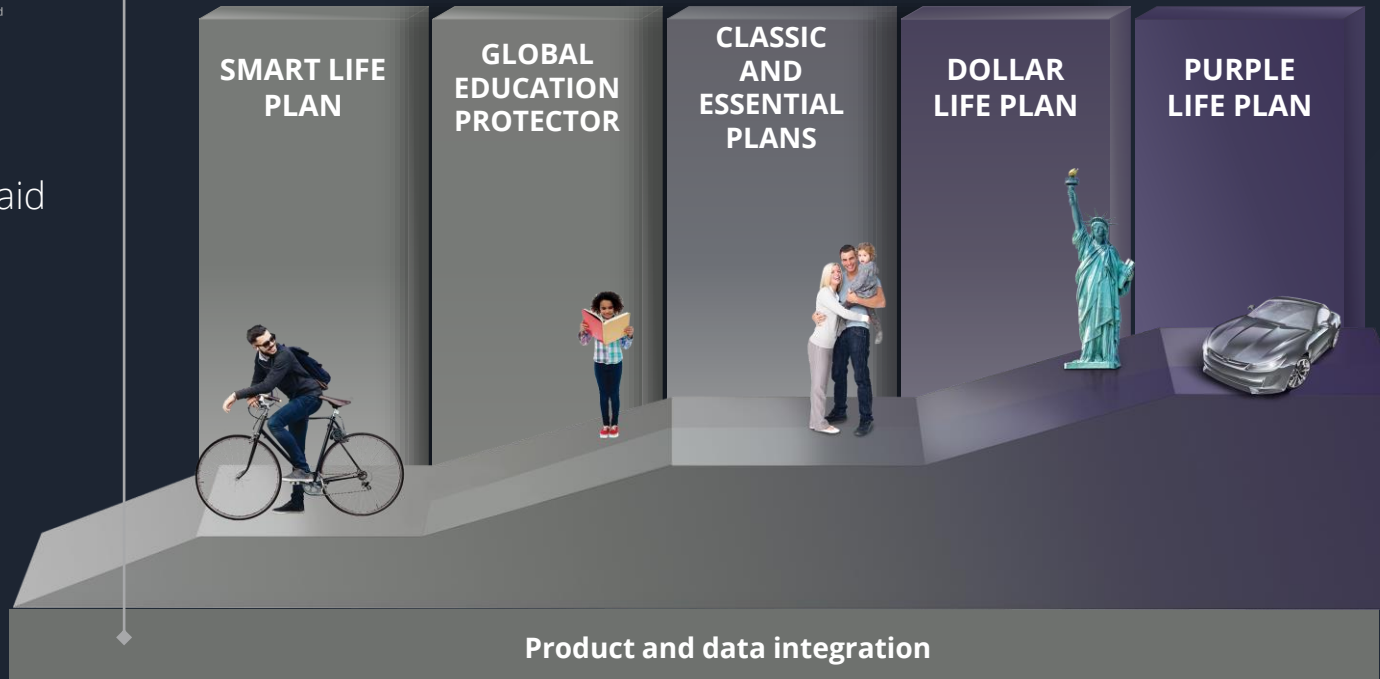
Premium efficiency



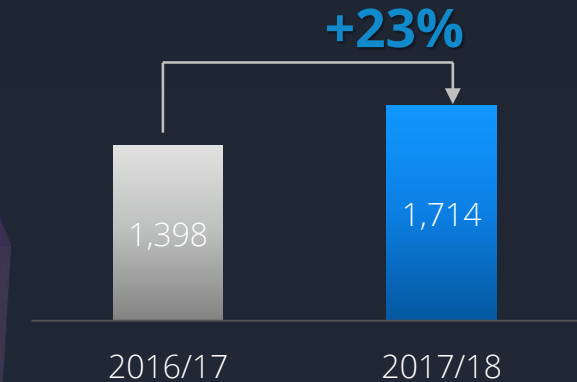
Guaranteed convertibility to US dollars



Enhanced global treatment



of policies sold over R10m



Discovery Life's considerations when reporting earnings

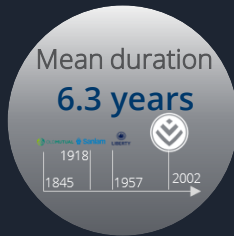


Unique nature of Discovery Life

1 Long-tailed, predominantly protection business



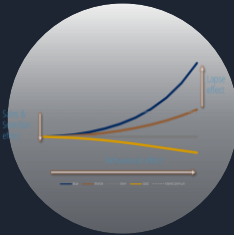
2 Younger business, low mean duration



3 Rapid growing book

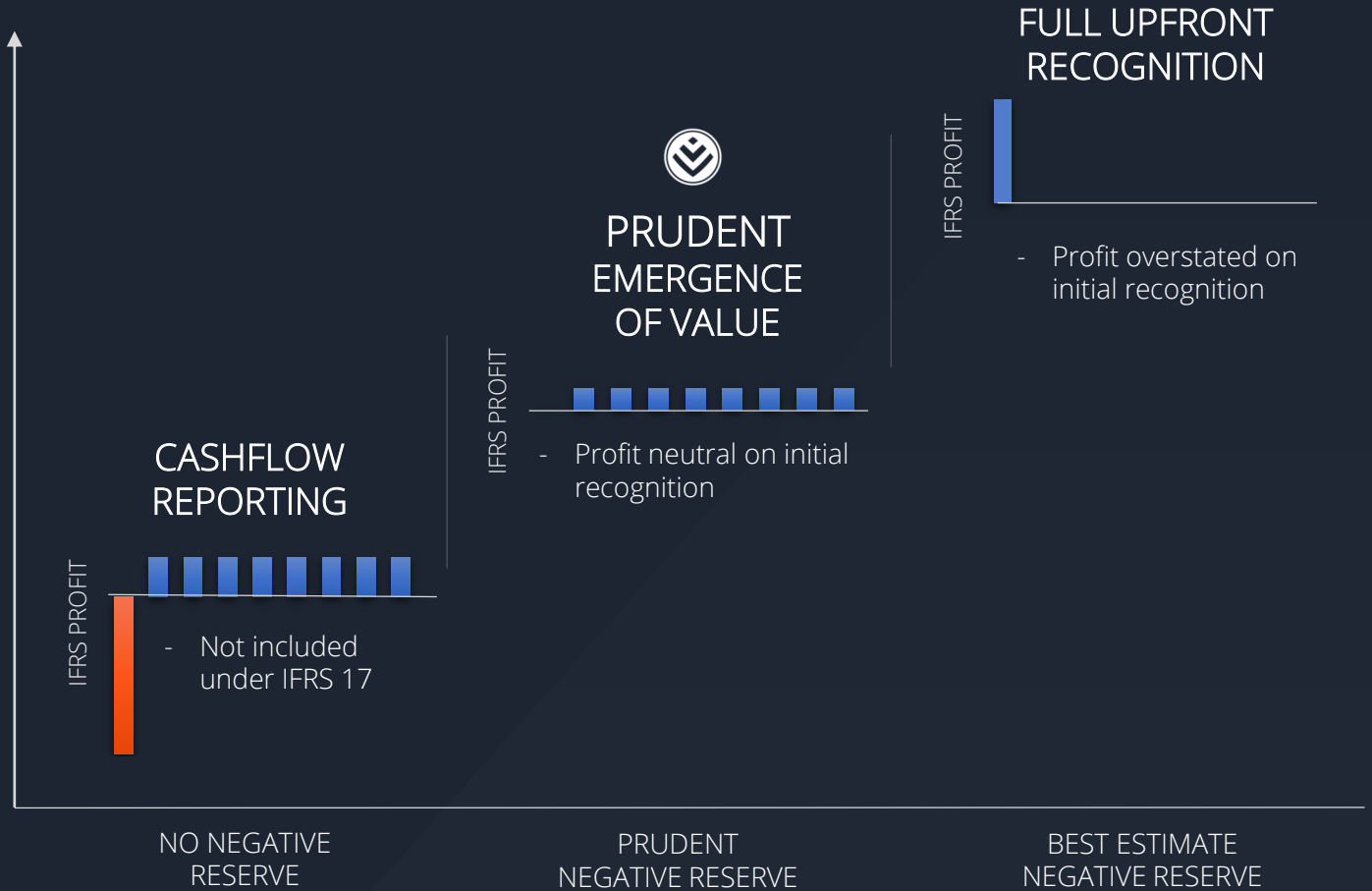


4 Shared-Value Insurance and greater profitability



Earnings reporting considerations

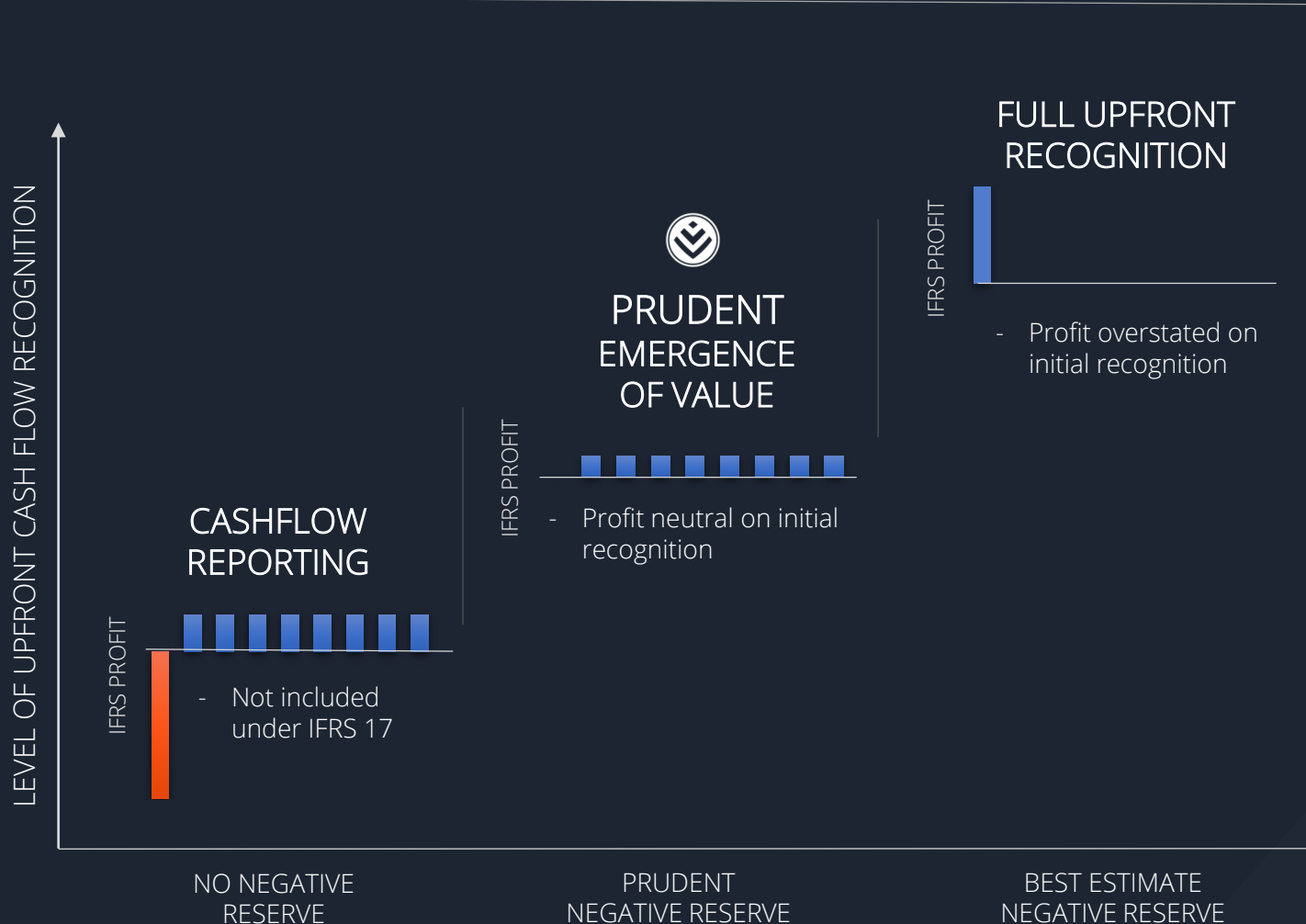
LEVEL OF UPFRONT CASH FLOW RECOGNITION



Criteria to assess the appropriateness of the accounting policy

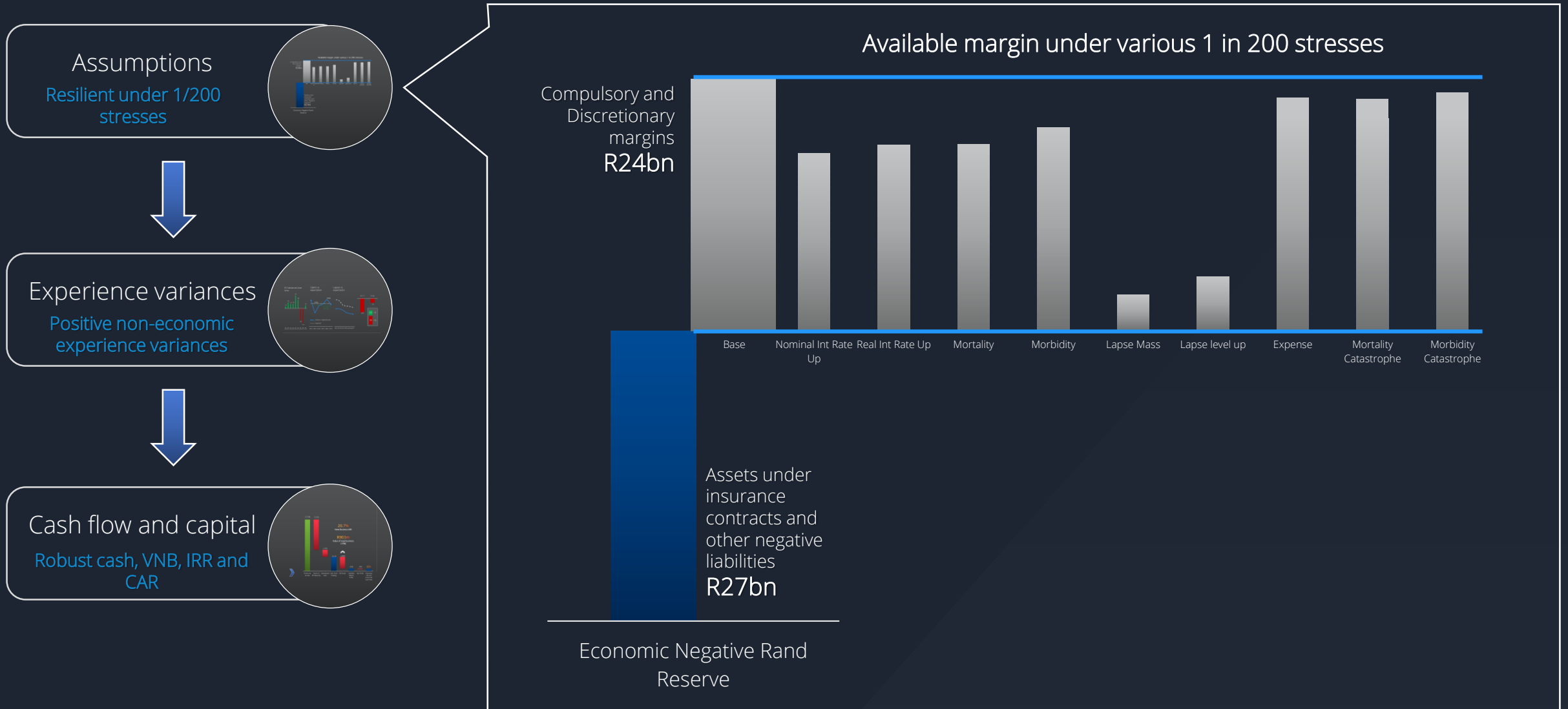


Earnings reporting considerations





Life and Invest at June 2017





Assumptions
Resilient under 1/200 stresses

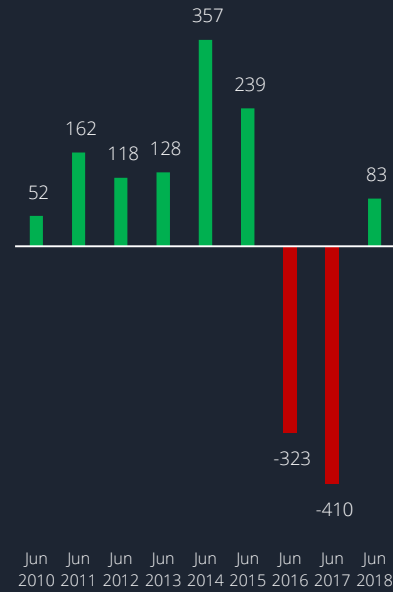


Experience variances
Positive non-economic experience variances

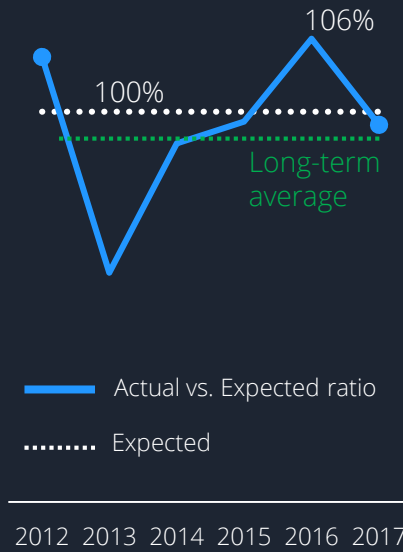


Cash flow and capital
Robust cash, VNB, IRR and CAR

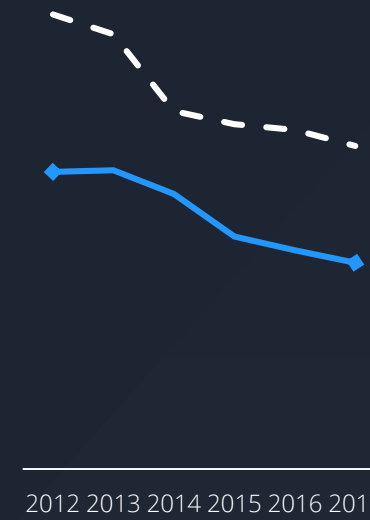
Non-economic EV variances over time



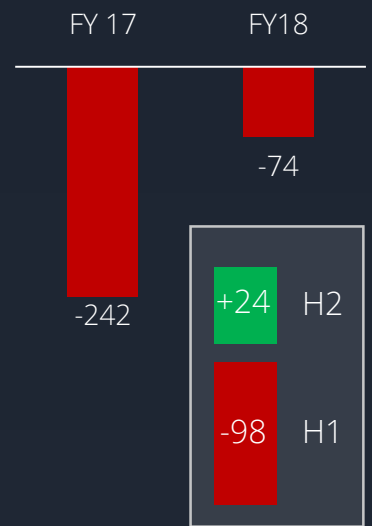
Claims vs. expectation



Lapses vs. expectation



Policy alterations Rm



Change to the basis (Net strengthening of cR1bn)

Economic

Shifting real and nominal interest rates from single point assumptions to yield curves

VIF term reduction

Change to the projection limit of the VIF to a shorter 40-year projection term

Policy alterations

Despite positive variance in H2 due to management interventions, assumptions have been strengthened



Assumptions
Resilient under 1/200 stresses



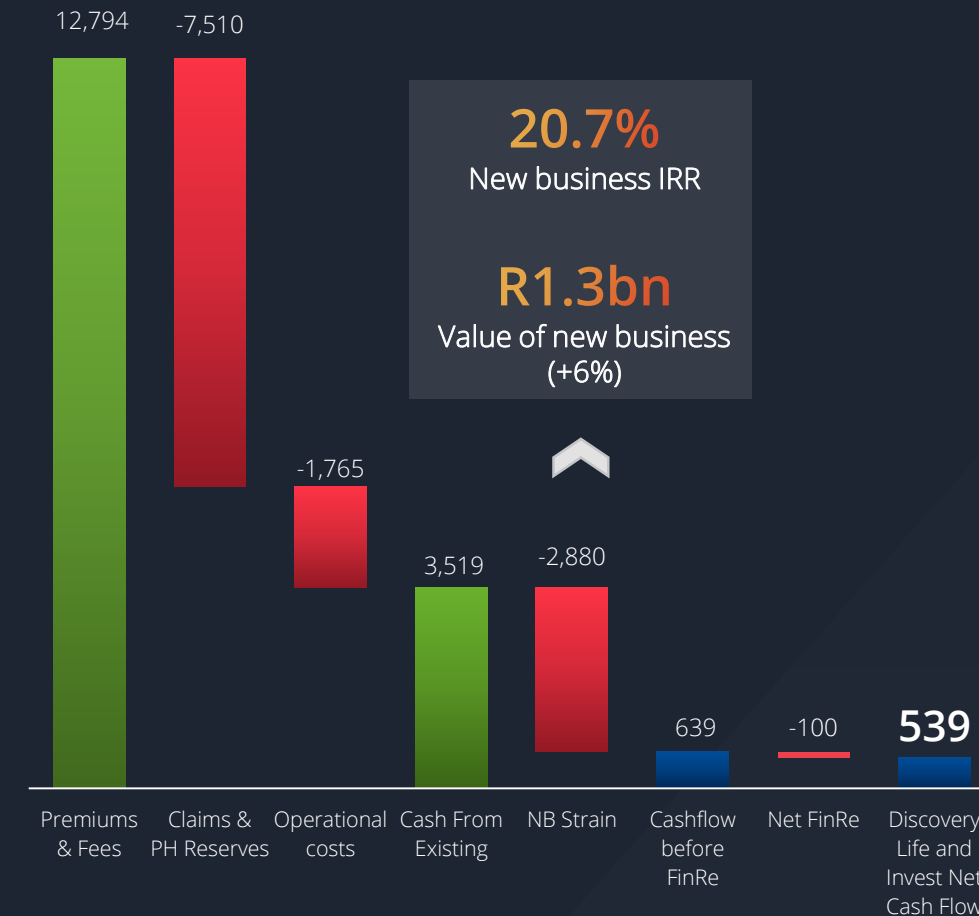
Experience variances
Positive non-economic experience variances



Cash flow and capital
Robust cash, VNB, IRR and CAR

Cash flow (Discovery Life and Invest)

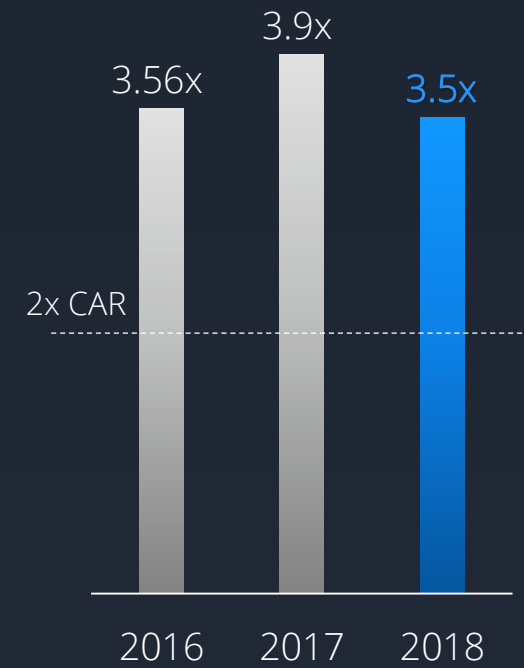
Rm



Capital robustness

Quarterly SCR = ~170%

Capital Adequacy Ratio

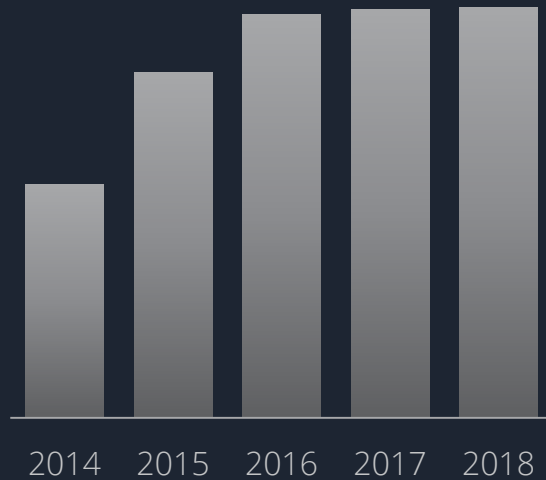


New business

-2%

to R2 454m

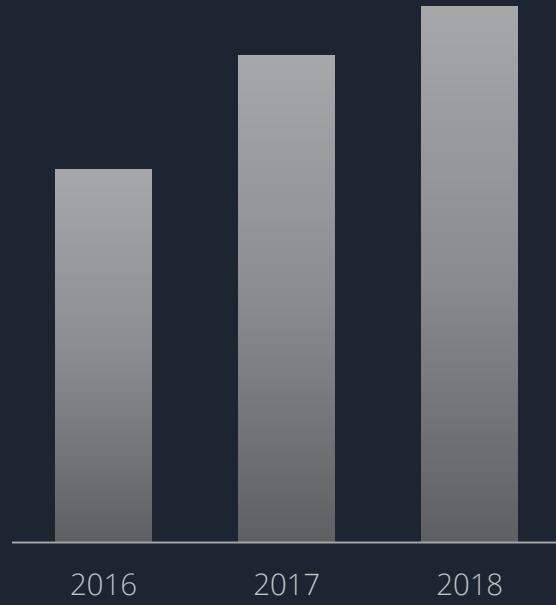
Up 0.3% if effect of R500m corporate endowment is excluded



Net flows

+10%

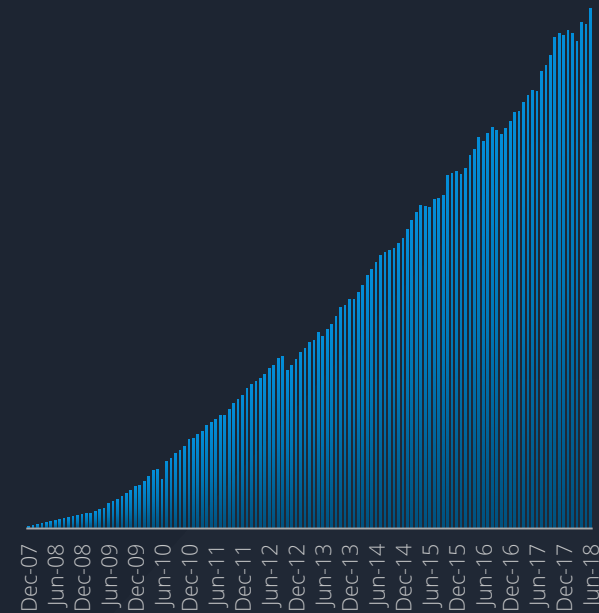
to R6 397m



Assets under administration

+18%

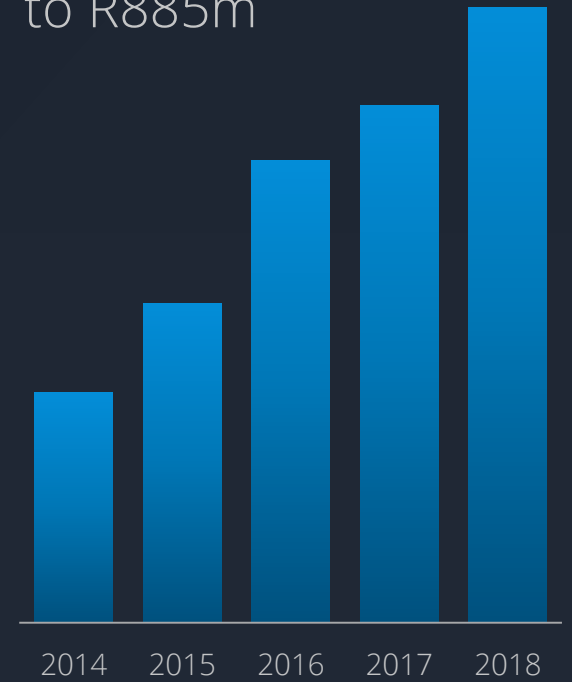
to R81.8bn



Operating profit

+19%

to R885m



Leveraging behavioural science and Vitality to change the way people invest



Accumulation



INVESTMENT BOOST



AD-HOC INVESTMENT BOOST

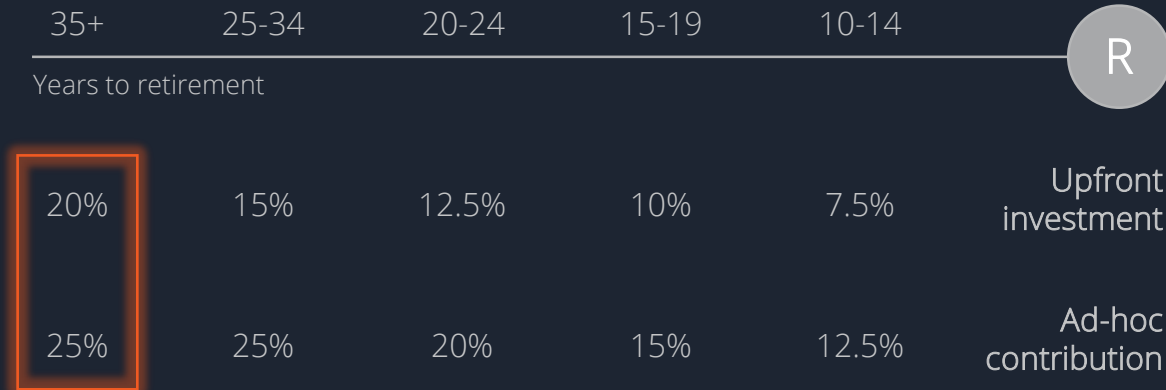
Withdrawal



INCOME BOOST

SAVE FOR LONGER

Investment boosts



2-3 year
Earlier investment

MANAGE HEALTH AND WEALTH IN RETIREMENT

Boost to retirement income

Vitality status	Drawdown rate				
	10.01%-17.5%	8.51%-10%	...	3.26%-4%	2.5%-3.25%
None	0%	0%	...	15%	20%
Blue	0%	0%	...	17.50%	30%
Bronze	0%	0%	...	20%	35%
Silver	0%	2.50%	...	25%	40%
Gold	0%	2.50%	...	30%	45%
Diamond	0%	5%	...	35%	50%

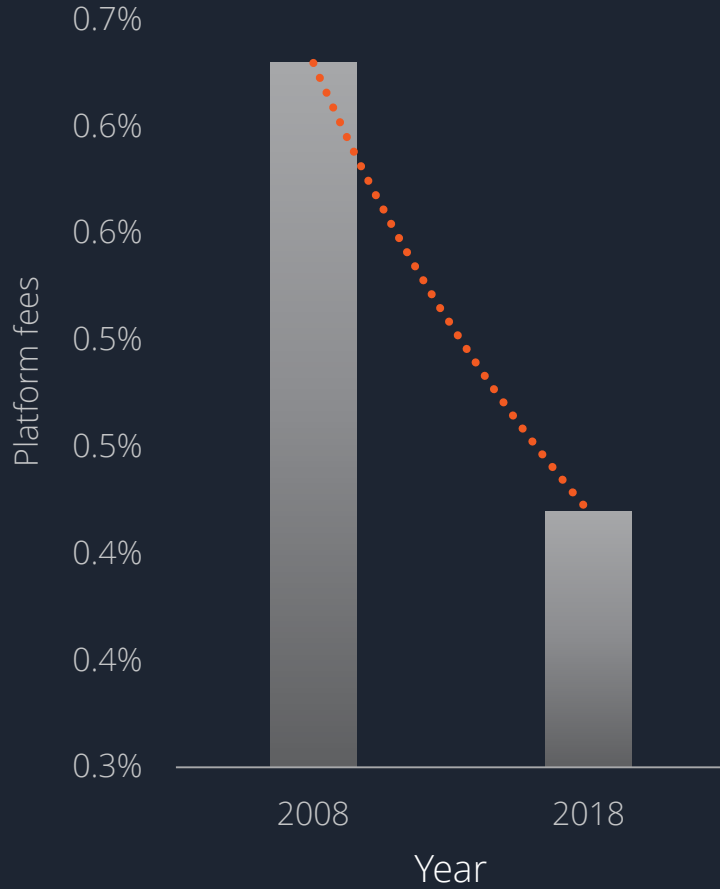
+24%
Vitality engagement

3%
Lower drawdowns

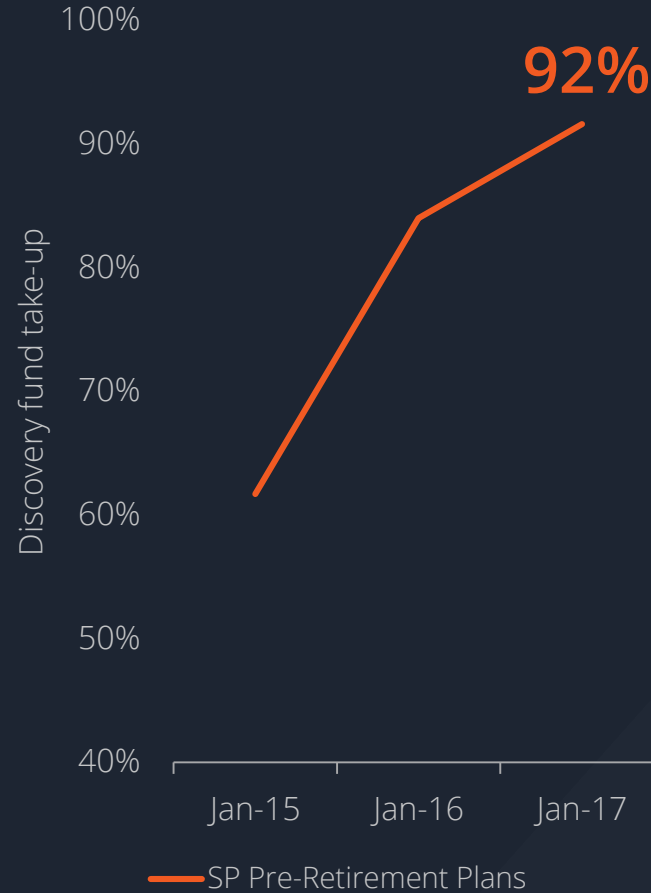
Product design has improved competitiveness while maintaining margins



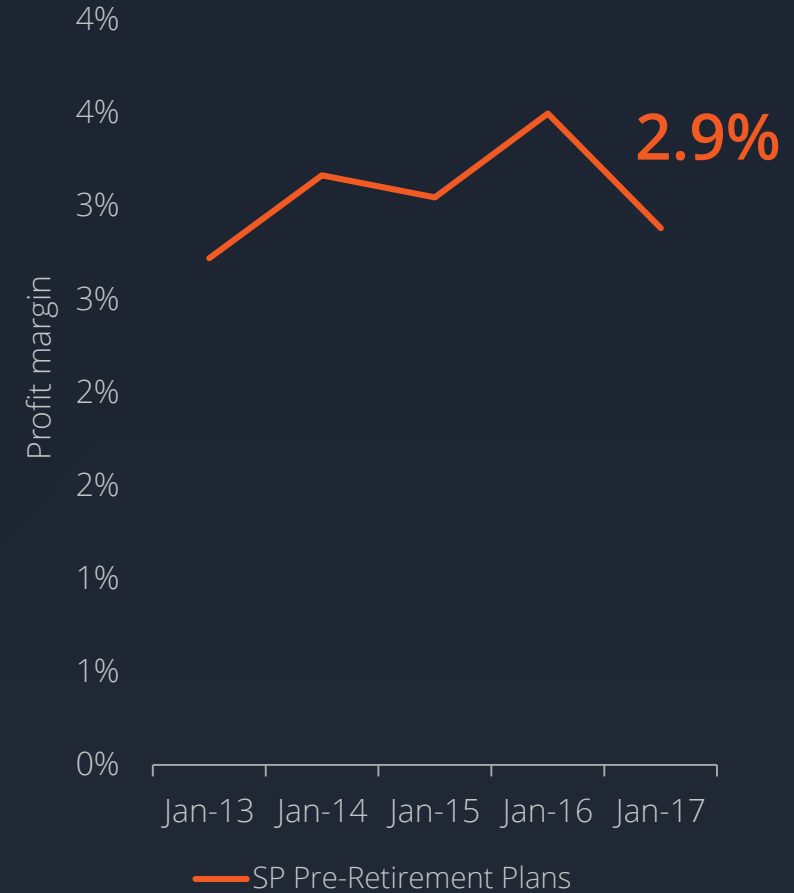
Decreased platform fees



Higher Discovery fund take-up



Profit maintenance



Extending the Shared-Value model



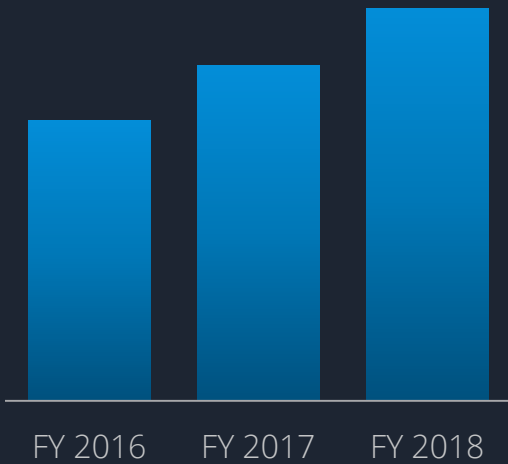
Pension and provident fund solutions that maximise retirement outcomes by rewarding good decision-making and healthy living



New business

+17%

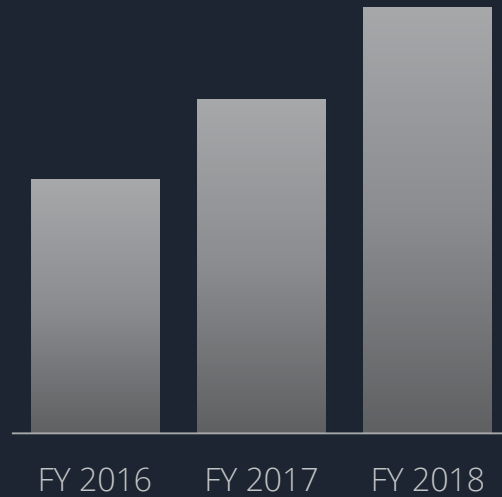
to R1 047m



Gross written premium

+28%

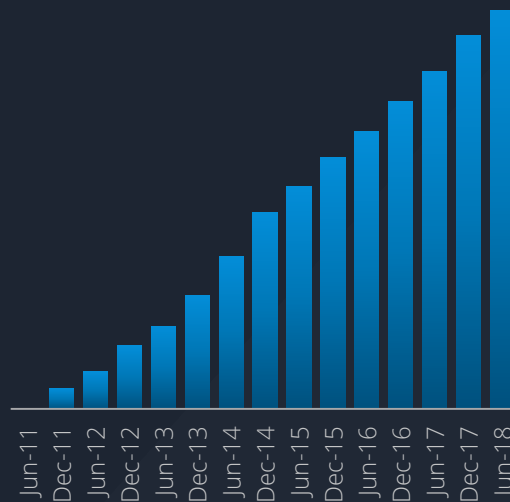
to R2 712m



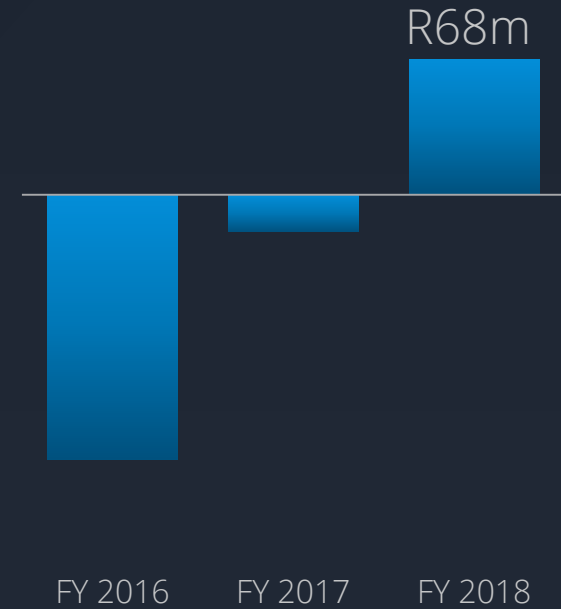
Vehicles covered

+18%

to 200k



Operating profit

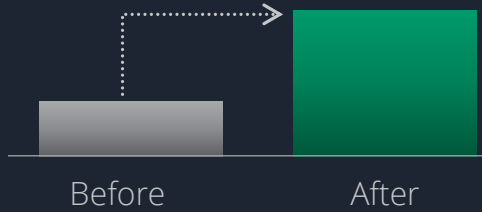


Manifestation of Shared Value



Selection

Better driving compared to population



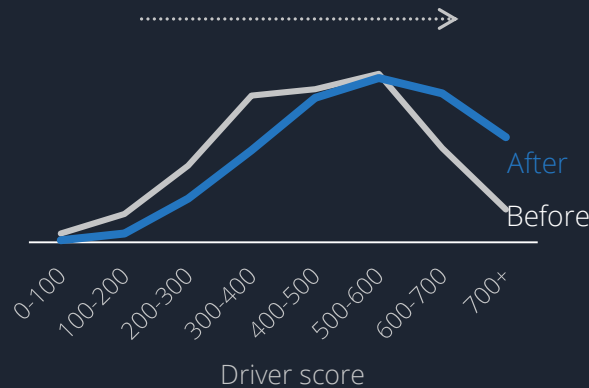
Average Drive points before and after selection

10% Better drivers



Behaviour

Improvement in driving over time



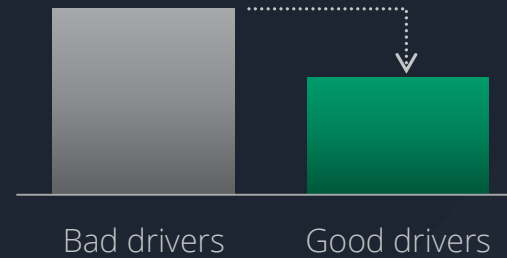
Behaviour change

17% Improvement over one month on average



Lapses

Better drivers have lower lapses



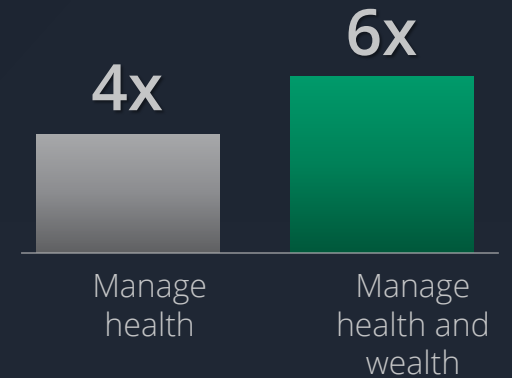
Lapse rates for bad vs good drivers

40% Lower lapse rates



Correlations

Correlations between health, wealth and driving



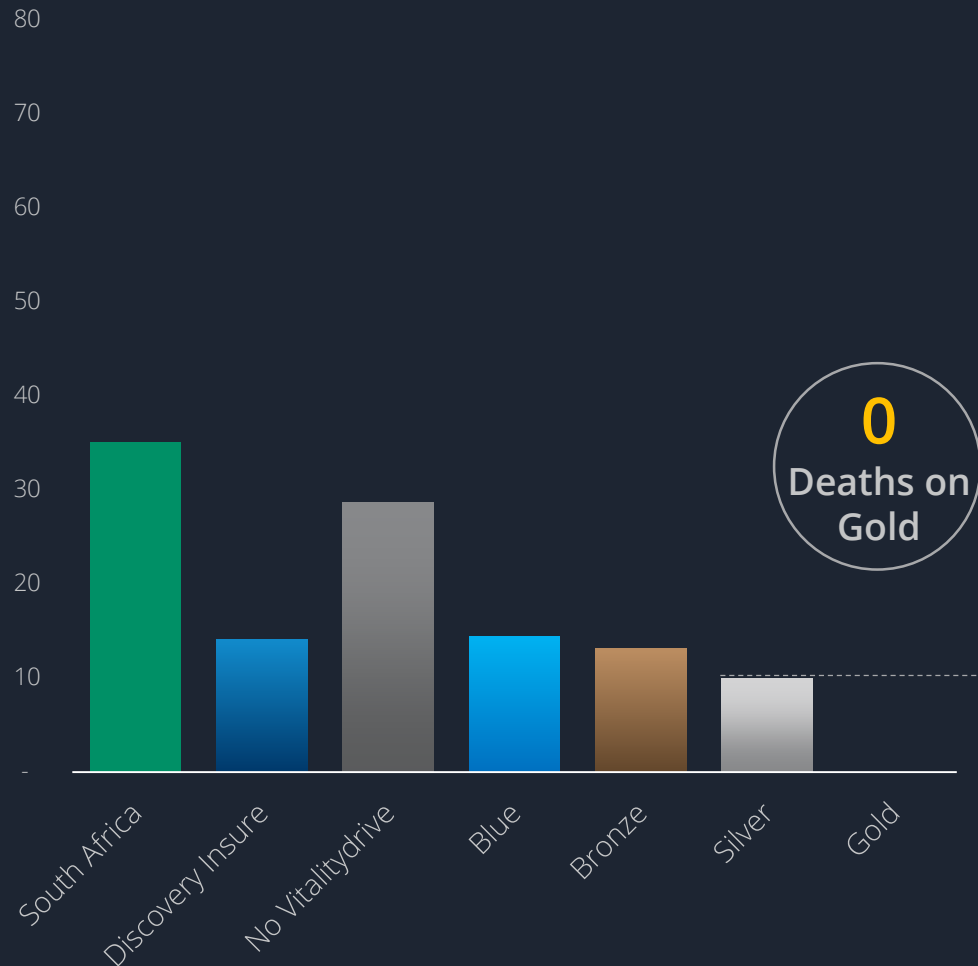
6x More likely to be a better driver if health and wealth are managed well

Discovery Insure are among the safest drivers globally



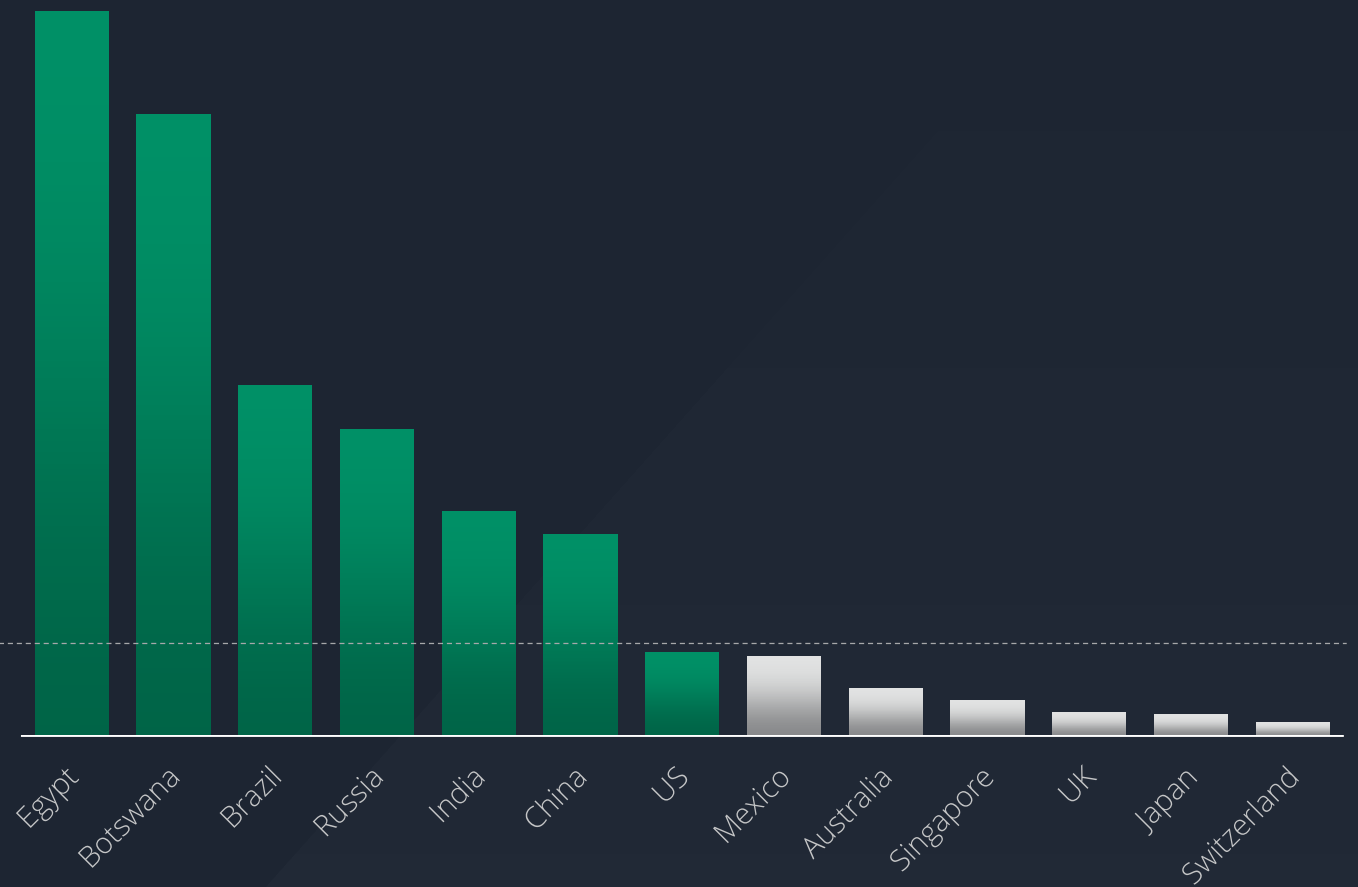
Discovery Insure drivers have 60% lower road fatalities than South African drivers

Driver fatalities per 100,000 motor vehicles



Silver+ Discovery Insure drivers have the same road fatalities as drivers in the US

Driver fatalities per 100,000 motor vehicles



Quality of in-force book is excellent



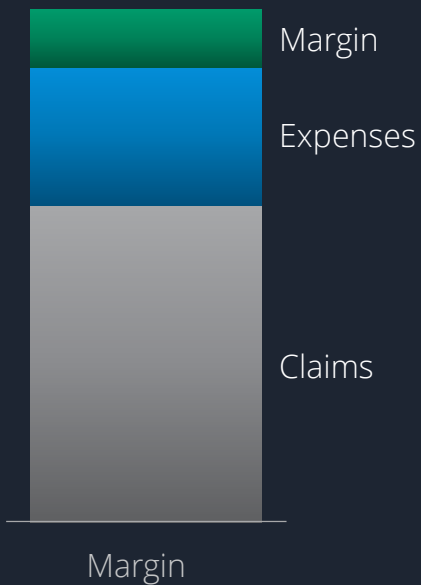
In-force book is strong

R324m

Cash generated from in-force*

35

Months, average duration of in-force book

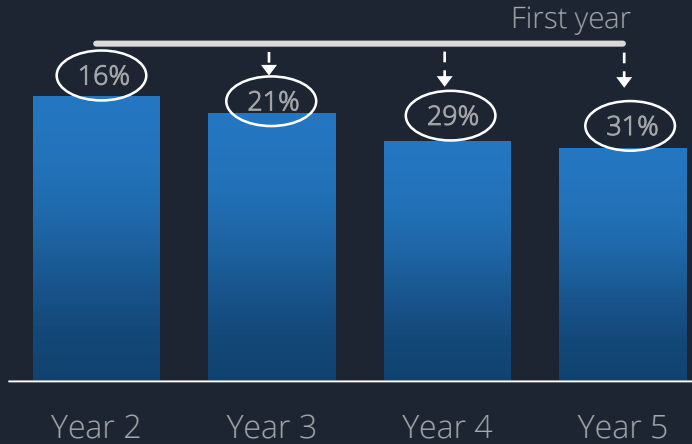


11.2%
In-force margin

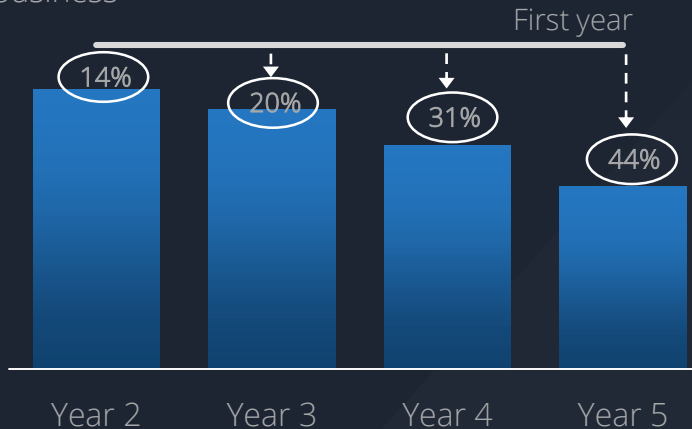
* Before financing

Longer duration clients are better risks

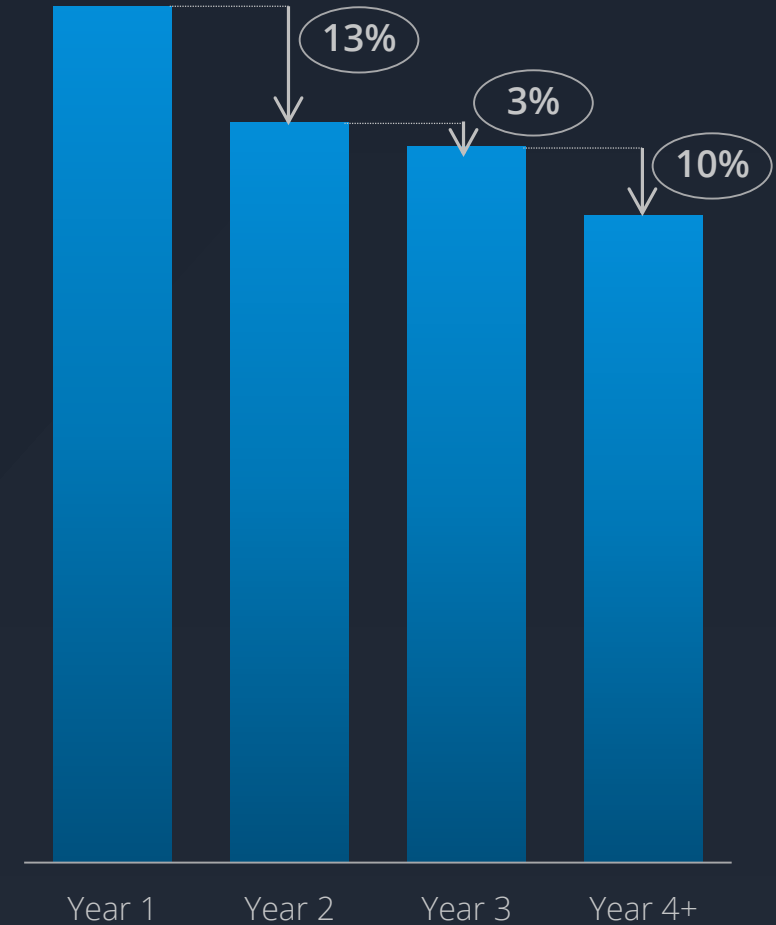
Non-weather loss ratio by duration, relative to first year business



Lapse rate by duration, relative to first year business



Combined ratio reduces by duration



Extending the Shared-Value model to business insurance



Multimark^x

Unique additional cover against the business risks of today

- Cyber risks
- Social media
- Crisis / reputation management
- Legal

Multimark – Comprehensive market-leading multi-peril cover

- Property
- Motor
- Accident
- Liability

Technology and tools

- Telematics
- Thermal imaging
- Drones
- Mobile risk assessment tools
- Smart glasses
- Business diagnostic tools

Validity Vitality Drive for Business
Business support powered by Endeavor SA

Applying Vitality to fleets

All trips
All trips in driver's timezone.

Start	End	Driver	Vehicle	Dist (km)	Rating	Details
Sept 2, 2:58 PM	Sept 2, 3:00 PM	D. GIBSON	81282038	0.5	☆☆☆☆	Details
Sept 2, 12:13 PM	Sept 2, 12:17 PM	D. GIBSON	81282038	1.9	☆☆☆☆	Details
Sept 2, 10:09 AM	Sept 2, 10:15 AM	D. GIBSON	2232372	2.9	☆☆☆☆	Details
Sept 2, 9:52 AM	Sept 2, 10:02 AM	D. GIBSON	81282038	6.3	☆☆☆☆	Details
Sept 2, 8:40 AM	Sept 2, 8:50 AM	D. GIBSON	81282038	6.4	☆☆☆☆	Details
Aug 31, 4:17 PM	Aug 31, 4:46 PM	D. GIBSON	81282038	9.8	☆☆☆☆	Details
Aug 31, 9:10 AM	Aug 31, 9:34 AM	D. GIBSON	2232372	8.2	☆☆☆☆	Details
Aug 31, 9:02 AM	Aug 31, 9:03 AM	D. GIBSON	2232372	0.3	☆☆☆☆	Details
Aug 31, 8:52 AM	Aug 31, 8:54 AM	D. GIBSON	2232372	0.3	☆☆☆☆	Details

Developing better businesses

Developed in partnership with

endeavor
SOUTH AFRICA

GROW

ORIGIN
SYSTEMS

Gordon Institute of Business Science
University of Pretoria

MERCHANT
CAPITAL

AVS
Confidence In Your Digital Information

Sage BEE123

Edelman

aws

The Economist

Business Health Check produces a diagnostic report

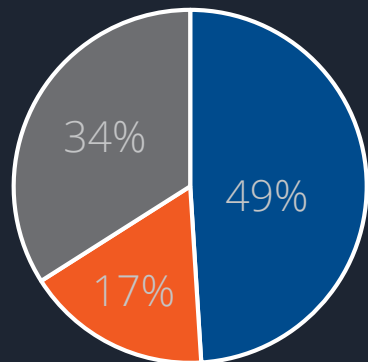
Your DBI Quotient
88%
You are a WARRIOR leader

CHARACTERISTICS

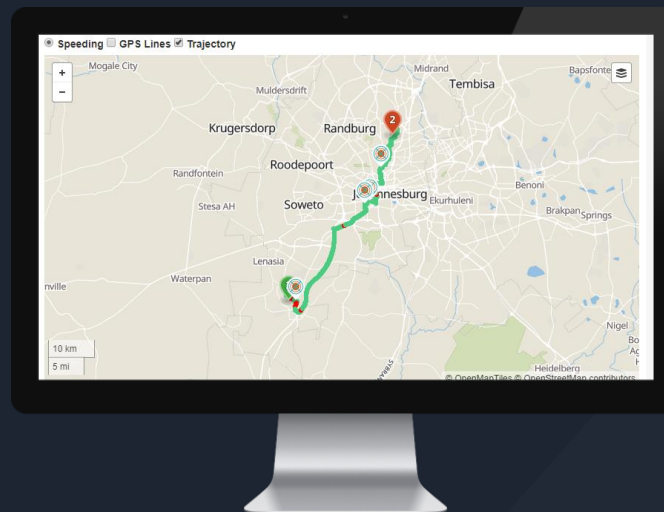
You're an ambitious change-maker who wants to take traditional industries to the next level. You aspire to modernise and revolutionise through social innovation and value-driven leadership. However, even with an ideal company culture, long-standing barriers can challenge you in sustaining the change you're pushing for.

AREAS FOR IMPROVEMENT

You need strategic direction and strong implementation to deliver on your ideals, so find ways to make your business model as compelling as your mission. Mind the facts. Change-makers who focus on social goals sometimes dismiss inconvenient data. Taking your business to the next level requires a strong grasp on your numbers.



Personal Corporate Commercial





1

2018 Ambition



Discovery's core purpose has manifested in a globally relevant Shared-Value Insurance model. Our confidence in the efficacy and impact of the model led to the 2018 Ambition and consequent operating framework.

2

Financial performance



This framed the financial results, with excellent earnings growth, strong cash generation of R10.6 billion from the in-force businesses, and considerable investment in new business - with favourable returns. The capital plan remains robust with the FLR decreasing to 25.8% and a cash buffer of R1.7 billion.

3

Discovery Bank



The bank build is on track and within budget. Regulatory approval of the banking licence was conditional on FirstRand Bank (FRB) reducing its shareholding from 25.01%. An agreement has been reached by Discovery and FRB to accelerate this, with the proposed transaction seeing Discovery acquiring FRB's shares.

4

Businesses



The established businesses performed remarkably well, growing operating profit by 14% and a pleasing return on capital. Emerging businesses turned to profitability with significant latent potential. Three substantial new businesses were launched.

Results and cash dividend declaration

for the year ended 30 June 2018

