



Discovery Limited

Domestic Medium Term Note Programme
Deal Roadshow

—
November 2019



Team introduction

01 | **Deon Viljoen:** Group Chief Financial Officer

02 | **Andrew Rayner:** Group Chief Risk Officer

03 | **Fareed Chothia:** Group Corporate Finance

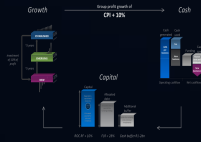


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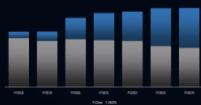
Business Model and Financial Performance

2



Operating Model

3



Debt Overview

4



Discussion Points

5

DMTN Issuance



1

Business Model and Financial Performance



Financial results overview | 12 months to 30 June 2019



<p>Core new business¹</p> <p>+13%</p> <p>to R18 299m</p>	<p>Normalised operating profit</p> <p>-3%</p> <p>to R7 747m</p>	<p>Normalised headline earnings</p> <p>-7%</p> <p>to R5 035m</p>	<p>Net cash flow</p> <p>R1 698m</p> <p>Operating cash flow</p> <p>R3 278m</p>
<p>Return on Embedded Value</p> <p>+10%</p> <p>closing EV R71 217m</p>	<p>Earnings investment in new initiatives</p> <p>21%</p> <p>Including associated financing costs</p>	<p>Interest cover²</p> <p>9.7x</p>	<p>Bank & DMTN Debt</p> <p>R11 361m</p> <p>Other Borrowings³</p> <p>R1 760m</p>

¹ Applied to core new business

² Interest Cover = EBIT / Finance Costs; EBIT and finance cost excludes IFRS16 adjustments relating to 1DP

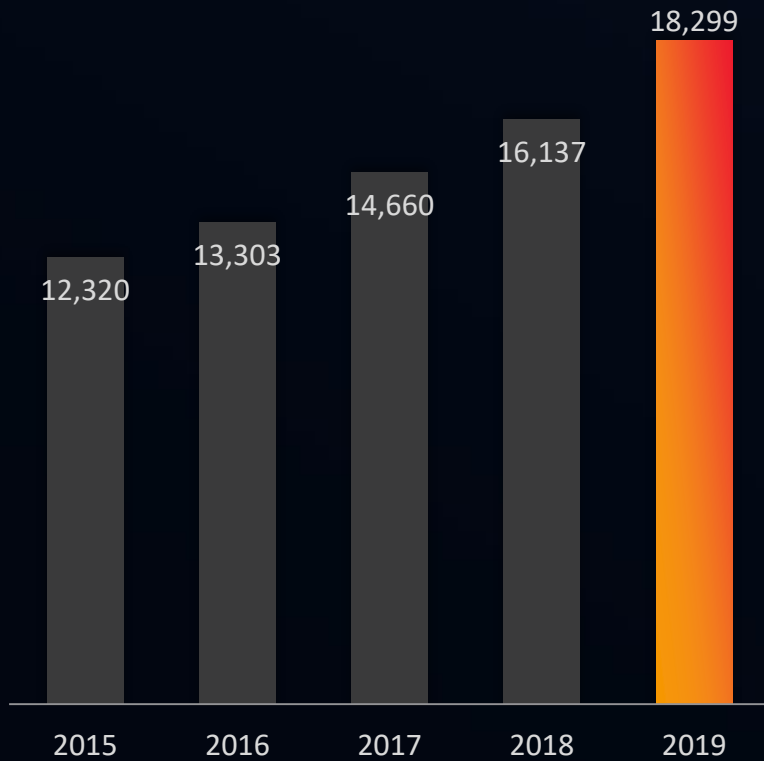
³ Other borrowings excludes the head office finance lease liability (R3,321m), and is the amount owed to the Prudential in respect of historic new business liquidity funding



Core new business

13%

to R18 299m



	Rm	12 months to 30 Jun 2019	12 months to 30 Jun 2018	% change
ESTABLISHED BUSINESSES	Discovery Health ¹	6 640	6 573	+1%
	Discovery Life	2 312	2 188	+6%
	Discovery Invest	2 604	2 454	+6%
	Vitality HEALTH INSURANCE	1 346	1 107	+22%
	Vitality LIFE INSURANCE	1 291	1 172	+10%
EMERGING BUSINESS	Discovery Insure	1 041	1 047	-1%
	Vitality GROUP ²	922	645	+43%
	中国平安 PING AN ³	2 518	1 434	+76%
NEW	New businesses ⁴	386	-	-

+5% (Total Established Businesses)

+43% (Total Emerging Business)

1 Excludes new scheme take-ons

2 Includes gross recurring and lump sum revenues

3 Represents 25% of Ping An Health New Business API

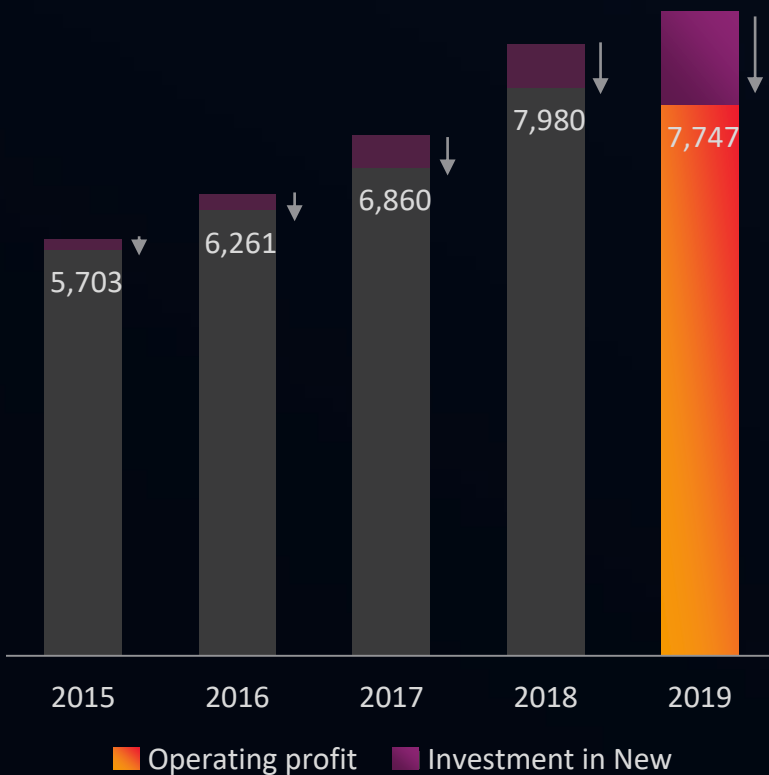
4 Vitality Invest, Umbrella Funds and Discovery Insure Commercial



Normalised operating profit

-3%

Normalised operating profit to R7 747m



	Rm	12 months to 30 Jun 2019	12 months to 30 Jun 2018	% change	
ESTABLISHED BUSINESSES	Discovery Health	3 044	2 777	+10%	+3%
	Discovery Life	3 230	3 551	-9%	
	Discovery Invest	966	885	+9%	
	Vitality HEALTH INSURANCE	758	589	+29%	
	Vitality LIFE INSURANCE	578	515	+12%	
EMERGING BUSINESS	Discovery Insure	155	68	+128%	+94%
	Vitality GROUP	161	94	+71%	
	中国平安 PING AN	106	56	+89%	
NEW	New businesses ¹	(1 311)	(613)	+114%	17% of earnings 21% after financing costs

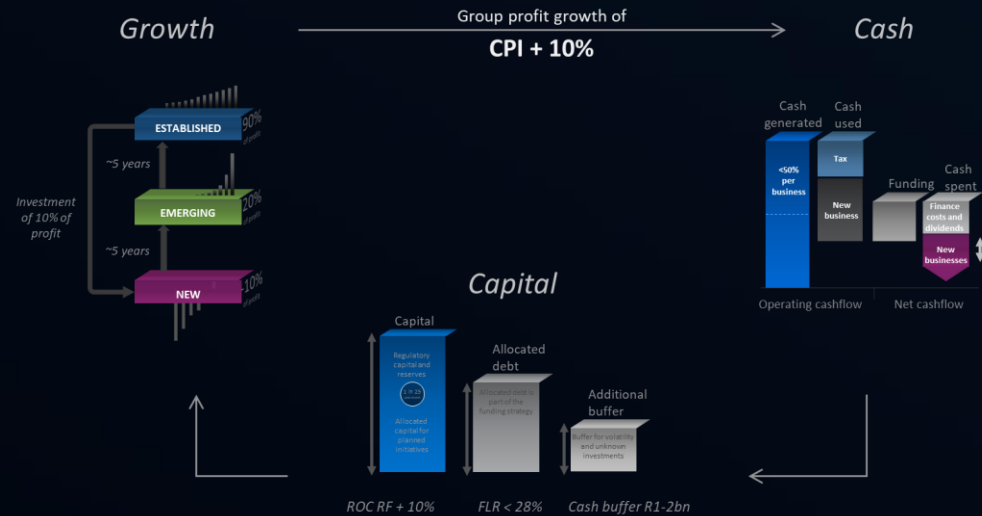
1 Includes Discovery Card profits, excludes financing costs

Non-insurance based business excluded – Vitality SA

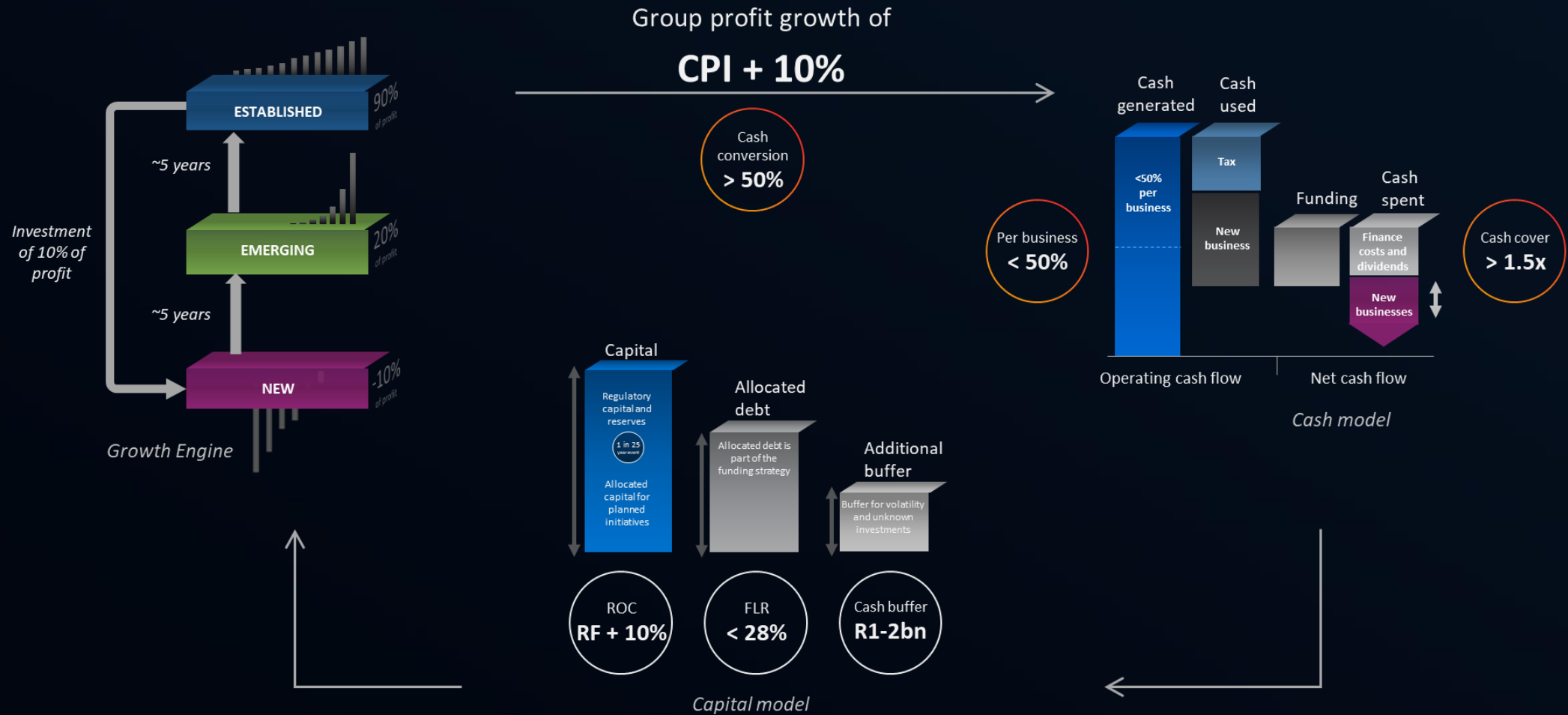


2

Operating Model



Operating model

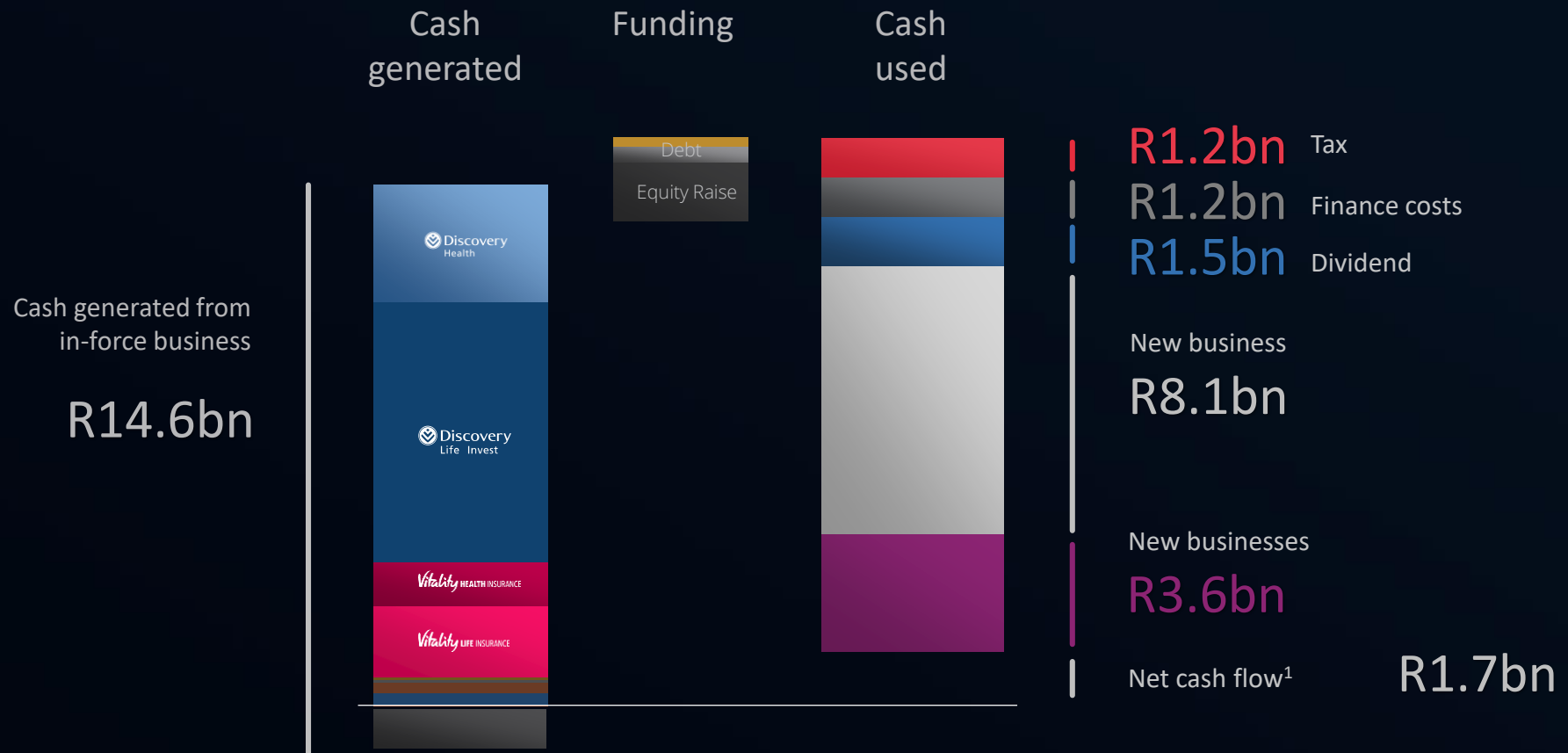




Cash management supports growth methodology

R 1 698m

Net cash flow



¹ Movement in shareholder free cash



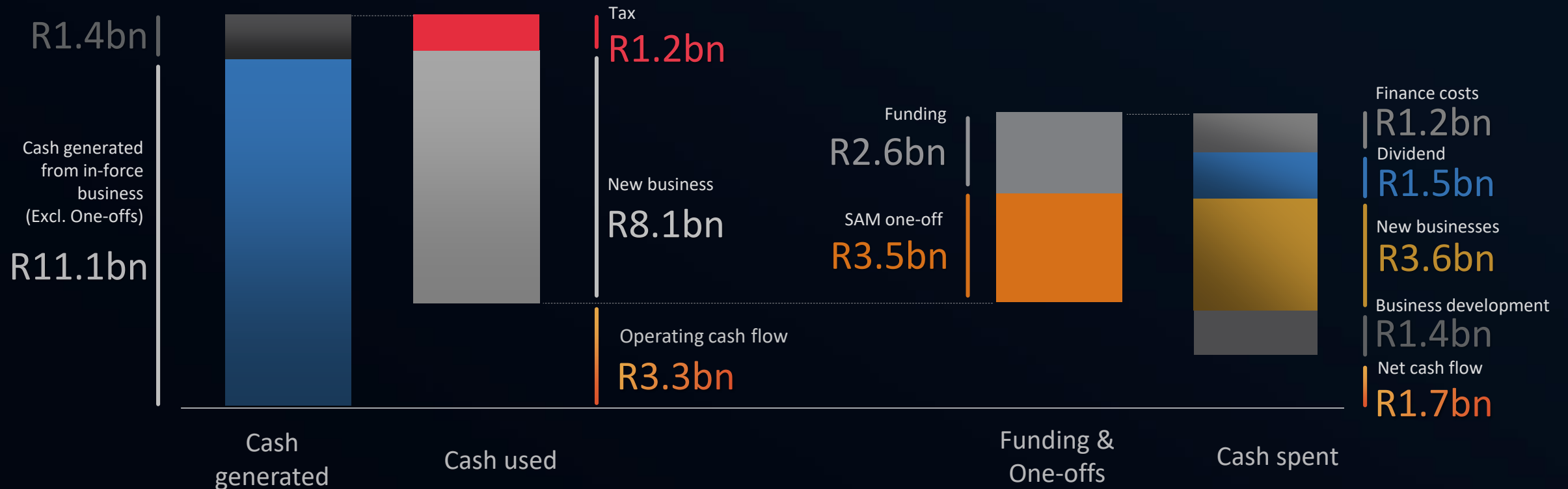
Operating to net cash flow

R 3 278m

Cash from Operations

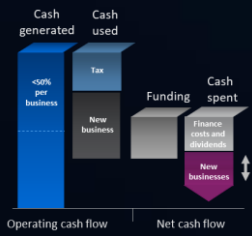


Funding and investment decisions





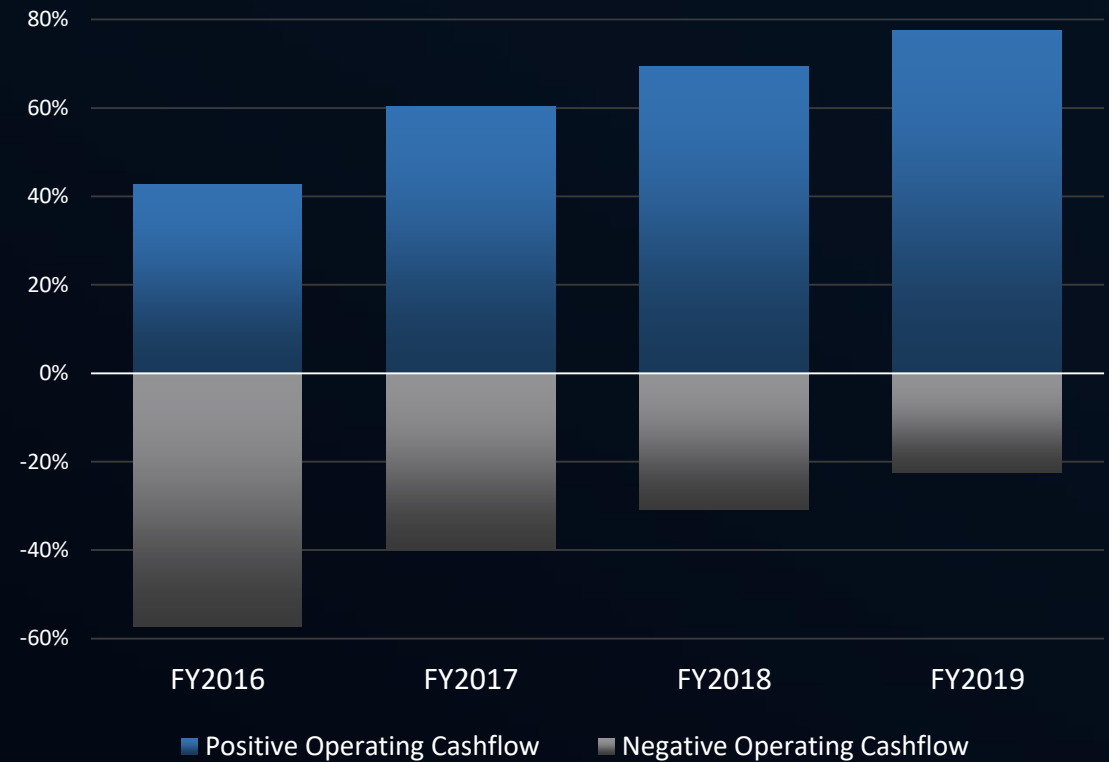
Group's positive cash generating businesses is growing



Net operating cash flow (Rm)

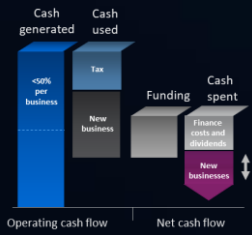


Relative increase in cash contributing business (%)





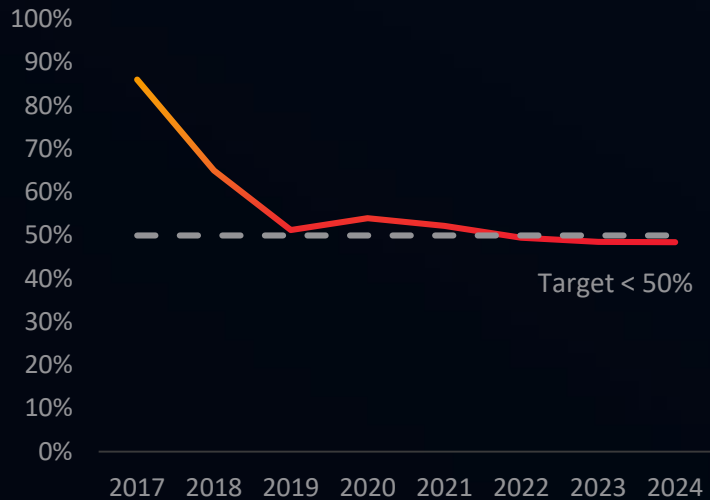
Improving cash generation



Diversification of cash flow improving

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

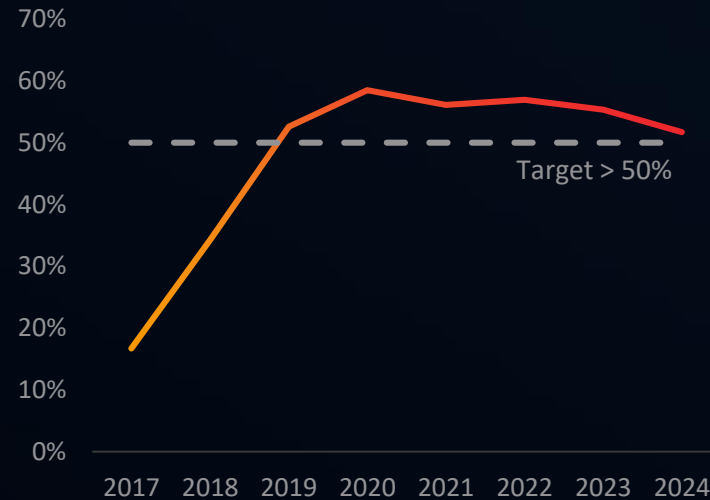
$$\max\left(\frac{\text{Cash flow from Business}_i}{\sum_i \text{Cash flow from Business}_i}\right) < 50\%$$



Cash conversion above target

More than 50% of operating profit must be cash earnings

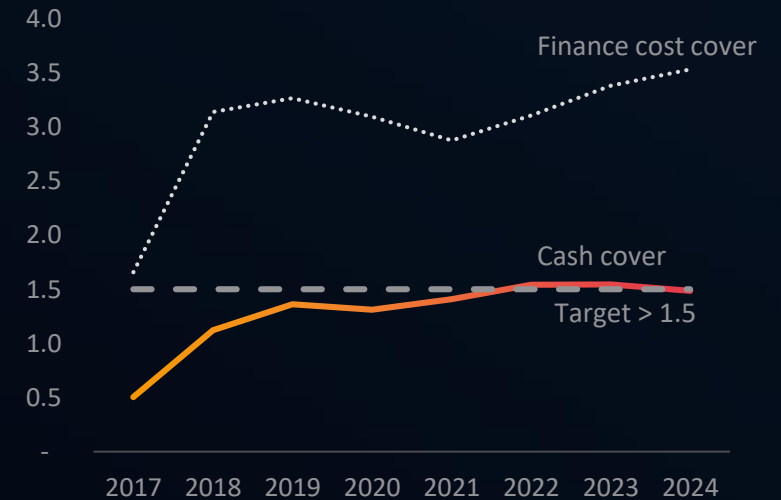
$$\frac{\text{Operating cash flow}}{\text{Operating profit}} > 50\%$$



Cash cover on target

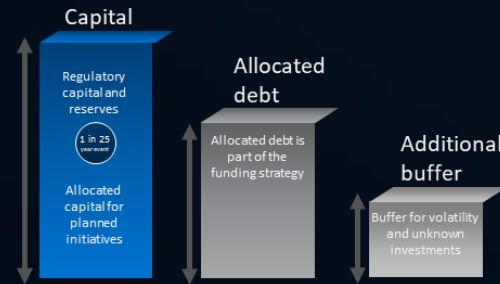
Operating cashflow should be enough to at least cover dividends and finance costs 1.5x

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





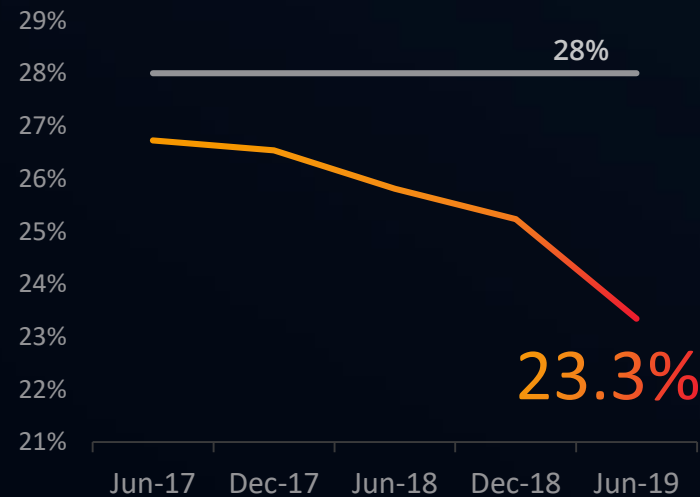
De-risking the balance sheet



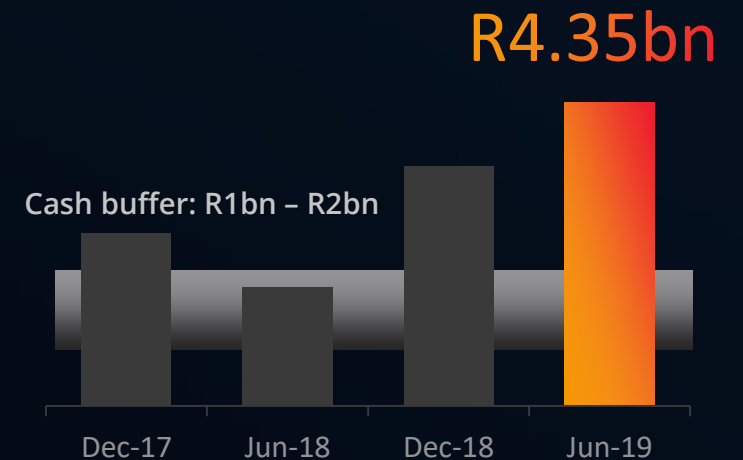
Strongly capitalised

Rm	Statutory capital requirements	Cover
Discovery Life	R17 396m	1.6x
Discovery Insure	R789m	1.7x
Vitality HEALTH INSURANCE	R1 777m	1.4x
Vitality LIFE INSURANCE	R3 810m	1.5x

FLR is decreasing

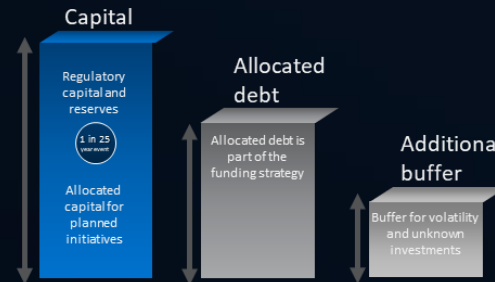


Cash buffer has grown strongly

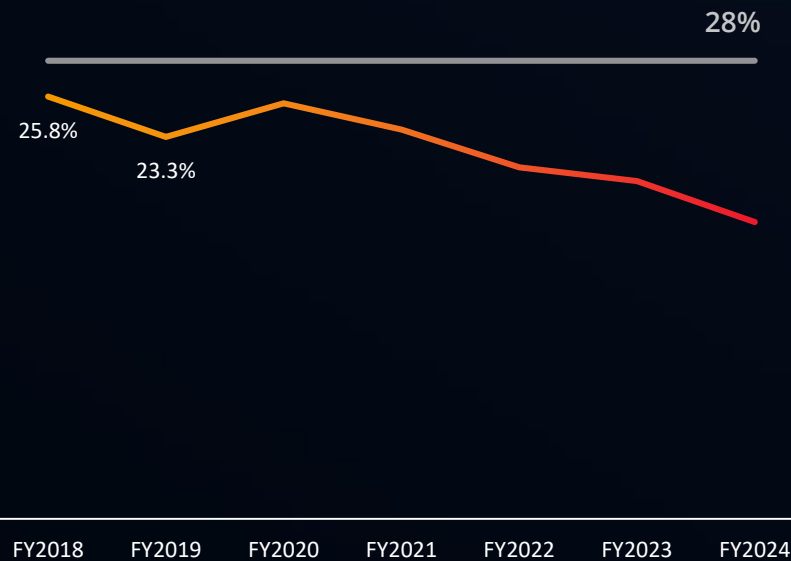




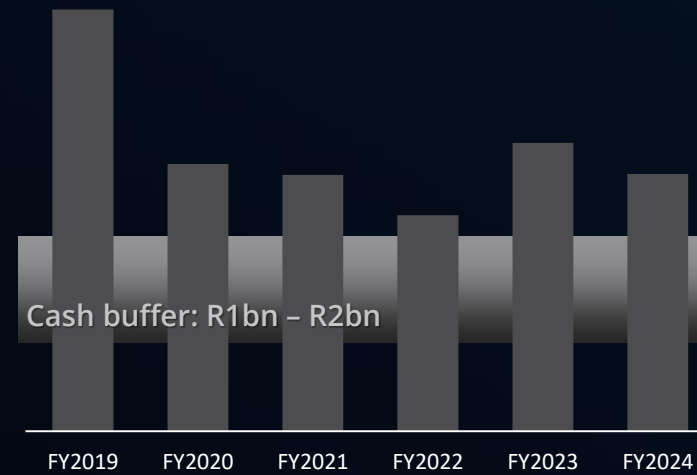
FLR and cash buffer projection



FLR is decreasing



Cash buffer stabilises over projection period





Key focus areas

Discovery Bank Progress



The Bank has made significant progress since its public launch in July

UK Interest Rates

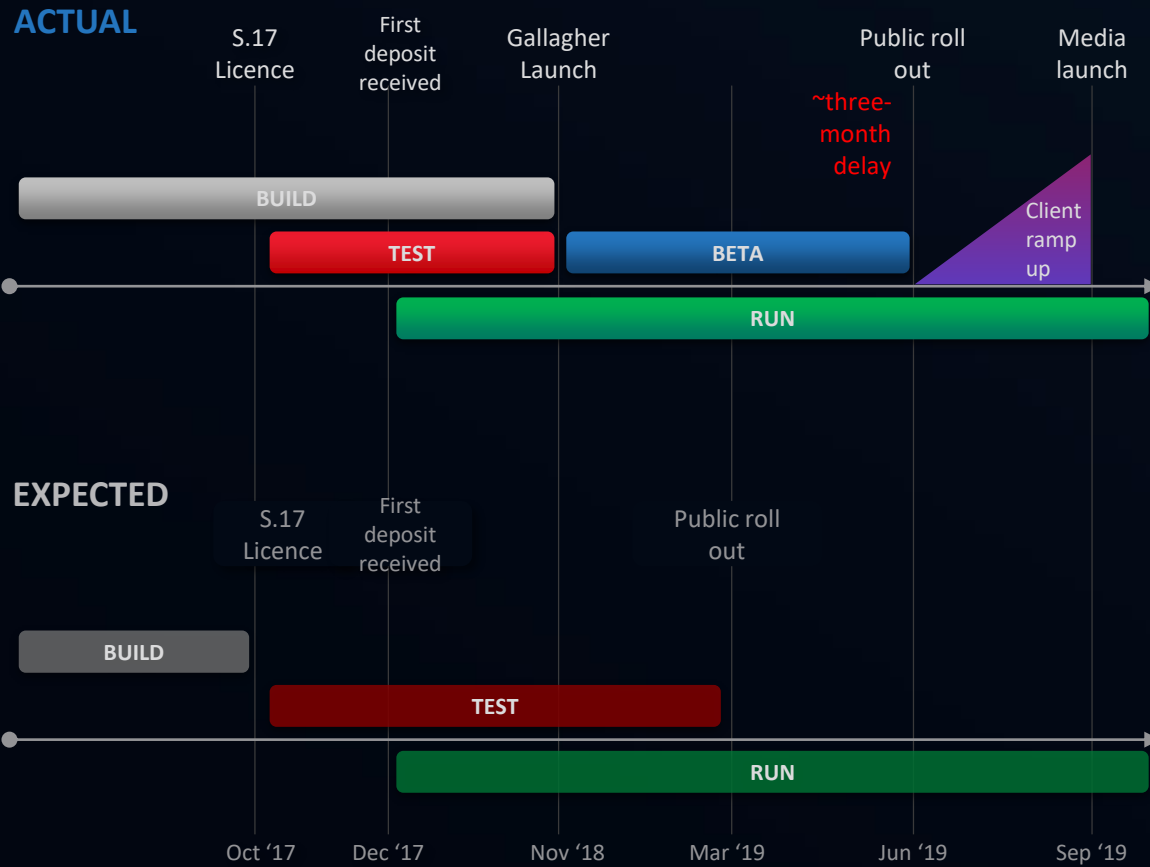


Actions taken to mitigate low interest rates in the United Kingdom



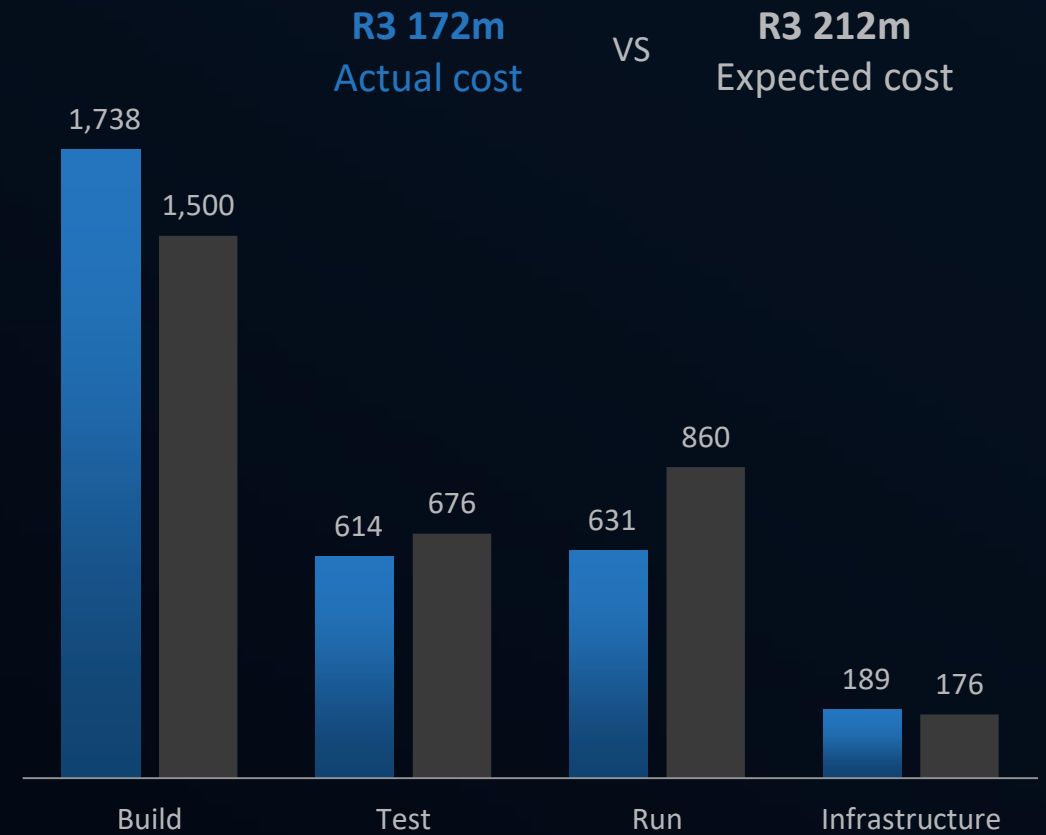
Timeline

Slightly delayed to ensure the delivery of a robust, brilliant bank



Bank costs (Rm)

Within expectation due to the disciplined management of costs

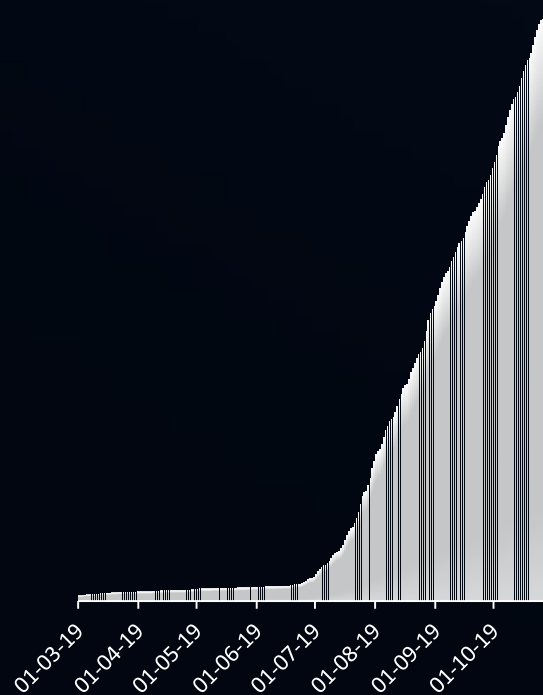




The Bank has made significant progress in the last 8 months

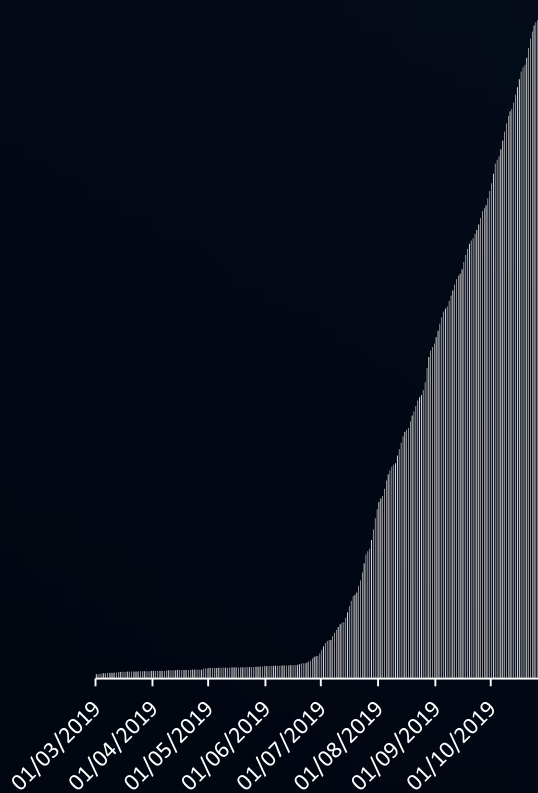
Accounts

100k



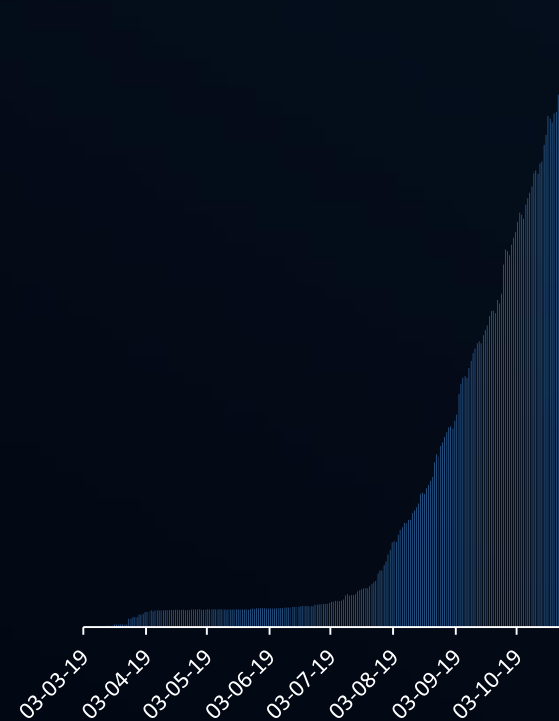
Clients

44k



Retail deposits

R584m

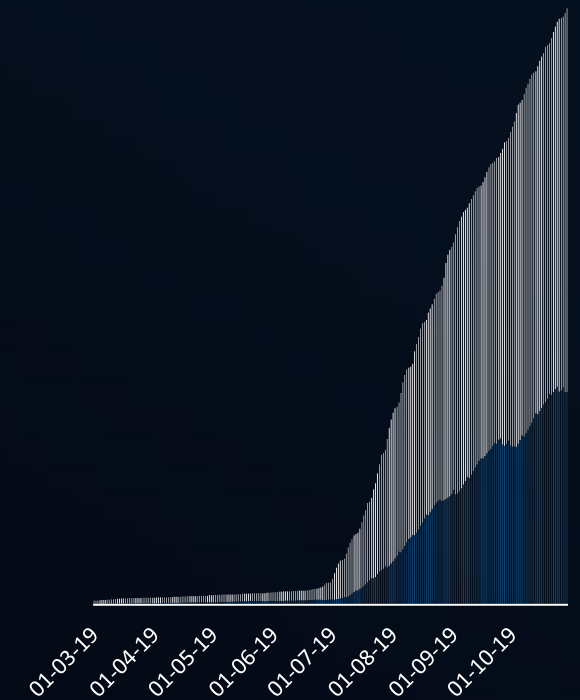


Total credit card facilities

R1.46b

Credit used

R518m

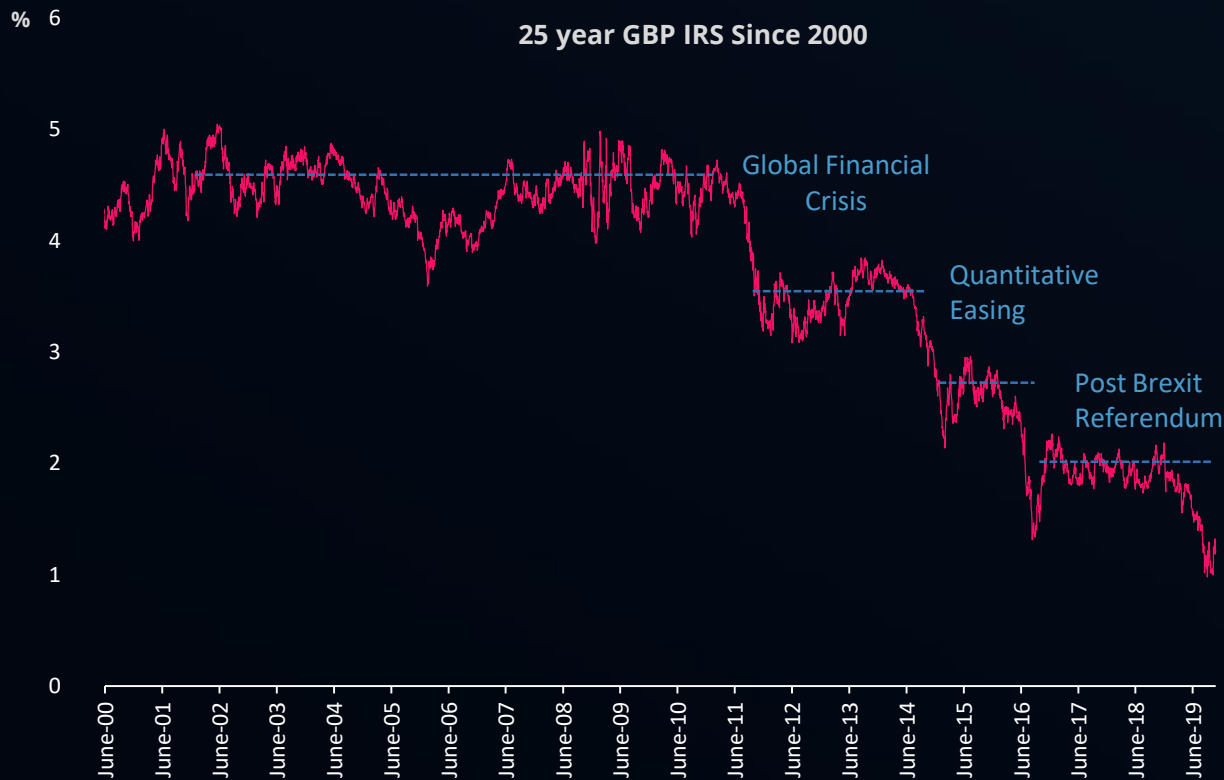


■ Utilised Credit ■ Credit Facility



UK Interest rate exposure

Recent movement in UK Interest Rates



- UK long-term interest rates have decreased to their **lowest levels in recorded history** during October 2019
- IFRS sensitivity to interest rate movements: **c£0.8m per basis point, depending on the size of the movement** (Previously communicated)
- Primarily a back book issue, with the **front book well positioned for a low interest rate environment**
- Impact of fair valuing the reserves to current interest rates is **approximately one years' Vitality Life earnings**
- The risk of a further decline in interest rates is beyond our risk appetite, therefore we have taken **action to mitigate against further downside**
- VitalityLife has entered into an **interest rate hedge position effective from 25 October 2019** (detailed explanation of hedge further on)

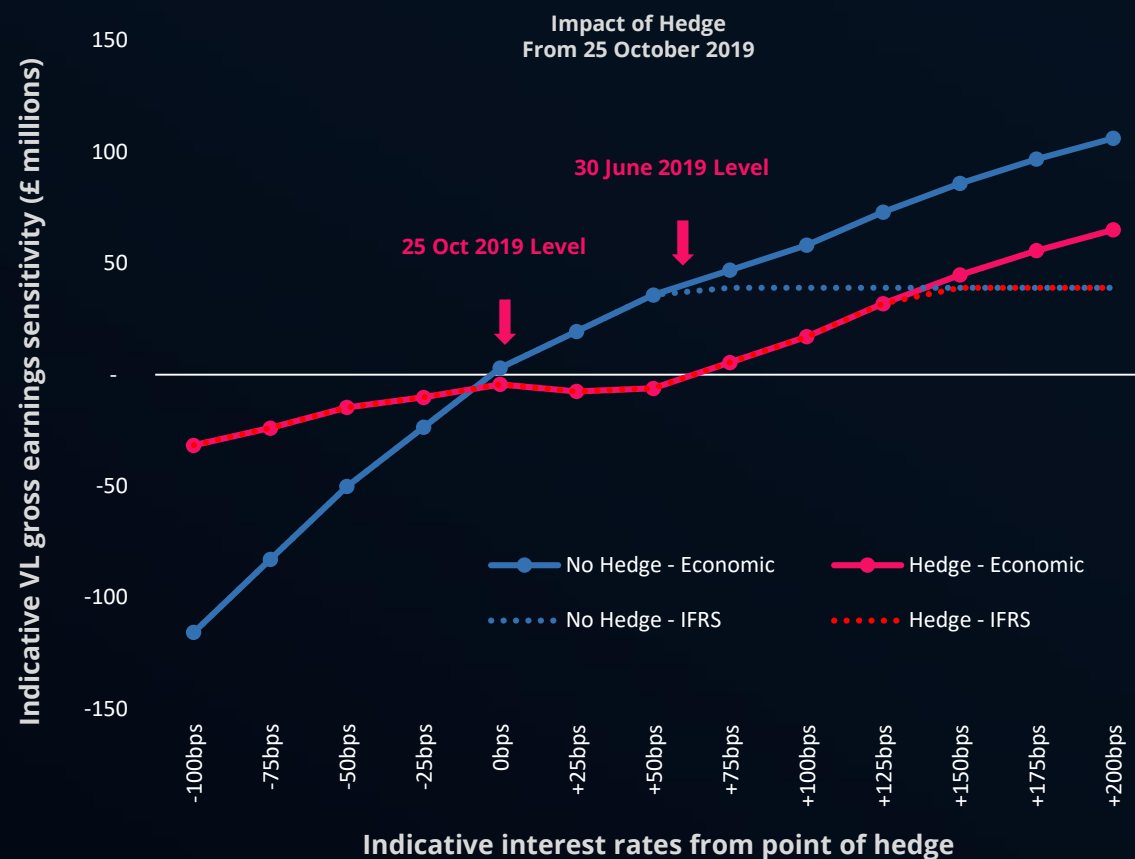
UK Interest rate hedge



IFRS/Potential Cashflow impact on VitalityLife

- The payoff profile of the underlying business shows significant profitability for interest rates at more normal levels.
- At current rates plus 200bp, profits (before margining) are close to £100m. The hedge allows much of this potential upside (above the first 50bp rise) to be retained.
- At current rates less 100bp (effectively zero long term interest rates) significant losses would occur. The hedge substantially protects against this scenario.
- If rates remain at current levels until June 2020, reported Vitality Life IFRS earnings will be close to zero for the current financial year.
- This is the result of a once off fair value adjustment to the reserves and IFRS earnings thereafter would return to a more sustainable level.

Illustrative example of IFRS/Cashflow position



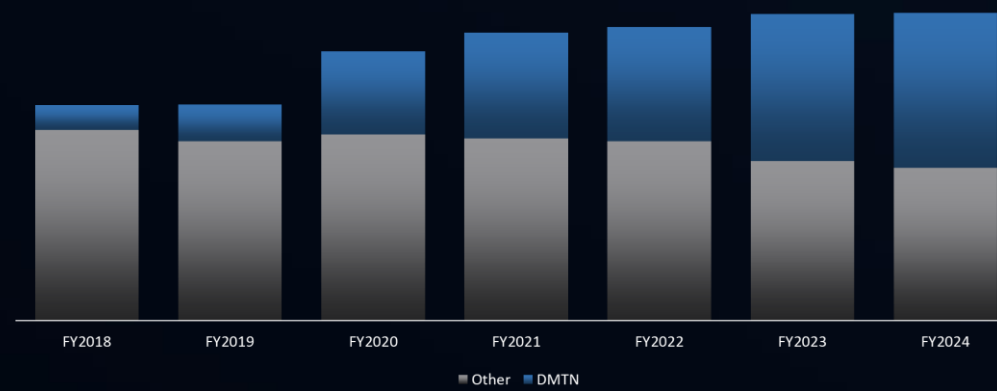
Note: Above chart is at specified point in time, assuming no basis or other risks or operational variances



3

Debt overview

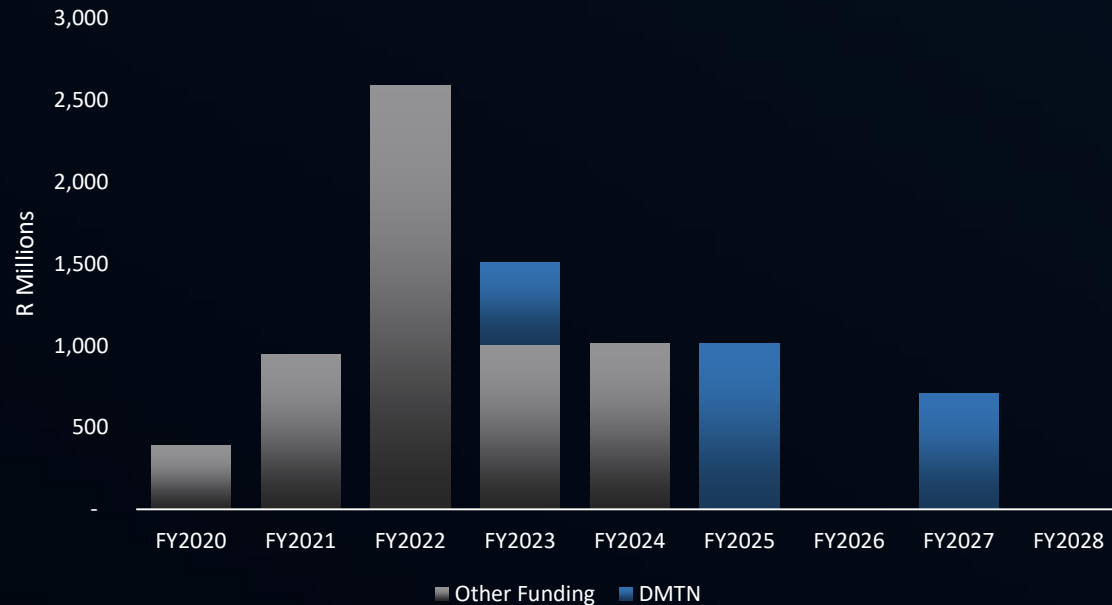
Group debt projection overlaying DMTN*





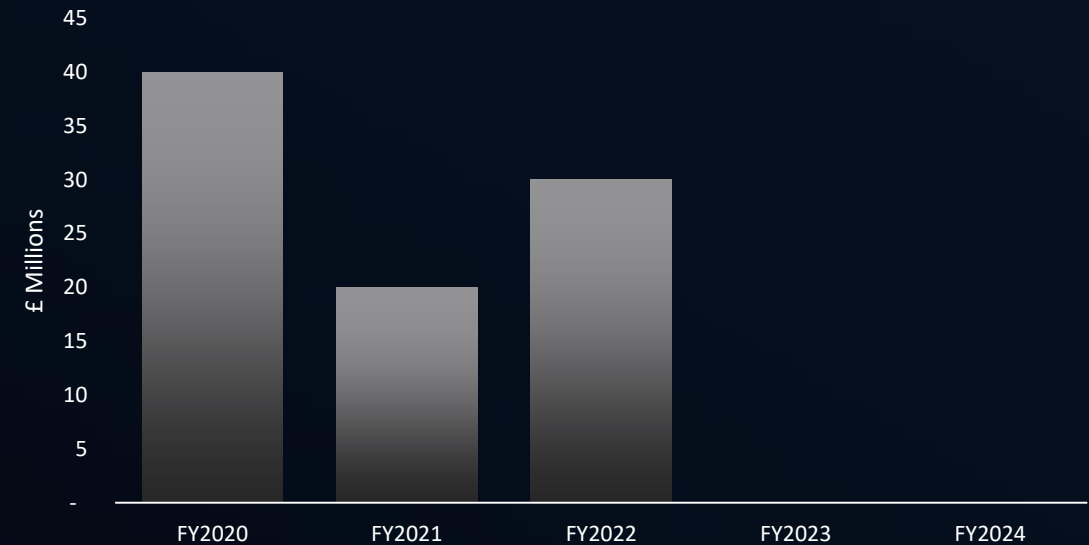
Existing debt maturity profile

South African debt maturity profile



- Syndicated loan of R3.6bn 5-year bullet and amortising raised in FY2016
- Bank Funding of R0.5bn on 5-year basis raised in FY2017
- Bank loan of R1bn on 5-year basis issued in FY2018
- DMTN funding of R1.5bn on 5-year and 7-year basis in FY2018
- Syndicated loan of R1.4bn 5-year bullet refinanced in H1 FY2019
- DMTN funding of R0.7bn on 8-year basis in H1 FY2019

UK debt maturity profile



- Two UK bank loans:
 - £100m 5-year amortising loan
 - £50m 5-year bullet loan



Existing bank debt covenants

Covenant	Minimum Requirement	30-Jun-19	30-Jun-18
Group Debt to EBITDA ratio	Less than 2.5X	1.59	1.53
Group financial Indebtedness to EV	Less than 30% of Group EV	18.4%	19.9%
Group EV	Greater than R30 billion	ZAR 71,217	ZAR 65,624
Discovery Life SCR Cover (Previously: CAR Cover)	Current: SCR Cover > 1.1 Prior Year: CAR Cover > 1.5x	1.6x	3.5x
New Business EV not negative	Positive VNB for 3 consecutive 6-month period	June 2019: R1,322	June 2018: R1,552
		Dec 2018: R1,300	Dec 2017: R1,274
		June 2018: R1,552	Jun 2017: R 1,281m



Key drivers of known funding requirements

1-3 years

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

3-5 years

- Refinance maturing South African and UK bank debt arrangements
- New initiatives
- General corporate purposes

All included in 5-year financial projections

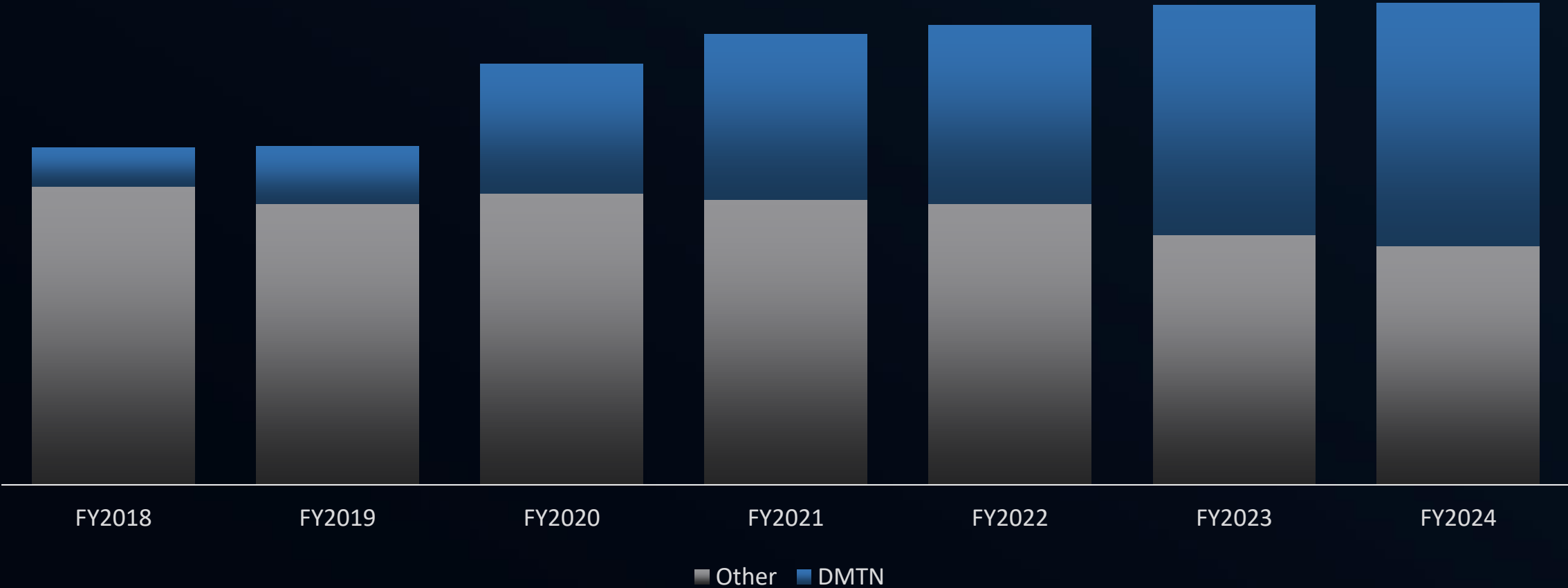
Discovery Bank Funding programme:

- Regulatory capital funding: included in the Discovery Group Capital Plan
- Card book and other: migration in progress, will initially be funded through institutional funding (with some parental guarantees) transitioning to retail deposits
- Lending activities: managed within the Bank, with support from Group in the short-term
- R1bn, 2yr facility entered into. R500m guaranteed by DSY Limited



Group's debt requirements

Group debt projection overlaying DMTN*



* The mix between bank and DMTN funding may vary depending on market conditions at the time



Discovery's credit rating

Moody's Insurance Financial Strength Rating (IFSR)

- Baa2
- 1 above the Sovereign (Baa3)

Supported by **diverse business mix**, **significant fee income** and **limited exposure to SA invested assets**

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

- Ba1 (global) / Aa3.za (national)

Rating outlook

- Stable outlook reflects outlook on South African sovereign

Credit strengths

1. Very **strong franchise in South Africa** and **a growing global footprint**
2. **Strong profitability** and **significant non-insurance fee income** from **SA Health**
3. **Moderate exposure to local investments** because of the capital-light nature of its business
4. **Good capitalisation** on both **regulatory and economic basis**

Strength offsets

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



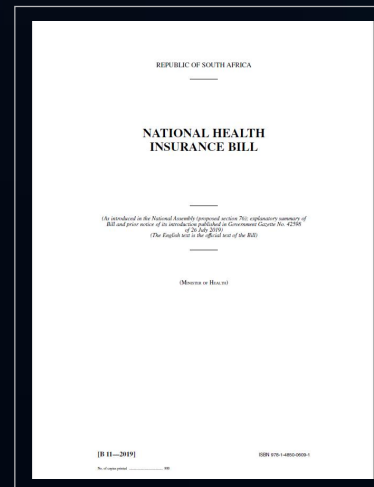
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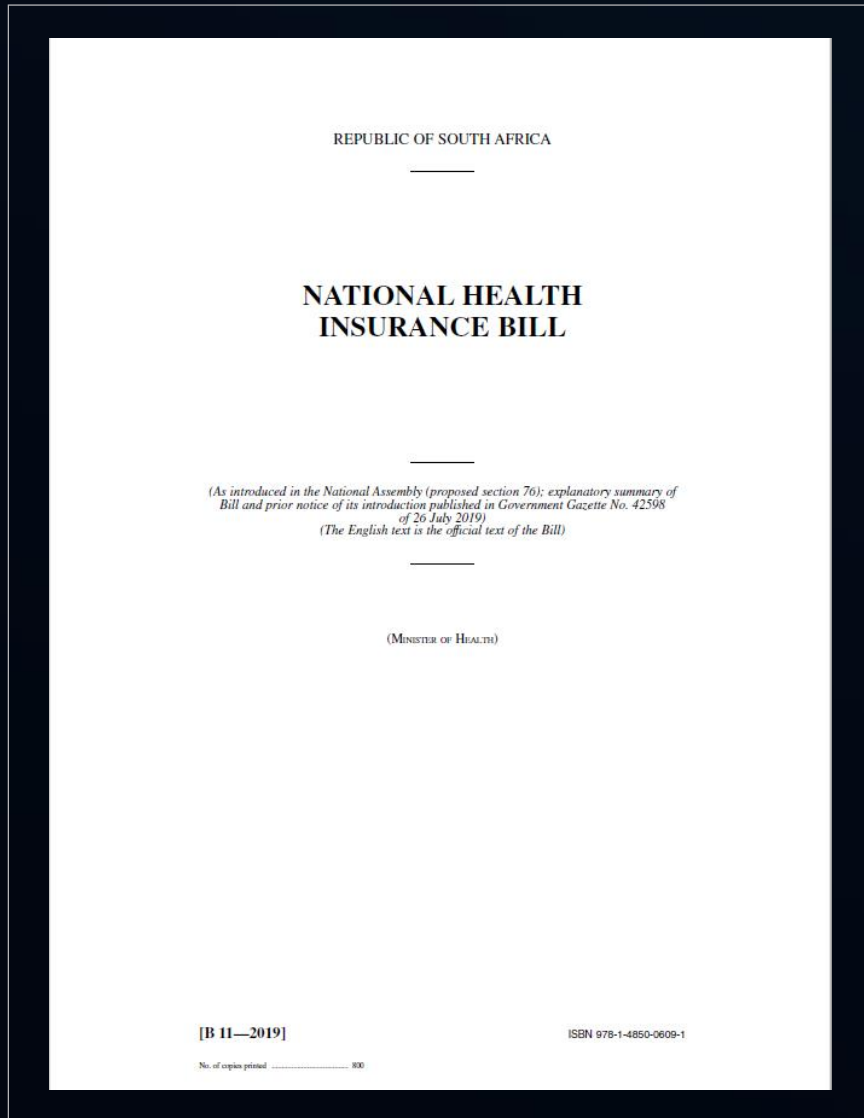
Discussion Points



4

Discussion Points: NHI





Section 33

Role of medical schemes

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.

Section 8 (2)

Access to health care services

A person or user, as the case may be, must pay for health care services rendered directly, through a **voluntary medical insurance scheme or through any other private insurance scheme**, if that person or user—

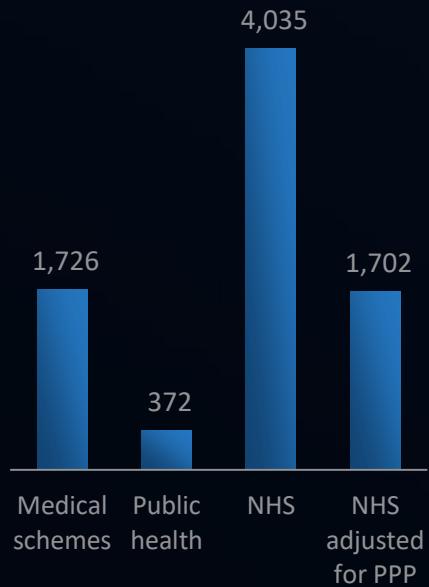
- (a) is not entitled to health care services purchased by the Fund in terms of the provisions of this Act;
- (b) fails to comply with referral pathways prescribed** by a health care service provider or health establishment;
- (c) seeks services that are not deemed medically necessary by the Benefits Advisory Committee; or
- (d) seeks treatment that is not included in the Formulary.

Discovery supports the principles of the NHI, but strongly believes in the role of private medical schemes



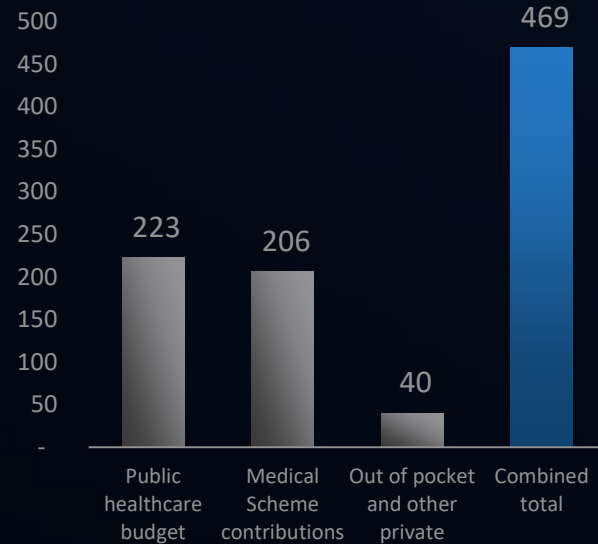
Significant inequality in access and quality of care

Healthcare spend per capita, per month



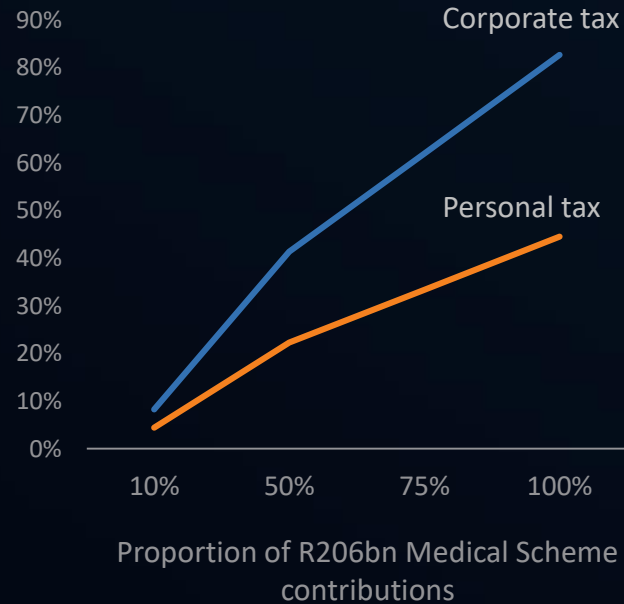
Total health expenditure p.a.

2019 estimates, ZAR billion



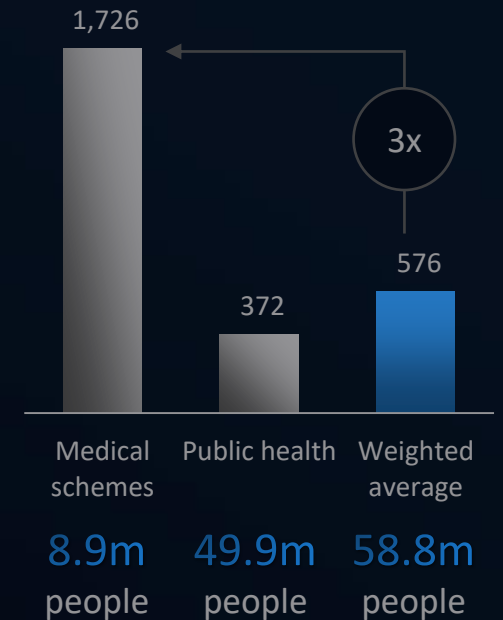
Implied tax increase to fund medical scheme contributions

Different proportions of current total Medical Scheme contributions



Result is not optimal

Healthcare spend per capita, per month



Scarce resources and high level of inequality necessitate active collaboration and the private sector as a partner in achieving UHC



4

Discussion Points: Discovery Life Accounting



Strong historic cash generation and significant value created in Life & Invest



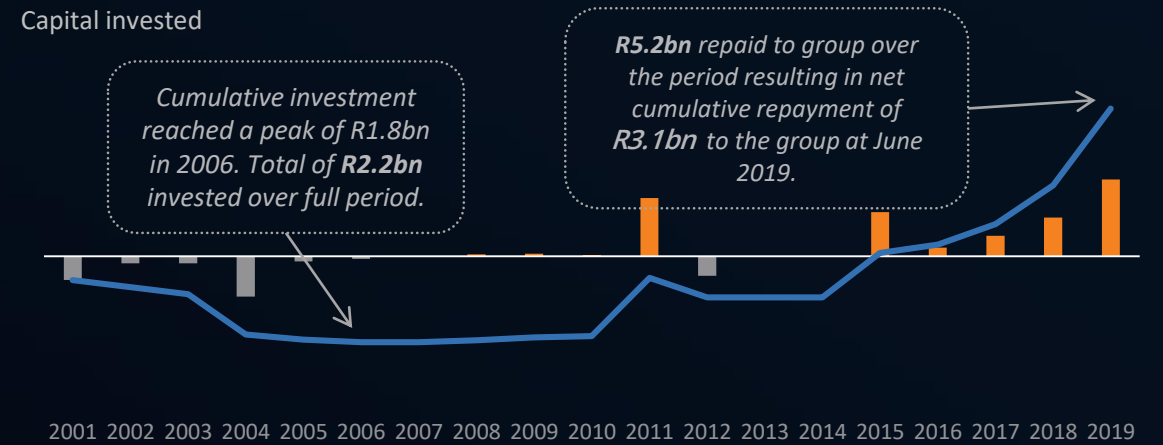
Illustrative example: Annual Cash inflows and outflows for a new protection policy



Cumulative cashflow after layering the new protection policy assuming new business growth of 15% p.a.

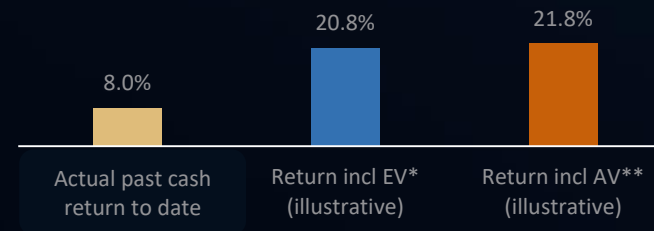


Historic net shareholder capital invested in Discovery Life and Invest



- Orange bar: Funds returned in the form of dividends and loans
- Grey bar: Funds Invested by Financial Year
- Blue line: Cumulative

Return on Capital Invested



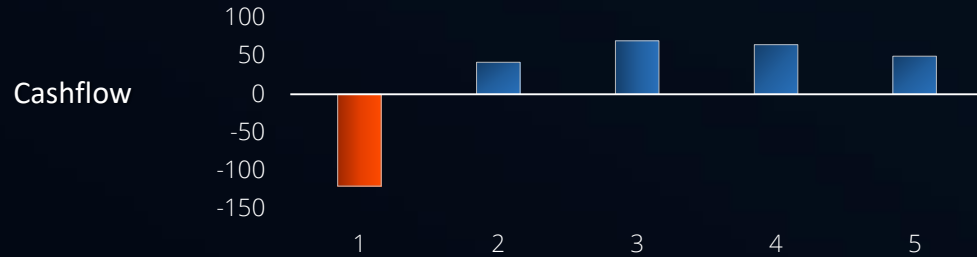
Effectively received Cash + 8% p.a with Embedded Value on top of that

*EV = Embedded Value at risk discount rate (risk free yield curve + 2.625%)
 **AV = Appraisal Value including 5 years of new business.



Illustrative example: Cashflow profile vs. IFRS emergence

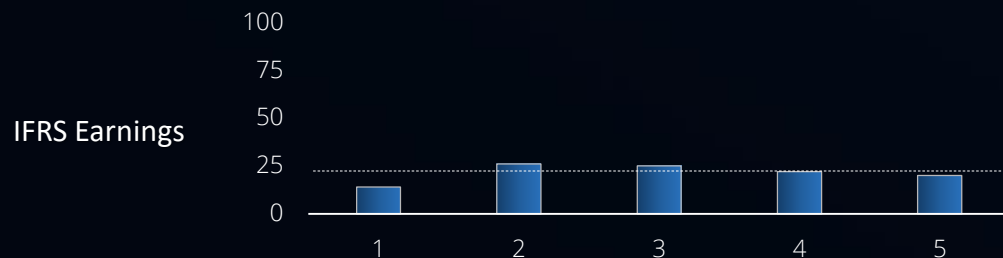
1. Risk business characterised by significant upfront acquisition costs



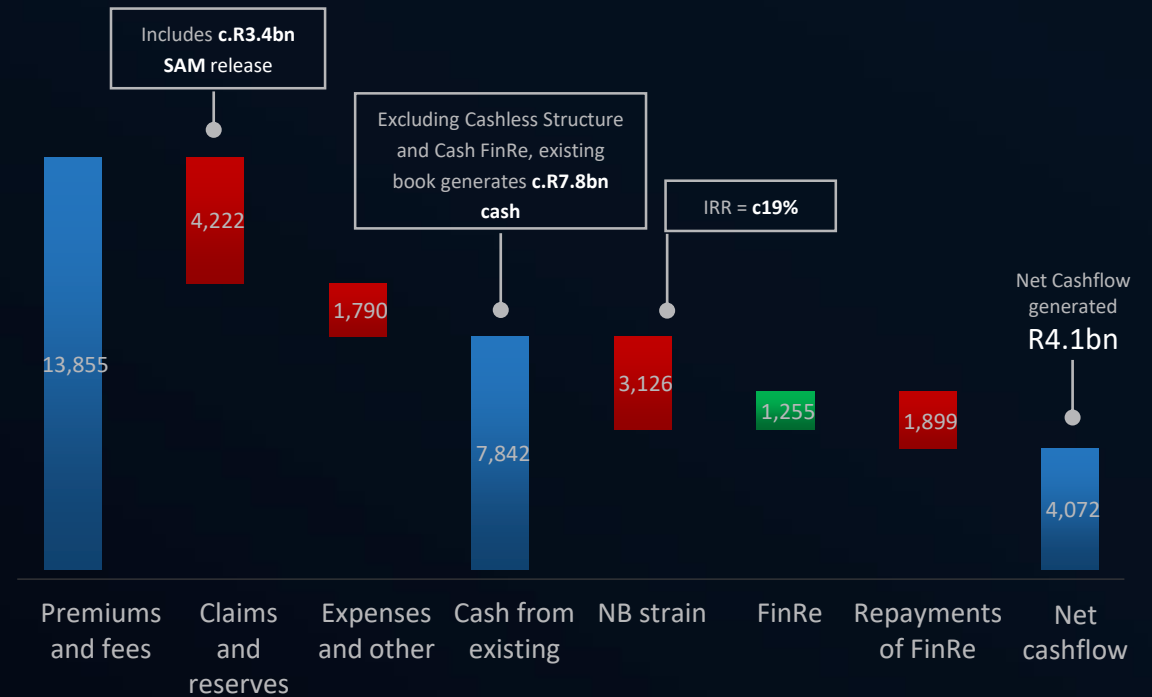
2. Reserve transfers effectively defer the recognition of these acquisitions costs into the earnings profile over time



3. Reflects as a stable emergence of profit over time



Cashflow profile (Life & Invest) as at 30 June 2019 (R'millions)



- Significant cashflow generation of cR7.8bn from existing book
- Investment into new business of cR3.1bn
- **Positive net cashflow generation for Life company**

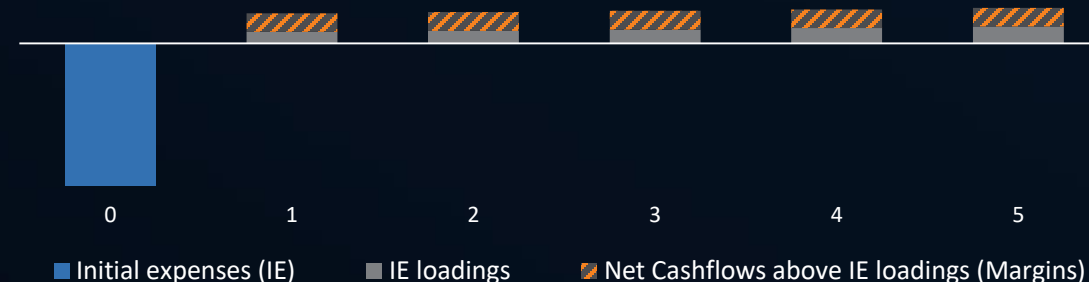
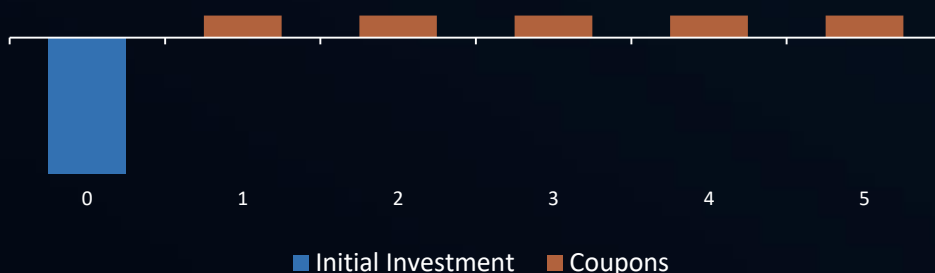
Insurance policy fair value principles are best illustrated when compared to a Bond instrument



Bond

Insurance Policy

Cashflows
Simplified 5-year cash flow profile

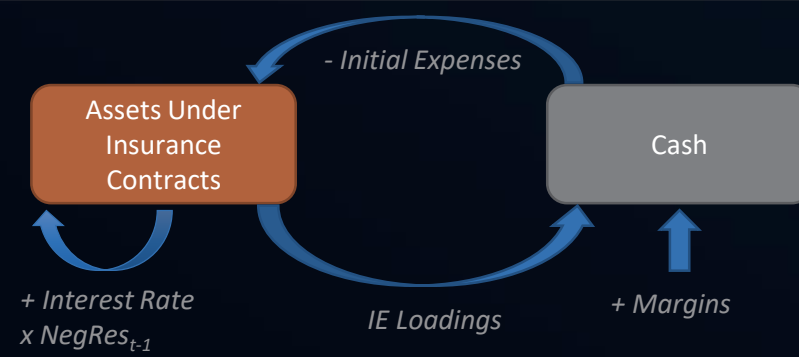
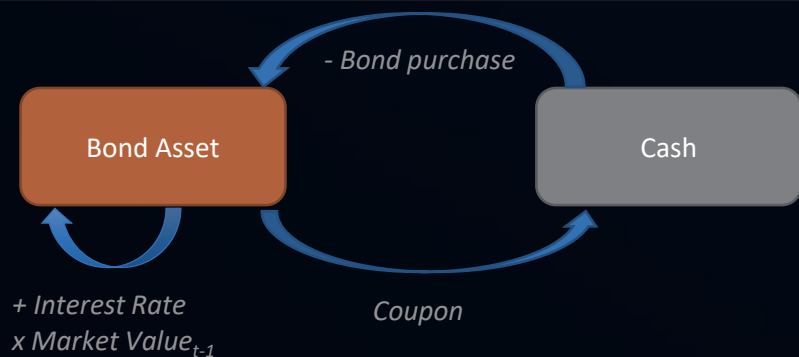


Income Statement

Income Statement Item	Bond valuation terminology
Investment Income	= Cashflow = Coupon
Fair value adjustment (Mark-to-Market)	= $(Market Value_t - Market Value_{t-1})$

Income Statement Item	Reserving terminology
Premiums	= Cashflow = Margin + IE Loadings
Claims	
Expenses	= $\Delta Negative Reserve$ = $(NegRes_t - NegRes_{t-1})$
Transfer from Assets under insurance contracts	

Balance Sheet





IFRS reserve assumptions include significant margins vs Best Estimate assumptions

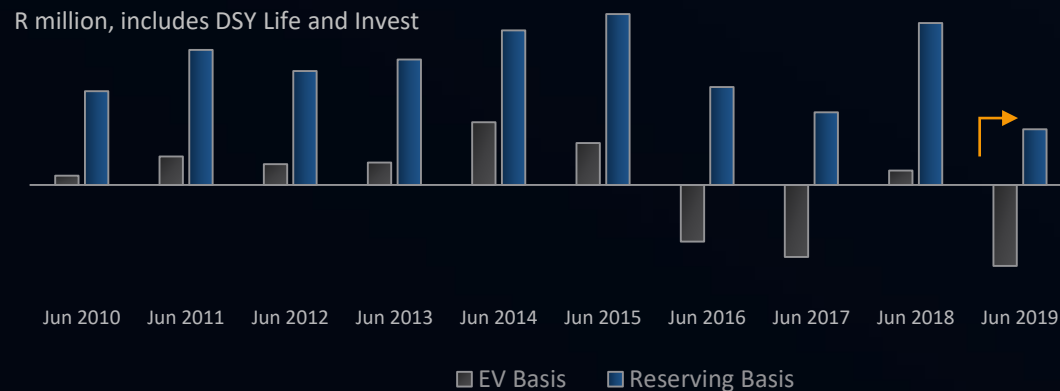
Published variances are on a best estimate basis hence don't allow for these margins

Expected to realise the full IFRS Negative Rand Reserve (NRR) in cash in the first 16 years

Assumption	Prescribed reserving margins**
Mortality	7.5%
Morbidity	10%
Lapses	25%
Expenses	10%
Expense Inflation	10%
Interest rates	0.25% additive



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

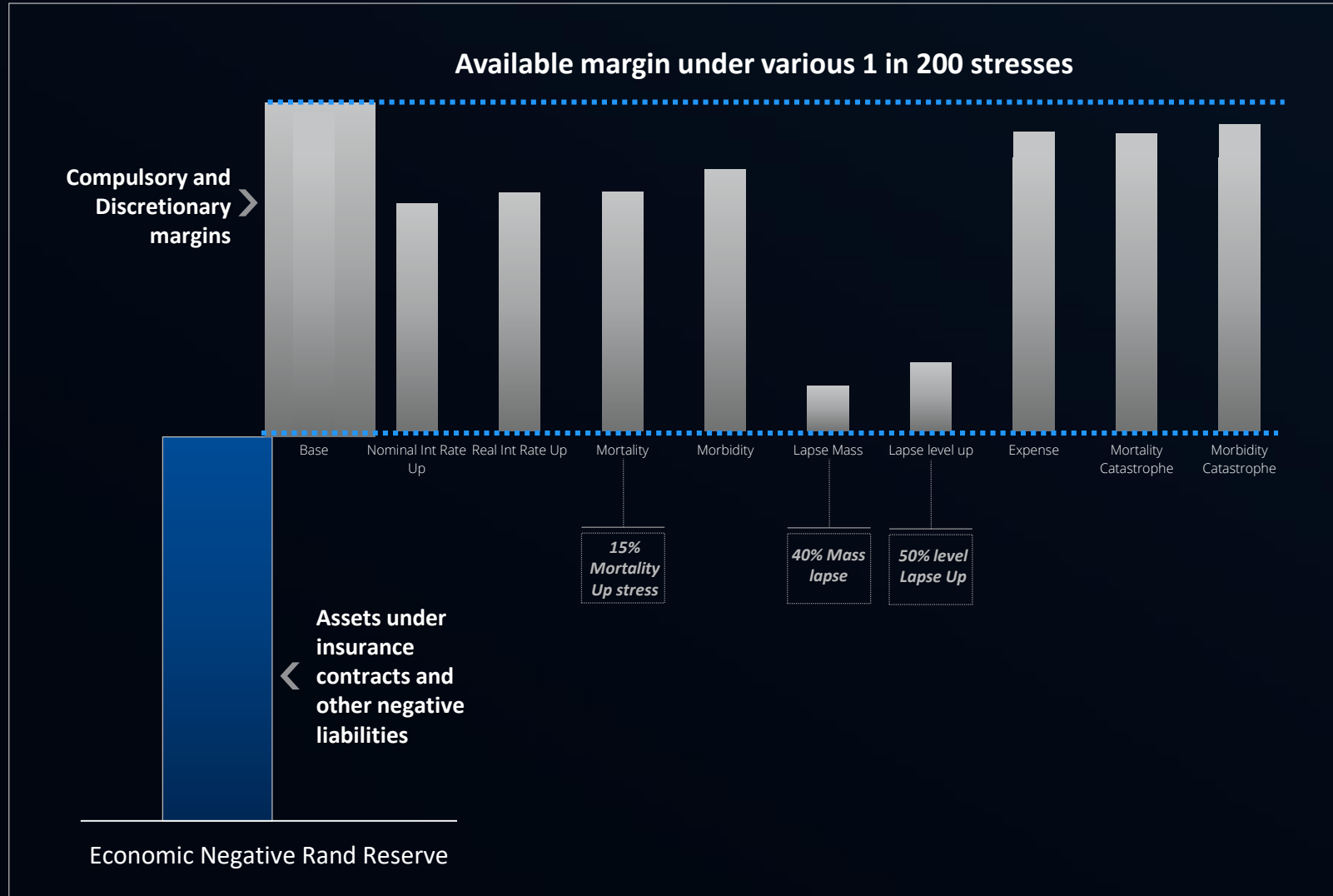


- Significant margins in IFRS basis
- Discovery life has never experienced negative variances relative to the IFRS reserving basis
- >R9bn IFRS gross of tax margin over last decade

**Discretionary margins may be added

Discounted at the term structure of interest rates

Allowing for these margins in the IFRS basis the IFRS NRR exhibits a high degree of resilience



Assumptions
Resilient under 1/200 stresses

RESILIENCE TESTING

1-in-200
INDIVIDUAL SAM STRESSES APPLIED

- The risk of emerging cashflows being lower than the recognised IFRS NRR is extremely remote
- Risk of reserving strain does remain
- Economic Value under each stress > Recognised IFRS NRR at 30 June 2017
- Economic Value highly resilient
- Recoverable with >99.5% probability



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DMTN Issuance

ISSUER	Discovery Limited
SIZE (NOMINAL AMOUNT)	R10 billion of which 4 issuances made totalling R2.2 billion
GUARANTORS	Discovery Health and Discovery Vitality (as per current SA Bank Loans)
LISTING	The Interest Rate Market of the JSE Limited
TYPES OF NOTES	Notes that can be issued under the Programme may comprise: <ul style="list-style-type: none"> • Senior notes (the "Senior Notes"); • Subordinated notes which are subordinated to the Senior Notes (the "Subordinated Notes"); and/or • Capital subordinated notes with terms capable of qualifying the proceeds of such Notes as Regulatory Capital. Regulatory Capital Notes will require FSB approval at the time of Issuance.
CROSS DEFAULT	The cross default will be triggered by a default by Discovery Limited and or its Guarantors in relation to the greater of R50m or 1% of EBITDA
MATERIAL SUBSIDIARY	A material subsidiary is defined as: <ul style="list-style-type: none"> • any Guarantor; and • any Subsidiary <ul style="list-style-type: none"> - of which the Issuer owns more than 50% (fifty percent) of the ordinary shares and - which has EBITDA (calculated on an unconsolidated basis), representing 10% (ten percent) or more of the EBITDA of the Discovery Group (calculated on a consolidated basis), according to the methodology used in the latest audited financial statements of the Issuer, consistently applied, but excluding any subsidiary
OPTIONAL REDEMPTION EVENTS	Investors will have the option to redeem their Notes should the following events occur: <ul style="list-style-type: none"> • Issuer is no longer listed on a Financial Exchange • The Notes are no longer listed on a Financial Exchange • There is no rating assigned to the Notes
EVENTS OF DEFAULT	Standard events of default including but not limited to non-payment, breach of the negative pledge, liquidation or winding up, judicial proceedings, cross default, inability to continue to operate the whole or substantial part of the business

Key features of the DMTN programme



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DMTN issuances to date

Stock code	DSY01	DSY02	DSY03	DSY04
Nominal Value (Rm)	500	800	200	700
Tenor (years)	5	7	7	8
Date Issued	21-Nov-17	21-Nov-17	21-Nov-17	29-Aug-18
Maturity Date	21-Nov-22	21-Nov-24	21-Nov-24	29-Aug-26
Type of Notes	Floating Rate	Floating Rate	Fixed Rate	Floating Rate
Pricing Benchmark	3m Jibar	3m Jibar	10.46%	3m Jibar
Clearing spread (bps)	161	191		180
Interest Payments	Quarterly	Quarterly	Semi-annual	Quarterly

DMTN - Proposed Termsheet



Stock code	DSY05	DSY06	DSY07
Nominal Value (Rm)	Targeting between R1.25bn and R1.5bn		
Tenor (years)	3	5	7
Issue Date	Week commencing 18-Nov-19	Week commencing 18-Nov-19	Week commencing 18-Nov-19
Maturity Date	Nov-22	Nov-24	Nov-26
Type of Notes	Floating/Fixed Rate	Floating/Fixed Rate	Floating/Fixed Rate
Pricing Benchmark	3m Jibar	3m Jibar/ R186	3m Jibar / R186
Clearing spread (bps)	TBA	TBA	TBA



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Discovery Limited

Domestic Medium Term Note Programme
Deal Roadshow

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November 2019

