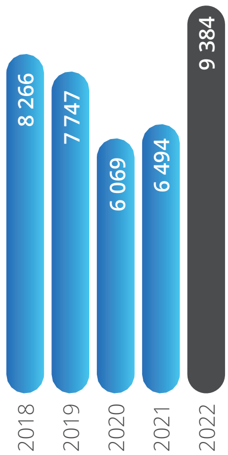
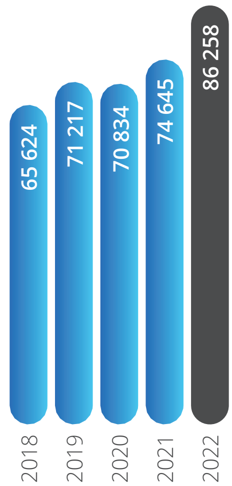

# AUDITED RESULTS

for the year ended 30 June 2022

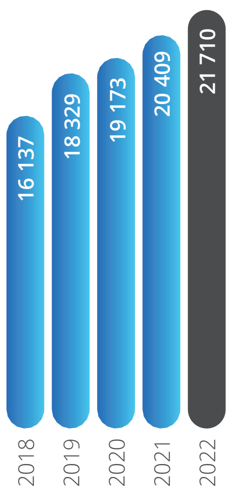
NORMALISED PROFIT
FROM OPERATIONS
(R million)



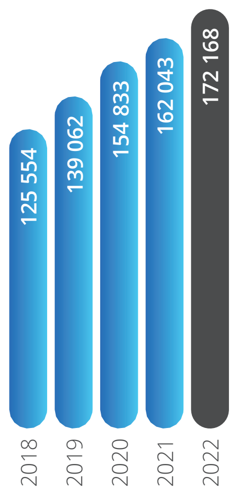

EMBEDDED VALUE
(R million)




CORE NEW BUSINESS
API
(R million)




GROSS INFLOWS
UNDER MANAGEMENT
(R million)



# COMMENTARY

The Group delivered a strong operating performance from the established operations and remained resilient in a challenging macro-economic environment. The organisation's drive for growth manifested through Discovery Bank and in the ongoing evolution of its global healthcare model, notably with the establishment of Amplify Health. In addition, the Vitality Shared-value business model continued to demonstrate its relevance and ability to deliver value to clients and Discovery across all aspects of the value chain as well as to broader society. This supports continued investment in the model.

The operating environment for the full year ended 30 June 2022 was characterised by two significant factors: Firstly, the evolution of COVID-19, as the emergency phase of the pandemic has passed, with conditions in most markets normalising, except for Asia which was affected by severe lockdowns and restrictions. Secondly, considerable geo-political polarisation and macro-economic volatility, caused by a combination of the COVID-19 pandemic, Ukraine conflict, and supply-side constraints. This resulted in higher inflation, increased interest rates as well as currency and market volatility.

In light of this, the Group focused on a pivot to growth based on three strategies:

(1) Achieving robust performance and strong competitive positioning of businesses within the South Africa ("SA") Composite, United Kingdom ("UK") Composite and Vitality Global, by successfully navigating the latter stages of the COVID-19 period; continuing to invest in the Vitality Shared-value business model; and ensuring excellent execution and operational delivery.

(2) Driving new business initiatives to scale, led by Discovery Bank and initiatives within Vitality Group, notably Amplify Health, and streamlining some initiatives so the Group is well positioned for strong growth, and ensuring spend on new initiatives reverts to the Group's long-term guidance of 10% of operating profit.

(3) Ensuring capital and business strength and discipline with high levels of liquidity and solvency and a commensurate reduction in the Group's financial leverage ratio.

## STRONG OPERATIONAL PERFORMANCE HIGHLIGHTS THE RESILIENCE AND RELEVANCE OF THE MODEL IN A COMPLEX ENVIRONMENT

For the year ended 30 June 2022, normalised operating profit increased by 45% to R9 384 million and normalised headline earnings increased by 71% to R5 816 million. Core new business annualised premium income (API) increased by 6% to R21 710 million, with particularly strong growth from the SA and UK Composites, and persistency that continued to exceed expectations in all businesses. Continued strong progress in Discovery Bank saw the investment in new initiatives at 18%[1] of normalised operating profit, compared with 24% in the previous period.

Normalised headline earnings per share (basic) increased by 71% to 885.5 cents and headline earnings per share (basic) increased by 74% to 792.4 cents, both positively impacted by mark-to-market foreign currency gains. Within headline earnings, the negative effect of higher long-term interest rates in SA was partly offset by the benefit of higher long-term interest rates in the UK. A portion of the full benefit in the UK, after hedge effects, was recognised as an increase in discretionary margins.

The Group continued to navigate the COVID-19 pandemic across its global operations in the reporting period, with mortality risk in SA having had the largest impact on the prior year profit. The reporting period included the end of the Delta variant third wave of the COVID-19 pandemic in SA and the highly infectious, but less virulent Omicron variant, for which the previously raised COVID-19 provisions for the Group's life insurance operations were adequate. As the emergency phase of the pandemic has passed, the focus has shifted to incorporating the longer-term implications of COVID-19 and future mortality progression, resulting in significant overall strengthening of the mortality and morbidity bases in the life insurance operations in the June 2022 actuarial review by R2.6 billion.

*1 As a percentage of established and emerging normalised profit from operations*

# COMMENTARY *continued*

In this context, the SA and UK Composites delivered strong growth in normalised operating profit and new business, while the operating performance of Vitality Global reflected the specific dynamics of the impact of COVID-19 on the Asian markets. The following table provides a summary of the performance:

| | Normalised profit from operations, current period, in ZAR million | % change (Current period vs prior period) | Core new business API*, current period, in ZAR million | % change (Current period vs prior period) |
|---|---|---|---|---|
| **Discovery Health** | 3 600 | 5 | 7 292 | 20 |
| **Discovery Life** | 4 028 | 200 | 2 543 | 12 |
| **Discovery Invest** | 1 204 | 11 | 2 920 | 7 |
| **Discovery Insure** | (162) | (165) | 1 246 | (3) |
| **SA Composite (excluding new initiatives)[2]** | **8 679** | **41** | **14 257** | **15** |
| **VitalityHealth** | 1 328 | 39 | 1 738 | 27 |
| **VitalityLife** | 671 | 4 | 1 256 | 10 |
| **UK Composite (excluding new initiatives)** | **1 999** | **25** | **2 994** | **19** |
| **Vitality Group (Insurance and Vitality Health International (VHI))** | 473 | 13 | 1 398* | 10* |
| **Ping An Health Insurance (25% interest)** | 338 | (18) | 2 883 | (15) |
| **Vitality Global (excluding new initiatives)** | **811** | **(2)** | **4 281*** | **(8)*** |
| **Discovery Bank** | (990) | 10 (reduction in spend) | | |
| **Other new initiatives (Excluding Bank)[1]** | (1 115) | 14 (increase in spend) | 1 576 | (25) |
| **New initiatives** | **(2 105)** | **2** | **1 576** | **(25)[1]** |
| **Normalised profit from operations[2]** | **9 384** | **45** | | |
| **Core new business API[2]** | | | **21 710** | **6** |

* *Core new business API excludes Discovery Health (DH) take-on of new closed schemes and gross revenue for Vitality Group*

1. *Refer to normalised profit from operations regional disclosure for regional composition of new initiative spend; Core API for other new initiatives includes Umbrella Funds, Discovery Insure commercial and VitalityInvest – new business was impacted by the lumpy nature of Umbrella Fund sales which grew strongly in the prior period*

2. *Includes SA Vitality: normalised profit from operations includes R9 million (prior period: R43 million); core new business API includes R256 million (prior period: R24 million)*

## DRIVING NEW BUSINESS INITIATIVES TO SCALE AND STREAMLINING SOME INTERESTS, SO NEW INITIATIVES SPEND REVERTS TO THE GROUP'S LONG-TERM GUIDANCE OF 10% OF OPERATING PROFIT

The Group is emerging from a cycle of intense organic investment into new initiatives, dominated by the investment in Discovery Bank, which has seen excellent high-quality growth over the period. The period saw increased investment in Vitality Health International, particularly for the establishment of Amplify Health, as announced on 15 February 2022, and the build-out over the year. There has also been continued investment in the other large-scale new initiatives, such as V1, the platform to scale the globalisation of the Vitality Shared-value model.

Additionally, the Group streamlined some new initiatives with a focus on those businesses expected to generate significant value. In addition to reviewing its stake in AIA Health in Australia, the Group decided to exit the UK investment market given the structural change in market conditions, mainly driven by significant margin compression. Despite VitalityInvest making good progress over the period, the decision was taken based on the time and resources needed to accumulate the necessary assets under management (AUM) for the business to turn to profitability and the AUM needed to generate material long-term value for the Group.

## CAPITAL AND BUSINESS STRENGTH AND DISCIPLINE WITH ROBUST LIQUIDITY AND SOLVENCY

Discovery generated a strong return on opening embedded value (RoEV) of 14.8%, benefiting from particularly favourable lapse experience and the impact of a significant strengthening of the future mortality and morbidity basis. Liquidity and solvency remained robust across the Group, despite paying R3.7 billion in COVID-19 claims in the reporting period in SA, gross of reinsurance. The financial leverage ratio improved to 23.8% , well below the internally set guidance threshold of 28%.

The overall resilience ensured continued focus on and progress in the market-specific strategies and objectives of the Group, which are:

1. **South Africa:** To be the perfect composite model, number 1 in our chosen segments in every industry, and Discovery Bank pivoting to growth as the composite-maker within SA.

2. **United Kingdom:** To have best-in-breed products across businesses and operating as a fully integrated composite business with a seamless One Vitality client journey; and to have a successful entry into motor insurance.

3. **Vitality Global (incorporating Vitality Group and Ping An Health Insurance):** To be the foremost provider of health and wellness intellectual property, powered by the right combination of technology and analytics – accelerating the growth of global insurers by attracting and engaging clients.

# BUSINESS-SPECIFIC PERFORMANCE

## South Africa

The SA composite's normalised operating profit increased by 41% to R8 679 million and new business by 15% to R14 257 million, excluding new initiatives. The results were driven by a strong recovery from Discovery Life, and robust performances from Discovery Health and Discovery Invest, while Discovery Insure was negatively impacted by claims related to severe weather, combined with considerable supply-side inflation related to the cost of repairing motor vehicles. Discovery Bank constitutes the largest investment into new initiatives and invested further in product innovations and digital capabilities, as the Bank evolves into a composite-maker in the retail Discovery ecosystem.

### Discovery Bank

Discovery Bank's operating loss for the financial year was R990 million, 10% lower than the previous financial year. The Bank continues to expand its current client base, with 470 220 clients (331 000 in the prior period) and 1 023 790 accounts (versus 649 000 in June 2021), which represents a significant milestone for the Bank. Retail deposits grew by 30% to R10.6 billion and advances grew 14% to R4.3 billion. New business volumes continued to be strong, achieving more than 800 average daily new-to-Bank sales (vs 500 in June 2021), showing significant progress toward a medium-term target of 1 000 sales per day and 1 000 000 clients by 2026. The Bank has also continued to attract high quality clients, resulting in high levels of average non-interest revenue (NIR) and a low credit loss ratio of 1.56%.

### Discovery Health

Discovery Health's (DH) normalised operating profit increased by 5% to R3 600 million and core new business API increased by 20% to R7 292 million. Non-medical scheme retail products (FlexiCare, Gap Cover and Healthy Company) also continued to demonstrate strong growth, with total lives increasing by 37% to c.263 000 lives and revenue increasing by 7% to R1 224 million.

Discovery Health Medical Scheme (DHMS) delivered an excellent performance: the high new business levels seen in the first half of the financial year continued, with DHMS showing net growth of more than 24 000 lives over the full financial year, growing DHMS market share to 57.6% of open medical scheme beneficiaries. DHMS's new joiner profile has been healthier, with both a lower average age and a lower chronic condition ratio than the rest of the open industry, boding favourably for existing members and scheme sustainability. DHMS remains in a strong financial position, with an unaudited solvency of 36% as at June 2022. DHMS's pricing strategy continues to protect its members by balancing short-term affordability with long-term sustainability. Considering the deferred contribution increase strategy, DHMS members paid lower contributions than the rest of the industry in both 2021 and 2022; with contribution levels matched to expected future medical inflation.

## Discovery Life

Discovery Life's (DL) results recovered strongly from the prior period, with normalised earnings of R4 028 million up 200%. This was driven by positive overall experience, COVID-19 experience consistent with provision modelling, and prudent expense management. New business increased by 12% to R2.5 billion, driven by strong Automatic Contribution Increases (ACIs) with the DL new business margin at 5.3%. The embedded value (including Discovery Invest) increased by 10.5%, further highlighting the strong positive operational experience, in particular good persistency offsetting a worse-than-expected morbidity claims experience. Discovery Life paid R3.7 billion in COVID-19 claims, gross of reinsurance, in the reporting period, with all identified individual life insurance COVID-19 claims sufficiently covered by the associated provision. The business has strengthened the mortality and morbidity basis for future longer-term effects of COVID-19. The financial position remains robust with a solvency ratio of 174% and strong internal liquidity buffers.

## Discovery Invest

Discovery Invest's normalised operating profit increased by 11% to R1 204 million and new business increased 7% to R2 920 million. Total assets under administration (AuA) grew by 4% to R122 billion, assets under management (AUM) increased by 7% to R81.1 billion, and linked funds in Discovery funds remained high at 80%. Net flows increased by 2% to R5.75 billion, with growth constrained by higher than anticipated guaranteed plan maturities and lower market levels over the second half of the reporting period, resulting in a 4.6% reduction in AuA from December 2021 to June 2022. Discovery Invest recently launched Cogence, SA's first Shared-value Discretionary Fund Manager to drive better retirement outcomes. The partnership with BlackRock leverages its Aladdin Wealth™ Technology to manage the investment risk with Vitality managing the demographic risk.

## Discovery Insure

Discovery Insure (DI) made an operating loss of R162 million, a 165% decrease from the prior year operating profit. The operating loss was driven predominantly by adverse weather events including the April 2022 KwaZulu-Natal floods, which led to a R66 million net impact, combined with motor parts inflation dramatically exceeding CPI. The result was further impacted by an increase in power surge-related claims during the period. Gross written premium grew by 13% to R4 762 million, despite lower new business levels, as DI was quick to implement strategic actions to manage the impact of the business experience, while also improving the overall client risk profile.

# COMMENTARY *continued*

## United Kingdom

The UK Composite's normalised operating profit increased by 28% to £98.7 million (R1 999 million, up 25%) and new business by 22% to £148 million (R2 994 million, up 19%), excluding new initiatives. Earned premiums increased by 8% to £893 million (R18 094 million, up 5%), while total lives covered increased by 12% to 1.56 million. The Group decided to exit the UK investment market through VitalityInvest, despite its progress over the period, mainly driven by significant margin compression in the industry.

### VitalityHealth

VitalityHealth's (VH) normalised operating profit grew by 43% to £66 million (up 39% to R1 328 million). While claims increased during the period, these remained below pre-COVID-19 levels and their severity and cost were less than expected. The result also benefited from the acceleration of financial reinsurance repayments in the prior period. The sales performance over the period was excellent, with new business increasing by 30% to £86 million (up 27% to R1 738 million). Standout areas included the D2B strategy, with the channel delivering 61% growth in total, and the direct channel, which continued to perform strongly with 15% growth. Earned premiums grew by 9% to £560 million (R11 344 million, up 6%) driven by strong retention levels, and total lives grew by 15% to 839 000. After new business acquisition costs and investment in developing the business, VH generated £32 million (R648 million) cash. VH continues to transform the way that healthcare is delivered, as seen by the increase in the use of primary care services, and the growth in scale and utilisation of digitised services.

### VitalityLife

VitalityLife's (VL) normalised operating profit grew by 7% to £33.1 million (R671 million, up 4%). New business increased by 13% to £62 million (R1 256 million, up 10%), with VL improving its position to fifth in market share for new business for Q1 2022. The continued strong retention performance, following strategic interventions in prior years, was key in delivering 7% higher earned premiums, to £333 million (up 4% to R6 750 million), while lives covered grew by 9% to 722 000.

A significant milestone in the period was reaching agreement with Prudential on the Part VII transfer of the VitalityLife book, currently written on the Prudential balance sheet. The agreement effects an indefinite delay period to complete the Part VII transfer and results in reduced liquidity, matching and capital risk, as well as lower operational complexity with improved overall commercial terms.

## Vitality Global

### Ping An Health Insurance

Ping An Health Insurance's (PAH) profit from operations, represented by the Group's share of after-tax operating profit less Discovery's costs to support the business, was down by 18% to R338 million. PAH's pre-tax operating profit, excluding investment income and gains, increased by 30%, highlighting the strong operating performance over the period, curtailed by the decline in the China equity market. Total new business premiums reduced by 15% to R11.5 billion, given the restructured co-operation with Ping An Life, as described in the Group's interim reporting. However, new business premiums on PAH's own insurance licence increased by 6% to R8.9 billion, following increased development of PAH's own sales channels. PAH is delivering faster premium growth than the overall industry and the business has reached considerable scale and continues to be one of the most profitable and fastest growing insurers in the country, insuring over 28 million lives, with a comprehensive solvency ratio at 277.1%.

## Vitality Group

Vitality Group's (VG) profit increased by 15% to US$31 million (R473 million, up 13%). Earnings growth was impacted as the prior period benefited from a forex hedge gain, which was not repeated, offset in this period by income related to the delivery of an initial component of Vitality intellectual property, related to the Amplify Health transaction. Earnings were also impacted by weaker Vitality-integrated sales in some key Asian markets, adversely impacted by COVID-19 lockdowns in the current period. Revenue growth remained resilient, with fee income growing 22% to US$100.4 million (R1.5 billion) and insurance partners' Vitality-integrated premiums growing by 10% to US$1.4 billion (R21.7 billion). The period also saw Vitality expand to 35 markets by the end of the reporting period, with Vitality membership from insurance partners increasing 25% to 3 million. Sumitomo Life Vitality in Japan reached a milestone of 1 million Vitality-linked policies sold since launching in 2018.

There has been significant investment within new initiatives in Vitality Health International, with a focus on expanding the Group's global health solutions business and maintaining global leadership in behaviourally led solutions. The largest investment over the period was into the Amplify Health joint venture with AIA, offering digital health solutions across Asia-Pacific. Additionally, the business launched shared-value health insurance products, which incorporate Vitality, to employer groups operating in multiple African countries beyond South Africa.

## Prospects and dividend

Discovery's business model has proven to be highly relevant during the COVID-19 pandemic, with robust underlying growth trends continuing in most parts of the business. The Group is capitalising on its growth opportunities while ensuring operational resilience despite the challenging macro environment. The effect of rising inflation and interest rates globally, together with continued currency volatility, is expected to remain a feature of the reported results.

During the period, Discovery made a capital contribution to PAH of R1.5 billion. While this was initially funded by way of a bridge facility and internal resources, as previously reported, Discovery still anticipates raising a specific quantum of equity capital for this purpose in line with the disciplined framework of its capital plan.

While the Group's capital position remains robust, in light of the uncertain future impact of COVID-19 and the volatile global macro-economic environment, the Discovery Board has decided to retain its prior stated position and has decided not to declare an ordinary final dividend for the year ended 30 June 2022. The reintroduction of an ordinary dividend will be considered on an ongoing basis.

## Notes to analysts

Any forecast financial information contained in this announcement has not been reviewed or reported on by the Company's external auditors.

Discovery has published supplemental unaudited information on the website. For this and other results information, visit **https://www.discovery.co.za/corporate/investor-relations** and go to Financial and annual reports.

On behalf of the Board

**ME Tucker**
Chairperson

**A Gore**
Group Chief Executive

Sandton
6 September 2022

# STATEMENT OF FINANCIAL POSITION
**at 30 June 2022**

| R million | **Group Year ended June 2022 Audited** | Group Year ended June 2021 Audited |
|---|---|---|
| **Assets** | | |
| Goodwill | **4 912** | 4 879 |
| Intangible assets | **6 539** | 6 371 |
| Property and equipment | **3 811** | 4 188 |
| Assets arising from insurance contracts | **56 645** | 50 483 |
| Deferred acquisition costs | **640** | 585 |
| Assets arising from contracts with customers | **1 549** | 1 248 |
| Investment in equity-accounted investees | **6 008** | 3 459 |
| Deferred tax asset | **4 455** | 3 948 |
| Financial assets | | |
| – Loans and advances to customers at amortised cost | **3 944** | 3 361 |
| – Investments at amortised cost | **7 161** | 5 604 |
| – Investments at fair value through profit or loss | **141 494** | 130 937 |
| – Derivative financial instruments at fair value through profit or loss | **276** | 249 |
| Insurance receivables, contract receivables and other receivables | **13 113** | 10 533 |
| Non-current assets held for sale | **171** | – |
| Current tax asset | **220** | 391 |
| Reinsurance contracts | **511** | 445 |
| Cash and cash equivalents | **19 775** | 20 013 |
| **TOTAL ASSETS** | **271 224** | 246 694 |
| **Equity** | | |
| **Capital and reserves** | | |
| Ordinary share capital and share premium | **10 178** | 10 151 |
| Perpetual preference share capital | **779** | 779 |
| Other reserves | **3 621** | 1 935 |
| Retained earnings | **38 972** | 33 550 |
| Equity | **53 550** | 46 415 |
| Non-controlling interest | **5** | 4 |
| **TOTAL EQUITY** | **53 555** | 46 419 |
| **Liabilities** | | |
| Liabilities arising from insurance contracts | **109 200** | 100 977 |
| Liabilities arising from reinsurance contracts | **13 192** | 12 525 |
| Deferred tax liability | **9 335** | 8 814 |
| Contract liabilities to customers | **944** | 776 |
| Financial liabilities | | |
| – Borrowings at amortised cost | **20 584** | 19 493 |
| – Other payables | **15 123** | 14 904 |
| – Deposits from customers | **10 881** | 8 985 |
| – Investment contracts at fair value through profit or loss | **37 361** | 32 291 |
| – Derivative financial instruments at fair value through profit or loss | **202** | 826 |
| Employee benefits | **320** | 315 |
| Current tax liability | **527** | 369 |
| **TOTAL LIABILITIES** | **217 669** | 200 275 |
| **TOTAL EQUITY AND LIABILITIES** | **271 224** | 246 694 |

# GROUP INCOME STATEMENT

**for the year ended 30 June 2022**

| R million | **Group Year ended June 2022 Audited** | Group Year ended June 2021 Audited | % Change |
|---|---|---|---|
| Insurance premium revenue | **58 782** | 55 935 | |
| Reinsurance premiums | **(8 262)** | (7 729) | |
| Accelerated reinsurance premiums | **–** | (823) | |
| **Net insurance premium revenue** | **50 520** | 47 383 | 7 |
| Fee income from administration businesses | **12 752** | 11 700 | |
| Vitality income | **3 495** | 3 340 | |
| Net banking fee and commission income | **645** | 480 | 34 |
| Banking fee and commission income | **853** | 633 | |
| Banking fee and commission expense | **(208)** | (153) | |
| Net bank interest and similar income | **318** | 241 | 32 |
| Bank interest and similar income using the effective interest rate | **811** | 627 | |
| Bank interest and similar expense using the effective interest rate | **(493)** | (386) | |
| Investment income using the effective interest rate method | **296** | 280 | |
| Net fair value (losses)/gains on financial assets at fair value through profit or loss | **(1 825)** | 11 891 | |
| Other income | **1 341** | 1 372 | |
| Receipts arising from reinsurance contracts | **–** | 500 | |
| **Net income** | **67 542** | 77 187 | (12) |
| **Net claims and policyholders' benefits** | **(30 900)** | (28 178) | (10) |
| Claims and policyholders' benefits | **(38 207)** | (33 972) | |
| Insurance claims recovered from reinsurers | **7 218** | 5 794 | |
| Recapture of reinsurance | **89** | – | |
| Acquisition costs | **(4 774)** | (5 033) | |
| Marketing and administration expenses | **(25 209)** | (22 679) | |
| Amortisation of intangibles from business combinations | **(59)** | (66) | |
| Expected credit losses | **(67)** | (271) | |
| Recovery of expenses from reinsurers | **2 859** | 2 773 | |
| Net transfer to/from assets and liabilities under insurance contracts | **(1 494)** | (14 795) | |
| – change in assets arising from insurance contracts | **5 786** | 545 | |
| – change in assets arising from reinsurance contracts | **63** | 56 | |
| – change in liabilities arising from insurance contracts | **(6 935)** | (17 941) | |
| – change in liabilities arising from reinsurance contracts | **(577)** | 1 755 | |
| – economic assumption adjustments net of discretionary margins | **169** | 790 | |
| Fair value adjustment to liabilities under investment contracts | **(40)** | (3 634) | |
| **Profit from operations** | **7 858** | 5 304 | 48 |
| Finance costs | **(1 658)** | (1 648) | |
| Foreign exchange gains/(losses) | **155** | (389) | |
| Gain on dilution and disposal of equity-accounted investments | **33** | 554 | |
| Reversal of impairment/(Impairment) of equity-accounted investments | **134** | (149) | |
| Share of net profits from equity-accounted investments | **422** | 523 | |
| **Profit before tax** | **6 944** | 4 195 | 66 |
| Income tax expense | **(1 465)** | (975) | (50) |
| **Profit for the year** | **5 479** | 3 220 | 70 |
| **Profit attributable to:** | | | |
| – ordinary shareholders | **5 422** | 3 157 | |
| – preference shareholders | **56** | 63 | |
| – non-controlling interest | **1** | * | |
| | **5 479** | 3 220 | 70 |
| **Earnings per share for profit attributable to ordinary shareholders of the company during the year (cents):** | | | |
| – basic | **825.5** | 480.7 | 72 |
| – diluted | **817.8** | 475.4 | 72 |

* *Amount is less than R500 000.*

# GROUP STATEMENT OF OTHER COMPREHENSIVE INCOME

**for the year ended 30 June 2022**

| R million | **Group Year ended June 2022 Audited** | Group Year ended June 2021 Audited |
|---|---|---|
| **Profit for the year** | **5 479** | 3 220 |
| **Items that are or may be reclassified subsequently to profit or loss:** | | |
| **Currency translation differences** | **467** | (1 576) |
| **Cash flow hedges** | **309** | 260 |
| – unrealised gains | **322** | 360 |
| – tax on unrealised gains | **(2)** | (25) |
| – gains recycled to profit or loss | **(10)** | (90) |
| – tax on recycled gains | **(1)** | 15 |
| **Share of other comprehensive income from equity-accounted investments** | **601** | (312) |
| – change in fair value of debt instruments at fair value through other comprehensive income | **17** | 15 |
| – currency translation differences | **584** | (327) |
| **Other comprehensive income/(losses) for the year, net of tax** | **1 377** | (1 628) |
| **Total comprehensive income for the year** | **6 856** | 1 592 |
| **Attributable to:** | | |
| – ordinary shareholders | **6 799** | 1 529 |
| – preference shareholders | **56** | 63 |
| – non-controlling interest | **1** | * |
| **Total comprehensive income for the year** | **6 856** | 1 592 |

* *Amount is less than R500 000.*

# GROUP STATEMENT OF CHANGES IN EQUITY
**for the year ended 30 June 2022**

| R million | Attributable to equity holders of the Company<br>Share capital and share premium | Preference share capital | Share-based payment reserve | Investment reserve[1] |
|---|---|---|---|---|
| **Year ended 30 June 2022** | | | | |
| **At beginning of the year** | **10 151** | **779** | **489** | **18** |
| **Total comprehensive income for the year** | **–** | **56** | **–** | **17** |
| Profit for the year | **–** | **56** | **–** | **–** |
| Other comprehensive income | **–** | **–** | **–** | **17** |
| **Transactions with owners** | **27** | **(56)** | **309** | **–** |
| Share issue | **443** | **–** | **–** | **–** |
| Increase in treasury shares | **(443)** | **–** | **–** | **–** |
| Delivery of treasury shares | **27** | **–** | **(17)** | **–** |
| Employee share option schemes: | | | | |
| – Value of employee services | **–** | **–** | **326** | **–** |
| Dividends paid to preference shareholders | **–** | **(56)** | **–** | **–** |
| **At end of the year** | **10 178** | **779** | **798** | **35** |
| **Year ended 30 June 2021** | | | | |
| **At beginning of the year** | 10 148 | 779 | 195 | 3 |
| **Total comprehensive income for the year** | – | 63 | – | 15 |
| Profit for the year | – | 63 | – | – |
| Other comprehensive income/(loss) | – | – | – | 15 |
| **Transactions with owners** | 3 | (63) | 294 | – |
| Share issue | 907 | – | – | – |
| Increase in treasury shares | (907) | – | – | – |
| Delivery of treasury shares | 3 | – | (36) | – |
| Employee share option schemes: | | | | |
| – Value of employee services | – | – | 330 | – |
| Dividends paid to preference shareholders | – | (63) | – | – |
| **At end of the year** | 10 151 | 779 | 489 | 18 |

*1 This relates to fair value adjustments on those equity instruments designated at fair value through other comprehensive income (FVOCI) and those debt instruments measured at FVOCI, in terms of IFRS 9 Financial Instruments.*

** Amount is less than R500 000.*

| Attributable to equity holders of the Company | | | | | |
|---|---|---|---|---|---|
| Foreign currency translation reserve | Hedging reserve | Retained earnings | Total | Non-controlling interest | **Total** |
| **1 772** | **(344)** | **33 550** | **46 415** | **4** | **46 419** |
| **1 051** | **309** | **5 422** | **6 855** | **1** | **6 856** |
| **–** | **–** | **5 422** | **5 478** | **1** | **5 479** |
| **1 051** | **309** | **–** | **1 377** | **–** | **1 377** |
| **–** | **–** | **–** | **280** | **–** | **280** |
| **–** | **–** | **–** | **443** | **–** | **443** |
| **–** | **–** | **–** | **(443)** | **–** | **(443)** |
| **–** | **–** | **–** | **10** | **–** | **10** |
| **–** | **–** | **–** | **326** | **–** | **326** |
| **–** | **–** | **–** | **(56)** | **–** | **(56)** |
| **2 823** | **(35)** | **38 972** | **53 550** | **5** | **53 555** |
| 3 675 | (604) | 30 353 | 44 549 | 4 | 44 553 |
| (1 903) | 260 | 3 157 | 1 592 | * | 1 592 |
| – | – | 3 157 | 3 220 | * | 3 220 |
| (1 903) | 260 | – | (1 628) | – | (1 628) |
| – | – | 40 | 274 | – | 274 |
| – | – | – | 907 | – | 907 |
| – | – | – | (907) | – | (907) |
| – | – | 40 | 7 | – | 7 |
| – | – | – | 330 | – | 330 |
| – | – | – | (63) | – | (63) |
| 1 772 | (344) | 33 550 | 46 415 | 4 | 46 419 |

# GROUP STATEMENT OF CASH FLOWS
**for the year ended 30 June 2022**

| R million | **Group Year ended June 2022 Audited** | Group Year ended June 2021 Audited |
|---|---|---|
| **Cash flow from operating activities** | **3 597** | 10 407 |
| Cash generated by operations | **18 475** | 19 485 |
| Purchase of investments held to back policyholder liabilities | **(56 588)** | (54 661) |
| Proceeds from disposal of investments held to back policyholder liabilities | **38 411** | 38 709 |
| Working capital changes | **2 468** | 6 972 |
| | **2 766** | 10 505 |
| Dividends received | **600** | 303 |
| Interest received | **2 824** | 2 513 |
| Interest paid | **(1 412)** | (1 197) |
| Taxation paid | **(1 181)** | (1 717) |
| **Cash flow from investing activities** | **(4 704)** | (6 740) |
| Purchase of financial assets | **(32 878)** | (32 569) |
| Proceeds from disposal of financial assets | **31 482** | 27 828 |
| Purchase of property and equipment | **(275)** | (277) |
| Proceeds from disposal of property and equipment | **25** | 21 |
| Purchase of software and other intangible assets | **(1 567)** | (1 587) |
| Proceeds from disposal of software and other intangible assets | **2** | – |
| Acquisition of business net of cash | **–** | (25) |
| Additional investment in equity-accounted investments | **(1 593)** | (240) |
| Dividends from equity-accounted investments | **100** | 109 |
| **Cash flow from financing activities** | **518** | (590) |
| Dividends paid to preference shareholders | **(56)** | (63) |
| Proceeds from borrowings | **3 261** | 1 839 |
| Repayment of borrowings | **(2 687)** | (2 366) |
| Net (decrease)/ increase in cash and cash equivalents | **(589)** | 3 077 |
| Cash and cash equivalents at beginning of the year | **20 013** | 17 909 |
| Exchange gains/(losses) on cash and cash equivalents | **195** | (973) |
| **Cash and cash equivalents including bank overdraft at end of the year** | **19 619** | 20 013 |
| **Reconciliation to Statement of Financial Position** | | |
| Cash and cash equivalents | **19 775** | 20 013 |
| Bank overdraft included in borrowings at amortised cost | **(156)** | – |
| **Cash and cash equivalents at end of the year** | **19 619** | 20 013 |

# ADDITIONAL DISCLOSURE
**at 30 June 2022**

## FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The Group's financial instruments measured at fair value have been disclosed using a fair value hierarchy. The hierarchy has three levels that reflect the significance of the inputs used in measuring fair value. These are as follows:

**Level 1** includes financial instruments that are measured using unadjusted, quoted prices in an active market for identical financial instruments. Quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

**Level 2** includes financial instruments that are valued using techniques based significantly on observable market data. Instruments in this category are valued using:

(a) quoted prices for similar instruments or identical instruments in markets which are not considered to be active; or

(b) valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

**Level 3** includes financial instruments that are valued using valuation techniques that incorporate information other than observable market data and where at least one input (which could have a significant effect on instruments' valuation) cannot be based on observable market data.

| | 30 June 2022 | | | |
|---|---|---|---|---|
| R million (audited) | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets** | | | | |
| Financial instruments mandatorily at fair value through profit or loss: | | | | |
| – Equity portfolios | **54 271** | **3 677** | **–** | **57 948** |
| – Debt portfolios | **46 672** | **920** | **–** | **47 592** |
| – Money market portfolios[1] | **–** | **14 680** | **–** | **14 680** |
| – Multi-asset portfolios[1] | **–** | **21 274** | **–** | **21 274** |
| Derivative financial instruments at fair value: | | | | |
| – used as cash flow hedges | **–** | **17** | **–** | **17** |
| – not designated as hedging instruments | **–** | **259** | **–** | **259** |
| **Total financial assets** | **100 943** | **40 827** | **–** | **141 770** |
| **Non-Financial Assets** | | | | |
| Non-current assets held of sale | **–** | **–** | **171** | **171** |
| **Total non-financial assets** | **–** | **–** | **171** | **171** |
| **Financial liabilities** | | | | |
| Investment contracts at fair value through profit or loss | **–** | **37 361** | **–** | **37 361** |
| Derivative financial instruments at fair value: | | | | |
| – used as cash flow hedges | **–** | **56** | **–** | **56** |
| – not designated as hedging instruments | **–** | **146** | **–** | **146** |
| **Total financial liabilities** | **–** | **37 563** | **–** | **37 563** |

1 *During the year under review, management had reassessed the observability of significant inputs into fair value determination of money markets and, multi-asset portfolios. Management determined these are classified at level2. The prior period was restated accordingly.*

There were no transfers between level 1 and 2 during the current financial period.

# FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *continued*

| R million (audited)<br>Restated | 30 June 2021<br>Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial instruments mandatorily at fair value through profit or loss: | | | | |
| – Equity portfolios | 40 530 | 2 832 | – | 43 362 |
| – Debt portfolios | 34 845 | 1 640 | – | 36 485 |
| – Money market portfolios | – | 17 253 | – | 17 253 |
| – Multi-asset portfolios | – | 33 837 | – | 33 837 |
| Derivative financial instruments at fair value: | | | | |
| – used as cash flow hedges | – | 28 | – | 28 |
| – not designated as hedging instruments | – | 221 | – | 221 |
| **Total financial assets** | 75 375 | 55 811 | – | 131 186 |
| **Financial liabilities – not designated as hedging instruments** | | | | |
| Investment contracts at fair value through profit and loss | – | 32 291 | – | 32 291 |
| Derivative financial instruments at fair value: | | | | |
| – used as cash flow hedges | – | 461 | – | 461 |
| – not designated as hedging instruments | – | 365 | – | 365 |
| **Total financial liabilities** | – | 33 117 | – | 33 117 |

## Specific valuation techniques used to value financial instruments in level 2

- Discovery has invested in equity linked notes offered by international banks in order to back certain unit-linked contract liabilities. The calculation of the daily value of the equity linked investments is performed by the provider of the note. Discovery has procedures in place to ensure that these prices are correct. Aside from the daily reasonableness checks versus similar funds and movement since the prior day's price, the fund values are calculated with reference to a specific formula or index, disclosed to the policyholders, which is recalculated by Discovery in order to verify that if the price provided by the provider is correct.
- If a quoted market price is not available on a recognised stock exchange or from a broker for non-exchange traded financial instruments, the fair value of the instrument is estimated by the asset managers, using valuation techniques including the use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions.
- The fair value of the hedged derivatives is calculated as follows:
  - (a) The fair value of call options is calculated on a Black-Scholes model.
  - (b) The fair value of the return swaps is calculated by discounting the future cash flows of the instruments.
  - (c) The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

## EXCHANGE RATES USED IN THE PREPARATION OF THESE RESULTS

| | USD | GBP | RMB |
|---|---|---|---|
| **30 June 2022** | | | |
| – Average | **15.22** | **20.25** | **2.35** |
| – Closing | **16.47** | **20.00** | **2.46** |
| 30 June 2021 | | | |
| – Average | 15.42 | 20.74 | 2.32 |
| – Closing | 14.28 | 19.74 | 2.21 |

# SEGMENTAL INFORMATION
**for the year ended 30 June 2022**

| R million | SA Health | SA Life | SA Invest |
|---|---|---|---|
| **Income statement** | | | |
| Insurance premium revenue | 189 | 15 041 | 14 499 |
| Reinsurance premiums | – | (3 523) | – |
| Net insurance premium revenue | 189 | 11 518 | 14 499 |
| Fee income from administration businesses | 7 910 | – | 2 834 |
| Vitality income | – | – | – |
| Net banking fee and commission income | – | – | – |
| Banking fee and commission income[4] | – | – | – |
| Banking fee and commission expense | – | – | – |
| Net bank interest and similar income | – | – | – |
| Bank interest and similar income using the effective interest rate | – | – | – |
| Bank interest and similar expense using the effective interest rate | – | – | – |
| Investment income earned on assets backing policyholder liabilities | – | 3 | – |
| Net fair value gains/(losses) on financial assets at fair value through profit or loss | 10 | 485 | 913 |
| Other income | 1 241 | 12 | – |
| Finance charge on negative reserve funding | – | – | – |
| Inter-segment funding[1] | – | (628) | 628 |
| Net income | 9 350 | 11 390 | 18 874 |
| Net claims and policyholders' benefits | (49) | (9 222) | (12 260) |
| Claims and policyholders' benefits | (49) | (14 013) | (12 260) |
| Insurance claims recovered from reinsurers | – | 4 791 | – |
| Recapture of reinsurance | – | – | – |
| Acquisition costs | (27) | (1 605) | (1 144) |
| Expected credit losses | – | – | – |
| Marketing and administration expenses | | | |
| – depreciation and amortisation | (106) | (7) | (11) |
| – derecognition of intangible assets and property and equipment | – | – | – |
| – other expenses | (5 568) | (2 147) | (1 156) |
| Recovery of expenses from reinsurers | – | – | – |
| Transfer from assets/liabilities under insurance contracts | | | |
| – change in assets arising from insurance contracts | – | 5 299 | – |
| – change in assets arising from reinsurance contracts | – | 11 | – |
| – change in liabilities arising from insurance contracts | – | 662 | (3 247) |
| – change in liabilities arising from reinsurance contracts | – | (351) | – |
| Fair value adjustment to liabilities under investment contracts | – | (2) | 148 |
| Share of net profits from equity-accounted investments | – | – | – |
| Reversal of impairment of equity accounted investment | – | – | – |
| **Normalised profit/(loss) from operations** | 3 600 | 4 028 | 1 204 |
| Economic assumptions adjustments net of discretionary margins and interest rate derivative | – | (651) | – |
| Economic assumptions adjustments net of discretionary margins | – | (651) | – |
| Fair value losses on VitalityLife interest rate derivative | – | – | – |
| Investment income earned on shareholder investments and cash | 37 | 11 | 38 |
| Intercompany investment income | – | – | – |
| Net fair value gains/(losses) on financial assets at fair value through profit or loss | – | 51 | 27 |
| Gains from dilution of equity accounted investments | – | – | – |
| Initial expenses related to Prudential Book transfer | – | – | – |
| Covid-19 vaccination programme | – | – | – |
| Amortisation of intangibles from business combinations | – | – | – |
| Market rentals related to Head Office building adjusted for finance costs and depreciation | – | – | – |
| Finance costs[5] | (1) | 25 | – |
| Intercompany finance costs | (297) | – | – |
| Foreign exchange gains | 4 | 25 | 37 |
| **Profit before tax** | 3 343 | 3 489 | 1 306 |
| Income tax expense | (951) | (718) | (438) |
| **Profit for the year** | 2 392 | 2 771 | 868 |

*1 The inter-segment funding of R628 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.*

*2 This segment relates to SA Insure - Personal lines.*

*3 The segment information is presented on the same basis as reported to the Chief Executive Officers of the reportable segments. The segment total is then adjusted for accounting reclassifications and entries required to produce IFRS compliant results. These adjustments include the following:*

- *The VitalityLife results, for business written on the Prudential Assurance Company license, are reclassified to account for the contractual arrangement as a reinsurance contract under IFRS 4.*
- *Unit trusts which the Group controls in terms of IFRS 10 are consolidated into Discovery's results for IFRS purposes. The IFRS reporting adjustments include the effects of consolidating the unit trusts into Discovery's results, effectively being the income and expenses relating to units held by third parties.*
- *The effects of eliminating intercompany transactions on consolidation and normalised operating profit adjustments.*

| SA Insure[2] | SA Vitality | SA Bank | UK Health | UK Life | All other segments | Segment total | IFRS reporting adjustments[3] | IFRS total |
|---|---|---|---|---|---|---|---|---|
| 4 657 | – | – | 11 299 | 6 750 | 7 035 | 59 470 | (688) | 58 782 |
| (103) | – | – | (1 556) | (3 600) | (168) | (8 950) | 688 | (8 262) |
| 4 554 | – | – | 9 743 | 3 150 | 6 867 | 50 520 | – | 50 520 |
| 15 | – | – | 30 | – | 1 975 | 12 764 | (12) | 12 752 |
| – | 2 338 | – | 392 | 227 | 538 | 3 495 | – | 3 495 |
| – | – | 633 | – | – | 12 | 645 | – | 645 |
| – | – | 853 | – | – | – | 853 | – | 853 |
| – | – | (220) | – | – | 12 | (208) | – | (208) |
| – | – | 318 | – | – | – | 318 | – | 318 |
| – | – | 811 | – | – | – | 811 | – | 811 |
| – | – | (493) | – | – | – | (493) | – | (493) |
| 118 | – | – | 9 | 27 | 7 | 164 | (164) | – |
| 1 | 1 | – | (52) | (1 390) | (1 195) | (1 227) | (598) | (1 825) |
| – | – | – | 32 | – | 56 | 1 341 | – | 1 341 |
| – | – | – | – | 1 368 | – | 1 368 | (1 368) | – |
| – | – | – | – | – | – | – | – | – |
| 4 688 | 2 339 | 951 | 10 154 | 3 382 | 8 260 | 69 388 | (2 142) | 67 246 |
| (3 029) | – | – | (4 331) | (877) | (1 132) | (30 900) | – | (30 900) |
| (3 151) | – | – | (5 652) | (2 231) | (1 346) | (38 702) | 495 | (38 207) |
| 122 | – | – | 1 321 | 1 265 | 214 | 7 713 | (495) | 7 218 |
| – | – | – | – | 89 | – | 89 | – | 89 |
| (702) | (111) | – | (963) | (1 884) | 294 | (6 142) | 1 368 | (4 774) |
| – | – | (67) | – | – | – | (67) | – | (67) |
| (60) | (12) | (277) | (458) | (63) | (739) | (1 733) | (169) | (1 902) |
| (18) | – | – | (1) | (14) | (17) | (50) | – | (50) |
| (988) | (2 207) | (1 597) | (4 091) | (2 047) | (3 032) | (22 833) | (424) | (23 257) |
| – | – | – | 1 041 | 1 818 | – | 2 859 | – | 2 859 |
| – | – | – | – | 3 606 | (101) | 8 804 | (3 018) | 5 786 |
| 1 | – | – | 40 | 11 | 1 | 64 | (1) | 63 |
| (41) | – | – | (65) | (17) | (4 488) | (7 196) | 261 | (6 935) |
| – | – | – | – | (3 244) | – | (3 595) | 3 018 | (577) |
| – | – | – | – | – | 42 | 188 | (228) | (40) |
| (13) | – | – | 2 | – | 474 | 463 | (41) | 422 |
| – | – | – | – | – | 134 | 134 | – | 134 |
| (162) | 9 | (990) | 1 328 | 671 | (304) | 9 384 | (1 376) | 8 008 |
| – | – | – | – | 567 | – | (84) | 253 | 169 |
| – | – | – | – | 820 | – | 169 | – | 169 |
| – | – | – | – | (253) | – | (253) | 253 | – |
| – | 28 | – | – | 8 | 18 | 140 | 156 | 296 |
| – | – | – | – | 5 | 913 | 918 | (918) | – |
| – | – | – | – | (454) | (1) | (377) | 377 | – |
| 19 | – | – | – | – | 14 | 33 | – | 33 |
| – | – | – | – | (182) | – | (182) | 182 | – |
| – | – | – | – | – | (157) | (157) | 157 | – |
| (41) | – | – | – | – | (59) | (100) | 41 | (59) |
| – | – | – | – | – | (158) | (158) | 158 | – |
| – | – | – | (6) | (104) | (1 290) | (1 376) | (282) | (1 658) |
| – | – | – | (4) | (230) | (396) | (927) | 927 | – |
| – | – | – | – | – | 89 | 155 | – | 155 |
| (184) | 37 | (990) | 1 318 | 281 | (1 331) | 7 269 | (325) | 6 944 |
| 43 | (30) | 218 | (285) | 224 | 147 | (1 790) | 325 | (1 465) |
| (141) | 7 | (772) | 1 033 | 505 | (1 184) | 5 479 | – | 5 479 |

*4 The banking fee and commission income consists of R389 million revenue which passes over time and interchange revenue of R464 million is recognised at a point in time.*

*5 Finance costs in Discovery Life includes a reversal of interest payable to the South African Revenue Services provided for in the prior year.*

# SEGMENTAL INFORMATION *continued*
**for the year ended 30 June 2021**

| R million | SA Health | SA Life | SA Invest |
|---|---|---|---|
| **Income statement** | | | |
| Insurance premium revenue | 294 | 13 711 | 14 824 |
| Reinsurance premiums | 1 | (3 262) | – |
| Accelerated reinsurance repayment | – | – | – |
| Net insurance premium revenue | 295 | 10 449 | 14 824 |
| Fee income from administration businesses | 7 540 | – | 2 401 |
| Vitality income | – | – | – |
| Net banking fee and commission income | – | – | – |
| Banking fee and commission income[4] | – | – | – |
| Banking fee and commission expense | – | – | – |
| Net bank interest and similar income | – | – | – |
| Bank interest and similar income using the effective interest rate | – | – | – |
| Bank interest and similar expense using the effective interest rate | – | – | – |
| Investment income earned on assets backing policyholder liabilities | – | 10 | – |
| Net fair value gains/(losses) on financial assets at fair value through profit or loss | 6 | 637 | 9 172 |
| Other income | 968 | 3 | – |
| Finance charge on negative reserve funding | – | – | – |
| Inter-segment funding[1] | – | (714) | 714 |
| Receipts arising from reinsurance contracts | – | 500 | – |
| Net income | 8 809 | 10 885 | 27 111 |
| Net claims and policyholders' benefits | (129) | (8 113) | (12 252) |
| Claims and policyholders' benefits | (129) | (11 949) | (12 252) |
| Insurance claims recovered from reinsurers | – | 3 836 | – |
| Acquisition costs | (40) | (1 540) | (1 056) |
| Expected credit losses | – | – | – |
| Marketing and administration expenses | | | |
| – depreciation and amortisation | (118) | (7) | (11) |
| – derecognition of intangible assets and property and equipment | (26) | – | – |
| – impairment of intangible assets | (15) | – | – |
| – other expenses | (5 058) | (2 027) | (1 031) |
| Recovery of expenses from reinsurers | – | – | – |
| Transfer from assets/liabilities under insurance contracts | | | |
| – change in assets arising from insurance contracts | – | 3 433 | – |
| – change in assets arising from reinsurance contracts | – | 33 | – |
| – change in liabilities arising from insurance contracts | – | (206) | (11 054) |
| – change in liabilities arising from reinsurance contracts | – | (1 115) | – |
| Fair value adjustment to liabilities under investment contracts | – | (2) | (623) |
| Share of net profits from equity-accounted investments | – | – | – |
| Impairment of equity accounted investment | – | – | – |
| **Normalised profit/(loss) from operations** | 3 423 | 1 341 | 1 084 |
| Economic assumptions adjustments net of discretionary margins and interest rate derivative | – | (411) | – |
| Economic assumptions adjustments net of discretionary margins | – | (411) | – |
| Fair value losses on VitalityLife interest rate derivative | – | – | – |
| Investment income earned on shareholder investments and cash | 39 | 14 | 40 |
| Intercompany investment income | – | – | – |
| Net fair value gains/(losses) on financial assets at fair value through profit or loss | – | 138 | (28) |
| Restructuring costs | – | – | – |
| Gains from dilution of equity accounted investments | – | – | – |
| Initial expenses related to Prudential Book transfer | – | – | – |
| Transaction costs related to VitalityLife interest rate derivatives | – | – | – |
| Covid-19 vaccination programme | – | – | – |
| Amortisation of intangibles from business combinations | – | – | – |
| Market rentals related to Head Office building adjusted for finance costs and depreciation | – | – | – |
| Finance costs[5] | (1) | (26) | – |
| Intercompany finance costs | (268) | – | – |
| Foreign exchange (losses)/gains | (6) | 3 | (25) |
| **Profit before tax** | 3 187 | 1 059 | 1 071 |
| Income tax expense | (894) | (364) | (331) |
| **Profit for the year** | 2 293 | 695 | 740 |

*1 The inter-segment funding of R714 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.*

*2 This segment relates to SA Insure – Personal lines.*

*3 The segment information is presented on the same basis as reported to the Chief Executive Officers of the reportable segments. The segment total is then adjusted for accounting reclassifications and entries required to produce IFRS compliant results. These adjustments include the following:*

- *The VitalityLife results, for business written on the Prudential Assurance Company license, are reclassified to account for the contractual arrangement as a reinsurance contract under IFRS 4.*
- *Unit trusts which the Group controls in terms of IFRS 10 are consolidated into Discovery's results for IFRS purposes. The IFRS reporting adjustments include the effects of consolidating the unit trusts into Discovery's results, effectively being the income and expenses relating to units held by third parties.*
- *The effects of eliminating intercompany transactions on consolidation and normalised operating profit adjustments.*

| | SA Insure[2] | SA Vitality | SA Bank | UK Health | UK Life | All other segments | Segment total | IFRS reporting adjustments[3] | IFRS total |
|---|---|---|---|---|---|---|---|---|---|
| | 4 091 | – | – | 11 075 | 6 466 | 6 351 | 56 812 | (877) | 55 935 |
| | (66) | – | – | (1 839) | (3 354) | (86) | (8 606) | 877 | (7 729) |
| | – | – | – | (823) | – | – | (823) | – | (823) |
| | 4 025 | – | – | 8 413 | 3 112 | 6 265 | 47 383 | – | 47 383 |
| | 16 | – | 2 | 28 | – | 1 724 | 11 711 | (11) | 11 700 |
| | – | 2 295 | 21 | 240 | 230 | 554 | 3 340 | – | 3 340 |
| | – | – | 464 | – | – | 16 | 480 | – | 480 |
| | – | – | 633 | – | – | – | 633 | – | 633 |
| | – | – | (169) | – | – | 16 | (153) | – | (153) |
| | – | – | 214 | – | – | – | 214 | 27 | 241 |
| | – | – | 627 | – | – | – | 627 | – | 627 |
| | – | – | (413) | – | – | – | (413) | 27 | (386) |
| | 111 | – | – | – | 9 | 9 | 139 | (139) | – |
| | 14 | – | 83 | 29 | (792) | 1 358 | 10 507 | 1 384 | 11 891 |
| | – | – | 312 | 60 | – | 10 | 1 353 | 19 | 1 372 |
| | – | – | – | – | 769 | – | 769 | (769) | – |
| | – | – | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | 500 | – | 500 |
| | 4 166 | 2 295 | 1 096 | 8 770 | 3 328 | 9 936 | 76 396 | 511 | 76 907 |
| | (2 270) | – | – | (3 894) | (837) | (683) | (28 178) | – | (28 178) |
| | (2 269) | – | – | (5 219) | (1 962) | (761) | (34 541) | 569 | (33 972) |
| | (1) | – | – | 1 325 | 1 125 | 78 | 6 363 | (569) | 5 794 |
| | (599) | (61) | – | (942) | (1 719) | 174 | (5 783) | 750 | (5 033) |
| | – | – | (271) | – | – | – | (271) | – | (271) |
| | (70) | (13) | (246) | (447) | (57) | (669) | (1 638) | (210) | (1 848) |
| | (6) | – | – | – | – | (18) | (50) | – | (50) |
| | – | (1) | – | (5) | – | (40) | (61) | – | (61) |
| | (937) | (2 177) | (1 673) | (3 297) | (1 831) | (2 598) | (20 629) | (91) | (20 720) |
| | – | – | – | 912 | 1 861 | – | 2 773 | – | 2 773 |
| | – | – | – | – | (6 143) | 76 | (2 634) | 3 179 | 545 |
| | – | – | – | 13 | 10 | – | 56 | – | 56 |
| | (47) | – | – | (155) | (17) | (6 436) | (17 915) | (26) | (17 941) |
| | – | – | – | – | 6 049 | – | 4 934 | (3 179) | 1 755 |
| | – | – | – | – | – | (255) | (880) | (2 754) | (3 634) |
| | 13 | – | – | (2) | – | 512 | 523 | – | 523 |
| | – | – | – | – | – | (149) | (149) | – | (149) |
| | 250 | 43 | (1 094) | 953 | 644 | (150) | 6 494 | (1 820) | 4 674 |
| | – | – | – | – | (108) | – | (519) | 1 309 | 790 |
| | – | – | – | – | 1 201 | – | 790 | – | 790 |
| | – | – | – | – | (1 309) | – | (1 309) | 1 309 | – |
| | – | 39 | – | – | 3 | 14 | 149 | 131 | 280 |
| | – | – | – | – | 7 | 809 | 816 | (816) | – |
| | – | – | – | – | 139 | (471) | (222) | 222 | – |
| | – | – | – | – | (33) | – | (33) | 33 | – |
| | 537 | – | – | – | – | 17 | 554 | – | 554 |
| | – | – | – | - | (187) | – | (187) | 187 | – |
| | – | – | – | – | (4) | – | (4) | 4 | – |
| | – | – | – | – | – | (42) | (42) | 42 | – |
| | – | – | – | – | – | (66) | (66) | – | (66) |
| | – | – | – | – | – | (228) | (228) | 228 | – |
| | – | – | – | (7) | (65) | (1 192) | (1 291) | (357) | (1 648) |
| | – | – | – | (6) | (236) | (315) | (825) | 825 | – |
| | – | – | – | – | – | (361) | (389) | – | (389) |
| | 787 | 82 | (1 094) | 940 | 160 | (1 985) | 4 207 | (12) | 4 195 |
| | (207) | (24) | 334 | (149) | 363 | 285 | (987) | 12 | (975) |
| | 580 | 58 | (760) | 791 | 523 | (1 700) | 3 220 | – | 3 220 |

*4 The banking fee and commission income consists of R272 million of revenue which passes over time while the interchange revenue of R361 million is recognised at a point in time.*

## ADDITIONAL INFORMATION

### Normalised profit from operations

The following table shows the main components of the normalised profit from operations for the year ended 30 June 2022

| | South Africa | | | United Kingdom | | |
|---|---|---|---|---|---|---|
| R million | **June 2022** | June 2021 | % Change | **June 2022** | June 2021 | % Change |
| Discovery Health | **3 600** | 3 423 | 5 | **–** | – | – |
| Discovery Life | **4 028** | 1 341 | 200 | **–** | – | – |
| Discovery Invest | **1 204** | 1 084 | 11 | **–** | – | – |
| Discovery Vitality | **9** | 43 | (79) | **–** | – | – |
| VitalityHealth | **–** | – | – | **1 328** | 953 | 39 |
| VitalityLife | **–** | – | – | **671** | 644 | 4 |
| Normalised profit from established businesses | **8 841** | 5 891 | 50 | **1 999** | 1 597 | 25 |
| Discovery Insure (Personal lines) | **(162)** | 250 | (165) | **–** | – | – |
| Vitality Group Insurance[1] | **–** | – | – | **–** | – | – |
| Ping An Health[1] | **–** | – | – | **–** | – | – |
| Normalised profit/(loss) from emerging businesses[2] | **(162)** | 250 | (165) | **–** | – | – |
| Discovery Bank | **(990)** | (1 094) | 10 | **–** | – | – |
| Other new initiatives[1,3] | **(232)** | (288) | 19 | **(518)** | (233) | (122) |
| Normalised loss from new initiatives | **(1 222)** | (1 382) | 12 | **(518)** | (233) | (122) |
| **Normalised profit from operations[4]** | **7 457** | 4 759 | 57 | **1 481** | 1 364 | 9 |

1 *Included in 'All other segments' in the Segmental information.*

2 *Emerging businesses are those businesses that have achieved sufficient scale to be profitable or profitable in the near future, although not yet significant in cash generation for the Group and likely to require funds to support new business growth.*

3 *Other new initiatives include costs of start-up businesses and expenses incurred to investigate, research and develop new products and markets. Start-up costs include costs in relation to a commercial offering in Discovery Insure, an Umbrella Fund offering in Discovery Invest and the Vitality1 platform being a leading behavioural change platform enabling shared-value insurance and financial services products across the Discovery Group. Certain unallocated heads costs are also included in this segment. The segment also includes VitalityInvest.*

4 *This amount can be further analysed by referring to the Normalised profit from operations as per the Segment Total in the Segmental information.*

| Vitality Global | | | Total | | |
|---|---|---|---|---|---|
| **June 2022** | June 2021 | % Change | **June 2022** | June 2021 | % Change |
| **–** | – | – | **3 600** | 3 423 | 5 |
| **–** | – | – | **4 028** | 1 341 | 200 |
| **–** | – | – | **1 204** | 1 084 | 11 |
| **–** | – | – | **9** | 43 | (79) |
| **–** | – | – | **1 328** | 953 | 39 |
| **–** | – | – | **671** | 644 | 4 |
| **–** | – | – | **10 840** | 7 488 | 45 |
| **–** | – | – | **(162)** | 250 | (165) |
| **473** | 417 | 13 | **473** | 417 | 13 |
| **338** | 411 | (18) | **338** | 411 | (18) |
| **811** | 828 | (2) | **649** | 1 078 | (40) |
| **–** | – | – | **(990)** | (1 094) | 10 |
| **(365)** | (457) | 20 | **(1 115)** | (978) | (14) |
| **(365)** | (457) | 20 | **(2 105)** | (2 072) | (2) |
| **446** | 371 | 20 | **9 384** | 6 494 | 45 |

# REVIEW OF GROUP RESULTS *continued*
**for the year ended 30 June 2022**

## ADDITIONAL INFORMATION *continued*
### Earnings, Headline earnings and Normalised Headline Earnings

| R million | **Group Year ended June 2022 Audited** | Group Year ended June 2021 Audited | % Change |
|---|---|---|---|
| **Earnings per share (cents):** | | | |
| – basic | 825.5 | 480.7 | 72 |
| – diluted | 817.8 | 475.4 | 72 |
| **Headline earnings per share (cents):** | | | |
| – basic | 792.4 | 454.7 | 74 |
| – diluted | 785.0 | 449.7 | 75 |
| **Normalised headline earnings per share (cents):** | | | |
| – basic | 885.5 | 518.7 | 71 |
| – diluted | 877.3 | 512.9 | 71 |
| **Number of shares used in calculation** | | | |
| Weighted number of shares in issue ('000) | 656 901 | 656 710 | |
| Diluted weighted number of shares ('000) | 663 082 | 664 073 | |

For the year ended 30 June 2022, the headline earnings and normalised headline earnings reconciliations have been amended to enhance the presentation thereof. The presentation of the prior period has been restated accordingly to enable comparability.

### HEADLINE EARNINGS RECONCILIATION
Headline earnings per share is disclosed per the JSE Listings Requirements and is calculated in accordance with the circular titled Headline Earnings issued by SAICA, as amended from time to time. Headline earnings per share is based on the net profit after tax attributable to ordinary shareholders adjusted for items of a capital nature and the weighted average number of ordinary shares in issue.

| | **Group year ended 30 June 2022 Audited** | | | Group year ended 30 June 2021 Audited | | | |
|---|---|---|---|---|---|---|---|
| R million | **Gross** | **Tax** | **Net** | Gross | Tax | Net | % Change |
| **Profit attributable to the ordinary shareholders** | | | **5 422** | | | 3 157 | 72 |
| **Adjusted for:** | | | | | | | |
| – gain on disposal of intangible assets | **(131)** | **29** | **(102)** | – | – | – | |
| – loss on derecognition of intangible assets | **37** | **(5)** | **32** | 39 | (8) | 31 | |
| – loss on derecognition of property and equipment | **13** | **(1)** | **12** | 11 | (2) | 9 | |
| – loss/(gain) on disposal of property and equipment | **3** | **–** | **3** | (3) | 1 | (2) | |
| – impairment of intangible assets | **–** | **–** | **–** | 44 | (3) | 41 | |
| – impairment of property and equipment | **–** | **–** | **–** | 17 | (2) | 15 | |
| – adjustments attributable to equity-accounted investments: | | | | | | | |
| – gain on dilution and disposal of equity-accounted investments | **(33)** | **4** | **(29)** | (554) | 140 | (414) | |
| – (reversal of impairment)/impairment of equity-accounted investments[1] | **(134)** | **–** | **(134)** | 149 | – | 149 | |
| **Headline earnings** | | | **5 204** | | | 2 986 | 74 |

1 *impairment reversal was supported by a firm offer to purchase the equity-accounted investment and a change in intention resulting in reclassification of the investments as held for sale.*

# ADDITIONAL INFORMATION *continued*

## Earnings, Headline earnings and Normalised Headline Earnings *continued*

### NORMALISED HEADLINE EARNINGS RECONCILIATION

Normalised headline earnings is calculated per Discovery's policy as set out in the Accounting Policies at the end of the results announcement.

| | **Group year ended 30 June 2022 Audited** | | | Group year ended 30 June 2021 Audited | | | |
|---|---|---|---|---|---|---|---|
| R million | **Gross** | **Tax** | **Net** | Gross | Tax | Net | % Change |
| **Headline earnings** | | | **5 204** | | | 2 986 | 74 |
| **Adjusted for:** | | | | | | | |
| Economic assumption adjustments net of discretionary margins and interest rate derivatives | **84** | **(74)** | **10** | 519 | (136) | 383 | |
| – gain on economic assumption adjustments net of discretionary margins | **(169)** | **(26)** | **(195)** | (790) | 112 | (678) | |
| – loss on fair value changes on VitalityLife interest rate derivative, excl time value of swaption | **253** | **(48)** | **205** | 1 309 | (248) | 1 061 | |
| Loss/(gain) on fair value changes in the time value of swaption contract in VitalityLife | **454** | **(87)** | **367** | (139) | 26 | (113) | |
| Other | **233** | **2** | **235** | 407 | (257) | 150 | |
| – amortisation of intangible assets arising from business combinations | **59** | **(13)** | **46** | 66 | (13) | 53 | |
| – gain on disposal of intangible asset[1] | **131** | **(29)** | **102** | – | – | – | |
| – recognition of deferred tax assets on assessed losses not recognised in previous periods | **–** | **(14)** | **(14)** | – | (152) | (152) | |
| – loss/(gain) on fair value changes on foreign exchange contracts not designated as hedges | **2** | **(1)** | **1** | 304 | (85) | 219 | |
| – restructuring costs | **–** | **–** | **–** | 33 | (6) | 27 | |
| – transaction costs related to the VitalityLife interest rate derivative | **–** | **–** | **–** | 4 | (1) | 3 | |
| – increase or decrease in deferred tax balances resulting from use of different tax rates on items that were excluded from normalised headline earnings | **–** | **59** | **59** | – | – | – | |
| – adjustment attributable to equity-accounted investments: amortisation of intangible assets arising from business combinations | **41** | **–** | **41** | – | – | – | |
| **Normalised headline earnings** | | | **5 816** | | | 3 406 | 71 |

1 *Gain realised from the delivery of intellectual property to Amplify Health. (Refer to 'Other significant items in these results' for more details.)*

# OTHER SIGNIFICANT ITEMS IN THESE RESULTS

## Provision and reserves for expected COVID-19 impact

At 30 June 2021, Discovery had reserved R3.1 billion, for both future claims and lapses as a result of the COVID-19 pandemic. This estimation reflected management's best estimate of the impact as at 30 June 2021 and comprised of provisions in Discovery Life and VitalityLife and unearned premium reserves in VitalityHealth. Due to the utilisation of the available discretionary margin, some of these provisions were accounted for against the discretionary margins in accordance with IFRS and Discovery's accounting policy, while the remainder was recognised in profit or loss in prior years.

Although the allowance for the COVID-19 impact was an abnormal provision for future impacts, it was not excluded in the presentation of normalised headline earnings because it was seen as part of the core operations and will impact future cashflows.

COVID-19 is expected to transition into an endemic phase considering high immunity of the population in the Discovery client base. Given this transition, the impact on financial metrics is expected to be less material compared to the early waves of the COVID-19 pandemic. Allowance for the remaining short-term and long-term impacts has been incorporated into business as usual reserving for insurance contracts.

The movement in the COVID-19 provision and reserves for the year ended 30 June 2022 is as follows:

| R million | June 2022 | June 2021 |
|---|---|---|
| **At beginning of the period** | **3 080** | **3 442** |
| – Provisions | 2 800 | 2 729 |
| – Unearned premium reserve | 280 | 713 |
| **Movements:** | | |
| – Unwinding, utilisation and release of provisions | (2 798) | (1 886) |
| – Provisions made during the period, including in respect of new business | - | 2 177 |
| – Net movement in unearned premium reserve | (280) | (433) |
| – Other | (2) | (220) |
| **At end of the period** | **–** | **3 080** |
| – Provisions | – | 2 800 |
| – Unearned premium reserve | – | 280 |

## Amplify Health

On 15 February 2022, it was announced that Discovery and AIA Group Limited ("AIA") have reached agreement to establish a new health InsurTech business, named "Amplify Health" in which Discovery owns a 25% equity interest. The partnership will operate as a joint venture ("JV") in certain defined parts of Asia.

Amplify Health's vision is to be Asia's leading digital health technology and integrated solutions business, transforming how individuals, corporates, payors and providers experience and manage health insurance and healthcare delivery, improving the health and wellness outcomes of patients and communities across Asia. The JV combines Discovery and AIA's distinctive and complementary strengths, bringing together Discovery's market-proven health insurance technology systems and assets and its Vitality technology platform and assets with AIA's market-leading businesses, brand, distribution platform and decades of well-established execution capabilities across Asia.

Subsequent to the announcement and prior to the financial year-end, the transaction agreements were finalised and Amplify Health commenced initial activities. The impact on the results of the Group for the year under review consists of recognition of income on delivery of an initial component of certain intellectual property by Vitality Global into the Amplify Health arrangement amounting to R131 million, expensing of initial legal and related set-up costs of R109 million as well as immaterial equity-accounted losses and revenue for services.

## Ping An Health capital contribution

As announced in the 30 June 2021 and 31 December 2021 results announcements, the Group contributed R1.5 billion additional capital to Ping An Health during the year under review. This capital contribution represents the Group's proportionate contribution in respect of its 24.99% shareholding and the combined additional capital should be sufficient to support the business growth and regulatory requirements for the foreseeable future.

## VitalityInvest

As explained in the commentary to these results, a strategic review of new initiatives led to a decision to change the strategy with regard to VitalityInvest in the UK and to effectively exit the business. This resulted in accelerated write-off of various capitalised systems and intangible assets as well as assets arising from insurance contracts related to that business, with a pre-tax impact of approximately R280 million.

## Derivative instruments - VitalityLife business

As previously disclosed in the financial year ended 30 June 2020, VitalityLife, as a long-term insurer in the UK, has significant exposure to long term interest rate risk and in particular exposure to lower long term interest rates and yields. In that year, VitalityLife implemented interest rate risk mitigation strategies to protect itself against further declines in long term interest rates by entering into derivative contracts. This strategy continues to ensure, that the VitalityLife business operated well within its pre-determined risk appetite.

As explained at the time, the derivative instruments comprise of an interest rate swap which swaps exposure to variable interest rates in return for fixed interest rates originally referenced to 25 year UK swap curve. During the year under review, this has been restructured to be referenced to the 50 year swap curve to better match the exposure. In addition, the structure also included put swap options (payer swaptions) which were acquired to provide Discovery participation in the benefit should interest rates increase above a certain level. These swaptions have a given exercise date and therefore are required to be replaced from time to time as has been done in the past. During the year under review the existing swaption contract was realised and replaced with a new extended swaption at premium of GBP14 million maturing in 2024.

Reference to UK LIfe Segmental information, set out on page 19, for the year under review, the net gain recognised in the profit or loss amounts to R567 million, consisting of economic assumption adjustments amounting to R820 million, less net fair value losses on interest rate derivatives of R253 million (including fair value losses on the swap contracts and intrinsic value gains of the swaption contract). Against this net gain of R567 million within the UK Life Segmental should be seen the net fair value write-off of the time value of the swaption contract of R454 million (largely representing the opening time value of the sold swaption contract as at the beginning of the financial year). On this basis, the effective net gain recognised in profit or loss resulting from economic assumptions, including all hedge impacts amounts to R113 million (2021: R31 million).

The impacts of the mark-to-market revaluation of these derivative positions at reporting date are included in profit or loss for the reporting period. When presenting "Normalised" measures, these impacts, as well as any impact recognised through profit or loss resulting from economic assumption changes net of discretionary margins, are excluded from "normalised" results as explained in our policy on the presentation of normalised measures.

## Claims experience from civil unrest July 2021

In compliance with JSE Listings requirements, it is confirmed that the claims arising from the July 2021 unrest in both personal lines and business lines of Discovery Insure were fully settled from the SASRIA fund, with no loss to Discovery.

## April 2022 floods in KwaZulu-Natal

In compliance with the JSE Listings requirements, we report that Discovery Insure received gross claims from policyholders in excess of R150 million in respect of personal line clients and R47 million in respect of business insurance as a result of the KwaZulu-Natal floods in April 2022. The net impact on profit or loss after allowing for reinsurance recoveries and reinstatement premiums was R78 million.

# OTHER SIGNIFICANT ITEMS IN THESE RESULTS *continued*

## Borrowings at amortised cost

| R million | Reference | June 2022 | June 2021 |
|---|---|---|---|
| Borrowing from banks and listed debt | | **16 308** | 15 230 |
| – United Kingdom borrowings | I. | **3 122** | 3 764 |
| – South African borrowings | II. | **13 186** | 11 466 |
| Bank overdraft in underlying liabilities of consolidated Unit Trusts | | **156** | – |
| Lease liabilities | | **4 120** | 4 263 |
| – 1 Discovery Place | | **3 373** | 3 388 |
| – Other lease liabilities | | **747** | 875 |
| Total borrowings at amortised cost | | **20 584** | 19 493 |

### I. UNITED KINGDOM BORROWINGS

| Facility amount GBP million | Variable rate[1] | Capital repayment and maturity date | Carrying value GBP (Rand) million June 2022 GBP | June 2022 R | June 2021 GBP | June 2021 R |
|---|---|---|---|---|---|---|
| 80 | SONIA + 2.73%[2] | Instalments – 31 July 2023 | **42** | **847** | 73 | 1 435 |
| 34 | SONIA + 1.31% [2,3] | At maturity – 19 October 2022 | **14** | **276** | 26 | 512 |
| 100 | SONIA + 2.38%[2] | At maturity – 31 July 2023 | **100** | **1 999** | 89 | 1 817 |
| 214 | | | **156** | **3 122** | 188 | 3 764 |

*1 SONIA – Daily Sterling Overnight Index Average, which has replaced Libor as part of Interest Rate reform in the United Kingdom.*
*2 Interest payable quarterly in arrears.*
*3 This is a revolving credit facility.*

Total finance cost in respect of the UK borrowings for the year ended 30 June 2022 was GBP 2.9 million (R59 million) (2021: GBP 4.6 million (R95 million)).

# OTHER SIGNIFICANT ITEMS IN THESE RESULTS *continued*

## Borrowings at amortised cost *continued*

### II. SOUTH AFRICAN BORROWINGS

#### CREDIT RATING

In April 2022 Moody's Investors Service ("Moody's") reaffirmed Discovery Limited's Global scale long-term issuer rating of Ba3 and the national scale long- term issuer rating at A1.za. The outlook changed to stable from negative, aligned to the outlook of the country.

#### DISCOVERY LIMITED

| Facility mount R million | Variable rate | Interest rate per annum | Capital repayment and maturity date | Carrying value R million June 2022 | Carrying value R million June 2021 |
|---|---|---|---|---|---|
| Listed DMTN[4] | | | | | |
| 500 | 3-month Jibar + 161 bps | 9.71%[1,3] | At maturity – 21 November 2022 | **503** | 503 |
| 500 | 3-month Jibar + 205 bps | 6.30%[1,3] | At maturity – 21 August 2023 | **503** | 503 |
| 200 | – | 10.46%[2] | At maturity – 21 November 2024 | **202** | 202 |
| 800 | 3-month Jibar + 191 bps | 10.31%[1,3] | At maturity – 21 November 2024 | **805** | 804 |
| 1 200 | 3-month Jibar + 191 bps | 9.21%[1,3] | At maturity – 21 November 2024 | **1 217** | 1 220 |
| 700 | 3-month Jibar + 180 bps | 10.29%[1,3] | At maturity – 21 August 2026 | **704** | 703 |
| 300 | 3-month Jibar + 180 bps | 9.40%[1,3] | At maturity – 21 November 2026 | **303** | 302 |
| 792 | 3-month Jibar + 173 bps | – | At maturity – 21 May 2027 | **792** | – |
| 226 | 3-month Jibar + 180 bps | – | At maturity – 21 May 2029 | **226** | – |
| Unlisted DMTN[4, 5] | | | | | |
| 1 100 | – | 8.92%[3] | At maturity – 10 March 2023 | **1 104** | 1 103 |
| 2 500 | – | 9.62%[3] | At maturity – 22 February 2025 | **2 520** | 2 519 |
| Other | | | | | |
| 1 000 | 3-month Jibar + 245 bps | 10.28%[1,3] | At maturity – 2 March 2023 | **1 003** | 999 |
| 500 | 3-month Jibar + 86 bps | 5.85% | At maturity – 30 June 2022 | **–** | 659 |
| 1 400 | 3-month Jibar + 125bps[3] | – | At maturity – 12 October 2022 | **702** | – |
| 11 718 | | | | **10 584** | 9 517 |

1 *The interest rate has been fixed through interest rate swaps.*
2 *Interest is payable semi-annually in arrears.*
3 *Interest payable quarterly in arrears.*
4 *DMTN refers to the R10 billion Discovery Domestic Medium Term Note (DMTN) program registered in 2017.*
5 *During the financial year ended 30 June 2020, Discovery Limited refinanced R3.6 billion bank syndicated loans through the issue of unlisted DMTN notes. The notes, although underwritten by a bank until maturity, are structured to enable short-term issuances into the commercial paper market on an ongoing basis.*

# OTHER SIGNIFICANT ITEMS IN THESE RESULTS *continued*

## BORROWINGS AT AMORTISED COST *continued*

### DISCOVERY CENTRAL SERVICES

| Facility mount R million | Interest rate per annum | Capital repayment and maturity date | Carrying value R million June 2022 | Carrying value R million June 2021 |
|---|---|---|---|---|
| 1 400 | 10.60%[1] | At maturity – 20 December 2023 | **1 417** | 1 423 |
| 650 | 11.56%[2] | Various – final 29 October 2027 | **494** | 526 |
| 691 | 3-month Jibar + 1.9% | At maturity – 30 June 2027 | **691** | – |
| 1 500 | 3-month Jibar + 1.45% | At maturity – 8 June 2024 | **–** | – |
| 4 241 | | | **2 602** | 1 949 |

1 *Interest payable quarterly in arrears.*
2 *Instalments of interest and capital is monthly.*

Total finance costs in respect of South African borrowings and related hedges for the year ended 30 June 2022 was R932 million (2021: R872 million).

## CAPITAL MANAGEMENT, FINANCIAL LEVERAGE RATIO AND COVENANTS

The Group's capitals is defined as capital and reserves attributable to shareholders as presented on the consolidated statement of financial position. The Group's objectives when managing capital are:

- To comply with the statutory capital requirements required by the regulators of the insurance markets where the Group operates (refer to Capital section of the directors' report for the statutory capital requirements).
- To maintain a capital buffer in excess of the statutory capital requirements in order to reduce the risk of breaching the statutory requirement in the event of deviations from the main assumptions affecting the Group's insurance businesses.
- To ensure that sufficient capital is available to fund the Group's working capital and strategic capital requirements.
- To achieve an optimal and efficient capital funding profile; and
- To consider capital management needs both in the short-term and over a five-year planning horizon.

Discovery has a Finance and Capital Committee that ensures alignment in strategic financial management between the centre and subsidiaries within South Africa, UK and US. The committee is the governance body for all capital allocation activities across the Group.

A range of capital raising options are available to manage the capital structure of the Group, which includes the issue of new shares, debt, reinsurance arrangements and other hybrid instruments.

# OTHER SIGNIFICANT ITEMS IN THESE RESULTS *continued*

## CAPITAL MANAGEMENT, FINANCIAL LEVERAGE RATIO AND COVENANTS *continued*

### FINANCIAL LEVERAGE RATIO

As part of the capital management process, the Group monitors its capital structure utilising the Financial Leverage Ratio ("FLR"). This ratio is calculated as total debt[1] divided by total debt plus total equity. The Group's strategy is to maintain a prudent FLR of 28% per the Group Risk Appetite statement. However, the 28% is merely a risk appetite indicator, and does not necessarily indicate any form of a breach in terms of regulatory or covenant restrictions. The table below summarises the FLR as at 30 June.

| R million | **June 2022** | June 2021 |
|---|---|---|
| – Borrowings at amortised cost | **16 464** | 15 230 |
| – Guaranteed deposit facilities | **300** | 800 |
| **Total debt and guarantees** | **16 764** | 16 030 |
| **Total equity** | **53 555** | 46 419 |
| **Financial leverage ratio %** | **23.8%** | 25.7% |

*1 Excluding all IFRS 16 lease liabilities of R4 120 million (June 2021: R4 263 million).*

The FLR at 30 June 2022 is in line with Discovery's risk appetite.

## OTHER SIGNIFICANT ITEMS IN THESE RESULTS *continued*

### CAPITAL MANAGEMENT, FINANCIAL LEVERAGE RATIO AND COVENANTS *continued*

### CAPITAL

For Group subsidiaries that operate in the insurance and financial services sectors, the relevant regulator specifies the minimum amount and type of capital that must be held by each of the subsidiaries in addition to their insurance liabilities. The minimum required capital must be maintained at all times throughout the period.

With effect from 1 July 2018, the Insurance Act 18 of 2017 ("Insurance Act"), and the related Prudential Standards were implemented in South Africa. Discovery Life and Discovery Insure are regulated under the Insurance Act, while Vitality Health and Vitality Life are regulated under the European Solvency II regulatory regime, which was implemented from 1 January 2016.

The table below summarises the capital requirements on the statutory basis, across the Group subsidiaries, and the actual solvency capital held in relation to this requirement.

| | **JUNE 2022** | | June 2021 | |
|---|---|---|---|---|
| | **Statutory capital requirements** | **Cover** | Statutory capital requirements | Cover |
| Discovery Life | **R20 322 million** | **1.7 times** | R17 647 million | 1.8 times |
| Discovery Insure | **R1 138 million** | **1.2 times** | R 1 079 million | 1.8 times |
| Vitality Health | **GBP 117.2 million (R2 344 million)** | **1.5 times** | GBP 105.6 million (R2 084 million) | 1.6 times |
| Vitality Life | **GBP 297.1 million (R5 943 million)** | **2.1 times** | GBP 225.5 million (R4 451 million) | 2.4 times |

#### PING AN HEALTH (PAH) CAPITAL

As described above, Discovery made a capital contribution of R1.5 billion to PAH in proportion to Discovery's 24.99% shareholding. While this has been funded in the interim by way of a bridge facility and internal resources, it had been indicated that in terms of the capital management principles applied, such capital requirements by associates and subsidiaries are typically funded by way of capital issuance at Discovery Limited level. Given that the final regulatory approval by the Chinese Banking and Insurance Regulatory Commission was prolonged, the capital continues to be funded as set out above. However, it remains the intention to replace the funding with a capital issuance of only this amount if and when markets are conducive.

#### PART VII TRANSFER DEFERRAL

Subsequent to the disclosure in the interim results and prior to the financial year-end, Discovery and the Prudential Assurance Company ("PAC") have finalised the agreement to a long-term deferral of the transfer of the initial Vitality Life back-book of business originally written on the PAC license that was to be transferred to the Vitality Life Limited license ("the Part VII transfer"). The agreement is such that the Part VII transfer is now deferred for the long-term with options to extend further and for all intents and purposes should be viewed as an indefinite deferral. This extension is capital efficient and has a positive effect on the Group's long-term funding plan, is at reduced cost beyond March 2023 (the previously intended date of transfer) and resulted in a positive impact to the Group's embedded value.

# OTHER SIGNIFICANT ITEMS IN THESE RESULTS *continued*

## CAPITAL MANAGEMENT, FINANCIAL LEVERAGE RATIO AND COVENANTS *continued*

### DEBT COVENANTS

The following are the key debt covenant ratios and their proximity to minimum requirements as per the contractual financial covenants.

| Debt covenant and explanation | Minimum requirement | **June 2022** | June 2021 |
|---|---|---|---|
| Group Debt to EBITDA Ratio:<br>– Group debt is contractually defined and means the aggregate consolidated financial indebtedness of the Group and excludes items such as the 1 Discovery Place (1 DP) lease and includes guarantees issued to third parties.<br>– EBITDA is contractually defined and specifically includes items such as dividends from associates, rental paid on 1DP and excludes items deemed extraordinary, such as economic assumption adjustments, and specified FinRe arrangements. | Less than 2.5 times | **1.83** | 2.31 |
| Group financial indebtedness to embedded value<br>– Group financial indebtedness is as per Group Debt in the calculation | Less than 30% of Group Embedded value | **20.3%** | 22.6% |
| Discovery Life Statutory Capital Requirement (SCR) | SCR cover must be more than 1.1 | **1.74 times** | 1.83 times |
| Group embedded value | Greater than R30 billion | **ZAR 86 258 million** | ZAR 74 645 million |
| New business embedded value must not be negative. | Positive value of new business for 3 consecutive 6-month periods | **June 2022: R1 124 million Dec 2021: R937 million June 2021: R946 million** | June 2021: R946 million Dec 2020: R945 million June 2020: R726 million |

## OTHER SIGNIFICANT ITEMS IN THESE RESULTS *continued*

### Consolidation of Discovery Unit Trusts

Unit trusts which the Group controls in terms of IFRS 10 are consolidated into Discovery's results for accounting purposes, which results in the recognition of the underlying assets and liabilities of each of the funds.

Assets and liabilities of these unit trusts increased by R1 883 million respectively, compared to the prior financial year, with movements in the following line items on the Group's Statement of Financial Position:

Changes in assets

- Investments at fair value through profit or loss increased by R1 687 million.
- Cash and cash equivalents decreased by R304 million.
- Insurance receivables, contract receivables and other non-financial receivables increased by R435 million.
- Other assets increased by R15 million.

Changes in liabilities

- Investment contracts at fair value through profit or loss increased by R1 933 million.
- Other liabilities decreased by R100 million.

As these policies are linked, the consolidation of the Discovery Unit Trusts has no impact on the net asset value for shareholders.

There are significant trade volumes in the underlying funds of Discovery Unit Trusts. The cash flow impact of the movement in policyholder investments for the year is included in the following line items on the Group's Statement of cash flows:

- Purchase of investments held to back policyholder liabilities includes cash outflows of R30 009 million.
- Proceeds from the disposal of investments held to back policyholder liabilities includes cash inflows of R29 661 million.

### Material transactions with related parties

#### DISCOVERY LONG-TERM INCENTIVE PLAN TRUST

At the annual general meeting held on 28 November 2019, the shareholders approved the establishment of the Discovery Long-Term Incentive Plan Trust (Trust) with the purpose, inter-alia, to subscribe, purchase and/or otherwise acquire and hold Discovery ordinary shares from time to time for the benefit of the share-based payment plan for employees, in accordance with the requirements of the Trust. During December 2021, 3 194 870 (December 2020: 7 477 865) new shares were issued by Discovery Limited to the Trust (December 2020: representing the allocation over the prior two years) at a value of R443 million (December 2020: R907 million), with a par value of 0.01 cents per share. While held in the Trust, these shares are treated as treasury shares and not treated as issued, for accounting purposes.

### Major customers and other Discovery entities not part of Discovery Group

#### DISCOVERY HEALTH MEDICAL SCHEME ("DHMS")

Discovery Health administers DHMS and provides managed care services for which it charges an administration fee and a managed healthcare fee respectively. These fees are determined on an annual basis and approved by the trustees of DHMS. The fees totalled R6 804 million for the year ended 30 June 2022 (2021: R6 403 million). Discovery offers the members of DHMS access to the Vitality programme.

# OTHER SIGNIFICANT ITEMS IN THESE RESULTS *continued*

## Shareholder information

### DIRECTORATE

Changes to the Board of Discovery Limited from 1 July 2021 to the date of this announcement are as follows:

- Ms M Hlahla has been appointed as an independent non-executive director with effect from 15 August 2021. Ms M Hlahla is a member of the Audit Committee, Remuneration Committee as well as the Social and Ethics Committee. Ms Hlahla's appointment strengthens the independence and business skills of the Board and Committees.
- Ms SE De Bruyn, an independent non-executive director, retired, effective 24 November 2021. This is in line with the Company's board's rotation and succession planning. Ms De Bruyn has served as an independent non-executive director of the Company since 2005 and has served as the chairperson of the Remuneration Committee and as a member of the Audit Committee. Ms De Bruyn has also retired as a non-executive director of Discovery Life Limited, Discovery Health (Pty) Ltd and Discovery Vitality (Pty) Ltd.
- Dr BA Brink, an independent non-executive director, retired, effective 24 November 2021. This is in line with the Company's board's rotation and succession planning. Dr Brink has served as an independent non-executive director of the Company since 2004 and has served as a member of the Treating Customers Fairly Sub-committee, Social and Ethics Committee as well as the Risk and Compliance Committee. Dr Brink has also retired as a non-executive director of Discovery Health (Pty) Ltd and Discovery Vitality (Pty) Ltd.
- Ms B van Kralingen has been appointed as an independent non-executive director with effect from 7 April 2022. Ms B van Kralingen's appointment strengthens the experience of the Board's global business experience, technology and artificial intelligence expertise.
- Ms F Khanyile, an independent non-executive director, has been appointed as Chairperson of the Remuneration Committee following the retirement of Ms SE De Bruyn.
- Mr T Mboweni has been appointed as an independent non-executive director with effect from 5 May 2022. Mr Mboweni is a member of the Risk and Compliance Committee and the Remuneration Committee as weill as a non-executive director of Discovery Life Limited. Mr Mboweni's appointment brings a wealth of experience in finance, economics, and business advisory within emerging markets.

### DIVIDEND AND CAPITAL

#### INTERIM DIVIDENDS PAID IN RESPECT OF THE 2022 FINANCIAL YEAR

The following interim dividends were paid during the current period:

- B preference share dividend of 355.75342 cents per share (284.60274 cents net of dividend withholding tax), paid on 14 March 2022.
- No ordinary share dividends were declared.

# OTHER SIGNIFICANT ITEMS IN THESE RESULTS *continued*

## Shareholder information *continued*

### FINAL DIVIDEND DECLARATION IN RESPECT OF THE 2022 FINANCIAL YEAR

#### B PREFERENCE SHARE CASH DIVIDEND DECLARATION:

On 1 September 2022, the directors declared a final gross cash preference share dividend of 382.26027 cents (305.80822 cents net of dividend withholding tax) per B preference share for the period 1 January 2022 to 30 June 2022, payable from the income reserves of the Company. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

The issued preference share capital at the declaration date is 8 million B preference shares. The salient dates for the dividend will be as follows:

| | |
|---|---|
| Last day of trade to receive a dividend | Tuesday, 20 September 2022 |
| Shares commence trading "ex" dividend | Wednesday, 21 September 2022 |
| Record date | Friday, 23 September 2022 |
| Payment date | Monday, 26 September 2022 |

B Preference share certificates may not be dematerialised or rematerialised between Wednesday, 21 September 2022 and Friday, 23 September 2022, both days inclusive.

#### ORDINARY SHARE CASH DIVIDEND DECLARATION:

Despite the Group's robust capital position, due to the uncertainty initially caused by COVID-19 on the demographic and economic environment in SA combined with the volatile global macro-economic environment, the Discovery Board has decided to retain its prior stated position during the pandemic and has decided not to declare an ordinary final dividend for the year ended 30 June 2022. The reintroduction of an ordinary dividend will be considered on an ongoing basis.

# OTHER SIGNIFICANT ITEMS IN THESE RESULTS *continued*

## Accounting policies

### NORMALISED HEADLINE EARNINGS

Discovery assesses its performance using Normalised Headline Earnings, an alternative non-IFRS profit measure, alongside its IFRS profit. Management considers that Normalised Headline Earnings Per Share (NHEPS) is an appropriate alternative performance measure to enhance the comparability and understanding of the financial performance of the Group.

Non-IFRS measures are not uniformly defined or used by all entities and may not be comparable with similarly labelled measures and disclosures provided by other entities.

Discovery calculates headline earnings in accordance with the latest SAICA Circular 'Headline Earnings'. NHEPS is calculated by starting with headline earnings and adjusted to exclude material items that are not considered to be part of Discovery's normal operations as follows:

- Specified once-off transactions, for example restructuring costs, initial costs related to the Prudential book transfer, transaction costs related to interest rate derivatives and initial deferred tax assets raised on previously unrecognised assessed losses.
- Unusual items – Discovery considers items to be unusual when they have limited predictive value and it is reasonable that items of a similar nature would not necessarily arise for several future annual reporting periods. These adjustments include those gains or losses impacting profit or loss associated with changes in economic assumptions recognised in profit or loss, net of any gains or losses on derivatives to offset such changes in economic assumptions; or
- Income or expenses not considered to be part of Discovery's normal operations, for example amortisation of intangibles from business combinations and fair value gains or losses on foreign exchange contracts not designated as hedges.

In addition, specified items may be included in NHEPS that may otherwise have been excluded if the income is considered part of Discovery's normal operations. For example 'gains on disposal of intellectual property', if the sale arises from the monetisation of intellectual property rights where such monetisation is considered to be a core part of the business's operations or strategy towards value creation.

Management is responsible for the calculation of NHEPS and determining the inclusions and exclusions in accordance with the policy. The Discovery Limited Audit Committee reviews the normalised headline earnings for transparency and consistency.

# OTHER SIGNIFICANT ITEMS IN THESE RESULTS *continued*

## Basis of preparation

### STATEMENT OF COMPLIANCE

Discovery Limited is a company incorporated in South Africa.

The summary consolidated financial statements for the year ended 30 June 2022 consolidate the results of Discovery and its subsidiaries (together the Group) and equity account the Group's interest in associates and joint ventures.

The annual results comprise the condensed consolidated statement of financial position at 30 June 2022, condensed consolidated income statement, condensed consolidated statement of other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the year ended 30 June 2022 and selected explanatory notes.

The summary consolidated financial results are prepared in accordance with the JSE Limited Listings and Debt Listings Requirements, International Financial Reporting Standards (IFRS) including IAS 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council as well as the requirements of the South African Companies Act 71 of 2008. The accounting policies adopted are consistent with the accounting policies applied in the prior annual financial statements.

Amendments to standards effective from 1 July 2021 do not have a material effect on the Group's annual results. These annual results do not include all the notes typically included in the annual financial statements and should therefore be read in conjunction with the Group audited consolidated annual financial statements for the year ended 30 June 2022.

## Audit

The summary consolidated financial statements are extracted from audited information, but are not audited. The consolidated annual financial statements for the year ended 30 June 2022 have been audited by the Group's independent auditors PricewaterhouseCoopers Inc. and KPMG Inc., who expressed an unmodified opinion thereon.

The audited annual financial statements and the auditor's report thereon are available for inspection at the Company's registered office, together with the financial statements identified in the respective auditor's reports.

The directors of Discovery take full responsibility for the preparation of this report and that the financial information has been correctly extracted from the underlying annual financial statements.

# EMBEDDED VALUE STATEMENT
**for the year ended 30 June 2022**

The embedded value of Discovery consists of the following components:

- the adjusted net worth attributed to the business at the valuation date;
- plus: the present value of expected future shareholder cash flows from the in-force covered business;
- less: the cost of required capital.

The present value of future shareholder cash flows from the in-force covered business is calculated as the value of projected future after-tax shareholder cash flows of the business in-force at the valuation date, discounted at the risk discount rate.

The required capital are the assets attributed to the covered business above the amount required to back covered business liabilities, whose distribution to shareholders is restricted as they are allocated to cover regulatory and internal capital requirements.

The value of new business is the present value, at the point of sale, of the projected future after-tax shareholder cash flows of the new business written by Discovery, discounted at the risk discount rate, less an allowance for the reserving strain, initial expenses and cost of required capital. The value of new business is calculated using the current reporting date assumptions.

The embedded value includes the insurance and administration profits of the covered business in the Discovery Limited Group. Covered business includes business written in South Africa through Discovery Life ("Life"), Discovery Invest ("Invest"), Discovery Health ("Health") and Discovery Vitality ("Vitality"), and in the United Kingdom through VitalityLife and VitalityHealth. For Vitality Group, Ping An Health, Discovery Insure, Discovery Bank, VitalityInvest and Umbrella Funds, no published value has been placed on the current in-force business as the businesses have not yet reached suitable scale with predictable experience.

In August 2011, Discovery raised R800 million through the issue of non-cumulative, non-participating, non-convertible preference shares. For embedded value purposes this capital, net of share issue expenses, has been excluded from the adjusted net worth.

The VitalityLife embedded value has been adjusted to allow for the agreement with Prudential in May 2022 to defer the transfer of the VitalityLife business on the Prudential licence to the Vitality Life Limited licence ("the Part VII transfer").

The 30 June 2022 embedded value results and disclosures were subjected to an external review.

# EMBEDDED VALUE STATEMENT *continued*

**for the year ended 30 June 2022**

## TABLE 1: GROUP EMBEDDED VALUE

| R million | **30 June 2022** | 30 June 2021 | % change |
|---|---|---|---|
| Shareholders' funds | **53 555** | 46 419 | 15 |
| Adjustment to shareholders' funds from published basis[1] | **(39 764)** | (34 184) | 16 |
| Adjusted net worth[2] | **13 791** | 12 235 | 13 |
| Value of in-force covered business before cost of required capital | **76 077** | 67 175 | 13 |
| Cost of required capital | **(3 610)** | (4 765) | 24 |
| **Discovery Limited embedded value** | **86 258** | 74 645 | 16 |
| Number of shares (millions) | **657.0** | 656.8 | |
| Embedded value per share | **R131.29** | R113.65 | 16 |
| Diluted number of shares (millions) | **668.3** | 665.1 | |
| Diluted embedded value per share[3] | **R129.07** | R112.23 | 15 |

1 *A breakdown of the adjustment to shareholders' funds is shown in the table below. Note that where relevant, adjustments have been converted using the closing exchange rate of R20.00/GBP (June 2021: R19.74/GBP).*

| *R million* | **30 June 2022** | 30 June 2021 |
|---|---|---|
| *Life net assets under insurance contracts* | **(24 793)** | (20 675) |
| *Vitality Life Limited net assets under insurance contracts* | **(8 608)** | (7 703) |
| *VitalityHealth financial reinsurance asset* | **(3 021)** | (2 353) |
| *VitalityHealth and Vitality Health Insurance Limited deferred acquisition costs (net of deferred tax)* | **(450)** | (407) |
| *VitalityLife receivable relating to the Unemployment Cover benefit (net of deferred tax)* | **(11)** | (12) |
| *Goodwill relating to the acquisition of Standard Life Healthcare and the Prudential joint venture* | **(2 475)** | (2 442) |
| *Intangible assets (net of deferred tax) in covered businesses* | **(864)** | (830) |
| *Net preference share capital* | **(779)** | (779) |
| *Reversal of 1 Discovery Place IAS 17 financial lease accounting* | **1 170** | 975 |
| *Equity settled share based payment provision adjustment* | **67** | 42 |
| | **(39 764)** | (34 184) |

*For the prior period, the "Vitality Life Limited net assets under insurance contracts" included an adjustment for the Discovery funded VitalityLife business on the Prudential licence net assets under insurance contracts. From 30 June 2022, the Discovery funded VitalityLife business on the Prudential licence net assets under insurance contracts are no longer eliminated in the embedded value because the Discovery funding was settled as part of the agreement to delay the Part VII transfer in the period, aligning the financial operation of all VitalityLife business on the Prudential licence.*

*The "equity settled share based payment provision adjustment" reflects the difference between the provision in the IFRS equity and the mark-to-market value of the equity settled share based payments.*

# EMBEDDED VALUE STATEMENT *continued*
**for the year ended 30 June 2022**

2 *The following table sets out the capital position of the covered businesses with the required capital on a consistent basis to that used in the embedded value:*

| R million | 30 June 2022 | 30 June 2021 |
|---|---|---|
| *Shareholders' funds* | **53 555** | 46 419 |
| *Adjustment to shareholders' funds* | **(39 764)** | (34 184) |
| **Adjusted net worth** | **13 791** | 12 235 |
| *Excess of available capital over adjusted net worth* | **35 342** | 30 718 |
| **Available capital** | **49 133** | 42 953 |
| **Required capital** | **39 318** | 32 699 |
| **Excess available capital** | **9 815** | 10 254 |

*The excess of available capital over adjusted net worth reflects the difference between the adjusted net worth and the available capital. This includes:*

- *The net preference share capital of R779 million which is included as available capital.*
- *The difference between Vitality Life Limited's Solvency II Pillar 1 Own Funds and its adjusted net worth. For the prior period, this also adds back the negative reserves eliminated on the Discovery funded VitalityLife business on the Prudential licence.*
- *The difference between Life's Pillar 1 Own Funds and its adjusted net worth.*

*The following table sets out the required capital for each of the covered businesses:*

| R million | 30 June 2022 | 30 June 2021 |
|---|---|---|
| *Health and Vitality* | **1 000** | 973 |
| *Life and Invest* | **25 403** | 22 059 |
| *VitalityHealth* | **3 164** | 2 847 |
| *VitalityLife* | **9 751** | 6 820 |
| **Total required capital** | **39 318** | 32 699 |

- *For Health and Vitality, the required capital was set equal to two times the monthly renewal expense and Vitality benefit cost.*
- *For Life and Invest, the required capital was set equal to 1.25 times the SAM Pillar 1 Solvency Capital Requirement.*
- *For VitalityHealth, the required capital amount was set equal to 1.35 times the Solvency II Pillar 1 Solvency Capital Requirement.*
- *For the VitalityLife business on the Prudential licence, the required capital was set equal to 1.5 times the UK Solvency I long-term insurance capital requirement as per the agreement with Prudential following the long-term delay of the Part VII transfer. For the business sold on the Vitality Life Limited licence, the required capital was set equal to 1.4 times the Solvency II Pillar 1 Solvency Capital Requirement.*

3 *The diluted embedded value per share adjusts for treasury shares held in the Discovery BEE Share Trust and as part of Discovery's Long-term Incentive Plan where the impact is dilutive.*

# EMBEDDED VALUE STATEMENT *continued*
**for the year ended 30 June 2022**

## TABLE 2: VALUE OF IN-FORCE COVERED BUSINESS

| R million | Value before cost of required capital | Cost of required capital | Value after cost of required capital |
|---|---|---|---|
| **at 30 June 2022** | | | |
| Health and Vitality | **24 528** | **(479)** | **24 049** |
| Life and Invest[1] | **32 073** | **(1 509)** | **30 564** |
| VitalityHealth[2] | **10 658** | **(583)** | **10 075** |
| VitalityLife[2] | **8 818** | **(1 039)** | **7 779** |
| **Total** | **76 077** | **(3 610)** | **72 467** |
| **at 30 June 2021** | | | |
| Health and Vitality | 22 503 | (422) | 22 081 |
| Life and Invest[1] | 27 777 | (1 183) | 26 594 |
| VitalityHealth[2] | 8 230 | (462) | 7 768 |
| VitalityLife[2] | 8 665 | (2 698) | 5 967 |
| **Total** | 67 175 | (4 765) | 62 410 |

*1 Included in the Life and Invest value of in-force covered business is R1 734 million (June 2021: R1 675 million) in respect of investment management services provided on off balance sheet investment business. The net assets of the investment service provider are included in the adjusted net worth.*

*2 The value of in-force has been converted using the closing exchange rate of R20.00/GBP (June 2021: R19.74/GBP).*

## TABLE 3: GROUP EMBEDDED VALUE EARNINGS

| R million | 30 June 2022 | 30 June 2021 |
|---|---|---|
| Embedded value at end of period | **86 258** | 74 645 |
| Less: embedded value at beginning of period | **(74 645)** | (70 834) |
| Increase in embedded value | **11 613** | 3 811 |
| Net change in capital[1] | **(10)** | (7) |
| Dividends paid | **56** | 63 |
| Transfer to hedging reserve | **(309)** | (260) |
| Employee share option schemes | **(326)** | (330) |
| Embedded value earnings | **11 024** | 3 277 |
| Annualised return on opening embedded value | **14.8%** | 4.6% |

*1 The net change in capital reflects share issues (net of costs and proceeds) and an increase (decrease) in treasury shares in the period.*

## TABLE 4: COMPONENTS OF GROUP EMBEDDED VALUE EARNINGS

| R million | Net worth | Cost of required capital | Value of in-force covered business | **Year ended 30 June 2022 Embedded value** | Year ended 30 June 2021 Embedded value |
|---|---|---|---|---|---|
| Total profit from new business (at point of sale) | (4 657) | (309) | 7 027 | **2 061** | 1 891 |
| Profit from existing business | | | | | |
| ▪ Expected return | 4 317 | 148 | 2 334 | **6 799** | 6 421 |
| ▪ Change in methodology and assumptions[1] | 3 093 | 1 480 | (3 706) | **867** | (5 556) |
| ▪ Experience variances | 202 | (102) | 3 024 | **3 124** | 4 917 |
| Impairment, amortisation and fair value adjustment[2] | (52) | – | – | **(52)** | (14) |
| Increase in goodwill and intangibles | (418) | – | – | **(418)** | (336) |
| Other initiative costs[3] | (860) | – | 24 | **(836)** | (288) |
| Non-recurring expenses | (130) | – | – | **(130)** | (85) |
| Acquisition costs[4] | (41) | – | – | **(41)** | (40) |
| Finance costs | (2 318) | – | – | **(2 318)** | (2 104) |
| Foreign exchange rate movements[5] | 1 034 | (62) | 199 | **1 171** | (2 316) |
| Other[6] | (16) | – | – | **(16)** | (8) |
| Return on shareholders' funds[7] | 813 | – | – | **813** | 795 |
| Embedded value earnings | 967 | 1 155 | 8 902 | **11 024** | 3 277 |

1 *The changes in methodology and assumptions will vary over time to reflect adjustments to the model and assumptions as a result of changes to the operating and economic environment. The current period's changes are described in detail in Table 6 below (for previous periods refer to previous embedded value statements).*

2 *This item reflects the amortisation of the intangible assets reflecting the banking costs, Cambridge Mobile Telematics system spend and capital expenditure in VitalityInvest and Discovery Group Europe Limited. The prior period comparatives include the amortisation of the intangible asset raised under the PrimeMed acquisition, which has since been dissolved.*

3 *This item includes the profits of non-covered businesses (including Discovery Insure, Vitality Group and Ping An Health) and costs of start-up businesses (including Discovery Bank, VitalityInvest, a commercial offering in Discovery Insure, and an Umbrella Fund offering in Invest). Head office costs which relate to non-covered business are also included in this item.*

4 *Acquisition costs relate to commission paid on the Life and Invest business and expenses incurred in writing Health and Vitality business that has been written over the period but will only be activated and on risk after the valuation date. These policies are not included in the embedded value or the value of new business and therefore the costs are not deducted from the value of new business.*

5 *This item includes foreign exchange gains / (losses) emerging through the income statement, in addition to translation impacts on the cost of required capital and value of in-force.*

6 *This item includes, among other items, the tax benefits or losses that will emerge as the VitalityHealth DAC and intangible software assets amortise or increase.*

7 *The return on shareholders' funds is shown net of tax and management charges.*

## EMBEDDED VALUE STATEMENT *continued*
**for the year ended 30 June 2022**

# TABLE 5: EXPERIENCE VARIANCES

| R million | Health and Vitality | | Life and Invest | | VitalityHealth | | VitalityLife | | |
|---|---|---|---|---|---|---|---|---|---|
| | Net worth | Value of in-force | Net worth | Value of in-force | Net worth | Value of in-force | Net worth | Value of in-force | **Total** |
| Renewal expenses | 218 | – | (3) | 2 | (239) | – | (22) | – | **(44)** |
| Lapses and surrenders[1] | 18 | 235 | (123) | 770 | – | 486 | (218) | 433 | **1 601** |
| Mortality and morbidity[2] | – | – | (401) | 49 | 563 | – | (26) | – | **185** |
| Policy alterations[1] | – | 64 | (437) | 426 | – | – | 8 | (2) | **59** |
| Backdated cancellations | – | – | – | – | – | – | – | – | **–** |
| Premium and fee income | 152 | – | 115 | 121 | 398 | – | (14) | 156 | **928** |
| Economic[3] | – | – | (19) | (150) | – | – | (6) | – | **(175)** |
| Commission | – | – | – | – | (43) | – | – | – | **(43)** |
| Tax[4] | 47 | – | 353 | (282) | (16) | – | 183 | – | **285** |
| Reinsurance | – | – | – | – | 65 | – | (195) | 74 | **(56)** |
| Maintain modelling term[5] | – | 298 | – | 98 | – | 76 | – | – | **472** |
| Vitality benefits | 11 | – | – | – | – | – | 6 | – | **17** |
| Other[6] | (21) | (1) | (4) | (26) | 89 | – | (237) | 95 | **(105)** |
| Total | 425 | 596 | (519) | 1 008 | 817 | 562 | (521) | 756 | **3 124** |

*1 For Life and Invest, the combined lapse and surrender experience and policy alterations experience is relative to assumptions which include an allowance for a short-term stress previously set in response to deteriorating experience from COVID-19 related impacts. For VitalityLife, large favourable variances from lower lapses were partially offset by lower in-period commission clawbacks.*

*2 The mortality and morbidity experience for Life and Invest reflects a strain mainly due to increased morbidity experience. All confirmed COVID-19 claims were offset against the provision previously set and have been in line with expectation. For VitalityHealth, while claim incidence was at normal levels, claims severity was lower than assumed for the period under review due predominantly to clinical risk management interventions. There continue to be material uncertainties about future claims severity, with potential increases resulting from delayed treatments or undiagnosed disease during the pandemic.*

*3 The experience for Life and Invest arises largely due to a significant fall in asset values in the Invest business close to the end of the financial period, partially offset by higher than expected inflation related increases on premium and benefit increases in Life.*

*4 The tax variance arises due to the timing difference between the expected tax payments and actual payments.*

*5 For Health and Vitality, Life and Invest and VitalityHealth, the projection term is rebased at each year-end. Therefore, an experience variance arises because the total term of the in-force covered business is effectively increased by twelve months.*

*6 The key Other experience relates to cash flow timing variances in Life and Invest, profits and losses from companies within the VitalityHealth and VitalityLife segments which are not part of covered business, including the net impact of the VitalityLife swaption program, excluding gains or losses from the hedge which are included in the economic assumption changes item.*

## TABLE 6: METHODOLOGY AND ASSUMPTION CHANGES

| | Health and Vitality | | Life and Invest | | VitalityHealth | | VitalityLife | | |
|---|---|---|---|---|---|---|---|---|---|
| R million | Net worth | Value of in-force | Net worth | Value of in-force | Net worth | Value of in-force | Net worth | Value of in-force | **Total** |
| Modelling changes[1] | – | – | (26) | (320) | – | 149 | 589 | 351 | **743** |
| Expenses[2] | – | (808) | (49) | (173) | – | – | (189) | (19) | **(1 238)** |
| Lapses[3] | – | 57 | – | (142) | – | 1 642 | (254) | 270 | **1 573** |
| Mortality and morbidity[4] | – | – | – | (2 192) | – | (254) | 10 | (414) | **(2 850)** |
| Benefit changes | – | 83 | – | – | – | – | – | – | **83** |
| Vitality | – | – | – | – | – | – | – | – | **–** |
| Tax[5] | – | 274 | (354) | 594 | – | – | – | 112 | **626** |
| Economic assumptions[6] | – | 527 | (31) | (252) | – | (634) | 922 | (154) | **378** |
| Premium and fee income[4,7] | – | (314) | – | 1 966 | – | – | – | – | **1 652** |
| Reinsurance and financing[8] | – | – | 2 452 | (2 423) | – | (30) | 22 | 14 | **35** |
| Other | – | – | 1 | (136) | – | – | – | – | **(135)** |
| Total | – | (181) | 1 993 | (3 078) | – | 873 | 1100 | 160 | **867** |

1 *For Life and Invest, certain corrections were made to the modelled long-term projection of fee income and interest income. For VitalityHealth, the item includes a correction to the in-force data. For VitalityLife, the item reflects the deferral of the Part VII transfer of policies from the Prudential, which predominately includes a reduced cost of capital.*

2 *For Health and Vitality and Life and Invest, the renewal expenses assumption was updated to reflect an increase in budgeted expenses.*

3 *For Life, a provision was raised for the expected continued pressure on policy alterations experience over the short-term. For VitalityHealth, the lapse item reflects the increase in the annuity factor assumption. For VitalityLife, the lapse item includes a reduction in the term policy book's lapse assumptions.*

4 *For Life and Invest, the combined impact of the mortality and morbidity assumption change and the premium and fee income assumption change reflects the impact of a basis strengthening for endemic COVID-19 impacts as well as other short- and long-term experience components, partially offset by higher future expected premiums. For VitalityHealth, this item reflects an update to the valuation assumptions for the gross margin, as well as a release of a COVID-19 related stress provision. For VitalityLife, this item includes an increase in the term policy book's mortality assumptions.*

5 *This item largely reflects the reduction of the South African corporate tax rate from 28% to 27%. For Life and Invest, this item also reflects the impact of allocation changes between tax funds, resulting in a change in current and deferred tax items.*

6 *For Life and Invest and Health and Vitality, the economic assumptions item relates to the impact of updating the assumptions relative to the Johannesburg Stock Exchange ("JSE") nominal and real yield risk-free curves at 30 June 2022. For Life and Invest this item also includes the impact of updating exchange rate assumptions. For VitalityLife the item includes the impact of updating the assumptions relative to the Solvency II yield curves and the IFRS interest rates, offset by the net change in the interest rate hedge.*

7 *For Health and Vitality, the premium and fee income item relates to discounts offered to in-house schemes.*

8 *For Life and Invest, the reinsurance and financing item primarily relates to the impact of financing arrangements, where the future expected cash flows arising from part of the negative reserves are monetised to match other positive policy liabilities.*

# EMBEDDED VALUE STATEMENT *continued*
**for the year ended 30 June 2022**

## TABLE 7: EMBEDDED VALUE OF NEW BUSINESS

| R million | 30 June 2022 | 30 June 2021 | % Change |
|---|---|---|---|
| **Health and Vitality** | | | |
| Present value of future profits from new business (at point of sale) | **958** | 789 | |
| Cost of required capital | **(30)** | (24) | |
| Present value of future profits from new business (at point of sale) after cost of required capital | **928** | 765 | 12 |
| New business annualised premium income[1] | **4 185** | 3 704 | 13 |
| **Life and Invest** | | | |
| Present value of future profits from new business (at point of sale)[2] | **795** | 825 | |
| Cost of required capital | **(90)** | (82) | |
| Present value of future profits from new business (at point of sale) after cost of required capital | **705** | 743 | (5) |
| New business annualised premium income[3] | **2 995** | 2 947 | 2 |
| Annualised profit margin[4] | **3.0%** | 3.0% | |
| Annualised profit margin excluding Invest business | **5.3%** | 5.7% | |
| **VitalityHealth[5]** | | | |
| Present value of future profits from new business (at point of sale) | **398** | 143 | |
| Cost of required capital | **(81)** | (61) | |
| Present value of future profits from new business (at point of sale) after cost of required capital | **317** | 82 | 287 |
| New business annualised premium income[6] | **1 648** | 1 263 | 30 |
| Annualised profit margin[4] | **2.6%** | 0.9% | |
| **VitalityLife[7]** | | | |
| Present value of future profits from new business (at point of sale) | **219** | 396 | |
| Cost of required capital | **(108)** | (95) | |
| Present value of future profits from new business (at point of sale) after cost of required capital | **111** | 301 | (63) |
| New business annualised premium income | **882** | 871 | 1 |
| Annualised profit margin[4] | **1.4%** | 4.1% | |

# EMBEDDED VALUE STATEMENT *continued*
**for the year ended 30 June 2022**

1 *Health new business annualised premium income is the gross contribution to the medical schemes. The new business annualised premium income shown above excludes premiums in respect of members who join an existing employer where the member has no choice of medical scheme, as well as premiums in respect of new business written during the period but only activated after 30 June 2022.*

*The total Health and Vitality new business annualised premium income written over the period was R7 548 million (June 2021: R6 103 million).*

2 *Included in the Life and Invest embedded value of new business is R55 million (June 2021: R53 million) in respect of investment management services provided on off balance sheet investment business.*

*Risk business written prior to the valuation date allows certain Invest business to be written at financially advantageous terms, the impact of which has been recognised in the value of new business.*

3 *Life new business is defined as Life policies to which Life became contractually bound during the reporting period, including policies whose first premium is due after the valuation date. Invest new business is defined as business where at least one premium has been received and which has not been refunded after receipt. Invest new business also includes Discovery Retirement Optimiser policies to which Life and Invest became contractually bound during the reporting period, including policies whose first premium is due after the valuation date.*

*The new business annualised premium income of R2 995 million (June 2021: R2 947 million) (single premium APE: R1 421 million (June 2021: R1 490 million)) shown above excludes automatic premium increases and servicing increases in respect of existing business. The total new business annualised premium income written over the period, including automatic premium increases of R1 801 million (June 2021: R1 414 million) and servicing increases of R668 million (June 2021: R640 million), was R5 464 million (June 2021: R5 001 million) (single premium APE: R1 492 million (June 2021: R1 569 million)). Single premium business is included at 10% of the value of the single premium.*

*Policy alterations and internal replacement policies, including Discovery Retirement Optimisers added to existing Life Plans, are shown in Table 5 as experience variances and not included as new business. Term extensions on existing contracts are not included as new business.*

4 *The annualised profit margin is the value of new business expressed as a percentage of the present value of future premiums.*

5 *The VitalityHealth value of new business is calculated as the value at point of sale of the new business written premium in-force at the valuation date multiplied by the Margin multiplied by the Annuity Factor less the new business cash flows from point of sale to the valuation date. The assumptions for the Margin and Annuity Factor are shown in Table 8.*

6 *VitalityHealth new business is defined as individuals and employer groups which incepted during the reporting period. The new business annualised premium income shown above has been adjusted to exclude premiums in respect of members who join an existing employer group after the first month, as well as premiums in respect of new business written during the period but only activated after 30 June 2022.*

7 *VitalityLife new business is defined as policies to which VitalityLife became contractually bound during the reporting period, including policies whose first premium is due after the valuation date.*

# EMBEDDED VALUE STATEMENT *continued*

**for the year ended 30 June 2022**

## BASIS OF PREPARATION

## TABLE 8: EMBEDDED VALUE ECONOMIC ASSUMPTIONS

| | | **30 June 2022** | 30 June 2021 |
|---|---|---|---|
| Beta coefficient | | **0.75** | 0.75 |
| Equity risk premium (%) | | **3.5** | 3.5 |
| Risk discount rate (%) | | | |
| | – Health and Vitality[1] | **14.375** | 13.125 |
| | – Life and Invest[1] | **14.875** | 13.625 |
| | – VitalityHealth | **5.016** | 3.462 |
| | – VitalityLife | **4.997** | 3.263 |
| Rand / GBP exchange rate | | | |
| Closing | | **20.00** | 19.74 |
| Average | | **20.25** | 20.74 |
| Margin over Expense inflation to derive Medical inflation (%) | | | |
| South Africa | | **3.00** | 3.00 |
| Expense inflation (%)[2] | | | |
| South Africa | – Health and Vitality | **7.85** | 6.14 |
| | – Life and Invest | **7.74** | 6.23 |
| United Kingdom | | **3.50** | 2.50 |
| Pre-tax investment return (%) | | | |
| South Africa | – Cash[1] | **10.75** | 9.50 |
| | – Life and Invest bonds[3] | **12.25** | 11.00 |
| | – Health and Vitality bonds[3] | **11.75** | 10.50 |
| | – Equity[1] | **15.75** | 14.50 |
| United Kingdom | – VitalityHealth risk-free rate | **2.39** | 0.84 |
| | – VitalityLife risk–free rate | **2.37** | 0.64 |
| | – VitalityLife IFRS interest rate | **2.92** | 1.80 |
| | – VitalityLife investment return | **2.00** | 1.44 |
| Long-term corporation tax rate (%) | | | |
| South Africa | | **27** | 28 |
| United Kingdom | | **25** | 25 |
| VitalityHealth Assumptions | | | |
| – Margin (net of tax and cost of capital) (%)[4] | | **12.00** | 12.00 |
| – Annuity Factor | | **7.00** | 6.18 |
| Projection term | | | |
| – Health and Vitality | | **20 years** | 20 years |
| – Discovery Life – VIF | | **40 years** | 40 years |
| – Group Life | | **20 years** | 20 years |
| – VitalityLife | | **No cap** | No cap |
| – VitalityHealth[5] | | **20 years** | 20 years |

1 *Derived as a margin over (or below for cash) the respective pre-tax investment return for bonds.*

2 *The inflation assumption is derived as the difference between the nominal and real yield curve at each duration. As an indication, the cash flow weighted average inflation is shown in the table. For the United Kingdom, the expense inflation assumption is aligned with the long-term market view of inflation.*

3 *As indications, the cash flow weighted averages derived from the relevant yield curve(s) are shown.*

4 *The VitalityHealth margin (net of tax and cost of capital) remains unchanged at 12.00%. The assumption change noted in Table 6 to reduce the gross margin assumption at 30 June 2022 has been largely offset by the release of the stress provision present in the gross margin assumption at 30 June 2021.*

5 *The VitalityHealth projection term of 20 years is used in the derivation of the Annuity Factor.*

# EMBEDDED VALUE STATEMENT *continued*
**for the year ended 30 June 2022**

The Discovery Limited embedded value is calculated based on a risk discount rate using the CAPM approach with specific reference to the Discovery beta coefficient. The assumed beta is fixed at 0.75. This has been set such that the risk discount rate proxies the result of a Weighted Average Cost of Capital approach with reference to the capital structure of the Group and the observed beta calculated using daily returns over a long time period. The observed beta is calculated with reference to the ALSI. The assumed beta will only change if the capital structure of the Group and / or the observed beta calculated using daily returns over a long time period suggest the beta assumption should depart significantly from the assumption at the financial year-end. As beta values reflect the historic performance of share prices relative to the market they may not allow fully for non-market related and non-financial risk. Investors may want to form their own view on an appropriate allowance for these risks which have not been modelled explicitly.

Life and Invest mortality, morbidity and lapse and surrender assumptions were derived from internal experience, where available, augmented by reinsurance and industry information.

The Health and Vitality lapse assumptions were derived from the results of recent experience investigations.

The VitalityHealth assumptions were derived from internal experience.

VitalityLife assumptions were derived from internal experience, where available, augmented by reinsurance, industry and Discovery Limited group information.

Renewal expense assumptions were based on the results of the latest expense and budget information.

The initial expenses included in the calculation of the embedded value of new business are the actual costs incurred excluding expenses of an exceptional or non-recurring nature.

The South African investment return assumptions for Life, Invest, Health and Vitality were set relative to the publicly available JSE risk-free nominal yield curve.

The current and projected tax position of the policyholder funds within the Life company has been taken into account in determining the net investment return assumption.

The risk-free rate assumption for VitalityHealth and VitalityLife was based on the single interest rate derived from the Prudential Regulatory Authority yield curve. The inflation rate is consistent with the long-term market view of inflation.

From 30 June 2018, VitalityHealth calculate the value of in-force at the valuation date as the in-force written premium multiplied by the Margin multiplied by the Annuity Factor, as set out in the table above. The Annuity Factor assumption is derived from assumed future lapse rates and premium increases. The Margin assumption reflects profit margins after tax and Cost of Capital. The assumptions underlying the Annuity Factor and Margin are set taking into account the current experience in the business at different durations.

The cost of required capital is calculated using the difference between the risk discount rate and the net of tax asset return on tangible assets. The Vitality Life Limited and the VitalityLife business on the Prudential licence required capital amount is assumed to earn the investment return assumption, which is set based on the return on a portfolio of government and corporate bonds assumed to back the required capital. The Life and Invest cost of required capital is calculated assuming shareholder cash flow is limited to the cash flow available after having met both the required capital amount and an internally defined liquidity target capital requirement of tangible assets.

The embedded value has been calculated in accordance with the Actuarial Society of South Africa's Advisory Practice Note ("APN") 107: Embedded Value Reporting, except the recommended disclosure of Free Surplus and Required Capital has been adjusted to take into account the nature of the capital requirements in the covered businesses, as can be seen in Table 1 note 2.

## Sensitivity to the embedded value assumptions

The risk discount rate uses the CAPM approach with specific reference to the Discovery beta coefficient. As beta values reflect the historic performance of share prices relative to the market they may not allow fully for non-market related and non-financial risk. Investors may want to form their own view on an appropriate allowance for these risks which have not been modelled explicitly. The sensitivity of the embedded value and the embedded value of new business at 30 June 2022 to changes in the risk discount rate is included in the tables below.

For each sensitivity illustrated below, all other assumptions have been left unchanged. No allowance has been made for management action such as risk premium increases where future experience is worse than the base assumptions.

# TABLE 9: EMBEDDED VALUE SENSITIVITY

| | Health and Vitality | | |
|---|---|---|---|
| R million | Adjusted net worth[2] | Value of in-force | Cost of required capital |
| Base | 13 791 | 24 528 | (479) |
| Impact of: | | | |
| Risk discount rate +1% | 13 791 | 23 170 | (518) |
| Risk discount rate – 1% | 13 791 | 26 029 | (436) |
| Lapses – 10% | 13 519 | 25 328 | (502) |
| Interest rates – 1%[1] | 12 588 | 24 451 | (463) |
| Equity and property market value – 10% | 13 797 | 24 528 | (479) |
| Equity and property return +1% | 13 791 | 24 528 | (479) |
| Renewal expenses – 10% | 13 905 | 27 047 | (443) |
| Mortality and morbidity – 5% | 14 039 | 24 528 | (479) |
| Projection term +1 year | 13 791 | 24 833 | (484) |

*1 All economic assumptions were reduced by 1%.*
*2 The sensitivity impact on the VitalityLife net of tax change in negative reserves is included in the adjusted net worth column.*

The following table shows the effect of using different assumptions on the embedded value of new business.

# TABLE 10: VALUE OF NEW BUSINESS SENSITIVITY

| | Health and Vitality | |
|---|---|---|
| R million | Value of new business | Cost of required capital |
| Base | 958 | (30) |
| Impact of: | | |
| Risk discount rate +1% | 881 | (33) |
| Risk discount rate – 1% | 1 042 | (28) |
| Lapses – 10% | 1 017 | (33) |
| Interest rates – 1%[1] | 966 | (30) |
| Equity and property return +1% | 958 | (30) |
| Renewal expense – 10% | 1 097 | (29) |
| Mortality and morbidity – 5% | 958 | (30) |
| Projection term +1 year | 975 | (31) |
| Acquisition costs – 10% | 986 | (30) |

*1 All economic assumptions were reduced by 1%.*

| Life and Invest | | VitalityHealth | | VitalityLife | | | |
|---|---|---|---|---|---|---|---|
| Value of in-force | Cost of required capital | Value of in-force | Cost of required capital | Value of in-force | Cost of required capital | **Embedded value** | % change |
| 32 073 | (1 509) | 10 658 | (583) | 8 818 | (1 039) | **86 258** | |
| 28 971 | (1 590) | 10 075 | (552) | 8 216 | (902) | **80 661** | (6) |
| 35 768 | (1 412) | 11 303 | (619) | 9 501 | (1 209) | **92 716** | 7 |
| 35 174 | (1 596) | 11 899 | (651) | 9 462 | (1 203) | **91 430** | 6 |
| 32 584 | (1 473) | 11 303 | (619) | 8 875 | (1 378) | **85 868** | – |
| 31 466 | (1 529) | 10 658 | (583) | 8 818 | (1 039) | **85 637** | (1) |
| 32 487 | (1 501) | 10 658 | (583) | 8 818 | (1 039) | **86 680** | – |
| 32 722 | (1 469) | 11 435 | (583) | 9 024 | (1 038) | **90 600** | 5 |
| 34 309 | (1 376) | 12 331 | (583) | 9 187 | (1 161) | **90 795** | 5 |
| 32 181 | (1 512) | 10 757 | (589) | 8 818 | (1 039) | **86 756** | 1 |

| Life and Invest | | VitalityHealth | | VitalityLife | | | |
|---|---|---|---|---|---|---|---|
| Value of new business | Cost of required capital | Value of new business | Cost of required capital | Value of new business | Cost of required capital | **Value of new business** | % change |
| 795 | (90) | 398 | (81) | 219 | (108) | **2 061** | |
| 601 | (95) | 293 | (76) | 119 | (91) | **1 599** | (22) |
| 1 023 | (84) | 514 | (88) | 333 | (131) | **2 581** | 25 |
| 1 013 | (95) | 555 | (91) | 328 | (141) | **2 553** | 24 |
| 801 | (88) | 514 | (88) | 241 | (174) | **2 142** | 4 |
| 824 | (89) | 398 | (81) | 219 | (108) | **2 091** | 1 |
| 846 | (87) | 500 | (81) | 258 | (103) | **2 401** | 16 |
| 899 | (82) | 617 | (81) | 257 | (101) | **2 437** | 18 |
| 802 | (90) | 415 | (81) | 219 | (108) | **2 101** | 2 |
| 949 | (90) | 435 | (81) | 360 | (108) | **2 421** | 17 |

# APPENDIX A

## NEW BUSINESS ANNUALISED PREMIUM INCOME

**for the year ended 30 June 2022**

The new business annualised premium income (API) set out below provides a view of the scale of new business across all operations of the Group and does not necessarily reflect the new business attributable to the legal entities within the Group. For instance, Discovery Health Medical Scheme's (DHMS) new business is attributable to the medical scheme but is under the administration and marketing of Discovery Health which earns a fee in respect of such services.

Core new business API increased by 6% for the year ended 30 June 2022 when compared to the same period in the prior year.

| R million | **Group June 2022 Unaudited** | Group June 2021 Unaudited | % Change |
|---|---|---|---|
| Discovery Health[1] | **7 292** | 6 079 | 20 |
| Discovery Life | **2 543** | 2 264 | 12 |
| Discovery Invest | **2 920** | 2 737 | 7 |
| Discovery Insure | **1 246** | 1 287 | (3) |
| Discovery Vitality | **256** | 24 | 967 |
| VitalityHealth | **1 738** | 1 367 | 27 |
| VitalityLife | **1 256** | 1 141 | 10 |
| Ping An Health (24.99% interest)[2] | **2 883** | 3 396 | (15) |
| Other new business[3] | **1 576** | 2 114 | (25) |
| **Core new business API of group** | **21 710** | 20 409 | 6 |
| New Closed Schemes | **–** | 374 | (100) |
| **New business API of Group including New Closed Schemes** | **21 710** | 20 783 | 4 |
| Gross revenue Vitality Group[4] | **1 398** | 1 270 | 10 |
| **Combined total** | **23 108** | 22 053 | 5 |

1 *New business API for Discovery Health includes new business API for all businesses administered by Discovery Health, including DHMS, Closed Schemes and offerings such as GAP cover and Primary Care cover. The new business API for New Closed Schemes includes contracted new business API and business in the first twelve months of on-boarding. Closed Schemes refer to those restricted to certain employers and industries.*

2 *Given the restructuring of the co-operation with Ping An Life for business written in certain regions in China as part of the overall re-alignment of PAH to focus on growing high- quality own business, the core new business API measure reported for PAH sales for the year ended 30 June 2021 has been restated to R3 396 million from R3 938 million to reflect this re-alignment..*

3 *Other new businesses include the Umbrella Fund, Discovery Insure commercial and VitalityInvest*

4 *Vitality Group new business includes gross recurring and lump sum revenues earned by Vitality Group and specifically excludes revenue related to cost recoveries and rewards.*

### Calculation of New business API

New business API is calculated at 12 times the monthly premium for new recurring premium policies and 10% of the value of new single premium policies It also includes both automatic premium increases and servicing increases on existing long-term insurance policies. The amounts exclude indirect taxes.

The new business API in the table above differs from the new business API disclosed in the embedded value largely as a results of:

- The timing of inclusion of the policyholders in the calculation of new business API - in the embedded value, new business is included from the earlier of the date that the first premium has been received or when the policy is on risk, whereas in table above, new business is included when the policy has been contractually committed.
- Inclusion of automatic premium increases and servicing increases on existing life policies – these are included in the table above but excluded in the embedded value API values disclosed.

Refer to the footnotes to Table 7: Embedded Value of New Business for a more detailed description of the differences in new business disclosures between the embedded value and the table above.

# GROSS INFLOWS UNDER MANAGEMENT

**for the year ended 30 June 2022**

Gross inflows under management measures the total funds collected by Discovery. Gross inflows under management increased by 5% for the year ended 30 June 2022 when compared to the same period in the prior year.

| R million | **Group June 2022 Unaudited** | Group June 2021 Unaudited | % Change |
|---|---|---|---|
| Discovery Health | **97 190** | 90 651 | 7 |
| Discovery Life | **15 053** | 13 714 | 10 |
| Discovery Invest | **24 581** | 24 203 | 2 |
| Discovery Insure | **4 672** | 4 107 | 14 |
| Discovery Vitality | **2 338** | 2 295 | 2 |
| VitalityHealth | **11 753** | 11 403 | 3 |
| VitalityLife | **6 977** | 6 696 | 4 |
| All other business | **9 604** | 8 974 | 7 |
| **Gross inflows under management** | **172 168** | 162 043 | 6 |
| Less collected on behalf of third parties | **(95 098)** | (88 827) | 7 |
| Discovery Health | **(87 850)** | (81 849) | 7 |
| Discovery Invest | **(7 248)** | (6 978) | 4 |
| **Gross income of Group per segmental information** | **77 070** | 73 216 | 5 |
| Gross income is made up as follows: | | | |
| – Insurance premium revenue | **59 470** | 56 812 | 5 |
| – Fee income from administration business | **12 764** | 11 711 | 9 |
| – Vitality Income | **3 495** | 3 340 | 5 |
| – Other income | **1 341** | 1 353 | (1) |
| **Gross income of Group per segmental information** | **77 070** | 73 216 | 5 |

**Transfer secretaries** Computershare Investor Services Pty Limited
(Registration number: 2004/003647/07)
Rosebank Towers, 15 Biermann Avenue, Rosebank 2196
Private Bag X9000, Saxonwold, 2132

**Sponsors and debt sponsors** Rand Merchant Bank (A division of FirstRand Bank Limited)

**Secretary and registered office** NN Mbongo, Discovery Limited
(Incorporated in the Republic of South Africa)

(Registration number: 1999/007789/06)

Company tax reference number: 9652/003/71/7

| | |
|---|---|
| JSE share code: | DSY ISIN: ZAE000022331 |
| JSE share code: | DSBP ISIN: ZAE000158564 |
| JSE company code: | DSYI |

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**Directors** ME Tucker (UK) (Chairperson), A Gore* (Group Chief Executive), HL Bosman, Dr BA Brink[1], SE de Bruyn[1], R Farber, WM Hlahla[2], HD Kallner*, FN Khanyile, NS Koopowitz*, D Macready, Dr TV Maphai, T Mboweni[4] , Dr A Ntsaluba*, A Pollard*, M Schreuder, B Swartzberg*, B van Kralingen[3], DM Viljoen* (Financial Director), SV Zilwa

* *Executive.*
1 *Retired effective 24 November 2021.*
2 *Appointed effective 15 August 2021.*
3 *Appointed effective 7 April 2022.*
4 *Appointed effective 5 May 2022.*

**Debt officer** DM Viljoen

**Annual financial results**
– supervised by DM Viljoen CA(SA)

**Embedded value statement**
– prepared by P Bolink FASSA
– supervised by A Rayner FASSA, FIA

Discovery

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