Results and cash dividend declaration
for the year ended 30 June 2018
Normalised operating profit: +17% to R8 266m

Core new business: +10% to R16 137m

Headline earnings: +32% to R5 803m

Normalised headline earnings: +16% to R5 401m

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

1. **2018 Ambition**
   - Discovery's core purpose has manifested in a globally relevant Shared-Value Insurance model. Our confidence in the efficacy and impact of the model led to the 2018 Ambition and consequent operating framework.

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

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

4. **Businesses**
   - The established businesses performed remarkably well, growing operating profit by 14% and a pleasing return on capital. Emerging businesses turned to profitability with significant latent potential. Three substantial new businesses were launched.
<table>
<thead>
<tr>
<th>Established businesses</th>
<th>Operating profit</th>
<th>New business&lt;sup&gt;1&lt;/sup&gt;</th>
<th>Net cash flow&lt;sup&gt;5&lt;/sup&gt;</th>
<th>RoE</th>
<th>Experience variances&lt;sup&gt;2&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Discovery Health</strong></td>
<td>+11%</td>
<td>+8%&lt;sup&gt;3&lt;/sup&gt;</td>
<td>R2,828m</td>
<td>&gt;rf+10%</td>
<td>R214m</td>
</tr>
<tr>
<td><strong>Discovery Life</strong></td>
<td>+7%</td>
<td>+1%</td>
<td>R434m</td>
<td>rf+7.5%</td>
<td>R82m</td>
</tr>
<tr>
<td><strong>Discovery Invest</strong></td>
<td>+19%</td>
<td>-2%</td>
<td>R105m</td>
<td>rf+7.5%</td>
<td>R486m</td>
</tr>
<tr>
<td><strong>Vitality HEALTH INSURANCE</strong></td>
<td>+108%</td>
<td>+14%</td>
<td>R475m</td>
<td>rf+11%</td>
<td>R486m</td>
</tr>
<tr>
<td><strong>Vitality LIFE INSURANCE</strong></td>
<td>+6%</td>
<td>+10%</td>
<td>(R393m)</td>
<td>rf+6.7%</td>
<td>(R105m)</td>
</tr>
<tr>
<td><strong>Discovery Insure</strong></td>
<td>&gt;200%</td>
<td>+17%</td>
<td>R2m</td>
<td>5%</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Vitality GROUP</strong></td>
<td>+129%</td>
<td>+40%&lt;sup&gt;4&lt;/sup&gt;</td>
<td>(R111m)</td>
<td>5%</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>中国平安 PINGAN</strong></td>
<td>&gt;200%</td>
<td>+84%</td>
<td>(R40m)</td>
<td>7%</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>New initiatives</strong></td>
<td>7%</td>
<td>of earnings</td>
<td>(R1 675m)&lt;sup&gt;6&lt;/sup&gt;</td>
<td>7%</td>
<td>n/a</td>
</tr>
</tbody>
</table>

0 Excludes DH take-on of new closed schemes and gross revenue for the Vitality Group.
1 Experience variances excluding economic variances.
2 Excludes new initiative spend included in established businesses.
3 Excludes new scheme take-ons.
4 Vitality Group fee income from insurance partners in constant currency terms and includes new business from MyOwn.
5 Movement in shareholder free cash.
6 Excludes new initiative spend included in emerging businesses.

**Excellent performance. Mandate is to continue to provide its members access to quality, affordable healthcare on a sustainable basis, assisting in enhancing the healthcare system for all South Africans.**

**Focus on quality, prudence and efficacy of the SVI model. NB growing in a contracting market, manifesting in market share exceeding 30%. Profitability, experience variance and VoNB reflected the focus on quality.**

**Focus of Invest is to utilise the SVI model in the context of long-term savings. The combination of this and efficient asset management structures yielded excellent results for customers while maintaining margins.**

**Stand-out performance - the additive effects of the model and the various interventions resulted in better selection and excellent Vitality engagement and strong positive selective lapsation.**

**Seemingly period with a strong shift to profitability. Focus of the business was the execution of its business model in the personal lines market while launching a powerful interpretation of its SVI model for the SME target market.**

**Group now present in 17 countries. Significant investment in the Vitality One platform which enables the pace of expansion.**

**Business fundamentals strong, playing an important strategic role within the broader Ping An Group. The Ping An Health App attracted over 4.3 million users.**

**Discovery Bank build in progress. VitalityInvest, umbrella funds and commercial insurance launched over the period.**
WHY
Make people healthier and enhance and protect their lives

HOW
- Members: Improved health leads to lower premiums and benefits
- Healthy behaviour: Improved incentives
- Insurer savings: Lower claims, higher margins
- Society: Improved productivity, reduced healthcare burden

WHAT
- Life insurance
- Health insurance
- Short-term insurance
- Long-term savings
- Banking
Trends underpinning the Shared-Value model remain relevant

- Societies require companies to fulfil a socially progressive core purpose
- Consumers live in a technology-dominated world and seek solutions instead of services
- The nature of risk is behavioural and solutions are becoming increasingly personalised
Controllable behaviours that led to Shared-Value model

<table>
<thead>
<tr>
<th>Life insurance</th>
<th>Health insurance</th>
<th>Motor insurance</th>
<th>Long-term savings</th>
<th>Banking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life insurance</td>
<td>Health insurance</td>
<td>Motor insurance</td>
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<tr>
<td><strong>Life insurance</strong></td>
<td><strong>Health insurance</strong></td>
<td><strong>Motor insurance</strong></td>
<td><strong>Long-term savings</strong></td>
<td><strong>Banking</strong></td>
</tr>
<tr>
<td>4 &gt; 4 &gt; 60</td>
<td>4 &gt; 4 &gt; 60</td>
<td>5 &gt; 3 &gt; 60</td>
<td>3 &gt; 3 &gt; 90</td>
<td>4 &gt; 80</td>
</tr>
<tr>
<td>Lifestyle behaviours</td>
<td>Chronic conditions</td>
<td>Deaths worldwide</td>
<td>Lifestyle behaviours</td>
<td>Chronic conditions</td>
</tr>
</tbody>
</table>

Make people healthier and live longer

Make people healthier and live longer

Make people better drivers and have fewer road accidents

Make people better prepared for retirement

Members

- Improved health, better value through improved price and benefits

Members

- Improved health, better value through improved price and benefits

Members

- Improved driving, better value through improved price and benefits

Members

- Encourage longer savings, responsible financial behaviour and a healthy lifestyle

Vitality

- Make people healthier and live longer

Vitality

- Make people better drivers and have fewer road accidents

Vitality

- Make people better prepared for retirement

Society

- Improved productivity
- Reduced healthcare burden

Insurer

- Lower claims
- Higher margins
- Positive selection and lower lapses

Society

- Improved productivity
- Reduced healthcare burden

Insurer

- Lower claims
- Higher margins
- Positive selection and lower lapses

Society

- Nation of better drivers
- Less road deaths and injuries
- Less RAF claims

Insurer

- Lower claims
- Higher margins
- Positive selection and lower lapses

Society

- Stronger savings culture
- Lower pension reliance on the state
- Better client outcomes

Insurer

- Greater funds
- Longer investment
- Better persistency
- Lower withdrawals

World Health Organisation and Global Burden of Disease

- Chronic conditions
- Deaths worldwide

World Health Organisation and Global Burden of Disease

- Chronic conditions
- Deaths worldwide

Road Traffic Management Corporation and U.S. Department of Transportation

- Driving behaviours
- Driving conditions
- Fatal accidents

National Treasury

- Controllable behaviours
- Conditions
- Inadequate retirement funding

Journal of Economics and Finance and other sources

- Controllable behaviours
- Credit defaults and retirement shortfalls
Dynamics of the model manifest across all industries

Sales \times Selection \times Behaviour \times Lapses \rightarrow \textbf{Shared value}

**Life insurance**
- 20%-30% increase in market share
- 20%+ better claims experience compared to non-Vitality
- >50% lower mortality on highly engaged
- 15%+ lower lapse rates
- Stayers have 50% mortality of leavers

**Health insurance**
- 44% increase in market share\(^1\)
- Initial engagers have:
  - lower hospital costs
  - 28% lower hospital costs
  - 10% lower chronic conditions
- Members who run at least 2 times per week save 15% on healthcare costs
- >3.6x lower lapse rates

**Motor insurance**
- 6x increase in market share\(^2\)
- 10% better driving score compared to population
- 15% improvement in driving behaviour
- 60% lower lapse rates
- Stayers have 24.7% lower absolute loss ratios than leavers

**Long-term savings**
- 70%-200% increase in market share\(^3\)
- 85%+ invested into preferred funds
- 60% lower income drawdowns
- 3x more ad hoc additions
- 25%-50% lower withdrawals

\(^1\) from 2007 to 2016
\(^2\) from 2013 to 2018
\(^3\) RA and linked annuities, from 2015 to 2018

>2x Higher VNB

4% Lower loss ratio

17% Lower loss ratio

>1.5x Higher VNB
2018 Ambition: best insurer in the world and a powerful force for social good

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

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

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

Group profit growth of CPI + 10%

Risk free + 10% Return on capital

Cash generated

Cash used

Regulatory capital

Allocated capital

Allocated debt

Additional buffer

Regulatory capital and reserves

Dedicated capital for planned initiatives

Allocated debt is part of the funding strategy

Excess for tail risk & unknown investments

FLR < 28%

Cash buffer: R1-2bn
Organic growth engine

Group profit growth of **CPI + 10%**

- **Risk free + 10%**
- Return on capital

- **Cash generated**
- **Cash used**

- **FLR < 28%**
- **Cash buffer: R1-2bn**

Investment of 10% of profit

- 5 years

- **New**
  - 10%

- **Emerging**
  - 20%

- **Established**
  - 90%
### Core new business

**+10%**

to R16 137m

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

<table>
<thead>
<tr>
<th>Established</th>
<th>Rm</th>
<th>12 months to 30 Jun 2018</th>
<th>12 months to 30 Jun 2017</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Discovery Health</strong></td>
<td></td>
<td>6 573</td>
<td>6 109</td>
<td>+8%</td>
</tr>
<tr>
<td><strong>Discovery Life</strong></td>
<td></td>
<td>2 188</td>
<td>2 175</td>
<td>+1%</td>
</tr>
<tr>
<td><strong>Discovery Invest</strong></td>
<td></td>
<td>2 454</td>
<td>2 496</td>
<td>-2%</td>
</tr>
<tr>
<td><strong>Vitality HEALTH INSURANCE</strong></td>
<td></td>
<td>1 107</td>
<td>972</td>
<td>+14%</td>
</tr>
<tr>
<td><strong>Vitality LIFE INSURANCE</strong></td>
<td></td>
<td>1 172</td>
<td>1 068</td>
<td>+10%</td>
</tr>
<tr>
<td><strong>Emerging</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Discovery Insure</strong></td>
<td></td>
<td>1 047</td>
<td>895</td>
<td>+17%</td>
</tr>
<tr>
<td><strong>Vitality</strong></td>
<td></td>
<td>645</td>
<td>634</td>
<td>+2%</td>
</tr>
<tr>
<td><strong>Ping An Health</strong></td>
<td></td>
<td>1 434(^1)</td>
<td>778(^1)</td>
<td>+84%</td>
</tr>
</tbody>
</table>

---

1. Represents 25% of Ping An Health new business API

---

**Consistent long-term growth**

**Continuing excellent growth from emerging businesses**

- Continued growth off a high base
- Individual life new business +3%
- Invest net flows up 10%
- Strong growth from the UK businesses
- Fee income from insurance partners up 40%
- Total Ping An Health new business ~4X Discovery Health core new business

---

\(^1\) Represents 25% of Ping An Health new business API
Impacting a significant number of members globally

17.8m Lives
11.4m Vitality lives

- UK
  - 1.1m lives
  - 1.1m Vitality members

- Ping An
  - 6.4m PAH*
  - 4.3m Run Vitality

- Vitality Group (excl. US)
  - 0.8m Vitality members

- South Africa
  - 4.4m lives
  - 1.9m Vitality members

5.5m Insurance linked to Vitality
5.9m Vitality stand alone
11.4m Total Vitality

*Group ‘other’ lives excluded due to duplication on policies.
### Operating profit

**+17%**

To R8 266m

<table>
<thead>
<tr>
<th></th>
<th>Rm</th>
<th>12 months to 30 Jun 2018</th>
<th>12 months to 30 Jun 2017</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Established</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discovery Health</td>
<td>2 777</td>
<td>2 505</td>
<td>2 505</td>
<td>+11%</td>
</tr>
<tr>
<td>Discovery Life</td>
<td>3 837</td>
<td>3 588</td>
<td>3 588</td>
<td>+7%</td>
</tr>
<tr>
<td>Discovery Invest</td>
<td>885</td>
<td>744</td>
<td>744</td>
<td>+19%</td>
</tr>
<tr>
<td>Discovery Vitality</td>
<td>58</td>
<td>25</td>
<td>25</td>
<td>+132%</td>
</tr>
<tr>
<td><strong>Vitality HEALTH INSURANCE</strong></td>
<td>589</td>
<td>283</td>
<td>283</td>
<td>+108%</td>
</tr>
<tr>
<td><strong>Vitality LIFE INSURANCE</strong></td>
<td>515</td>
<td>485</td>
<td>485</td>
<td>+6%</td>
</tr>
<tr>
<td><strong>Emerging</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discovery Insure</td>
<td>68</td>
<td>(21)</td>
<td>(21)</td>
<td>&gt;200%</td>
</tr>
<tr>
<td><strong>Vitality</strong></td>
<td>34</td>
<td>(116)</td>
<td>(116)</td>
<td>+129%</td>
</tr>
<tr>
<td><strong>GROUP FINANCIAL</strong></td>
<td>56</td>
<td>(33)</td>
<td>(33)</td>
<td>&gt;200%</td>
</tr>
<tr>
<td><strong>New</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank, Vitality Insure, commercial insurance, umbrella funds and the GVN</td>
<td>(553)</td>
<td>(412)</td>
<td>(412)</td>
<td>+193%</td>
</tr>
<tr>
<td><strong>Group</strong></td>
<td>8 266</td>
<td>7 048</td>
<td>7 048</td>
<td>+17%</td>
</tr>
</tbody>
</table>

**Accelerated long-term growth**

**Emerging businesses all profitable**

---

**By industry**

- **LIFE:** 12%
- **HEALTH:** 24%
- **INVEST:** 19%
- **P&C:** >100%

**By growth model**

- CPI + 10% 14%
- CPI + 5% >100%

---

**By business**

- **DISCOVERY HEALTH**
- **DISCOVERY LIFE**
- **DISCOVERY INVEST**
- **VITALITY**
- **VITALITY-HEALTH**
- **VITALITY-LIFE**
- **DISCOVERY INSURE**
- **VG**
- **PAH**
### Normalised headline earnings

**+16%**

to R5 401m

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

Normalised headline earnings per share (diluted): **836.9c (+16%)**
Dividend declaration of: **114cps (+16%)**
Impact of finance lease accounting

1 Discovery Place (Phase 1 and 2)

<table>
<thead>
<tr>
<th>Year</th>
<th>Depreciation</th>
<th>Finance costs</th>
<th>Cash Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>123</td>
<td>157</td>
<td>200</td>
</tr>
<tr>
<td>2019</td>
<td>200</td>
<td>180</td>
<td>250</td>
</tr>
<tr>
<td>2020</td>
<td>250</td>
<td>200</td>
<td>300</td>
</tr>
<tr>
<td>2021</td>
<td>300</td>
<td>250</td>
<td>350</td>
</tr>
<tr>
<td>2022</td>
<td>350</td>
<td>300</td>
<td>400</td>
</tr>
<tr>
<td>2023</td>
<td>400</td>
<td>350</td>
<td>450</td>
</tr>
<tr>
<td>2024</td>
<td>450</td>
<td>400</td>
<td>500</td>
</tr>
<tr>
<td>2025</td>
<td>500</td>
<td>450</td>
<td>550</td>
</tr>
<tr>
<td>2026</td>
<td>550</td>
<td>500</td>
<td>600</td>
</tr>
<tr>
<td>2027</td>
<td>600</td>
<td>550</td>
<td>650</td>
</tr>
<tr>
<td>2028</td>
<td>650</td>
<td>600</td>
<td>700</td>
</tr>
<tr>
<td>2029</td>
<td>700</td>
<td>650</td>
<td>750</td>
</tr>
<tr>
<td>2030</td>
<td>750</td>
<td>700</td>
<td>800</td>
</tr>
<tr>
<td>2031</td>
<td>800</td>
<td>750</td>
<td>850</td>
</tr>
<tr>
<td>2032</td>
<td>850</td>
<td>800</td>
<td>900</td>
</tr>
</tbody>
</table>

12 months ended June 2018

- **Headline earnings**: 5 803 (32% change)
- **Finance lease accounting**: 208
- **Finance costs**: 210
- **Depreciation**: 126
- **Market-related rental**: (128)
- **Other**: (402)

Adjusted for finance lease accounting

- **Headline earnings adjusted for the lease impact**: 5 609 (20% change)
- **Adjusted for finance lease accounting**: (208)

Reported normalised headline earnings

- **Reported normalised headline earnings**: 5 401 (16% change)
Performance largely in line with growth engine

**+17%** to R8 266m

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<thead>
<tr>
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</tr>
<tr>
<td>Established</td>
<td>8 661</td>
<td>7 630</td>
<td>+14%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Emerging businesses</th>
<th>#</th>
<th>#</th>
<th>~200%</th>
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<tr>
<td>Discovery Insure</td>
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<td>&gt;200%</td>
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<th>#</th>
<th>~200%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emerging</td>
<td>158</td>
<td>(170)</td>
<td>+193%</td>
</tr>
</tbody>
</table>

| New Group              | 8 266                  | 7 048                    | +17%      |

---

1 Estimated Embedded Value includes total reported embedded value and estimated embedded value of emerging businesses using a CPI rate of 4.6%.
Cash management framework

Group profit growth of **CPI + 10%**

Return on capital

**risk free + 10%**

Cash buffer: R1-2bn

FLR: < 28%
Cash generated from in-force business

**R10.6bn**

**Cash generated**

**Cash used**

- Tax, dividends and finance costs: R3.4bn
- New business: R7.8bn
- New businesses: R2bn

### Net cash flow

<table>
<thead>
<tr>
<th>Description</th>
<th>Rm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>2,828</td>
</tr>
<tr>
<td>Tax, dividends and finance costs</td>
<td>539</td>
</tr>
<tr>
<td>New business</td>
<td>475</td>
</tr>
<tr>
<td>New businesses</td>
<td>-393</td>
</tr>
<tr>
<td>New business IRR</td>
<td>-151</td>
</tr>
</tbody>
</table>

### New business IRR

- > RF+10%
- RF+10%
- RF+9%
- RF+7%
- RF+17%

---

1. Movement in shareholder free cash
Capital management philosophy

Group profit growth of CPI + 10%

Return on capital

Risk free + 10%

Regulatory capital
Allocated capital

Additional buffer

FLR < 28%
Cash buffer R1-2bn

Cash generated
Tax, finance and dividends
New initiatives
Cash used

Investment of 10% of profit
Performance against capital and cash management philosophy

**Risk free + 9.6%**

Return on capital

- **Regulatory capital**
- **Allocated capital**
  - Dedicated capital for planned initiatives
  - Allocated debt
  - Additional buffer
- **Allocated debt**
- **Additional buffer**

**Return on equity**

<table>
<thead>
<tr>
<th></th>
<th>Established businesses</th>
<th>Emerging businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Discovery Health</strong>&lt;br&gt;30 Jun 16</td>
<td>87%&lt;br&gt;87%&lt;br&gt;109%&lt;br&gt;71%</td>
<td>52%&lt;br&gt;Cash buffer: R1bn – R2bn</td>
</tr>
<tr>
<td><strong>Discovery Life</strong>&lt;br&gt;30 Jun 17</td>
<td>87%&lt;br&gt;71%&lt;br&gt;28%&lt;br&gt;35%</td>
<td><strong>Vitality Life</strong>&lt;br&gt;30 Jun 18</td>
</tr>
<tr>
<td><strong>Discovery Invest</strong>&lt;br&gt;30 Jun 18</td>
<td>109%&lt;br&gt;71%&lt;br&gt;28%&lt;br&gt;35%</td>
<td><strong>Vitality Health Insurance</strong>&lt;br&gt;30 Jun 19</td>
</tr>
<tr>
<td><strong>Vitality Health Insurance</strong>&lt;br&gt;30 Jun 20</td>
<td>109%&lt;br&gt;71%&lt;br&gt;28%&lt;br&gt;35%</td>
<td><strong>Emerging businesses</strong>&lt;br&gt;Target RF + 10%</td>
</tr>
</tbody>
</table>

**FLR**

- FLR<28%

**Cash buffer**

- Cash buffer: R1bn – R2bn
  - 30 Jun 16
  - 30 Jun 17
  - 30 Jun 18
Return on Embedded Value (EV)

+17%

Rm

Opening EV: 57,294

Value of new business: 2,826

Unwind of risk discount rate: 5,955

Experience variances: 305

Methodology and assumption changes: 787

Experience Variances:
Excl. economic: 678
Economics: -373

Other: 397

EV before new initiatives: 67,564

New initiatives: 585

Change in capital and dividends paid: 1,355

Closing EV: 65,624

+15%

Growth in EV
Operating model

Group profit growth of 

**CPI + 12%**

Return on capital

**risk free + 9.6%**

Cash generated

Cash used

New initiatives

Tax, finance and dividends

Regulatory capital

Allocated capital

Allocated debt

Additional buffer

- Regulatory capital and reserves
- Dedicated capital for planned initiatives
- Allocated debt is part of the funding strategy
- Cash buffer for stabilization and unknown investments

**FLR 25.8%**

**Cash buffer R1.7bn**
Established businesses have significant scale and continue to grow

Operating profit (Rm)

<table>
<thead>
<tr>
<th>Year</th>
<th>Discovery Health</th>
<th>discovery Life</th>
<th>Discovery Invest</th>
<th>Vitality</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>2,777</td>
<td>885</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>3,837</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

R8bn → CPI + 8.6% of earnings
Emerging businesses have significant potential.
Substantial new businesses and initiatives in the pipeline

**Discovery For Business**
- Risk solutions and employee benefits for businesses
- Launch: Q2 2018

<table>
<thead>
<tr>
<th>Business insurance</th>
<th>Umbrella funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funding requirement: &lt;R800m</td>
<td>Funding requirement: &lt;R200m</td>
</tr>
</tbody>
</table>

**VitalityInvest**
- Long-term savings products in the UK
- Launch: Q2 2018

| Funding requirement: <£65m |

**Discovery Bank**
- Building a fully-fledged retail bank
- Launch: 2018

| Funding requirement: <R1 750m\(^1\) |

---

Funding requirements from inception to FY2023

\(^1\) Excludes purchase price of 25.01% of DiscoveryCard JV and shareholding in Discovery Bank
Shared-Value model has been rolled out globally

Business is well-positioned for growth:
- Established businesses are robust and growing strongly
- Emerging businesses are all profitable and have significant potential
- New initiatives are substantial and fully funded within the plan

The capital plan is robust, and is projected to strengthen further with a decreasing financial leverage ratio
WORLD'S LARGEST BEHAVIOURAL PLATFORM LINKED TO FINANCIAL SERVICES
Considerable progress in building Discovery Bank

2015
- Acquisition of additional 54.99% of the Card

APR 2016
- Submitted Bank licence applications

OCT 2016
- S 13 Provisional Bank licence

JAN 2017
- Build commences

OCT 2017
- S 16 Bank licence obtained

Approval subject to certain conditions

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

Opportunity to own 100% of the Bank and Discovery Card

Purchase price

- 25.01% of the Discovery Card joint venture: R0.7bn
- Rights to Discovery Card book and related assets will be transferred to Discovery Bank
- 25.01% shareholding in Discovery Bank: R1.1bn
- Which FirstRand would have retained

- Total: R1.8bn
Excellent performance of Discovery Card

Operating profit (Rm)

+17% to R 414m

Credit loss ratio to advances
1.6%

Advances
R4.3bn (+3.5%)

Turnover spend
R25.3bn (+5%)

P/E ratio ~ 9.8x

Financial metrics ahead of peers

Non-performing loans (%)

DiscoveryCard: 3%
SA banks average: 7.9%

Cost to income (%)

DiscoveryCard: 40.0%
SA banks average: 58.5%
Demonstrable link between financial behaviour and wellness engagement

### Average monthly spend

- NONE
- Blue
- Bronze
- Silver
- Gold
- Diamond

- **4.7x**

### Annual closure rate

- NONE
- Blue
- Bronze
- Silver
- Gold
- Diamond

- **-60%**

### Percentage clients going into arrears

#### Vitality status

- NONE
- Blue
- Bronze
- Silver
- Gold
- Diamond

- **-80%**

- **-85%**

#### Discovery product count

- 1
- 2
- 3
- 4
- 5
- 6

- **-76%**

#### Driving behaviour

- Base
- Neutral
- Engaged
- Advanced
Group Funding Plan would be stretched, if purchase funded internally.
WORLD'S LARGEST BEHAVIOURAL PLATFORM LINKED TO FINANCIAL SERVICES
Vitality-integrated API

+78%*

Revenue

+40%*

Operating result

+131%

*From insurance partners

- USD390m
  - USD51.1m
  - USD2.6m

- R5 014m
  - R657m
  - R34m
Accelerated membership growth with significant latent potential

Jun-13 to Jun-18

+91% to 0.8m

40k New activations monthly

8 Months to add 250,000

4 Years to get 500,000 members

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

- Compelling and repeatable integrated products
- Optimal partner mix and localisation
- Reusable technology platform
- Buy-in from distribution force
- Investment in strategic marketing
Single technology platform to deliver Vitality’s product roadmap

$35m
Invested

3-6 month
Deployment per partner

105
Developers

>1,000
Screen designs

ENHANCED DIGITAL USER EXPERIENCE
Superior customer experience
Significant configurability

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

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

QUICKER TO MARKET
Quicker to implement
More cost effective to implement and run
Vitality works across multiple contexts

**Case one:** Flat growth in a large life insurance market

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Non-Vitality Sales</th>
<th>Vitality Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>4%</td>
<td>10%</td>
</tr>
<tr>
<td>2016</td>
<td>4%</td>
<td>10%</td>
</tr>
<tr>
<td>2017</td>
<td>4%</td>
<td>10%</td>
</tr>
<tr>
<td>2018</td>
<td>4%</td>
<td>10%</td>
</tr>
</tbody>
</table>

**Case two:** Large market with infrequent customer interaction

[Graph showing change in exercise days after taking up Active Rewards with Apple Watch]

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

- **Non-Vitality:** 100%
- **Bronze:** 70%
- **Silver+:** 40%

*2015-2018
Continued growth will come from three strategies:

01 Exploit latent potential

- Vitality attachment
- Vitality take-up
- Engagement

02 New insurance partners

15
11
7
4
3
4
New
Discussions
Developing business case
Completed business case
Signed LOI
Signed

03 Adjacencies

Motor
Invest
Card
ETC.....

Vitality attachment
Vitality take-up
Engagement

IGI Life
Saluda
Equiva

Manulife
myOwn
John Hancock
01 | Sumitomo Vitality Launch Video
New business
95% to USD443.6m
R5 738m

Written premium
+87% to USD753.9m
R9 695m

Ping An Health operating profit
20x to USD29.9m
R385m

Discovery’s operating profit
to USD4.4m
R56m

After Discovery’s costs
Massive opportunity in China

Market in its infancy

Private health insurance premiums per capita

<table>
<thead>
<tr>
<th>Country</th>
<th>2016</th>
<th>2026</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>1,690</td>
<td>1,490</td>
</tr>
<tr>
<td>Japan</td>
<td>610</td>
<td>540</td>
</tr>
<tr>
<td>Germany</td>
<td>540</td>
<td>19</td>
</tr>
<tr>
<td>China</td>
<td>19</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Private health insurance coverage of population

<table>
<thead>
<tr>
<th>Country</th>
<th>2016</th>
<th>2026</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>610</td>
<td>1690</td>
</tr>
<tr>
<td>Germany</td>
<td>540</td>
<td>540</td>
</tr>
<tr>
<td>China</td>
<td>19</td>
<td>6</td>
</tr>
</tbody>
</table>

Healthcare spending in China

CNY, trillion; % of total healthcare expenditure

<table>
<thead>
<tr>
<th>Year</th>
<th>Government expenditure</th>
<th>Out-of-pocket expenses</th>
<th>Private insurance</th>
<th>Other private expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>1.6 (56%)</td>
<td>1.0 (35%)</td>
<td>0.1 (3%)</td>
<td>0.2 (6%)</td>
</tr>
<tr>
<td>2026</td>
<td>2.9 (100%)</td>
<td>1.6 (56%)</td>
<td>0.1 (3%)</td>
<td>0.2 (6%)</td>
</tr>
</tbody>
</table>

Out-of-pocket expenses

<table>
<thead>
<tr>
<th>Type</th>
<th>2016</th>
<th>2026</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Out of pocket</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Private health insurance</td>
<td>1.0</td>
<td>1.4</td>
</tr>
<tr>
<td>Social health insurance</td>
<td>0.9</td>
<td>3.5</td>
</tr>
</tbody>
</table>

PHI expected to grow faster than SHI

<table>
<thead>
<tr>
<th>Year</th>
<th>PHI</th>
<th>SHI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>1.3</td>
<td>4.1</td>
</tr>
<tr>
<td>2026</td>
<td>2.9</td>
<td>9.1</td>
</tr>
</tbody>
</table>

SOURCE: China Health Statistics, Ministry of Health

SOURCE: Ping An Group
Potential to extract even more value from distribution

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

### Population

<table>
<thead>
<tr>
<th>City</th>
<th>FY17</th>
<th>FY18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guangzhou</td>
<td>30</td>
<td>22</td>
</tr>
<tr>
<td>Shanghai</td>
<td>24</td>
<td></td>
</tr>
<tr>
<td>Beijing</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>Hangzhou</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>Changzhou</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Shantou</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Nanjing</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Tianjin</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Chengdu</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Chongqing</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>Jinan</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Wuhan</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>Xian</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Harbin</td>
<td>11</td>
<td></td>
</tr>
</tbody>
</table>

#### 1.4m PAL agents in total

- **Existing**
- **Planned for 2018**
- **Not covered**

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

The number of PAL agents selling PAH products doubled

- **10%** FY17
- **21%** FY18

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

- **Proprietary platforms**
  - Traditional insurers with online platforms
  - Ping An Health

- **Third party platforms**
  - Sell products from multiple insurers
  - Have a distribution license but no insurance license

- China Life eBao
- Ping An Jinguanjia
- Sui Shenyi
- Sunflower Insurance
- Bao Xianshi
- Elephant insurance
- Alipay
Ping An Health’s own digital distribution channel achieved significant traction in two years.

- Registered users: 4.26m
- Premium revenue: >RMB100m
- Monthly active users: 670k
- New users registered daily: 10k
- Number of service interactions: >20.66m
- Rank out of >100k: No. 137
Ping An Health adapts product strategy to market realities

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

**Individual mid market: Ankang**
- CNY 2,200 premium
- In-patient cover, 20% co-pay
- Ping An Life agents

**Individual low end: E-sheng Bao**
- CNY 600 premium
- In-patient, 10,000 deductible
- Internet sales

---

**Revenue**

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>H12018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>132</td>
<td>123</td>
<td>134</td>
<td>145</td>
<td>156</td>
<td>167</td>
<td>178</td>
<td>5,996</td>
</tr>
</tbody>
</table>

**The quality of the business is strong and stable**

**Loss ratio**

**Lapse rates**

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

3m people die of cancer in China each year

4m people diagnosed with cancer each year

DYING TO SURVIVE

Highlights the issue of restrictions to foreign manufactured cancer drugs

R5 728m box office sales in two weeks

Ping An Health launched two cancer protection products in August 2018

CNY 1.200 average premium

Provides cover for:
- Consultation fees
- Examinations and lab test fees
- In- and out-patient medical expenses

CNY 1.5m average daily premium since launch
Ping An Health is investing in scaling operations

Ping An Health has invested in digitalisation and operational efficiency:

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

<table>
<thead>
<tr>
<th></th>
<th>Policy applications capacity per minute</th>
<th>Cases* processed per day</th>
<th>Operational cost of processing claim (CNY)</th>
<th>Number of providers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2018</td>
<td>2017</td>
<td>2018</td>
</tr>
<tr>
<td>Automated underwriting</td>
<td>100</td>
<td>4 000</td>
<td>18.79</td>
<td>1 520</td>
</tr>
<tr>
<td>Claims auto-adjudication</td>
<td>1 500</td>
<td>10 000</td>
<td>8.57</td>
<td></td>
</tr>
<tr>
<td>app-based claims</td>
<td>2017</td>
<td>2018</td>
<td></td>
<td></td>
</tr>
<tr>
<td>submissions</td>
<td>590</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Automation of key policy</td>
<td>2017</td>
<td>2018</td>
<td></td>
<td></td>
</tr>
<tr>
<td>administration functions</td>
<td>2017</td>
<td>2018</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Cases include claims, new business applications, pre-authorisations and calls
Discovery working closely with PAH to ensure profitability and sustainability
Ping An Health’s growth is expected to continue

Exceptional growth in 2018

Revenue for seven months to July 2018 same as full 2017
Cumulative premium revenue by month

China’s health insurance market is expected to keep growing
Potential to extract even more value from distribution
Proven ability to adapt product strategy to market realities
Continuous investment in scaling operations
Discovery working closely to ensure sustainability
UK COMPOSITE MODEL

PARTNER COMPOSITE MODEL

WORLD'S LARGEST BEHAVIOURAL PLATFORM LINKED TO FINANCIAL SERVICES
New business

+12%
to R2 279m

Operating profit*

+44%
to R1 104m

Lives covered

+11%
to 1.084m lives

*VH + VL + TP Margin
Building a single UK Vitality platform

PRODUCT

LIFE INSURANCE

HEALTH INSURANCE

INVESTMENTS

PARTNERS

Apple

Vitally Kids

ocado

VUE

BRITISH AIRWAYS

PROGRAMS

ACTIVE REWARDS

HEALTHY AGING

MENTAL WELLBEING

BRAND

Apple watches

Monthly Starbucks

Monthly cinema tickets

Ocado deliveries to date

Page views on Disney Kids Hub to date
New business

+14%
to R1 107m

Operating profit

+108%
to R589m

Lives covered

+7%
to 577k lives
Operating result driven by Shared-Value model

**Selection**
- Vitality selects healthier customers
- Vitality customers against UK census data

**Behaviour**
- Change in behaviour directly correlated with claims
- Claims relativity by engagement

**Lapses**
- Engaged members have lower lapses
- Lapse rate by status

**Comparison**
- **Sick** vs. **Healthy**
  - Vitality Customer: 8%
  - UK Population: 3.5%

- **Healthy prevalence**
  - 44% Lower claims cost if exercise 5 days a week compared to 1

- **Lower lapses**
  - 50% Lower lapses
Additional value from pricing sophistication and claims management

Use rich data and AI that leads to sophisticated pricing:

- > 100 million possible combinations of risk factors
- > 100 behavioural and geospatial indices
- > 5 TB of data

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

Tariff and care pathways have led to increased claims savings.

Claims management initiatives have kept PLPM costs stable over time.
Lower loss ratio, strong cash generation and increasing return

Decreasing loss ratio over time

<table>
<thead>
<tr>
<th>FY 13</th>
<th>FY 14</th>
<th>FY 15</th>
<th>FY 16</th>
<th>FY 17</th>
<th>FY 18</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>-21%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Strong cash generation (Rm)

- Cash from in force: 1,513
- Cash spent: 1,038
- Net cash generated: 475

Greater return on capital

Achieved 12.3% ROC at June 2018

Risk free

Risk + 10%

FY16: 3%
FY17: 7.2%
FY18: 12.3%

Decreasing loss ratio driven by:
- Vitality and pricing sophistication
- Tariff savings
- Risk management savings
New business

+10% to R1 172m

Operating profit*

+6% to R515m

Lives covered

+15% to 507k lives

*includes Transfer Price Margin
Interest rate change introduced to ensure stability going forward

Continued negative implied real yields and interest rate volatility

UK Forward Real Gilt Yield
single derived rate

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

Review assumptions to a long-term view

VitalityLife risk adjusted yield vs passive interest rate

Investment rate assumption set in line with the risk-adjusted yield expected from a basket of fixed interest securities based on observed average over the prior 12 months.
Business has been reconfigured for a low interest rate environment

Term assurance new business mix

<table>
<thead>
<tr>
<th>Year</th>
<th>Term</th>
<th>Whole of life</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>67%</td>
<td>33%</td>
</tr>
<tr>
<td>2018</td>
<td>96%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Indexed premium new business mix

<table>
<thead>
<tr>
<th>Year</th>
<th>Indexed</th>
<th>Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>24%</td>
<td>76%</td>
</tr>
<tr>
<td>2018</td>
<td>38%</td>
<td>62%</td>
</tr>
</tbody>
</table>
New business acceleration while maintaining margin

Strong new business in second half of the year

Maintained VNB margin

New business IRR 4x higher than risk free

New business IRR

4x Risk free
Extending the Vitality platform to investments
The rationale for VitalityInvest

Key trends in asset management

- Increased choice
- Increased sophistication
- Reduced costs

Authorised funds

- 1980: 493
- 2018: 3458

Fund innovation

- 1980s: Traditional managed funds
- 1990s: Thematic bond funds
- 2000s: “Modern” mixed asset funds
- 2010s: Risk profiled funds
- 2020s: Increased use of DFM

Asset weighted expense ratio

- 1990: 1.4%
- 2017: 0.0%

Market size and target opportunity

- Total investment market of R3 119bn
- VitalityInvest targeting R500bn
Sophisticated product offering and expanded reach

VitalityInvest product

- **INVESTMENT BOOSTER**: Up to 15% boost
- **HEALTHY LIVING DISCOUNT**: Up to 100% on product charges
- **RETIREMENT BOOSTER**: Up to 50% boost

**Vitality INVEST**

- **BEHAVIOURAL WELLNESS PLATFORM**
  - Save sooner, more and for longer
  - Stay healthy
  - Manage health and wealth in retirement

- **PRODUCTS**
  - Stocks and shares ISA
  - Junior ISA
  - Retirement Plan
    - Accumulation and drawdown

- **TECHNOLOGY PLATFORM**
  - Personalised Life Expectancy
  - Personalised Savings Roadmap
  - Adviser Hub

- **ASSET MANAGEMENT**
  - Vitality Funds
  - Third Party Funds
  - Dynamic Funds
  - Investec
  - Invest
  - Investec

Increased distribution footprint

- **250 TOTAL**
- **160 BCs**
- **10 KAMs**
- **6 NAMs**
- **36 D2C**
- **20 FRANCHISES**
- **18 BCO**

Sales Distribution Team:
- BCs - Business Consultants
- KAMs - Key Account Managers
- NAMs - National Account Managers
- D2C - Direct to Consumer Advisers
- BCO - Business Consultants Online
Market-first financial planning tools that incorporate personalised life expectancy algorithm, developed in collaboration with University of Cambridge and RAND Europe.

Case study: 35-year old male

1. Current health and lifestyle
   - 79kg, 177cm, 94cm (waist)
   - Normal biometrics
   - Rarely active, smoker, heavy drinker, OK eating habits

2. Proposed lifestyle improvements
   - Quits smoking, improves eating habits, becomes more active and drinks moderately

3. Proposed retirement savings plans
   - Current savings of £80k, monthly savings of £500
   - Plans to retire at 65 with income of £1,500 p.m.
   - Moderate (4.5%) investment performance

4. Retirement savings with VitalityInvest
   - Invests in VitalityInvest Retirement Plan with Vitality funds

Potential savings gap: Improved lifestyle could add 10 years to life expectancy

VitalityInvest closes gap
Positively different investments.
SA COMPOSITE MODEL

UK COMPOSITE MODEL

PARTNER COMPOSITE MODEL

WORLD'S LARGEST BEHAVIOURAL PLATFORM LINKED TO FINANCIAL SERVICES
New business

+8%
to R6 573m
excl. take-on of new closed schemes

Membership

>3.5m
under administration

Operating profit

+11%
to R2 777m
16/17 Restricted schemes won over the previous 10 years

40% Total market share

>3.5m Lives under administration

18 Restricted schemes

17% Restricted scheme market share

>670 000 Lives

1 Open scheme

56.0% Open scheme market share

>2.8m Lives
DHMS continued excellence in a challenging economic environment

<table>
<thead>
<tr>
<th>Competitive advantage</th>
<th>Growth and stability</th>
<th>Security</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>-16.4%</strong> Lowest premiums in the scheme market (2017: -15.1%)</td>
<td><strong>56%</strong> Market share</td>
<td><strong>27.44%</strong> Solvency</td>
</tr>
<tr>
<td><strong>10.1%</strong> DHMS admin and managed care fees in bottom quartile</td>
<td><strong>+2.08%</strong> Membership growth</td>
<td><strong>R16.4bn</strong> Reserves</td>
</tr>
<tr>
<td><strong>R2.10</strong> Value generated for every R1 paid to Discovery Health</td>
<td><strong>4.8%</strong> Annualised lapse rate</td>
<td><strong>R2.45bn</strong> Net surplus</td>
</tr>
<tr>
<td>Stability</td>
<td></td>
<td><strong>AAA</strong> GCR credit rating</td>
</tr>
<tr>
<td>94% No movement</td>
<td>3% Upgrade</td>
<td>3% Downgrade</td>
</tr>
</tbody>
</table>
Discovery Health is actively supporting the development of the NHI and remains committed to growing shared value in South Africa's healthcare system.

**Regulatory environment**

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

**National Health Insurance Bill**

- Pragmatic and workable

**Medical Schemes Amendment Bill**

- More clarity required

**Health Market Inquiry**

- Comprehensive and insightful

1. Majority of findings and recommendations are sound and workable
2. Critical supply side recommendations will have significant positive impact if implemented as proposed
Discovery Health’s social mandate is to bring down the cost of healthcare for members


- **CPI**: 6.1%
- **Tariffs**: 0.5%
- **Utilisation**: 4.7%
- **Claims inflation**: 11.3%
- **VAT**: 1.0%

1.9% **Supply-side utilisation**
- Supplier induced demand
- High cost medication
- Technology

2.8% **Demand-side utilisation**
- Increasing disease burden
- Severe adverse selection
- Ageing insured population
Supply-side utilisation – supplier induced demand

Supplier induced demand

High cost medication
Technology

Growth between 2010 and 2016

Medical scheme Lives
7.4%

Private beds
40.7%

New hospitals are substantial drivers of utilisation

January 2016 to March 2018

<table>
<thead>
<tr>
<th>Facilities</th>
<th>Beds</th>
<th>Total spend since inception of new hospitals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private hospital</td>
<td>13</td>
<td>1,222</td>
</tr>
<tr>
<td>Day clinic</td>
<td>19</td>
<td>325</td>
</tr>
<tr>
<td>Psychiatric hospital</td>
<td>10</td>
<td>452</td>
</tr>
<tr>
<td>Sub acute hospital</td>
<td>10</td>
<td>280</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52</strong></td>
<td><strong>2279</strong></td>
</tr>
</tbody>
</table>

Case study: Pietermaritzburg

Life Hilton hospital opened September 2015

<table>
<thead>
<tr>
<th></th>
<th>Before new hospital opening</th>
<th>After new hospital opening</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total bed days per 1000 lives</td>
<td>781.7</td>
<td>962.9</td>
</tr>
<tr>
<td>+23%</td>
<td></td>
<td>23%</td>
</tr>
</tbody>
</table>
Demand-side utilisation – increasing cancer incidence rates

Increasing disease burden
Severe adverse selection
Ageing insured population

### Female

<table>
<thead>
<tr>
<th>Cancer Type</th>
<th>2008</th>
<th>2017</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>All cancers</td>
<td>2.23</td>
<td>4.12</td>
<td>2.42X</td>
</tr>
<tr>
<td>Breast Cancer</td>
<td>2.23</td>
<td>3.61</td>
<td>1.63X</td>
</tr>
<tr>
<td>Colon Cancer</td>
<td>2.24</td>
<td>3.62</td>
<td>1.65X</td>
</tr>
<tr>
<td>Lung Cancer</td>
<td>2.23</td>
<td>3.74</td>
<td>1.71X</td>
</tr>
<tr>
<td>Skin Cancer</td>
<td>2.24</td>
<td>4.54</td>
<td>2.09X</td>
</tr>
</tbody>
</table>

Growth in cancer incidence for female lives: 1.85X

### Male

<table>
<thead>
<tr>
<th>Cancer Type</th>
<th>2008</th>
<th>2017</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>All cancers</td>
<td>2.24</td>
<td>4.54</td>
<td>2.75X</td>
</tr>
<tr>
<td>Prostate Cancer</td>
<td>2.24</td>
<td>3.65</td>
<td>1.65X</td>
</tr>
<tr>
<td>Colon Cancer</td>
<td>2.24</td>
<td>3.68</td>
<td>3.11X</td>
</tr>
<tr>
<td>Lung Cancer</td>
<td>2.24</td>
<td>3.46</td>
<td>1.10X</td>
</tr>
<tr>
<td>Skin Cancer</td>
<td>2.24</td>
<td>4.24</td>
<td>2.09X</td>
</tr>
</tbody>
</table>

Growth in cancer incidence for male lives: 2.02X
Becoming the lowest cost administrator

**Lowest quartile admin fees**

10.1% DH total fees as a % of GCI

**Decreasing real admin fee increases**

Administration expenditure as % of GCI over time

<table>
<thead>
<tr>
<th>Year</th>
<th>Open schemes ex DHMS (weighted)</th>
<th>DHMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>10.7%</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>9.8%</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>8.3%</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>7.8%</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Effective interventions to manage claims costs**

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

- **Potential risk claims**: R47.8bn
- **Risk management savings**: R5.7bn (11.9%)
- **Vitality impact on DHMS**: R1.6bn (3.4%)
- **Actual risk claims**: R40.3bn
Significant progress in building a fully integrated digital platform to enrich interactions and drive engagement

**HealthID**

Over 1,993 doctors
Over 1.7 m member consents

**DrConnect**

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

+1% to R2 188m
Individual +4%

Operating profit

+7% to R3 837m
Individual +9%

Market share

31% of retail affluent market

Source: NMG Consulting market research
**Discovery Life realisation of Shared Value**

### Selection x Mortality x Lapses → Shared Value

#### Proportion of healthy lives at underwriting (Vitality Rating)

- **Lifetime Select**
  - Actual: 30%
  - Expected: 33%
- **Select**
  - Actual: 34%
  - Expected: 37%
- **Standard**
  - Actual: 32%
  - Expected: 31%

#### Growth in policyholders

- **2014/15**
- **2015/16**
- **2016/17**
- **2017/18**

#### Actual = Expected (Standard life), risk adjusted

#### Other SA Insurers

#### Study by global reinsurer

#### Discovery Life Paybacks

- **Value of new business**
  - 2015/16
  - 2016/17
  - 2017/18

**Discovery Life Paybacks**

- **2018**

**+8.3% VoNB\(^1\)**

**R973m Paybacks**

**c20%** lower mortality

**Positive selective lapses**
Continued product innovation

**PROACTIVE CLAIMS**

- Value of proactive claims paid: **R72m**

**GLOBAL EDUCATION PROTECTOR**

- Up to 100% of a 3-year tertiary degree covered through shared-value
- # of GEP policies sold: **+135%**

**PURPLE LIFE PLAN**

- Premium efficiency
- Guaranteed convertibility to US dollars
- Enhanced global treatment
- # of policies sold over R10m: **+23%**
  - 2016/17: 1,398
  - 2017/18: 1,714

**SMART LIFE PLAN**

**GLOBAL EDUCATION PROTECTOR**

**CLASSIC AND ESSENTIAL PLANS**

**DOLLAR LIFE PLAN**

**PURPLE LIFE PLAN**

Product and data integration
Discovery Life’s considerations when reporting earnings

**Unique nature of Discovery Life**

1. Long-tailed, predominantly protection business
2. Younger business, low mean duration
3. Rapid growing book
4. Shared-Value Insurance and greater profitability

**Earnings reporting considerations**

**LEVEL OF UPFRONT CASH FLOW RECOGNITION**

- NO NEGATIVE RESERVE
- PRUDENT NEGATIVE RESERVE
- BEST ESTIMATE NEGATIVE RESERVE

**FULL UPFRONT RECOGNITION**

- Profit overstated on initial recognition
- Profit neutral on initial recognition

**CASHFLOW REPORTING**

- Not included under IFRS 17

**IRR profile**

- Mean duration 6.3 years
- Inforce premium 25%
- IFRS PROFIT
- IFRS PROFIT - Not included under IFRS 17
- IFRS PROFIT - Profit neutral on initial recognition

**PRUDENT EMERGENCE OF VALUE**

- Profit overstated on initial recognition
- Profit neutral on initial recognition
Criteria to assess the appropriateness of the accounting policy

Earnings reporting considerations

-profit neutral on initial recognition

- profit overstated on initial recognition

- not included under IFRS 17

FULL UPFRONT RECOGNITION

Accounting policy
Profit emergence aligned with risks borne and services rendered

Assumptions
Resilient under 1/200 stresses

Experience variances
Positive non-economic experience variances

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

LEVEL OF UPFRONT CASH FLOW RECOGNITION

CASHFLOW REPORTING

PRUDENT EMERGENCE OF VALUE

IFRS PROFIT

IFRS PROFIT

- Profit neutral on initial recognition

- Profit overstated on initial recognition

- Not included under IFRS 17

NO NEGATIVE RESERVE

PRUDENT NEGATIVE RESERVE

BEST ESTIMATE NEGATIVE RESERVE
Assumptions | Resilience of the negative reserve

Assumptions
- Resilient under 1/200 stresses

Experience variances
- Positive non-economic experience variances

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

Available margin under various 1 in 200 stresses

Compulsory and Discretionary margins
- R24bn

Assets under insurance contracts and other negative liabilities
- R27bn

Life and Invest at June 2017

Economic Negative Rand Reserve
Experience variances | Positive

**Assumptions**
- Resilient under 1/200 stresses

**Experience variances**
- Positive non-economic experience variances

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

---

**Non-economic EV variances over time**
- Positive economic EV variances over time

**Claims vs. expectation**
- Actual vs. expected ratio
- Expected

**Lapses vs. expectation**
- Lapses vs. expectation

**Policy alterations**
- Rm

<table>
<thead>
<tr>
<th>Policy alterations Rm</th>
<th>FY 17</th>
<th>FY 18</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-242</td>
<td>-74</td>
</tr>
</tbody>
</table>

**Change to the basis (Net strengthening of cR1bn)**

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

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

- **Policy alterations**
  - Despite positive variance in H2 due to management interventions, assumptions have been strengthened

---

**Long-term average**
- 106%

---

**Actual vs. Expected ratio**
- 100%

---

**Shifting real and nominal interest rates from single point assumptions to yield curves**
- Despite positive variance in H2 due to management interventions, assumptions have been strengthened
Cash flow and capital | Robust cash, VNB, IRR and CAR

Assumptions
Resilient under 1/200 stresses

Experience variances
Positive non-economic experience variances

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

**Cash flow (Discovery Life and Invest)**
Rm

<table>
<thead>
<tr>
<th>Premiums &amp; Fees</th>
<th>Claims &amp; Reserves</th>
<th>Operational costs</th>
<th>Cash From Existing</th>
<th>NB Strain</th>
<th>Cashflow before FinRe</th>
<th>Net FinRe</th>
<th>Discovery Life and Invest Net Cash Flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>12,794</td>
<td>-7,510</td>
<td>-1,765</td>
<td>3,519</td>
<td>-2,880</td>
<td>639</td>
<td>-100</td>
<td>539</td>
</tr>
</tbody>
</table>

**20.7%**
New business IRR

**R1.3bn**
Value of new business (+6%)

**Capital robustness**
Quarterly SCR = ~170%

<table>
<thead>
<tr>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.56x</td>
<td>3.9x</td>
<td>3.5x</td>
</tr>
</tbody>
</table>

2x CAR

**Capital Adequacy Ratio**
New business

-2%
to R2 454m
Up 0.3% if effect of R500m corporate endowment is excluded

Net flows

+10%
to R6 397m

Assets under administration

+18%
to R81.8bn

Operating profit

+19%
to R885m
Leveraging behavioural science and Vitality to change the way people invest

**Save for Longer**

<table>
<thead>
<tr>
<th>Investment boosts</th>
<th>35+</th>
<th>25-34</th>
<th>20-24</th>
<th>15-19</th>
<th>10-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years to retirement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Ad-hoc contribution**

- 20% for 25-34 years
- 25% for 20-24 years
- 15% for 15-19 years
- 12.5% for 10-14 years

**Upfront investment**

- 20% for 35+ years
- 15% for 25-34 years
- 12.5% for 20-24 years
- 10% for 15-19 years
- 7.5% for 10-14 years

**Withdrawal**

**Manage Health and Wealth in Retirement**

**Boost to retirement income**

<table>
<thead>
<tr>
<th>Vitality status</th>
<th>10.01%-17.5%</th>
<th>8.51%-10%</th>
<th>...</th>
<th>3.26%-4%</th>
<th>2.5%-3.25%</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>0%</td>
<td>0%</td>
<td>...</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td>Blue</td>
<td>0%</td>
<td>0%</td>
<td>...</td>
<td>17.5%</td>
<td>30%</td>
</tr>
<tr>
<td>Bronze</td>
<td>0%</td>
<td>0%</td>
<td>...</td>
<td>20%</td>
<td>35%</td>
</tr>
<tr>
<td>Silver</td>
<td>0%</td>
<td>2.50%</td>
<td>...</td>
<td>25%</td>
<td>40%</td>
</tr>
<tr>
<td>Gold</td>
<td>0%</td>
<td>2.50%</td>
<td>...</td>
<td>30%</td>
<td>45%</td>
</tr>
<tr>
<td>Diamond</td>
<td>0%</td>
<td>5%</td>
<td></td>
<td>35%</td>
<td>50%</td>
</tr>
</tbody>
</table>

**2-3 year**

- Earlier Investment

**+24%**

- Vitality engagement

**3%**

- Lower drawdowns

Improvements based on Invest RSA June 2018 valuations. Earlier investment considered by looking at age at entry, lower drawdowns compared by segmenting the book. Vitality engagement defined as those Gold & Diamond.
Product design has improved competitiveness while maintaining margins

- **Decreased platform fees**
  - Platform fees from 2008 to 2018, showing a significant drop.

- **Higher Discovery fund take-up**
  - Discovery fund take-up increased from 40% in Jan-15 to 92% in Jan-17.

- **Profit maintenance**
  - Profit margin increased from 2% in Jan-13 to 2.9% in Jan-17.
Extending the Shared-Value model

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

Shared-Value Investment programme
- Contribute, get healthier, drive well and reinvest
- Pre-retirement: up to 15% boost to monthly contributions
- Up to 30% of the value of group risk premiums when payback is reinvested
- Post-retirement: up to 50% boost to retirement income

Strong new business acquisition tool and offering
- Transfer other retirement savings
- up to 15% boost to assets transferred
- Live a healthier life and withdraw income responsibly

Compelling product
- Join and engage online
- Instant rewards for initial digital engagement
- A wide range of Discovery and external investment funds
- Competitive fees with discounts
- Proactive service and communication
- Employer and employee investment choice
- State-of-the-art administration
- Scalable complexity for big or small employers
- Wide range of Discovery and external investment funds
- Flexibility of choice
New business
+17% to R1 047m

Gross written premium
+28% to R2 712m

Vehicles covered
+18% to 200k

Operating profit
R68m
Manifestation of Shared Value

**Selection** x **Behaviour** x **Lapses**

- **Better driving compared to population**
- **Improvement in driving over time**
- **Better drivers have lower lapses**

**Correlations**
- **Correlations between health, wealth and driving**

**Average Drive points before and after selection**

- **Before**
- **After**

**Behaviour change**

- **Driver score**

- **0-100**
- **100-200**
- **200-300**
- **300-400**
- **400-500**
- **500-600**
- **600-700**
- **700+**

**Lapse rates for bad vs good drivers**

- **Bad drivers**
- **Good drivers**

**Manage health**

- **4x**

**Manage health and wealth**

- **6x**

**10%** Better drivers

**17%** Improvement over one month on average

**40%** Lower lapse rates

**6x** More likely to be a better driver if health and wealth are managed well
Discovery Insure are among the safest drivers globally

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

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

Driver fatalities per 100,000 motor vehicles

Deaths on Gold

Driver fatalities per 100,000 motor vehicles
Quality of in-force book is excellent

In-force book is strong

**R324m** Cash generated from in-force*

**35** Months, average duration of in-force book

**11.2%** In-force margin

Longer duration clients are better risks

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

- Year 2: 16%
- Year 3: 21%
- Year 4: 29%
- Year 5: 31%

Lapse rate by duration, relative to first year business

- Year 2: 14%
- Year 3: 20%
- Year 4: 31%
- Year 5: 44%

Combined ratio reduces by duration

- Year 1: 13%
- Year 2: 3%
- Year 3: 10%
- Year 4+: 10%

* Before financing

Cash generated from in-force book is excellent.
Extending the Shared-Value model to business insurance

Applying Vitality to fleets

Developing better businesses

Developed in partnership with

Gordon Institute of Business Science
University of Pretoria

endeavor
SOUTH AFRICA

AVS
confidential in the digital dimension

Merchant Capital

Sage BEE123

Edelman

The Economist

Business Health Check produces a diagnostic report

Your DBI Quotient
88%
You are a WARRIOR leader

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

AREAS FOR IMPROVEMENT
You need strategic direction and strong implementation to deliver on your ideals, so find ways to make your business model as compelling as your mission. Mind the facts. Change-makers who focus on social goals sometimes diminish instrumental data. Taking your business to the next level requires a strong grip on your numbers.
Strategic observations for the period

1. 2018 Ambition

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

2. Financial performance

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

3. Discovery Bank

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

4. Businesses

The established businesses performed remarkably well, growing operating profit by 14% and a pleasing return on capital. Emerging businesses turned to profitability with significant latent potential. Three substantial new businesses were launched.
Results and cash dividend declaration
for the year ended 30 June 2018