

Discovery Limited

Domestic Medium Note Programme “Non-Deal” Roadshow

11-14 MARCH 2019





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

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

03 | **Michael Curtis:** Group Risk and Actuarial

04 | **Jackie Symons:** Group Investor Relations



Discovery is a shared value global integrated financial services group whose purpose and ambition are achieved through a pioneering business model that incentivises people to be healthier, and enhances and protects their lives. Our growth has largely been organic.

- Discovery Limited registered a R10 billion Domestic Medium Term Note (DMTN) Programme in October 2017 to complement its funding sources
- To date, R2.2 billion has been placed via four note issuances
- This non-deal roadshow is to update debt capital market investors on the Group's performance and provide an overview of the debt profile
- Next DMTN issuance expected during 2nd half of 2019



1

Core new business +16% to R9 049m	Normalised operating profit -4% to R3 799m	Normalised headline earnings -16% to R2 376m	Dividend declaration +0% to 101 cps
Return on Embedded Value (annualized) +8% closing EV R68 025m	Investment in new initiatives 21% Including associated financing costs	Interest cover ² 7.9x	Bank Borrowings R11 391m Other Borrowings ³ R5 288m

Financial performance



In FY2019 Discovery planned to increase investment into new strategic initiatives, creating an expected reduction in Group earnings.

Key highlights for this interim reporting period:

- 21% of Group earnings spent on 5 key new businesses (most notably Discovery Bank) according to plan and above the long term guidance of 10%
- Discovery Life experienced a spike in high-value mortality claims impacting Group earnings by 8%. The cost of claims was within premium loadings however exceeded expectation
- Discovery Life released R3.5 billion of capital to shareholders following the implementation of Solvency Assessment Management ("SAM")
- Ping-An Health's performance was exceptional, with new business API increasing by c117% to R4.3bn over the period
- Discovery Insure generated cUS\$55m profit, post the reporting period, following the conclusion of the SoftBank Vision Fund investment of US\$500m in associate, Cambridge Mobile Telematics



<p>Core new business</p> <p>+16%</p> <p>to R9 049m</p>	<p>Normalised operating profit</p> <p>-4%</p> <p>to R3 799m</p>	<p>Normalised headline earnings</p> <p>-16%</p> <p>to R2 376m</p>	<p>Dividend declaration</p> <p>+0%</p> <p>to 101cps</p>
<p>Return on Embedded Value (annualised)</p> <p>+8%</p> <p>closing EV R68 025m</p>	<p>Investment in new initiatives</p> <p>21%</p> <p>Including associated financing costs</p>	<p>Interest cover²</p> <p>7.8x</p>	<p>Bank Borrowings</p> <p>R11 391m</p> <p>Other Borrowings³</p> <p>R2 073m</p>

¹ Applied to core new business. Total new business 5 year CAGR (including closed schemes and fees earned by VG) is 16.6%

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

³ Other borrowings excludes the head office finance lease liability (R3,288m), and is made up of R2,056m owed to the Prudential in respect of historic new business liquidity funding and R17m i.r.o recourse financial reinsurance balances

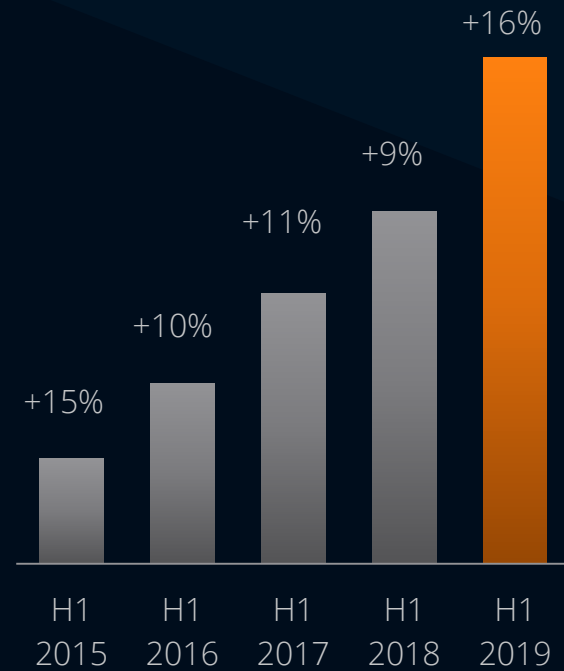


Core new business annualised premium income

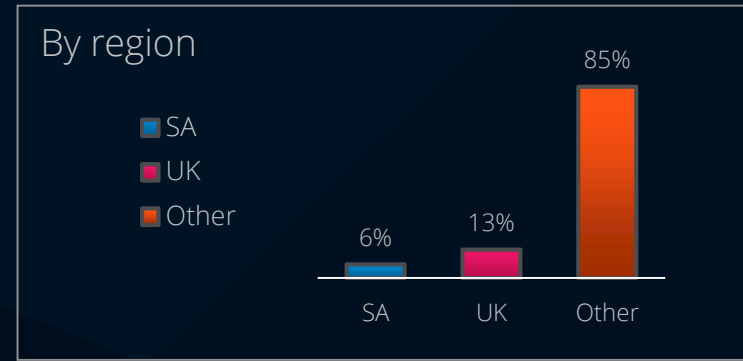
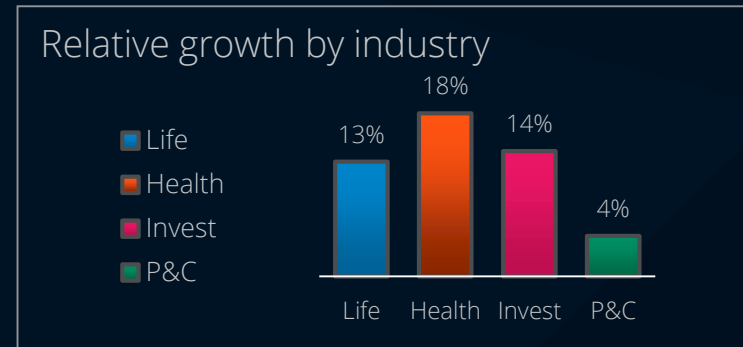
+16%

to R9 049m

+16% to R9 508m incl. DH take-on of new closed schemes and gross revenue for Vitality Group



	Rm ²	6 months to 31 Dec 2018	6 months to 31 Dec 2017	% change
Established	Discovery Health	3 420	3 324	+3%
	Discovery Life	1 212	1 121	+8%
	Discovery Invest	1 387	1 220	+14%
	Vitality HEALTH INSURANCE	616	522	+18%
	Vitality LIFE INSURANCE	600	557	+8%
Established businesses		7 235	6 744	+7%
Emerging	Discovery Insure	517	495	+4%
	Vitality GROUP	441	324	+36%
	中国平安 PING AN HEALTH	1 080 ¹	497 ¹	+117%
	Emerging businesses		2 038	1 316



Consistent long-term growth

Continuing excellent growth from emerging businesses

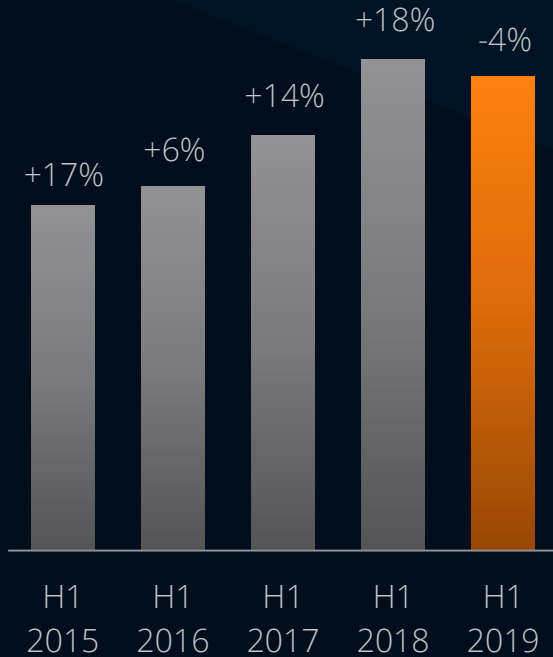
¹ Represents 25% of Ping An Health new business API
² Excludes Vitality SA, other new businesses and new closed schemes



Normalised operating profit

-4%

to R3 799m



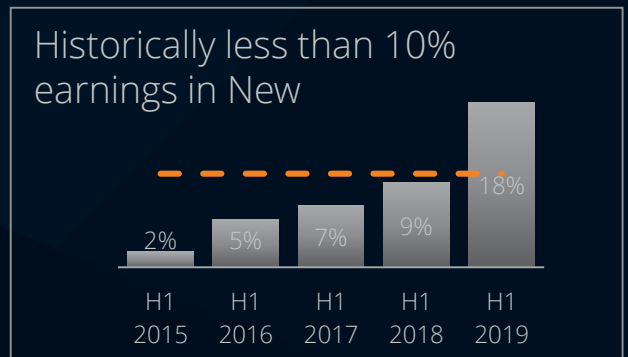
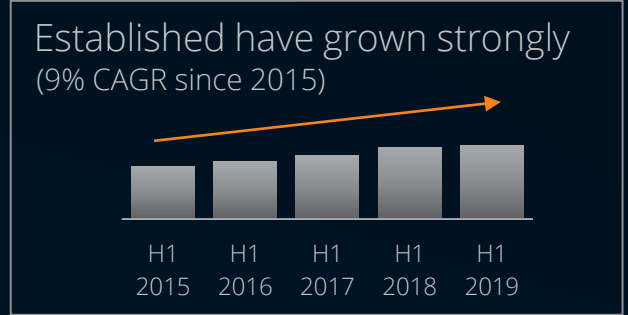
	Rm	6 months to 31 Dec 2018	6 months to 31 Dec 2017	% change
Established	Discovery Health	1 464	1 332	+10%
	Discovery Life	1 500	1 721	-13%
	Discovery Invest	455	419	+9%
	Vitality HEALTH INSURANCE	446	355	+26%
	Vitality LIFE INSURANCE	300	261	+15%
Established businesses		4 185	4 103	+2%
Emerging	Discovery Insure	62	29	+114%
	Vitality GROUP	95	34	+179%
	中国平安 PING AN HEALTH	12	36	-67%
	Emerging businesses		169	99
New	New businesses	(679)	(385)	+76%

CPI-0.3%

>100%

18%

of earnings (21% including finance costs)

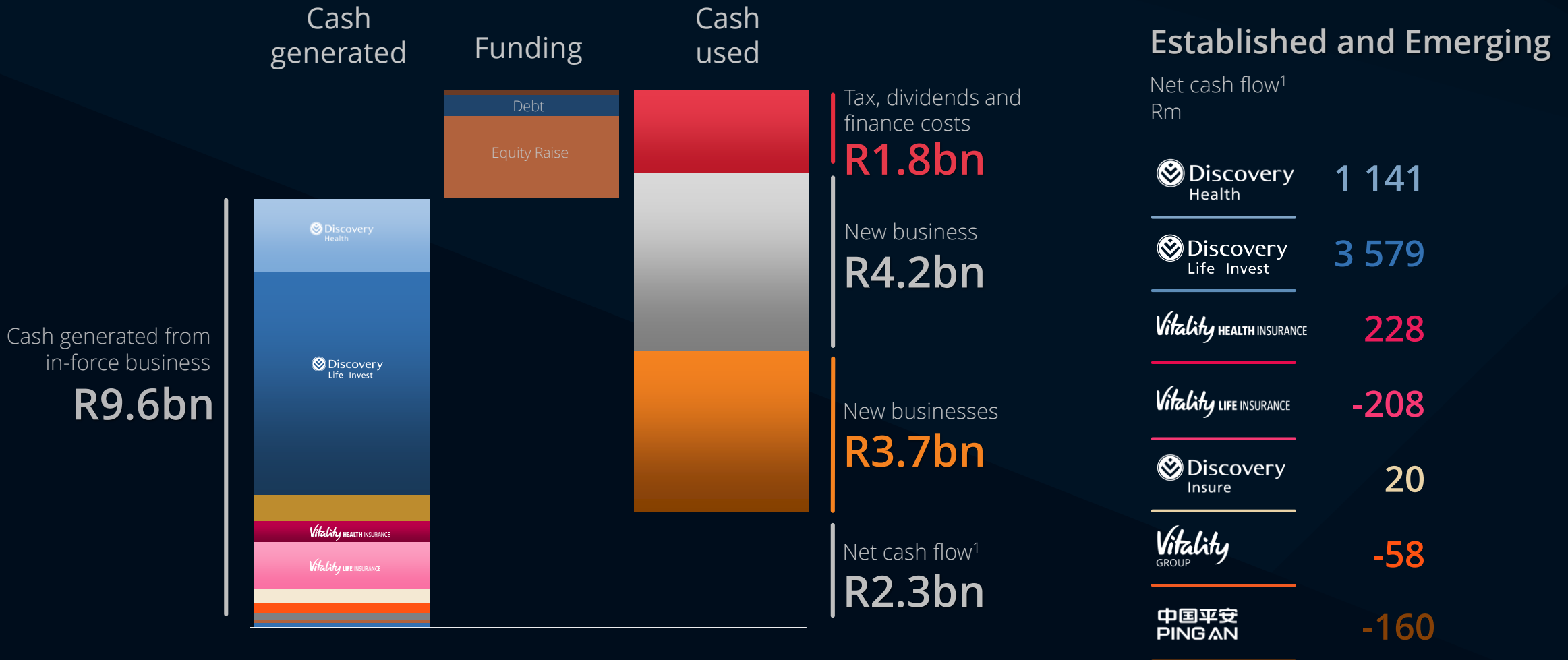


Using an earnings weighted CPI rate across SA and UK
 DSY Card profits excluded from New businesses
 DSY Life profits for 2017 have been restated by R118m for SAM capital release
 Non-insurance based business excluded – Vitality SA



Net cash flow

R2.3bn



¹Movement in shareholder free cash



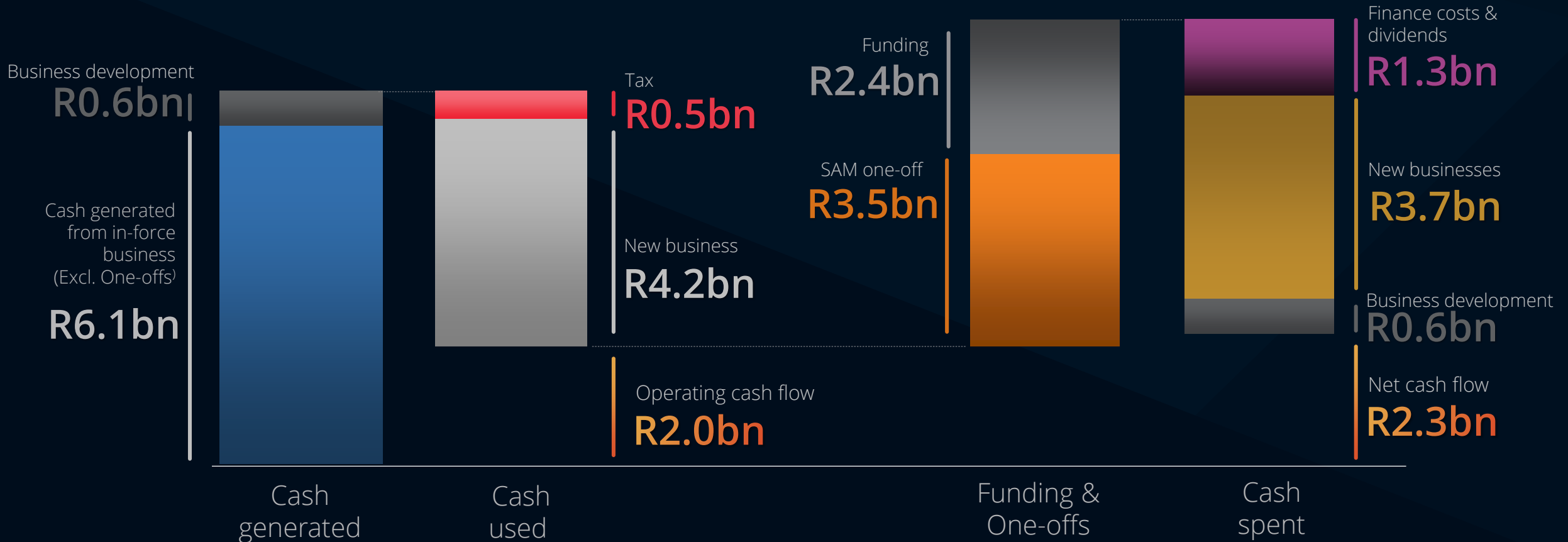
Operating to net cash flow

R2.0bn

Cash from Operations



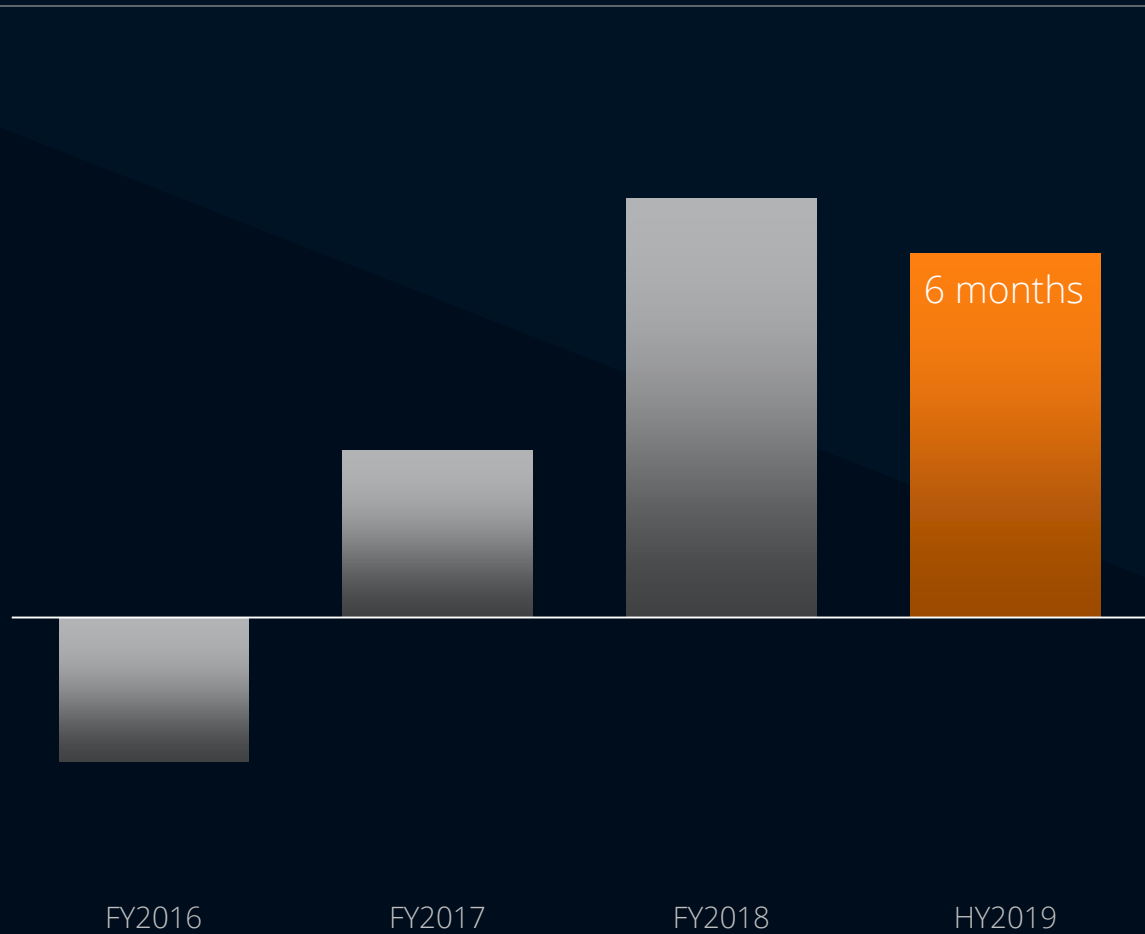
Funding and investment decisions



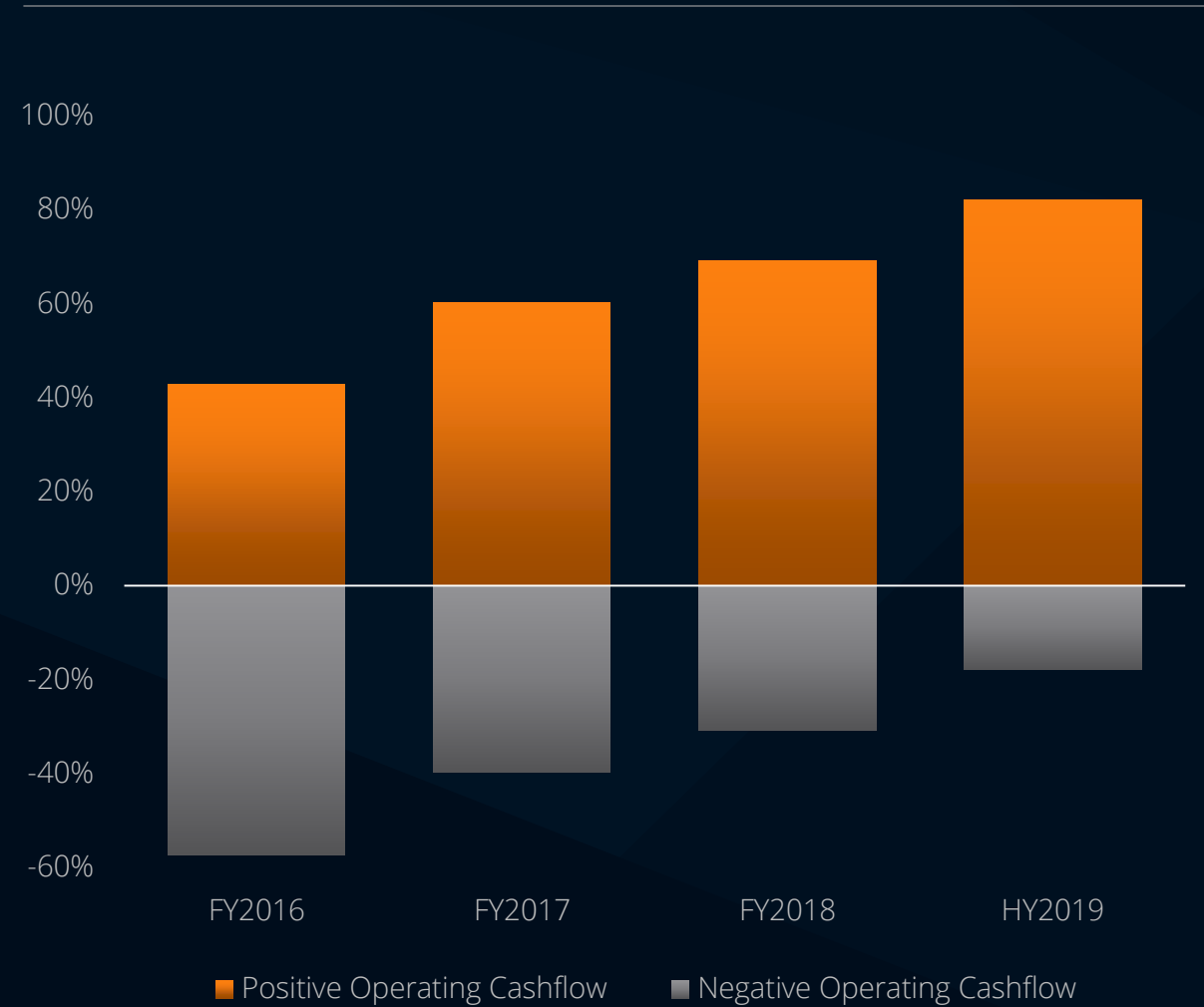


Group's positive cash generating businesses growing

Net operating cash flow (Rm)



Relative increase in cash contributing business (%)

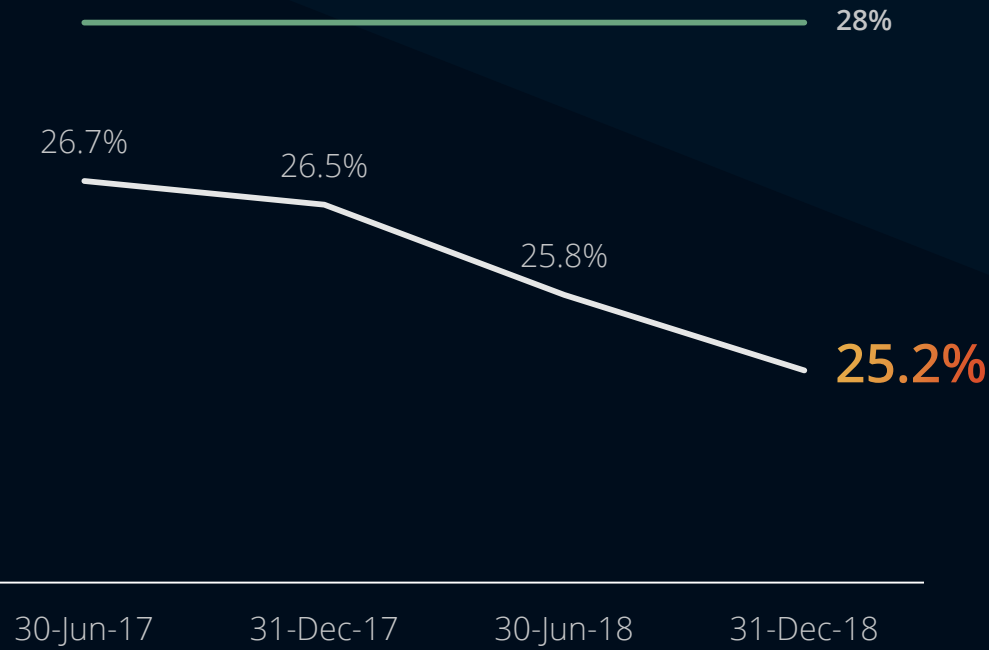




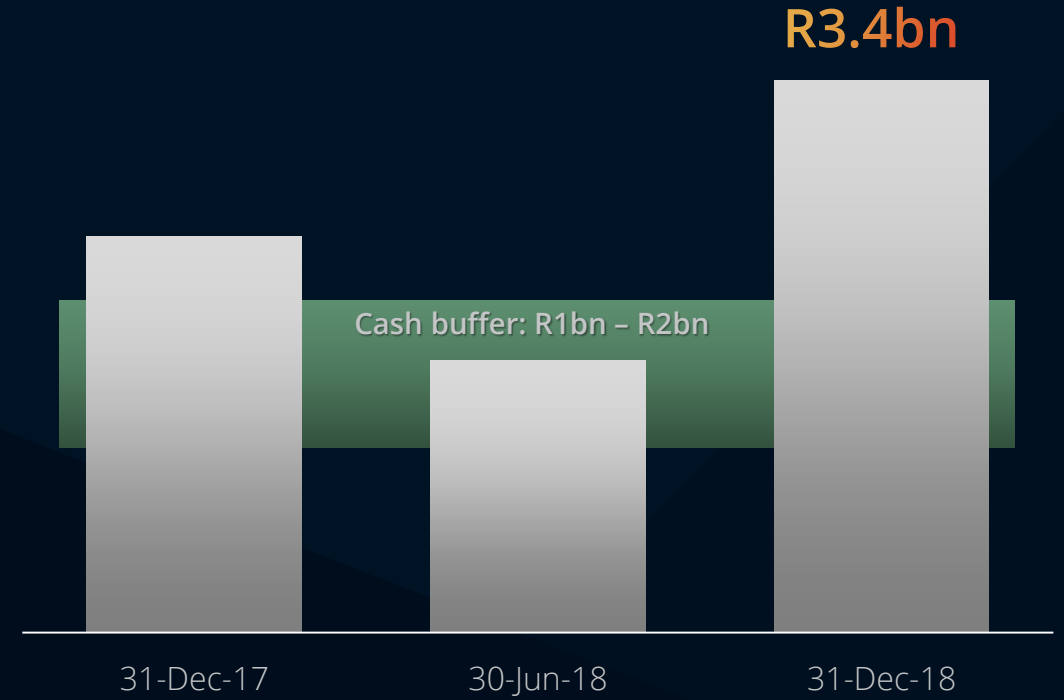
Capital management

Return on Equity - Risk free + 5%

FLR decreasing



Sufficient cash buffer





2



Strategic focus



1994

2000

2013

2018



Countries

1

Operating profit
R127m



Countries

5

Operating profit
R3.8bn



Countries

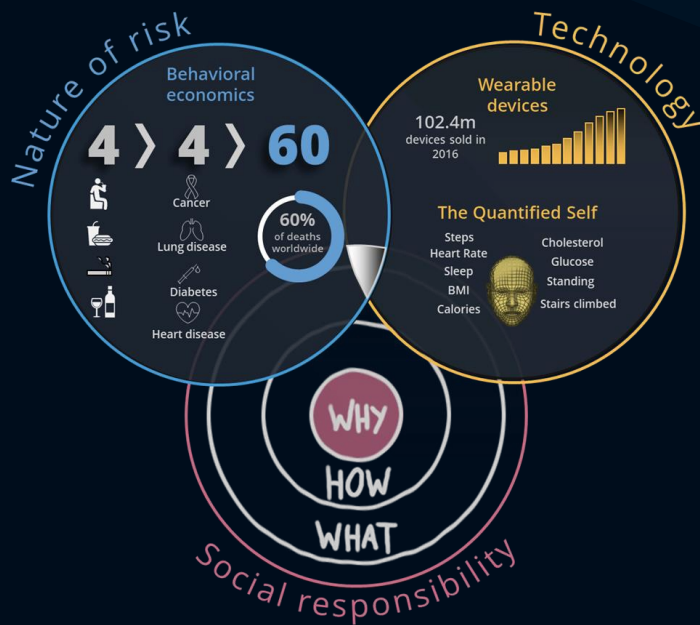
19

Operating profit (CY18)
~R8bn

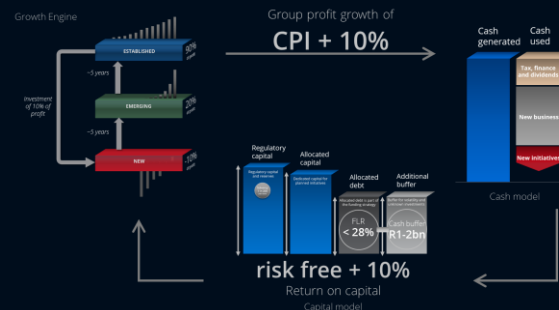


WHY

Make people healthier and enhance and protect their lives



HOW



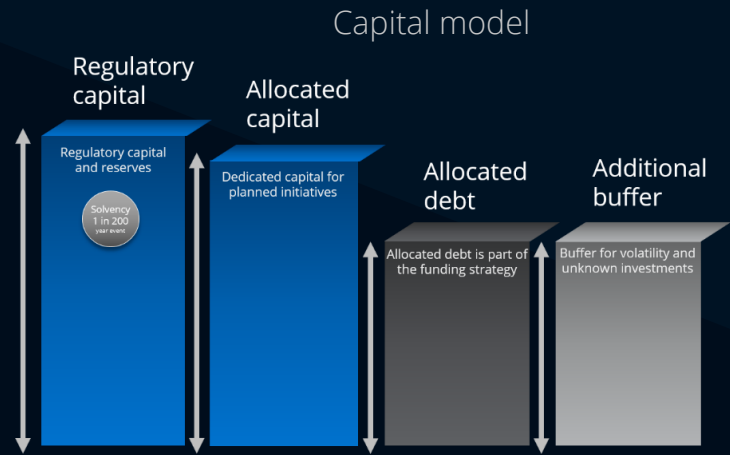
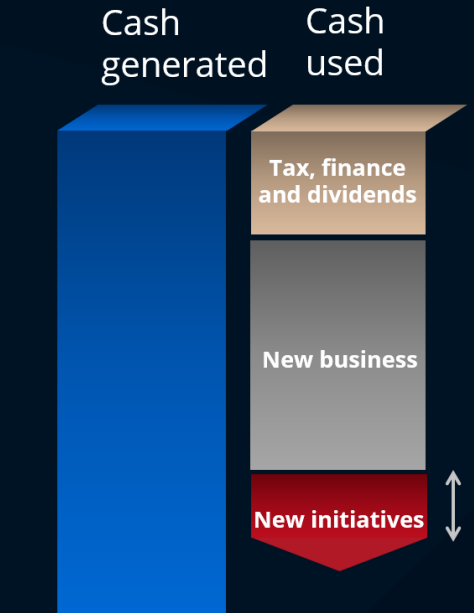
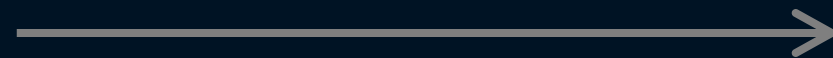
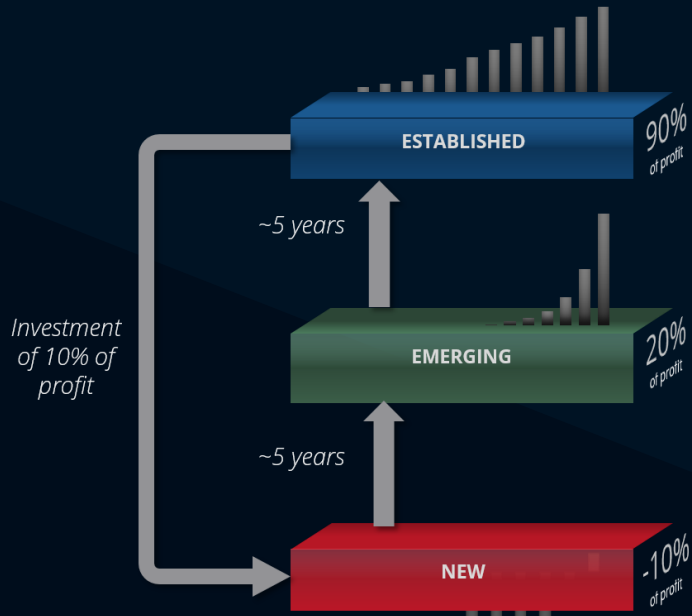
WHAT

- Life insurance
- Health insurance
- Short-term insurance
- Long-term savings
- Banking

Operating model



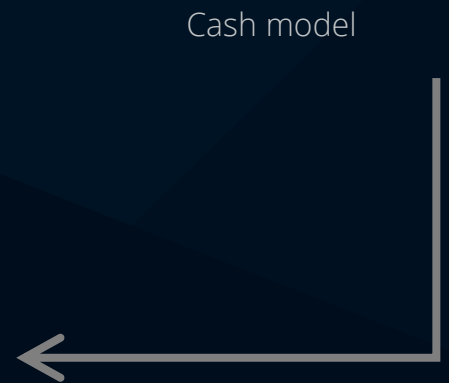
Group profit growth of
CPI + 10%



risk free + 10%
Return on capital

FLR < 28%

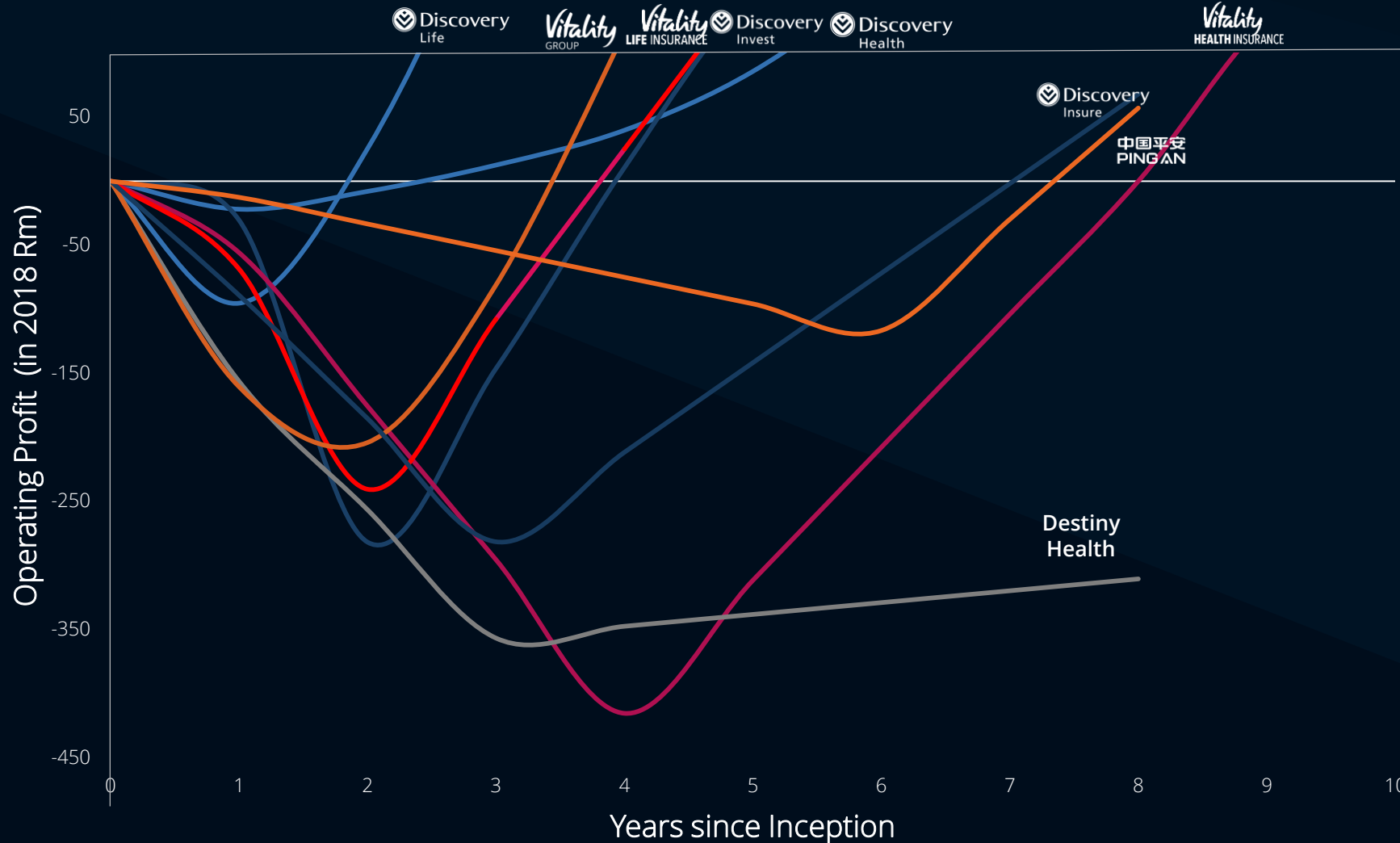
Cash buffer R1-2bn





Deliberate strategy to grow organically

Operating profit in 2018 terms



Consequences

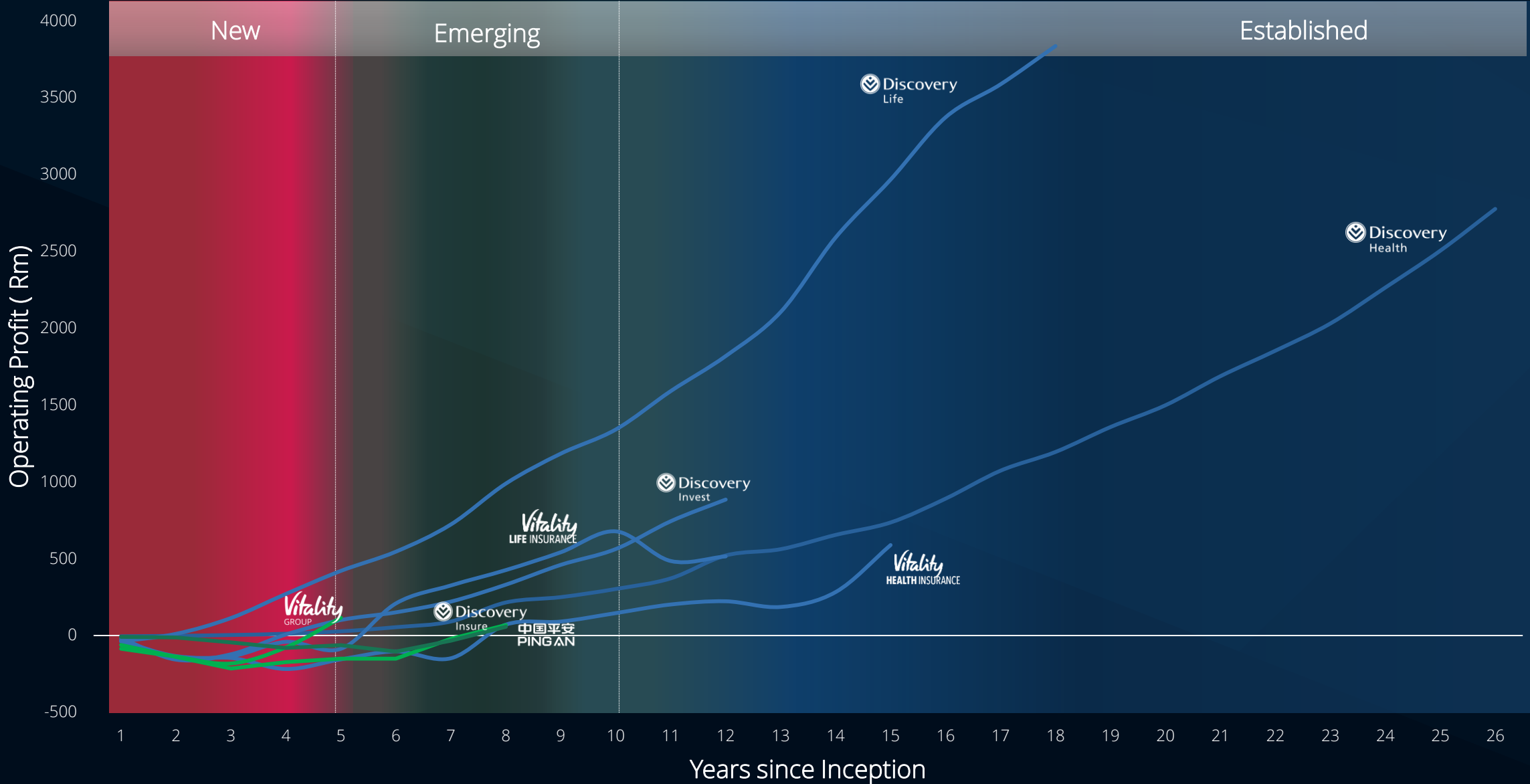
9 out of 10 successful organically grown businesses

5-year average breakeven

1. Initial strain on earnings
2. Increase in financing costs
3. Depletes Embedded Value
4. Success punishing – requirement for even greater new initiatives

But provides a greater return on shareholder capital

Organic Growth Engine has been a successful mechanism for growth

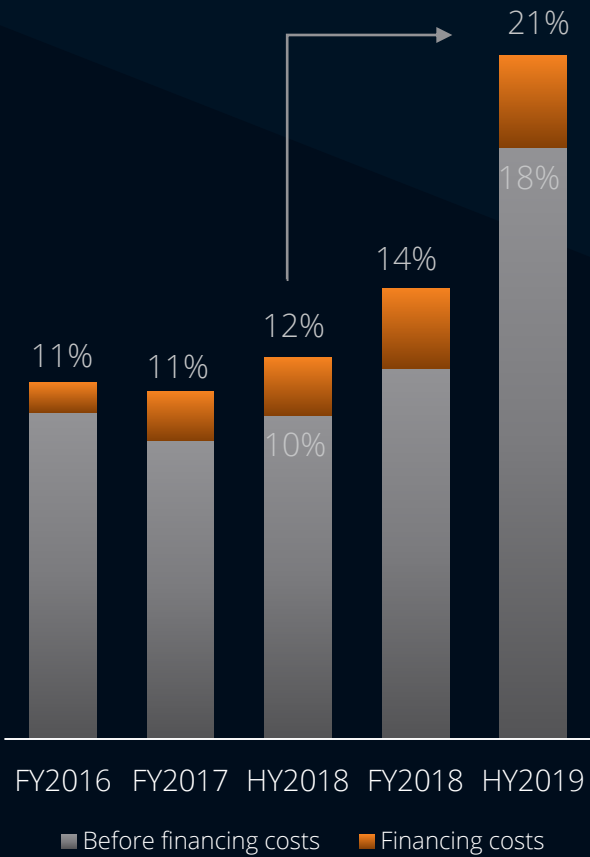




Doubling of investment into new initiatives

21%

of earnings, excluding Card profits and after allowing for finance costs



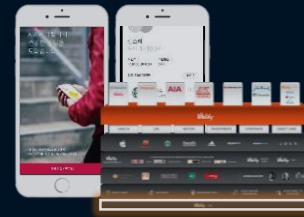
Discovery Bank



VitalityInvest



Vitality1



Discovery Business Insurance



Umbrella Funds



Total capital injected to 31 December 2018:

R2.625bn

£33.5m

R552m

R92m

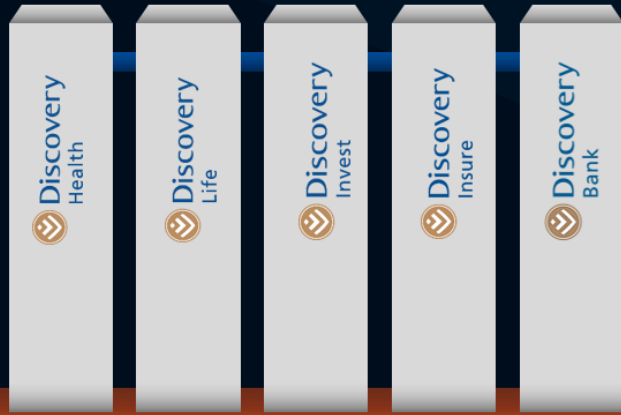
R140m

R807m opex and financing costs for the 6 months to 31 December 2018

Resulted in flat earnings



SA COMPOSITE MODEL



UK COMPOSITE MODEL



PARTNER COMPOSITE MODEL

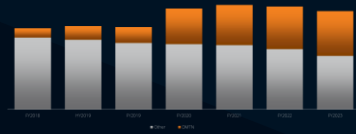


Vitality™

- 1 Perfect composite model, #1 in every industry, and laboratory for shared value in financial services. A successful entry into banking
- 2 The best insurer in the UK, making use of a composite shared-value model
- 3 Vitality is the world's largest and most sophisticated behavioural platform linked to financial services, with disciplined execution
- 4 Ping An Health delivers on its plan to become the leading health insurer in China with over 50m clients



3

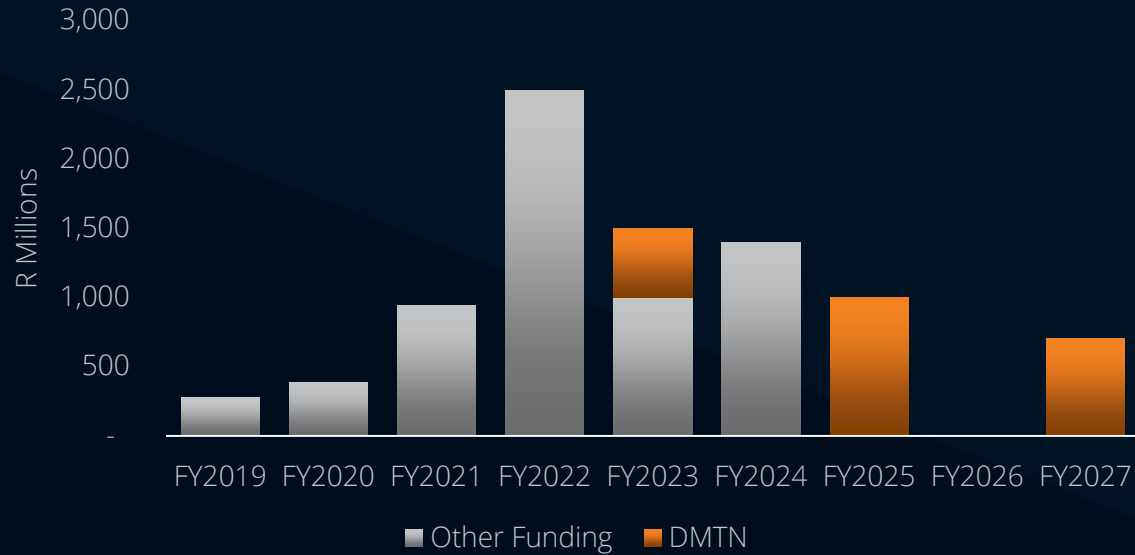


Debt overview



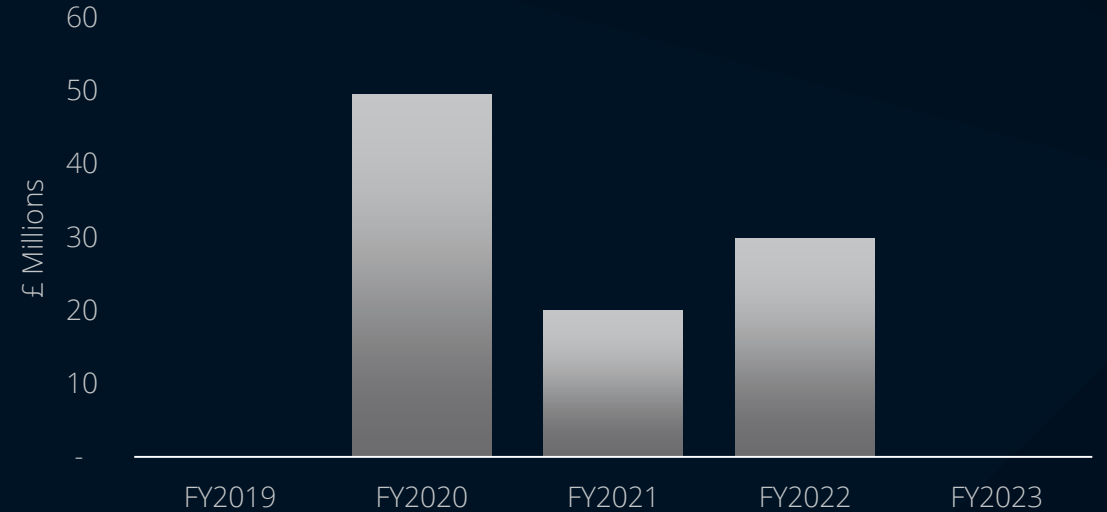
Existing debt maturity profile

South African debt maturity profile



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

UK debt maturity profile

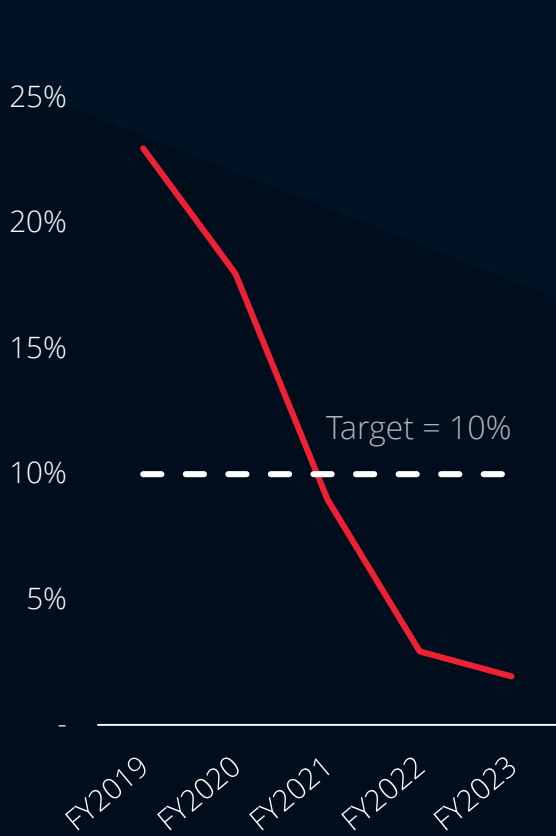


- Two UK bank loans
- - £100m 5-year amortising loan
- - £50m 5-year bullet loan

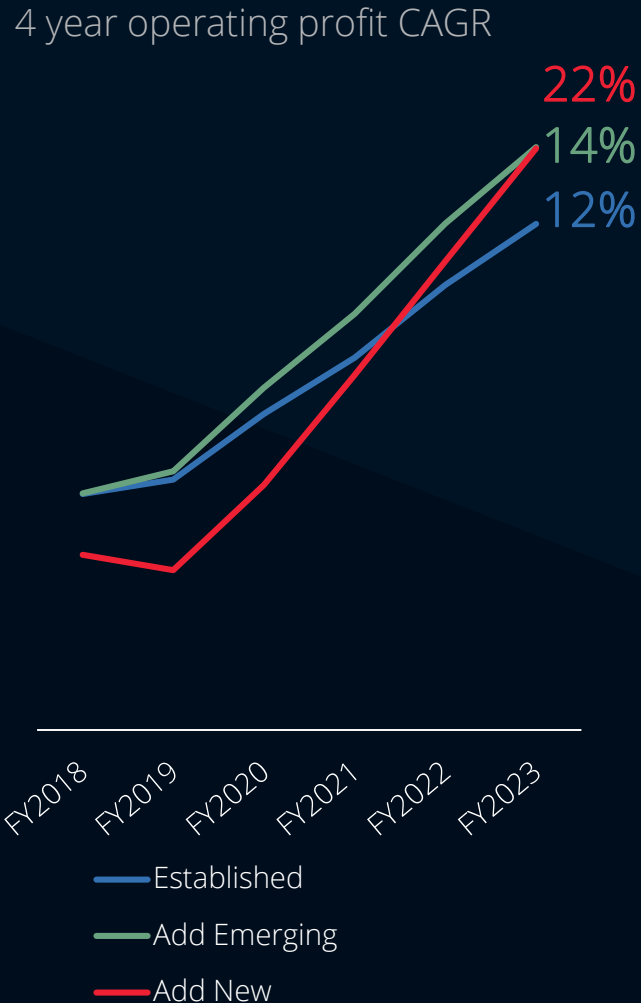


Operating model is robust under the base plan

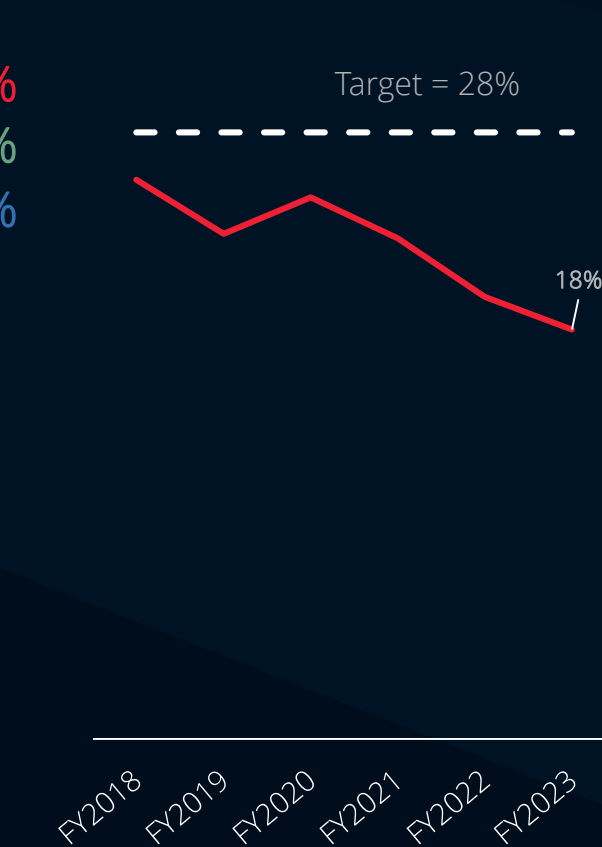
% Invested in New Businesses



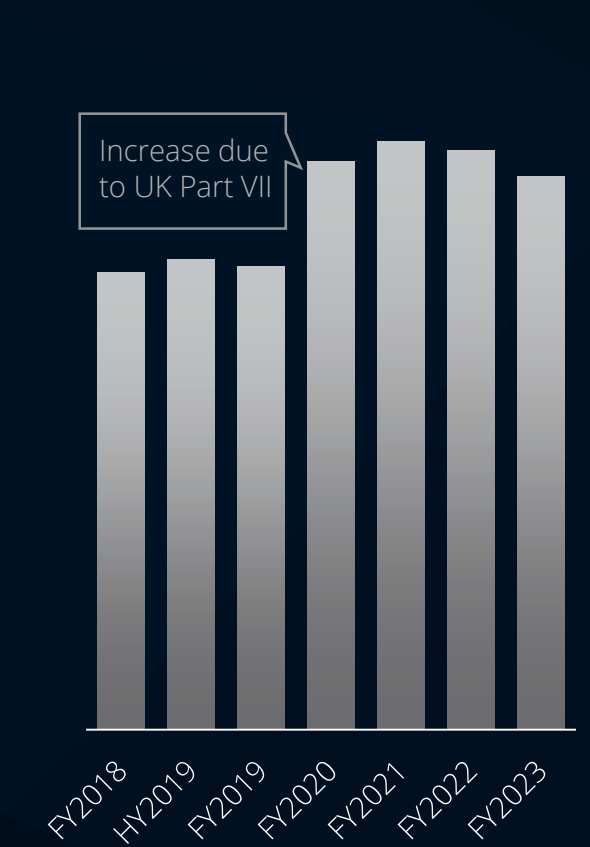
Group earnings growth¹



Financial leverage ratio²



Total debt



¹ After allocated finance costs

² Financial Leverage Ratio ("FLR") = Debt (Excl. Lease Liability) / [Debt (Excl. Lease Liability) + Equity]

Operating model is robust when maintaining 10% investment into new businesses



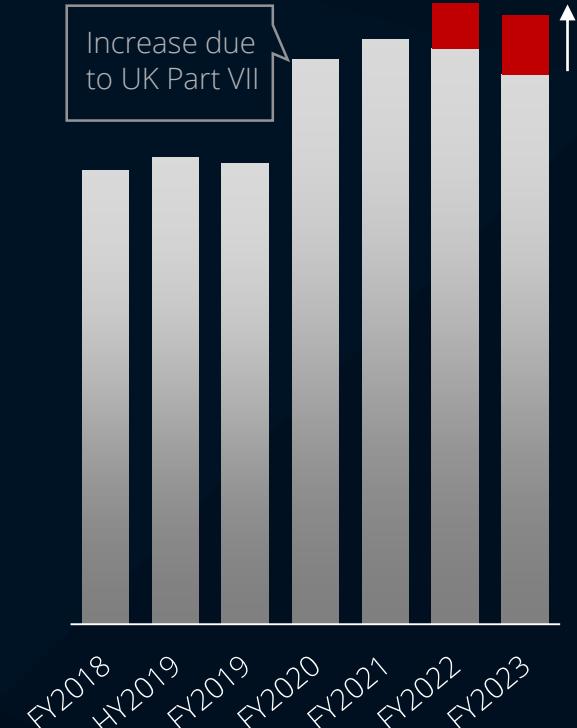
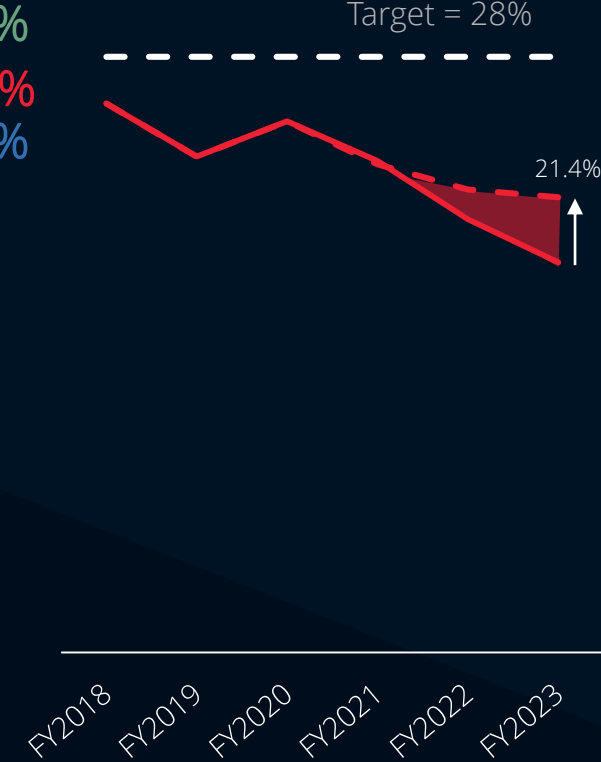
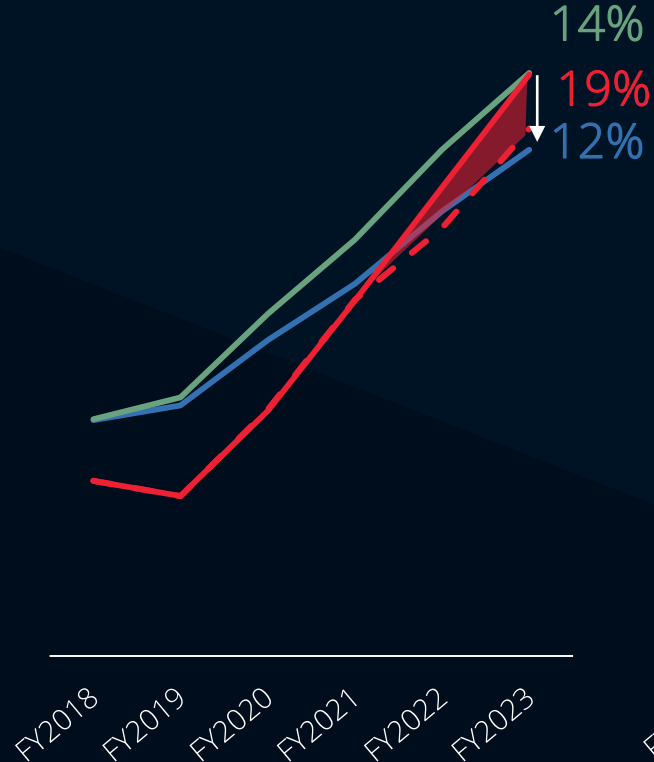
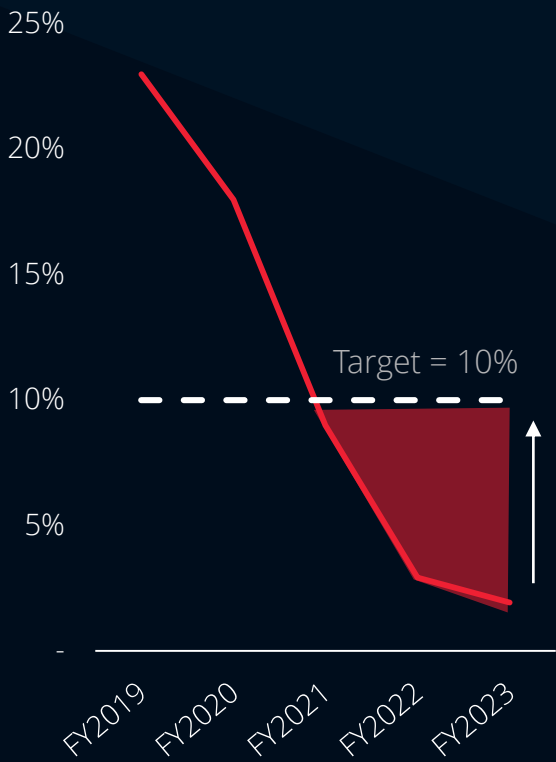
% Invested in New Businesses

Group earnings growth¹

Financial leverage ratio²

Total debt

4 year operating profit CAGR



- Established
- Add Emerging
- Add New
- - - Add Future New

¹ After allocated finance costs

² Financial Leverage Ratio ("FLR") = Debt (Excl. Lease Liability) / [Debt (Excl. Lease Liability) + Equity]



Key drivers of known funding requirements

1-2 years

- Transfer of VitalityLife business from Prudential balance sheet to VitalityLife Limited (Part VII)
- VitalityLife new business
- Bank build & regulatory capital
- General corporate purposes

2-3 years

- Refinance maturing South African and UK bank debt arrangements

3-5 years

- Refinance maturing South African and UK bank debt arrangements

All included in 5-year financial projections

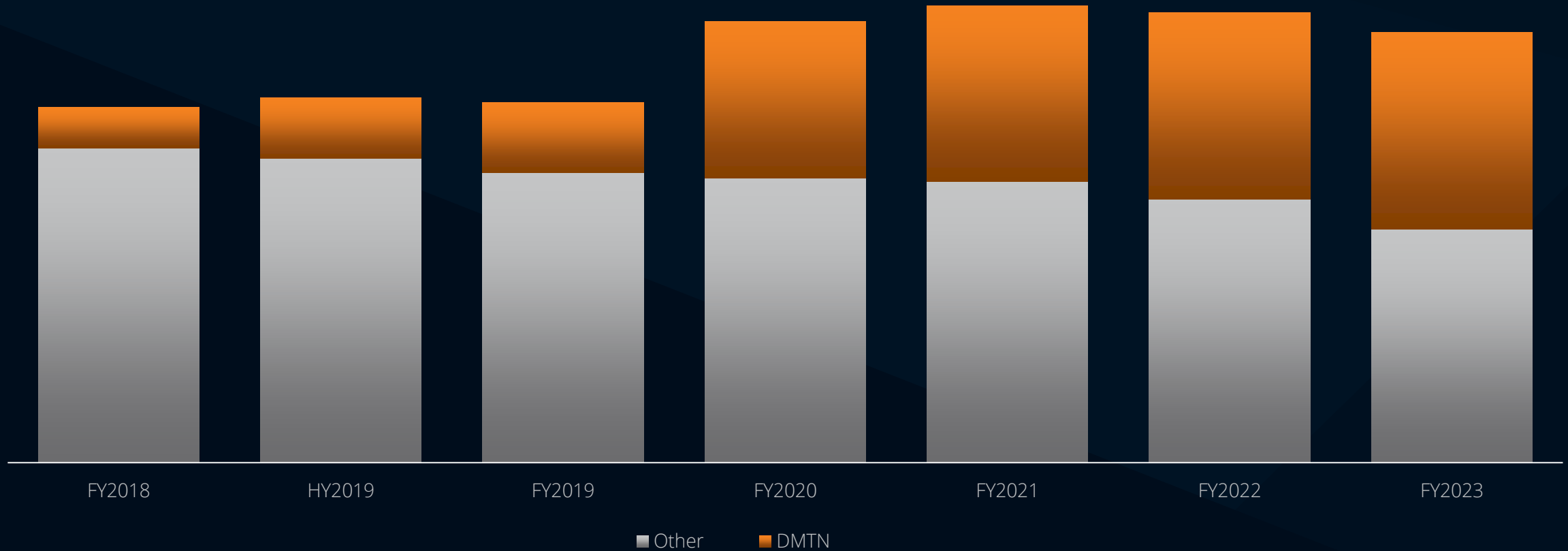
Discovery Bank Funding programme:

- Bank build & regulatory capital: included in the Discovery Group Capital Plan
- Card book and other: upon migration, will initially be funded through institutional funding (with some parental guarantees) transitioning to retail deposits
- Operational funding: managed within the Bank, with support from Group in the short-term

DMTN programme provides funding base for the Group's debt requirements



Group debt projection overlaying DMTN*



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

Debt programme objectives remain unchanged



Broaden funding base



Optimise cost of funding



Ensure funding capacity for Group over 5-year time horizon

- New funding requirements
- Refinance of existing debt arrangements



Existing bank debt covenants



Covenant ¹	Minimum Requirement	31-Dec-18	30-Jun-18
Group Debt to EBITDA ratio	Less than 2.5X	1.57	1.53
Group financial Indebtedness to EV	Less than 30% of Group EV	15.0%	15.0%
Group EV	Greater than R30 billion	ZAR 68,025	ZAR 65,624
From 1 July 2018: Discovery Life SCR Cover (Previously: CAR Cover)	SCR Cover > 1.1x Previously: CAR Cover > 1.5x	1.7x ²	3.5
New Business EV not negative	Positive VNB for 3 consecutive 6-month period	Dec 2018: R1,300	June 2018: R1,552
		June 2018: R1,552	Dec 2017: R1,274
		Dec 2017: R1,274	Jun 2017: R 1,281m

Notes: 1) Covenant measurement excludes liabilities raised in respect of finance leases, but includes cash rentals paid relating to the respective leases

2) SCR Cover is based on the parallel run result as at 30 June 2018 (See 2018 Integrated Annual Report) as the 31 December 2018 value is not yet publicly available.



Moody's Insurance Financial Strength Rating (IFSR)

- Baa2
 - 1 above the Sovereign (Baa3)
- Supported by **diverse business mix**, **significant fee income** and **limited exposure to SA invested assets**

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

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

Rating outlook

- Stable outlook reflects outlook on South African sovereign

Credit strengths

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

Strength offsets

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

Key features of the DMTN programme



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

DMTN issuances to date



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



Appendix

4



Governance, risk management and ESG

Governance structure



*UK operations have an independent Board and governance structure. The Discovery Bank governance structure is separately defined in line with SARB guidelines

Our leadership



Discovery Executive Directors and Group Executive



ADRIAN GORE
Founder and
Group Chief Executive



HYLTON KALLNER
Executive Director
Chief Executive Officer:
Discovery Life



**NEVILLE
KOOPOWITZ**
Executive Director
Chief Executive Officer:
VitalityHealth



DEON VILJOEN
Financial Director



HERSCHEL MAYERS
Executive Director
Chief Executive Officer:
VitalityLife and
VitalityInvest



**DR AYANDA
NTSALUBA**
Executive Director



ALAN POLLARD
Executive Director
President of Product
and Innovation:
Vitality Group



BARRY SWARTZBERG
Chief Executive Officer:
Vitality Group

Discovery Non-executive Directors



HERMAN BOSMAN
Non-executive Director



DR BRIAN BRINK
Independent
Non-executive Director



**SONJA DE BRUYN
SEBOTS**
Independent
Non-executive Director



RICHARD FARBER
Non-executive Director



FAITH KHANYILE
Independent
Non-executive Director



DR VINCENT MAPHAI
Non-executive Director



LES OWEN
Independent
Non-executive Director



SINDI ZILWA
Independent
Non-executive Director



ROBERT ENSLIN
Independent
Non-executive Director

Chairperson of the Board



MARK TUCKER
Non-executive Director*

Group Executive



FIROZE BORAT
Chief Marketing Officer



DEREK WILCOCKS
Group Chief Information
Officer



ANTON OSSIP
Chief Executive Officer:
Discovery Insure



DINESH GOVENDER
Chief Executive Officer:
Discovery Vitality



BARRY HORE
Chief Executive Director:
Discovery Bank



TSWELO KODISANG
Chief People Officer



ANDREW RAYNER
Group Chief Risk Officer



JOHN ROBERTSON
Executive Director

Prescribed Officers



KENNY RABSON
Chief Executive Officer:
Discovery Invest and
Employee Benefits



**DR JONATHAN
BROOMBERG**
Chief Executive Officer:
Discovery Health

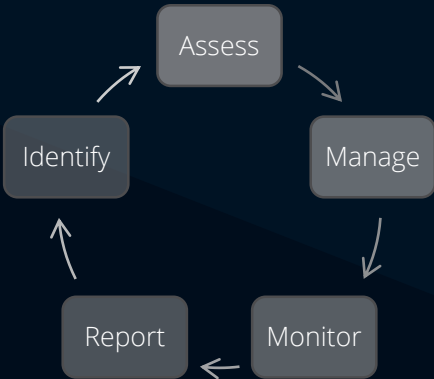
Group risk management framework



Risk Appetite and Strategy

ERM Framework and Risk Policies

Risk Management Process



- Enterprise wide
- Modelling and projection capability
- Stress testing and scenario analysis
- Own Risk and Solvency Assessment

Risk Governance

Boards and Sub-Committees

Management
First Line of Defence

Oversight and Assurance
Second Line of Defence

Oversight and Assurance
Third Line of Defence



01

Leverage

- Debt is a key part of the funding strategy
- Manage FLR within Board approved risk appetite limit of 28%
- Debt covenants impose an external constraint
- Aim to optimise the cost of funding

02

Funding

- 5-year financial projections maintained
 - Known funding requirements are built into plan
 - Sources of funding identified including Bank operational funding
- Internal target for Group cash buffer is R1bn to R2bn
 - Buffer for volatility and unknown future investments

03

Liquidity

- Non-insurance entities - Detailed 12-month cashflow forecast maintained to manage liquidity
- Insurance entities - Risk framework sets minimum liquidity for operational cashflows (incl. claims and expenses)
- Each business maintains cash resources for operational liquidity



04

Capital allocation

- Group produces cash on existing business and re-invests into new business (new insurance policies or new initiatives)
- Capital allocation decisions made in the context of the growth methodology, capital management philosophy and risk appetite
- Decisions consider return, profit growth, cash generation, capital and risk metrics

05

Interest rates

- Policyholder assets subject to interest rate risk (discounted cashflow valuation)
 - Nature of long term insurance business
- Policyholder liabilities closely matched so low residual risk
- Interest rate sensitive shareholder assets – Risk accepted for yield
- Low appetite for interest rate risk in finance costs – Hedging instruments used

06

Asset liability matching

- Asset-liability management policy establishes matching approach and governance
- Positions are matched by nature, amounts, timing and currency

Our environment, risk and opportunities



AMBITIOUS BUSINESS GROWTH

We have identified various future opportunities to grow existing and new businesses. This growth presents various risks, including business delivery, operational, and funding risks. IT stability and cybersecurity are key risks that require focus to support our success.

ENTERING THE BANKING MARKET IN SA

The launch of Discovery Bank is on track and our offering well developed. Products and systems need to be robust and effective to resource and manage the business effectively. We also have to attract new and retain existing clients and build a retail deposit book, in an industry that is increasingly competitive, yet movement of customers is generally conservative.

ECONOMIC ENVIRONMENT

SA: Our economy experienced another year of low growth. Global and national factors contributed to the SARB cutting the growth forecast. Inflationary pressures place consumers under considerable strain.

UK: The economic uncertainty surrounding the exit from the EU coupled with subdued levels of inflation have had a number of implications. The most significant has been low interest rates impacting Vitality Life.

ACCESS TO AND USE OF DATA

Through the Shared-Value Insurance Model and members that take part in health-improvement, Vitality has access to member collected data to provide services or develop further products. The responsible collection, use and security of personal and other data are vital to operating ethically and to preserve trust.

TRANSFORMATION IN OUR SENIOR MANAGEMENT TEAM

We support transformation across our business. There is a risk that this transformation is not occurring at the required pace at senior management levels. We are also focusing on attracting, developing and retaining black South African employees at all levels.

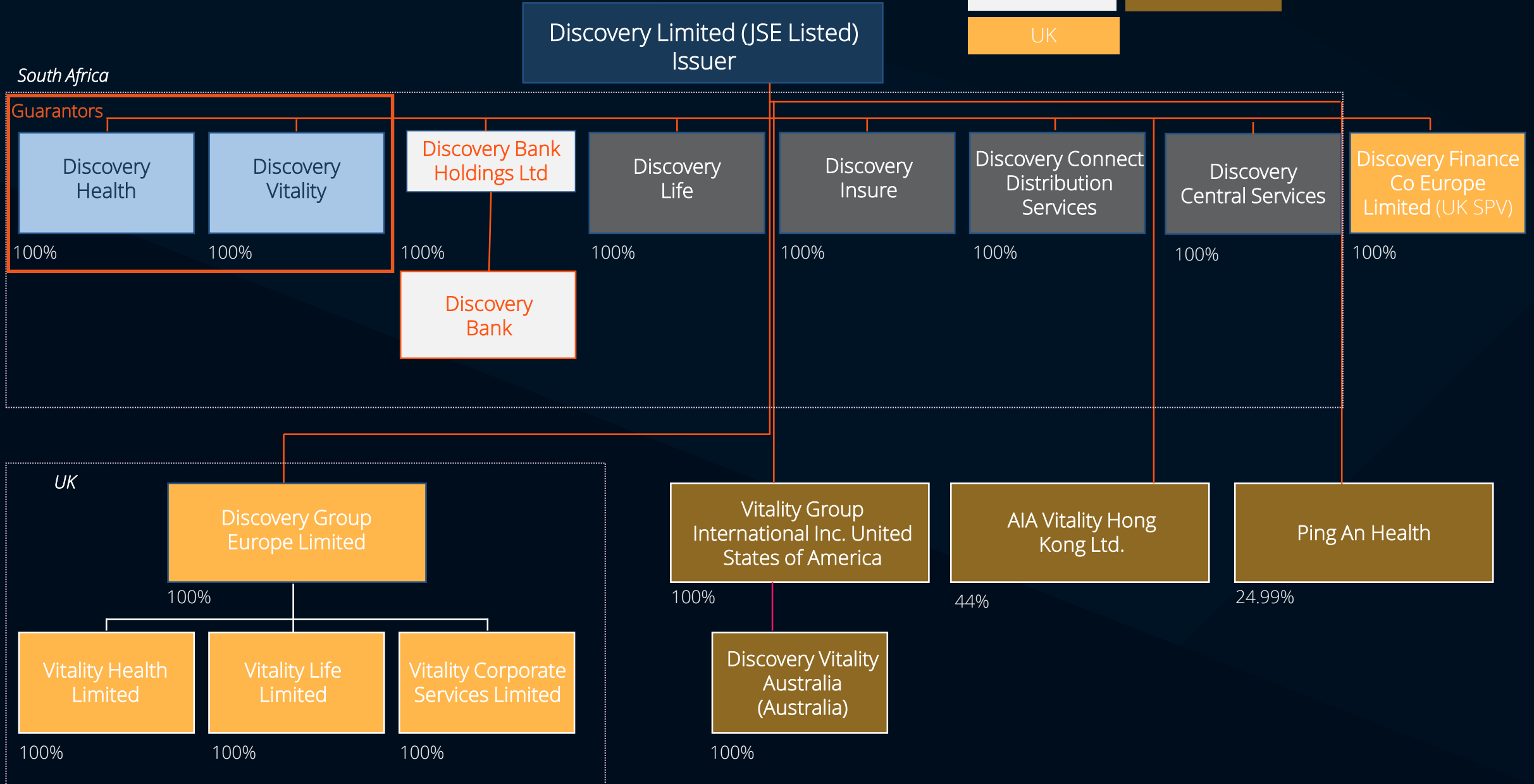
INSURANCE RISK AND REGULATORY REQUIREMENTS

Our licenced businesses in SA and UK have material insurance risks in the life insurance and non-life insurance sectors, including claim, expense and lapse risks. Regulatory changes in these environments present requirements to change how we operate and these are various risks associated with these changes.

Group structure: key operations



Guarantors	SA Ops
Bank	International
UK	





Environmental, social and governance (ESG) acts as a powerful force for social good

Four strategic areas



Healthy and responsible products and services

Using behavioural economics and product integration to incentivise clients and members' positive behavior and deliver social value at scale



Healthy and productive workforces

Promotion and improvement of not only the health of the Discovery workforce but the health of workforces more broadly



Healthy and prosperous communities

Discovery creates social value through building thriving communities and strengthening systems in the health and financial sectors



Healthy and inclusive organisation

Our goal is a diverse workplace culture where our people are valued and developed, and where ethics consciously informs decision making under clear governance structures. We do this whilst managing our environmental impact.

Environmental, social and governance (ESG) acts as a powerful force for social good



Reporting guidelines



Accreditations



3rd Party Reviewers and Raters



Partnerships



Discovery Limited

Domestic Medium Note Programme (DMTN)

“Non-Deal” Roadshow

11-14 MARCH 2019

