Life's better with Vitality

Solvency and Financial Condition Report.

Discovery Group Europe Limited for the year ended 30 June 2020.

Health insurance · Life insurance · Investments

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SUMMARY

1 BUSINESS AND PERFORMANCE SUMMARY

Group overview

This Solvency and Financial Condition Report ("SFCR") is presented in respect of Discovery Group Europe Limited ("DGEL") and its subsidiary undertakings, together "the Group". This is not a single group SFCR, and so should be read in conjunction with the SFCRs of Vitality Life Limited ("VLL") and Vitality Health Limited ("VHL").

DGEL is part of the Discovery Group, a global provider of insurance and financial services solutions, with operations in 22 countries and with over 46 million lives impacted worldwide. In its most recent financial year, the Discovery Group generated annualised new business premium income of over £1bn.The Group's business and performance is driven by the insurance results for VHL, which is the UK's fourth largest private medical insurer, and VLL, which is authorised to carry out long-term insurance and investment business.

On 23 December 2015, VLL received authorisation from the Prudential Regulation Authority ("PRA") to write long-term insurance business (life and annuity, and permanent health). Hence in 2016 VLL started to underwrite policies itself (until that point policies had been underwritten by The Prudential Assurance Company ("PAC") and, at the time of this SFCR, continue to be liabilities of PAC). In this document, "business written on the PAC licence" will refer to the contracts for which Discovery owns the economic interest but which are currently liabilities of PAC. The Company is planning to transfer this historical business into VLL via a Part VII (of the Finance Services and Markets Act 2000) transfer in due course, subject to the relevant legal and regulatory approvals.

While VLL is consolidated into the Group, business written on the PAC licence will continue to be excluded from the Group until such time as the Part VII of that business is completed.

In addition to its life business, VLL received authorisation from the PRA in December 2017 to write linked long-term business and in late June 2018 VLL began to write unit-linked investment business under the VitalityInvest brand. This business is referred to as "VitalityInvest" or "Invest" in this report.

The Group takes a unique approach to insurance, utilising a pioneering business model that incentivises people to be healthier, and that enhances and protects their lives. By incentivising members to be healthier, the business model directly addresses one of society's greatest challenges, being the rise of lifestyle-induced non-communicable disease. As a result of addressing a societal challenge through a business model, Discovery Group has been recognised by Professor Michael Porter and Professor Mark Kramer, both from Harvard Business School, as a leading example of a business creating shared value for itself and society, and as an exemplar of their shared value concept in the insurance sector. Distinct from the traditional insurance approach, VHL and VLL position themselves as Shared Value insurers.

While the Shared Value approach is unique in the insurance sector, the actuarial dynamics underlying the model are robust – incentivised behaviour change leads to a healthier underlying risk pool, an improved claims ratio, and better retention rates. This allows VHL and VLL to re-invest in the tools and incentives needed to motivate members to make sustained, positive changes in their lives. As a result, the Shared Value model delivers value on multiple fronts. As insurers, VHL and VLL benefit from reduced claims from a healthier member base; Vitality members benefit from lower premiums, improved health, and access to a wide range of partners and rewards; while society benefits from a reduced healthcare burden on the state, as well as a more healthy and productive population.

The model works in three simple steps. First, by helping members to understand their health both through a self-assessed health review and a clinician-led health screen; second, by making it cheaper and easier to get healthy by discounting access to a broad network of health and wellbeing partners; and third, by rewarding members for making healthy lifestyle choices. The model is underpinned by significant actuarial, behavioural and clinical science, which informs the product and member approach. The success of the model centres on both removing financial barriers to adopting a healthier lifestyle, and in helping members overcome their cognitive and behavioural biases to engaging in healthy behaviours in the long-term. This is achieved by creating an aspirational network of health and reward partners, which includes prominent brands such as American Express, Apple, Caffè Nero, Virgin Active and Waitrose.

Evidence from the Vitality Programme globally suggests that physical activity is the most important lifestyle behaviour to target – exercise is easy to measure and track over time; it can be verified; it can be undertaken with no cost; it is a known catalyst for other healthy lifestyle choices; and importantly, it has a close response relationship to health, mortality and productivity. In other words, the more exercise a person does, the healthier they become, the more their life expectancy improves, and the more productive they are at work. These insights led to the development of the Active Rewards programme in 2015, which forms the core of the Vitality Programme today. Active Rewards links short-term activity to regular rewards in a complex behavioural structure, allowing members to earn rewards weekly (free Caffè Nero drinks), bi-weekly (free cinema tickets), monthly (discounted Apple Watch) and annually (discounted running shoes from Runner's Need), on an ongoing basis through their exercise. A recent independent global study published on the Active Rewards with Apple Watch programme - the largest ever behaviour change study on physical activity based on verified data – found that the programme (1) resulted in more activity being undertaken by members, (2) that the increased activity was most pronounced amongst at-risk members, such as those who are obese, and (3) that the increased activity was sustained over time. The report can be accessed here. The success of the Active Rewards programme has led Discovery and its global insurance partners to develop an ambitious pledge to get 100m people 20% more active by 2025.

The 2019-20 financial year saw the introduction of a number of exciting new partnerships and benefits to the Vitality programme, including the Vitality American Express Credit Card, which rewards members who get physically active with up to 3% cashback, and new partnerships with Caffè Nero and Waitrose. The first half of 2020 has been significantly impacted by the novel coronavirus ("COVID-19") pandemic and the subsequent UK lockdown restrictions. At the beginning of April 2020 Vitality launched the 'Vitality At Home' programme that replaces benefits temporarily unavailable during the lockdown with ones more suited to members' new situation. For instance, members can now earn activity points by using the Peloton or Jennis exercise apps at home; they can earn up to two weekly Rakuten movie vouchers to stream films; and Vitality launched a Coffee at Home service with Caffè Nero. Vitality will continue to monitor and amend the programme as the situation develops.

Vitality continues to invest in growing its brand in the UK through sponsorship, advertising, PR, and intellectual leadership opportunities. In sponsorship, the Vitality brand is aligned not only with a broad portfolio of elite teams but also with mass participation events, such as headline sponsorship of Parkrun, a half marathon and 10k event. In addition, a specific focus has been applied to women in sport, such as through sponsorship of England Hockey and England Netball. From an intellectual leadership perspective, Vitality has partnered with University of Cambridge, Rand Europe and The Financial Times to deliver Britain's Healthiest Workplace, a study on the drivers and impacts of ill-health on the UK workforce. Since inception in 2013, over 430 unique organisations and over 158,000 distinct individuals have taken part, making this one of the largest and most comprehensive studies of workplace health in the UK.

Business review

VHL generated a pre-tax International Financial Reporting Standards ("IFRS") profit of £31.6m (June 2019: £36.4m). The Company's underwriting performance reduced slightly in the year. While claims reduced in the financial year as a result of the treatment delays caused by the pandemic, this was offset by an increase in the unearned premium reserve as risk exposure reduced during the early months of the pandemic and an increase in risk exposure is anticipated in future months as the delayed treatments are performed. The inclusion of this provision results in little growth seen in the gross earned premiums. The Company has seen a healthy growth in insured lives, despite the challenging economic and retention environment for the last quarter of the financial year.

VLL generated a pre-tax IFRS loss of £48.0m (2019: £0.9m profit). The key drivers for the loss in the period were:

- The continued investment in the development of VitalityInvest and the operating costs of this line of business mean this business is currently loss-making in line with management's expectations. These losses will continue until the volume of business in-force and fee income generated thereon reaches sufficient scale relative to the cost base.
- The impact of COVID-19 on the UK economic and operating environment, and resultant impact on new business sales, mortality/morbidity and the risk around future lapses. The uncertainty surrounding the future impact of COVID-19 on the economy and mortality/morbidity led to the short term strengthening of lapse and mortality assumptions at 30 June 2020.
- Unprecedented declines in UK market interest rates which adversely impacted insurance contract reserve assumptions.

2 SYSTEM OF GOVERNANCE SUMMARY

The core purpose of the Group is to make people healthier and to enhance and protect their lives.

The Group has a unique entrepreneurial spirit with a strong emphasis on innovation. The Board of Directors ("Board") has the responsibility to preserve these special attributes while at the same time ensuring that the principles of good governance are observed.

The Group recognises the importance of strong corporate governance and has established a well-defined governance framework, system of control and committee structure.

DGEL's principle activity is that of an insurance holding company. The DGEL Board is ultimately responsible for the management and oversight of DHEL. The DGEL Board has set up a Reporting Committee which reviews the Solvency II reporting and recommends the reporting to the DGEL Board for approval prior to submission to the regulator and publication. The DHEL Board is ultimately responsible for the oversight of the regulated insurance undertakings which each have their own respective board and board sub-committees. Please refer to summary section 2 on page 7 of VLL SFCR and on page 7 of the VHL SFCR for additional information.

During the year the UK Group structure changed with the 100% ownership of Vitality Health Insurance Limited (the 100% shareholder of Vitality Health Limited) being transferred from Discovery Holdings Europe Limited to Vitality Life Limited. The transfer did not change DGEL's economic interest in VHL which remained wholly owned within the Group'.

3 RISK PROFILE SUMMARY

The principal risks that DGEL faces is the profitability, valuation and continued success of its subsidiaries. To this extent, DGEL is represented, either as a member or an attendee, on all decision making bodies of its subsidiaries, including the board of directors, actuarial committee, audit committee, risk committee, technology committee and remuneration committee.

Underwriting risk is the largest risk measured by the standard formula Consolidated Group Solvency Capital Requirement ("Group SCR") and arises through the provision and administration of short term private medical insurance by VHL and of long term protection business (including life, serious illness and income protection cover) by VLL. The contribution from default and market risk in VLL and VHL to the SCR are small in comparison. The contribution from market risk has increased during the year which follows the implementation of an interest rate hedging strategy in DHEL. The instruments used in this strategy attract required capital under the standard formula.

Summaries of the principal risks of VHL and VLL are set out in summary section 3 on page 8 of the VLL SFCR and page 9 of the VHL SFCR.

4 SUMMARY OF VALUATION FOR SOLVENCY PURPOSES

Although the starting point for the valuation of assets and liabilities under Solvency II is the same as IFRS, there are some significant differences as highlighted in the table below:

Year ended 30 June	2020	2019
	£'m	£'m
IFRS consolidated net asset value	**786.9**	**681.4**
Valuation adjustment in VLL technical provisions, net of reinsurance	(62.6)	(27.3)
Valuation adjustment in VHL technical provisions	81.0	48.0
Removal of VHL deferred acquisition costs	(42.5)	(39.5)
Removal of benefit of VHL financial reinsurance under IFRS	(175.8)	(154.2)
Removal of prepayments	(14.3)	(16.6)
Removal of goodwill	(123.7)	(123.7)
Removal of intangible assets	(56.0)	(52.3)
Revaluation of undertakings recognised under the adjusted equity method	(8.7)	(7.6)
Valuation adjustment for deferred tax assets	17.3	8.8
Total SII excess asset over liabilities	**401.6**	**317.0**

5 CAPITAL MANAGEMENT SUMMARY

The capital management objective is to maintain sufficient own funds to cover both the Group SCR and Minimum consolidated Group SCR ("Group MCR") with an appropriate buffer. The Group carries out regular reviews of the solvency ratio as part of its risk monitoring and capital management system and has complied continuously with both the Group MCR and the Group SCR throughout the reporting period.

DGEL received £54.1m of ordinary share capital injections and the value of tier 2 subordinated liabilities included within Group own funds eligible to cover the SCR increased by £5.1m during the reporting period to support the growth of the Group. The primary use of this funding was the financing of new business in VLL which requires regular capital injections until such time as the in-force business is large enough for the business to be cash flow positive overall as well as interest rate hedging.

Of the Tier 2 Own Funds, two subordinated loans totalling £35.0m are subject to transitional measures and discussed in more detail in D.3.1.5. The Group does not use the matching adjustment nor the volatility adjustment, nor are transitional measures for technical provisions applied.

Year ended 30 June	2020	2019
	£'m	£'m
Eligible Group own funds to meet the Group SCR	**506.8**	**376.9**
Tier 1	332	243.1
Tier 2	166.1	111.4
Tier 3	8.7	22.4
Group SCR	**349.6**	**281.2**
Group SCR coverage ratio	**145.0%**	**134.0%**

Year ended 30 June	2020	2019
	£'m	**£'m**
Eligible Own Funds to meet the Group MCR	**348.5**	**258.2**
Tier 1	332	243.1
Tier 2	16.5	15.1
Tier 3	0	-
Group MCR	**82.6**	**75.7**
Group MCR coverage ratio	**421.7%**	**341.1%**

The Group carries out quarterly reviews of the solvency coverage ratio as part of its risk monitoring and capital management system. The Group has continuously complied with both the MCR and the SCR throughout the reporting period.

The change in the Group SCR coverage ratio was in line with management's expectations.

A BUSINESS AND PERFORMANCE

A.1 BUSINESS

A.1.1 Name and legal form of the undertaking

DGEL is incorporated in the United Kingdom and is a company limited by shares. The address of the registered office is:

3 More London Riverside
London
SE1 2AQ

This SFCR covers the Group as per the Group Structure outlined in A.1.5 below.

SFCR documents are also submitted to the PRA on a solo basis for the Group regulated insurance undertakings, VHL and VLL

A.1.2 Name of the Supervisory Authority responsible for the financial supervision of the undertaking and group

DGEL is an undertaking of Discovery Limited, the ultimate insurance holding company, which does not have its head office in an EEA State but in the Republic of South Africa

Under Solvency II, the group supervisor of Discovery Limited is the PRA as the Republic of South Africa is not an equivalent country for Solvency II group supervision purposes. In the absence of equivalence, Discovery Limited is subject to full Solvency II group supervision or the Group can apply to the PRA to use another method. A waiver was granted by the PRA, effective 1 January 2019, modifying the PRA Rulebook on Group Supervision to use another method under which specified reporting is performed at the DGEL level of the group (DGEL being the topmost EEA undertaking).

Discovery Limited is also subject to group supervision by the South African Prudential Authority. The South African Prudential Authority can be contacted at:

Prudential Authority
South African Reserve Bank
370 Helen Joseph Street
Pretoria
South Africa
0002

The supervisory authority of the Company and the Discovery Group Europe Limited group, is the PRA and they can be contacted at:

Prudential Regulation Authority
Bank of England
Threadneedle Street
London
EC2R 8AH

A.1.3 Name and contact details of the external auditor of the undertaking

The independent auditors of DGEL are:

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

A.1.4 Holders of qualifying holdings in the undertaking

The persons, to the knowledge of DGEL, who were direct and indirect holders of qualifying holdings in DGEL at any time during the reporting period and at the end of the financial year were:

- Discovery Limited - a limited company incorporated in the Republic of South Africa. As at the reporting date, Discovery Limited owned 100% of the shares of Discovery Group Europe Limited, and was able to exercise 100% of the voting power at any general meeting.

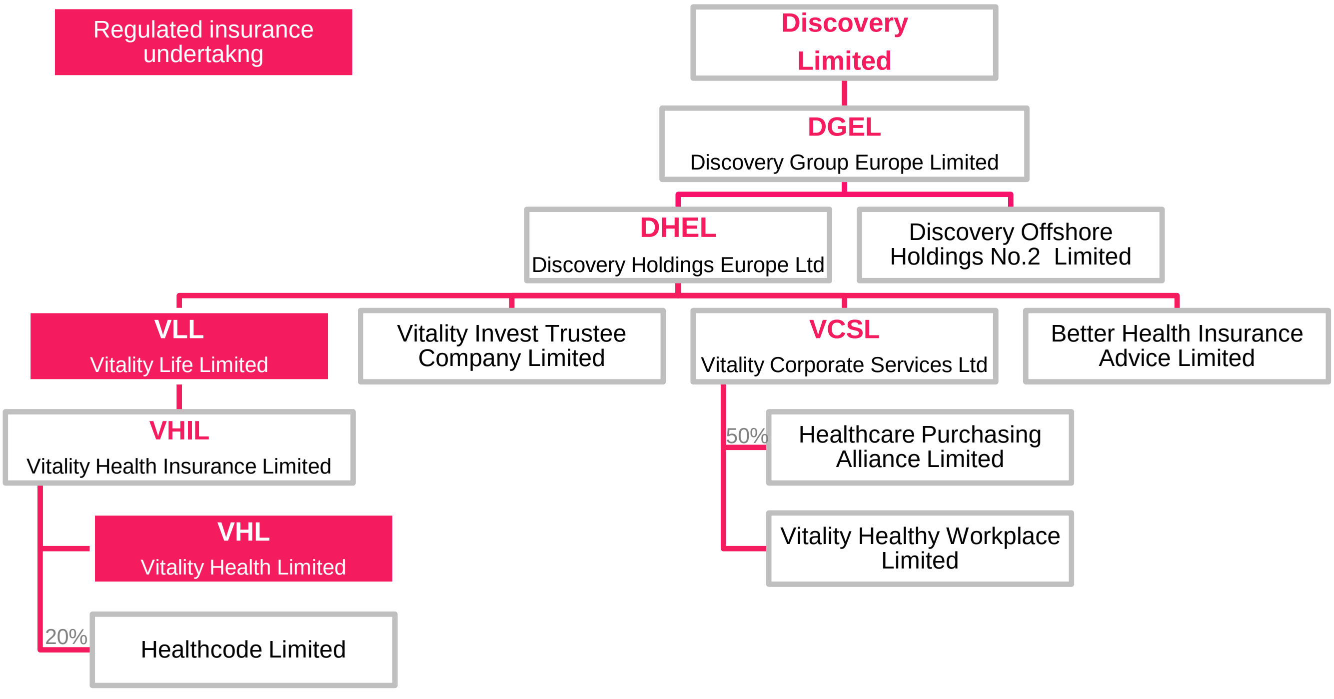
A.1.5 Details of the undertaking's position within the legal structure of the group

A list of related undertakings within the Group is shown below.

Name of related undertaking	Legal form	Country	Participating undertaking	Proportion of ownership interest held by the participating undertaking	Proportion of voting rights held by the participating undertaking
Discovery Limited	Limited by shares	South Africa			
Discovery Group Europe Limited	Limited by shares	United Kingdom	Discovery Limited	100%	100%
Discovery Offshore Holdings No.2 Limited	Limited by shares	United Kingdom	Discovery Group Europe Limited	100%	100%
Discovery Holdings Europe Limited	Limited by shares	United Kingdom	Discovery Group Europe Limited	100%	100%
Vitality Invest Trustee Company Limited	Limited by shares	United Kingdom	Discovery Holdings Europe Limited	100%	100%
Better Health Insurance Advice Limited	Limited by shares	United Kingdom	Discovery Holdings Europe Limited	100%	100%
Vitality Life Limited	Limited by shares	United Kingdom	Discovery Holdings Europe Limited	100%	100%
Vitality Corporate Services Limited	Limited by shares	United Kingdom	Discovery Holdings Europe Limited	100%	100%
Vitality Health Insurance Limited	Limited by shares	United Kingdom	Vitality Life Limited	100%	100%
Healthcode Limited	Limited by shares	United Kingdom	Vitality Health Insurance Limited	20%	20%
Vitality Health Limited	Limited by shares	United Kingdom	Vitality Health Insurance Limited	100%	100%
Healthcare Purchasing Alliance Limited	Limited by shares	United Kingdom	Vitality Corporate Services Limited	50%	50%
Vitality Healthy Workplace Limited	Limited by shares	United Kingdom	Vitality Corporate Services Limited	100%	100%

The structure chart below explains the ownership and legal links between the Group, its ultimate parent undertaking, Discovery Limited and its related undertakings.

Figure 1



Discovery Limited is the ultimate parent company, incorporated in the Republic of South Africa.

DGEL is the top-most undertaking within the scope of the EU/EEA transitional arrangements and is a holding company for DHEL and also owns a dormant company called Discovery Offshore Holdings No.2 Limited.

DHEL, the holding company, owns one regulated insurance entity (VLL) and indirectly holds a second insurance entity (VHL) as VLL has direct ownership of the holding company VHIL which owns VHL. DHEL also owns a services company Vitality Corporate Services Limited ("VCSL"), a distributor (Better Health Insurance Advice Limited ("BHIA") which is an appointed representative of VCSL), and Vitality Invest Trustee Company Limited ("VITCL") that considers the SIPP provided by VitalityInvest.

DHEL itself is not a regulated insurance entity, and thus has no capital requirement under Solvency II. VCSL and BHIA similarly have no solvency capital requirements, although as VCSL is an intermediary it is required to hold a small amount of net assets.

Healthcode Limited is a joint venture of which VHIL owns 20%. It is not a regulated insurance entity, and thus has no capital requirement.

VCSL owns 50% of Healthcare Purchasing Alliance Limited ("HPA"), which is a joint venture between VitalityHealth and Aviva Health. VCSL also owns 100% of Vitality Healthy Workplace Limited. It is not a regulated insurance entity and thus has no capital requirements under Solvency II.

VCSL provides a number of services to both VitalityHealth, VitalityLife and VitalityInvest including

- Paying for the cost of the Vitality programmes and other administration costs which are then recharged; and
- Holding all employment contracts and managing the payroll.

A.1.6 The undertaking's material lines of business and material geographical areas where it carries out business

The Group underwrites insurance business through two of its subsidiary regulated insurance undertakings. VHL writes medical expenses insurance classified as Health Insurance not similar to Life ("Health Non-SLT"). VLL's long-term protection business is classified into two Solvency II lines of business: Other Life Insurance ("Other Life"); and Health Insurance similar to Life ("Health SLT"). VLL's unit linked business falls under: Index-linked and unit-linked insurance ("Unit-linked").

All business is conducted in the United Kingdom.

A.1.7 Any significant business or other events that have occurred over the reporting period that have had a material impact on the undertaking

There were no distributions to shareholders in the reporting period

COVID-19

The UK economy was declared to be in recession on 12 August 2020 due to the impact of the lockdown from COVID-19. The recovery is expected to take a significant period of time and this will be impacted by any further decisions taken at a national level to combat any resurgence in the virus. VLL and VHL have sustained a stable customer base through this period, and have offered products such as premium deferral to provide our customers with options through this time to maintain their insurance cover.

The COVID-19 situation will continue to evolve, and VLL and VHL will continue to monitor circumstances and update relevant assumptions as further information comes to light.

Operationally, VLL has shown a high level of resilience to the impacts of Covid-19 and there were no significant impacts on operations or service levels.

An allowance for the potential impact on VLL's future claims and lapse experience has been made, noting that the degree of uncertainty relating to these estimates is very high given the circumstances.

Key impacts included:

- VitalityLife experienced slightly higher than expected claims in the period due to excess mortality and morbidity in the year due to COVID-19. Furthermore, significant uncertainty over the impact of COVID-19 on future mortality and morbidity led to the strengthening of short-term actuarial claims assumptions in the insurance contract reserves at 30 June 2020, which impacted the current year's financial results.

- VitalityLife implemented a number of proactive initiatives to support customers facing financial hardship, this included the ability to defer premiums to be paid at a later date, as well as a simple cover buy-down option that allows customers to temporarily reduce their cover for a more affordable premium. The uptake on these initiatives could possibly lead to higher than anticipated lapses in future periods as the initiatives are phased out, and so some strengthening of the short-term lapse assumptions was made in the insurance contract reserve at 30 June 2020, which impacted the current year's financial results.

Despite the above adverse impacts, VLL has maintained a strong solvency coverage throughout the period and had a solvency coverage of 197% at 30 June 2020.

The pandemic resulted in the National Health Service ("NHS") using private hospitals from March 2020 to treat COVID-19 patients as well as providing the NHS additional capacity to continue essential treatments for illnesses such as cancer. This reduced the hospital capacity for PMI customers, and hence many have been delayed in being able to seek all but essential services at many of the large hospitals during the lockdown. Further, where treatment was available, many policyholders were also hesitant to seek treatment during this period. VHL was able to move consultation services to online, and near the end of the reporting period Vitality started to see some capacity in those hospitals being released back for non-essential private usage; however, the level was still significantly below normal.

With many policyholders wishing to maintain their private medical insurance cover and expecting to seek treatment when the pandemic was under control, the business continued to receive their premiums and VHL set up a larger IFRS unearned premium reserve ("UPR") at 30 June 2020 to recognise the change in risk emergence over the policy period. This larger UPR will be utilised in 2020-21 as this risk returns in the form of the anticipated claims catch-up. The level of the larger UPR was calculated based on the underlying assumption that non-COVID treatments have mainly been deferred during lockdown, rather than cancelled. Whilst, on the one hand, some deferred claims may never occur, the deferral itself may also result in a higher cost per claim for the delayed procedures that do take place, and hence this was viewed as a reasonable assumption. Under IFRS no future profit beyond the valuation date is recognised. However, under Solvency II premium is not deferred to allow for the change in risk emergence and future profit beyond the valuation date and up until the end of the contract period is recognised. The anticipated claims catch-up is expected to extend beyond the renewal period for some policies meaning this catch-up can only be partly recognised in the Solvency II technical provisions.

In addition, VHL introduced a COVID-19 cashback benefit which paid members up to £5,000 if they were hospitalised due to COVID-19.

LEAVING THE EU

On 31 January 2020, the UK left the EU with a "status quo" transition period until the end of 2020. The future relationship between the UK and the EU following the transition period is not expected to significantly impact VLL's claims risks. Policyholder behaviour-related risks such as lapses or the propensity to purchased long-term insurance products could be impacted, but given the wide range of potential ultimate Brexit outcomes, these types of impacts on the UK life insurance and investment markets are unclear at this stage.

As the VHL only sells and underwrites policies to UK residents, leaving the EU is not expected to significantly impact the VHL or the UK PMI market. However, given the uncertainty within the UK economy driven by the UK leaving the EU, this continues to have unclear impacts on the private medical insurance market.

VLL

On 13 February 2020 VLL issued ordinary shares to DHEL in consideration for acquiring all of the VHIL ordinary shares, with no cash exchanging hands. This followed approval by the PRA on 31 January 2020 of the change in control of VHIL and VHL from DHEL to VLL.

VHL

Reinsurance based financing obtained to offset the total strain of writing new business and repaid in future periods through ceded premiums and claims under a quota share treaty continues to be an important part of VHL's strategy. VHL has one cash treaty and eleven cashless treaties in place as at 30 June 2020. The amount of new cashless financing received in the year to 30 June 2020 was £41.8m (June 2019: £44.4m). The only cash treaty has no remaining deficit balance but will continue to cede premiums and recover claims until December 2021.

A.1.8 Material differences between the scope of the group use for the consolidated financial statements and the scope for the consolidated data determined in accordance with Article 335 of the Delegated Regulation

DGEL does not publish consolidated financial statements as it has taken advantage of the exemption under Section 401 of the Companies Act 2006. A consolidated Group Statement of Financial Position ("Group SOFP") is produced under IFRS but not published. There are no differences between the scope of the Group used for the consolidated Group SOFP under IFRS and the scope for the consolidated data determined in accordance with Article 335 of the Delegated Regulation.

A.2 UNDERWRITING PERFORMANCE

Vitality Health Limited

The following table summarises the underwriting performance of the Group's Private Medical Insurance ("PMI") business which is underwritten by VHL and is classified as Medical expense insurance for Solvency II purposes:

Year ended 30 June	2020	2019	Change
	£'m	£'m	£'m
Gross earned premium	460.7	460.1	0.6
Reinsurance share of premium	(80.5)	(76.1)	(4.4)
Gross claims incurred	(244.2)	(253.6)	9.4
Reinsurance share of claims	59.8	59.1	0.7
Expenses	(166.7)	(155.6)	(11.1)
IFRS underwriting result	**29.1**	**33.9**	**(4.8)**
Investment and other Income	3.4	3.4	-
Subordinated loan interest	(0.9)	(0.9)	-
IFRS profit before tax	**31.6**	**36.4**	**(4.8)**

All medical expenses insurance business is underwritten in the UK.

VHL's underwriting performance reduced slightly in the year. While claims reduced in the financial year as a result of the treatment delays caused by the pandemic, this was offset by an increase in the unearned premium as risk exposure reduced during the early months of the pandemic and an increase in risk exposure is anticipated in future months as the delayed treatments are performed. The inclusion of this provision results in little growth seen in the gross earned premiums. VHL has seen a healthy growth in insured lives, despite the challenging economic and retention environment for the last quarter of the financial year.

It should be noted that the IFRS profits shown include the benefit of FinRe and deferred acquisition costs ("DAC") used under IFRS to offset the impact of new business strain. The benefits of FinRe and DAC are not recognised under the Solvency II basis as noted under Section D.

Vitality Life Limited

The table below shows VLL's premiums, claims and expenses split by SII lines of business as well as a reconciliation to the pre-tax IFRS profit as reported in VLL's financial statements:

£'m	Year ended 30 June 2020				Year ended 30 June 2019			
	Other Life	Health SLT	Unit-linked	Total	Other Life	Health SLT	Unit-linked	Total
Gross premiums	133.8	30.7	166.9	331.4	103.3	23.7	42.4	169.4
Reinsurers' share of premiums	(84.3)	(19.3)	-	(103.6)	(67.0)	(15.4)	-	(82.4)
Gross claims and withdrawals	(36.3)	(9.4)	(9.1)	(54.8)	(18.7)	(4.8)	(1.1)	(24.6)
Reinsurers' share of claims	21.8	4.9	-	26.7	10.2	2.3	-	12.5
Investment income on assets held to back unit-linked liabilities	-	-	2.1	2.1	-	-	1.8	1.8
Expenses	(144.1)	(33.1)	(17.6)	(195.2)	(158.2)	(36.3)	(19.5)	(214.0)
Reinsurance financing received	84.4	19.4	-	103.8	89.5	20.6	-	110.1
Movement in insurance contract reserves				(145.1)				29.8
Pre-tax underwriting performance				(34.7)				2.6
Other income and expenses				(13.3)				(1.7)
Pre-tax IFRS profit				**(48.0)**				**0.9**

All business is underwritten in the UK.

Pre-tax underwriting loss in the year ended 30 June 2020 was £34.7m (2019: £2.6m profit) while pre-tax IFRS loss including other income and expenses was £48.0m (2019: £0.9m profit).

There were a number of factors in the year that led to the overall loss for VLL in the year:

- VLL continued to invest in the VitalityInvest proposition, which continues to be in the start-up phase and is currently loss making in line with management's expectations until it reaches critical mass.

- The impact of COVID-19 on the UK economic and operating environment led to a lower than expected level of new business sales and slightly higher claims than expected. Further detail is provided in A.1.7.

- A number of reserving basis experience variances were observed in the period, particularly in respect of lapses. This led to an adverse impact on profitability in the period from actual variances observed. In addition, lapse assumptions were strengthened, in the insurance contract reserves valuation at 30 June 2020 on an IFRS basis.

- UK market interest rates went through a period of unprecedented volatility and declines in the 12 months to 30 June 2020. The reductions negatively impacted the insurance contract reserve valuation as at 30 June 2020 on an IFRS basis.

The financial performance relating to VitalityLife was significantly behind expectation and overall loss making, with the key drivers of this outlined above. Despite poor profitability in the year, the in-force book of business grew substantially year on year with gross premium income increasing by 30% from £127.0m to £164.5m. The key driver of the increase year on year was the sale of £63.6m (2019: £70.5m) of new business (measured as annual premium equivalent). VLL only began writing business in January 2016 and so premiums are expected to continue to grow materially year on year as the in-force book of business continues to grow. Although new business sales fell relative to the previous financial period, driven by the impact of COVID-19 in the last quarter of the year, sales still benefited from continued product innovation and a strong distribution network.

VitalityLife continues to utilise reinsurance to limit its overall risk exposure as well as to reduce the volatility of its claims and hence underwriting performance. During the year the reinsurer's share of claims was 58% compared to 53% for the prior period. The higher reinsurers share was caused by an increase in the average size of claims compared to the prior year and therefore a larger element of each claim being recovered by VLL from its reinsurers. The use of risk reinsurance is of particular importance since VLL only started underwriting policies on 1 January 2016 and hence the overall volume of business to date is small, increasing the likelihood of volatility. Further details of this risk mitigation are set out in C.1.2 on page 39 of the VLL SFCR and page 39 of the VHL SFCR.

VLL uses reinsurance financing to help offset the financial strain of writing new business, which is then repaid in future periods contingent on policyholders' premium payments. Income from reinsurance financing during the year was £103.8m (2019: £110.1m). Repayment of reinsurance financing in the year was £72.7m (2019: £60.8m), these repayments are made by ceding premiums to the reinsurers and are therefore included in the reinsurers' share of premiums in the VLL's financial statements. VLL's insurance contract reserves allow for the expected future repayments of reinsurance financing received by VLL.

On an IFRS basis, the movement in insurance contract reserves (after allowing for the reinsurers' share) for protection contracts was a £12.7m (2019: £72.0m) increase in assets. VLL's protection business reserves are negative overall due to the nature and duration of its book of business and are therefore an asset on the IFRS balance sheet. The change in the negative reserves therefore resulted in a £12.7m (2019: £72.0m) contribution to pre-tax IFRS profit. The movement in unit-linked liabilities in the year was £157.9m (2019: £43.2m).

The financial performance relating to VitalityInvest was in line with management expectation. Although loss-making, this was consistent with a start-up business looking to build a presence in a highly competitive market. Total premium income was £166.9m but there was an overall strain on profitability as noted above. The key metric and driver of future profitability for VitalityInvest is assets under management on which VLL charges policyholders a management fee. During the year assets under management grew from £42.9m at 30 June 2019 to £202.3m at 30 June 2020.

A.3 INVESTMENT PERFORMANCE

A.3.1 Information on income and expenses arising from investments by asset class

The interest and gains on assets are included below for each asset class disclosed in the Group's SOFP. The asset classes disclosed in the Group's SOFP on which an investment return is generated are 'financial assets at fair value through profit and loss' and 'cash and cash equivalents'. The Group SOFP line item cash and cash equivalents includes deposits, cash and cash equivalents and collective investment undertakings, as these are highly liquid investments.

There are no material expenses in relation to cash and cash equivalents. The only fees incurred are on investments in financial assets at fair value through profit and loss.

Financial statement asset class	Gains/income on investments in the year to 30 June 2020	Gains/income on investments in the year to 30 June 2019
	£'m	£'m
Financial assets at fair value through profit and loss	1.7	2.4
Fair value gain on derivatives	71.9	7.0
Coupons earned on derivatives	5.3	4.5
Cash and cash equivalents	3.3	3.7
Deposits other than cash and cash equivalents	(4.3)	0.3
Loan interest	2.1	2.0
Total	**80.0**	**19.9**

Financial statement asset class	Expenses on investments in the year to 30 June 2020	Expenses on investments in the year to 30 June 2019
	£'m	£'m
Financial assets at fair value through profit and loss	-	-
Total	**-**	**-**

The fair value gain on derivatives was incurred on the following instruments:

i) Over-the-counter total return interest rate swap derivatives held by DHEL, which provide DHEL with the capital appreciation/depreciation and coupon payments on a portfolio of Gilts designed to closely match that of a specified Gilt Index. These derivatives are held by DHEL to economically hedge an exposure that the Group has to this index as a result of the VitalityLife policies underwritten by PAC.

ii) A portfolio of over-the-counter interest rate swaps and swaptions that are utilised by DHEL to hedge exposure to falling interest rates that is linked to the VitalityLife business.

All investment income and gains were recorded in the profit and loss of the Group.

The Group does not have any investments in securitisations.

A.4 PERFORMANCE OF OTHER ACTIVITIES

A.4.1 Other material income and expenses

Financing reinsurance is an important part of VHL's strategy. Financing is obtained to partially offset the upfront cost of writing new business, and this financing is then repaid in future periods through ceded premiums and claims under quota share treaties. The amount of financing received in the year net of repayments of existing treaties and excluding fees payable was £21.4m compared to £27.7m in the prior year. The lower sales seen during the lockdown resulted in less new financing reinsurance being taken than in the previous year.

There are no other material income and expenses to report in respect of VLL.

A.4.2 Leases

The Group is not party to any material finance leases as either lessee or lessor. The Group is committed to several commercial non-cancellable leases of different terms in respect of its office properties. All leases are managed by VCSL. Additional information can be found in the VCSL statutory financial statements prepared under IFRS.

A.5 BUSINESS AND PERFORMANCE – ANY OTHER INFORMATION

No other information.

B SYSTEM OF GOVERNANCE

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

B.1.1 Role and responsibilities of the Administrative, management or supervisory body and key functions

The principal activity of DGEL is that of an insurance holding company. The principal risks that DGEL faces is the profitability, valuation and continued success of its subsidiaries. To this extent, DGEL is represented, either as a member or an attendee, on all decision making bodies of its subsidiaries including the board of directors, actuarial committee, audit committee, risk committee and remuneration committee.

The DGEL Board is ultimately responsible for the management and oversight of DHEL. The DGEL Board has set up a Reporting Committee which reviews the Solvency II reporting and recommends the reporting to the DGEL Board for approval prior to submission to the regulator and publication. The DHEL Board is ultimately responsible for the oversight of the regulated insurance undertakings. The regulated insurance undertakings have their own respective board and board sub-committees which are responsible for the performance and strategy of those undertakings.

General information on the key functions

The Risk, Compliance and Internal Audit functions all operate across the regulated insurance undertakings and the Group non-insurance entities. The general information on the key functions is provided in section B.1.1 on page 19 of the VLL SFCR and page 20 of the VHL SFCR.

The system of governance is considered to be appropriate for the Group, taking into account the nature, scale and complexity of the risks inherent in the business.

B.1.2 Material changes in the system of governance that have taken place over the reporting period

During the year the UK Group structure changed with the 100% ownership of Vitality Health Insurance Limited (the 100% shareholder of Vitality Health Limited) being transferred from Discovery Holdings Europe Limited to Vitality Life Limited. The governance structure of DGEL was unchanged, however within the management of insurance entities, this coincided with the creation of a Group Executive Committee overseeing the entity level Executive Committees for Vitality Health, Vitality Life and Vitality Invest.

DGEL was not subject to any director resignations or appointments during the year ended 30 June 2020. One Director was appointed after year end on 25 September 2020.

Information on changes in the regulated insurance undertakings are included in section B.1.2 on page 24 of the VLL SFCR and page 26 of the VHL SFCR.

B.1.3 Remuneration policy for the administrative, management or supervisory body and employees

Three of the four directors of DGEL receive no remuneration in respect of their services provided to DGEL. One non-executive director of DGEL is remunerated for their services to DGEL.

B.1.3.1 Principles of the remuneration policy

The principles of the remuneration policy outlined in section B.1.3.1 on page 25 of the VLL SFCR and page 26 of the VHL SFCR apply across the Group.

B.1.3.2 Share options, shares or variable components of remuneration

The individual and collective performance criteria on which share options, shares or variable components of remuneration are awarded is the same as outlined in section B.1.3.2 on page 25 of the VLL SFCR and page 27 of the VHL SFCR.

B.1.3.3 Supplementary pension or early retirement schemes for the members of the administrative, management or supervisory body and other key function holders

The Group offers all staff the choice of making contributions into a defined contribution pension scheme, which the Group matches up to a limit.

The Group has no defined benefit pension liabilities.

B.1.4 Material transactions during the reporting period with shareholders, with persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory body

Shareholders

- DGEL issued £6.5m of ordinary share capital to Discovery Limited on 31 July 2019;
- DGEL issued £24.8m of ordinary share capital to Discovery Limited on 23 December 2019;
- DGEL issued £22.8m of ordinary share capital to Discovery Limited on 29 June 2020; and,
- Discovery Limited provided a Tier 2 subordinated loan to DGEL for £6.5m on 31 July 2019.

Persons who exercise a significant influence on the Group

There were no material transactions between the Group and persons who exercise a significant influence on the Group.

Executive management and directors

There were no material transactions between the Group and executive management and directors.

B.2 FIT AND PROPER REQUIREMENTS

All employees of the regulated insurance undertakings in the Group have their employment contracts with Vitality Corporate Services Limited. The fit and proper requirements for the regulated insurance undertakings are documented in section B.2 on page 28 of the VLL SFCR and page 29 of the VHL SFCR.

B.3 RISK MANAGEMENT SYSTEM INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT

B.3.1 Risk management system

The Group uses the standard formula without undertaking-specific parameters to assess its Solvency Capital Requirement.

The Group has developed a comprehensive ERM framework that includes a set of risk policies, business standards and guidelines to ensure that adequate process and procedures are in place to manage all types of risk. These documents are aligned with current regulatory requirements, including Solvency II, and those adopted by the PRA and FCA. Compliance with each policy is reviewed annually, and policies are reviewed and updated at least once every two years to ensure they are appropriate and remain fit for purpose.

The framework continues to evolve with emerging best practice and the needs of the business to enhance its governance risk management system and to facilitate the activity required across the three lines of defence.

Further detail on the risk management process across the Group and the responsibilities of each line of defence has been described in section B.3.1 on page 29 of the VLL SFCR and page 30 of the VHL SFCR.

The Risk Function produces the Chief Risk Officer report every quarter, in line with the Risk and Audit Committee meeting cycle. This report is designed to provide the Executives, Board, Risk and Audit Committees with sufficient oversight of the ERM Framework and risk exposures, focusing on the out-of-appetite and watch-list risks.

The output of these exercises in the year are also captured in the Own Risk and Solvency Assessment ("ORSA") report which is owned by the Board. It is reviewed by the Executive Committee and the Risk Committee, with quantitative elements also reviewed by the Actuarial Committee. The ORSA is coordinated by the Risk Function and undertaken at least annually and shared with the PRA.

B.3.2 Implementation of risk management system

The regulated insurance undertakings' Boards are responsible for taking all decisions within those entities but delegate some of their decision making responsibilities to the respective Executive and Board sub-Committees which include the Risk, Audit, Technology, Actuarial and Remuneration Committees. The output of the risk management system is reviewed by the regulated insurance undertakings' Boards as well as the DHEL Board. This is taken to the decision making committees by the Risk Function following their review. This process facilitates the integration of the risk management system in the decision making process within the regulated insurance undertakings and the Group.

The Group has not applied for a waiver to prepare a single document for own funds and solvency assessment.

B.3.3 ORSA process

The ORSA process is governed by the ORSA policy. The approach to the ORSA is to integrate its requirements in the existing business processes and communicate the resultant analysis, recommendations and agreed actions at the relevant steps of the process. The ORSA process is conducted throughout the year to facilitate integration with decision making, culminating in the annual ORSA report, which is owned by the Board. The ORSA processes include:

- Risk management processes (described above);
- Risk strategy and appetite setting;
- Risk identification and quantification (including emerging risks);
- Stress and scenario testing;
- Strategic, planning and budgeting processes; and
- Reporting and disclosure.

All these processes are used by the Board and management in the day-to-day decision making to ensure risk and capital management are aligned. The output from the various processes is reported to the Executive Committee, Risk Committee and the Board at various points in the year.

A full review of the Group's own solvency assessment given its risk profile is performed and compared to the regulatory solvency assessment in order to determine whether additional solvency cover is required. The outcome of this assessment is recorded in the ORSA report and shared with the PRA.

The ORSA policy also sets out the roles and responsibilities of those preparing the ORSA and the governance that will be applied to approve the ORSA. In addition, it sets out the list of triggers that could result in an 'out of cycle' ORSA being produced as well as the processes and governance around the decision to produce an additional assessment. Equally, the business may choose to revisit all or part of the ORSA elements outside the scheduled cycle in response to an actual or anticipated event that is judged to have the potential to significantly affect its risk profile and or solvency position.

B.4 INTERNAL CONTROL SYSTEM

B.4.1 Internal control system

A description of the internal control system is included in section B.4.1 on page 31 of the VLL SFCR and page 32 of the VHL SFCR, the application is consistent across the Group.

B.4.2 Implementation of the Compliance Function

A description of the implementation of the Compliance function is included in section B.4.2 on page 31 of the VLL SFCR and page 33 of the VHL SFCR, the application is consistent across the Group.

B.5 INTERNAL AUDIT FUNCTION

B.5.1 Implementation of the internal audit function

The internal audit function operates across DHEL and its subsidiaries, and its implementation is as described in section B.5.1 on page 33 of the VLL SFCR and page 34 of the VHL SFCR.

B.5.2 Independence of the Internal Audit Function

DHEL's Internal Audit function is managed by the Chief Internal Auditor who is an employee of the business, has no responsibility for any other function across the business and has a primary reporting line into the Chair of the Audit Committee, which is an independent Non-Executive Director. Internal audit have full access to all activities, documents, meetings and personnel necessary to carry out their duties.

B.6 ACTUARIAL FUNCTION

Each regulated insurance undertaking within the Group provides for an Actuarial Function. The position of Chief Actuary (SMF20, under the Senior Managers Regime) in each case is held by a Fellow of the Institute and Faculty of Actuaries, whom holds a relevant Practicing Certificate and has complied continuously with the specific professional obligations this requires. Each has unrestricted access to the Chair of the Actuarial Committee (who is a Non-Executive Director of VHL, VCSL, VLL and DHEL). Each undertaking has various actuarial teams that perform the work and provide the information necessary to fulfil the requirements of the Actuarial function as set out in Article 48 of the Solvency II Directive.

Each Actuarial Function produces a report or reports which are submitted to their respective Boards annually. These summarise the activities of the Actuarial function that supported compliance with the requirements for the calculation of the technical provisions, and provide the opinions on the overall underwriting policy and the adequacy of the reinsurance arrangements.

Each Actuarial function contributes to the effectiveness of the risk management systems more widely through various activities which include: substantial involvement in the ORSA; identifying, measuring and monitoring risks; asset liability management (specifically liquidity risk management); and business planning.

B.7 OUTSOURCING

A description of the outsourcing policy and the critical or important functions that have been outsourced were outlined in section B.7 on page 35 of the VLL SFCR and page 35 of the VHL SFCR.

B.8 SYSTEM OF GOVERNANCE – ADEQUACY OF SYSTEM

The system of governance is considered to be appropriate for the Group, taking into account the nature, scale and complexity of the risks inherent in the Group.

C RISK PROFILE

The principal risks that the Group faces are the profitability and continued success of its regulated insurance undertakings.

Underwriting risk is the largest risk measured by the standard formula Consolidated Group SCR and arises through the provision and administration of short term private medical insurance by VHL and of long term protection business (including life, serious illness and income protection cover) by VLL. The investment type business provided by VLL does not create any material underwriting risk. For market risk, in addition to the exposures in VLL and VHL, additional capital is required at the Group level as a result of its exposure to derivatives which hedge part of the interest rate risk that DHEL is indirectly exposed to. This risk arises in regard to the cash flows arising between DHEL and PAC with respect to the legacy business. Default risk as a component of the SCR is small. The operational risk capital requirement arises from the exposures in VLL and VHL.

The risk profile of the Group, measured by the standard formula, has changed over the year as a result of the introduction of the interest rate hedging strategy which requires additional market risk capital to be held under the SII rules. Otherwise, the size of underwriting risk capital and operational risk capital has increased in line with expectations and in line with the growth in the underlying insurance companies, VLL and VHL.

The table below shows the risk modules that make up the Group's SCR:

Year ended 30 June	2020	2019
	£'m	£'m
Health underwriting	159.2	137.0
Life underwriting	167.3	157.6
Market risk	146.2	64.3
Counterparty default risk	19.3	6.8
Diversification credit	(150.2)	(102.5)
Basic SCR	**341.8**	**263.2**
Operational risk	21.0	20.0
Adjustment for loss absorbing capacity of deferred taxes	(13.2)	(2.0)
Group SCR	**349.6**	**281.2**

The principal risks of VHL and VLL are described in detail in section C on page 37 of the VLL SFCR and page 37 of the VHL SFCR. The following sections provide additional information relevant to the Group.

C.1 UNDERWRITING RISK

There is no additional underwriting risk exposure at the Group level. The underwriting risk exposure is within the regulated insurance undertakings and is described in section C.1 on page 39 of the VLL SFCR and page 38 of the VHL SFCR, alongside details of how these risks are identified and measured, how concentrations of risk may occur, and how these risks are mitigated.

C.2 MARKET RISK

C.2.1 Exposure

Market risk exposures within the regulated insurance undertakings are described in section C.2.1 on page 40 of the VLL SFCR and page 39 of the VHL SFCR, alongside details of how these risks are identified and measured, how concentrations of risk may occur, and how these risks are mitigated. After inter-company eliminations, the principal remaining risk relates to interest rate risk within VLL, due to the relative sensitivity of its negative technical provisions to interest rates relative to VLL's invested asset portfolio. However, as discussed in the VLL SFCR, interest rate risk is a relatively small component of VLL's SCR but writing long-term business means there is an exposure to a reduction in interest rates – the risk margin increases when interest rates reduce leading to a decrease in own funds for VLL and hence the Group. Other market risk exposures arise in both VLL and VHL through their invested asset portfolios.

DGEL does not hold any securities that are traded on public exchanges. The Group has a significant long-term investment in DHEL. The directors of DGEL are actively involved in managing DHEL to ensure that the value of DGEL's interest is maximised.

At the Group level, the main source of additional risk capital arises from interest rate risk. There are also exposures to spread and concentration risk, and to currency risk:

- Interest rate risk – the loan provided by DHEL to the Prudential Assurance Company ("PAC"), discussed in section D.1.1.8 below, creates an indirect exposure to a reduction in interest rates. In order to provide capital to back any resultant increase in the loan amount, DHEL has implemented a hedging strategy using derivatives which increase in value as interest rates reduce. However, it must hold capital against the risk of interest rates increasing, but cannot, because of the valuation approach required under Solvency II for the loan, take credit for the repayment of loan principal that would follow such an increase.
- Spread risk and concentration risk – the aforementioned loan to PAC also requires capital to be held under these risk sub-modules.
- Currency risk – DGEL conducts all of its operations in Pounds Sterling, however the Group has some exposure to South African Rand which exposes it to changes in exchange rates.

Other than through its strategic participations the Group has no significant additional exposure to equity or property risk.

C.2.2 Risk mitigation

The Group does not participate in any speculative, arbitrage or trading activities. The Group targets a minimum level of security, quality, profitability and availability in its investment activities, and there is regular monitoring of this as well as close monitoring of interest rate risk. Expected returns are evaluated after considering any additional solvency capital required as a result of an investment.

With regard to the loan to PAC mentioned above, the interest rate hedging strategy is used to mitigate the risk of a reduction in interest rates. In the event that interest rates increase, the repayment of loan principal provides the funds to meet the losses that would occur on the derivatives. In addition to this, the hedging strategy includes a component that limits the maximum loss that can occur, such that if interest rates increase above a certain threshold then no further losses on the derivatives would occur, and any repayment of loan principal would be retained as profit.

C.2.3 Risk concentration

Across the Group, assets are held across a wide range of counterparties to reduce concentration risk. Refer to section C.2.3 on page 41 of the VLL SFCR and page 40 of the VHL SFCR for additional information.

C.3 CREDIT RISK

C.3.1 Exposure

In addition to the credit risk exposures in VLL and VHL which primarily arise from exposure to banking and reinsurance counterparties, at 30 June 2020 DHEL held £173.3m on deposit in cash at a single banking counterparty. The bank is highly reputable with a credit quality step of 1. At the reporting date, the aforementioned derivatives, held with a single counterparty were in an overall favourable position such that they did not present a credit risk to the Group.

Credit risk exposures within the regulated insurance undertakings are described in section C.3.1 on page 42 of the VLL SFCR and page 40 of the VHL SFCR, alongside details of how these risks are identified and measured, how concentrations of risk may occur, and how these risks are mitigated.

C.3.2 Risk mitigation

Credit ratings are used to assess credit risks. The Group does not routinely make its own assessment of credit risk of counterparties other than to use the ratings provided by rating agencies (though could potentially do so if it has reason to believe that the rating agencies ratings are inaccurate or out of date).

To mitigate the risk of banking counterparty default, banks are chosen following a thorough diligence exercise to select only highly reputable and creditworthy banks. No derivatives are employed to manage credit risk.

C.3.3 Risk concentration

The Group avoids material credit risk concentrations by ensuring its deposits are split across more than one banking unit and reinsurance is split across multiple reinsurance counterparties to reduce single name exposure. In addition, counterparties are chosen such that they are highly reputable and creditworthy to further reduce credit risk exposure.

C.4 LIQUIDITY RISK

C.4.1 Exposure

Liquidity risk is the inherent risk that the Group is unable to realise investments and other assets in order to meet financial obligations as they fall due. There are timing differences between the periodic agreements of amounts due to or from PAC regarding the advance or repayment of the aforementioned loan and the daily settlement of margin on the derivatives held by DHEL. This presents a potential liquidity risk to the Group.

Liquidity risk exposures within the regulated insurance undertakings are described in section C.4.1 on page 43 of the VLL SFCR and page 40 of the VHL SFCR, alongside details of how these risks are identified and measured, how concentrations of risk may occur, and how these risks are mitigated.

C.4.2 Risk mitigation

The Group maintains sufficient liquid assets to meet all anticipated commitments as they fall due. It also has access to short term funding if required to cover unexpected obligations arising. The Group has assessed this risk under stressed conditions, in particular regard to the timing exposure mentioned in C.4.1, to ensure that it has sufficient liquid assets available across its undertakings that can be made available to DHEL to mitigate this risk, and for the Group to continue to meet all other commitments.

C.4.3 Risk concentration

For DHEL in particular, the exposures described above with regards to the aforementioned timing differences between the loan from DHEL to PAC and the derivatives represent a concentration of liquidity risk. More widely, the Group as a whole avoids material liquidity risk concentrations by ensuring its invested assets are split across a number of counterparties, but also within each collective investment undertaking, the funds are invested across a number of liquid, short term counterparties.

C.4.4 Expected profit included in future premiums (“EPIFP”)

The expected profit in future premiums for Group is the sum of the amounts for VLL, £724.4m, and for VHL, £54.6m. A discussion of its derivation is included on page 43 of the VLL SFCR and page 41 of the VHL SFCR.

C.5 OPERATIONAL RISK

C.5.1 Exposure

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.

The following measures are used to assess operational risks:

- Risk and control assessments – the Enterprise Risk Management ("ERM") Framework requires all teams across the business to carry out a risk and control self-assessment which would highlight any operational risk issues that need to be taken into account when assessing the risk profile for the business;
- The Solvency Capital Requirement – the standard formula Solvency Capital Requirement includes an assessment and quantification of the operational risk exposure;
- The Group also carries out operational risk scenario workshops to develop scenarios for each operational risk category. This involves estimating the severity and likelihood of each scenario based on the information captured in the Group's risk registers and input from subject matter experts in the business. Once captured, the operational risk profile is assessed quantitatively and taken into account in each of VLL's and VHL's own assessment of its solvency capital requirements. Operational risks are also assessed using qualitative techniques to understand the likelihood and impact of the risks materialising. The results of this assessment are recorded in the ORSAs of VLL and VHL; and
- The top operational risks included in the assessment were:
    - Market Conduct (VLL and VHL) – the risk that the Company's decisions and behaviours lead to detriment or poor outcomes for members and / or the Group fails to maintain high standards of market integrity;
    - Technology (VHL) – the risk associated with the use, ownership, operation, involvement, influence, adoption and development of technology within the Company. It consists of technology-related events and conditions that could potentially impact the business; and
    - Fraud (VLL and VHL) – the risk of financial crime and unlawful conduct impacting on the Company. It includes both internal and external fraud; and
    - Compliance (VLL) – The risk of not complying with laws, regulations, rules, related self-regulatory Company standards and codes of conduct, as well as the failure to uphold the Group's core values and codes.

Cyber risk is also a key consideration within the operational risk profile where business disruption and data leakage or loss could arise, due to the malicious or fraudulent exploitation of security vulnerabilities within Information Technology systems.

C.5.2 Risk mitigation

All material operational risks which the Company is exposed to, are identified and recorded in the risk register. The risks are assessed and once any actions required to manage the risks have been agreed, the risks are reported to senior management, the Risk Committee and the Board. The following list outlines the actions/techniques the Company uses to mitigate operational risks:

- Risk reduction – where possible, the Group takes action to reduce the impact of a risk. The required actions vary by risk;
- Risk removal – where risks are outside risk appetite and there are no commercially viable means of reducing the risk, the business may remove the risk;
- Risk transfer – the Group outsources a number of activities and in some cases the associated risks of carrying out those activities. Whilst the Group can outsource activities, it can't transfer responsibility and therefore manages its outsourcing relationships accordingly;

- Risk acceptance – where the Group has considered all other mitigation techniques and the risk remains out of appetite, it may proceed to accept the risk with the approval of the relevant Risk Committees; and
- Reporting – the material operational risks which the Group is exposed to are identified and recorded in the risk register. The risks are assessed and once the actions required to manage the risks have been agreed, the risks are reported to Senior Management, the relevant Risk Committee and Boards.

C.5.3 Risk Concentration

Operational risk is inherent within the Group. It is managed through the ERM framework and a number of workshops to identify the key sources of operational risk as well as the likelihood and impact. No material concentrations of operational risk have been identified by the business and there is ongoing monitoring of risks to ensure this remains the case.

C.6 OTHER MATERIAL RISKS

The Risk Management process within the Group includes a review of both the current and emerging risk profile. At the Group level there are no additional risks over those identified in the regulated insurance undertakings which are set out below. There are no other material risk concentrations to which the Group is exposed. No other material risks were identified through the sensitivity, scenario and stress tests described in Section C.7.1

New business funding liquidity risk (VLL)

The writing of future new business requires sufficient liquid resources in order to be able to pay new business commission and other acquisition costs. VLL is therefore exposed to the risk that it cannot fulfil its business plan if it does not have sufficient liquid resources to finance the writing of future new business. This type of liquidity risk will diminish over time as the business matures and the proportion of existing business becomes much larger compared to future new business. However, as Vitality Life Limited started writing business in early 2016, this will be a key risk over the medium term.

A key source of liquidity for the writing of new business is reinsurance based financing. This financing helps offset part of the strain of writing new business, and is then repaid in future periods contingent on policyholders' premiums payments. Hence there is the risk that reinsurer failure or the reinsurers reducing their capacity could lead to the loss of funding to write new business, until such time as replacement funding can be organised. The high levels of liquid investment assets help to mitigate the risk of reinsurer failure. Another key source of liquidity for the writing of new business are capital injections from its ultimate parent company, Discovery Limited. Risks to Discovery Limited's ability to provide appropriate financing would affect VLL's ability to write future new business. In addition, VLL has, via its parent DHEL, access to an unsubordinated debt facility with a major UK bank.

Liquidity requirements are assessed frequently in order to meet VLL's stated liquidity objectives, and assessments to ensure sufficient liquidity under stress are performed periodically. The high level of liquid assets and the existing commitments from reinsurers to provide the agreed future financing helps to mitigate new business financing liquidity risk. In extreme situations VLL could reduce or stop writing new business in order to control this risk.

Strategic risks (VLL and VHL)

Our strategic objectives could be impacted by evolving customer preferences, our investment performance, the economic environment, and political and regulatory change. In particular, the recessionary impacts of the COVD-19 pandemic, as well as the outcome of the future trading relationship with the EU continue to generate uncertainty in this area.

C.7 RISK PROFILE – ANY OTHER INFORMATION

C.7.1 Risk Sensitivity

The Group carries out stress and scenario testing as part of its risk management framework, which includes the ORSA. This includes assessing the projected solvency position under a number of adverse stresses and various scenarios relevant to its risk profile. This allows it to assess the resilience of the entity to continue operating efficiently under extreme trading conditions and is used to identify where potential risks and impacts are likely to be most critical. For the most material risks, the analysis indicated that the Group was able to withstand severe shocks.

It is also worth noting that a global pandemic such as COVID-19 is an extreme event and that the financial strength and resilience of VitalityHealth and VitalityLife has been demonstrated through this difficult period.

C.7.2 Specific tests

The table below shows some of the key sensitivities for the Group and the impact they have on the solvency coverage ratio. Note that due to the current investment strategies of VLL and VHL, there is no material impact to the SCR or solvency coverage ratio from economic shocks such as movements in equity market values, interest rates, credit spreads of Government or corporate bonds, or real estate values. As such, no SCR coverage impacts are shown for these stresses. In the short-run, changes in lapse rates also do not materially impact the Group SCR coverage.

The stresses below have been calculated as the one year impact on coverage if the stress event was to happen independently in the 2020-21 financial year, and hence impact the June 2021 SCR and SCR coverage ratio.

Risk driver and stress description	Impact on Group SCR coverage %	Remarks
Mortality and morbidity: An immediate and permanent increase in mortality rates and morbidity for VLL's Life business.	(3%)	There is a decrease in SCR cover, which is driven primarily by a reduction in future profits, given the reinsurance risk mitigation in place which limits the impact of mortality risk on claim payouts.
Medical expenses: An increase in the VHL gross loss ratio of 10%.	(9%)	Own funds are impacted by the reduced profit, but this is to a greater extent than the SCR, resulting in a fall in the SCR coverage ratio.
Interest Rates: An immediate and permanent increase of 50bps in nominal interest rates.	(8%)	SCR cover reduces when interest rates decrease. This is primarily via the impact on VLL's SCR and its risk margin.
Interest Rates: An immediate and permanent decrease of 50bps in nominal interest rates.	8%	SCR cover increases when interest rates increase. This is primarily via the impact on VLL's SCR and its risk margin.

C.7.3 Prudent Person Principle

The Group and its regulated insurance undertakings ensure that its assets are invested in accordance with the Prudent Person Principle set out in the Solvency II Directive. It only invests in assets whose risks it can properly identify, manage, control and report and which can appropriately be taken into account in its overall solvency needs assessment which is documented in each of its ORSA reports.

The Boards of VHL and VLL are responsible for setting the overall Risk Appetite and Financial Risk Policy which covers market, credit and liquidity risk.

The short term high quality liquid investment holdings are a consequence of the investment assets being prudently invested, taking into account the liquidity requirements of the business and the nature and timing of the insurance liabilities within the regulated insurance undertakings.

The Group does not invest in derivative instruments for investment income purposes. The collective investment undertakings held by the regulated insurance undertakings may from time-to-time purchase limited amounts of derivatives to contribute to a reduction of risks or facilitate efficient portfolio management.

All of the Group's financial assets relate to counterparties that are subject to a regulated financial market and investment in liquidity funds is split between providers to provide diversification of fund management.

Throughout the reporting period, the Group did not make use of special purpose vehicles for the purpose of transferring risk.

D VALUATION FOR SOLVENCY PURPOSES

D.1 ASSETS

D.1.1 Solvency II valuation for each material class of asset and differences in valuation between IFRS and Solvency II

The table below sets out the valuation and classification of assets for the purposes of Solvency II and the statutory account value:

Assets (£'m)	SAV - IFRS	Valuation Difference	Solvency II Value	Section reference
Goodwill	123.7	(123.7)	-	D.1.1.1
Deferred acquisition costs	42.5	(42.5)	-	D.1.1.2
Intangible assets	56.0	(56.0)	-	D.1.1.3
Deferred tax assets	27.4	17.4	44.8	D.1.1.4
Property, plant and equipment	32.5	-	32.5	D.1.1.5
Investments	327.7	(2.3)	325.4	D.1.1.6
Assets held for index-linked and unit-linked contracts	202.3	-	202.3	D.1.1.7
Loans and mortgages	47.6	-	47.6	D.1.1.8
Reinsurance recoverables	(279.0)	(162.8)	(441.8)	D.1.1.9
Insurance and intermediaries receivables	278.4	(251.8)	26.6	D.1.1.10
Reinsurance receivables	175.8	(175.8)	-	D.1.1.11
Receivables (trade, not insurance)	28.6	(12.5)	16.1	D.1.1.12
Cash and cash equivalents	201.2	-	201.2	D.1.1.13
Any other assets, not elsewhere shown	22.5	(1.8)	20.7	D.1.1.14
Total assets	**1,287.2**	**(804.7)**	**475.4**	

D.1.1.1 Goodwill

The Group recognises goodwill in respect of acquisitions in the UK, such as the acquisition of Standard Life Healthcare Limited in 2010 which was later rebranded to Vitality Health Insurance Limited. This asset is not permissible under SII and is therefore valued at nil.

D.1.1.2 Deferred acquisition costs ("DAC")

DAC is recognised by VHL and represents the expenses related to the acquisition of new insurance business. Under IFRS, the asset allows the deferral of the acquisition costs to the extent that they are expected to be covered by future profits from the unearned premiums on these contracts. This asset is not permissible under SII and is therefore valued at nil.

D.1.1.3 Intangible assets

Under Solvency II only those intangible assets that can be sold separately and where it can be demonstrated, that there is a value for the same or similar assets in an active market can be recognised. Based on the Company's assessment, the intangible assets recognised under IFRS are not deemed to meet the Solvency II criteria and so have a nil valuation under Solvency II.

D.1.1.4 Deferred tax assets ("DTA")

The Solvency II value of the Group deferred tax asset of £44.8m as at 30 June 2020 is split by undertaking as follows:

- £22.6m – VLL
- £20.5m – VHL
- £1.6m – VCSL
- £0.1m – VHIL

For a description of the valuation of the deferred tax asset for VHL and VLL, please refer to their respective SFCRs.

The deferred tax assets of VHIL and VCSL are recognised on timing differences between the tax base of assets and liabilities and the IFRS/Solvency II valuation of assets and liabilities. The valuation method used is as prescribed in Article 15 of the Delegated Regulation.

The only differences between the Solvency II valuation and the IFRS valuation of the deferred tax asset relate to VHL and VLL, details of which can be found in section D.1.1.6 on page 50 of the VLL SFCR and section D.1.1.2 on page 46 of the VHL SFCR.

D.1.1.5 Property, plant & equipment

Property, plant & equipment is recognised at the IFRS carrying value, based on depreciated cost. This is considered to be materially the same as fair value. There are no differences between the Solvency II valuation and the IFRS valuation of property, plant & equipment held for own use.

VHL continues to own the land and office building purchased in late 2018 in Stockport. VCSL is the principal tenant of the building with the remainder of the tenants being third parties. An impairment test was performed in June 2020 with an independent valuation of the property obtained, resulting in no impairment provision being required. The value of this property at 30 June 2020 is £9.5m. Under IFRS, the land and buildings are valued at depreciated cost. Under SII the property has been recognised at the same value as it has under IFRS under the basis that it closely approximates fair value.

D.1.1.6 Investments

Investments are made up of a combination of holdings in related undertakings, bonds, collective investments undertakings, derivatives and deposits other than cash equivalents.

The value of the Group's investments is equal to the sum of the investments arising in VHL, VLL and DHEL. For a description of the valuation of the investments arising in VHL and VLL please refer to section D.1.1.1 on page 49 of the VLL SFCR and section D.1.1.3 on page 46 of the VHL SFCR for more detail.

The investments arising in DHEL relate to the following derivatives:

i) A derivative asset of £6.5m. As at 30 June 2020 DHEL was party to one open derivative contract with a notional derivative value of £279m, which does not qualify for hedge accounting under IFRS. The asset at 30 June 2020 of £6.5m represents fair value and is based on quoted market valuations.

ii) A portfolio of interest rate swaps and swaptions with a fair value of £56.7m as at 30 June 2020. OTC derivative contracts are valued using accepted and established valuation methodologies based on observable market data including interest rates where available. Further information is included in section D4.

There are no differences between the valuation of the derivatives under IFRS and Solvency II.

D.1.1.7 Assets held for index-linked and unit-linked contracts

These assets represent the amount held by VLL to back the policyholder liabilities relating to the unit-linked insurance contracts sold by VitalityInvest. For SII, all assets and liabilities relating to index-linked and unit-linked contracts are reported in a single line item within ‘assets held for index-linked and unit-linked contracts’ and therefore this number is net of non-technical liabilities held in relation to these unit-linked contracts. The total IFRS value of these liabilities is £202.3m.

The material element of these assets relates to £179.7m held in a range of investment funds and a further £25.6m held in cash and cash equivalents. The allocation of assets into the funds and cash is directly matched with units chosen by the policyholders when purchasing (or servicing) their unit-linked policy. These assets are measured using a mixture of amortised cost (which equates to fair value) and fair value depending on their nature and IFRS classification. The valuation is based on independent fund manager valuation reports that are derived from market prices or statements provided by the VLL’s bankers.

D.1.1.8 Other Loans and mortgages

Other Loans and mortgages of £47.6m is made up of a single loan to PAC, which funds the business written on the PAC licence. This loan is recognised at amortised cost which approximates fair value. There are no differences between the Solvency II valuation and the IFRS valuation of other loans and mortgages.

D.1.1.9 Reinsurance recoverables

The value of the Group’s reinsurance recoverables is equal to the sum of the reinsurance recoverables arising in VHL and VLL, of £6.6m and (£448.4m) respectively.

VHL reinsurance recoverable

VHL reinsurance recoverables totalling £6.6m relate mainly to the cash and cashless FinRe taken out by VHL and consists of a liability for the reinsurance payables within the contract boundary of the premium technical provision (“PTP”) and an asset for the reinsurance recoverables within the claims technical provision (“CTP”). These had values of £(0.1)m and £6.3m respectively, giving a net positive reinsurance recoverable of £6.2m. The remaining £0.4m is held as a reinsurance recoverable asset for the reinsurer’s share of a legacy book of business.

The FinRe contracts taken out by VHL are structured for IFRS purposes. Under SII, the overall best estimate valuation of future income and outgoing (excluding fees to the reinsurer) is zero. This valuation is consistent with the SII principle in the PRA Rulebook for Solvency II firms. Per Article 2.1(2) of the Valuation section of the Rulebook, liabilities should be valued “at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm’s length transaction.”

The SII valuation of the reinsurance recoverables differs to the financial statements as IFRS sets the financial reinsurance amount as the total of gross written premium and insurance premium tax up to the contract boundary for all policies. Under Solvency II, the future premium collections are included under the PTP in technical provisions (R0560) and the actual due premiums outstanding are included in insurance and intermediaries receivable (R0360). Under both valuations, an amount equal to the respective values are set in the reinsurance payables in Section D.3.1.2, given that the FinRe contract expects all past / future receivables and payables from the reinsurer to result in a net zero cash flow.

During the year the VHL entered into two new financial reinsurance contracts, both of which are with existing providers. The valuation of the FinRe contract is valued at nil given the expectation that the contracts provide no tangible future cash flows except under extreme adverse scenarios. The fees payable to the reinsurer are added into the premium technical provisions expense basis and hence are included as a liability.

VLL reinsurance recoverable

VLL reinsures mortality and morbidity risk on a quota share basis with a maximum retention per life and is split among a number of different reinsurance counterparties depending on the type of cover. VLL also has reinsurance financing where there is risk transfer since repayments are contingent on policyholders' future premium payments. The reinsurance recoverables are the excess of the reinsurance recoveries over the reinsurance premiums payable.

Total reinsurance recoverables at 30 June 2020 were £(448.4)m. The recoverables are negative predominantly due to the expected repayments in respect of the new business reinsurance financing received to date.

D.1.1.10 Insurance and intermediaries receivables

The value of the Group's insurance and intermediaries receivables is equal to the sum of the insurance and intermediaries receivables arising in VHL and VLL.

VHL insurance and intermediaries receivables

VHL insurance and intermediaries receivables of £12.0m under Solvency II relate to premiums outstanding from policyholders. This balance is valued using a look through of IFRS outstanding premiums. Where outstanding premiums relate to future premium collection dates these are included in the PTP. Where the premium collection date falls before the reporting date, but the cash has not been received at the reporting date, this amount falls in premiums outstanding. Systems reports are used as the basis for this amount, and it is further tested by evaluating a sample of policies. The assumptions and judgments behind the calculation are therefore limited and reliance is placed on the accuracy of the audited financial statement value.

The insurance and intermediaries receivables valuation differs to the financial statements as under IFRS this includes the expected future premiums. Under Solvency II this is re-categorised under technical provisions in Section D.2.

VLL insurance and intermediaries receivables

VLL insurance and intermediaries receivable balances represent premiums owed by policyholders and commission clawback due from intermediaries that are past due. These receivables are measured at amortised cost less impairment provision and this is a reasonable proxy for the fair value for Solvency II valuation given the short-term nature of these assets. As these receivables are past due an impairment provision is held where recoverability is uncertain. The valuation of insurance and intermediaries receivables in the Company's financial statements is the same as for Solvency II.

Note, the sum of insurance and intermediaries receivables of £14.6m and receivables (trade, not insurance) of £3.1m is £17.7m. Under IFRS, the £17.7m consists of loans and receivables of £15.8m and current tax of £1.9m.

D.1.1.11 Reinsurance receivables

The value of the Group's reinsurance receivables is equal to the sum of the reinsurance receivables arising in VHL and VLL.

VHL reinsurance receivables

The Solvency II value of reinsurance receivables is nil. The difference to the financial statements of £175.8m relates to the cashless FinRe balance that is recognised under IFRS, but not under Solvency II.

VLL reinsurance receivables

VLL reinsurance receivables represent amounts past due from reinsurance providers in respect of settled claims and funding due from but not yet received from reinsurers. The amounts relate to reinsurance agreements in force at the reporting date. These receivables are valued at fair value and due to the short-term nature of the receivables no adjustments to their valuation are required. The amounts receivable are calculated in accordance with reinsurance agreements; no estimation methods, adjustments for future value or valuation judgements are required for these balances. The value of reinsurance receivables in the Company's financial statements is the same as for Solvency II.

D.1.1.12 Receivables (trade, not insurance)

Receivables (trade, not insurance) are recognised at fair value. The difference between the Solvency II and IFRS valuations relates to prepayments, which are given a nil value under Solvency II unless the prepayments are transferrable to another party.

D.1.1.13 Cash and cash equivalent

Cash and cash equivalents are held in UK and South African bank accounts. The UK bank accounts are all held in GBP; no estimation methods, adjustments for future value or valuation judgements are required for these balances. The monies held in a South African bank account are denominated in ZAR, translated into pounds sterling using the prevailing GBP/ZAR exchange rate at the reporting date.

Cash and cash equivalents are valued at fair value by the relevant financial institution, and the Group receives monthly statements at the period end to confirm the balances held.

D.1.1.14 Any other assets, not elsewhere shown

The value of the Group's other assets, not elsewhere shown, is equal to the other assets, not elsewhere shown, arising in VLL and VCSL.

The balance in VLL represents amounts receivable from reinsurers on notified customer claims disclosed in "provisions, other than technical provisions". The amounts relate to reinsurance agreements in force at the reporting date. These receivables are valued at fair value and due to the short-term nature of the receivables no adjustments to their valuation are required. The amounts receivable are calculated in accordance with reinsurance agreements; no estimation methods, adjustments for future value or valuation judgements are required for these balances. The value of reinsurance receivables in the Company's financial statements is the same as for Solvency II.

The balance in VCSL represents inventory, which consists of vouchers bought in bulk to be sold to members as part of the wellness benefit program. Inventory is stated at the lower of cost or net realisable value. Net realisable value is the value of the voucher purchased. The value of inventory in VCSL's financial statements is the same as for Solvency II.

D.2 TECHNICAL PROVISIONS

D.2.1 Technical provisions analysed by each material line of business

The value of the Group's technical provisions are equal to the sum of the technical provisions arising in each of its regulated insurance undertakings. No reassessment of the technical provisions of these companies is made at the Group level, and no additional technical provisions arise from other companies within the Group.

The table below shows the technical provisions at 30 June 2020 by line of business:

£'m	VLL Unit-linked	VLL Other Life	VLL SLT Health	VHL Health NSLT	TOTAL
Technical provisions calculated as a whole	202.3	-	-	-	202.3
Gross best estimate liabilities	(2.1)	(594.4)	(278.1)	20.6	(853.9)
Risk margin	0.9	164.2	36.3	6.3	207.7
Technical provisions	**201.1**	**(430.2)**	**(241.8)**	**26.9**	**(443.9)**
Reinsurance recoverables	-	346.7	101.7	(6.6)	441.8
Technical provisions allowing for recoverables	**201.1**	**(83.4)**	**(140.1)**	**20.3**	**(2.1)**

For comparison, the table below shows the technical provisions at 30 June 2019 by line of business:

£'m	VLL Unit-linked	VLL Other Life	VLL SLT Health	VHL Health NSLT	TOTAL
Technical provisions calculated as a whole	43.0	-	-	-	43.0
Gross best estimate liabilities	(0.4)	(557.8)	(230.9)	13.6	(775.5)
Risk margin	0.2	120.8	42.7	5.9	169.6
Technical provisions	**42.8**	**(437.0)**	**(188.2)**	**19.5**	**(562.9)**
Reinsurance recoverables	-	297.5	82.0	(6.1)	(373.5)
Technical provisions allowing for recoverables	**42.8**	**(139.5)**	**(106.2)**	**13.4**	**(189.5)**

For VLL, the main driver of the change in technical provisions over the year is the new business written, although for the 'Other Life' segment there were offsetting assumption changes.

For VHL, the claims technical provision portion of the gross best estimate liabilities has increased over the last year due to the general growth in the book and the higher level of uncertainty around the treatments which have been able to continue during the COVID-19 pandemic. Invoicing from hospital providers has also been impacted which has resulted in a higher reserve being held. The delays in both treatment and invoicing have led to increased levels of uncertainty in the reserve unwind compared to previous years, with the true result expected to take longer to be understood than in normal years. If a second wave of the pandemic occurs with hospitals utilised further by the NHS, this will only exacerbate the problem. The premium technical provision portion of the gross best estimate liabilities has remained reasonably stable compared to last year's result, with the full impact of the claims catch-up being unable to be fully recognised due to the application of the contract boundary restriction.

D.2.2 Technical provisions calculation methodology

VLL technical provisions calculation methodology

Vitality Life Limited's non-unit Best Estimate Liabilities ("BEL") are calculated using a gross premium valuation (as required by Solvency II) for all policies in-force and on risk at the valuation date. Hence the non-unit BEL is calculated as the prospective value of future expected cash-flows on a policy-by-policy basis over the duration of the policy, allowing for full premiums, claims, fund charges, expenses and lapses. A negative BEL is permitted.

The non-unit BEL is calculated gross of reinsurance, although the cash flow projections include both gross of reinsurance and reinsurance-related cash flows in order to allow separate calculation of the reinsurance recoverables.

The contract boundary for Invest products is immediate (i.e. it is the valuation date), which means that no future premiums are included in the cash flow projection for this business. Obligations relating to premiums already received are recognised throughout the expected lifetime of the policy and are included in the cash flow projection.

The unit BEL is the value of policyholder funds as at the valuation date.

The risk margin is calculated as per the prescribed Solvency II cost-of-capital approach. Projected SCRs are calculated for individual risks using a risk driver approach.

As VLL only began writing business in January 2016, there are no transitional measures within the technical provisions calculation.

Segmentation of business

The technical provisions for the Life business are segmented into two categories, Other Life and SLT Health, where the segmentation is carried out at a per policy level depending on the types of benefit attached to each policy. The technical provisions for VitalityInvest are captured in the index-linked and unit-linked category. The valuation methodology for all categories is as described above, while the assumptions used in the valuation may vary on a number of factors (depending on assumption in question). The main assumptions are discussed below:

Main assumptions

Interest rates, unit fund growth rate and inflation

The risk-free interest rate term structure used for discounting the projected cash flows in the technical calculation is the GBP relevant risk-free structure as specified by the Solvency II regulations. Vitality Life Limited used the rates as provided by European Insurance and Occupational Pensions Authority ("EIOPA"). These rates are also used for Invest's unit fund growth rate assumption (gross of charges). The Company does not use the matching adjustment nor the volatility adjustment.

Assumed inflation is based on implied inflation from the Bank of England's government liability curves extrapolated to an assumed ultimate inflation rate. Since the Bank's curves do not cover the short end this is based on the Bank of England's inflation report.

Expenses

The expenses incurred in servicing Vitality Life Limited's insurance obligations consist of administration, claims management/handling and overhead expenses. The Company performs a regular expense analysis in order to allocate the expenses between initial and renewal and by type of expense. The best estimate expense assumptions are based on the results of this regular analysis together with budgeted expenses.

Part of the Company's expense base is in South Africa (some operations are outsourced to other Discovery group companies in South Africa). VLL takes a proportionate approach in valuing these expenses in the technical provisions by projecting them and discounting them using UK based inflation and discount rates respectively. The simplification is in line with Article 56 of the Delegated Regulations as VLL has performed an analysis of the risk associated with the simplification; it is aware of the potential error introduced; and the simplification results in an overestimation of technical provisions. The materiality of the simplification is reviewed at least annually.

Lapse assumptions

Lapse assumptions are set with reference to VLL lapse experience, including the business written on the PAC licence, guidance from subject matter experts, reinsurers and industry data. Lapse assumptions vary by type of business, distribution channel and commission claw back period.

Claims Assumptions

VLL uses bespoke tables for its claims rate assumptions, which take account of relevant reinsurance and industry information and, where credible, internal experience including experience from the business written on the PAC licence.

VHL technical provisions calculation methodology

Claims technical provision ("CTP")

The CTP is a provision set aside for claims that have been incurred by VitalityHealth, but are yet to be settled at the valuation date. This provision includes an allowance for the expenses involved in handing these claims.

The provision is set based upon a frequency and severity model which uses the expected treatment timeline and cost for each authorised claim. It recommends the reserve by treatment month as the difference between the paid amount and that which is ultimately expected to occur in that treatment month. The Company has moved away from the traditional chain ladder models used widely across the industry, as these inherently rely on stability in both treatment and payment patterns in order to provide accurate projections. The frequency and severity model base result is then able to be adjusted as necessary to reflect changes in the severity, frequency and timing of treatments, such as the inability for policyholders to access treatment whilst the NHS utilised the private hospital capacity to manage the impacts of the COVID-19 pandemic. The COVID-19 pandemic has meant that significant adjustments have been made to the model result due to the increased levels of uncertainty in availability of treatments for policyholders.

The CTP valuation contains a provision for disputes with hospitals. The hospital dispute provision is higher than last year and relates to disputes about prior treatments that are yet to be resolved. The increase in this provision recognises that the normal disputes conversations with hospitals have been harder to resolve whilst the COVID-19 pandemic was ongoing.

Premium technical provision ("PTP")

Premium technical provisions are determined by projecting the premium, claims and expenses of VHL's in-force policies up until their next renewal date and discounting these cash flows back at the risk free rate published by EIOPA. These projections are performed for each homogenous group.

The future premiums are projected according to the policy contract details. Mid-term cancellations on policies are allowed for and are set according to the prior years' experience. The cash flows allowed for are:

- Future premiums, allowing for the timing of these;
- Future invoice payments in respect of treatment expected to be incurred after the reporting date, and relating to in-force policies and their expected exposure up to their contract boundaries, and allowing for the delays in reporting and settling these liabilities;
- Future expenses in respect of administering the in-force policies up to their contract boundaries, authorising and managing claims, and invoice processing expenses (expenses relating to renewal of policies are excluded); and
- Vitality reward costs.

The expected claims and Vitality reward costs are projected through the application of the benefit ratio on the projected future premiums. The benefit ratio assumption is set based upon historical experience, adjusted for future expected trends and inflation. Further, the benefit ratio includes adjustment for the anticipated catch-up of treatments which have been unable to be completed whilst the private hospitals have been utilised by the NHS. The timing and level of this claims catch-up is uncertain, and could be significantly impacted if a second wave of the pandemic occurs, or if policyholders are unwilling to seek treatment in hospitals due to rising cases of COVID-19. The best estimate of this timeline has been utilised in the calculation of the PTP up until the contract boundary in line with SII requirements.

The expense cash flows are projected through allocating the business's total expenses into the PTP cash flows that relate to the in-force policies. The assumption of total future expenses is set based upon prior experience adjusted for future expected trends. The percentage of the total expenses allocable to the PTP is set using allocations based on recent expense investigations.

D.2.3 Reinsurance payables

The majority of the reinsurance payables relates to FinRe in VHL. The FinRe has an IFRS benefit but has a nil impact under Solvency II. This is not analysed further due to materiality (see above section on reinsurance receivables).

D.2.4 Uncertainty associated with technical provisions

For VLL, uncertainty relates primarily to how future actual experience will differ from the best estimate assumptions used to calculate the technical provisions. The key assumptions are interest rates, lapse rates, mortality rates and morbidity rates. A robust assumption setting process is followed in order to ensure the uncertainty is well understood.

For VHL, due to the impacts of the COVID-19 pandemic, the treatments received by our policyholders as well as the invoices received from providers have been impacted. The result therefore is that the CTP is subject to a greater degree of uncertainty than under normal circumstances. These items have been adjusted for when setting the CTP, but should be recognised as significant contributors to an increased level of uncertainty within the CTP. For the PTP, a set of sensitivities are produced on the key assumptions in order to judge the uncertainty associated with the projection of future profits. The two key non-economic assumptions of benefit ratio and expense ratio can diverge from the best estimate and increase the technical provision liability. However, the impact on the solvency ratio is reduced as lower expected profits in future premiums are limited by the application of the contract boundary restriction and in addition the reduction would also result in a lower lapse risk under health underwriting risk.

D.2.5 Differences between Solvency II valuation and local GAAP/IFRS valuation of technical provisions analysed by each material line of business

The table below shows a build-up from the IFRS valuation of insurance contract liabilities to the Solvency II technical provisions, split by line of business, at 30 June 2020:

£'m	VLL Unit-linked	VLL Other Life	VLL SLT Health	VHL Health NSLT	TOTAL
Gross IFRS Insurance contract liabilities	201.1	(535.2)	(115.9)	109.1	(340.9)
Adjustments for Solvency II	(0.8)	(59.2)	(162.1)	(88.5)	(310.6)
Gross BEL and Technical Provisions calculated as a Whole	**200.3**	**(594.4)**	**(278.0)**	**20.6**	**(651.5)**
Add risk margin	0.9	164.2	36.3	6.3	207.7
Technical provisions	**201.2**	**(430.2)**	**(241.7)**	**26.9**	**(443.8)**

For VLL, the main differences between the Solvency II and IFRS liabilities arise from:

- Solvency II uses best estimate assumptions while the IFRS assumptions included margins for adverse deviation;
- the discount rate for Solvency II technical provisions is specified by regulation (the relevant risk-free interest rate is provided by EIOPA), while that for IFRS is based on the expected long term return for VLL's expected investment portfolio;
- the Solvency II inflation assumption is derived from market information, while for IFRS it is based on an expected long term rate;
- Solvency II technical provisions include the risk margin;

- For the VitalityInvest unit fund growth rate, the risk-free rate is used for Solvency II, while IFRS allows for risk premiums on risk bearing asset classes; and
- For VitalityInvest, future premiums are excluded as the contract boundary is assessed to be the valuation date. There are no contract boundary differences for Other Life and SLT Health business.

For VHL, the main differences between the Solvency II and IFRS liabilities arise from:

- Solvency II allows for future profits on in-force contracts, whereas IFRS values this at nil;
- Minor adjustments related to different treatments of claims handling provisions and the use of discounting; and
- Solvency II technical provisions include the risk margin.

D.2.6 Recoverables from reinsurance contracts and special purpose vehicles

Vitality Life Limited reinsures mortality and morbidity risk on a quota share basis with a maximum retention per life and is split among a number of different reinsurance counterparties depending on the type of cover. Vitality Life Limited also has reinsurance financing where there is risk transfer since repayments are contingent on policyholders' future premium payments. The reinsurance recoverables are the excess of the reinsurance recoveries over the reinsurance premiums payable.

Total reinsurance recoverables at 30 June 2020 were £(448.4)m. The recoverables are negative predominantly due to the expected repayments in respect of the new business reinsurance financing received to date.

For Vitality Health Limited, the value of the recoverables (share of reinsurers including finite reinsurance and special purpose vehicles) of £6.6m is made up of:

- A small amount of basic quota share arrangements that exist on a legacy part of the health insurance portfolio and are taken into account in the technical provisions; and
- The financial reinsurance treaties which consists of one cash-based FinRe treaty and eleven cashless treaties. Under SII, the financing income received from the treaties are included in the balance sheet assets while the corresponding deficit balance is recognised as a liability on the balance sheet. The treaties extend past the contract boundaries of the underlying policies and consequently part of the deficit balances and recoverable are apportioned to the technical provisions with the remainder included in reinsurance payables.

D.3 OTHER LIABILITIES

D.3.1 Solvency II valuation for each material class of other liabilities and differences in valuation between IFRS and Solvency II

The table below sets out the valuation and classification of liabilities for the purposes of Solvency II and the statutory account value:

Other liabilities (£'m)	SAV - IFRS	Valuation Difference	Solvency II Value	Section reference
Provisions other than technical provisions	29.9	-	29.9	D.3.1.1
Insurance and intermediaries payables	5.3	-	5.3	D.3.1.2
Reinsurance payables	112.9	(78.2)	34.7	D.3.1.3
Payables (trade, not insurance)	152.1	6.4	158.5	D.3.1.4
Subordinated liabilities	166.1	-	166.1	D.3.1.5
Debts owed to credit institutions	122.0	-	122.0	D.3.1.6
Any other liabilities, not elsewhere shown	1.4	-	1.4	D.3.1.7

D.3.1.1 Provisions other than technical provisions

Provisions, other than technical provisions represents claims that have been reported to VLL but not yet been paid to policyholders. The claims outstanding are valued at fair value and therefore the Solvency II valuation meets Article 10(4) of the Delegated Regulation. The inputs to valuation of a claim are claims reports from policyholders and relevant approval from designated employees of the Company. The valuation of this liability for Solvency II is the same as under IFRS.

D.3.1.2 Insurance & intermediaries payables

The value of the Group's insurance & intermediaries payables is equal to the sum of the insurance & intermediaries payables arising in VHL and VLL.

VHL insurance & intermediaries payables

VHL insurance & intermediaries payable consists of claims outstanding and intermediaries' payables and at the reporting date had a solvency valuation of £0.6m. The material portion of this balance is £0.4m which is owed to independent financial advisors for items such as commission payments.

VLL insurance & intermediaries payables

VLL insurance and intermediary payables primarily relate to commission amounts payable to insurance brokers and intermediaries that are past due. This balance is calculated in accordance with the terms and conditions of the contract with the individual broker or intermediary – no adjustments or judgements are made for valuation purposes. There is a high degree of certainty over the economic outflow due to the relatively short timeframe between the commission liabilities arising and the broker or intermediary receiving payment from VLL. The valuation of this liability for Solvency II is the same as for IFRS.

D.3.1.3 Reinsurance payables

The value of the Group's reinsurance payables is equal to the sum of the reinsurance payables arising in VHL and VLL.

VHL reinsurance payables

The FinRe contracts taken out by VHL are structured for IFRS purposes. Under Solvency II, the overall best estimate valuation of future income and outgo (excluding expenses / fees to the reinsurer) is zero. This valuation is deemed consistent with the SII principle in the PRA Rulebook for Solvency II firms. Per Article 2.1(2) of the Valuation section of the Rulebook liabilities should be valued "at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction."

The balance owed to reinsurers at the end of the reporting period was £6.8m as shown in line 'Reinsurance payables' in the Solvency II balance sheet. £6.2m of this is related to the corresponding asset set up for the reinsurance recoverables (D.1.1.9) and is valued in line with methodology specified under D.1.1.11 to reflect the nil valuation / cash flow position of the FinRe contracts.

VLL reinsurance payables

VLL reinsurance payables are in respect of reinsurance agreements that were in force at the reporting date and relate to reinsurance premiums payable and excess funding advanced from reinsurers but not yet repaid by VLL to the reinsurer. The amounts payable are calculated in accordance with reinsurance agreements; no material estimation methods, adjustments for future value or valuation judgements are required for these balances. Where there is a contractual right of offset with each reinsurance provider then reinsurance receivables and reinsurance payables have been recorded on a net basis. The timing of expected economic outflows to settle the liability with each reinsurer is contractually based, and in the normal course of business, is within three months of the reporting date.

D.3.1.4 Payables (trade, not insurance)

Payables (trade, not insurance) include accrued expenses payable to third party services providers, insurance premium tax, and loan liabilities. Payables are valued at fair value.

The £6.4m valuation difference between IFRS and Solvency II relates to a liability representing the negative net Solvency II assets of BHIA and VHWL, which are both recognised under the adjusted equity method.

D.3.1.5 Subordinated liabilities

Under IFRS, subordinated debt is valued either on an amortised cost basis or at nominal value. Under Solvency II, subordinated debt is valued on a fair value basis, with changes in own credit standing removed for subsequent measurement. A discounted cash flow model using the risk-free rate plus initial credit spread relevant to the subordinated debt has been used to assess the fair value.

The interest rate payable on the loan has both a fixed and variable element. The fixed element includes an allowance for the Group's own credit standing and the variable element is designed to reflect changes in risk-free interest rates. Changes in interest rates between the dates the loans were issued and the reporting date of 30 June 2020 did not result in a material change in the fair value of the loans. As a result, there were no material differences between the IFRS valuation and Solvency II valuation of these loans at 30 June 2020.

Subordinated liabilities totaling £166.1m are made up of:

- A subordinated loan subject to transitional arrangements from Discovery Limited to DGEL with a balance of £14.7m as at 30 June 2020, accruing interest at 3 month GBP LIBOR plus 4%.
- A subordinated loan subject to transitional arrangements from Discovery Limited to DGEL, with a balance of £20.3m at 30 June 2020, accruing interest at 3 month ZAR Johannesburg Interbank Agreed Rate plus 2%.
- A subordinated loan of £23.5m owed by DHEL to another Discovery company, issued on 30 June 2016, repayable on 1 July 2026 with the earliest breakpoint being 1 July 2021, and accruing interest at 3 month GBP LIBOR plus 3.65%.
- A subordinated loan of £26.0m owed by DHEL to another Discovery company, issued on 31 October 2016, repayable on 1 November 2026 with the earliest breakpoint being 1 November 2021, and accruing interest at 3 month GBP LIBOR plus 3.65%.
- A subordinated loan of £8.5m owed by DGEL to another Discovery company, issued on 31 December 2016, repayable on 1 January 2027 with the earliest breakpoint being 1 January 2022, and accruing interest at 3 month GBP LIBOR plus 3.65%.
- A subordinated loan of £24.7m owed by DGEL to Discovery Limited, issued on 31 March 2017, repayable on 1 April 2027 with the earliest breakpoint being 1 April 2022, and accruing interest at 3 month GBP LIBOR plus 6%.
- A subordinated loan of £6.0m owed by DGEL to Discovery Limited, issued on 31 October 2017, repayable on 1 November 2027 with the earliest breakpoint being 1 November 2022, and accruing interest at 3 month GBP LIBOR plus 6%.
- A subordinated loan of £10.5m owed by DGEL to Discovery Limited, issued on 31 May 2018, repayable on 1 June 2028 with the earliest breakpoint being 1 June 2023, and accruing interest at 3 month GBP LIBOR plus 6%.
- A subordinated loan of £9.0m owed by DGEL to Discovery Limited, issued on 20 August 2018, repayable on 20 August 2028 with the earliest breakpoint being 21 August 2023, and accruing interest at 3 month GBP LIBOR plus 6%.

- A subordinated loan of £6.5m owed by DGEL to Discovery Limited, issued on 23 November 2018, repayable on 24 November 2028 with the earliest breakpoint being 24 November 2023, and accruing interest at 3 month GBP LIBOR plus 6%.
- A subordinated loan of £2.8m owed by DGEL to Discovery Limited, issued on 28 February 2019, repayable on 1 March 2029 with the earliest breakpoint being 1 March 2024, and accruing interest at the Bank of England base rate plus 6.15%.
- A subordinated loan of £7.1m owed by DGEL to Discovery Limited, issued on 31 May 2019, repayable on 1 June 2029 with the earliest breakpoint being 1 June 2024, and accruing interest at the Bank of England base rate plus 6.15%.
- A subordinated loan of £6.5m owed by DGEL to Discovery Limited, issued on 31 July 2019, repayable on 1 August 2029 with the earliest breakpoint being 1 August 2024, and accruing interest at the Bank of England base rate plus 6.15%.

D.3.1.6 Debts owed to credit institutions

Debts owed to credit institutions is comprised of the following:

- During the year, DHEL entered into a 3 year debt facility with a UK Bank. The facility will be used for general business funding and will be drawn down in a number of tranches. The loan will be repaid in 2023.
- This amount also comprises amounts owing to credit institutions for collateral held in relation to derivative positions.

D.3.1.7 Any other liabilities, not elsewhere shown

The value of the Group's other liabilities, not elsewhere shown, is equal to the other liabilities, not elsewhere shown, arising in VLL and VCSL.

The balance in VLL represents premiums paid by policyholders in advance of their coverage date for example where a policyholder chooses to pay one years' premiums in advance rather than 12 monthly payments. If the related policy lapses then VLL would need to return any premium held in excess of the period insurance coverage has been provided back to the policyholder and therefore these amounts are not considered past due. The value of this liability for Solvency II is the same as for IFRS.

The balance in VCSL represents deferred revenue, recognised in accordance with IFRS 15. The value of this liability for Solvency II is the same as for IFRS.

D.4 ALTERNATIVE METHODS OF VALUATION

D.4.1 Justification for use of an alternative approach

Generally assets and liabilities have been measured at fair value based on quoted market information or observable active market data. For the Stockport Property and Over the Counter derivatives, there is no quoted price and so an alternative valuation method must be used.

Alternative valuation methods include the use of estimates and assumptions that are not market observable. Where estimates and assumptions are used by the Company in valuing its assets, they are based on a combination of expert judgement, independent third-party evidence and internally developed models, calibrated to market observable data where possible.

D.4.2 Valuation approach

Stockport Property

An independent valuation of the property and land was performed as at 30 June 2020. The valuation report highlighted the uncertainty in current market valuations caused by the economic implications of COVID-19 but did not disclaim the valuation. Having reviewed the independent valuation, the Company has recognised the Stockport property at the same value in both SII and IFRS, as this closely approximates fair value.

Over the Counter Derivatives

OTC Derivatives are valued using established and accepted valuation methodologies, however, as they are not quoted in an active market an element of valuation uncertainty may exist. The extent of uncertainty has been assessed using observable market data and information provided by financial institutions.

Swaptions: The fair value has been derived using market data from secondary markets and information provided by the derivative's counterparty. The fair value of a swaption is derived using the 'Black model' with key assumptions being market interest rates and market volatility as at 30 June 2020.

Interest rate swaps: The fair value has been derived using market data from secondary markets and information provided by the swaps counterparty. The fair value of the swaps are derived using discounted cash flow models with the key assumption being market interest rates and gilt prices as at 30 June.

Valuation uncertainty has been assessed as moderate for this asset class.

D.5 VALUATION FOR SOLVENCY PURPOSES – ANY OTHER INFORMATION

There are no differences between the bases, methods and main assumptions used at the group level for the valuation for solvency purposes of the group's assets, technical provisions and other liabilities from those used by any solo undertakings in the group.

E CAPITAL MANAGEMENT

E.1 OWN FUNDS

E.1.1 Objectives, policies and processes for managing own funds

The objective of own funds management is to maintain, at all times, sufficient own funds to cover the Group SCR and Group MCR with an appropriate buffer. The majority of surplus capital in the Group is held in the regulated insurance undertakings. As a result, some of that surplus held in the regulated insurance undertakings are restricted from contributing to Group solvency and if such restriction was not applied Group SCR cover would be higher. The available own funds should be of sufficient quality to meet the eligibility requirements in Article 82 of the Delegated Regulation. The Group holds regular meetings of senior management, which are at least quarterly, in which the ratio of eligible own funds over Group SCR and Group MCR are reviewed. The committees that review solvency are described in more detail in section B.1.1 General Information on the System of Governance, and responsibility ultimately rests with the Group's Boards. As part of own funds management, the Group prepares ongoing annual solvency projections and reviews the structure of own funds and future requirements. The business plan contains a five year projection of funding requirements and this helps focus actions for future funding. The Group implemented a hedging strategy in DHEL to mitigate the risk of future advances of principal on the contingent loan with the Prudential Assurance Company arising from a reduction in interest rates. Otherwise, there were no material changes in the objectives, policies and processes employed by the Group for managing its own funds.

E.1.2 Own funds classified by tiers

An analysis of own funds at 30 June 2020 and analysis of change from 30 June 2019 is shown below:

Year ended 30 June 2020	**Tier 1 unrestricted**	**Tier 1 restricted**	**Tier 2**	**Tier 3**	**Total**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**
Ordinary share capital	786.8	-	-	-	786.8
Subordinated debt available at group level	-	-	166.1	-	166.1
Reconciliation reserve	(454.8)	-	-	-	(454.8)
Net deferred tax assets available at group level	-	-	-	22.0	22.00
Total available own funds to meet Group SCR	**332**	**-**	**166.1**	**22**	**520.1**
Less: Restrictions on eligible own funds to meet Group SCR	-	-	-	(13.3)	(13.3)
Total eligible own funds to meet Group SCR	**332**	**-**	**166.1**	**8.7**	**506.8**
Less: Restrictions on eligible own funds to meet Group MCR	-	-	(149.6)	(8.7)	(158.3)
Total eligible own funds to meet Group MCR	**332**	**-**	**16.5**	**-**	**348.5**

Year ended 30 June 2019	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3	Total
	£'m	£'m	£'m	£'m	£'m
Ordinary share capital	732.7	-	-	-	732.7
Subordinated debt available at group level	-	-	111.4	-	111.4
Reconciliation reserve	(489.6)	-	-	-	(489.6)
Net deferred tax assets available at group level	-	-	-	22.4	22.4
Total available own funds to meet Group SCR	**243.1**	**-**	**111.4**	**22.4**	**376.9**
Less: Restrictions on eligible own funds to meet Group SCR	-	-	-	-	-
Total eligible own funds to meet Group SCR	**243.1**	**-**	**111.4**	**22.4**	**376.9**
Less: Restrictions on eligible own funds to meet Group MCR	-	-	(96.3)	(22.4)	(118.7)
Total eligible own funds to meet Group MCR	**243.1**	**-**	**15.1**	**-**	**258.2**

Analysis of Change	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3	Total
	£'m	£'m	£'m	£'m	£'m
Ordinary share capital issued	54.1				54.1
Subordinated debt issued, accrued interest and foreign exchange revaluation			54.7		54.7
Reconciliation reserve movement	34.8				34.8
Increase in deferred tax assets recognised				(0.4)	(0.4)
Total movement in available own funds to meet Group SCR	**88.9**		**54.7**	**(0.4)**	**143.2**
Less: movement in restrictions on eligible own funds to meet Group SCR				(13.3)	(13.3)
Total movement in eligible own funds to meet Group SCR	**88.9**		**54.7**	**(13.7)**	**129.9**
Less: movement in restriction on eligible own funds to meet Group MCR			(53.3)	13.7	(39.6)
Total movement in eligible own funds to meet Group MCR	**88.9**		**1.4**	**-**	**(90.3)**

E.1.2.1 Tier 1 unrestricted

Tier 1 unrestricted funds comprised of ordinary share capital and the reconciliation reserves. All of these are basic own funds.

Ordinary share capital is a high quality, available, own fund item that meets the tier 1 features determining classification as specified in Article 71 of the Delegated Regulation. The ordinary share capital is available, is not subordinated in any way, and has no restricted duration. Article 71 (1) (e) of the Delegated Regulation does not apply and therefore there is no loss absorbency mechanism described here.

The reconciliation reserve is available, is not subordinated, and has no restricted duration. Article 71 (1) (e) of the Delegated Regulation does not apply and therefore there is no loss absorbency mechanism described here. There are no foreseeable dividends or own shares held. The reconciliation reserve comprised of:

Year ended 30 June	2020	2019	Change
	£'m	£'m	£'m
Solvency II excess of assets over liabilities	**401.5**	**317.0**	**84.5**
Less other basic own fund items	(831.5)	(762.4)	**(69.1)**
Less ineligible portion of the loan to PAC	0.0	(1.1)	**1.1**
Less ineligible portion of the VLL negative reserves	(24.7)	(43.1)	**18.4**
Reconciliation reserve	**(454.7)**	**(489.6)**	**34.9**

The ineligible portion of the loan to PAC and the ineligible portion of the VLL negative reserves are both prevented from contributing to Group own funds on the basis that the ineligible portion of each asset is considered to be illiquid and cannot be transferred within the Group within a maximum of 9 months.

E.1.2.2 Tier 2

Subordinated debt

Total available tier 2 own funds consists of £166.0m in subordinated liabilities. £35.0m of this balance are basic own fund items subject to transitional arrangements (see section E.1.6). Details regarding the subordinated liabilities are documented in Valuation for Solvency Purposes section D.3.1.5. The fully subordinated loans are available and form a part of basic own funds.

The subordinated loans are available, fully subordinated and forms a part of basic own funds as they are eligible to be recognised as Tier 2 funds.

E.1.2.3 Tier 3

Total available tier 3 own funds consist of £22.0m of net deferred tax assets at 30 June 2020. This is consistent with Articles 76 and 77 of the Delegated Regulation. The deferred tax asset will be unwound over future periods dependent on future available profits. The deferred tax asset is deemed a basic own fund item. The amount equal to the value of net deferred tax assets is available, is subordinated to the extent that it ranks after the claims of all policyholders and beneficiaries and non-subordinated creditors, and has no restricted duration as it is based on carried forward losses that do not expire.

Of the total £44.8m deferred tax asset, only £22.0m is available at group level in accordance with Article 330 of the Delegated Regulation. The full deferred tax assets of VHL and VCSL, of £20.5m and £1.4m respectively, are available at the group level. Less than £0.1m of the £0.1m VHIL deferred tax asset is available at the group level. The £22.6m VLL deferred tax asset is unavailable at the group level.

E.1.3 Eligible amount of own funds to cover the Group SCR, classified by tiers

	Total available own funds to meet the Group SCR	Restriction	Total eligible own funds to meet the Group SCR
	£'m	£'m	£'m
Tier 1 unrestricted	**332.0**	-	**332.0**
Tier 1 restricted	**-**	-	**-**
Tier 2	**166.1**	-	**166.1**
Tier 3	22.0	(13.3)	**8.7**
Total	**520.1**	**(13.3)**	**506.8**

The available Tier 3 own funds to meet the Group SCR is reduced by £13.3m to £8.7m due to the limit applied to the sum of tier 2 and tier 3 own funds of 50% of the Group SCR. This leaves total available own funds to meet the Group SCR of £506.8m

E.1.4 Eligible amount of own funds to cover the Group MCR, classified by tiers

	Total available own funds to meet the Group MCR	Restriction	Total eligible own funds to meet the Group MCR
	£'m	£'m	£'m
Tier 1 unrestricted	**332.0**	-	**332.0**
Tier 1 restricted	**-**	-	**-**
Tier 2	**166.1**	(149.6)	**16.5**
Tier 3	**-**	-	**-**
Total	**498.1**	**(149.6)**	**348.5**

The available Tier 2 own funds to meet the Group MCR is reduced by £149.6m to £16.5m due to the limit applied to Tier 2 own funds of 20% of the Group MCR. This leaves total available own funds to meet the Group MCR of £348.5m.

The eligible own funds over Group MCR ratio was 421.7% as at 30 June 2020.

E.1.5 Difference between equity as shown in the financial statements and the Solvency II value excess of assets over liabilities

Total equity per the Group SOFP was £786.9m as at 30 June 2020. Excess assets over liabilities as calculated under Solvency II was £401.6m. There are no differences between ordinary share capital in the SOFP and the amount reported in basic own funds. The difference of £385.4m between the net assets of the Group in the SOFP and the solvency valuation of the excess of assets over liabilities is due to adjustments to the Statutory Accounts Value in order to value assets and liabilities at their solvency valuations and the subsequent impact on accumulated losses when performing these adjustments combined with the elimination of investment in subsidiaries upon consolidation. The adjustments are documented in section D covering valuation of material assets and liabilities per Article 296 of Delegated Regulation. The summary of adjustments to the Statutory Accounts Value to give the Solvency II value (S.02.01.02.C0010) are detailed below:

Year ended 30 June	2020	2019
	£'m	£'m
IFRS net asset value	**786.9**	**681.4**
Valuation adjustment in VLL technical provisions, net of reinsurance	(62.6)	(27.3)
Valuation adjustment in VHL technical provisions	81.0	48.0
Removal of VHL deferred acquisition costs	(42.5)	(39.5)
Removal of benefit of VHL financial reinsurance under IFRS	(175.8)	(154.2)
Removal of prepayments	(14.3)	(16.6)
Removal of goodwill	(123.7)	(123.7)
Removal of intangible assets	(56.0)	(52.3)
Revaluation of undertakings recognised under the adjusted equity method	(8.7)	(7.6)
Valuation adjustment for deferred tax assets	17.3	8.8
Total SII excess asset over liabilities	**401.6**	**317.0**

E.1.6 Basic own-fund items subject to transitional arrangements

The two tier 2 subordinated loans totalling £35.0m described in section D.3.1.5 are subject to transitional arrangements.

The subordinated loan agreements were signed prior to 18 January 2015 and were recognised as lower Tier 2 capital as at 31 December 2015 and therefore, per Article 4.2 of the Transitional Measures section of the Rulebook, the Group must include the item in Tier 2 own funds for up to 10 years after 1 January 2016.

E.1.7 Ancillary own funds

There are no ancillary own funds at 30 June 2020.

E.1.8 Items deducted from own funds

The contribution to Group own funds of £49.5m of subordinated liabilities in DHEL is limited by DHEL's contribution to Group SCR as the funds did not enter the DGEL group at the top level of the Solvency II group as DHEL was the borrower rather than DGEL. At June 2020 DHEL's contribution to SCR was sufficient to not require any deduction from own funds for these subordinated liabilities.

There are no own fund items within ring-fenced funds and matching adjustment portfolios.

E.2 CONSOLIDATED GROUP SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CONSOLIDATED GROUP SOLVENCY CAPITAL REQUIREMENT

E.2.1 Amount of Consolidated Group Solvency Capital Requirement and Minimum Consolidated Group Minimum Capital Requirement

The table below shows the total Consolidated Group SCR and Minimum Consolidated Group SCR at 30 June 2020 (the amounts at 30 June 2019 are also shown for comparative purposes).

Year ended 30 June	2020	2019
	£'m	£'m
Consolidated Group SCR	349.6	281.2
Minimum Consolidated Group SCR	82.6	75.7

The final amount of the SCR remains subject to supervisory assessment.

The overall amounts have increased as a result of:

- the growth in business volumes in both VLL and VHL; and
- the solvency capital requirements that arise from the swaps and swaption under the interest rate hedging strategy

The next section outlines the movement in each risk module further.

E.2.2 Group Solvency Capital Requirement split by risk modules

The table below shows the risk modules that make up the Group's SCR:

Year ended 30 June	2020	2019
	£'m	£'m
Health underwriting	159.2	137.0
Life underwriting	167.3	157.6
Market risk	146.2	64.3
Counterparty default risk	19.3	6.8
Diversification credit	(150.2)	(102.5)
Basic SCR	**341.8**	**263.2**
Operational risk	21.0	20.0
Adjustment for loss absorbing capacity of deferred taxes	(13.2)	(2.0)
Group SCR	**349.6**	**281.2**

The increases in health and life underwriting risk follow the increases in the underlying amounts in VLL and VHL. The increase in market risk follows the implementation of the interest rate hedging strategy and the required capital from derivatives used in this strategy as well as smaller movements in VLL and VHL. The increase in counterparty default risk is driven by the current, temporary, high level of cash assets held by DHEL The change in the adjustment for loss absorbing capacity of deferred taxes follows the introduction of its application to VLL's SCR at 30 September 2019. VLL has completed an assessment to evidence that it can continue to recognise LACDT in the SCR at 30 June 2020.

E.2.3 Inputs used to calculate the Group MCR

The Group MCR is the sum of the reported minimum capital requirements of each of its regulated insurance undertakings as follows:

Year ended 30 June	2020	2019
	£'m	£'m
Vitality Life Limited	57.1	52.0
Vitality Health Limited	25.6	23.7
Group MCR	**82.7**	**75.7**

E.2.4 Other information on group capital requirements

E.2.4.1 General information

Simplified calculations are not used for any of the risk modules or sub-modules. Undertaking specific parameters are not used by the Group or any of its undertakings. The Group has not received any imposed capital add-ons or imposed undertaking specific parameters under the option provided for in Article 51(2) of the Solvency II Directive. There are no significant deviations from the assumptions underlying the standard formula.

The Group uses Method 1 (the accounting consolidation-based method) as defined by the Rulebook and EU regulations in its calculations of Group Solvency.

E.2.4.2 Group diversification benefits

The table below shows the contribution of each undertaking to the Group SCR at 30 June 2020:

	Solo SCR or notional Solo SCR after impact of consolidation eliminations	Contribution to Consolidated Group SCR
	£'m	£'m
Vitality Life Limited	213.7	164.2
Vitality Health Limited	102.3	78.6
Vitality Health Insurance Limited	0.1	0.1
Vitality Corporate Services Limited	2.3	2.3
Discovery Holding Europe Limited	129.1	99.2
Discovery Group Europe Limited	6.8	5.2
Diversification between solo undertakings	(104.7)	n/a
Consolidated Group Solvency Capital Requirement	**349.6**	**349.6**

Diversification benefits primarily arise across the group in the areas of underwriting risk where VLL contributes all of the Life underwriting risk shown in E.2.2 above and VLL and VHL both contribute to Health underwriting risk, and then between these underwriting risks and the market risk that arises in DHEL.

The calculations of each undertaking's contribution to the Consolidated Group SCR follows the required approach in that the diversification benefits are allocated to each, except for Vitality Corporate Services Limited, in proportion to their solo or solo notional SCR after consolidation eliminations.

E.3 USE OF THE DURATION-BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE GROUP SOLVENCY CAPITAL REQUIREMENT

This Group does not make use of the duration-based equity risk sub-module in its calculation of its solvency capital requirement.

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED

This Group uses the standard formula and has not applied to use an internal or partial internal model.

E.5 NON-COMPLIANCE WITH THE MINIMUM CONSOLIDATED GROUP SOLVENCY CAPITAL REQUIREMENT AND NON-COMPLIANCE WITH THE GROUP SOLVENCY CAPITAL REQUIREMENT

The Group has maintained eligible capital in excess of the Group MCR and Group SCR throughout the year ended 30 June 2020.

E.6 CAPITAL MANAGEMENT – ANY OTHER INFORMATION

There is no other information to note.

F TEMPLATES

The templates are provided as an appendix to this document, following Section H. The Group is required to disclose the following templates as set out in the Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015 laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report in accordance with Directive 2009/138/EC of the European Parliament and of the Council.

Template code	Template name
S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.23.01.22	Own funds
S.25.01.22	Solvency Capital Requirement – for groups on standard formula
S.32.01.22	Undertakings in the scope of the group

G DIRECTORS' RESPONSIBILITIES STATEMENT

Discovery Group Europe Limited

Approval by the Board of Directors of the Solvency and Financial Condition Report

Financial period ended 30 June 2020

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

a) throughout the financial year in question, the group has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable at the level of the group; and

b) it is reasonable to believe that the group has continued so to comply subsequently and will continue so to comply in future.

Richard Farber
Director
Date: 13 November 2020

H EXTERNAL AUDIT REPORT

Report of the external independent auditors to the Directors of Discovery Group Europe Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Group Solvency and Financial Condition Report

Opinion

We have audited the following documents prepared by the Company as at 30 June 2020:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Group Solvency and Financial Condition Report of the Company as at 30 June 2020, ('**the Narrative Disclosures subject to audit**'); and

- Group templates S.02.01.02, S.23.01.22, S.25.01.22 and S.32.01.22 ('**the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the '**relevant elements of the Group Solvency and Financial Condition Report'**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the **Other Information** which comprises:

- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Group Solvency and Financial Condition Report;

- Group templates S.05.01.02;

- The written acknowledgement by management of their responsibilities, including for the preparation of the Group Solvency and Financial Condition Report ('**the Responsibility Statement**');

In our opinion, the information subject to audit in the relevant elements of the Group Solvency and Financial Condition Report of the Company as at 30 June 2020 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Group Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Group Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the Group Solvency and Financial Condition Report is not appropriate; or
- the directors have not disclosed in the Group Solvency and Financial Condition Report any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Group Solvency and Financial Condition Report is authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Group Solvency and Financial Condition Report, which describe the basis of accounting. The Group Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Group Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Group Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Group Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Group Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Group Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Group Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Group Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Group Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations, which have been modified by the modifications made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based, as detailed A.1.2 of the Group Solvency and Financial Condition Report.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Group Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the relevant elements of the Group Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Group Solvency and Financial Condition Report is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Group Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Group Solvency and Financial Condition Report.

A further description of our responsibilities for the audit is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

This report, including the opinion, has been prepared for the Board of Directors of the Company in accordance with External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements

Other Information

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants

London

13 November 2020

Discovery Group Europe Limited

Solvency and Financial Condition Report

Disclosures

30 June

2020

(Monetary amounts in GBP thousands)

General information

Participating undertaking name	Discovery Group Europe Limited
Group identification code	213800W4KXJIK7R3CV51
Type of code of group	LEI
Country of the group supervisor	GB
Language of reporting	en
Reporting reference date	30 June 2020
Currency used for reporting	GBP
Accounting standards	IFRS
Method of Calculation of the group SCR	Standard formula
Method of group solvency calculation	Method 1 is used exclusively
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.01.02 - Premiums, claims and expenses by line of business
S.23.01.22 - Own Funds
S.25.01.22 - Solvency Capital Requirement - for groups on Standard Formula
S.32.01.22 - Undertakings in the scope of the group

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	44,757
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	32,531
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	325,429
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	54,715
R0140	*Government Bonds*	1,147
R0150	*Corporate Bonds*	53,543
R0160	*Structured notes*	24
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	168,856
R0190	*Derivatives*	63,248
R0200	*Deposits other than cash equivalents*	38,610
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	202,315
R0230	Loans and mortgages	47,588
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	47,588
R0270	Reinsurance recoverables from:	-441,800
R0280	*Non-life and health similar to non-life*	6,619
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	6,619
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	-448,419
R0320	*Health similar to life*	-101,687
R0330	*Life excluding health and index-linked and unit-linked*	-346,732
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	26,639
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	16,128
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	201,165
R0420	Any other assets, not elsewhere shown	20,701
R0500	**Total assets**	475,452

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	26,867
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	0
R0550	*Risk margin*	0
R0560	*Technical provisions - health (similar to non-life)*	26,867
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	20,556
R0590	*Risk margin*	6,310
R0600	Technical provisions - life (excluding index-linked and unit-linked)	-671,966
R0610	*Technical provisions - health (similar to life)*	-241,807
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	-278,057
R0640	*Risk margin*	36,250
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	-430,159
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	-594,393
R0680	*Risk margin*	164,233
R0690	Technical provisions - index-linked and unit-linked	201,148
R0700	*TP calculated as a whole*	202,315
R0710	*Best Estimate*	-2,094
R0720	*Risk margin*	927
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	29,895
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	0
R0790	Derivatives	0
R0800	Debts owed to credit institutions	121,984
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	5,326
R0830	Reinsurance payables	34,723
R0840	Payables (trade, not insurance)	158,520
R0850	Subordinated liabilities	166,053
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	166,053
R0880	Any other liabilities, not elsewhere shown	1,445
R0900	**Total liabilities**	73,994
R1000	**Excess of assets over liabilities**	401,458

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business	456,490																456,490
R0120	Gross - Proportional reinsurance accepted	0																0
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share	100,937																100,937
R0200	Net	355,553																355,553
	Premiums earned																	
R0210	Gross - Direct Business	460,653																460,653
R0220	Gross - Proportional reinsurance accepted	0																0
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share	80,443																80,443
R0300	Net	380,210																380,210
	Claims incurred																	
R0310	Gross - Direct Business	244,192																244,192
R0320	Gross - Proportional reinsurance accepted	0																0
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share	59,836																59,836
R0400	Net	184,356																184,356
	Changes in other technical provisions																	
R0410	Gross - Direct Business	0																0
R0420	Gross - Proportional reinsurance accepted	0																0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share	0																0
R0500	Net	0																0
R0550	**Expenses incurred**	166,708																166,708
R1200	**Other expenses**																	
R1300	**Total expenses**																	166,708

S.05.01.02

Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross	30,718		166,881	133,811					331,410
R1420	Reinsurers' share	19,349			84,284					103,632
R1500	Net	11,370		166,881	49,527					227,778
	Premiums earned									
R1510	Gross	30,718		166,881	133,811					331,410
R1520	Reinsurers' share	19,349			84,284					103,632
R1600	Net	11,370		166,881	49,527					227,778
	Claims incurred									
R1610	Gross	9,374		9,059	36,355					54,789
R1620	Reinsurers' share	4,946			21,705					26,651
R1700	Net	4,428		9,059	14,650					28,138
	Changes in other technical provisions									
R1710	Gross									0
R1720	Reinsurers' share									0
R1800	Net	0		0	0					0
R1900	**Expenses incurred**	13,700		17,950	59,678					91,328
R2500	**Other expenses**									6,389
R2600	**Total expenses**									97,717

S.23.01.22

Own Funds

	Basic own funds before deduction for participations in other financial sector	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	786,792	786,792		0	
R0020	*Non-available called but not paid in ordinary share capital at group level*	0				
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0060	*Non-available subordinated mutual member accounts at group level*	0				
R0070	Surplus funds	0	0			
R0080	*Non-available surplus funds at group level*	0	0			
R0090	Preference shares	0		0	0	0
R0100	*Non-available preference shares at group level*	0				
R0110	Share premium account related to preference shares	0		0	0	0
R0120	*Non-available share premium account related to preference shares at group level*	0				
R0130	Reconciliation reserve	-454,801	-454,801			
R0140	Subordinated liabilities	166,053		0	166,053	0
R0150	*Non-available subordinated liabilities at group level*	0				
R0160	An amount equal to the value of net deferred tax assets	44,757				44,757
R0170	*The amount equal to the value of net deferred tax assets not available at the group level*	22,724				22,724
R0180	Other items approved by supervisory authority as basic own funds not specified above	0	0	0	0	0
R0190	*Non available own funds related to other own funds items approved by supervisory authority*	0				
R0200	Minority interests (if not reported as part of a specific own fund item)	0				
R0210	*Non-available minority interests at group level*	0				
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**					
R0230	**Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities**	0				
R0240	*whereof deducted according to art 228 of the Directive 2009/138/EC*	0				
R0250	Deductions for participations where there is non-availability of information (Article 229)	0				
R0260	Deduction for participations included by using D&A when a combination of methods is used	0				
R0270	**Total of non-available own fund items**	22,724	0	0	0	22,724
R0280	**Total deductions**	22,724	0	0	0	22,724
R0290	**Total basic own funds after deductions**	520,077	331,992	0	166,053	22,032
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0380	Non available ancillary own funds at group level	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Own funds of other financial sectors					
R0410	Credit Institutions, investment firms, financial institutions, alternative investment fund managers, UCITS management companies	0				
R0420	Institutions for occupational retirement provision	0				
R0430	Non regulated entities carrying out financial activities	0				
R0440	**Total own funds of other financial sectors**	0	0	0	0	0

S.23.01.22

Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Basic own funds before deduction for participations in other financial sector	C0010	C0020	C0030	C0040	C0050
	Own funds when using the D&A, exclusively or in combination of method 1					
R0450	Own funds aggregated when using the D&A and combination of method	0				
R0460	Own funds aggregated when using the D&A and combination of method net of IGT	0				
R0520	Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	520,077	331,992	0	166,053	22,032
R0530	Total available own funds to meet the minimum consolidated group SCR	498,045	331,992	0	166,053	
R0560	Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	506,785	331,992	0	166,053	8,740
R0570	Total eligible own funds to meet the minimum consolidated group SCR (group)	348,521	331,992	0	16,529	
R0610	**Minimum consolidated Group SCR**	82,646				
R0650	**Ratio of Eligible own funds to Minimum Consolidated Group SCR**	421.70%				
R0660	**Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)**	506,785	331,992	0	166,053	8,740
R0680	**Group SCR**	349,586				
R0690	**Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A**	144.97%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	401,458
R0710	Own shares (held directly and indirectly)	
R0720	Forseeable dividends, distributions and charges	
R0730	Other basic own fund items	831,549
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0750	Other non available own funds	24,710
R0760	**Reconciliation reserve**	-454,801
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	724,412
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	54,634
R0790	**Total Expected profits included in future premiums (EPIFP)**	779,045

S.25.01.22

Solvency Capital Requirement - for groups on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	146,204		
R0020	Counterparty default risk	19,292		
R0030	Life underwriting risk	167,350		
R0040	Health underwriting risk	159,166		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-150,201		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	341,811		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	21,028
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-13,252
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	349,586
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement for undertakings under consolidated method**	349,586
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0
R0470	Minimum consolidated group solvency capital requirement	82,646
	Information on other entities	
R0500	Capital requirement for other financial sectors (Non-insurance capital requirements)	0
R0510	*Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies*	0
R0520	*Institutions for occupational retirement provisions*	0
R0530	*Capital requirement for non- regulated entities carrying out financial activities*	0
R0540	Capital requirement for non-controlled participation requirements	0
R0550	Capital requirement for residual undertakings	0
	Overall SCR	
R0560	SCR for undertakings included via D&A	0
R0570	**Solvency capital requirement**	349,586

USP Key

For life underwriting risk:
1 - Increase in the amount of annuity benefits
9 - None

For health underwriting risk:
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

S.32.01.22

Undertakings in the scope of the group

	Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority
Row	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080
1	GB	213800W4KXJIK7R3CV51	LEI	Discovery Group Europe Limited	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares	Non-mutual	
2	GB	213800JCOXJR5TW95I90	LEI	Discovery Offshore Holdings No. 2 Limited	Other	Company limited by shares	Non-mutual	
3	GB	213800BCIBD7CX78T645	LEI	Discovery Holdings Europe Limited	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares	Non-mutual	
4	GB	2138006JOU6QC6H1SU14	LEI	Vitality Corporate Services Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	Non-mutual	
5	GB	213800Y6CME1PFQA9J19	LEI	Better Health Insurance Advice Limited	Other	Company limited by shares	Non-mutual	
6	GB	213800IPBGB4QH78CW58	LEI	Vitality Health Insurance Limited	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares	Non-mutual	
7	GB	213800D5I9HUP34WJ971	LEI	Vitality Health Limited	Non life insurance undertaking	Company limited by shares	Non-mutual	Financial Conduct Authority, Prudential R
8	GB	213800O647LRO31RG918	LEI	Vitality Life Limited	Life insurance undertaking	Company limited by shares	Non-mutual	Financial Conduct Authority, Prudential R
9	GB	213800W4KXJIK7R3CV51UK000	Specific code	Healthcode Limited	Other	Company limited by shares	Non-mutual	
10	GB	213800W4KXJIK7R3CV51UK000	Specific code	Healthcare Purchasing Alliance Limited	Other	Company limited by shares	Non-mutual	
11	GB	213800W4KXJIK7R3CV51UK000	Specific code	Vitality Healthy Workplace Limited	Other	Company limited by shares	Non-mutual	
12	GB	213800W4KXJIK7R3CV51UK000	Specific code	Vitality Invest Trustee Company Limited	Other	Company limited by shares	Non-mutual	

S.32.01.22

Undertakings in the scope of the group

				Criteria of influence						Inclusion in the scope of Group supervision		Group solvency calculation
	Country	Identification code of the undertaking	Type of code of the ID of the undertaking	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	YES/NO	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
Row	C0010	C0020	C0030	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
1	GB	213800W4KXJIK7R3CV51	LEI							Included in the scope		Method 1: Full consolidation
2	GB	213800JCOXJR5TW95I90	LEI	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
3	GB	213800BCIBD7CX78T645	LEI	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
4	GB	2138006JOU6QC6H1SU14	LEI	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
5	GB	213800Y6CME1PFQA9J19	LEI	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
6	GB	213800IPBGB4QH78CW58	LEI	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
7	GB	213800D5I9HUP34WJ971	LEI	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
8	GB	213800O647LRO31RG918	LEI	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
9	GB	213800W4KXJIK7R3CV51UK000	Specific code	20.00%	20.00%	20.00%		Significant	20.00%	Included in the scope		Method 1: Adjusted equity method
10	GB	213800W4KXJIK7R3CV51UK000	Specific code	50.00%	50.00%	50.00%		Significant	50.00%	Included in the scope		Method 1: Adjusted equity method
11	GB	213800W4KXJIK7R3CV51UK000	Specific code	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
12	GB	213800W4KXJIK7R3CV51UK000	Specific code	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method