SOLVENCY AND FINANCIAL CONDITION REPORT

DISCOVERY GROUP EUROPE LIMITED

FOR THE YEAR ENDED

30 JUNE 2018

Positively different.

CONTENTS

SUMMARY

1. BUSINESS AND PERFORMANCE SUMMARY

This Solvency and Financial Condition Report ("SFCR") is presented in respect of Discovery Group Europe Limited ("DGEL") and its subsidiary undertakings, together "the Group".

DGEL is part of the Discovery Group, one of the leading providers of insurance solutions in the world, operating in 19 global markets, and impacting over 8 million lives worldwide. The Group's business and performance is driven by the insurance results for Vitality Health Limited ("VHL"), which is the UK's fourth largest private medical insurer, and Vitality Life Limited ("VLL"), which is a long term life insurance business and income protection provider.

On 23 December 2015, VLL received authorisation from the Prudential Regulation Authority ("PRA") to write long-term protection insurance business. Hence in 2016 VLL started to underwrite policies itself under the VitalityLife brand (until that point policies had been underwritten by The Prudential Assurance Company Limited, "PAC", and 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. This long-term protection business written on the PAC licence will be transferred to VLL via a Part VII (of the Financial Services and Markets Act 2000) transfer by May 2020, 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 December 2017, VLL received authorisation to write linked long-term business and in late June 2018 VLL began to write investment business under the VitalityInvest brand.

The Vitality model

At the centre of the Group's business is our core purpose; to make people healthier and enhance and protect their lives. This is delivered through a Shared Value Insurance model. Recognising that in modern society health risk is primarily driven by lifestyle behaviours, the Group believes that through incentivising healthier behaviours from its members, and providing them with the tools to make positive changes in their lives, it can deliver value on multiple fronts. The Group benefits from reduced claims from a healthier member base; Vitality members benefit from improved health, access to a wide range of partners and rewards, and potentially lower premiums; while society benefits from a reduced healthcare burden on the state, as well as a more healthy and productive population.

The Group delivers Shared Value by helping members to understand their health, making it cheaper and easier to get healthy, and rewarding them for making healthy lifestyle choices. The model is underpinned by significant actuarial, behavioural and clinical science, which informs the product and member approach. A key part of this is the provision of discounted access to a broad network of health and wellness partners, which includes prominent brands such as Apple, Virgin Active, Garmin, British Airways and Disney, as well as incentives that reward members for engaging in health-enhancing activities.

The Group continues to invest in the Vitality Wellness Programme. Recent product enhancements saw the programme extend its reach and become a more holistic health and wellbeing solution. The launch of Vitality Kids in partnership with Disney engages with children on healthy activities and healthy living. The launch of a new Healthy Mind component addresses the increasingly important area of mental health and wellbeing. Across the programme, the Group continued to see positive member engagement, with 46% growth in points-earning activities (includes screenings, nutrition and physical activity) to 36 million, and high levels of benefit utilisation, from Starbucks to cinema tickets. The Group also made ongoing investments in its brand by signing on two new ambassadors and extending its presence and sponsorship in cricket, football and hockey.

Business review

VHL has performed strongly in the period, generating a pre-tax International Financial Reporting Standards ("IFRS") profit of £25.5m (2017: £14.5m). VHL has observed significant profitability growth over the period driven by investments into a number of successful initiatives started in the prior financial years and continued over the year. These initiatives have resulted in considerable improvements in the Company's benefit ratio as well as record Earned Premium growth have put VHL in a good position to capitalise on future opportunities in the UK Health insurance market.

VLL has performed in line with expectations and produced pre-tax IFRS profits of £13.1m (2017: £20.7m), with annual premium equivalent ("APE") sales of £64.6m (2017: £58.2m). Gross premiums were £86.7m (2017: £45.8m). The key driver for the reduction in pre-tax profits year on year was an increase in expenses due to the investment in developing the products, systems and marketing associated with VitalityInvest. It should be noted that these performance measures for VLL exclude the impact of VitalityLife policies underwritten by PAC.

Further information on the performance of VHL and VLL can be found in their respective SFCRs.

All private medical insurance business underwritten by Vitality Health Insurance Limited ("VHIL") was migrated upon renewal to VHL in a process completed by 30 June 2015. As a result, no business was written or earned by VHIL in the year ended 30 June 2018 and VHIL is seeking to be de-authorised.

2. SYSTEM OF GOVERNANCE SUMMARY

DGEL's principle activity is that of an insurance holding company. DGEL owns 99.0% of Discovery Holdings Europe Limited ("DHEL"). DHEL owns VHIL and indirectly VHL, both licensed insurance companies. VHIL no longer has any active policyholders since the migration of business underwritten by VHIL to VHL completed in 2015. VHL offers an innovative private medical insurance product in the UK. DHEL also owns Vitality Life Limited ("VLL") offering long term protection and investment products and also funds the life insurance business launched in October 2007 with policies underwritten by PAC.

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 a unique entrepreneurial spirit with a strong emphasis on innovation. The regulated insurance undertakings have their own respective board and board sub-committees which have the responsibility to preserve these special attributes, while at the same time ensuring that the principles of good governance are observed. Please refer to the regulated insurance undertakings' SFCRs for additional information.

The governance structure of the Group has not materially changed in the year to 30 June 2018.

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. Default and market risk as components of the SCR are small in relation. Writing whole of life business in VLL means there is exposure to a reduction in interest rates.

The risk profile of the Group has not changed materially over the reporting period, aside from a movement towards long-term underwriting risks as VLL grows more quickly than VHL.

The principal risks of VHL, VHIL and VLL are described in detail within their respective regulated insurance undertakings SFCRs.

4. VALUATION FOR SOLVENCY PURPOSES SUMMARY

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:

	£’m
IFRS excess of assets over liabilities in Group Statement of Financial Position	**619.7**
Adjustments for Solvency II:	
Valuation adjustment in VLL technical provisions, net of reinsurance	(19.3)
Valuation adjustment in VHL technical provisions	44.9
Removal of VHL deferred acquisition costs	(36.3)
Removal of benefit of VHL financial reinsurance under IFRS	(126.3)
Removal of prepayments	(14.2)
Removal of goodwill	(123.7)
Removal of intangible assets	(48.5)
Revaluation of undertakings recognised under the adjusted equity method	(4.6)
Valuation adjustment for deferred tax assets	5.2
Solvency II excess of assets over liabilities	**296.9**

5. CAPITAL MANAGEMENT SUMMARY

The Group SCR coverage ratio at 30 June 2018 position was 151.3%, with eligible own funds of £309.9m and a Group SCR of £204.8m.

The Minimum Consolidated Group Solvency Capital Requirement (“Group MCR”) ratio was 358.0% as at the reporting date with eligible own funds of £219.8m over the Group MCR of £61.4m.

DGEL received £25.4m 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 £17.6m 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.

The capital management objective is to maintain sufficient own funds to cover both the Group SCR and 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.

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, VHIL 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.

Discovery Limited is subject to group supervision by the South African Financial Services Board. The South African Financial Services Board can be contacted at:

Financial Services Board
P.O. Box 35655
Menlo Park
Pretoria
South Africa
0102

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 2016, 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).

The supervisory authority of the 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:

a. 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 listed below.

NAME OF RELATED UNDERTAKING	LEGAL FORM	COUNTRY	PARTICIPATING UNDERTAKING	PROPORTION OF OWNERSHIP INTEREST HELD BY THE PARTICIPATING UNDERTAKING AND 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%
Discovery Offshore Holdings No.2 Limited	Limited by shares	United Kingdom	Discovery Group Europe Limited	100%
Discovery Holdings Europe Limited	Limited by shares	United Kingdom	Discovery Group Europe Limited	99.0%
Health Protect Limited	Limited by shares	United Kingdom	Discovery Holdings Europe Limited	100%
Vitality Invest Trustee Company Limited	Limited by shares	United Kingdom	Discovery Holdings Europe Limited	100%
Insure Your Health Limited	Limited by shares	United Kingdom	Discovery Holdings Europe Limited	100%
Vitality Life Limited	Limited by shares	United Kingdom	Discovery Holdings Europe Limited	100%
Vitality Corporate Services Limited	Limited by shares	United Kingdom	Discovery Holdings Europe Limited	100%
Vitality Health Insurance Limited	Limited by shares	United Kingdom	Discovery Holdings Europe Limited	100%
Healthcode Limited	Limited by shares	United Kingdom	Vitality Health Insurance Limited	20%
Vitality Health Limited	Limited by shares	United Kingdom	Vitality Health Insurance Limited	100%
Healthcare Purchasing Alliance Limited	Limited by shares	United Kingdom	Vitality Corporate Services Limited	50%
Nuffield Health and Vitality Corporate Services Limited	Limited by shares	United Kingdom	Vitality Corporate Services Limited	50%

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

SII Summary Group Structure Showing Control

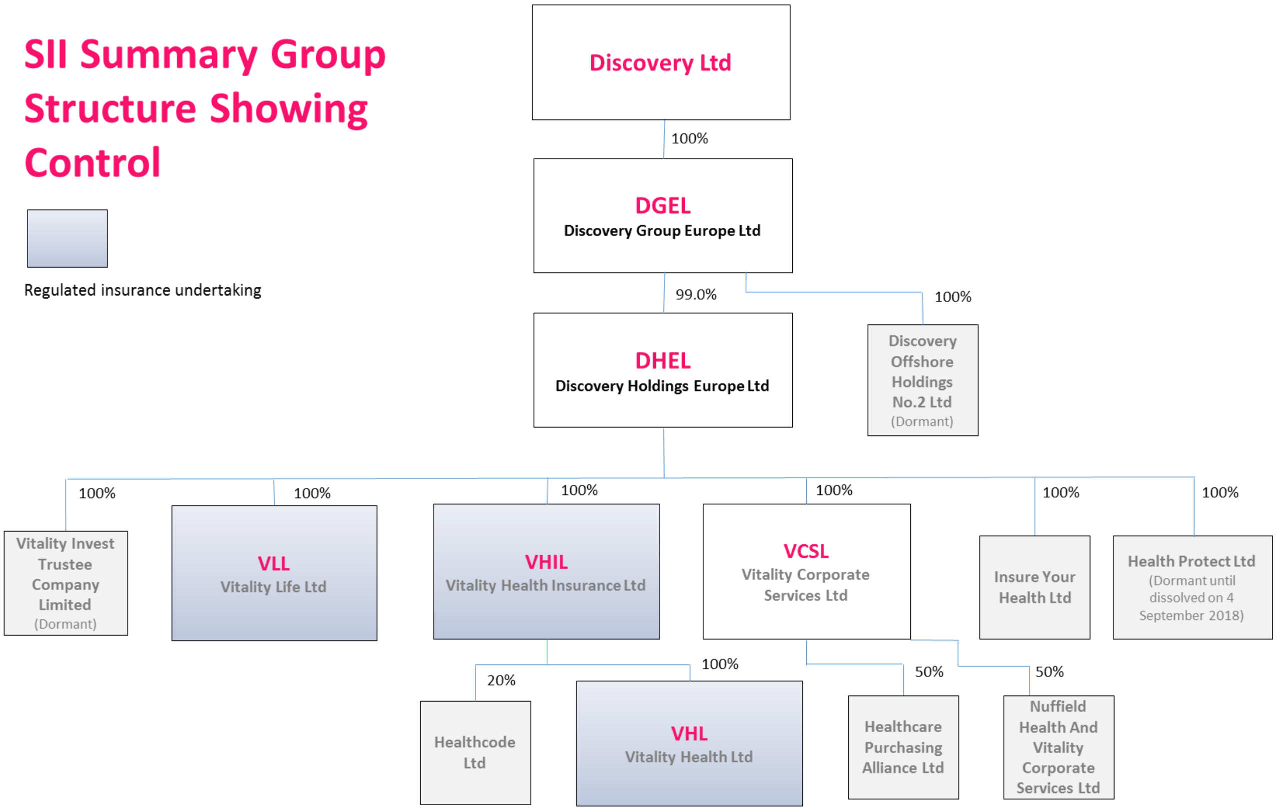


Figure 1

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

DGEL is the topmost European entity and is a holding company for DHEL and also owns a dormant company called Discovery Offshore Holdings No.2 Limited.

DHEL, a holding company, owns three regulated insurance entities (VHL, VLL and VHIL). It also owns Vitality Corporate Services Limited ("VCSL"), which is an ancillary services company, a distributor called Insure Your Health Limited ("IYH") which is an appointed representative of VCSL, a dormant company Health Protect Limited ("HPL") and a dormant company VitalityInvest Trustee Company Limited ("VITCL"). HPL was subsequently dissolved on 4 September 2018.

While DHEL is recognised within the Group SCR and Group Own Funds, DHEL itself is not a regulated insurance entity and so is not directly subject to a capital requirement at an undertaking level. VCSL and IYH similarly have no insurance capital requirements, although as VCSL is an intermediary it requires small amounts of net assets to be held.

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 Vitality Health and Aviva Health. It is not a regulated insurance entity and thus has no capital requirements.

VCSL owns 50% of Nuffield Health And Vitality Corporate Services Ltd ("NHVCSL"), a new joint venture incorporated on 28 June 2017 and began to trade under the "Healthy Workplace" brand during the year ended 30 June 2018. It is not a regulated insurance entity and thus has no capital requirements.

VCSL provides a number of services to both VHL and VLL including;

- Paying for the cost of the Vitality programmes and other administration costs which are then recharged;
- 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”).

These companies prepare their financial statements in accordance with IFRS. For VLL, under IFRS (and also for management reporting purposes), all business is considered to be one type of business, namely ‘protection business’.

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.

During the year DGEL allotted 25,400,000 ordinary shares with a nominal value of £1 each. DGEL received consideration of £25,400,000 in cash in respect of this allotment from Discovery Limited.

Shortly before the end of the reporting period VLL launched a suite of long term saving and investment products to its customer base and distribution channels under the trading name VitalityInvest. The proposition comprises of a stocks and shares ISA, Junior ISA and a retirement plan. The proposition utilises the Vitality healthy living programme and looks to address the challenges of an aging population in poorer health and concerns around the ability to fund retirement. Through the use of healthy living discounts, investment boosters and retirement boosters customers will be encouraged to live healthier, save earlier and for longer, and to draw down more slowly on their retirement plans.

The new product offering includes insurance contract elements and will be underwritten by VLL. After a period of system testing, marketing and distribution channel education the VitalityInvest products began being sold to customers in late June 2018.

Other than the costs incurred in developing and launching the products and supporting system (which are included within ‘Other income and expenses’ in A.2) these new products have not materially impacted VLL for the year ended 30 June 2018.

A.1.8 Material differences between the scope of the group used 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

Medical Expenses Insurance

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:

£'m	June-18	June-17	Change
Gross Earned Premium	431.1	407.0	24.1
Reinsurance Share of Premium	(67.2)	(76.7)	9.5
Gross Claims Incurred	(228.9)	(254.0)	25.1
Reinsurance Share of Claims	54.5	58.2	(3.7)
Expenses	(163.3)	(119.7)	(43.6)
Other Income	0.4	0.7	(0.3)
Subordinated loan interest	(1.1)	(1.0)	(0.1)
IFRS Profit before tax	**25.5**	**14.5**	**11.0**

All medical expenses insurance business is underwritten in the UK.

VHL's underwriting performance experienced significant growth over the financial year where IFRS profit before tax increased by £11.0m. The primary driver of the profitability improvement was due to the favorable claims experience over the year offset partly by increased expenses in the year.

VHL has observed a year of favourable Benefit Ratio (Benefits provided to policyholders in terms of claims and Vitality partner rewards divided by the earned premium) compared to historical experience that has resulted in an increase in its profitability compared to prior year's actuals. This improvement was a direct result of the successful implementation of a number of claims management initiatives. Additionally, unwind of a conservative prior year claims reserve position resulted in releases from the incurred position boosting the profits this year.

The increase in expenses incurred is driven by the increased expenditure on projects and business initiatives. Investment within Information Technology digitalisation and growth in engagement with wellness partners increased expenses for the year. VHL also incurred non-recurring intangible impairment losses during the year as a result of a review of the life span of the assets as well as fees related to recharged expenses from VCSL.

The growth in VHL earned premiums was 6% - in line with the growth in the lives insured.

It should be noted that the VHL IFRS profits shown includes the benefit of Financial Reinsurance ("FinRe") and Deferred Acquisition Costs ("DAC") used under IFRS to smooth the impact of new business strain. The benefit of FinRe and DAC are not recognised under the Solvency II basis as noted under Section D.

Long-Term Life Insurance

The following table summarises the underwriting performance of the Group's long-term life insurance business, underwritten by VLL:

£'m	Year ended 30 June 2018			Year ended 30 June 2017		
	Other Life	Health SLT	Total	Other Life	Health SLT	Total
Gross premiums	73.4	13.3	86.7	39.0	6.8	45.8
Reinsurers' share of premiums	(43.3)	(7.9)	(51.2)	(22.7)	(3.9)	(26.6)
Gross claims	(11.6)	(3.0)	(14.6)	(5.6)	(1.4)	(7.0)
Reinsurers' share of claims	6.8	1.5	8.3	3.1	0.7	3.8
Expenses	(149.3)	(32.6)	(181.9)	(138.0)	(26.4)	(164.4)
Reinsurance financing received	87.1	23.9	111.0	69.7	12.1	81.8
Movement in insurance contract reserves			69.7			91.4
Pre-tax underwriting performance			28.0			**24.8**
Other income and expenses			(14.9)			(4.1)
Pre-tax IFRS profit			13.1			**20.7**

All long-term life insurance business is underwritten in the UK.

The year ended 30 June 2018 has seen an increase in gross premiums from £45.8m to £86.7m. Growth was in both the Health SLT and Other Life lines of business. The key drivers of the increase year on year was the sale of £64.6m (2017: £58.2m) 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.

On an IFRS basis, the movement in insurance contract reserves (after allowing for the reinsurers' share) was £69.7m (2017: £91.4m). VLL's reserves are negative overall due to the nature and duration of its book of business. The change in the negative reserves therefore resulted in a £69.7m (2017: £91.4m) contribution to pre-tax IFRS profit.

Pre-tax IFRS underwriting performance increased from £24.8m in the year to 30 June 2017 to £28.0m in the year ended 30 June 2018. Pre-tax IFRS profit reduced in the period from £20.7m in the year to 30 June 2017 to £13.1m in the year ended 30 June 2018. This reduction was caused by an increase in other income and expenses due to the investment in developing the VitalityInvest proposition as noted in A.5.

VLL utilises 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 57% 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 ceded to the reinsurer. The use of risk reinsurance is of particular importance since the Company 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.

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 £111.0m (2017: £81.8m). Repayment of reinsurance financing in the year was £38.5m, these repayments are made by ceding premiums to the reinsurers and are therefore included in reinsurers' share of premiums in VLLs financial statements. VLL's insurance contract reserves allow for the future repayments of reinsurance financing received by VLL.

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 2018 (£'m)	GAINS / INCOME ON INVESTMENTS IN THE YEAR TO 30 JUNE 2017 (£'m)
Financial assets at fair value through profit and loss	0.7	-
Fair value gain on derivatives	1.3	-
Coupons earned on derivatives	4.0	3.4
Cash and cash equivalents	1.5	1.8
Loan interest	2.4	2.7
	9.9	**7.9**

FINANCIAL STATEMENT ASSET CLASS	EXPENSES ON INVESTMENTS IN THE YEAR TO 30 JUNE 2018 (£'m)	EXPENSES ON INVESTMENTS IN THE YEAR TO 30 JUNE 2017 (£'m)
Fair value loss on derivatives	-	(9.6)
Financial assets at fair value through profit and loss	(0.8)	-
	(0.8)	**(9.6)**

The fair value gain on derivatives was incurred on over-the-counter total return interest rate swap derivatives held by DHEL, which provide DHEL with the capital depreciation / appreciation and coupon payments on a basket of Gilts designed to closely match that of the FTSE Actuaries UK Conventional Gilts Over 15 Year 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.

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 funding 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 a quota share treaty. Further information on this use of financing reinsurance can be found in VHL's SFCR.

There are no other material income and expenses to report in respect of VLL other than that noted in A.5 below.

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

As noted in section A.1.7 shortly before the end of the reporting period VLL launched a suite of long term saving & investment products to its customer base and distribution channels under the trading name VitalityInvest. In launching this proposition VLL incurred expenses in the year to develop and market the products and implement supporting systems. These expenses reduced the pre-tax IFRS profit of VLL and are included within "Other income and expenses" in the table in A.2. VitalityInvest had no other material impact on the performance of the Group in the year.

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 the respective regulated insurance undertakings' SFCRs.

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

DGEL was not subject to any director resignations or appointments during the year ended 30 June 2018.

The following changes were made to committees for DHEL and its subsidiaries in the last year:

- The Technology Committee was formed and chaired by Nicholas Caplan.
- Lord Sebastian Coe was appointed Chair of the Nomination Committee.

The following changes were made in positions of significant influence in DHEL and its subsidiaries over the last year:

- Nicola Burgess, Chief Internal Auditor, resigned with effect 10 April 2018 and the controlled function was led by John Adlam in the interim and will be led by Elaine Carr going forwards;
- Kris Tokarzewski was appointed as Chief Information Officer of VHL and VHIL.
- Emile Stipp replaced Vincent Branch as VHL and VHIL's Chief Actuary.
- James Harrison replaced David Hare as VLL's Chief Actuary.

Additional information on changes in the regulated insurance undertaking are included in their respective SFCRs.

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

The directors of DGEL receive no remuneration in respect of their services provided to the Group. The remuneration policy applies to the directors of other undertakings within the Group.

B.1.3.1 Principles of the remuneration policy

The principles of the remuneration policy outlined in the regulated insurance undertakings' SFCRs 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 the regulated insurance undertakings' SFCRs.

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

	Transaction Date	Amount (£'m)
Issue of DGEL ordinary share capital to Discovery Limited	31/10/2017	6.0
Issue of DGEL ordinary share capital to Discovery Limited	31/05/2018	19.4
Issue of Tier 2 subordinated loan from Discovery Limited to DGEL	31/10/2017	6.0
Issue of Tier 2 subordinated loan from Discovery Limited to DGEL	31/05/2018	10.5
Loan interest and foreign exchange revaluation – Discovery Limited/DGEL	30/06/2018	1.1

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 of their respective SFCRs.

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

B.3.1 Risk management system

The risk management system in place across the Group has been described in section B.3.1 of the regulated insurance undertakings' SFCRs.

The Risk Function produces the Group Chief Risk Officer report every quarter. This report is designed to provide the DHEL Board, Risk and Audit Committees with sufficient oversight of the Enterprise Risk Management ("ERM") framework and risk exposures, focusing on the out of appetite and watch-list risks.

A description of the Own Risk and Solvency Assessment ("ORSA") process for the regulated insurance undertakings is included in section B.3.1 of the regulated insurance undertakings' SFCRs. The same process is adopted for the DGEL ORSA.

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.4 INTERNAL CONTROL SYSTEM

B.4.1 Internal control system

A description of the internal control system is included in the regulated insurance undertakings' SFCRs, 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 the regulated insurance undertakings' SFCRs, 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 the regulated insurance undertakings' SFCRs.

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 Committees of DHEL and its subsidiaries, which is a Non-executive Director role. Internal audit has 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 as required in the PRA Rulebook for Solvency II firms ("Rulebook"). The position of Chief Actuary (SIMF20, under the Senior Insurance Management Function 'SIMF' regime) in each case is held by an individual with a wealth of experience in the fields of the respective businesses. The role holders are Fellows of the Institute and Faculty of Actuaries and hold relevant Practicing Certificates. Each has complied continuously with the specific professional obligations this requires, and is supported by Fellows and members of the Institute and Faculty of Actuaries, international actuaries with equivalent qualifications, as well as other technical professionals. Each has unrestricted access to the Chair of the Actuarial Committees of VLL and VHL (who is a Non-Executive Director of VHL, VHIL, VLL and DHEL). Each Actuarial Function produces a suite of written reports which are submitted to their respective Boards annually setting out the key tasks that have been undertaken by the function, their results, and any relevant recommendations.

B.7 OUTSOURCING

A description of the outsourcing policy and the critical or important functions that have been outsourced were outlined in the regulated insurance undertakings' SFCRs.

B.8 SYSTEM AND GOVERNANCE – ADEQUACY OF SYSTEM

There is no further information to be reported.

C RISK PROFILE

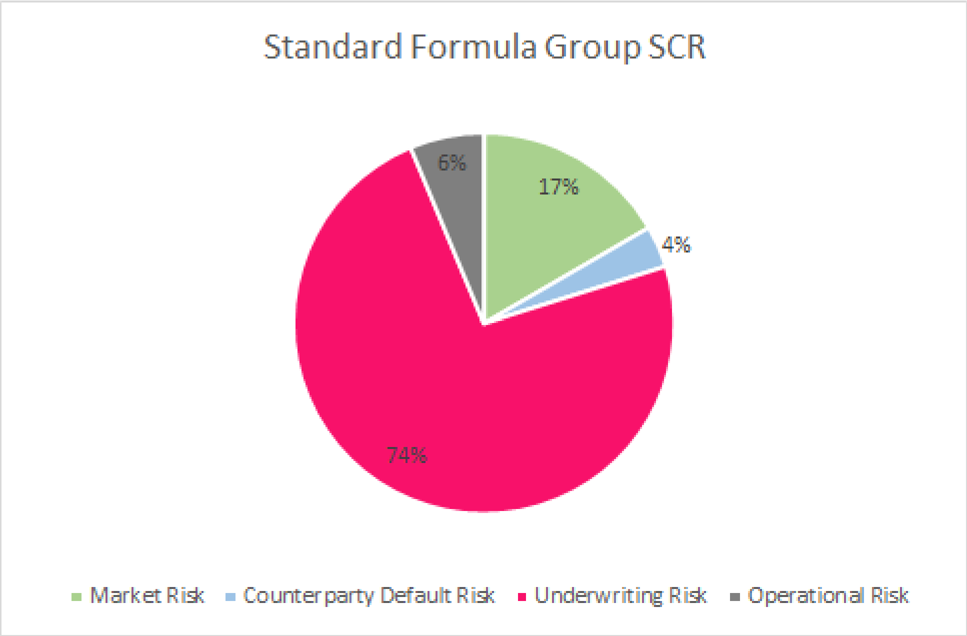
The principal risks that the Group faces are the profitability and continued success of its regulated insurance undertakings.

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. Additional capital for market risk arises at the Group level through exposure to gilts through a derivative contract: this hedges part of the interest rate risk DHEL is indirectly exposed to in regard to the cash flows arising from PAC with respect to the legacy business, but due to technical rules in Solvency II cannot be eliminated from the SCR. Writing whole of life business in VLL means there is exposure to a reduction in interest rates. Default risk as a component of the SCR is small.

Operational risk is the risk of loss arising from inadequate or failed internal processes, people, systems and/or external events. The Group operates an Enterprise Risk Management framework that sets out how all risks are identified, analysed, measured, reported and monitored.

The risk profile of the Group has not changed materially over the reporting period, aside from a movement towards long-term underwriting risks as VLL grows more quickly than VHL.

The distribution of its quantifiable risks at 30 June 2018, as reflected in the Group SCR before diversification benefits, is as follows:



The principal risks of VHL, VHIL and VLL are described in detail within their respective regulated insurance undertakings SFCRs. 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 within their respective SFCRs, 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 within their respective SFCRs, alongside details of how these risks are identified and measured, how concentrations of risk may occur, and how these risks are mitigated. The principle risk relates to interest rate risk within VLL, due to the higher sensitivity of its negative technical provisions to interest rates relative to VLL's invested asset portfolio. Other market risk exposures arise in both VLL and VHL through their invested asset portfolios.

The main additional market risk exposures at the Group level arise from foreign currency risk, interest rate and market risk.

- Interest rate risk – the Group's financial instruments are invested in floating rate interest accounts. The sterling loans fluctuate with 3 month GBP LIBOR.
- Foreign currency risk – DGEL conducts all of its operations in Pounds Sterling, however the Group has some exposure to South African Rand which exposes the Group to risks in respect of South African Rand fluctuations.
- Market risk - 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.

DHEL is exposed to gilt yields through a total return swap ("TRS") which hedges part of the interest rate risk that DHEL is also indirectly exposed to in regard to the cash flows arising from PAC with respect to the legacy business.

Other than its strategic participations the Group has no additional exposure to equity risk. The Group has no exposure to 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. Expected returns are evaluated after considering any additional solvency capital required as a result of an investment.

C.2.3 Risk concentration

DGEL has relatively small amounts of cash assets compared to the regulated insurance undertakings, therefore the concentration risk is immaterial. Across its regulated insurance undertakings, assets are held across a wide range of counterparties to reduce concentration risk. Refer to the regulated insurance undertakings' SFCRs for additional information.

C.3 CREDIT RISK

C.3.1 Exposure

There is very limited additional credit risk in the form of default, spread and concentration risk at the Group level. Credit risk arises principally from the risk of default by the institutions where the Group entities' assets are deposited and from loans to subsidiaries.

Credit risk exposures within the regulated insurance undertakings are described within their respective SFCRs, 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

The inherent risk is that funds are not available to meet obligations as they fall due. The timing of cash flows between DHEL and PAC with respect to the legacy business, together with the flows in respect of the TRS, present a potential liquidity strain. DHEL typically receives cash flows from PAC, however there is a low likelihood scenario under which DHEL would need to send cash flows to PAC.

Liquidity risk exposures within the regulated insurance undertakings are described within their respective SFCRs, 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. As part of the ORSA, Stress and Scenario testing assesses the liquidity risk under stressed conditions.

C.4.3 Risk concentration

For DHEL in particular, the exposures described above with regards to the two sources of the TRS and PAC 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 is disclosed in the regulated insurance undertakings' SFCRs, the inclusion at the Group is the addition of the solo undertaking amounts.

C.5 OPERATIONAL RISK

C.5.1 Exposure

The following measures are used to assess operational risks:

- Risk and control assessments – the Enterprise Risk Management framework of the business 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.
- Pillar II risk assessment – the company carries out operational risk scenario workshops to develop scenarios for each operational risk category. This involves estimating the severity and likelihood of the scenario based on the information captured in the company's risk register and input from subject matter experts in the business. Once captured, the operational risk profile is assessed quantitatively and taken into account in reviewing the overall solvency needs of the business. 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 ORSA.

The key material operational risks that the business continued to actively manage over the period include:

- Cyber/ Data security - the risk of the inability to protect data and systems from unauthorised access, use, disclosure, disruption, modification and/or destruction. In line with the increase in the cyber threat level, our focus on this risk has increased in the year;
- IT Infrastructure - the risk arising from lack of effectiveness, integrity, reliability, capacity and/or availability of IT infrastructure;
- Mis-selling – the risk of deliberate, reckless or negligent sale of products or services in circumstances where the contract is either misrepresented, or the product/service is unsuitable for the customer's needs;
- Outsourcing - the risk of failure, non-performance, ineffective management and/or oversight of an outsourcing partner or a binder agreement;
- People - the risk of inadequate recruitment practices, development, management or retention of employees and/ or contractors;
- Execution, Delivery and Process Management - the risk to a business unit's service provision arising from a failure to carry out operational processes in an accurate, timely and complete manner;
- Legal - the risk of a defective transaction arising; a claim (including a defence to a claim or a counterclaim) being made; inadequate contract management or any other event occurring which results in liability for the Group;
- Fraud – the risk of deliberate acts by internal or external parties obtaining advantage or causing harm to the organisation; and

- Reputational – the risk of loss or damage to the Group's reputation or brand confidence, including impacts from conduct risk, liquidity risk and knock-on impacts on underwriting risks such as persistency and expenses.

C.5.2 Risk mitigation

All material operational risks which the Group 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 Boards. The following list outlines the actions/techniques the Group 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 with carrying out those activities. Whilst the Group can outsource activities, it cannot 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 Risk Committee.
- 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 Risk Committee and the 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. The most material are summarised below and discussed in more detail in the respective SFCRs.

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

Future funding liquidity risk

VLL is a primary consumer of capital within the Group. The writing of future new business requires sufficient liquid resources in order to be able to pay new business commission and other acquisition costs. 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. A key source of liquidity for the writing of new business is reinsurance based financing and there is the risk that the supply is reduced. 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 could also affect VLL's ability to write future new business.

“Brexit” risks

Following the UK’s EU membership referendum in June 2016, the UK government initiated the official EU withdrawal process in March 2017. Whilst Vitality does not operate outside the UK which reduces this risk, the ongoing uncertainty and lengthy negotiation process may lead to a volatile market. This will be kept under review as the terms of the UK’s exit become clearer.

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. As part of the Group ORSA process, the stress and scenario testing includes assessing the projected solvency position under a number of adverse stresses and various scenarios relevant to the Group’s risk profile. This process considers both the separate (‘solo’) impacts of the stresses and scenarios developed in each regulated insurance undertaking’s ORSA on the Group’s solvency position and relevant combinations of these stresses and scenarios across all of the undertakings as well as any additional scenarios relevant to the non-insurance entities in the Group.

For the most material risks, the analysis indicated that the Group was able to withstand severe shocks without a breach of the SCR.

- Underwriting risks – the results of the analysis showed that the largest ‘solo’ impact on the Group SCR cover was from a selective reduction in the lapse rate within VLL which had a material impact on group solvency levels though would not breach the Group SCR. While VHL reported that the most material impact on its own SCR coverage was the loss ratio stress, the relative size of VHL compared to VLL as well as diversification benefits between the two insurance entities the impact on group solvency levels is much lower. Combined lapse and new business scenarios were considered and these also indicated it would take far more adverse events to breach the Group SCR; therefore the Group’s overall underwriting risk profile was assessed to be resilient to withstand severe shocks and is within the Board’s risk appetite.
- Market risks – the low interest rate scenarios developed by VLL were tested on the Group solvency levels. The application of these scenarios have very minor impacts on VHL where it was reported that far more than a 1 in 200 year adverse variance to market or credit risks would be required to breach its own SCR. The Group position is therefore driven by the VLL position, and the analysis indicated that the Group solvency levels can withstand these shocks.
- Credit (counterparty default) risk – this is not a material risk for any of the regulated insurance undertakings of the Group and without any additional material exposures in the remaining group entities the Group can withstand shocks greater than 1 in 50 year adverse events.

There is a degree of inherent absorbency in the Group Own Funds since surplus capital to meet the capital coverage risk appetites of its regulated insurance undertakings is held within those entities, and there are large diversification benefits between the insurance risks across these companies. Also, the ‘capping’ of the negative technical provisions arising in VLL towards their eligibility in Group Own Funds means that only sufficiently large reductions in their value have an impact on Group solvency levels.

As part of the Group ORSA process, stress and scenario testing was conducted to assess the settlement timing risk discussed in section C.4.1 above. The testing demonstrated that the Group maintains sufficient liquid resources to withstand severe short-term liquidity shocks with sufficient time available to seek additional funding or take other management actions.

Reverse stress testing was also used to determine what combinations of factors might lead to a breach of the Group SCR.

C.7.2 Prudent Person Principle

The Group and its regulated insurance undertakings ensures 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 appropriately taken into account in the Group's overall solvency needs assessment which is documented in its ORSA report.

The Boards 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 Value	Valuation Difference	Solvency II Value
Deferred tax assets	19.9	5.2	25.1
Property, plant & equipment held for own use	4.6	-	4.6
Investments	204.7	(0.2)	204.5
Loans and mortgages	43.2	-	43.2
Reinsurance recoverables	(165.8)	(101.3)	(267.1)
Insurance and intermediaries receivables	276.8	(254.2)	22.6
Reinsurance receivables	129.0	(125.4)	3.6
Receivables (trade, not insurance)	33.5	(14.4)	19.1
Cash and cash equivalents	54.7	-	54.7
Any other assets, not elsewhere shown	6.2	-	6.2

D.1.1.1 Deferred tax assets

The Solvency II value of the Group deferred tax asset of £25.1m as at 30 June 2018 is split by undertaking as follows:
- £17.6m – VHL
- £0.2m – VHIL
- £5.3m – VLL
- £2.0m – VCSL

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

The deferred tax asset for VCSL is recognised on a timing difference between the tax base of assets and liabilities and the IFRS/Solvency II valuation of assets and liabilities. The valuation of the deferred tax asset takes into account the reduction in the UK main corporation tax rate to 17%, substantively enacted on 6 September 2016 and effective from 1 April 2020. The valuation method used is as prescribed in Article 15 of the Delegated Regulation.

The only difference between the Solvency II valuation and the IFRS valuation of the deferred tax asset relates to VLL, details of which can be found in the VLL SFCR.

D.1.1.2 Property, plant & equipment held for own use

Property, plant & equipment is recognised at the IFRS carrying value, based on amortised 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.

D.1.1.3 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, VHIL, VLL and DHEL. There are no significant measurement differences. For a description of the valuation of the investments arising in VHL, VHIL and VLL please refer to their respective SFCRs.

The investment arising in DHEL is a £0.5m derivative asset. As at 30 June 2018 DHEL was party to one open derivative contract with a notional derivative value of £115.5m, which does not qualify for hedge accounting under IFRS. The asset at 30 June 2018 of £0.5m represents fair value and is based on market valuations provided by the investment manager. While there are no differences between the valuation of the derivatives under IFRS and Solvency II, there is a presentational difference with IFRS showing a single net liability of £0.4m while Solvency II presents a separate £0.5m asset offset by a £0.9m derivative liability (shown in D.3.1).

D.1.1.4 Loans and mortgages

Loans and mortgages of £43.2m 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 loans and mortgages.

D.1.1.5 Reinsurance recoverables

The value of the Group's reinsurance recoverables is equal to the sum of the reinsurance recoverables arising in VHL and VLL, both regulated insurance undertakings.

VHL reinsurance recoverable

The VHL reinsurance recoverable relates 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 Premium Technical Provision ("PTP") and an asset for the reinsurance recoverables within Claims Technical Provision ("CTP"). These had values of negative £0.7m and positive £5.2m respectively, giving a net positive reinsurance recoverable of £4.5m. The remaining £0.7m is held as a reinsurance recoverable asset for reinsurer's share of the legacy Non-Medex 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 outgo (excluding fees to the reinsurer) holds a nil value. 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 SII valuation of the Reinsurance Recoverable differs to the VHL 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 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.3.1.3 given the FinRe contract expects all past / future receivables and payables from the reinsurer to result in a net zero cash flow.

During the year VHL entered into two new Financial Reinsurance contracts with one being with an existing provider and the second with a new provider SCOR Global. The valuation of the FinRe contract is valued at nil given the expectation that the contract provided no tangible future cashflows except under extreme adverse scenarios. The fees payable to the reinsurer are added into the Premium Technical Provisions expense basis.

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 VLL reinsurance recoverables at 30 June 2018 were £(272.3)m. The recoverables are negative predominantly due to the expected repayments in respect of the new business reinsurance financing received to date.

The differences between the IFRS and Solvency II valuation are due to the different bases. The main differences between the underlying Solvency II and IFRS insurance contract liabilities for VLL are:

- 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; and
- Solvency II technical provisions include the risk margin.

D.1.1.6 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, both regulated insurance undertakings.

VHL insurance and intermediaries receivables

VHL insurance and intermediaries receivables are set at £14.0m, the majority of which consists of due premiums outstanding which are 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 fell before the reporting date, but the cash has not been received at the reporting date, this amount falls in due premiums outstanding. Systems reports are used as the basis of this amount, and it is further tested by taking 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.

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. These receivables are valued at fair value and due to the short-term nature of the receivable no adjustments to valuation are required. 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.

D.1.1.7 Reinsurance receivables

The value of the Group's reinsurance receivables is equal to the sum of the reinsurance receivables arising in VHL and VLL, both regulated insurance undertakings.

VHL reinsurance receivables

The Solvency II value of VHL reinsurance receivables is immaterial and it relates to the unsettled balance under the cash FinRe treaty. The difference to the financial statements of £125.5m relates to the cashless FinRe balance that is reported under IFRS that does not meet the Solvency II recognition criteria.

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. 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. These receivables are valued at fair value and due to the short-term nature of the receivables no adjustments to 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 VHL's financial statements is the same as for Solvency II.

D.1.1.8 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.1.1.9 Cash and cash equivalents

Cash and cash equivalents are held in UK and South African bank accounts. The UK bank accounts are all held in pounds sterling; 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 South African Rand ("ZAR"), translated into pounds sterling using the prevailing GBP/ZAR exchange rate at the 30 June valuation date.

Cash and cash equivalents are valued at fair value.

D.1.1.10 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.

This 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.

D.2 TECHNICAL PROVISIONS

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. These are shown in the table below.

£'m	VLL Other Life	VLL Health SLT	VHL Health NSLT	VHIL Health NSLT	Total
Gross IFRS Insurance contract liabilities	(347.1)	(80.2)	317.9	-	(109.4)
Adjustments for Solvency II	(76.4)	(55.1)	(306.4)	-	(437.9)
Gross BEL	**(423.5)**	**(135.3)**	**11.5**	**-**	**(547.3)**
Add risk margin	80.9	23.5	5.6	-	110.0
Technical Provisions	**(342.6)**	**(111.8)**	**17.1**	**-**	**(437.3)**

For a description of the assumptions and methodologies used to determine the technical provisions (including recoverables from reinsurance contracts) for each material Solvency II line of business, any material changes in these assumptions and methodologies, the uncertainty that is associated with their respective valuations and the differences between the Solvency II valuation and local GAAP/IFRS valuations, please refer to the SFCRs of VHL, VHIL and VLL.

The Group does not use the matching adjustment nor the volatility adjustment, nor are transitional measures for technical provisions applied.

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)	IFRS Valuation	Valuation Difference	Solvency II Valuation
Provisions other than technical provisions	10.9	-	10.9
Derivatives	0.9	-	0.9
Insurance and intermediary payables	11.3	(0.2)	11.1
Reinsurance payables	64.4	(52.4)	12.0
Payables (trade, not insurance)	84.1	4.4	88.5
Subordinated liabilities	132.7	-	132.7

D.3.1.1 Provisions other than technical provisions

The value of the Group's provisions other than technical provisions is equal to the insurance & intermediaries payables arising in VLL. For a description of the valuation of the insurance & intermediaries payables, please refer to the VLL SFCR.

D.3.1.1 Derivatives

As at 30 June 2018 DHEL was party to one open derivative contract with a notional derivative value of £115.5m, which does not qualify for hedge accounting under IFRS. The liability at 30 June 2018 of £0.9m represents fair value and is based on market valuations provided by the investment manager. This liability value is offset by an asset as set out in section D.1.1.

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, both regulated insurance undertakings. For a description of the valuation of the insurance & intermediaries payables, please refer to the SFCRs of VHL and VLL.

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, both regulated insurance undertakings.

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) holds a nil value. 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 £6.2m for VHL. £4.5m of this is related to the corresponding asset set up for the Reinsurance recoverables (D.1.1.5) and is valued in line with methodology specified under D.1.1.7 to reflect the nil valuation / cash flow position of the FinRe contracts.

A further £0.9m liability is set up to reflect the cash FinRe repayments. This is valued assuming only the repayment element of the contract and excludes the contract fees which are included in the expense basis of the PTP as outlined in Section D.1.1.7.

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 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 £4.4m valuation difference between IFRS and Solvency II relates to a liability representing the negative net Solvency II assets of IYH and NHVCSL, which are both recognised under the adjusted equity method.

D.3.1.5 Subordinated liabilities

Subordinated liabilities totalling £132.7m are made up of:

- A subordinated loan subject to transitional arrangements from Discovery Limited to DGEL with a balance of £13.3m as at 30 June 2018, 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 £20.2m at 30 June 2018, 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%.

The Group’s subordinated liabilities had a solvency valuation of £132.7m at the reporting date. 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.” And 2.2 “For the purposes of 2.1(2) when valuing liabilities no adjustment must be made to take account of the own credit standing of the firm”. As there are no quoted market prices available per Article 10(3) of the Delegated Regulation, to meet the requirements of Article 2.1(2) a discounted cash flow has been used for the valuation method using relevant market inputs per Article 10(6) of the Delegated Regulation.

The main assumptions are the discount rate used and the arm’s length rate of interest. The risk free rate was determined at GBP LIBOR as interest in the loans are based on a floating GBP LIBOR balance. The arm’s length interest rate must be considered as the subordinated loans are provided by Discovery group companies. The arm’s length rate of interest is deemed to be reasonable and meets the arm’s length requirement of Article 2.1(2) of the Valuation section of the Rulebook – it is equivalent to a rate for a commercial loan of the same size.

The timing of the economic outflows are all contractually agreed upon.

There is some uncertainty about the future economic outflows, as the valuation assumes that the loans will be held until the repayment date. However, this may not be the case if the loans are settled early, which is allowable under the agreements.

D.4 ALTERNATIVE METHODS OF VALUATION

Other than where specified in sections D.1, D.2 & D.3 above, no alternative methods of valuation are used.

D.5 VALUATION FOR SOLVENCY PURPOSES – ANY OTHER INFORMATION

There are no material 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 Objective, 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 even 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. There were no material changes in the objectives, policies and processes employed by the Group for managing its own funds.

The following basic own-fund items are deemed to substantially possess the characteristics set out in Article 3.5(1) and (2) of the Own Funds section of the Rulebook. Per Article 69 of the Delegated Regulation they take into consideration the features set out in Article 3.6 of the Own Funds section of the Rulebook when determining the tier of own funds in to which the basic own fund items fall.

E.1.2 Own funds classified by tiers

An analysis of own funds at 30 June 2018 and analysis of change from 30 June 2017 is shown below:

£'m	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3	Total
At 30 June 2018					
Ordinary share capital	702.5	-	-	-	702.5
Subordinated debt available at group level	-	-	83.2	-	83.2
Reconciliation reserve	(495.0)	-	-	-	(495.0)
Net deferred tax assets available at group level	-	-	-	19.7	19.7
Total available own funds to meet Group SCR	207.5	-	83.2	19.7	310.4
Less: restrictions imposed by quantitative limits	-	-	-	(0.5)	(0.5)
Total eligible own funds to meet Group SCR	207.5	-	83.2	19.2	309.9
Less: restrictions on eligible own funds to meet Group MCR	-	-	(70.9)	(19.2)	(90.1)
Total eligible own funds to meet Group MCR	207.5	-	12.3	-	219.8

At 30 June 2017					
Ordinary share capital	677.1	-	-	-	677.1
Subordinated debt available at group level	-	-	65.6	-	65.6
Reconciliation reserve	(508.5)	-	-	-	(508.5)
Net deferred tax assets available at group level	-	-	-	16.3	16.3
Total available own funds to meet Group SCR	168.6	-	65.6	16.3	250.5
Less: restrictions imposed by quantitative limits	-	-	-	(5.3)	(5.3)
Total eligible own funds to meet Group SCR	168.6	-	65.6	11.0	245.2
Less: restrictions on eligible own funds to meet Group MCR	-	-	(56.2)	(11.0)	(67.2)
Total eligible own funds to meet Group MCR	168.6	-	9.4	-	178.0

Analysis of Change: 30 June 2017 to 30 June 2018					
Ordinary share capital issued	25.4	-	-	-	25.4
Subordinated debt issued, accrued interest and foreign exchange revaluation	-	-	17.6	-	17.6
Reconciliation reserve movement	13.5	-	-	-	13.5
Increase in deferred tax assets recognised	-	-	-	3.4	3.4
Total movement in available own funds to meet Group SCR	38.9	-	17.6	3.4	59.9
Less: movement in restrictions imposed by quantitative limits	-	-	-	4.8	4.8
Total movement in eligible own funds to meet Group SCR	38.9	-	17.6	8.2	64.7
Less: movement in restrictions on eligible own funds to meet Group MCR	-	-	(14.7)	(8.2)	(22.9)
Total movement in eligible own funds to meet Group MCR	38.9	-	2.9	-	41.8

- 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. During the year, a total of 25,400,000 ordinary shares were issued of £1 each.

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:

£000s	30 June 2018	30 June 2017	Movement
Solvency II excess of assets over liabilities	296.9	241.0	55.9
Other basic own fund items	(727.7)	(694.5)	(33.2)
Ineligible portion of the loan to PAC	(17.0)	(23.3)	6.3
Ineligible portion of VLL negative reserves	(47.2)	(31.7)	(15.5)
Reconciliation reserve	(495.0)	(508.5)	13.5

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.

- Tier 1 restricted:

There are no tier 1 restricted own funds.

- Tier 2:

Total available tier 2 own funds consists of £83.2m in subordinated liabilities. £33.5m 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. £49.5m of subordinated liabilities owed by DHEL are not available own funds (see E.1.8).

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.

- Tier 3:

Total available tier 3 own funds consist of £19.7m of net deferred tax assets at 30 June 2018. 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 £25.1m deferred tax asset, only £19.7m is available at group level in accordance with Article 330 of the Delegated Regulation. The full deferred tax assets of VHL and VCSL, of £17.6m and £2.0m respectively, are available at the group level. Less than £0.1m of the £0.2m VHIL deferred tax asset is available at the group level. The £5.3m VLL deferred tax asset is unavailable at the group level.

E.1.3 Eligible amount of own funds to cover the Solvency Capital Requirement, classified by tiers

£'m	Total available own funds to meet the Group SCR	Restriction	Total eligible own funds to meet the Group SCR
Tier 1 unrestricted	207.5	-	207.5
Tier 1 restricted	-	-	-
Tier 2	83.2	-	83.2
Tier 3	19.7	(0.5)	19.2
Total	**310.4**	**(0.5)**	**309.9**

The available Tier 3 own funds to meet the Group SCR is reduced by £0.5m to £19.2m 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 £309.9m.

The eligible own funds over Group SCR ratio was 151.3% as at 30 June 2018.

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

£'m	Total available own funds to meet the Group MCR	Restriction	Total eligible own funds to meet the Group MCR
Tier 1 unrestricted	207.5	-	207.5
Tier 1 restricted	-	-	-
Tier 2	83.2	(70.9)	12.3
Tier 3	-	-	-
Total	**290.7**	**(70.9)**	**219.8**

The available Tier 2 own funds to meet the Group MCR is reduced by £70.9m to £12.3m 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 £219.8m.

The eligible own funds over Group MCR ratio was 358.0% as at 30 June 2018.

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 £619.7m as at 30 June 2018. Excess assets over liabilities as calculated under Solvency II was £296.9m. There are no differences between ordinary share capital in the SOFP and the amount reported in basic own funds. The difference of £349.8m 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:

	£'m
IFRS excess of assets over liabilities in Group SOFP	**619.7**
Adjustments for Solvency II:	
Valuation adjustment in VLL technical provisions, net of reinsurance	(19.3)
Valuation adjustment in VHL technical provisions	44.9
Removal of VHL deferred acquisition costs	(36.3)
Removal of benefit of VHL financial reinsurance under IFRS	(126.3)
Removal of prepayments	(14.2)
Removal of goodwill	(123.7)
Removal of intangible assets	(48.5)
Revaluation of undertakings recognised under the adjusted equity method	(4.6)
Valuation adjustment for deferred tax assets	5.2
Solvency II excess of assets over liabilities	**296.9**

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

The two tier 2 subordinated loans totalling £33.5m 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 2018.

E.1.8 Items deducted from own funds

Subordinated liabilities of £49.5m have been deducted from Group own funds 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. Therefore they are unable to contribute to Group solvency.

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

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

E.2.1 Amount of Group SCR and Group MCR

The table below shows the total Group SCR and Group MCR at 30 June 2018.

Discovery Group Europe Limited	£'m
Consolidated Group SCR	204.8
Minimum Consolidated Group SCR	61.4

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

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 at 30 June 2018.

Discovery Group Europe Limited	£'m
Health underwriting	101.1
Life underwriting	105.4
Market risk	46.7
Counterparty default risk	9.9
Undiversified Basic SCR	263.1
Diversification credit	(76.0)
Basic SCR	187.1
Operational risk	17.7
Group SCR	204.8

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:

Discovery Group Europe Limited	£'m
Vitality Life Limited	33.4
Vitality Health Limited	21.8
Vitality Health Insurance Limited	6.2
Minimum Consolidated Group Solvency Capital Requirement	61.4

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 2018

	Solo SCR or notional Solo SCR after impact of consolidation eliminations £'m	Contribution to Consolidated Group SCR £'m
Vitality Life Limited	133.7	104.6
Vitality Health Limited	87.0	68.0
Vitality Health Insurance Limited	0	0
Vitality Corporate Services Limited	2.1	2.1
Discovery Holding Europe Limited	33.3	26.1
Discovery Group Europe Limited	5.1	4.0
Diversification between solo undertakings	(56.4)	n/a
Consolidated Group Solvency Capital Requirement	204.8	204.8

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 Minimum Capital Requirement and Solvency Capital Requirement throughout the year ended 30 June 2018.

E.6 CAPITAL MANAGEMENT – ANY OTHER INFORMATION

There is no other information to note.

F TEMPLATES

The following Quantitative Reporting Templates ("QRTs") are requirement for the SFCR:

QRT ref	QRT template name
S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses by country
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

The templates are included at the end of this report.

G DIRECTORS' RESPONSIBILITY STATEMENT

Discovery Group Europe Limited
Approval by the Board of Directors of the Solvency and Financial Condition Report
Financial period ended 30 June 2018

We acknowledge our responsibility for preparing the group 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: 21 November 2018

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 2018:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Group Solvency and Financial Condition Report of the Company as at 30 June 2018, ('**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 and S.05.02.01;

- The written acknowledgement by management of their responsibilities, including for the preparation of the Group Solvency and Financial Condition Report ('**Directors' 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 2018 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.

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.

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, and supplemented by the approvals and determination made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based, as detailed in the section 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 Directors of the Company to comply with their obligations under 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 save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements

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

21 November 2018

Discovery Group Europe Limited

Solvency and Financial Condition Report

Disclosures

30 June

2018

(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 2018
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.05.02.01 - Premiums, claims and expenses by country
S.05.02.01 - Premiums, claims and expenses by country
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	25,129
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	4,627
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	204,485
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	10
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	24,283
R0140	*Government Bonds*	1,544
R0150	*Corporate Bonds*	22,739
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	159,381
R0190	*Derivatives*	507
R0200	*Deposits other than cash equivalents*	20,304
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	43,151
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	43,151
R0270	Reinsurance recoverables from:	-267,138
R0280	*Non-life and health similar to non-life*	5,165
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	5,165
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	-272,303
R0320	*Health similar to life*	-49,480
R0330	*Life excluding health and index-linked and unit-linked*	-222,823
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	22,635
R0370	Reinsurance receivables	3,577
R0380	Receivables (trade, not insurance)	19,102
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	54,711
R0420	Any other assets, not elsewhere shown	6,241
R0500	**Total assets**	116,519

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	17,143
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)*	17,143
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	11,490
R0590	*Risk margin*	5,653
R0600	Technical provisions - life (excluding index-linked and unit-linked)	-454,404
R0610	*Technical provisions - health (similar to life)*	-111,809
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	-135,325
R0640	*Risk margin*	23,517
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	-342,595
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	-423,451
R0680	*Risk margin*	80,856
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	10,874
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	0
R0790	Derivatives	879
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	11,070
R0830	Reinsurance payables	12,037
R0840	Payables (trade, not insurance)	88,469
R0850	Subordinated liabilities	132,725
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	132,725
R0880	Any other liabilities, not elsewhere shown	853
R0900	**Total liabilities**	-180,352
R1000	**Excess of assets over liabilities**	296,871

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	483,122																483,122
R0120 Gross - Proportional reinsurance accepted	0																0
R0130 Gross - Non-proportional reinsurance accepted																	0
R0140 Reinsurers' share	76,235																76,235
R0200 Net	406,887																406,887
Premiums earned																	
R0210 Gross - Direct Business	431,145																431,145
R0220 Gross - Proportional reinsurance accepted	0																0
R0230 Gross - Non-proportional reinsurance accepted																	0
R0240 Reinsurers' share	67,242																67,242
R0300 Net	363,903																363,903
Claims incurred																	
R0310 Gross - Direct Business	228,653																228,653
R0320 Gross - Proportional reinsurance accepted	0																0
R0330 Gross - Non-proportional reinsurance accepted																	0
R0340 Reinsurers' share	54,435																54,435
R0400 Net	174,218																174,218
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**	163,310																163,310
R1200 **Other expenses**																	
R1300 **Total expenses**																	163,310

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	13,339			73,402					86,742
R1420	Reinsurers' share	7,877			43,348					51,225
R1500	Net	5,462			30,055					35,516
	Premiums earned									
R1510	Gross	13,339			73,402					86,742
R1520	Reinsurers' share	7,877			43,348					51,225
R1600	Net	5,462			30,055					35,516
	Claims incurred									
R1610	Gross	2,991			11,600					14,591
R1620	Reinsurers' share	1,544			6,774					8,318
R1700	Net	1,447			4,825					6,273
	Changes in other technical provisions									
R1710	Gross									0
R1720	Reinsurers' share									0
R1800	Net	0			0					0
R1900	**Expenses incurred**	9,868			62,224					72,092
R2500	**Other expenses**									12,542
R2600	**Total expenses**									84,634

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010								
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	483,122						483,122
R0120	Gross - Proportional reinsurance accepted	0						0
R0130	Gross - Non-proportional reinsurance accepted							0
R0140	Reinsurers' share	76,235						76,235
R0200	Net	406,887	0	0	0	0	0	406,887
	Premiums earned							
R0210	Gross - Direct Business	431,145						431,145
R0220	Gross - Proportional reinsurance accepted	0						0
R0230	Gross - Non-proportional reinsurance accepted							0
R0240	Reinsurers' share	67,242						67,242
R0300	Net	363,903	0	0	0	0	0	363,903
	Claims incurred							
R0310	Gross - Direct Business	228,653						228,653
R0320	Gross - Proportional reinsurance accepted	0						0
R0330	Gross - Non-proportional reinsurance accepted							0
R0340	Reinsurers' share	54,435						54,435
R0400	Net	174,218	0	0	0	0	0	174,218
	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	0	0	0	0	0
R0550	**Expenses incurred**	163,310						163,310
R1200	**Other expenses**							
R1300	**Total expenses**							163,310

S.05.02.01

Premiums, claims and expenses by country

Life

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations			Top 5 countries (by amount of gross premiums written) - life obligations		Total Top 5 and home country
R1400								
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross	86,742						86,742
R1420	Reinsurers' share	51,225						51,225
R1500	Net	35,516	0	0	0	0	0	35,516
	Premiums earned							
R1510	Gross	86,742						86,742
R1520	Reinsurers' share	51,225						51,225
R1600	Net	35,516	0	0	0	0	0	35,516
	Claims incurred							
R1610	Gross	14,591						14,591
R1620	Reinsurers' share	8,318						8,318
R1700	Net	6,273	0	0	0	0	0	6,273
	Changes in other technical provisions							
R1710	Gross							0
R1720	Reinsurers' share							0
R1800	Net	0	0	0	0	0	0	0
R1900	**Expenses incurred**	72,092						72,092
R2500	**Other expenses**							12,542
R2600	**Total expenses**							84,634

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)	702,532	702,532		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	-495,030	-495,030			
R0140	Subordinated liabilities	132,725		0	132,725	0
R0150	*Non-available subordinated liabilities at group level*	49,500			49,500	
R0160	An amount equal to the value of net deferred tax assets	25,129				25,129
R0170	*The amount equal to the value of net deferred tax assets not available at the group level*	5,481				5,481
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**	54,981	0	0	49,500	5,481
R0280	**Total deductions**	54,981	0	0	49,500	5,481
R0290	**Total basic own funds after deductions**	310,375	207,503	0	83,225	19,647
	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

	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
	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)	310,375	207,503	0	83,225	19,647
R0530	Total available own funds to meet the minimum consolidated group SCR	290,728	207,503	0	83,225	
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)	309,898	207,503	0	83,225	19,169
R0570	Total eligible own funds to meet the minimum consolidated group SCR (group)	219,782	207,503	0	12,280	
R0610	**Minimum consolidated Group SCR**	61,398				
R0650	**Ratio of Eligible own funds to Minimum Consolidated Group SCR**	357.96%				
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)**	309,898	207,503	0	83,225	19,169
R0680	**Group SCR**	204,790				
R0690	**Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A**	151.32%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	296,871
R0710	Own shares (held directly and indirectly)	
R0720	Forseeable dividends, distributions and charges	
R0730	Other basic own fund items	727,661
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0750	Other non available own funds	64,240
R0760	**Reconciliation reserve**	-495,030
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	251,325
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	53,408
R0790	**Total Expected profits included in future premiums (EPIFP)**	304,733

S.25.01.22

Solvency Capital Requirement - for groups on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	46,713		
R0020	Counterparty default risk	9,921		
R0030	Life underwriting risk	105,429		
R0040	Health underwriting risk	101,081		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-76,005		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	187,139		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	17,651
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
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**	204,790
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement for undertakings under consolidated method**	204,790
	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	61,398
	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**	204,790

S.32.01.22

Undertakings in the scope of the group

Row	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
	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	213800XLX74K6WO54D06	LEI	Health Protect Limited	Other	Company limited by shares	Non-mutual	
5	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	
6	GB	213800W4KXJIK7R3CV51UK00002	Specific code	Healthcare Purchasing Alliance Limited	Other	Company limited by shares	Non-mutual	
7	GB	213800Y6CME1PFQA9J19	LEI	Insure Your Health Limited	Other	Company limited by shares	Non-mutual	
8	GB	213800O647LRO31RG918	LEI	Vitality Life Limited	Life insurance undertaking	Company limited by shares	Non-mutual	Financial Conduct Authority, Prudential Regulation Authority
9	GB	213800IPBGB4QH78CW58	LEI	Vitality Health Insurance Limited	Non life insurance undertaking	Company limited by shares	Non-mutual	Financial Conduct Authority, Prudential Regulation Authority
10	GB	213800W4KXJIK7R3CV51UK00001	Specific code	Healthcode Limited	Other	Company limited by shares	Non-mutual	
11	GB	213800D5I9HUP34WJ971	LEI	Vitality Health Limited	Non life insurance undertaking	Company limited by shares	Non-mutual	Financial Conduct Authority, Prudential Regulation Authority
12	GB	213800W4KXJIK7R3CV51UK00003	Specific code	Nuffield Health and Vitality Corporate Services Limited	Other	Company limited by shares	Non-mutual	
13	GB	213800W4KXJIK7R3CV51UK00004	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	99.00%	100.00%	99.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
4	GB	213800XLX74K6WO54D06	LEI	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
5	GB	2138006JOU6QC6H1SU14	LEI	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
6	GB	213800W4KXJIK7R3CV51UK00002	Specific code	50.00%	50.00%	50.00%		Significant	50.00%	Included in the scope		Method 1: Adjusted equity method
7	GB	213800Y6CME1PFQA9J19	LEI	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
8	GB	213800O647LRO31RG918	LEI	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
9	GB	213800IPBGB4QH78CW58	LEI	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
10	GB	213800W4KXJIK7R3CV51UK00001	Specific code	20.00%	20.00%	20.00%		Significant	20.00%	Included in the scope		Method 1: Adjusted equity method
11	GB	213800D5I9HUP34WJ971	LEI	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
12	GB	213800W4KXJIK7R3CV51UK00003	Specific code	50.00%	50.00%	50.00%		Significant	50.00%	Included in the scope		Method 1: Adjusted equity method
13	GB	213800W4KXJIK7R3CV51UK00004	Specific code	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method